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# Regulatory Responses to Private Stablecoins

## -- A Comparative Literature Review of the United States, the European Union, and China's Mainland

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## Abstract

**Private stablecoins have been more and more adopted as a medium of payment, for on-chain settlement, and for cross-border transfers. As a result, the genuineness of reserves, the safeguarding of redemption and consumer protection, and anti-money laundering and cross-border transmission of risk are top regulatory issues. In this article, we will be discussing only those payment stablecoins which are backed by fiat currency. Adopting a structured narrative review alongside a functional comparative approach, it considers the relevant regulatory frameworks and the scholarship of the United States, China (including its license in Hong Kong) and the European Union. Some key takeaways from the findings are that the United States implements compliant issuance through a licensed system and a dual federal-state regulatory framework, that the European Union (EU) regulates compliant issuance using a classification framework under MiCA and that China's mainland employs a prohibition-based regulatory framework on the issuance of compliant products, supported by risk monitoring and interagency coordination. The banking sector, the digital-asset industry, coordination among EU Member States as well as the issue of monetary sovereignty also have an impact on the formation and assessment of these regimes. The Travel Rule is still being implemented unevenly, and anti-money laundering information needs and cross-border data transfer restrictions are still conflicting, while the authority and accountability of regulators remain a challenge. Competition with payment stablecoins serves as further evidence of the complex link between payment innovation, bank credit, and financial stability, in that it is dependent on particular institutional conditions. As the regimes have been in operation for too brief a period to achieve a long-term ranking, evidence from these regimes remains limited and intermittent. The clarification of the conceptual and legal line between the digital renminbi, tokenized deposits and private stablecoins could still be in the queue for the China's mainland, as well as improving the tools of risk classification and monitoring, stress scenarios, cross-border information exchange and allocation of responsibilities.**

## Keywords

**Private Stablecoins; Stablecoin Regulation; GENIUS Act; MiCA; Cross-border Anti-money Laundering.**

## 1. Introduction

Private stablecoins attempt to straddle the worlds of blockchain and fiat through using a peg to a stable currency, reserve-asset structures and redemption options. Since their applications have grown beyond crypto-asset trading to on-chain settlement and cross-border moves, their

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regulatory concerns have significantly expanded to include reserve authenticity, mass redemption, consumer protection, anti-money laundering and spillovers. Brunnermeier et al. [1] note that the platform-based nature of digital currencies might enable them to reintegrate payment and data services and to potentially form transnational digital currency regions. Bullmann et al. [2] on the other hand highlight variation in the structures of stablecoins and make the argument that the legal characteristics and the risks should be measured based on reference assets, their way of stabilization, or their governance structure. From the regulatory perspective, the United States has created a specific licensing system for payment stablecoins with the GENIUS Act, and harmonized classification-based regulation in the EU takes the form of MiCA, while China's mainland has the opportunity to regulate the activities covered by it in the virtual-currency risk framework. Both of them all involve reserves, but they distinguish themselves with regards to access to the market and risk resolution, as do the redemption and accountable entities span all three approaches.

This article focuses specifically on privately-issued fiat-backed stablecoins that reference a particular fiat currency, are backed by reserve assets and redemption policies and are used for payment or settlement. There is a significant difference in comparison which is the existence of "central bank digital currencies," "tokenized deposits" and "algorithmic stablecoins." The digital renminbi is only introduced to give a background to the digital-payment policy in the mainland and Hong Kong's stablecoin regime as a supplement. This main period starts in 2019 when the debate over global regulatory issues gained traction and continues to include only a few earlier works that elaborate on the use of private funds and the stabilization mechanisms. The sources were from CNKI, Google Scholar, some journals' homepages and some documents published by legislatures, regulators and international institutions. The search terms were chosen according to the selection criteria: topical relevance, source verifiability and whether they directly contribute to the comparative dimensions. Duplicate materials have been given preference to formally published or final official versions of the materials where available. October 11th is the end date for checking institutional materials. The article is structured as a narrative review and a thematic comparison of the different aspects of market access, reserve management, segregation of assets, redemption rights, disclosure, consumer protection, anti-money laundering, and cross-border collaboration. Details of the institutional realities are established from official texts while the academic literature is utilized to debate evaluations and effects.

There are three themes of literature. The former takes a look at the reserves, redemptions, market arbitrage, and depegging. In general, the situation in which an issuer has "liquidity" problems or cannot uphold its "reserve quality" and/or cannot maintain "redemption arrangements," can trigger mass redemptions and risk spillovers [3][4]. The second strand focuses on relationships between stablecoins and crypto-asset markets, foreign-exchange markets, and payment systems and their competition with currency. The results it draws generally rely on the sample period, the type of stablecoin, the usage case and other factors. Ante et al. [5] have reviewed 22 empirical studies which are all peer-reviewed, and they find that existing evidence focuses on price stability, linkages to crypto-asset markets and macroeconomic factors with far less attention paid to user behaviour, emerging markets, and uses other than crypto-asset oriented. With the third strand, the legal characterisation, issuer authorisation, segregation of the reserve, the rights related to redemption and supervision across borders are discussed. A lot of this work is only done for one jurisdiction and/or one particular rule. The literature offers a framework for the recognition of risk and assessment of regulatory instruments but has no good standards for cross-jurisdictional comparison and has limited links with work on evidence of implementation. There are few studies that make a direct comparison of the three regions on the same functional dimensions, namely the United States, the European Union, and China's mainland. There is also an incomplete forecast of how much

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these US and EU regulations, the operating history of which is relatively short, will have an impact in the long run, as no continuous public market and enforcement data is available in China's mainland.

In this context, three questions arise, which are answered in the article. What are the regulatory ideas for private stablecoins in the USA, Europe and the China's mainland and what are the differences between their ideas? What points of agreement and disagreement in the literature are there? What still needs to be ascertained and what conclusions then arise with respect to the future research on and discussion of such regulation in the China's mainland? The comparative perspective draws on common functions and risks to put the licensed issuance and the ban on financial activities carrying the same risk into the same analytical context to analyze the allocation of risk bearing and regulatory responsibilities in the market. The assessment differentiates between regulatory goals, early implementation and long-term results to make sure any findings are proportionate with the available evidence. Starting from concepts and the analytical framework, the article moves on to the three regulatory approaches, consensus in the literature, literature controversy, research gaps and implications for China's mainland and finally back to a synthesis.

