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Cryptoassets and the Lack of International Regulatory Coordination

by Andrew Whitworth and Nicola Bilotta

ABSTRACT

The international regulatory landscape for crypto assets remains fragmented despite their rapid growth and consolidation. As interlinkages between crypto markets and traditional finance deepen, concerns about systemic risk, regulatory arbitrage and market integrity become increasingly pressing. Diverging national approaches – driven by strategic, political and economic interests – have hindered efforts to establish multilateral coordination. The United States, European Union, China and other jurisdictions have adopted starkly different policy stances, reflecting not only contrasting regulatory approaches but also geopolitical considerations. Stablecoins, in particular, have emerged as a new vector of monetary influence, with dollar-backed tokens reinforcing the global role of the US dollar while raising concerns over financial stability and extraterritoriality. While multilateral institutions continue to develop non-binding guidance, national governments are increasingly treating the digital asset's regulation space as a domain of geopolitical competition.

keywords

Currency | *Cryptoassets* | *Regulations*

Cryptoassets and the Lack of International Regulatory Coordination

by Andrew Whitworth and Nicola Bilotta*

Introduction

In an increasingly contentious world economy, where trade and finance are closely interlinked with economic security and geopolitical factors, regulatory approaches to cryptoassets have become an additional strategic ground of global competition. While central bank digital currencies (CBDCs) are primarily designed for domestic use in the short term and remain in the early stages of adoption – with their cross-border deployment ultimately controlled by the issuing state – cryptoassets, by contrast, are inherently transnational, operating across borders and jurisdictions without centralised public control.[1] The cross-border nature of cryptoassets might create financial and monetary risks, both nationally and globally. In traditional banking, international regulatory coordination has been justified primarily by the need to address the risk of systemic contagion – as the failure of one institution or market can rapidly transmit shocks across borders, threatening global financial stability. The question is whether the cryptoasset ecosystem faces similar contagion risks or if coordination is mainly needed to address efficiency and regulatory arbitrage issues. While most episodes of crypto-market turmoil – such as the bankruptcy of FTX or the failure of Silicon Valley Bank – have been largely contained due to the sector's underdeveloped market, the growing interlinkages with traditional finance, the emergence of large, globally active crypto intermediaries, and the potential for growing cross-border flows suggest that systemic risk not be underestimated. Moreover, the lack of harmonised rules incentivises regulatory arbitrage and undermines effective risk mitigation at the

[1] Klaas Knot, *The Need for Regulating Crypto-Assets – A Global Effort*, speech at the Asia Securities Industry & Financial Markets Association (ASIFMA) Annual Conference, Hong Kong, 29 February 2024, https://www.bis.org/review/r240229h.htm.

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national level. Thus, both efficiency and financial stability rationales underpin the call for international coordination in cryptoasset regulation.

In summer 2019, when Facebook announced the stablecoin libra, national and global regulators were quick to reject the project. Today, countries are asymmetrically adopting cryptoasset regulations, pursuing unilateral regulatory and policy initiatives that undermine coordinated efforts at the multilateral level, underlining the growing politicisation of financial technology.[2] Nevertheless, empirical evidence from the Bank for International Settlements (BIS) shows that national measures have limited effectiveness in restricting cross-border crypto flows and may even incentivise circumvention.[3] Countries may be reluctant to adopt standardised regulations if they believe that they could disadvantage their domestic strategic industry by reducing competitiveness.[4] Thus, this rationale can lead to regulatory arbitrage, a practice whereby entities operate from jurisdictions with more favourable regulations. Jurisdictions face divergent priorities, with advanced economies prioritising market integrity and innovation and emerging markets often focusing on mitigating currency substitution and capital outflow risks.[5]

There has long been a consensus that international coordination of financial regulatory policies has direct and indirect benefits.[6] Directly, it improves regulatory outcomes such as financial systemic stability and consumer protection. Indirectly, it supports national-level regulatory measures by reducing the risk of regulatory arbitrage.[7] This has not been the case for cryptoassets. Despite the efforts of international organisations such as the Financial Stability Board (FSB), BIS and the International Organization of Securities Commissions (IOSCO), jurisdictions still have very contrasting approaches to cryptoassets and digital currencies.[8] Such differences are just as much about public objectives for regulation as specific definitions or requirements. However, the inherent challenges of regulating innovative technologies, especially those operated on decentralised networks such

[2] Gita Gopinath and Jeremy C. Stein, "Banking, Trade and the Making of a Dominant Currency", in *The Quarterly Journal of Economics*, Vo. 136, No. 2 (May 2021), p. 783-830, DOI 10.1093/qje/qjaa036.

[3] Raphael Auer et al., "DeFiying Gravity? An Empirical Analysis of Cross-border Bitcoin, Ether and Stablecoin Flows", in *BIS Working Papers*, No 1265 (May 2025), https://www.bis.org/publ/work1265.htm.

[4] World Economic Forum, *Pathways to the Regulation of Crypto-Assets: A Global Approach*, May 2023, https://www.weforum.org/publications/pathways-to-crypto-asset-regulation-a-global-approach.

[5] Hugo Coelho et al., *2nd Global Cryptoasset Regulatory Landscape Study. Emerging Practices and Early Lessons Learned*, Cambridge, Cambridge Centre for Alternative Finance, November 2024, https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/2nd-global-cryptoasset-regulatory-landscape-study.

