

# Experiences and Insights from Foreign Regulation of Stablecoins: Implications for China

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**Abstract:** As an emerging digital asset, stablecoins have garnered widespread attention from global regulatory bodies, financial markets, and academic circles. With the development of blockchain technology and digital currencies, stablecoins, while bringing convenience to the digital economy, also pose a series of legal and regulatory challenges, particularly in terms of monetary policy, financial stability, and consumer protection. This article delves into the complexities and diversities of stablecoin regulation by comparing the regulatory practices and experiences of the United States and the European Union. The U.S. adopts a decentralized, multi-agency dynamic regulatory system, whereas the EU strives to establish a unified and standardized regulatory framework through the MiCA legislation. Facing these challenges, China needs to timely adjust and optimize its regulatory strategies, strengthen categorized regulation, enhance regulatory coordination, and actively participate in international collaboration and the formulation of global regulatory standards. China must fully recognize the long-term nature and complexity of stablecoin regulation and adopt flexible and forward-looking measures to promote financial innovation while ensuring financial stability and protecting consumer rights. By drawing on international experiences and strengthening international cooperation, China can effectively address the challenges and opportunities posed by stablecoins, contributing to the healthy development of global stablecoins.

**Keywords:** Stablecoin, Regulatory Strategies, International Experience, China Regulation

## 1. Introduction

With the rapid development of blockchain technology and digital currencies, stablecoins, as a special type of digital asset, have gradually attracted widespread attention from global regulatory bodies, financial markets, and the academic community. The advent of stablecoins has not only brought convenience to the digital economy but also triggered a series of complex legal and regulatory issues. These issues involve aspects of monetary policy, financial stability, consumer protection, as well as anti-money laundering and counter-terrorism financing.

It is noteworthy that different countries and regions have adopted various legal and policy measures in facing these challenges. These differences not only reflect the characteristics of their respective economic systems and legal environments but also reveal the diversity and complexity of stablecoin regulation. Particularly in the context of globalization and digitalization, how to learn from successful foreign experiences and how to address the challenges posed by stablecoins have become urgent issues.

For China, although the country currently maintains a strict stance on cryptocurrencies, including stablecoins, there is still a significant number of cryptocurrency holders. Therefore, China should timely adjust its regulatory strategies and actively promote the regulation of stablecoins. How to formulate appropriate stablecoin regulatory policies in this global context is not only a significant challenge but also a rare opportunity. Especially under the backdrop of the "Belt and Road" initiative and the promotion of digital RMB, in-depth research and learning from foreign stablecoin regulatory experiences will have important reference value for China's digital currency policy formulation. This paper attempts to compare the practices and experiences of stablecoin regulation in the United States and the European Union and summarize the implications of foreign regulatory experiences for China's regulation of stablecoins[1-2].

## **2. Overview of Stablecoins: Definition, Classification, Functions, and Current Development**

### ***2.1. Definition of Stablecoins***

Stablecoins are a special type of cryptocurrency, most of whose values are pegged to underlying assets to reduce price volatility. Unlike traditional cryptocurrencies, stablecoins aim to provide a more stable store of value and medium of exchange. This stability is achieved by anchoring their value to fiat currencies, gold, or other assets. This makes stablecoins significantly advantageous in aspects like payments and fund transfers.

### ***2.2. Classification of Stablecoins***

The classification of stablecoins reflects their diversity. Scholars have different frameworks and structural properties for categorizing stablecoins. For instance, based on the stability mechanism, stablecoins can be divided into asset-backed stablecoins and algorithmic stablecoins. Asset-backed stablecoins can be further divided into fiat-collateralized stablecoins and crypto-collateralized stablecoins. Currently, international organizations such as the Financial Stability Board, as well as countries and regions like the United States and the European Union, commonly adopt this classification method.

Fiat-collateralized stablecoins maintain value stability based on fiat currency reserves, like Tether's peg to the US dollar, but transparency issues can pose risks. Asset-collateralized stablecoins use non-cash assets such as precious metals as the underlying anchor. There is a trend in the market towards a mix of fiat-collateralized and asset-collateralized stablecoins, with many stablecoins backed by a mix of cash and non-cash assets. Crypto-collateralized stablecoins are generally backed by one or a basket of cryptocurrencies. The scale and value of such stablecoins are subject to the volatility of the cryptocurrency market, and due to the high price volatility of the collateralized cryptocurrencies, they typically use over-collateralization to mitigate risks, but significant risks still remain. Algorithmic stablecoins are not backed by any assets but rely on algorithms to maintain their value stability. This type of stablecoin has a complex mechanism and lacks underlying property anchored in value, posing higher risks. In recent years, there have been multiple incidents involving algorithmic stablecoins, making them less likely to be accepted by the mainstream compared to other types of stablecoins.