## 2. Core Concepts and Analytical Framework

### 2.1. The Concept of Private Stablecoins and the Scope of the Study

A stablecoin uses a sovereign currency, a specified asset, or a basket of assets as its reference value and seeks to maintain a relatively stable price through a defined mechanism. Ke [6] classifies stabilization mechanisms as off-chain asset backing, on-chain asset backing, and algorithmic adjustment, while Moin et al. [7] classify them by collateral, price information, governance, and stabilization operations. "Stability" is a design objective; actual value still depends on issuance, reserves, and governance arrangements [2][8].

Fiat-backed stablecoins build confidence through reserves and a promise of redemption at par. Even where two tokens both target one US dollar, they may differ in reserve quality, holder rights, custody, and redemption conditions. What may even lead to depegging and mass redemptions is a doubt about reserves or redemption capacity [3].

In this article, we will be using the cross-jurisdictional analytical term "private stablecoin." The U.S. refers to these as "payment stablecoins" and the EU Markets in Crypto-Assets Regulation distinguishes between two types of stablecoins: asset-referenced tokens and e-money tokens; in the China's mainland, stablecoins like Tether are included in its framework of virtual currency risks. The private stablecoins covered in this paper are backed by either sovereign currencies, such as the US dollar or euro, and issued by various entities, including banks, payment institutions, and financial technology firms; and they are used as an asset for transaction settlement, payments and cross-border transfers. Typically, the holders obtain rights against both the issuer and the reserve arrangement rather than a direct claim on a central bank. Factors that are significant in decreasing the run risk include robust claims, timely redemption at par and a high quality of liquid reserves [4].

Private stablecoins are not the same as CBDCs in terms of the issuing identity and the credit basis for the currency. While a CBDC is a liability of the central bank, private stablecoins have strong claims on reserves and contractual commitments from their entities and regulatory limitations. Brunnermeier et al. [1] consider CBDCs as one path to maintaining the unit-of-account function of public money whereas Eichengreen and Viswanath-Natraj [9] speak about the potential for Tether to depreciate and hurdles for cross-border CBDCs. The digital renminbi is a digital legal tender issued by the central bank and similar to physical renminbi, it is the central bank's liability to the people. It is just used here as a policy backdrop to digital payments and no definition here suggests that this is a legal replacement for privately issued stablecoins.

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Essentially, the share of liabilities that commercial banks have is the share of tokenized deposits. The coverage may depend on the jurisdictions, the characteristics of the accounts and the products and the statutory coverage limits. Those that hold stablecoins are not treated as the bank's depositors that hold the reserves. Algorithmic stablecoins are based on supply adjustments and arbitrage rewards, do not have fiat backings or a reliable promise of redemption. As a result, their risk profile is different from that of the fiat-backed stablecoins which are the main focus of this article. Reliable stabilization mechanisms cannot be developed with the help of algorithms or arbitrage alone [4].

## 2.2. Operating Mechanisms and Sources of Risk

A stablecoin backed by fiat has been designed through four phases which are issuance, reserve management, circulation, and the last one, redemption. Once sovereign currency has been paid, the user will have tokens generated and receive their reserves. Tokens are traded, lent, paid and sent, with either custodial or self-hosted wallets. The tokens are redeemed with the respective sovereign currency and the issuer is willing to burn the tokens. The responsibilities of each of these roles can be performed by various actors to spread the risk across the issuer, the custodian, the wallet provider, the trading platform and the underlying network [11].

Together, both the promise of redemption and arbitrage bolster the peg. During the reduction, people who want to buy tokens can do so and redeem the tokens when the price dips below the actual value; when the price hikes, eligible people can subscribe to get tokens and sell them. Four key components ensuring the effectiveness of these operations are credible redemption, liquid reserves, asset segregation, and enforceable redemption rights, as well as continuing disclosure and independent attestation. Redemption thresholds, redemption fees and redemption processing periods impact ordinary holders' ability to redeem during stressed periods [4].

This depends on the nature of the assets which make up the reserve: whether they are short-term or long-term, over- or under-collateralized, or callable. Even when you have accounting performed, it is possible for you to lose money or for your liquid position to be called into doubt. But the priority of claims in an insolvency may also not be clear in the event of inadequate legal segregation. However, the relationship of the reserve-deposit is normally between the reserve arrangement or the issuer and the bank. Deposit insurance is not normally given directly to the holders.

Repayment uncertainty can engender self-reinforcing runs and depegging. The history of nineteenth-century private banknotes provides valuable insights into the difficulties that may beset private money in sustaining par and into the problems that could face private money issuers in the face of runs [12]. Mass redemptions can draw an issuer to sell reserve assets, and thus pass on liquidity pressure to associated asset markets [3][4]. The systemic implications, however, could vary much based on issuance size, composition of reserves, the depth of the market, as well as the timing of redemptions.

Losses or delayed redemptions can be due to network congestion, smart-contract issues, cyberattacks, lost private keys and failures of the custodial controls. The time for blockchain confirmation can vary from legal finality and a fork in the blockchain network or discrepancies between on-chain and off-chain records could lead to payment disputes. Thus, there is a need for stablecoin arrangements to have well-defined governance and a robust risk management framework with finality solutions [13].

Responsibilities for issuance, for managing reserves, for custodianship between the issuer and holder, for wallet providers and for network operators can make claims and accountability murky. Regulation needs to determine which is which, and assign the respective responsibilities by function, as well as define decision-making, client-asset protection, continuity of business and recovery and resolution functions.