[6] Surendra Reddy Challapalli, "Benefits and Constraints Associated with the Harmonization of Financial Regulations: An Overview", in *Asian Journal of Economics, Business and Accounting*, Vol. 23, No. 15 (2023), p. 49-56, https://doi.org/10.9734/ajeba/2023/v23i151015.

[7] Sumit Agarwal et al., "Inconsistent Regulators: Evidence from Banking", in *The Quarterly Journal of Economics*, Vol. 129, No. 2 (May 2014), p. 889-938, DOI 10.1093/qje/qju003.

[8] For example, see G7 Finance Ministers and Central Bank Governors, *Statement*, Washington, 25 October 2024, https://g7.utoronto.ca/finance/241025-finance.html.

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as cryptoassets requires an even more proactive approach to regulation.

1. Cryptoassets and cross-border potential

The terms cryptoassets (even bitcoin), stablecoins and blockchain are often mistakenly used interchangeably, but they are very distinct things. Cryptoassets are digital assets that use cryptography and operate on a decentralised network. Over 13,000 were in circulation as of January 2025. The original, and most famous, digital asset is bitcoin. Stablecoins are another specific type of cryptoassets: their value is pegged to a fiat (regular) currency or a basket of assets. Blockchain is a technology through which data is recorded on a shared, distributed and (usually) public ledger that uses cryptography to maintain the integrity of the ledger and to perform other functions – essentially, it is the underlying technology that powers the operation of cryptoassets, although it can be applied for other functions too. CBDCs, such as the digital euro project, are digital currencies issued and regulated by central banks – a sort of digital cash. A CBDC may or may not be issued on a blockchain, depending on the design preferences and policy objectives of the central bank. CBDCs fundamentally differ from cryptoassets as they are direct liabilities of a central bank (just as is cash or a central bank reserve). They represent the response of national central banks to the digitalisation of the economy and the growing number of alternatives to physical and electronic money on offer.

Starting from a market capitalisation of just a few million dollars in 2013, the cryptoasset sector reached approximately 2.6 trillion US dollars in April 2025, despite periods of high volatility. The election of Donald Trump as US President revitalised cryptoassets, with bitcoin reaching a peak of just over 100,000 US dollar apiece, fuelled by expectations that the new Administration would promote deregulation of the sector. At the global level, from a user base of a few thousand in the early years, cryptocurrency holders were 659 million in 2024 – 7.98 per cent of the world's population. This marked a 13 per cent increase compared to 583 million users at the beginning of 2023.[9] Asia led in adoption with 263 million users, followed by North America with 57-66 million. Argentina had the highest share of the population investing in cryptoassets (about 9.7 per cent), followed by Thailand (9.6 per cent).[10]

Despite still being a niche market, stablecoins and low-value bitcoin payments entail far lower costs than traditional remittances.[11] This suggests that cryptoassets, as well as being used for speculation, also serve as practical alternatives for cross-

[9] Crypto.com, *Global Cryptocurrency Owners Grow to 659 million through 2024*, 20 February 2025, https://crypto.com/en/company-news/global-cryptocurrency-owners-grow-to-659-million-through-2024.

[10] Triple-A website: *Cryptocurrency Ownership Data*, https://www.triple-a.io/cryptocurrency-ownership-data.

[11] Raphael Auer et al., "DeFiying Gravity?", cit.

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border payments, especially in regions where remittance costs remain prohibitive.[12] The increasing diffusion of cryptoassets has provoked polarised and ungrounded reactions. Some dream of a new monetary system where cryptoassets become the new "gold" or replace the US dollar as the international currency par excellence, while others dismiss them as mere speculative tools.

Technically, cryptoassets could provide an alternative means for cross-border transactions as well as an alternative store of value independent from national currencies. Instead of relying on central bank money and traditional financial intermediaries, cryptoassets are based on decentralised systems where transactions are recorded and maintained by numerous anonymous validators. Decentralised finance (DeFi) aims to emulate traditional financial services by removing human intermediation. DeFi often relies on stablecoins as a means of exchange. Cryptoassets can reduce severe inefficiencies in cross-border money transfers that still persist despite the current system of largely unrestricted international capital movement, including allowing users to bypass capital controls of specific nations or economic sanctions as well as the costly need for correspondent banking. While operating under the assumption of decentralisation, the current crypto ecosystem has also seen the emergence of new centralised intermediaries that play a key role in facilitating funds movements, such as centralised exchanges (such as Binance, Coinbase) and custodial wallet providers, which span from traditional financial intermediaries to cryptoassets new players.[13]

While today's international payment systems are becoming faster, in some regions – especially emerging economies and for sectors such as the international remittance market – they remain highly inefficient and costly. The World Bank estimates that completing a 200 US dollar transaction to or from Africa incurs an average cost of 15 US dollars (7.5 per cent) – around 3 US dollars (1.5 per cent) more than the global average. Cross-border payments between African countries face even higher costs: sending money from Tanzania to Uganda has a commission cost of around 34 per cent, and between Tanzania and Kenya, of about 30 per cent.

Despite the potential of transactional efficiency of cryptoassets in cross-currency payments,[14] empirical evidence of consistent adoption of cryptoassets as an international means of payment is lacking. According to a World Bank study that analysed on-chain transactions from 2019 to 2021, trade volumes are mainly driven by professional and institutional actors rather than everyday users.[15] The

[12] Ibid.

[13] Bank for International Settlements (BIS), *The Crypto Ecosystem: Key Elements and Risks*, report submitted to the G20 Finance Ministers and Central Bank Governors, July 2023, https://www.bis.org/publ/othp72.htm.

