

Tatiana Farina
Günter Franke
Felix-Julius Konow
Jan Pieter Krahnen
Katja Langenbucher
Vincent R. Lindner
Erik Lüders
Max Straka
Jasper v. der Decken

MiCAR Review: Same Regulatory Goals, Better Instruments

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Leibniz Institute for Financial Research SAFE
Sustainable Architecture for Finance in Europe

policy_center@safe-frankfurt.de | www.safe-frankfurt.de

MiCAR Review: Same Regulatory Goals, Better Instruments*

Tatiana Farina, SAFE
Günter Franke, University of Konstanz
Felix-Julius Konow, Goethe University Frankfurt
Pieter Krahnen, SAFE
Katja Langenbucher, Goethe University Frankfurt
Vincent R. Lindner, SAFE
Erik Lüders, IPE
Max Straka, IPE
Jasper v. der Decken, IPE

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and
Institute for Policy Evaluation (IPE)

Abstract

The review of the Markets in Crypto-Assets Regulation (MiCAR) takes place in European policy environment shaped by competitiveness and a global payment landscape shaped by geoeconomic competition. This paper contributes to the ongoing political discussion on stablecoins with a number of recommendations. First, it advocates for alignment of reserve-requirements of MiCAR-compliant stablecoins with rules similar to the US-GENIUS Act, thereby replacing the need to hold reserves in bank deposits with high-quality liquid assets (HQLAs). Second, it calls for an equivalence and recognition regime to mitigate the financial stability risk arising from multi-issuance; third, it emphasizes that stablecoins and the digital euro are not mutually exclusive. The digital euro remains an important tool to prevent dollarisation and to achieve strategic payments autonomy. Finally, it proposes to shift supervision of crypto-asset service providers (CASPs) to the European Securities and Markets Authority (ESMA) as stress-testing and reliable data collection can be undertaken more efficiently at Union level.

* This paper has been presented at the SAFE-Finanzwende Recherche roundtable on stablecoins on 1 September 2026 and at the 3rd SAFE-CEPR Frankfurt Hub Conference on 11 September 2026. We thank all participants for their comments which have greatly enhanced the analysis and recommendations. A slightly edited version of this paper has been submitted to the European Commission's targeted consultation of the MiCAR review on 30 September 2026. A complementary paper "Die 60%-Bankeinlagenregel unter MiCA: Einordnung, Bewertung und Gestaltungsoptionen" [The 60% bank-deposit rule under MiCA: classification, assessment and design options] (Franke et al. 2026)" has also been submitted and has been published alongside as SAFE White Paper No. xxx. SAFE policy papers represent the authors' personal opinions and do not necessarily reflect the views of the Leibniz Institute for Financial Research SAFE or its staff.

Executive summary

The review of the Markets in Crypto-Assets Regulation (MiCAR) takes place in a European policy environment shaped by the competitiveness agenda and global competition dominated by US dollar-denominated stablecoins. MiCAR has been conceptualised as an enabling regulation: its recitals set innovation, fair competition, equal opportunities for market entry, a harmonised legal framework and international competitiveness as objectives. Holder protection, market integrity, financial stability, the smooth operation of payment systems and monetary sovereignty are the regulatory goals under which those objectives are pursued. Every restriction should therefore be necessitated by one of these regulatory goals, at the least cost to the enabling objectives. Several of MiCAR's stablecoin rules fail that test. Accordingly, we make nine recommendations, the first two of which form our main proposal.

1. **Remove the mandatory bank-deposit quota.** The quota regulates where the reserve is held, not whether it is liquid. For significant electronic money tokens (EMTs), it limits short-term government securities, which banking regulation counts among the most liquid assets, to at most 40% of the reserve, while mandating interbank deposits, which banking regulation does not count as liquid assets at all. It creates a two-way contagion channel between banks and issuers and imposes costs on banks, issuers and holders alike. It also fails our final check, since conventional e-money faces no such floor. On removing the quota, we align with the European System of Central Banks (ESCB). The Commission can act now by not adopting the 60% floor for significant EMTs in the draft technical standards.
2. **Introduce an outcome-based liquidity requirement.** The reserve should be tested on what it must deliver, redemption at par under stress. The requirement rests on eligible high-quality liquid assets, haircuts, maturity ladders, counterparty diversification, currency matching and supervisory stress tests of redemption capacity, including outside banking hours. It should apply to all EMTs, proportionately.
3. **Keep the reserve regime independent of central-bank access.** We invite the Eurosystem to consider a crisis-only, collateralised liquidity backstop for issuers of significant EMTs, addressing the fire-sale externality the reserve rules cannot remove. Central-bank deposits as a reserve asset remain an option at the Eurosystem's discretion, as the UK has chosen for systemic sterling stablecoins.
4. **Introduce an equivalence and recognition regime that retains an EU issuer.** When one fungible token is issued inside and outside the EU, entity-level regulation cannot stabilise it: the EU reserve is either redundant or drained by arbitrage exactly when the foreign leg is weak. A ban is no answer. Demand does not disappear with prohibition but relocates offshore, as the delisting

of Tether US denominated stablecoin (USDT) shows. We favour recognition in which the EU issuer and its EU-located reserve are retained, and both issuances are assessed jointly for full backing, with the foreign share held onshore in the currency of denomination, a binding rebalancing mechanism and supervisory cooperation.