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Cross-platform transfers and the challenge of tackling on-chain identities and real-world identity linking are also complexities in anti-money laundering monitoring. The FATF highlights risks to financial integrity posed by virtual-asset AML; stablecoins, self-hosted wallet services and peer-to-peer transactions; and the lack of consistent and homogeneous implementation of the regulations at the national level [14]. Issuers, platforms, custodians and technology providers may also be located in different jurisdictions, limiting the scope of any one jurisdiction to access data and restricting the ability of supervisory authorities over foreign entities that may also have a stake in the issuance process and creating the need to share data and supervisory powers across jurisdictional arrangements [4].

Another cross-border AML challenge is that the on-chain data is separated from the off-chain data related to the identities of the players. The public ledgers typically do not show the names of the owners of the wallets or the path they took to move the funds around, nor do they show the identities of the people behind the wallets, otherwise known as their beneficial owners. Transfers made between self-hosted wallets and/or using cross-chain protocols and offshore platforms might not have a chain of continuously regulated intermediaries performing customer due diligence. It is therefore important that the FATF [15] highlight the joint risks associated with stablecoins, self-hosted wallets and the offering of P2P services. The Travel Rule may not be continuous across jurisdictions as certain jurisdictions might cover different entities, have different data fields required to be transmitted and/or enforcement procedures differ in severity.

Potential impacts of global stablecoins could also include currency substitution, transmission of monetary policy, capital flows and financial stability. Depending on the volume of issuance, coverage of users, payment applications, financial interconnections, and local financial-system characteristics and market conditions, these can be positive or negative effects [4][16][17].

## 2.3. Theoretical Basis of Regulation and Comparative Analytical Framework

Private stablecoins are multifaceted in nature, embodying attributes of digital assets, payment instruments and private liabilities. Functional regulation is one where rules for each are assigned based on the activity that happens in the issuance, in the custody, transfer or redemption of reserves. This can then cover a larger piece of the business chain and minimise the possibility of risks being passed on outside the institutions. According to Arner et al. [18], a balanced and proportionate regulatory response should be contemplated and how to integrate supervisory requirements into technological systems is a topic to be considered. CPMI and IOSCO apply to systemically important stablecoin arrangements the same Principles for Financial Market Infrastructures (PFMI) that apply to ordinary financial market infrastructures [13]. Such approaches enable them to create a common point of analysis, as even if jurisdictions classify these differently, the regulatory actions that might be taken can be compared using common functions and risks as a basis.

A stablecoin with similar functions to a bank, a payment institution or a financial-market infrastructure and with similar risks should face regulation of comparable intensity, under the principle of same activity, same risk, same regulation. It is the principle of equivalent results, without preventing jurisdictions from applying banking regulation, e-money regulation, or a stand-alone licensing regime within their legal systems. Other unique threats based on on-chain circulation, self-hosted wallets, cross-border accessibility, and multi-actor governance also necessitate unique regulations. A comparison of the three jurisdictions should thus concentrate on the practical outcomes of reserve safety, redemption safeguards, disclosure and continuing supervision [19].

The eligibility and responsibility of issuers and key service providers are determined by standards in the form of licences, capital, governance and inspection requirements - entity-based regulation. Conduct regulation limits reserve investment and segregation, the conditions

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for redemption, disclosure, protection of assets belonging to the clients, and AML obligations. They jointly add continuous supervision to business activities. Proportionality also varies the intensity of the regulation based on volume of issuance, number of users, use of payments, the composition of the reserve, financial interconnectedness and cross-border reach. Ordinary issuers are subject to a set of basic obligations to do with authorization, reserves, redemption and disclosure; and systemically important arrangements have to meet tougher capital, liquidity, governance and recovery and resolution standards.

This article discusses and analyzes the jurisdictions in terms of market access, risk allocation and evidence of effects, using the risk-rule-regulatory outcome paradigm. Market access relates to what entities and activities can enter the regulated system. Issues related to risk allocation involve the allocation of responsibility for reserve quality, liquidity, custody and legal segregation, redemption at par, disclosure, consumer protection and dispute resolution, anti-money laundering, business continuity and recovery and resolution as well as cooperation across borders. The regulatory outcomes are categorized in three categories: normative objectives, early implementation and long-term effects. This is the basis dealt with in Section 3 where regimes are examined and in Section 4, the relevant literature is evaluated.

There are not the same positions between the three jurisdictions at the institutional level. However, compliant market-access conditions in the United States and the European Union are set out based on specified private stablecoins, while China's mainland bans the relevant financial activities. This is why the comparison takes into account both the internal distribution of competences within the framework of licensing systems and the enforcement scope and cross-border risk governance of a prohibition-based policy. The digital renminbi is not incorporated as part of the analysis of the success of the private-stablecoin regulations, but merely as policy background.

## 3. Regulatory Approaches in the United States, the European Union, and China's Mainland

### 3.1. The United States: From Fragmented Regulation to a Federal Payment-Stablecoin Framework

In the U.S., issuance and service activities for stablecoins might potentially be regulated by state money-transmission laws, state virtual-currency laws, banking regulations, securities laws, commodities laws, and anti-money-laundering laws, all at once, even prior to the enactment of a uniform, national approach to stablecoin regulation. The particular functions of a stablecoin led to it being classified as a deposit, security, commodity or payment instrument. While there are some risks that existing regimes can respond to, these regimes also generated fragmenting market-access and continuing-supervision requirements. The President's Working Group on Financial Markets (PWG) and the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) issued a joint report that recognized the main risks of payment stablecoins as risks of "run," payment-system risks, and concentration of economic power, and recommended adopting a unified statutory framework in the United States for payment stablecoins [11]. After this, the discussion focussed on the establishment of a special regime of authorization, reserves and redemption.