[14] International Monetary Fund (IMF), "Elements of Effective Policies for Crypto Assets", in *IMF Policy Papers*, February 2023, https://www.imf.org/en/Publications/Policy-Papers/Issues/2023/02/23/Elements-of-Effective-Policies-for-Crypto-Assets-530092.

[15] World Bank, *Technology and Digitization in Supply Chain Finance: Handbook*, February 2021, https://www.ifc.org/en/insights-reports/2020/digitization-scf-handbook.

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use of cryptoassets as a store of value is also complicated. The same World Bank study showed that for several years bitcoin's value fluctuated inversely with gold prices. This could suggest that investors saw cryptoassets, to some extent, as an alternative to gold. However, a store of value should have certain characteristics, such as stability or liquidity, crucial in times of external shocks. Despite the high risks linked to their volatility, cryptoassets could become an attractive option in countries where private or institutional investors struggle to acquire foreign national currencies, such as the US dollar or gold.

Reaching definitive conclusions as to the role of cryptoassets as a medium for cross-border payments and as a store of value is challenging, but two broad considerations emerge regarding their international dimension, particularly in light of the current vacuum in multilateral cooperation.

First, cryptoassets might become a ground for strategic geopolitical competition. The United States is aggressively positioning itself as a global hub for the cryptoasset industry, as evidenced by the Trump Administration's executive order establishing the "Strategic Bitcoin Reserve and United States Digital Asset Stockpile" and the executive order "Strengthening American Leadership in Digital Financial Technology".[16] Although the former established a reserve composed of bitcoin and other cryptoassets seized by the US Treasury through forfeiture proceedings (meaning no public funds were used to acquire them), the US Administration has effectively legitimised bitcoin as a potentially alternative store of value.[17] This presidential endorsement is also incentivising US state governments to promote crypto-friendly policies. In May 2025, New Hampshire passed a legislative bill to allow the state treasurer to invest up to 5 per cent of state funds in precious metals and digital assets.[18] Nevertheless, other local governments, such as Arizona, rejected or put vetoes on similar initiatives.

No other major economy has endorsed the role of bitcoin for public purposes. El Salvador and the Central African Republic (CAR) are the only two other countries that have embraced it. The former adopted bitcoin as a legal tender in 2021, holding over 5,700 bitcoins, valued at approximately 600 million US dollars as of July 2025. In January 2025, El Salvador's Legislative Assembly reformed the Bitcoin Law, making the use of bitcoin voluntary and removing the obligation for merchants to accept it while still investing to increase the national reserve. This decision reflected a specific condition that the International Monetary Fund (IMF) had set

[16] White House, *Fact Sheet: President Donald J. Trump Establishes the Strategic Bitcoin Reserve and U.S. Digital Asset Stockpile*, 6 March 2025, https://www.whitehouse.gov/fact-sheets/2025/03/fact-sheet-president-donald-j-trump-establishes-the-strategic-bitcoin-reserve-and-u-s-digital-asset-stockpile.

[17] Practically speaking, a Strategic Bitcoin Reserve does not seem intended to do anything other than centralise the US government's holdings of bitcoin (and perhaps provide a floor for its price). It is not envisaged to have a role in lending bitcoin for market stability purposes akin to a Central Bank Lender of Last Resort.

[18] Miranda Nazzaro, "New Hampshire Becomes First State to Adopt Strategic Crypto Reserve", in *The Hill*, 7 May 2025, https://thehill.com/?p=5287441.

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for a 1.4 billion US dollar loan to El Salvador. Despite declaring Bitcoin a legal tender in 2022, the CAR has shown less transparency regarding its reserves and adoption and has faced significant implementation challenges.

The US Administration apparently wants to position itself strategically, anticipating (or betting) that bitcoin and other cryptoassets could evolve into a form of "digital gold". By doing so, the United States aims to secure a leading role in the emerging digital asset landscape, thereby gaining a competitive edge over rival powers in the future. As countries such as China shifts towards accumulating physical gold to reduce reliance on the US dollar as a store of value, US policymakers increasingly view bitcoin – due to its scarcity – as a potential alternative reserve asset. Furthermore, Washington believes that empowering cryptoassets could counterbalance the attempts to establish cross-border CBDCs – such as m-Bridge – which could undermine the dominance of US-led infrastructure in the international monetary system.[19] This shift in US stance towards bitcoin could have unintended adverse consequences. The creation of a strategic bitcoin reserve could, in particular, undermine the very US dollar hegemony that aims to preserve. It can also be argued that the US Administration is not acting for purely national strategic reasons but rather domestic political ones -to gratify a part of its electoral base – or for reasons of individual profit maximisation.

Second, considering that 99.8 per cent of the capitalisation of the current stablecoins market is related to assets pegged to the US dollar, the US embrace of bitcoin can also have a significant impact on the US dollar's international role, including dollar-backed stablecoins.

Stablecoin trading is another way to circulate US dollars as a value store or a payment medium. Stablecoins could enable users in countries without access to US dollar-denominated assets or currency to invest and transact indirectly in US dollars. There is an analogy with traditional Eurodollar markets, whereby international financial centres can transact in locally held US dollars outside the framework of US financial regulations. A US dollar stablecoin issued outside the United States needs to maintain a reserve of US dollar assets (cash or cash equivalent in most jurisdictions) to back the issuance of the stablecoin. That has the effect of increasing the demand for, and use of, US dollars and US Treasury debt outside of the United States. Thus, stablecoin issuers (domestically and internationally) are now a large-scale buyer of US debt at a time when other countries (such as China or, as shown by the recent 20 billion US dollar divestment by Japanese investors) are trying to limit their exposure. One recent study has stablecoin issuers holding roughly the equivalent amount of US Treasuries as Germany, Saudi Arabia and South Korea.[20] By 2024, for example, tether, one of the most used stablecoins,

[19] Matthew Pines, *Great Power Network Competition & Bitcoin. An Assessment for Policymakers*, Bitcoin Policy Institute, 27 September 2023, https://www.btcpolicy.org/articles/great-power-network-competition-bitcoin.