5. **Where multi-issuance continues, make the conditions binding.** For tokens whose home regime is not recognised, this means measured EU holdings, stress-tested rebalancing, redemption at the EU issuer for EU holders, capital and liquidity add-ons, and supervision by the European Banking Authority (EBA).
6. **Replace the automatic issuance stop for non-euro EMTs with graduated supervisory escalation.** The transaction caps count payments, while dollarisation shows up in the balances people hold and in the assets that tokenised markets settle in. They bind only where transactions are observable, and they operate as a cliff. The thresholds should remain as a monitoring trigger, with escalation ending in the existing Article 24 powers.
7. **Pursue the strategic defence against dollarisation outside MiCAR.** A means of exchange wins by being more useful, not by its rivals being rationed. The digital euro, the Eurosystem's retail central bank digital currency (CBDC), addresses everyday payments. Settlement of tokenised transactions in central bank money on distributed ledger technology (DLT) addresses the settlement layer, delivered by the Eurosystem's Pontes project since 21 September 2026 and the long-term Appia initiative.
8. **Replace the remuneration prohibition with a ceiling.** The prohibition works as an implicit tax whose rate is set by monetary policy: its bite depends on the policy rate, it is circumvented at scale where enforcement is weaker, and it weakens euro tokens as a store of value and hence as a means of payment. The ceiling should be linked to the policy rate, set below both the rate on European Central Bank (ECB) reserves and standard deposit rates, and applied uniformly to issuers and crypto-asset service providers. Transaction-based rewards fall outside the rule and returns from lending or staking should be regulated as activities.
9. **Transfer CASP supervision to ESMA.** Crypto-asset service providers (CASPs) should be supervised by the European Securities and Markets Authority (ESMA), while EMT issuers, including recognised third-country issuers, should remain under EBA supervision, with the ECB and ESCB responsible for payment systems, monetary policy and systemic risk.

1. Introduction

The MiCAR review takes place in a European policy environment shaped by the competitiveness agenda. The Letta report calls for a single market that can mobilise capital and scale innovative firms. The Draghi report places productivity, investment and innovation at the centre of Europe's economic strategy. The Savings and Investments Union (SIU) translates that agenda into a financial-market objective: Europe should mobilise savings into productive investment and make capital-market intermediation work better. Simplification and lower administrative burden are part of the same project (Letta 2024; Draghi 2024; European Commission 2025). This emphasis on competitiveness, growth and innovation marks a notable shift in the European policy agenda.

In our view, MiCAR is consistent with this enabling agenda in its design, though not in all of its instruments. Indeed, the Regulation was conceived not only to contain the risks associated with crypto-assets, but also to create the conditions under which their potential benefits could develop within a harmonised European market. Since MiCAR was adopted in 2023 and its stablecoin provisions began to apply in June 2024, digital-asset markets have evolved substantially, while major jurisdictions including the United States and the United Kingdom have developed alternative regulatory frameworks. These developments now provide a stronger basis for assessing MiCAR's rules against the Regulation's own objectives. MiCAR's opening recitals set out the Union's policy interest in the uptake of distributed ledger technology (Recital 1) and the benefits crypto-assets can bring, including cheaper, faster and more efficient payments, particularly across borders (Recital 2). Recital 6 establishes the architecture of the framework: A harmonised Union framework is necessary, and it should support innovation and fair competition, give equal opportunities for market entry, avoid unnecessary and disproportionate regulatory burden, and maintain competitiveness on a global market. The same recital states the regulatory goals under which these objectives are to be pursued: a high level of protection of retail holders, market integrity, financial stability and the smooth operation of payment systems. For stablecoins, it adds the containment of risks to monetary policy transmission and monetary sovereignty (Recitals 5, 6 and 59). We refer to the first set as MiCAR's *enabling objectives* and to the second as its *regulatory goals*, which enter our test as regulatory constraints.

Recital 8 recognises that crypto-asset markets are global and therefore inherently cross-border. If regulated euro-denominated tokens are less liquid, less functional or less attractive in terms of return than foreign alternatives, European households and firms may migrate to those alternatives. In that case, the Union may remain exposed to the risks associated with stablecoin use while capturing fewer of the corresponding economic benefits. The demand side is therefore central to the regulatory assessment: what matters is not only how issuers respond to regulation, but also which instruments European users choose when the regulated domestic alternative does not meet their needs, and how

such substitution affects the very regulatory goals that the restrictions are intended to serve. The Commission's consultation invites this type of scrutiny and frames the review within the simplification agenda to support EU competitiveness.

Our methodology: an economic welfare test subject to technology neutrality. MiCAR pursues innovation, competition and market integration, framed by the regulatory goals set out above. For every restriction MiCAR imposes, the test asks whether it respects the regulatory constraints and goals at the least cost to the enabling objectives, taking into account the gains, costs and externalities of the restriction. As a final check, we ask whether the restriction is technology neutral. MiCAR itself states that Union legislation on financial services should be guided by the principles of “same activities, same risks, same rules” and of technology neutrality (Recital 9). The principle has an economic rationale as well as a legal one: treating activities that carry the same risks differently, only because they use a different technology, distorts competition between them and invites regulatory arbitrage. A restriction that fails this check therefore needs a specific justification. This contribution applies the test and the check to the stablecoin rules that we consider most consequential for the functioning of the Union's financial system.

The paper is structured as follows.

Composition of reserves. Section 2 assesses MiCAR's reserve requirements and develops our proposal for an outcome-based liquidity requirement, including the potential role of access to central-bank facilities. This constitutes the paper's principal policy contribution.

Multi-issuance. Section 3 examines the consequences of multi-issuance in a global stablecoin market operating across national regulatory perimeters, in particular where jurisdictions impose different reserve and redemption requirements and proposes an equivalence and recognition regime as the primary route for foreign currency stablecoins.

Caps for EMTs denominated in non-EU currencies. Section 4 argues that the current transaction caps on the use of such EMTs are an ill-suited instrument for addressing the underlying policy concern, namely the risk of currency substitution through migration towards foreign-currency-denominated stablecoins. It proposes replacing the automatic issuance stop with graduated supervisory escalation. We argue that the strategic defence against dollarisation for policy makers lies outside MiCAR.

Prohibition of remuneration. Section 5 examines MiCAR's prohibition of remuneration and proposes relaxing the rule by permitting remuneration up to a ceiling, determined by the economy's policy rate and below the ECB reserves rate and standard deposit rates.

Supervision. Section 6 examines the allocation of supervisory responsibilities under MiCAR and considers whether the current institutional architecture is consistent with the cross-border nature of

crypto-asset markets and the objective of an integrated Single Market. It argues that supervision should be centralised where the single market requires it.