The federal legislative process was a reflection of the differing policy preferences of different interest groups. The American Bankers Association identified consequences of payment stablecoins for bank deposits and credit provision, and maintained that the guidelines be more strict around paying interest and nonfinancial companies' issuance of stablecoins [20]. There are three digital-asset industry associations that have been conducive to the progress of the GENIUS Act and tied the concept of stablecoins with the role of the U.S. dollar in the digital economy [21]. Grennan and Kundu [22] dissect the process into the institutions, ideas and

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interests. At the same time, they suggest, stablecoins were thought of both as prudential regulation objects and as payment innovation instruments and as strategic vehicles for the dollar, which attracted relatively broad political support. The current industry's perspectives showcase the context behind the debates on the legislation, and while they can in some way help verify that the industry will impact the final form of the legislation, that in and of itself is not good enough to demonstrate that lobbying will determine the outcome of the statute.

On July 18, 2025, the GENIUS Act became US Public Law 119-27 [23]. A payment stablecoin is a digital asset held to correspond to a fixed monetary value, and used for payment or for settlement purposes, for which the issuer is obligated to redeem the coins at the fixed value. The issuers may be subsidiaries of insured depository institutions, federally qualified nonbank issuers and state-qualified issuers. Regulatory channels at the state level are maintained. If the total amount of aggregate outstanding issuance of a state-qualified issuer is more than USD 10 billion, then the state-qualified issuer is required to participate in a supervisory arrangement with state and federal officials during the specified statutory period or to stop new issuance - unless the issuer is eligible for exemption (GENIUS Act, Sections 2 and 4(d)). This leaves a specific licensing system in which both federal and state licensing systems exist and in which both banks and qualified nonbank entities have the opportunity to be involved.

Issuers are required to keep a minimum of one-to-one balance of permissible highly liquid assets (cash, eligible bank deposits, US Treasury securities and other highly liquid fixed income) as compared to securities outstanding. They will need to restate the guidelines for redemption, and the details about the number of outstanding units and the reserve stocks will be displayed every month. Reserves generally cannot be pledged, rehypothecated or used again. During an issuer insolvency, the holders will have the priority claims for the reserves. An issuer may not pay interest or yield solely because a user is holding a payment stablecoin (GENIUS Act, Sections 4(a) and 11). Permitted issuers are equally covered by the Bank Secrecy Act and must abide by the customer-identification, recordkeeping, suspicious-activity-reporting and sanctions requirements. The US regime is thus a blend of the specific provision of authorization, liquid reserves, safeguards against eventual redemption or insolvency, disclosure and financial-integrity surveillance [23].

While the GENIUS Act has been rendered legislation, a lot of requirements are still only operational when implementing rules are enacted. The Act becomes effective on the earlier of 18 months after it is enacted or 120 days after the principal federal regulators enact final implementing rules under Section 20. As of October 11, 2026, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the National Credit Union Administration have each proposed rules with regard to licensing, reserves, capital and risk management, respectively. There were also proposed rules submitted in support of the issuance, offers, sales, anti-money laundering, and sanctions compliance by the US Department of the Treasury [24][25][26][27]. At the moment, it may be concluded that a statutory setup and direction is provided. Proposed rules are not final rules yet and thus their impact on the market, run prevention, as well as consumer protection cannot be known until the data from implementation are available.

### 3.2. The European Union: Classification-Based Regulation and Harmonized Market Access under MiCA

Prior to MiCA, EU Member States had not taken a consistent approach to regulating stablecoins. Some of the arrangements were encompassed by the e-money laws or by payment-services laws, whereas others were situated on the very boundary of the existing financial laws. Bullmann et al. [2] propose that risks should be disclosed based on different attributes of the asset referenced, the responsibility of the issuer and the stabilization mechanisms. However, Zetzsche et al. [28] argue that the division of national laws caused a higher level of uncertainty

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and that a unified legal framework would help to include stablecoins in the EU digital-finance agenda. The Markets in Crypto-Assets Regulation was adopted in 2023 as a directly applicable regulation, and it governs the issuance, redemption, disclosure and continuous supervision in a uniform manner. As of June 30, 2024 [29] it has been in effect with specific sections pertaining to the regulation of stablecoins.

To establish harmonised rules, it was necessary to coordinate the actions between the Member States and the EU institutions. A MiCA working document from the Presidency of the Council from 2021 collected the comments from 16 Member States and different interpretations regarding definitions, scope and the relation to existing financial laws [30]. Frausing [31] describes the EU process of developing a policy on crypto-assets as a framing struggle between the different institutional actors involved, and how certain framings of technological innovation, financial risk and policy competence influenced the policy rule-making. According to Cichon [32] the MiCA stablecoin laws can be assessed based on the rather delicate balance between innovation and risk control. They do not necessarily substantiate outlines and designate a final provision to any specific Member State or institution but unarguably these studies and policy materials do demonstrate conflicts in the coordination process.

Based on the referenced value, MiCA differentiates between the two types of tokens: asset-referenced tokens and e-money tokens. An asset-referenced token is a type of token that is tied to one or more assets, rights, or legal tender currencies - or their composite, while an e-money token is a type of token that is tied to a single legal tender currency. All the fiat-backed payment stablecoins that have been analyzed in this article seem to be basically e-money tokens. In principle, e-money tokens can only be issued by credit institutions and electronic-money institutions, and issuers of asset-referenced tokens have to be established and authorised in the European Union (according to the MiCA, Articles 3, 16 and 48). This classification is related to the eligibility of issuers as well as the stabilization mechanism to make the rules sensitive to the various risks [29].

E-money tokens must be issued at par and redeemed at par at any time at the holder's request. Generally, redemption fees are not allowed by issuers nor is the offer of interest related to the holding period. They are also required to issue a white paper and to manage amounts by complying with e-money safeguarding requirements (MiCA, Articles 49-51 and 54): at least 30 percent must be kept in a separate account with a credit institution and the remaining amounts can be directed towards financial instruments with a high level of security, low risk and high liquidity. The issuers of asset-referenced tokens need to keep a reserve cushion of assets and plan for their recovery and resolution, audit and redeemability, investment and holding. Once the number of holders, transaction volumes, cross-border activities or financial interconnectedness reach levels of significance, MiCA increases capital and liquidity requirements, introduces a greater emphasis on governance and reporting requirements and enhances supervision by the European Banking Authority (EBA) [29].