### ***2.3. Functions of Stablecoins***

Stablecoins serve multiple functions in the financial sector. Firstly, as a means of payment, stablecoins offer rapid and low-cost cross-border transfers, overcoming the delays and high fees of traditional banking systems. Secondly, stablecoins act as intermediaries in asset trading, especially in the cryptocurrency market, where their relative stability compared to other cryptocurrencies makes them a preferred medium of exchange. Lastly, due to their value stability, stablecoins are often used as a store of value, particularly in economies facing local currency instability or high inflation, providing a safe haven for users. However, the cross-border nature of stablecoins and their interaction with traditional financial systems add complexity to their regulation.

### ***2.4. Current Development of Stablecoins***

The use of stablecoins has surged in recent years, reaching a total market value of \$132.4 billion as of November 2023. Due to their price stability, ease of exchange, low cost, and high liquidity, stablecoins have become an important infrastructure in the crypto financial market. Despite the booming stablecoin market, it faces many challenges such as compliance issues due to involvement in multiple jurisdictions, lack of transparency in crypto-asset-backed stablecoins, and potential risks to financial stability. As more financial institutions focus on stablecoins, effective regulation has become a widely discussed topic, and countries are actively exploring legal and regulatory frameworks suitable for this emerging market.

## **3. The Current State of Stablecoin Regulation in China**

### ***3.1. Understanding of Regulatory Bodies on Stablecoins***

China's current regulation of cryptocurrencies, including stablecoins, is primarily based on four

normative documents. The most recent, issued in September 2021 by ten departments, categorizes stablecoins as "virtual currencies" and implements a financial sector "ban" on them, indicating they do not have the status of legal financial instruments in China. This shows China's strict stance on cryptocurrencies, including stablecoins. In terms of regulatory bodies, China has not yet established a specialized agency but rather has multiple institutions, including the People's Bank of China, jointly performing regulatory responsibilities. Furthermore, in terms of regulatory policies, China adopts a strict approach to crypto-related behaviors that may involve criminal law. China's regulatory strategy in the cryptocurrency field is characterized by a stronger focus on preventing financial risks and maintaining the effectiveness of monetary policy. The attitude of regulatory authorities also reflects their concerns about the potential financial stability risks brought by cryptocurrencies.

### ***3.2. Judicial Authorities and Stablecoin-Related Cases***

The judicial system can directly measure the impact of financial innovation on the economy and society. The rapidly increasing number of judicial cases in recent years reflects the considerable disturbance brought by stablecoin innovation. Researching the most valuable stablecoin "Tether" in the Weike Xianxing legal database revealed that the number of stablecoin cases has seen a sharp increase and then a gradual decrease over the last five years. Through analysis of some cases, it is evident that there are many instances of disparate judgments in judicial practice. In the criminal domain, due to the strict restrictions of the principle of legality in criminal law, such instances are less; however, in the civil domain, due to insufficient legislative supply, the absence of judicial adjudication rules, the blurred boundaries of financial normative documents intervening in judicial adjudication, and the multi-complexity and objective reality of stablecoins under the integration of technology and finance, judicial adjudication faces dilemmas. Disputes in the civil domain mainly revolve around the legal nature of stablecoins, the effectiveness of related contracts, the return of property, and how stablecoins should be priced. This phenomenon of disparate judgments is common in the digital finance field, violating judicial fairness and justice, undermining the unity of legal order, and potentially damaging social expectations, which is not conducive to protecting investors' legitimate property rights and identifying and resolving financial risks[3-4].

### ***3.3. Reflections on the Current Regulatory Status in China***

Distinguishing between regulatory and judicial perspectives allows for a deeper analysis of China's formulation and implementation process of new cryptocurrency policies. On one hand, regulatory agencies directly influence the market behavior of stablecoins through policy formulation and enforcement. On the other hand, judicial authorities interpret and provide a legal basis for the legal nature and market behavior of stablecoins through case adjudication. While China's current broad and strict regulation of stablecoins is justifiable, persistently cracking down may drive stablecoin activities outside the regulatory scope, turning it into a "gray market." Additionally, the positive implications of developing stablecoins should also be recognized. It's time to adjust regulatory strategies, balance innovation with risk, enhance transparency and predictability of regulation, and advocate for a multi-departmental collaborative mechanism to improve regulatory efficiency and consistency.