We conclude the paper with a set of numbered recommendations and open questions. We distinguish throughout between what the legislation provides, the rationales stated by regulators, our economic interpretation of those rules and rationales, and our own policy recommendations.

2. Reserve requirements

2.1 Reserve composition according to MiCAR

MiCAR distinguishes e-money tokens (EMTs), which reference a single official currency, from asset-referenced tokens (ARTs), which reference any other value or right or combination thereof (Art. 3(1) no. 6, 7). This contribution focuses on EMTs since, as of September 2026, ESMA's MiCA register does not list a single issuer of ARTs, meaning that all EU stablecoin activity currently takes place in the EMT category.

For standard EMTs, Article 54(a) requires at least 30% of the funds received to be deposited in separate accounts at credit institutions. The remainder must be invested in secure, low-risk, highly liquid financial instruments denominated in the referenced currency (Art. 54(b) in conjunction with Art. 38(1)). The provision sets a floor, not a ceiling: a standard EMT may hold its entire reserve in bank deposits, and no quantitative concentration limit applies to it (Konow 2026, pp. 190, 194). For significant EMTs, Article 58(1)(a) applies Articles 36 to 38 and 45(1)-(4). The 60% deposit floor is Level 1 law only for significant ARTs (Art. 45(7)(b)). For significant EMTs, it rests on Article 3(2) of the EBA's draft regulatory technical standards under Article 36(4), adopted by the EBA for coherence with the ART regime (Konow 2026, pp. 192-193). The same draft standards add daily and weekly liquidity buckets, bank-size-dependent concentration limits, an alternative limit of 1.5% of the receiving bank's total assets, and an overcollateralisation mechanism. They have not been adopted by the Commission (ESCB 2026, Sec. 3.2.1). Until they are, the deposit floor is the only quantitative liquidity requirement in force for EMTs, and it can be met with term deposits that are not redeemable at sight (ESCB 2026, Sec. 3.2.1).

The legal basis determines whether a provision can be amended only by the EU legislature through the ordinary legislative procedure, or by the Commission by means of delegated or implementing acts. Removing the 30% floor (Arts. 36(4)(d), 54(a)) and the ART 60% floor (Art. 45(7)(b)) requires the EU legislature. The 60% for significant EMTs is a Level 2 choice not yet in force: the Commission can decline to adopt it when finalising the technical standards.

Neither the recitals nor the articles state a rationale for the deposit floor. Recital 70 addresses only currency matching. The EBA's stated rationale is to ensure that sufficient funds are always available to

meet redemption claims (Konow 2026, pp. 193, 208). One possible, unstated economic rationale is the containment of bank disintermediation: the quota slows the outflow of deposits from the banking system as a whole (Konow 2026, p. 209). Bindseil (2026, p. 23) offers the political-economy reading that European banks obtained in MiCAR both the extension of the remuneration prohibition to CASPs and the 60% deposit obligation for significant tokens. We present this as a hypothesis, not a finding. MiCAR itself is silent.

2.2 Attempting to guarantee liquidity

The objective of the reserve rules is clear: holders must be able to redeem at par and at any time (Art. 49(4); Recitals 19, 67), and for significant EMTs the reserve must address the liquidity risk of that permanent right (Art. 36(1)(b); Recital 54). The deposit quota does not regulate liquidity. It regulates where the funds are held, not how readily they can be accessed.

Banking regulation itself shows why the counterparty is a poor proxy for liquidity. Under the Liquidity Coverage Ratio, the short-term government securities admitted by Article 54(b) are Level 1 high-quality liquid assets (HQLA) with no haircut, whereas interbank deposits are not recognised as HQLA at all (Delegated Regulation (EU) 2015/61; Konow 2026, p. 207). A 60% deposit quota for significant EMTs therefore means that the assets banking regulation treats as most liquid may make up at most 40% of the reserve, while the asset banking regulation does not count as liquid is mandated. The March 2023 episode adds an operational dimension: when Silicon Valley Bank failed, Circle tied USDC redemptions to US banking hours. Liquidity held in bank deposits was not available over the weekend, while securities markets' settlement cycles impose delays of their own (Konow 2026, p. 208).

The bank link also operates as a contagion channel in both directions. The SVB failure triggered the run on USDC. Conversely, a run on a large EMT forces rapid withdrawals from the banks holding its reserve. Diversification is required of issuers, not of banks. Whereas EMT issuers must distribute their deposits among several institutions, any single bank may accept EMT-related deposits with no overall cap. The quota thus creates an incentive for banks to specialise in crypto-sector funding, a model whose fragility was demonstrated in March 2023 (Portes 2025; ESCB 2026, Sec. 3.2.1).

The quota also fails our final check. Conventional e-money is safeguarded under Article 7 of the E-Money Directive, which requires no minimum share of bank deposits and even allows an insurance or guarantee instead. MiCAR applies the same safeguarding logic to EMTs, but adds the 30% floor and removes the choice (Konow 2026, p. 187). The same activity thus faces a stricter rule only because it is tokenised.

2.3 Costs to each party

The deposit quota imposes costs on each party to the arrangement without securing the liquidity it is meant to provide.

The banking sector. When a household converts a retail deposit into an EMT, the funds return to the banking system, if at all, as the deposit of a financial institution. The two are not equivalent. Stable retail deposits carry a 5% outflow rate under the liquidity coverage ratio, whereas non-operational deposits of a stablecoin issuer carry 100%, so the receiving bank must hold high-quality liquid assets (HQLA) against them in full (Konow 2026, pp. 209-212; ESCB 2026, Sec. 3.2.1). In Coste's stylised example, the conversion of €5bn of retail deposits at one bank into an issuer's deposit at another lowers the first bank's liquidity coverage ratio (LCR) from 200% to 105% and the second bank's from 200% to 150% (Coste 2024, p. 15-17; Konow 2026, p. 211). In other words, the quota slows the outflow of deposits from the banking system but degrades the quality of what remains: funding that cannot be lent and that leaves fastest under stress.