[20] Yesha Yadav and Brendan Malone, "Stablecoins and the US Treasury Market", in *Vanderbilt Law*

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had become the seventh-largest holder of US Treasuries globally, and stablecoin issuers collectively are now estimated to be the sixth-largest group of holders, surpassing countries like Saudi Arabia. As defined by Christopher J. Waller – a Federal Reserve Board of Governors member – stablecoins are "synthetic dollars".[21] The growing demand for US dollar-denominated stablecoins presents a unique strategic opportunity for the US Administration to shape new global liquidity flows and reinforce the international role of the US dollar. One difference between stablecoins and traditional offshore US dollar markets is that stablecoins enable greater *retail* (individual) use of the US dollar outside the United States, whereas traditionally only institutional investors have had access to offshore US dollars.

An unregulated stablecoin market may become a conduit for sanctioned entities or illicit actors to access US dollars outside regulatory oversight, posing significant challenges for US authorities.[22] Despite these risks, the credibility of dollar-denominated stablecoins fundamentally depends on their redeemability in actual US dollars. To ensure this convertibility, issuers must maintain access to the US currency and financial infrastructure – granting the US government considerable leverage to impose regulatory conditions on their operations. Considering the global diffusion of US-denominated stablecoins strategically beneficial, the US Administration has already launched two major legislative proposals – the GENIUS Act and the Stable Act – that would provide legal clarity through a comprehensive regulatory framework for US-issued and US dollar stablecoins. The US-market-driven innovation approach stemming from these proposals could have extraterritorial effects, shaping global standards and potentially undermining national or multilateral efforts to reach effective digital asset regulation.

Financial regulators usually consider stablecoins to pose a threat to bank stability by increasing the likelihood of deposit flight into the stablecoin itself.[23] The magnitude of this effect is disputed, as is the potential policy solution. The EU regulation Markets in Crypto Aspects (MiCA), for example, places higher requirements on stablecoins (e-money tokens and asset referenced tokens) that are assessed to be 'significant' than on 'normal' kinds. This is seen as disincentivising the growth of the use of stablecoins, particularly those pegged to a non-EU currency. Regulators worry that the increased use of stablecoins would cause funding risk to banks and, thus, ultimately to financial stability. This position is not uncontested, given that well-regulated stablecoins would be 1:1 backed by assets that are less risky than fractional-reserve bank deposits.[24] In this sense, stablecoins operate as

Research Papers, 5 June 2025, https://ssrn.com/abstract=5286924.

[21] Christopher Waller, *Reflections on a Maturing Stablecoin Market*, speech at A Very Stable Conference, San Francisco, 12 February 2025, https://www.bis.org/review/r250213b.htm.

[22] Timothy G. Massad, "Stablecoins and National Security: Learning the Lessons of Eurodollars", in *Brookings Articles*, 17 April 2024, https://www.brookings.edu/?p=1767593.

[23] Bank of England, *New Forms of Digital Money*, 7 June 2021, https://www.bankofengland.co.uk/paper/2021/new-forms-of-digital-money.

[24] Innovate Finance, *Stablecoin: The UK Opportunity*, April 2025, p. 20-21, https://ww2.innovatefinance.com/wp-content/uploads/2025/04/stablecoin-the-uk-opportunity.pdf.

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narrow banks, given their 1:1 backing with safe assets. This would entirely remove traditional bank run risks (given there is no incentive to remove deposits) but could have a knock-on effect for economic credit creation. A Bank of England paper estimates that a reduction in bank deposit-taking due to the introduction of stablecoins and CBDCs would increase bank funding costs. This would result in the cost of lending rising by about 20 basis points and credit conditions tightening, leading credit provision to the wider economy to fall by a little over 1 per cent.[25]

2. National vs multilateral initiatives

It is difficult to find an area of international financial regulation with as little regulatory cooperation and convergence as the cryptoasset sector. Before the announcement of the libra project by Facebook in 2019, multilateral institutions had limited engagement with cryptoassets as the sector was still nascent and too small to pose systemic risks.

By 2017, cryptoassets were attracting the attention of the most relevant global financial standards-setting in their respective domain of competence: FSB on systemic oversight and coordination on financial stability, IOSCO on security and market regulations and the Basel Committee on Banking Supervision (BCBS) on prudential regulations of the banking sector. While none of their recommendations or standards are legally binding, these three bodies can be influential through their convening effect, and their approaches often serve as blueprints for national regulators (and indeed most of the members of their committees are themselves officials of national regulatory bodies).