The basis of the EU approach is harmonized legislation, classification-based regulation, territorial access to the market, and tiering by significance. The regime will lessen disparities between Member States and aim to create a basic standard of protection for holders through the use of reserves, redemption and ongoing disclosure requirements - albeit with further coordination to be achieved between the e-money law, MiCA, and anti-money laundering provisions. However, while advocating risk mitigation, Ferreira [33] also stresses the need for room for innovation, and warns against burdensome regulations based on worst-case scenarios as they may stifle innovation. Most of what has been studied has been during the setting up of the regime. Decisions about harmonised rules and about the impact of compliance costs on market structure should be based on implementation data to check for regulatory arbitrage.

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### 3.3. China's Mainland: A Risk-Prevention-Oriented Prohibition Approach

China's mainland does not currently have any licence for the issuance of private stablecoins - the activities fall under the virtual-currency risk framework. Consider the regulation from the PBOC Document No. 237 of 2021, which clearly mentions Bitcoin, Ether, Tether and other virtual currencies, declares that they lack the quality of legal currency and that any use of them as money in the market is not and should not be permitted [34]. Tether operates under a fiat-reserve model but there has been no change in the treatment of it as a virtual currency. The exchange of sovereign currency into virtual currency, exchanges between virtual currencies, pricing and information-intermediation services, token-issuance financing and derivatives trading are also covered by the notice as illegal financial activities. Exchanges that are traded on offshore platforms by persons from China's mainland also are covered.

The notice bans financial institutions and nonbank payment institutions from opening accounts for the relevant businesses or providing other services to them, such as fund transfers, clearing and settlement. Online business venues, commercial display, marketing or promotion and paid traffic referrals are not allowed by Internet companies. Interagency coordination, territorial implementation, monitoring and early warning as well as information sharing are also part of the governance mechanism [34]. China's mainland method is to restrict access to financial, payment and information infrastructure and to make sure that the prohibited activities do not use regulated channels.

Again, stablecoins were labelled as virtual currencies in a coordinating-mechanism meeting held by the People's Bank of China in November 2025. It alerted of the dangers of customer identification, anti-money laundering, illicit fundraising and of illegal transfers across borders, and requested better monitoring of funds and data flows and the need for more interagency coordination [35]. That does not necessarily mean that all offshore platforms and self-hosted wallets or peer-to-peer transactions will be banned in the China's mainland. Based on the over-the-counter (OTC) market data from 2019 to 2020, a research group at the PBOC Digital Currency Institute (DCI) [36] draws the following finding: there is a relationship between the renminbi price of USDT and the renminbi exchange rate, but it does not seem to be linear. This study offers Chinese data to add to debates on cross-border risk, though the small sample size used means that it cannot on its own identify the impact of the policy in place.

The China's mainland has been developing a digital renminbi, alongside the governance of risks regarding private stablecoins. Both are connected with the digitalisation and monetary sovereignty, but there are fundamental differences between them in terms of their legal nature. According to the People's Bank of China, the digital renminbi is a kind of sovereign digital currency issued by the central bank. It is similar in nature to conventional renminbi, is a central bank's liability and possesses legal value and economic significance [10]. A private stablecoin, on the other hand, gets its value from the reserves, contracts, and management procedures of a private issuer. While the two policies can be linked under the umbrella of digital payments and monetary sovereignty, it is important to note that the digital renminbi is not a stablecoin, and there is no mention in the policy documents that the digital renminbi is to replace private stablecoins.

This comparison can be provided by the Hong Kong Special Administrative Region of China. Under the Stablecoins Ordinance, a licensing scheme for the issuers of fiat-referenced stablecoins is put in place. According to Hong Kong Monetary Authority guidelines, full reserve backing, asset segregation, and redemption at par are mandatory and the guidelines give guidance on effective trusts [37]. Mak [38] is also exploring the development of reserve-asset trusts and holder rights. In the area of regulatory instruments, Hong Kong, the United States and the European Union all use the scheme of issuer licensing and reserve and redemption rules. Hong Kong is different from the China's mainland, however, when it comes to matters such as

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market access, where the government has banned the relevant financial activities. In this sense, it would be helpful to briefly look at Hong Kong as a supplementary case in investigating the difference between licensed regulation and risk isolation. This article's third principal approach, that of the China's mainland, is not developed into a fourth jurisdiction parallel to the United States and the European Union via Hong Kong.

## 4. Institutional Logic, Controversies, and Assessment of the Three Regulatory Approaches

### 4.1. Market Access: Conditional Openness and Risk Isolation

A few shared risk dimensions between the three jurisdictions are inadequate reserves, mass redemptions, pseudonymous transfers, and cross-border transmission. However, each issue is not given the same weight in their official policies. The United States has established a separate scheme of licensing involving both federal and state licensing. Harmonized classification and proportionate regulation creates a compliant path through the European Union. They both limit the authorized issuers' reserves, redemption and ongoing activities. Financial activities are not allowed to spill back into China's regulated domestic system, while China seeks to address spillovers from activities in the offshore segment by monitoring flows of funds and information, and through interagency enforcement. All of these various market-access mechanisms are a consequence of different policy targets in respect of payment innovation, holder protection, financial stability and monetary sovereignty [4][17][39].

The literature has given a lot of attention to what can be considered an acceptable range of regulatory openness as well as to the strictness of the regulation. Gorton and Zhang [12] draw upon the history of private banknotes and point to a variety of factors that restrain the ability of private money to circulate at par over time and to the susceptibility of bank issuers to runs, including bank issuance and full backing with safe assets. Catalini et al. [40] are more attuned to the potential gains that may result from real-time payments, programmable transactions, and competition in the market. Arner et al. [18] recommend that regulation should be balanced and proportionate and they consider the inclusion of supervisory requirements in technology systems. On an institutional level, the United States is providing opportunities to banks and qualified nonbank issuers, while the European Union modulates access to the market based on a series of criteria including token classification, issuers' authorization and the relevance of the market. While Zetzsche et al. [28] stress the risk of fragmented European rules, for Ferreira [33] undue burdens of compliance could drive out some innovative activity from the European market. The United States and the European Union have agreed to conditional openness; to what extent benefits are open, however, varies based on benefits and public cost competition.

