Stablecoins reserves must be 100% central bank money.

Regulation of new digital currencies and new payment services will take time. But regulators should now outline the core elements of regulation so that private initiative can design its commercial projects without harming public interests.

An announcement that Stablecoins must be 100% backed by central bank money would be an excellent complement to the already widely recognized decision that all citizens and businesses will be able to access central bank digital money through payment providers. private (those proposals called "Retail CBDC").

So far, some Stablecoins have approached this goal of providing payment services with a safe digital currency, proposing to back them with very low-risk assets. For example, CIRCLE has just proposed that its Stablecoin reserves will be only cash (100% secure central bank money) and US Treasuries (Low Risk Assets).

This decision is an important step, as this reserve setup reduces the stability problems of other Stablecoins backed with higher risk assets. Because if the reserves were 100% central bank money (physical or digital, cash or reserves in the central bank) the risk of collapse of these currencies, the risk of not being able to repay in fiat money, would disappear completely. With the backing of 100% money from the central bank, it would not be necessary to apply any of the prudential regulations of the Basel III type to Stablecoins. Nor should Stablecoins be given any of the protections and privileges (LLR, deposit insurance, etc.) that banks now have to avoid those risks of instability.

In addition, with the reserve requirement of 100% support with money from the central bank, Stablecoins would not have the possibility of creating money, which would also prevent, as is the case now with bank deposits, that the State has to carry out massive interventions in financial markets because they do not control money creation.

But I want to emphasize that the best advantage of accepting only Stablecoins backed 100% by central bank money is that we would save a lot of regulation. With this requirement, the need to design and enforce regulations that try to reduce the risks and problems of accepting

Stablecoins with reserves of risky assets would disappear, even if the risk was very small.

Indeed, as long as the central bank's money does not have credit risk or liquidity risk, it would not be necessary to design regulations that correct the problems of accepting reserves with credit and liquidity risk. Since these troubles would cease to exist, it would not be necessary to pass any prudential regulations such as those that are now necessary in the case of bank deposits. No liquidity requirement or any type of deposit insurance would be necessary.

And we should not worry about the risks of interfering in monetary policy by the Central Bank. Being backed one hundred percent by central bank money, these Stablecoins would only be pure entities of payment services since they could not create money.

On the other hand, the requirement of a support of one hundred percent of money from the Central Bank, facilitates the design of interoperability to the extent that all Stablecoins would have the same risk: zero financial risk. On the contrary, if the Stablecoins were supported with risky assets, we would suffer, as now happens with bank deposits, the problem that each Stablecoin issued by each entity would be different. This diversity of deposit risk is one of the reasons why the current clearing and settlement systems for private bank money are so slow, expensive, and inefficient.

Of course, it would be necessary to continue studying more regulations to apply to Stablecoins, such as those related to operational risks, cybersecurity, governance, privacy and data issues, customer protection, antitrust regulation, etc. But these regulations are necessary for all kinds of payment services, whether they are stablecoins or not. These regulatory issues need to be resolved for all new payment service providers, but they are not comparable to the problems of accepting risky asset-backed Stablecoins.

Miguel Fernández Ordóñez

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