The issuer. Without the quota, an issuer would choose, within the universe of eligible HQLA, the combination of cash, short-term government securities and reverse repo that maximises the return on its reserve, subject to MiCAR's liquidity and risk constraints. The quota adds a further constraint. A constraint can never raise the attainable return. It lowers it whenever it binds, that is, whenever bank deposits yield less than other eligible assets of comparable liquidity. The ESCB's proxy for the yield on corporate deposits, 0.53% in April 2026, suggests that it binds (ESCB 2026, Sec. 3.2.1). Moreover, the constraint buys no liquidity: the short-term government securities it displaces are Level 1 HQLA under the LCR, whereas interbank deposits are not HQLA at all (Konow 2026, p. 207). The lower profit margin earned on reserves weakens the business case for a euro stablecoin relative to US issuers, who may hold short-term government securities without any deposit minimum (Farina et al. 2026, pp. 11-13; Langenbucher 2026, pp. 14-15, 19).

The holder. In addition, the costs fall on EMT holders, who bear bank risk on top of issuer risk without a compensatory return.

2.4 What the stress episodes show and what they cannot

The empirical record is thin but informative. In the three major stress episodes to date (USDC after the Silicon Valley Bank (SVB) failure in March 2023, and USDT during the Terra/UST collapse in May 2022 and after FTX Trading Ltd. in November 2022), peak cumulative redemptions ranged from roughly 4% to 20% of outstanding volume within days, with the USDC episode cut short when the US authorities announced that all SVB deposits would be protected (Franke et al. 2026, Sec. 3.1.2). Two inferences are warranted, and one is not. First, redemption demand under stress is large, front-loaded, and can arrive

outside banking hours, so a liquidity regime must be built for that profile. Second, the observed outflows are a lower bound: the USDC run was truncated by a public intervention, and every observed episode occurred under the reserve compositions then in place, so the data cannot be read as the stress distribution under a different regime. What the episodes do not support is a specific deposit share: the Bank of England, which calibrated its original 40% central-bank-deposit requirement mainly on the SVB/USDC outflows, subsequently lowered it to 30% on reassessment (Bank of England 2026, Box A). Calibration belongs in stress testing, not in a fixed statutory input share.

2.5 Our proposal: an outcome-based liquidity requirement

We propose replacing the institution-based deposit quota with a liquidity requirement that regulates the outcome directly. The issuer must demonstrate, continuously and under supervisory stress scenarios, that its reserve can meet specified redemption demands within specified horizons, including outside banking hours. The requirement rests on eligible assets (cash, central-bank deposits where available, short-term government securities, and overnight reverse repo collateralised by them), conservative haircuts, a maturity ladder, counterparty diversification, currency matching, and regular operational tests of redemption capacity. Daily and weekly liquidity buckets of the kind foreseen in the draft technical standards are useful inputs to such a test, but they should not substitute for it. The requirement should apply to standard EMTs as well as significant ones, proportionately. It is a peculiarity of the current regime that the tier in which all actual issuance takes place faces the thinner rulebook (Section 2.1).

On the removal of the deposit quota, our conclusion aligns with that of the ESCB in its response to this consultation (ESCB 2026, Sec. 3.2.1). We go further in two respects: the replacement should be outcome-based rather than a recalibrated set of input shares, and it should extend proportionately to standard EMTs. (Questions 15 and 26.)

2.6 Central-bank access: reserve asset and backstop

Two distinct instruments are often discussed together, and the consultation rightly separates them (Question 25). The first is central-bank deposits as a reserve asset. The second is a collateralised liquidity backstop through which issuers could obtain central-bank money against eligible securities under stress.

The reserve regime we propose works without either. Access to central-bank money is decided by the Eurosystem under its Statute and its independence (Art. 130 TFEU), and MiCAR cannot grant it. Within that constraint, we invite the Eurosystem to consider a crisis-only, collateralised backstop for issuers of significant EMTs. The facility targets a specific market failure: an issuer facing a run must otherwise sell short-term government securities into a stressed market, and such sales cannot deliver same-day

liquidity in any case, given settlement cycles (Bank of England 2026, Box A). Haircuts, pricing and limits contain moral hazard, and no unsecured lender-of-last-resort commitment is required. Central-bank deposits as a reserve asset are an option, not a recommendation: safeguarding at a central bank is already legally possible under Article 10(1) Revised Payment Services Directive (PSD2) at the central bank's discretion, though currently not offered (Langenbucher 2026, p. 6). Konow (2026, pp. 319-342) proposes such access for issuers of significant EMTs, which would require amending Article 17 of the ESCB Statute. The option removes counterparty and market risk from that part of the reserve, but moves the token towards a synthetic central-bank digital currency (Konow 2026, p. 322) and, if unremunerated, lowers the issuer's return.

The United Kingdom illustrates both instruments. For sterling stablecoins recognised as systemic, the Bank of England's June 2026 policy statement sets backing assets at up to 70% in short-term UK government securities with a residual maturity of up to six months, and at least 30% in unremunerated central-bank deposits, a share calibrated on historical liquidity stress episodes (Bank of England 2026, Sec. 2.1.1 and Box A). It also confirms a Central Bank Liquidity Facility, designed as a backstop from which issuers can source liquidity (Sec. 1.1.3). Commercial-bank deposits are excluded from the backing, explicitly because of the contagion risks they would create between stablecoins and the wider financial sector (Sec. 2.1.1). Our observation: the UK has replaced, rather than recalibrated, the bank-deposit channel. The unremunerated share still places sterling issuers at a potential competitive disadvantage. The regime does, however, recognise the effect on bank funding and the contagion channel that MiCAR's quota creates.

3. Multi-issuance

A better EU reserve does not solve the multi-issuance problem. It can also aggravate it. The stronger the EU reserve and redemption right, the more attractive the EU issuer becomes as the redemption point of a global token under stress. This section defines the phenomenon, explains why entity-level regulation cannot stabilise it, states the demand-side constraint that disciplines every remedy, and develops our recommendation (Questions 27-41.).