China's priority - of protecting against risk of business failures, reserves, and redemption - makes it less likely that regulated domestic institutions would directly experience any of these risks in relation to private stablecoins. Through offshore platforms, self-hosted wallets, over-the-counter trading and illegal cross-border transfers, relevant risks could still wind up on China's mainland. The study of China's OTC market demonstrates that there are indeed cross-border risks but the long-term implications of the prohibition policy have still not been worked out [36]. The reallocation of risk (visible and hidden) and regulatory costs has to be a continued element of the assessment of various market-access policies. The labels "open" or "prohibited" used individually cannot be given a value rank.

### 4.2. Stabilization Mechanisms: Reserve Regulation, Depegging, and Run Risk

There is now a fairly clear consensus in the literature concerning minimal safe attributes for fiat-backed stablecoins. The nominal one-to-one ratio backing is no guarantee of safety and neither is the label "stablecoin." Another key point for regulation is that issuer eligibility, the

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calibre and liquidity of the reserves, asset separability, redemption at par, continuous disclosure, governance, and anti-money laundering must all be part of regulation. The FSB's recommendations for action on a global scale are: legal claims, timely redemption and an effective stabilization mechanism. Baughman et al. [3] also highlight the importance of the composition of reserves, redemption processes, and governance of issuers. These conditions are dealt with directly in the case of authorized issuers in the U.S. and European Union, while China's mainland limits direct exposure by preventing the applicable businesses from gaining access to the regulated financial system.

Reserve and redemption systems can sustain the peg, but this has to be judged in the light of various studies. Reserve maturity, credit quality, market liquidity, custody and insolvency segregation are the factors that impact the ability to liquidate assets in the midst of mass redemptions. Whether price deviations can be corrected is also dependent on the redemption thresholds, the fees, and the arbitrage channels. Grobys et al. [41] conclude that Bitcoin's volatility actually Granger-causes stablecoin volatility, suggesting that a fiat peg cannot fully protect stablecoins from crypto-asset market shocks. With USDT's transition to Ethereum in 2019 and increasingly decentralized issuance, investors had more opportunities to participate in arbitrage with the issuer and the size of the deviations from the peg dropped by approximately 50% [42]. Both studies are complementary: the first one is based on external shocks and the other one is based on internal corrective mechanisms. However, the reserves, redemption, market depth and arbitrage are still factors to be taken into account when conducting stability assessment.

Reserve-based regulatory regimes, as established in the United States and the European Union, provide testable regulatory objectives although evidence to establish the potential effects of these objectives is yet to come. These include high-quality reserves, clarity of the redemption rights and continuing disclosure, which could help to minimise losses and information asymmetries, but which could be offset by extreme liquidity stress, or by failures of service providers or by cross-border claims. Although isolation of the mainland market reduces the likelihood of a stablecoin run happening in the regulated domestic market, volatility of the price and the risk of illegal trading in the offshore market can still be transferred into China's mainland market. Evaluation of the three approaches should separate regulatory design, capacity to enforce and actual regulatory performance during stress.

### 4.3. The Public Interest: Balancing Payment Innovation and Financial Stability

Academic research in favour of conditional licensing is broadly focused on the potential benefits of stablecoins to enable continuous settlement, programmable transactions, and cross-border payments. Brunnermeier et al. [1] suggest that platform-based digital currencies could be a way to recombine payments, data and other services. Catalini et al. [40] argue that stablecoins can spur payments competition. One such option is embedding compliance requirements in technological systems, as discussed by Arner et al. [18]. These attitudes offer a theoretical basis for maintaining bank and nonbank channels of issuance in the United States as well as developing a harmonized licensing structure in the European Union. But faster transfers on-chain do not necessarily mean that users' costs are cut down. All fiat fees such as on/off-ramps, identity verification, wallet storage, foreign exchange conversion, and redemption fees should also be taken into consideration.

More conservative accounts are about the public cost of stablecoin growth. Inappropriate management of issuer reserves or problems with the wallets and underlying networks can impact a lot of people. Together with the price impact, there can also be a liquidity impact such that mass redemptions can generate liquidity pressures on the banks or short-term funding markets. The FSB [4] recommends prudential requirements should be commensurate with their size, complexity and interconnectedness, while CPMI-IOSCO [13] applies the Principles

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for Financial Market Infrastructures to systemically important stablecoin arrangements. Consumer protection, capital flows, and policy transmission are also cross-border issues involved in cross-border use. Stablecoins and CBDCs may be two digital-currency instruments of the same nature, but they should be judged on their own merits. Eichengreen and Viswanath-Natraj [9] discuss the potential for Tether to depreciate and impediments to using CBDCs across borders.

Another related policy debate is on the introduction of tokenized deposits. A tokenized deposit maintains all features of bank deposit liability, but in a tokenized form so that it is able to be utilized in a digital context. A payment stablecoin, on the other hand, is tied to the redemption scheme and reserves of a licensed issuer. Based on the model developed by Huang and Keister [43] it is shown that the credit supply and social welfare ranking of the two instruments depends on bank regulatory costs, and that allowing these two instruments to compete may also be preferable. Equally, an evaluation of the public interest in stablecoins should not be confined to on-chain settlement efficiency alone and instead seek to consider the relationship of these projects to bank deposits.

The public interests ranked by the three jurisdictions are influenced by factors of political economy. Deposit substitution views, nonbank market access and dollar competitiveness are held by the US banking sector and the digital-asset industry, respectively. EU Member States have further been divided as to the scope of MiCA and the interconnection of MiCA and the current legislation [20][21][30]. Grennan and Kundu [22] relate the emergence of the US regime to dollar strategy and van 't Klooster et al. [44] investigate the impact of dollar stablecoins from an EU monetary sovereignty perspective. The two studies demonstrate that regulatory measures are simultaneously reacting to prudential risk, industrial competition and monetary power. Still, institutional effectiveness needs to be evaluated within the context of formal rules and data on institutional implementation; the claims of interest groups serve only as evidence for explaining policy debate.