The 2017-2018 period marked the transition from observation to action, setting the scene for the proactive stance post-2018. Under the mandate of the G20, in July 2018 the FSB published its first report on cryptoassets, stating that while cryptoassets did not pose a material risk to global financial stability, financial watchdogs needed to vigilantly monitor the sector due to the swift pace of market developments. The FSB transitioned to a more proactive regulatory role over time, particularly in response to the rise of stablecoins and the growing institutional involvement in crypto-markets. In October 2022, the FSB proposed a framework for the international regulation of cryptoasset activities, emphasising the principle of "same activity, same risk, same regulation". Its 2023 recommendations on global stablecoins and cryptoasset activities offered high-level guidance for regulating, supervising and overseeing these markets, particularly focusing on cross-border risks and financial stability.[26]

[25] Bank of England, *New Forms of Digital Money*, cit., Section 3.3.

[26] Financial Stability Board (FSB), *High-level Recommendations for the Regulation, Supervision and Oversight of Global Stablecoin Arrangements. Final Report*, 17 July 2023, https://www.fsb.org/?p=27700.

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Table 1 | Approach and selected relevant publications of FSB, IOSCO and BCBS on cryptoassets

Period	FSB	IOSCO	BCBS
2014-17	*Observation*	*Retail protection focus*	*Warnings*
2018-20	*Risk identification* Crypto-asset Markets: Potential Channels for Future Financial Stability Implications (2018) Regulatory Approaches to Crypto-assets (2019) Regulation, Supervision and Oversight of "Global Stablecoin" Arrangements. Final Report and High-Level Recommendations (2020)	*Initial coin offering (ICO) and market abuse warnings* Statement on Concerns Related to Initial Coin Offerings (January 2018) Statement on IOSCO Study of Emerging Global Stablecoin Proposals (November 2019)	*Conceptual discussions* Designing a Prudential Treatment for Crypto-assets (December 2019)
2021-22	*Principle-based recommendations* Progress Report on the Implementation of the FSB's High-Level Recommendations of October 2020 (2021) International Regulation of Crypto-asset Activities. A Proposed Framework -Questions for Consultation (2022)	*Broader regulatory engagement* Decentralized Finance Report (March 2022) IOSCO Crypto-Asset Roadmap for 2022-2023 (July 2022) Application of the Principles for Financial Market Infrastructures to Stablecoin Arrangements (July 2022)	*Draft prudential treatment* First Consultation on Prudential Treatment of Cryptoasset Exposures (September 2021) Second Consultation on Prudential Treatment of Cryptoasset Exposures (June 2022) Final Prudential Standard for Cryptoasset Exposures (December 2022)
2023-24	*Binding standards and coordination* Recommendations for the Regulation, Supervision and Oversight of Crypto-Asset Activities and Markets. Final Report (July 2023) Recommendations for the Regulation, Supervision and Oversight of Global Stablecoin Arrangements. Final Report (July 2023) G20 Crypto-asset Policy Implementation Roadmap. Status Report (October 2024)	*Comprehensive crypto + DeFi policy* Policy Recommendations for Crypto and Digital Asset Markets. Consultation Report (May 2023) Policy Recommendations for Crypto and Digital Asset Markets. Final Report (November 2023)	*Final capital rules* Consultative Document on Cryptoasset Standard Amendments (December 2023) Final Revised Prudential Standard for Cryptoasset Exposures (July 2024) Final Disclosure Framework for Banks' Cryptoasset Exposures (July 2024)

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The BCBS followed a similar trajectory, initially issuing cautionary statements on the prudential risks posed by cryptoassets to the banking sector. However, it became more specific with the release of the 2021 consultative document *Prudential Treatment of Cryptoasset Exposures*, which set out capital and liquidity requirements for banks holding cryptoassets.[27] This was further consolidated with the 2022 final framework, which introduced a risk-weighted capital approach to cryptoassets, most notably applying a punitive 1250 per cent risk weight to unbacked assets such as bitcoin.[28]

Table 2 | Global risks emerging from multilateral reports

Risk category	Description	Organisations highlighting
Financial stability risks	Cryptoasset markets may transmit systemic risks due to interconnectedness with traditional finance, liquidity mismatches and leverage. Stablecoin runs could spill over to short-term funding markets.	FSB, BIS, G20
Operational risks	Vulnerabilities to cyber-attacks, system failures and governance deficiencies in decentralised protocols. Stablecoins face redemption risks and reserve management challenges.	BIS, FSB
Regulatory arbitrage	Cross-border activities and inconsistent implementation of standards create loopholes. Emerging economies face challenges regulating foreign-issued stablecoins not deemed systemic in their home jurisdictions.	FSB, G20
Market risks	High volatility, intraday price deviations and speculative trading in cryptoassets. Stablecoins fail to maintain pegs during market stress.	BIS, FSB
AML/CFT risks	Stablecoins and cryptoassets enable anonymous cross-border transactions, increasing risks of money laundering, terrorist financing and illicit flows.	FATF (G20), FSB
Macro-financial risks	Stablecoin adoption in emerging economies may trigger capital flight from local currencies, exchange rate instability and strain domestic bank funding.	FSB, BIS
Data transparency gaps	Lack of reliable data on cryptoasset exposures, stablecoin reserves and transaction flows hinders risk assessment and policy response.	BIS, FSB
Concentration risks	Centralised exchanges and stablecoin issuers dominate market infrastructure, creating single points of failure. DeFi protocols often have concentrated governance.	BIS, FSB
Consumer/ investor risks	Low understanding of cryptoassets among retail users, misleading stability claims for stablecoins and exposure to fraud or platform failures.	FSB, BIS

[27] Basel Committee on Banking Supervision (BCBS), *Consultative Document. Prudential Treatment of Cryptoasset Exposures*, June 2021, https://www.bis.org/bcbs/publ/d519.htm.