3.1 Market equilibrium with multi-issuance

Under a multi-issuance arrangement, a single fungible stablecoin is issued and redeemed by two or more legally separate entities in different jurisdictions, each holding reserves only against the tokens it has itself issued (Bindseil et al. 2026). The token is technically identical wherever it is minted: a holder cannot tell, and does not care, which entity issued the unit in their wallet, and may seek redemption from either entity under its local rules.

Two arrangements operate today. USDC is the lead case: Circle’s French subsidiary holds an e-money institution authorisation and issues USDC in the EU under MiCAR, with its reserve subject to Article 54. Circle’s US operations issue the same token outside the Union (under US regulation, transitioning to the GENIUS framework), backed predominantly by short-term US government securities and Treasury-collateralised reverse repo (Langenbucher 2026, p. 7; Farina et al. 2026). Figure 1 depicts the structure in stylised form: fungibility joins the two liability sides, while regulation separates the two asset sides. The second case is harder, and instructive. Global Dollar (USDG) is issued by Paxos Digital Singapore under the MAS framework and by Paxos Issuance Europe in Finland under MiCAR, with group entities also regulated by NYDFS and Abu Dhabi’s FSRA and stood at roughly \$2.5 billion in mid-2026. Its non-EU leg is a dollar token issued from Singapore, a third country that is not the jurisdiction of the currency of denomination. Any remedy must handle both cases. MiCAR neither foresaw nor explicitly regulates the construction. The consultation states that it is not prohibited and asks under which conditions it should continue (Questions 29-30).

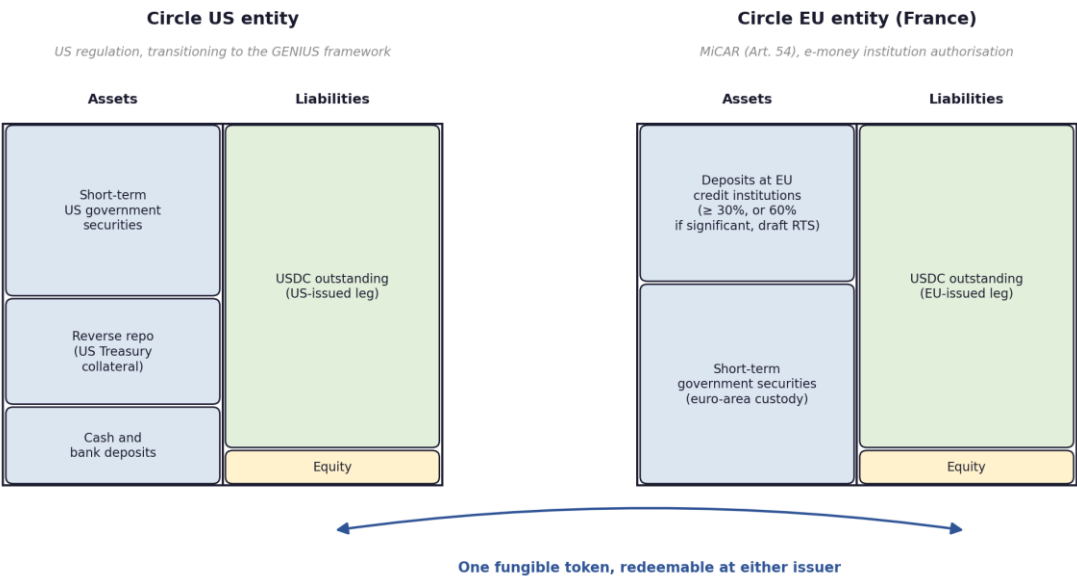


Figure 1. Multi-issuance in stylised balance sheets: the USDC arrangement

Note: Stylised representation following Farina et al. (2026, Figure 1). Fungibility joins the liability sides: a token minted by either entity is redeemable at par at both. Regulation separates the asset sides: each entity backs only its own issuance, under its own rulebook. USDG adds a third feature: its non-EU leg is issued from Singapore, outside the jurisdiction of the dollar. Source: authors’ illustration.

3.2 Why the arrangement is unstable

Bindseil, Georg, Hansen and Melches (2026) show that a separate EU reserve for a fungible foreign-currency token is either redundant or ineffective. If the foreign reserve rules are sound, the EU reserve adds cost and nothing else. If they are deficient, arbitrage drains the EU reserve precisely in that state of the world: arbitrageurs buy discounted tokens abroad and redeem them at par in the EU, where redemption is free of fees by law. Entity-level regulation cannot resolve this, because fungibility severs

the link between an issuer's redemption exposure and the assets legally available to it. Where the non-EU leg is an order of magnitude larger than the EU leg, a redemption wave abroad that diverts even a small share of the foreign supply to the EU issuer is enough to exhaust the EU reserve, although that reserve fully backs every token the EU entity has itself issued (Zetzsche 2025, p. 180). The EU reserve is sized against the tokens the EU entity minted, but the claims it can face are not. Portes (2025) reaches a similar diagnosis from the supervisory side. Reserves are fragmented across regimes, and third-country authorities may ring-fence them under stress, as happened within the EU itself in 2008 and 2020 despite the legal prohibition of internal capital-flow barriers. Moreover, the location of holdings is largely unobservable: 44% of USDC sat in self-hosted wallets in February 2025, so estimates of EU-circulating supply are lower bounds (Portes (2025) (Question 35).

The localisation rule is also currency blind. For euro tokens, an EU-located reserve is the natural arrangement, and euro-denominated tokens issued abroad should remain fully subject to MiCAR (Art. 48(2); Questions 31-32). For dollar tokens, localisation forces the EU leg into offshore dollars, which rank below onshore dollars: they carry the transfer risk of the host jurisdiction, have no unconstrained dollar lender of last resort, and depend on correspondent access to US payment systems (Bindseil et al. 2026). A rule written to protect EU holders thus assigns them the weaker form of the very currency their token references.