It is possible to identify different hierarchies of public interests in the three regulatory schemes. The U.S. focus is on the creation of dollar stablecoins, promotion of payment competition, and market innovation with federal-state oversight and risk control by way of reserves, redemption, and regulation. Tiered by significance, defined by classification, and balanced through measures of open market access and prudential constraints, the European Union places the single market, holders and their protection at the heart of its legislative debate. China's mainland places more emphasis on the financial order, capital-flow management and monetary sovereignty and shields risks by banning the related financial activities. All three of these ways of addressing technological innovation have been shown to not remove the necessity for regulation. Central to the fundamental distinction is whether the risks in question have the potential to become part of the regulated marketplace and therefore be controlled. An assessment of each regime based on its purpose and where and when it is applied should take place, and not merely extend the application of the policy of one country to another.

### 4.4. Regulatory Outcomes: The Evidentiary Boundary between Institutional Objectives and Actual Effects

There is a minimum of three levels to determine the outcome within the comparison of regulatory processes. Normative objectives identify the risks which legislation is aimed at addressing. The arrival of the supporting rules, institutional changes and compliant access pathways is illustrated by early implementation. Long-term effects should be subjected to stress events and assessed over time and should incorporate depegging frequency, consumer losses, market concentration, illegal cross-border activities and impact on financial stability. It is possible to identify reasonably well the normative objectives from existing materials and a few steps of implementation progress; evidence of long-term effects is absent. To take

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regulatory documents as direct evidence of the effectiveness of a policy goes beyond what the literature supports.

The US GENIUS Act's implementing rules are yet to be drafted. The direction of the structure of permitted issuers, acceptable reserves, redemption disclosures and protection for insolvency can all be established at present. Though MiCA is already in force, the impact of market concentration, cross-border issuance, compliance costs, and effects on holders' protection should be kept under constant observation. China's mainland has a well-defined focus on the scope of prohibited activities, and interagency coordination is in place, but there is limited coverage in public materials on access by China's mainland residents to stablecoins offshore, displacement to underground trading, enforcement costs and consumer losses. Institutional objectives state a policy's direction but neither, on its own, is evidence of long-term effectiveness, nor does the existence of risks always mean governance is necessary.

Regulatory authority and its mismatch with data rules are also highlighted by cross-border enforcement. A licensing regime may bring reporting obligations on local issuers, custodians, and trading platforms, but control over offshore platforms, self-hosted wallets, and cross-chain activities still depends on local rules or institutional cooperation. User identity and electronic evidence for OTC trading could be with an offshore entity; China's mainland prohibition makes it less likely for regulated institutions to be directly involved in the activities. AML review involves the sharing of information related to payers, payees and information concerning a particular transaction. Rules based on data sovereignty, personal-information protection and data security may also limit the export of data, storage in other countries, and use thereafter. Issues of contention include the legal authority for transfer, what is required for a minimum transfer, length of time that transfers are retained, the authority of the receiving agency, and transfer conditions. The FSB's [45] framework for cross-border payment data calls for risk management and financial-crime prevention channels for data transfer with clarity as well as coordination of differences among the various jurisdictions' rules. While the report does not focus on stablecoins, the data frictions found in it also exist in stablecoin arrangements with cross-border payment functions. Ultimately, the effectiveness of regulation hinges on being able to get relevant information to the authority empowered to act lawfully, promptly and securely.

## 5. Research Gaps and Implications for China's Mainland

### 5.1. Limitations of Existing Research and Directions for Future Study

As exhibited in Section 4, finding institutional goals is easily achievable, whereas comparable evidence of long-term effects is limited. Future research should pose the questions: how will depegging frequency, holder compensation, market concentration and regulatory arbitrage be affected during the implementation of the regimes, and can the volume held by China's mainland residents, displacement into OTC trading, illegal cross-border fund flows and enforcement costs be observed continuously? Ante et al. [5] present a similar sentiment - the primary relevance of the empirical literature to price stability and connections to the crypto-asset markets has been complemented by less emphasis on user behavior, emerging markets, and applications outside of the crypto-asset markets. Uniform indicators relating to peg and redemption performance, the quality of the reserves, consumer loss, the market architecture and the use of payment, as well as cross-border transactions and enforcement costs, can thus be developed, with observation periods aligned to the implementation dates of the regimes.

Even there, information and proof regarding enforcement procedures is missing for cross-border stablecoin chains. Different jurisdictions can have issuers, reserve custodians, trading platforms, wallet service providers and end users and it is impossible for any single jurisdiction to licence or prohibit every link. It is rare for existing research to differentiate among those who

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hold on-chain transaction information, customer identity information, beneficial-ownership information, and evidence for enforcement. They do not even describe in depth the legal limitations that authorities are subjected to regarding such data and its acquisition, transfer, and utilization. Despite the information sharing, cross-border cooperation and regulatory equivalence requirements proposed by the FSB and FATF, differences in implementation of the Travel Rule, incompatible technological tools and data-export laws continue to impact enforcement efforts [4][14][15][45]. The research on the relationship between the renminbi price of USDT and the renminbi exchange rate by the PBOC Digital Currency Institute research group [36] is an important lead. Because its sample period and OTC-market coverage are limited, evidence from additional periods, platforms, and transaction scenarios remains necessary.

Cross-jurisdictional research needs to have tight conceptual and evidentiary boundaries as well. The digital renminbi could also have a positive impact on public payment infrastructure and on private digital currency demand, but such developments are not necessarily indicative of the risk of private stablecoins being eliminated. Future research should first assess private stablecoins and CBDCs in isolation, introducing their interaction to the equation only when considering the choice of payments, cross-border usage as well as monetary-policy transmission, but not for the purpose of providing functional similarity as a proxy for legal characterization.