[28] BCBS, *Prudential Treatment of Cryptoasset Exposures*, December 2022, https://www.bis.org/bcbs/publ/d545.htm.

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IOSCO's response also evolved from addressing investor protection issues in the context of initial coin offerings (ICOs) to a broader concern with market integrity and platform regulation. IOSCO's 2023 *Policy Recommendations for Crypto and Digital Asset Markets* set forth comprehensive standards for market conduct, custody, conflicts of interest and cross-border supervision.[29] This document reflects IOSCO's growing recognition of the diverse and dynamic nature of cryptoassets, including decentralised finance (DeFi) and tokenised securities.

Despite the efforts of multilateral institutions, countries are proceeding in scattered order, adopting a variety of regulatory approaches that range from bans on cryptoassets to favourable regulations. The EU has approved a comprehensive regulatory framework – MiCAR – introducing transparency, disclosure, licensing and consumer protection rules for cryptoasset issuers and service providers. In contrast, the United States has adopted a more fragmented regulatory environment, with the SEC and the Commodity Futures Trading Commission (CFTC) engaging in separate regulatory actions, leading to legal ambiguity for crypto firms as to the legal status of a cryptoasset: security or commodity. For its part, China has banned most crypto-related activities, including mining and trading, as part of its broader efforts to maintain financial stability and control over its monetary system. Japan has been more moderate, embracing cryptoassets under regulatory safeguards, such as the Payment Services Act, which is largely aligned with IOSCO recommendations on investor protection and market integrity. Other countries, such as Singapore, have adopted a crypto-friendly stance while still aligning their regulatory frameworks closely with FSB and IOSCO guidelines.

3. Domestic political drivers of cryptoasset policies

The lack of harmonised rules undermines the borderless nature of digital assets, incentivising firms to exploit jurisdictional loopholes. And, perhaps ironically, it is domestic politics which drives the fragmentation of policy towards this inherently international market. This section outlines the politics of cryptoasset regulation in major jurisdictions.

The overwhelming amount of activity in the crypto space comes from the *United States*. This is despite the fact that the United States' regulatory approach to cryptoassets has flip-flopped significantly over the years, shaped by shifting political dynamics and growing mainstream adoption of digital assets. The Biden Administration took a stance that was widely perceived to be hostile towards the sector,[30] with SEC Chair Gary Gensler pushing for tighter oversight, treating

[29] International Organization of Securities Commissions (IOSCO), *Policy Recommendations for Crypto and Digital Asset Markets. Final Report*, 16 November 2023, https://www.iosco.org/library/pubdocs/pdf/IOSCOPD747.pdf.

[30] White House, *Executive Order 14067: Ensuring Responsible Development of Digital Assets*, 9 March 2022, https://www.presidency.ucsb.edu/documents/executive-order-14067-ensuring-responsible-

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many tokens as securities.[31] The approach had a chilling effect on the sector and led many firms to seek to move outside the United States.[32] In contrast to his past stance, Trump campaigned on a pro-crypto platform in the 2024 elections.[33] Trump's initial actions in office (as outlined above) as well as his appointments of crypto supporters to senior regulatory roles, show his support for the cryptoasset sector and desire to turn the United States into the centre of the global cryptoasset industry. The United States has now flipped from being the most restrictive regimes globally to one of the most supportive.

Table 3 | Regulatory approach to cryptoassets in selected countries

	Regulatory framework	Licensing/Registering	Stablecoins
US	Pending	Yes	Pending
EU	Yes	Yes	Yes
UK	Pending	Yes	Pending
Argentina	Pending	Yes	No
Australia	Pending	Pending	Pending
Brazil	Pending	Pending	Pending
India	Pending	No	No
Japan	Yes	Yes	Yes
Qatar	Pending	Pending	No
Singapore	Yes	Yes	Pending
South Africa	Yes	Yes	Pending
Switzerland	Yes	Yes	Yes
Turkey	Pending	Pending	No
UAE	Yes	Yes	Yes

Source: PwC, *Global Crypto Regulation Report 2025*, March 2025, p. 4-5, https://legal.pwc.de/content/services/global-crypto-regulation-report/pwc-global-crypto-regulation-report-2025.pdf.

In contrast to the United States, the *EU* has sought to create a stable, clear and robust framework for cryptoassets to promote regulatory certainty. With MiCAR, the EU created one of the world's first and most comprehensive cryptoasset regulatory frameworks.[34] MiCAR was developed off the back of the 'initial coin offering boom'

development-digital-assets.

[31] "Gensler Reaffirms SEC's Regulation-by-Enforcement Approach to Crypto amidst Industry Debate", in *Lexology*, 23 October 2024, https://www.lexology.com/library/detail.aspx?g=2e581be8-77c2-4efd-b56f-5142e4854cd2.

[32] See, for example this statement from the CEO of the large US centralised crypto exchange (CEX) Coinbase: Kyle Torpey, "Coinbase Could Quit US, Says CEO, as SEC Doubles Down on Crypto Scrutiny", in *Investopedia*, 18 April 2023, https://www.investopedia.com/coinbase-could-leave-us-7482077.

[33] Fredreka Schouten, "The Crypto Industry Plowed Tens of Millions into the Election. Now, It's Looking for a Return on that Investment", in *CNN Politics*, 17 November 2024, https://edition.cnn.com/2024/11/17/politics/crypto-industry-donald-trump-reelection/index.html.