3.3 The demand-side constraint on any remedy

While considering any remedy, a policy maker should note that demand for dollar stablecoins in the EU is not a policy failure to be corrected. Dollar tokens are the settlement asset of global crypto markets and increasingly of cross-border payments, and EU users hold them because their counterparties, venues and applications use them (Question 27). The Commission asks how important access through EU-licensed issuers and CASPs is for EU users (Question 28). The answer follows from what happens without it.

Prohibition relocates demand rather than extinguishing it. Here the EU has already faced the outcome, a natural experiment as it were. Tether did not seek MiCAR authorisation and USDT was delisted from EU exchanges, yet the European Systemic Risk Board (ESRB) itself observes that non-compliant stablecoins such as USDT continue to trade heavily among EU investors (ESRB 2025). The holders did not switch to regulated alternatives. They moved to offshore platforms and self-hosted wallets, where they have no local redemption right, no white paper and no supervised point of contact. We agree with the summary offered by Bindseil et al. (2026): similar usage, less protection, less oversight. A ban on multi-issuance, the option the ESRB recommends the Commission consider (ESRB 2025), would generalise this outcome. It would also create a striking inconsistency: EU CASPs may distribute unbacked

crypto-assets that carry a claim on nobody, while a fully reserved stablecoin supervised by a recognised foreign authority could not be distributed at all.

Our observation: prohibition fails our test twice. It taxes every enabling objective (market entry, venue liquidity, the competitiveness of EU CASPs, and the cross-border usefulness on which euro tokens equally depend), and it undermines the regulatory goal it invokes, because holder protection and supervisory visibility are both lower in the offshore channel to which demand migrates. The costs to European issuers deserve emphasis: a ban does not redirect dollar-token demand into euro tokens, which serve different uses. Moreover, if reserve-localisation logic were applied by every jurisdiction, the global market would fragment into silos in which successful euro stablecoins would suffer no less than dollar ones, since their cross-border usefulness is precisely what fragmentation destroys.

3.4 Towards a workable equivalence regime

We propose considering a workable equivalence and recognition regime as the primary route for foreign currency stablecoins. The literature points to two possible elements of such a regime (Bindseil et al. 2026; Langenbucher 2026). One is regime equivalence: the issuer's home framework would need to achieve outcomes equivalent to MiCAR in supervision, redemption rights, reserve requirements and insolvency treatment. The other is currency-anchored reserves: the reserve would be held onshore in the currency of denomination, within reach of the central bank of issue. How the regime would apply to tokens issued by several entities across third countries, as USDG already is, remains a design question (Questions 40-41.).

Our recommendation. Recognition can be constructed in two ways, and the choice determines whether an EU-located reserve is retained.

The first is recognition without an EU issuer. A foreign-issued token is distributed in the Union under a recognised home rulebook. There is no second issuing entity and no second reserve pool, and therefore no need for a rebalancing arrangement. This variant is internally coherent, and it is the one the literature has principally in mind. Unlike a ban on multi-issuance, it keeps the token available to EU users through regulated channels. Its implications should nonetheless be noted: the reserve which Article 54 currently secures would no longer be held in the Union, and EU holders would rely on a claim against an issuer in a third country.

The second variant retains both issuers and adjusts the way full backing is assessed. Where a third-country issuer is recognised, the tokens issued under both jurisdictions would be considered as a single whole: the sum of the two reserves would have to match total tokens in issue, and neither leg would be required to back the other's issuance a second time. We would favour this variant. It preserves an EU-located reserve and an EU-authorised counterparty for EU holders, and it addresses the redundancy

discussed in Section 3.2. It calls for an equivalence regime and a rebalancing mechanism in combination, since aggregate backing depends on the EU issuer's access to the share of it held abroad. Within this variant, the foreign share of the reserve would be held onshore in the currency of denomination, within reach of the central bank of issue.

3.5 Where multi-issuance continues

For tokens whose home regime is not (or not yet) recognised, multi-issuance should be permitted only under binding conditions, several of which the consultation itself puts forward (Questions 36-38). These are measured EU holdings, with granular reporting of reserve location and transfer constraints, and contractually binding, regularly stress-tested rebalancing between the issuing entities, since a paper mechanism is worthless in the state of the world for which it exists. They also include redemption rights at the EU issuer for EU holders, with the qualification criteria the consultation requests under Question 36, capital and liquidity add-ons under Article 58(2), and EBA supervision with binding home-host cooperation arrangements. On the concern the Commission tests in Question 37, namely that reserve transfers between issuers may be delayed or restricted under stress, the evidence from intra-EU ring-fencing in 2008 and 2020 answers plainly: the concern is valid and substantiated.

4. The caps on non-euro EMTs used as a means of exchange

Articles 23 and 58(3) require the issuer of an ART or non-EU-currency EMT to stop issuing when its estimated use as a means of exchange within a single currency area exceeds, on a quarterly average, 1 million transactions and €200 million per day, and to submit a reduction plan within 40 working days. The stated rationale, written for ARTs and extended to EMTs, is the protection of monetary sovereignty and payment systems (Recitals 61-62). The consultation asks how effective this instrument is (Question 34). Our answer: the objective is legitimate, but the instrument misses it three times over.

First, it caps the wrong quantity. Currency substitution is a stock phenomenon (euro balances replaced by dollar balances) and, in tokenised markets, a convention phenomenon: which asset settlement and collateral coordinate on. The cap binds on a flow of payment transactions, while exempting the trading, settlement and collateral flows in which dollar-token usage actually lives (Reichlin, Sangers and Zettelmeyer 2026). Second, it is barely measurable. The cap binds only to the extent transactions can be observed: CASP-intermediated flows are countable, peer-to-peer and self-hosted-wallet flows are not, and issuers estimate them on a best-efforts basis. The cap is thus a meaningful constraint on the regulated payments economy and a much weaker one on the decentralised economy (Reichlin, Sangers and Zettelmeyer 2026; Portes 2025). Third, it is a cliff: issuance stops automatically at a threshold, with the gaming incentives and disruption risk that cliff mechanics create. This is the same design flaw as the 30/60 jump in the reserve rules. It is telling that no quantitative assessment of the caps' economic impact exists: the thresholds have never officially been reached, so an instrument central to MiCAR's

sovereignty architecture has never been observed to work, or to fail. The caps also fail our final check: conventional e-money and other payment instruments denominated in a non-EU currency face no comparable limit.

