

EXCLUSIVE ■ APRIL 30

## Senior European systemic risk adviser backs EU stablecoin clampdown

Pressure intensifies on the European Commission to tighten Mica's stablecoin regime

by David Whitehouse



### At a glance

- Regulators warn that multi-issuer stablecoins lack redemption guarantees during crises due to fragmented, offshore reserve management

Read Summary



Critics argue that tightening stablecoin regulations may serve to protect domestic banks rather than ensuring genuine financial stability © Marius Burgelman/AFP via Getty Images

The European Commission is being pulled between financial stability warnings and accusations of protectionism as senior European systemic risk figures pressure it to restrict multi-issuer stablecoins.

The tug of war comes after the French central bank publicly criticised EU stablecoin proposals.

Bank of France deputy governor Denis Beau in March said that the Markets in Crypto-Assets Regulation – [Mica](#) – only “partially addresses” the risks posed by stablecoins from non-European issuers. Beau wants restrictions on the use of stablecoins for everyday payments, especially when they are backed by non-euro currencies.

The stance is endorsed by Richard Portes, who co-chairs the European Systemic Risk Board’s Joint Expert Group on non-bank financial intermediation as well as the ESRB Crypto Assets Task Force.

Portes has been pressing the European Commission to issue an opinion against multi-issuer stablecoins. EU financial services commissioner Maria Luis Albuquerque “is trying to figure out what she should do”, Portes says. “I suspect the commission will clamp down. The political pressure is becoming intolerable.”

The ESRB is tasked with preventing systemic risk in the EU. The lobbying activities of stablecoin issuer Circle, Portes says, are among the pressures faced by the Commission.

Neither the commission nor Circle responded to requests for comment.

Portes argues that multi-issuer stablecoins expose EU issuers and banks to risks of systemic stress, redemption runs and contagion, because the reserves backing the stablecoins are “fragmented”. During periods of crisis, he says, there is no guarantee that reserves in a non-EU issuer will be available for redemptions.

The financial crisis of 2008 and Covid-19 in 2020, he says, provide instances of “national ringfencing” of liquidity within the EU. The dangers today, he argues, are compounded by the difficulties in establishing the quantities of stablecoins held in off-chain wallets.

“I am not a fan of stablecoins in general,” Portes says. “They are not as stable as they purport to be.” Multi-issuer stablecoins “expose Europe to unnecessary and undesirable risk. It’s not rocket science”.

Allowing stablecoins to be marketed in the EU from issuers who operate primarily under third-country regulatory standards creates a risk of “regulatory asymmetry”, says Alpaz Soytürk, chief regulatory officer at the AllUnity stablecoin provider in Germany. This is particularly in areas such as reserve management and redemption, he says.

Soytürk sees a danger of “regulatory arbitrage”, whereby issuers optimise between jurisdictions while still accessing the EU market. European issuers complying with Mica “could face a structural competitive disadvantage”.

Some argue that tightening Mica would amount to protectionism. The Bank of France’s push is less about financial stability and more about building a “Fortress Europe” to shield banks from digital competition, says former Icelandic central banker Jón Egilsson.

The Bank of France’s move, he says, is “a thinly veiled attempt to protect domestic banks from non-bank innovators. We are witnessing the state sponsorship of banking cartels”.

Mica needs changes, but in the opposite direction to those the Bank of France is advocating, Egilsson says. He sees Mica’s biggest flaw as being the requirement that non-bank stablecoin issuers hold between 30 per cent and 60 per cent of their reserves as uninsured deposits in commercial credit institutions, which he calls “a recipe for disaster”. Non-bank stablecoin issuers, he says, should have direct access to central bank reserves, just as commercial banks do.

Restricting stablecoins for everyday payments “doesn’t protect consumers; it protects monopolies”, Egilsson says. “You cannot legislate trust, innovation and efficiency into existence simply by banning superior competition.”

The Bank of France’s stance is “not protectionism” but “a supervisor being honest about an uncomfortable position”, says Ilham Tamimi, founder of FinEthica Advisory in Dubai. Beau, she argues, is asking how the European payment system should work so that public money, euro-denominated tokenised money issued by European banks, and privately issued stablecoins can sit alongside each other, without a foreign currency instrument crowding out the others.

European authorities are “accountable for the stability of instruments whose reserves and crisis management levers sit outside their reach”, Tamimi says. The same questions about reserve transparency and redemption enforceability are on the table in the Gulf, says Tamimi, a board member at the Middle East Stablecoin Association.

Mica was never meant to address large, non-EU stablecoin issuers operating at scale in the EU, says Marie-Christine Doescher, a partner at AlixPartners in Frankfurt. The result is that gaps remain around cross-border supervision, transparency and the oversight of issuers with reserves outside the EU.

Once a stablecoin becomes an everyday means of payment, Doescher says, it starts to resemble private money competing with public money. In that scenario, strict reserve rules and close supervision are justified, she says.

Doescher sees a need for clearer systemic risk thresholds, more granular disclosure and stronger co-operation with third-country supervisors. The process, she says, must not slide into “de facto protectionism that excludes well-supervised global players”. European credibility will hinge on applying “high, technology-neutral standards consistently, not on ringfencing its market behind regulatory walls”.

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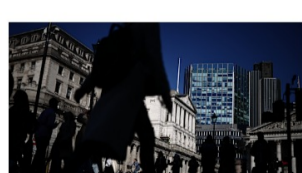
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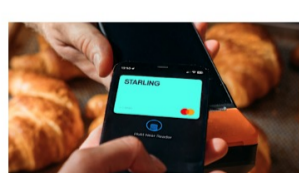
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