[34] Andrew Whitworth, *How to Understand MiCA. A Policy Guide to the EU's Cryptoasset Regulation*

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of 2017-2019 and subsequent rise of retail cryptoasset trading during the pandemic, amid fears for consumer protection and over potential risks to financial stability. MiCAR also responds to the libra/diem shock and China's initial development of a CBDC.

Beyond these substantive reasons for the Regulation, the primary *political* aim of MiCAR was to harmonise rules for the cryptoasset sector at the EU level. The Commission's decision to resort to a regulation, a directly applicable legislative act, rather than to a directive, highlights this – particularly when compared with the Markets in Financial Instruments Directive (MiFID)[35] on which it was, legislatively, largely based. The MiCA Regulation is directly applicable and leaves very limited scope for national competent authorities to diverge. In terms of international openness, despite creating a large, harmonised single market for cryptoasset activity *in general*, when it comes to stablecoins, MiCAR is notably protectionist and could contribute to fragmenting the potential international market.

MiCAR divides stablecoins into 'e-money tokens' (EMTs) and 'asset-referenced tokens' (ARTs) depending on the backing asset designed to provide a stable value. This creates a quite distinct regulatory treatment compared to other jurisdictions, potentially requiring separate backing for a single stablecoin. More directly, however, MiCAR imposes certain localisation requirements on stablecoin issuers and strict value limits on stablecoins pegged to (and backed by) a non-EU currency, notably US dollar-backed stablecoins, which make up the overwhelming majority of currently used stablecoins. This was done in order to limit the potential dollarisation of the EU currency via US dollar-backed stablecoins and represents a significant move in the geopolitics of the digitalisation of global finance.

The United States and the EU represent the two poles of government regulatory responses to cryptoassets. Other jurisdictions fit within these two extremes. For example, the *UK* has long held a political consensus that it wants to develop into a 'global crypto hub'.[36] This has held true across four different prime ministers and two different parties in power. The vision has been loudly supported by the City of London (the UK's financial centre) and its trade associations, a growing digital assets sector and increasing retail adoption.[37] The political ambition for the cryptoasset space is therefore to use it to boost the UK's international competitiveness as a financial centre, by making finance more efficient and boosting high-skilled jobs growth (and, with it, economic growth). Nevertheless, the UK has – so far – failed to become the world's crypto hub. This is because of the regulators' attempt to slow

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[35] European Commission DG Finance website: *Implementing and Delegated Acts - MiFID II*, https://finance.ec.europa.eu/node/35_en.

[36] UK Treasury, *Government Sets Out Plan to Make UK a Global Cryptoasset Technology Hub*, 4 April 2022, https://www.gov.uk/government/news/government-sets-out-plan-to-make-uk-a-global-cryptoasset-technology-hub.

[37] UK Financial Conduct Authority (FCA), *FCA Finds Crypto Ownership Continues to Rise as It Delivers Plans to Regulate Crypto*, 26 November 2024, https://www.fca.org.uk/node/142071.

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the growth of this sector. It is notable that the UK holds the world's 4th most traded currency,[38] the pound sterling, and yet does not have the regulatory framework that would allow the issuance of a pound-backed stablecoin in the UK.

Regulators' scepticism is due to fears of consumer protection and financial stability, particularly the stability of commercial bank deposits. A so-far confused regulatory response to the digital asset sector is also in part due to the split of responsibilities between the Financial Conduct Authority (FCA) and Bank of England, requiring each to seek to carve out its own jurisdiction even where this does not make market sense – witness their artificial distinction between a stablecoin and a 'systemic stablecoin'. Meanwhile, the Bank of England is also progressing on its work to develop a CBDC (the digital pound), despite strong ambivalence as to its use-case (even in its own documents)[39] and political scepticism.[40] Thus, the domestic politics of cryptoasset regulation in the UK has to do with the difference in opinion, influence and power between politicians, the government and operationally independent regulators.

Other jurisdictions have had to tackle risks deriving from cryptoassets more directly. *Japan* was forced to confront cryptoassets early on with the 2014 collapse of Mt Gox, then the largest bitcoin exchange in the world. This naturally led to a unique impact on the politics of cryptoasset regulation. The failure of Mt. Gox, which lost 850,000 bitcoins (worth roughly 450 million US dollars at the time), exposed gaps in the regulatory framework (at the time in no way limited to Japan). In response, the Japanese government introduced stricter regulations to protect investors and prevent fraud, becoming the first major financial centre to create rules in this space. By 2017, Japan had become one of the first countries to recognise bitcoin as legal tender under the Payment Services Act, requiring exchanges to register with the Financial Services Authority (FSA) and comply with anti-money laundering rules. However, the 2018 hack of Coincheck – a Tokyo-based cryptocurrency exchange – laid bare lingering weaknesses, prompting even tougher regulations. These included mandatory cold storage of customer funds and enhanced cybersecurity measures.

Japan has tried to balance consumer protection with innovation-friendly policies. The government has generally supported crypto as part of its digital economy strategy, but scandals like the aforementioned collapse of FTX in 2022 have compelled regulators to remain cautious. Recent discussions have focused on

[38] FOREX website: *The Top 10 Most Traded Currencies*, https://www.forex.com/en-us/trading-guides/the-top-10-most-traded-currencies.

[39] Bank of England and UK Treasury, *The Digital Pound: A New Form of Money for Households and Businesses?*, February 2023, https://www.bankofengland.co.uk/paper/2023/the-digital-pound-consultation-paper.