The literature divides into defenders and critics. Among the defenders, van 't Klooster, Martino and Monnet (2025) read MiCAR's restrictions as effective protection of monetary sovereignty, and Bindseil et al. (2026) assign currency substitution to the caps precisely so that reserve location need not carry it. The critics find the instrument insufficient for its own target (Reichlin, Sangers and Zettelmeyer 2026). We accept the objective from the first camp and the diagnosis from the second.

Our recommendation keeps the thresholds of Articles 23 and 58(3) as a monitoring trigger, but replaces the automatic issuance stop with graduated supervisory escalation. As a token approaches the thresholds, the competent authority would first require enhanced reporting, then additional requirements such as minimum denominations, and only then restrictions on issuance, with the ECB's existing intervention rights under Article 24 as the backstop for genuine threats to monetary sovereignty or payment systems. This removes the cliff and the gaming incentives it creates. It does not solve the measurement problem, but it ensures that imperfect measurement leads to supervisory judgement rather than to an automatic stop.

The durable defence against currency substitution, however, lies outside MiCAR. Given the measurement problems documented above and the cost that access restrictions impose on European firms and households, restrictive instruments inside MiCAR are a weak and expensive line of defence against currency substitution: restrictions divert demand into channels the supervisor cannot see, rather than extinguishing it (Section 3.3).

Our view: the goal of preventing a potential dollarisation of European payments and settlement should be pursued by policymakers primarily outside MiCAR, with two strategic tools. For retail payments, a digital euro, the Eurosystem's retail central bank digital currency (CBDC), whose pilot is scheduled for 2027 and whose issuance awaits the EU legislature (Berg, Lindner and Rößler 2026). For the settlement and collateral layer of tokenised markets, where the real risk of "infrastructure dollarisation" arises (Reichlin, Sangers and Zettelmeyer 2026), the modernisation of Europe's payment rails: settlement in central bank money on DLT platforms and interoperability with TARGET services, which the Eurosystem's Pontes project began delivering on 21 September 2026, with the Appia initiative extending it into an integrated tokenised ecosystem (ECB 2026). A means of exchange wins by being more useful, not by its rivals being rationed. Making euro settlement available, instant and interoperable wherever tokenised markets coordinate is a defence that improves European infrastructure, whereas a transaction cap is one that taxes European users. This is also our answer to Question 33: euro-

denominated stablecoins, on modernised euro rails, can contribute substantially to EU payment autonomy, provided the rules of Sections 2 and 5 stop handicapping them.

One limitation stated openly: graduated escalation, like the current cap, governs only the regulated channel. The decentralised channel escapes both. That is an argument for the strategic defence outside MiCAR, not for a stricter cap.

5. The prohibition of remuneration

Articles 40 and 50 prohibit issuers and crypto-asset service providers from granting interest or any benefit related to the length of time a token is held. The stated rationale is to reduce the risk that stablecoins are used as a store of value (Recitals 58, 68). We note that Recital 68 extends the prohibition to remuneration not related to holding time, beyond the definition in Article 50(3). The consultation asks whether the prohibition should be modified (Question 20). Our answer: yes, it should be replaced by a ceiling, because store-of-value use is not itself a market failure, and the failures to which it might lead are each better addressed by a different instrument.

5.1 The market-failure test

Four candidate failures hide behind the store-of-value rationale, and they fare differently under scrutiny. Deposit substitution and the erosion of bank credit provision: the positive externality of banking that would justify taxing its competitors is asserted more often than demonstrated (Bindseil 2026), and the aggregate effect seems overblown. Issuer reserves return to banks as deposits or finance securities purchases by counterparties that hold deposits, so the capacity of the system to provide credit is largely preserved (Reichlin, Sangers and Zettelmeyer 2026). Section 2.3 adds that the deposit quota is a poor answer even where the concern is taken at face value. Monetary transmission is real, but answered by a remuneration ceiling below the policy corridor, not by a zero. On run risk, the prohibition worsens it cyclically, because an asset whose remuneration is fixed at zero swings from attractive to unattractive with the policy rate, generating exactly the large in- and outflows that stability policy should dampen (Bindseil 2026). The answer to runs is the liquidity regime of Section 2. The money/investment-product boundary: guarded by MiCAR's existing demarcation from fund regulation, whose logic Konow (2026, pp. 217-221) sets out in comparing EMTs with money market funds.

Bindseil (2026) states the general point sharply: the non-remuneration of money was a technical artefact of paper banknotes, and carrying it into electronic money is a regulatory "original sin", a Pigouvian tax on stablecoins whose rate is set by monetary policy rather than by the externality it is meant to price. If society wishes to protect banking's externalities, an explicit, rate-independent levy is the honest instrument. A statutory zero is a tax whose rate nobody chose.

The prohibition is also being outrun by events. Where the ban's perimeter is narrower (the GENIUS Act binds issuers but not exchanges), remuneration migrates to the distribution layer: roughly \$86 billion of a \$290 billion market was remunerated through lending protocols in September 2025, with a pass-through of about 0.5 from the US risk-free rate (Barbon, Barthélemy and Nguyen 2025, cited in Bindseil 2026). Yield-bearing quasi-stablecoins outside the EMT perimeter are instantly convertible into compliant coins, so the arbitrage is efficient. And the asymmetry harms European issuers directly: a MiCAR-compliant EMT is an inferior store of value relative to a GENIUS-compliant token held through a remunerating US platform, which ultimately weakens it as a means of payment too (Bindseil 2026; Portes 2025).