## **4. International Regulatory Experience of Stablecoins**

As financial technology innovation products within the cryptocurrency realm, the emergence and development of stablecoins are directly related to the development of cryptocurrencies. International experiences in regulating stablecoins can provide references for China. Therefore, researching the regulatory experiences of major countries worldwide on stablecoins, breaking geographical limitations, and exploring the path for lawful regulation of stablecoins in China are of special urgency and necessity. The United States and the European Union, as major economies, have already encompassed the main trends and challenges of global stablecoin regulation. The following will discuss the current state of stablecoin regulation in these two regions.

### ***4.1. Current State of Stablecoin Regulation in the United States***

#### ***4.1.1. Regulatory Characteristics***

In the United States, the regulation of stablecoins and other cryptocurrencies reflects a comprehensive and dynamically adjusted characteristic, manifested in the collaboration and

coordination among multiple agencies, as well as the progressive adjustments based on market evolution and technological development. This regulatory model gathers the professional strength of various regulatory agencies, forming a flexible and multidimensional regulatory framework through continuous interaction and cooperation, effectively addressing the complexity and ever-changing challenges in the field of cryptocurrencies. The U.S. financial regulatory system is characterized by a fragmented, layered multi-polar regulatory agency structure, and a dual-line regulatory system of state and federal levels.

#### ***4.1.2. From the Federal Perspective***

At the federal level, due to the lack of legislation specifically for cryptocurrencies, including stablecoins, regulation is mainly based on existing legal frameworks. Agencies such as the Securities and Exchange Commission (SEC), Commodity Futures Trading Commission (CFTC), and Office of the Comptroller of the Currency (OCC) classify stablecoins as "securities," "commodities," or "currencies" according to their respective legal responsibilities and regulatory scopes. This diversified regulatory approach by different agencies leads to competition for regulatory power, thereby causing complexity and confusion in the regulatory environment. Such dispersed regulation brings significant uncertainty and compliance challenges to the stablecoin industry, affecting its stable development. In this multi-agency collaborative regulatory structure, the SEC oversees crypto assets with security features, focusing on preventing fraud and protecting investors, the CFTC focuses more on the integrity of commodity and derivative markets, and the OCC is responsible for regulating crypto assets related to national banking operations. Furthermore, the Financial Crimes Enforcement Network (FinCEN) focuses on compliance issues related to crypto assets, including anti-money laundering and counter-terrorism financing, requiring all "money services businesses" to register and comply with corresponding obligations. Since 2022, the U.S. has adjusted its crypto asset regulatory framework, focusing the primary regulatory responsibilities on the SEC and CFTC, emphasizing the applicability issues of existing financial laws and regulations. In April 2023, the U.S. House Financial Services Committee introduced the "Stablecoin Bill Discussion Draft," focusing on strengthening the regulation of stablecoin issuance, requiring issuers to register and obtain regulatory approval. The draft sets strict legal liabilities for unauthorized issuance activities. Subsequently, in June, the committee proposed the "Digital Asset Market Structure Discussion Draft," aiming to establish a regulatory system that meets market and consumer needs and clarifies the regulatory boundaries between the SEC and CFTC.

#### ***4.1.3. From the State Perspective***

At the state level, each state in the U.S. displays its own policy characteristics in stablecoin regulation, stemming from the autonomy afforded to them under the federal structure. State governments implement various stablecoin regulatory policies based on local economic and policy needs, leading to a diverse regulatory environment. This differentiated regulation not only increases the flexibility of regulatory strategies but also adds to the fragmentation and uncertainty of regulation. Money Transmitter Licenses (MTLs) are a key aspect of regulation. Most states require cryptocurrency businesses operating within their jurisdiction to apply for an MTL and comply with local regulations. These regulations typically include maintaining minimum capital and liquid assets and require businesses to submit annual financial reports and undergo regular regulatory reviews. For instance, the issuers of USDT, Tether, and USDC, Circle, have applied for MTL licenses in various states.

The BitLicense in New York State is another significant regulatory initiative. Under the revised New York Financial Services Law of 2015, companies engaged in "cryptocurrency business activities" involving New York or its residents need to apply for a BitLicense. The application process is stringent, involving detailed financial and operational disclosures, as well as executive qualifications review. BitLicense holders are subject to ongoing compliance obligations, such as anti-money laundering and data security. As of April 2023, several significant cryptocurrency businesses, including Circle and Coinbase, have acquired BitLicenses.

In June 2022, the New York State Department of Financial Services issued "Guidance on Issuing US Dollar-backed Stablecoins," requiring regulated stablecoins to be backed by high liquidity assets, specifying redemption policies, and ensuring that reserves are kept separate from corporate assets. These guidelines set clear operational standards for stablecoin issuers.