[40] UK House of Lords Economic Affairs Committee, *Central Bank Digital Currencies: A Solution in Search of a Problem?*, 13 January 2022, https://committees.parliament.uk/committee/175/economic-affairs-committee/news/160221/central-bank-digital-currencies-a-solution-in-search-of-a-problem-report-published.

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stablecoin regulation and tax reforms, as Japan seeks to allow the safe development of the cryptoasset sector.

Jurisdictions such as the United States, the EU, the UK and Japan, in their own way, benefit from an established primacy in the international financial system. Their responses to the development of cryptoassets diverge, but all reflect a level of comfort with the existing system. Other jurisdictions, which benefit far less from the status quo, have shown themselves more open to digital innovation.

The *United Arab Emirates* (UAE), for example, have deliberately positioned itself as a forward-thinking crypto-friendly jurisdiction, particularly the business-friendly Emirates of Abu Dhabi and Dubai. Financial regulators in both Emirates, particularly Abu Dhabi's Financial Services Regulatory Authority (FRSA) and Dubai's (Dubai Financial Services Authority (DFSA), have created regulatory frameworks to foster a local cryptoasset sector while attracting international businesses. Dubai is notable for having the world's first crypto-specific regulator in the Virtual Assets Regulatory Authority (VARA). In pursuing these goals, the Emirates have been supported by their wider business- and investor-friendly regimes.[41]

Each individual Emirate, and the UAE as a whole, sees developing this sector not just as good business in itself, but as part of a wider push to develop as a high-tech regional and global hub, for finance and more generally. There is also a recognition that developing capacities in blockchain-based finance, particularly for international trade, will allow them to diversify away from the purely US-based financial infrastructure they currently use, especially when, for example, intermediating trade between China or India and Africa. Despite this political ambition (which is largely being achieved), there is institutional political competition between the Central Bank of the UAE (which has tried to control the UAE dirham and to have the UAE removed from the Financial Action Task Force-FATF 'grey list')[42] and the financial regulators of crypto which has led to a complex regulatory environment for businesses. The UAE is exploring a CBDC while having one of the more open international regimes for stablecoins.

Similarly, *Singapore*'s approach to crypto regulation reflects its ambition to be a global fintech hub while maintaining strict financial stability. The government, led by the Monetary Authority of Singapore (MAS), has balanced innovation with caution, seeking to tie the cryptoasset space into its success as a financial centre. One of Singapore's major successes regarding cryptoasset policy has been through the MAS's hosting of a BIS Innovation Hub office,[43] which coordinates international

[41] Liz Mills, "The Rise of Crypto in the UAE: A Hub for Innovation", in *Crypto in Action*, 8 May 2024, https://cryptoforinnovation.org/?p=9171.

[42] Mohamed Daoud, "FATF Announces Decision to Remove the United Arab Emirates from Its Grey List", in *Moody's Blog*, 26 February 2024, https://www.moodys.com/web/en/us/kyc/resources/insights/fatf-announces-decision-remove-united-arab-emirates-grey-list.html.

[43] See BIS website: *BIS Innovation Hub Centre - Singapore*, https://www.bis.org/about/bisih/locations/sg.htm.

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public sector projects and experiments in the sector, such as Project Mandala which explores the use of compliance-by-design architecture and tokenisation to streamline cross-border payments and regulatory compliance.[44] This has given MAS, and by extension Singapore, significant influence in the development of international responses to cryptoassets. The political ambition is to cement Singapore's centrality – and policy priorities – in a future global financial system that involves blockchain technology and cryptoassets.

Conclusion

Divergent national political priorities are a major hindering factor for international regulatory coordination over the cryptoasset sector. Regulatory asymmetries and discrepancies undermine the potential of cryptoassets to enhance the efficiency of global finance and increases the instability and systemic risks they can create. Countries have very different attitudes and ambitions regarding cryptoassets. Some want to block and ban them entirely, others hope to use them to protect their monetary and financial systems and reduce dependency on predominant global financial infrastructures, and others see them as instruments to increase international competitiveness. There are also notable trade-offs at the national level between political priorities and regulatory preferences, which are exacerbated by the fact that most international organisations tasked with financial regulation are made up purely of national regulators (rather than elected officials).

The resulting regulatory fragmentation limits the international openness of the market and reduces the benefits that the technology can offer to citizens, businesses and global financial markets. It also increases the risk of financial instability as well as various consumer risks.

At the same time, there is a growing recognition that digital assets (private cryptoassets – particularly, but not only, stablecoins – and public-sector CBDCs) will be an area of intensifying national competition over not so much trade but financial infrastructures. US and Western sanctions and other financial restrictions have shown that the existing international financial system can be used as a tool for coercion,[45] and some countries see blockchain technology as one way around that. By contrast, others view it as an instrument to reinforce their coercive power. The US official embrace of stablecoins and crypto following Trump's return to the White House reflects the latter's attitude. and the prevailing trend to regard the digital asset sector as an area for national competition rather than international cooperation. Politics trumps regulation: the dominant concern is not to develop a shared global infrastructure that promotes international finance, trade and mutual

[44] BIS Innovation Hub, *Project Mandala. Streamlining Cross-Border Transaction Compliance*, October 2024, https://www.bis.org/publ/othp87.htm.

[45] Erik Jones and Andrew Whitworth, "The Unintended Consequences of European Sanctions on Russia", in *Survival*, Vol. 56, No. 5 (October/November 2014), p. 21-30, DOI 10.1080/00396338.2014.962797.

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economic growth while reducing shared risks, but rather to protect the national financial system from foreign competition and foreign public infrastructures.

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