S&P: Stablecoins' Role In Decentralized Finance Set For Further Disruption

NEW YORK, June 17, 2022 /PRNewswire/ -- (S&P Global Ratings) -- Decentralized finance (DeFi) needs digital currencies that can dependably act as a bridge with the world of traditional finance to become mainstream, said an article published today by S&P Global. In "Stablecoins: Common Promises, Diverging Outcomes," the authors discuss how stablecoins--cryptocurrencies with a market value generally tied to a specific fiat currency--have emerged to fulfill that role.

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The recent market rout has demonstrated that not all stablecoins are equal and contain idiosyncratic risks, where certain algorithmic types are less likely to maintain their promised stability. Stablecoins will ultimately compete with central bank digital currencies (CBDCs) or tokenized deposits of commercial banks from the traditional finance world.

Spurred by recent market turbulence, stablecoins are attracting increasing regulatory scrutiny and constitute arguably the hottest regulatory topic in the crypto world at the moment. This is no surprise. The implications will only grow with volumes issued. These are multifaceted--from traditional anti-money laundering issues to potential financial stability considerations, such as a run on a stablecoin leading to a fire sale of assets held as reserves.

The currency policy stance towards stablecoins varies across jurisdictions. InChina, for instance, stablecoins and other cryptocurrencies are banned outright so that the focus is on the launch of a central bank-backed e-CNY. In the U.S., discussions are progressing on how to regulate stablecoins; so far, over 95% of outstanding coins are linked to the U.S. dollar. The U.K. government has also made it a priority to legislate in this area to foster the country's future role as a crypto-hub. Japan is allowing banks and other registered financial services entities to issue stablecoins from next year.

The report looks into many of the implications around stablecoins and potential competitors from the traditional finance world, how they work, the roles they play, and the risks they pose.

This report does not constitute a rating action.

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