New York's BitLicense system has significantly influenced cryptocurrency regulatory policies in other states. While California and New Jersey have attempted similar legislation, New York's approach is considered a pioneer in U.S. cryptocurrency regulation, providing important references for other states and future federal legislation.

In the U.S., state-level stablecoin regulation exhibits unique characteristics distinct from the federal level, primarily due to the autonomy of states under the federal system. Each state government formulates its own stablecoin regulatory policies based on the local economic environment and policy goals, leading to a diverse regulatory landscape. The flexibility of this system allows state governments to respond quickly to local market changes but also leads to regulatory fragmentation and uncertainty. These state-level regulatory measures reflect the U.S.'s multi-level, multi-dimensional strategy in addressing the challenges of cryptocurrency regulation. Effective stablecoin regulation requires consideration of both uniform federal regulations and specific state-level requirements and regulations, crucial for building a comprehensive and effective regulatory framework.

## ***4.2. Current State of Stablecoin Regulation in the European Union***

### ***4.2.1. Regulatory Characteristics***

The EU's regulation of stablecoins shares many similarities with the U.S., adopting a decentralized and multi-headed regulatory approach, but also forms its own characteristics based on its macro policies and legal traditions. Stablecoins in the EU may be subject to various existing regulatory laws, including payment systems, financial instruments, and anti-money laundering regulations, classified and regulated based on their technical characteristics and functions.

### ***4.2.2. From the perspective of the legislation***

The EU passed the "Crypto-Assets Markets Regulation" (MiCA) in 2022, which will unify the different regulatory regimes of EU member states, reduce compliance costs, enhance market liquidity and trading opportunities, and become the main regulatory framework for crypto assets, including stablecoins. The MiCA fills the legal gaps in EU crypto asset regulation, establishing five basic systems for crypto asset classification, white paper information disclosure, issuance authorization, marketing communications, and regulatory cooperation, covering the entire lifecycle of crypto asset issuance and regulation. It is an important measure for the monetary policy integration of EU member states and is expected to take effect as early as 2024. Until its formal implementation, EU member states will continue to rely on existing regulatory laws, such as the "EU Electronic Money Directive" and the "EU Markets in Financial Instruments Directive II" (MiFID II). Compared to previous regulatory schemes, MiCA covers a broader scope and pays special attention to stablecoins, requiring issuers to establish sufficient liquidity reserves, protect consumer rights, and be regulated by the EBA. It sets daily transaction volume and transaction count limits for stablecoins not supported by the euro.

The MiCA legislation categorizes crypto-assets into three main types: Asset-referenced Tokens, Electronic Money Tokens, and other crypto-assets. Electronic Money Tokens are crypto-assets pegged to a single currency, and most mainstream stablecoins like USDT and USDC, anchored to a single currency like the U.S. dollar, are likely to be classified under this category. Asset-referenced Tokens are crypto-assets linked to an asset or a basket of assets. This category of stablecoins, like Facebook's initially proposed Libra (later renamed Diem), which planned to support its value through a basket of currencies and government bonds, is not as common and popular as Electronic Money Tokens due to regulatory and operational challenges. Some stablecoins, like crypto-collateralized and algorithmic stablecoins, may not fit into either of the definitions of Electronic Money Tokens or Asset-referenced Tokens and might be categorized as other types of crypto-assets. The focus of the legislation is clearly on these two categories for regulatory clarity.

Under the MiCA framework, EU member states adhere to a unified regulatory approach for stablecoins with potential slight variations in implementation. All members must integrate MiCA into their national laws, allowing for some flexibility in application to fit their specific legal and economic contexts. This may lead to differences in how each country enforces the rules, even though they all follow the same EU legislation. In the EU, regulation is primarily handled by designated regulatory authorities of the member states as well as the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA). The MiCA legislation mandates that the regulatory authorities in the country of origin of the crypto-assets have a duty to assist other member states, the EBA, and ESMA, advocating for information synchronization, investigative cooperation, and EU coordination in the regulatory process[5-6].

Overall, EU regulation of stablecoins demonstrates unity, normativity, and foresight. MiCA, as a specialized regulatory document in response to societal developments in the digital age, aims to balance market innovation with risk management, ensuring the healthy development of the crypto-asset market. The implementation of MiCA is expected to significantly impact the crypto-asset markets in

Europe and globally, particularly the development of stablecoins.