## 5.2. Implications for Regulatory Research and Policy in China's Mainland

Improving the observability of risk is of immediate concern to China's mainland. In the existing policy framework it is possible to create consistent time-series indicators for bank accounts, payment institutions, OTC trading, cases of fraud and money laundering and cross-border fund flows, as well as periodic disclosure of aggregate information that does not lead to a loss of individual personal confidentiality. Stablecoin risk covers five aspects: prices, reserves, transactions, technology, and cross-border activity. Market prices or individual cases can reflect only part of the picture in terms of the effects of a policy. Policy evaluation based on verifiable data sharing between regulators, universities and research institutions would be valuable in identifying the shift of risk and as a basis for further evaluation.

Risk monitoring should also combine functional classification with stress scenarios. To analyze the risks associated with offshore fiat-backed stablecoins and algorithmic stablecoins, as well as transactions settled in stablecoins, it is necessary to examine the risks of reserves, redemption, technological operations, and illegal funds transfer. US and EU laws and regulations on reserve quality, insolvency segregation, claims of holders and tiering based on systemic importance can be used as a basis for analysing the nature of China's offshore exposures and options for reacting, but not as a reference to directly transplant the market-access regimes in the USA or Europe to China. Potential severe depegging of major stablecoins, stress at a custodian bank holding reserve assets, or massive redemptions could be anticipated through solutions that involve the screening and identification of financial institutions, warning consumers and the exchange of information amongst agencies [3][4].

Information and evidence exchange and aligning responsibilities should be part of cross-border cooperation. China is able to keep on engaging in the multilateral coordination mechanism under the FSB, FATF and other coordinated bodies, promote the interoperability of data standards among issuers, reserve custodians, trading platforms and virtual-asset service providers and improve cooperation on anti-money laundering, sanctions compliance and fund tracing. Domestic agencies should also mitigate the costs of enforcement arising from regulatory duplication and information gaps by having clarity on responsibilities for cross-border evidence requests, platform liability and asset disposition for the platform's users.

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Tiered authorization and the principle of minimum necessity can be implemented in cross-border data cooperation based on risk assessment and legal authorization. The basic rules for information exchange might first define basic fields such as identity identifiers, wallet addresses, transaction hashes, timestamps, and amounts. Information on the source of funds, beneficial owners and associated accounts could then be obtained through statutory procedures in cases involving suspicious transactions, funds related to fraud or sanctioned persons. The specific fields to be processed should match the level of risk, the expertise of the recipient jurisdiction and their intended use of the data. The rules should also include mechanisms for quick notification in case of emergency freezes or for preserving evidence, the conditions or bases of retention, the confidentiality responsibilities, and the situations in which data can be forwarded. Such arrangements can help fill in AML information gaps but also minimize any unnecessary interference in the protection of personal information and data security in cross-border enforcement [15][45].

The main implications are across the dimensions of risk identification and governance capacity within the existing policy environment. The need for a change in private stablecoin market-access policy should be approached with great care, given the current uncertain financial openness environment, capital-flow management, payment-system competition, and empirical findings from the long-term perspective. In essence, the digital renminbi is a component of China's digital payment ecosystem that is offered by the central bank and thus differs fundamentally from private stablecoins. The comparison presented in this article provides institutional reference points, but the available evidence does not suggest, a priori, that the market should be opened up for private issuance nor that the current institutions should permanently remain unchanged.

## 6. Conclusion

On the side of the U.S., the EU and the China's mainland, private stablecoins are subject to different regulatory methods, which differ in their decisions about market access and responsibility distribution. The GENIUS Act sets up the United States to have a specific payment stablecoin licensing framework available for banks and qualified nonbank payment service providers under a dual federal-state system. MiCA aims to establish a unified classification and authorization system, with increased regulations for substantial tokens, within the European Union. On the China's mainland does not allow private stablecoins, and regulates related activities under the risk control system for virtual currencies, separating risks via business bans, fund and information flow monitoring, and interagency coordination. Lessons can also be learnt in relation to the licensing regime in the city of Hong Kong, which is a different scheme within China, but this is a supplementary discussion here.

There is some agreement in the literature as to the basic conditions for a stable mechanism. Stability is not necessarily the consequence of a fiat peg and nominally full reserves. Regulation also needs to address issues such as reserve quality, the segregation of assets, redemption rights, disclosure, governance of the issuer, anti-money laundering and cross-border cooperation. The basic contention is who should bear the risk. The traditional approach to regulating these activities in the United States and in the European Union is to allow the activities to enter the regulated market and subject them to ongoing supervision, while the prevailing view in China's mainland is to keep the activities out of the regulated domestic market. Political-economy research also reveals that banking and digital-asset industries' relative priorities and concerns for payment innovation and public risk vary as a function of the interplay between the two industries, institutional coordination within the European Union and monetary-sovereignty concerns. The discussion around tokenized deposits also serves as

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a reminder to regulators that stablecoin policy can lead to changes in bank deposits and credit supply, depending on the regulatory costs and conditions for risk shifting.

Unfortunately, long-term observations are still limited and there is a lack of cross-jurisdictional data, which restricts the assessment of regulatory outcomes. The US and EU regimes have been in effect only for a short time, and there is also a lack of regular information on the use of stablecoins offshore or the fact that they have been displaced to OTC trading, as well as enforcement costs in China's mainland. Long-term outcomes cannot be ranked for the three approaches using existing evidence. Future studies should focus on the elaboration of common comparative metrics, the collection of data on cross-border transaction chains and usage behaviour, and the identification of the legal relationships and risk distribution with regard to private stablecoins, tokenised deposits and CBDCs. In addition, cross-border regulation must resolve issues stemming from an interaction between requirements for identification of clients and personal-information protection laws, data exports and localization requirements. In the short term, the China's mainland can consolidate classified monitoring, stress-response plans, cross-border information sharing and clarify responsibilities under the existing policy scope and set up clear data-sharing mechanisms, emergency freezes and evidence preservation. Evidence is needed over a longer period for any adjustment of market-access policy. Indeed this article does confirm that the three jurisdictions have each created distinct risk allocation protocols - working out what works best for all of them in the long run will require ongoing, transparent and comparable data.

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