## **5. Implications for Stablecoin Regulation in China**

By comparing the practices and experiences of the United States and the European Union in stablecoin regulation, the complexity and diversity of stablecoin regulation are revealed. From the U.S.'s decentralized approach to the EU's unified legislation, each regulatory model reflects a unique understanding and strategy for stablecoins. While countries and regions have their specific focuses and challenges in stablecoin regulation, the overarching goals are to ensure financial stability and promote technological innovation and market development. These insights are vitally informative for China as it develops and regulates stablecoins. With the issuance of the central bank digital currency and the growth of the digital economy, China's regulatory stance on stablecoins and other cryptocurrencies requires reevaluation. As globalization deepens, China inevitably faces the challenge of foreign cryptocurrency regulation. Timely adjustment of stablecoin regulatory policies represents both a challenge and an opportunity.

### ***5.1. Optimizing the Regulatory Framework***

As technology advances and markets evolve, China must continually update and adapt its stablecoin regulatory framework. This includes maintaining an open attitude towards emerging technologies while ensuring that regulatory strategies effectively protect consumer interests and promote stable and healthy financial market development. In response to the need for financial regulatory system reform, China should prudently update relevant laws to clarify and enhance the functions, independence, and professionalism of regulatory agencies, ensuring they can effectively address the regulatory requirements of stablecoins in a mixed financial environment. Currently, there are gaps or inadequacies in the regulation of financial technology products like stablecoins, especially in areas spanning monetary policy, securities, banking, and foreign exchange management. There is a need to construct a more comprehensive and coordinated regulatory system.

As China's role in the global economy becomes increasingly prominent, its financial regulatory model should also evolve towards a more integrated and anticipatory direction. This includes promoting an integrated financial regulatory system through institutions like the Financial Stability and Development Committee of the State Council and establishing specialized regulatory agencies for stablecoins to address their unique challenges and risks. Key regulatory bodies such as the People's Bank of China and the China Banking and Insurance Regulatory Commission should strengthen cooperation and jointly oversee the issuance and circulation of stablecoins, ensuring the consistency and effectiveness of regulatory measures. Through these efforts, China can enhance its competitiveness in the international fintech field while safeguarding financial security and promoting technological innovation.

### ***5.2. Adopting Categorized Supervision***

According to statistics, there is still a significant amount of crypto assets, including stablecoins, held privately in China. This reality demands that current laws not overlook these assets but rather classify and regulate them effectively. The EU categorizes crypto assets into different types, and China could consider a similar approach, classifying stablecoins based on their characteristics and risks and devising corresponding regulatory strategies. Such targeted regulation can improve the specificity and efficiency of oversight while minimizing unnecessary restrictions on innovation. For instance, more stringent issuance and operational requirements could be set for high-risk categories like electronic money tokens. Conversely, more flexible regulatory measures might be adopted for stablecoins with relatively lower risks. This strategy not only safeguards consumer and financial system safety but also contributes to healthy and orderly market development.

### ***5.3. Strengthening International Regulatory Cooperation***

As stablecoins become increasingly popular, their global impact becomes more pronounced, affecting not only transactions and payments but also the monetary policies and financial stability of some countries. The nature of stablecoins means that their regulation cannot rely solely on one country or region but requires international regulatory cooperation. China should actively participate in international discussions and collaborations on stablecoin regulation, working with other countries to

explore and establish cross-border regulatory standards for stablecoins. Through international cooperation, regulatory experiences can be shared, measures can be coordinated, and cross-border regulatory challenges, such as regulatory arbitrage and money laundering, can be effectively addressed. Participation in international cooperation also helps China exert greater influence in the global stablecoin market, promoting the stability and healthy development of the international financial order. By strengthening cooperation, China can play a key role in shaping the global regulatory framework for stablecoins while safeguarding its financial security and market interests.

## 6. Conclusions

This article delves into the stablecoin regulatory experiences of the United States and the European Union, illustrating the complexity and diversity of international regulation. As an emerging digital asset, stablecoins bring new opportunities to financial markets as well as regulatory challenges. We observe the United States' decentralized, multi-agency dynamic regulation and the EU's unified regulatory framework established through the MiCA legislation, providing valuable insights for China to optimize its stablecoin regulatory strategy in a digital and globalized context. With increasing internationalization and the development of the digital economy, China needs to timely adjust its regulatory strategy, strengthen categorized regulation, enhance regulatory coordination, intensify international cooperation, and actively participate in the formulation of global regulatory standards. Additionally, China must recognize the long-term and complex nature of stablecoin regulation and adopt flexible and forward-looking measures to not only foster financial innovation but also ensure financial stability and consumer protection. By learning from international experiences and strengthening international cooperation, China can effectively address the challenges and opportunities brought by stablecoins, contribute to the healthy development of global stablecoins, and ensure financial safety and promote fintech innovation.

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