The prohibition passes our final check, and on this point we agree with the ESCB (ESCB 2026, Sec. 3.2.3): conventional e-money is subject to the same ban (Art. 12 EMD2), so the rule treats the tokenised and the conventional form alike. Our case for reform therefore rests on the welfare test alone, which the prohibition fails for the reasons set out above.

5.2 Three forms of remuneration, three rules

The policy discussion conflates three arrangements that deserve separate treatment.

Remuneration by the issuer for holding. Permit it, capped. Following Reichlin, Sangers and Zettelmeyer (2026), the rate should be linked to the policy rate and remain below both the remuneration of ECB reserves and standard bank deposit rates. The ceiling preserves monetary control and the deposit hierarchy (banks retain a structural funding advantage) while removing the cyclical distortion of a statutory zero. Distribution should be conservative and retroactive, out of realised reserve income, never promised against income not yet earned (Bindseil 2026).

Payments by CASPs tied to holding. The same ceiling, the same rule. Article 50's extension to CASPs and third parties is not the flaw of the EU regime but its strength. The US experience, with exchanges remunerating what issuers may not and the OCC's subsequent attempts to close the gap, shows what a perimeter drawn only around issuers is worth (Franke et al. 2026, Sec. 3.2.1; Langenbucher 2026). We keep the perimeter and change the number inside it: a uniform ceiling applied at whichever level remuneration is paid. Rewards tied to transactions rather than holding, such as cashback and usage incentives, fall outside Article 50(3) already and should remain permitted, as the Bank of England likewise allows for systemic sterling stablecoins (Bank of England 2026).

Returns from lending or staking. These are not remuneration of money but compensation for credit and liquidity risk transferred to the holder. The right instrument is regulation of the activity (authorisation, disclosure, prudential treatment of crypto lending), not the interest prohibition. Konow's proposal of term-EMTs, which pay interest against a fixed holding period and would dampen redemption runs, is a

complementary option worth examining, although it would require amending Article 49 as well as Article 50 (Konow 2026, pp. 315-319).

One design question should be answered openly rather than by default: should the permission be currency-symmetric? Allowing capped remuneration of euro EMTs strengthens the euro leg of tokenised markets. The same permission extended through EU CASPs to non-euro tokens raises their circulation in the EU, and Bindseil (2026) himself notes that from the monetary-sovereignty perspective of a user country, non-remuneration of foreign tokens may be preferable. **Our view** is that the permission should be symmetric, with the exposure framework of Section 4, rather than remuneration policy, carrying the monetary-sovereignty constraint: each instrument is then assigned to one objective, and the regime avoids a rule that reads as protectionism. Should the EU legislature weigh sovereignty differently, an asymmetric variant (the ceiling for euro EMTs, with the CASP-level prohibition retained for non-euro EMTs) is the coherent fallback.

We are aware that the ESCB recommends maintaining and extending the prohibition (ESCB 2026, Sec. 3.2.3). The evidence above is our answer: a ban whose perimeter can be arbitrated at the observed scale delivers shrinking protection at a rising cost in competitiveness and cyclical instability. Between a zero that is circumvented and a ceiling that is enforced, the ceiling is the conservative choice.

6. Supervision

MiCAR concentrated rulemaking at Union level but left authorisation and supervision of CASPs with national authorities. The result is documented variance in application and licensing speed across member states, which invites arbitrage toward the most accommodating gateway rather than competition on quality. This is the concern that led France to threaten non-recognition of passported licences (Langenbucher 2026, pp. 21-22). For a single market in crypto-asset services, principle-based rules need a strong, central, independent supervisor.

We therefore support the transfer of CASP supervision to ESMA,¹ as proposed in the Commission's market integration and supervision package, which the ESCB likewise supports (ESCB 2026, Sec. 1.1). The allocation of mandates should remain clean. ESMA should be responsible for CASPs, trading venues and market integrity, and the ECB and ESCB for payment systems, monetary policy and systemic risk. The EBA should be responsible for issuers and prudential matters, including, under the regime of Section 3, the recognition and oversight of third-country issuers, where a decentralised, authority-by-authority assessment would fragment exactly what recognition is meant to unify (Portes 2025). Our proposals

¹ We follow the Commission's package in naming ESMA. Whether ESMA, given its current mandate and resources, is the most appropriate European authority for this task deserves further discussion. Our argument is for centralised supervision at Union level, not for a particular institution.

reinforce this architecture rather than strain it: an outcome-based liquidity requirement (Section 2) is supervisable by stress test rather than box-ticking, graduated escalation (Section 4) depends on transaction data collected across the Union, which a centralised supervisor can aggregate more reliably than national ones, and the remuneration ceiling (Section 5) is a single verifiable number.

One open question we flag for the review: whether supervision of standard EMT issuers should also move to the EBA. The standard tier is where all actual issuance currently takes place, yet it combines the thinner rulebook (Section 2.1) with purely national supervision. This is an inversion of proportionality that the review should at least examine. A second argument points the same way. The equivalence and recognition regime of Section 3 presupposes a European counterparty able to negotiate and maintain supervisory cooperation, information exchange and crisis coordination with the third-country authority. That role is difficult to fill where the primary supervisor of the EU issuer is a national one, and the recognition decision would in any event sit with the EBA.

7. Recommendations and open questions

In sum, our recommendations are the following. Where a recommendation requires amending Level 1, we say so. Recommendations feasible without reopening the Regulation are marked accordingly.

1. **Remove the mandatory bank-deposit quota** from the reserve requirements (Arts. 36(4)(d), 45(7)(b) and 54(a)), which requires the EU legislature, and do not adopt the 60% floor for significant EMTs in the technical standards under Article 36(4), which the Commission can do now by declining that element of the draft RTS. (Questions 15, 26)
2. **Introduce an outcome-based liquidity requirement** for all EMTs, applied proportionately: eligible high-quality liquid assets, haircuts, maturity ladders, counterparty diversification, currency matching, and supervisory stress tests of redemption capacity including outside banking hours. (Questions 15, 26)
3. **Keep the reserve regime independent of central-bank access, and invite the Eurosystem to consider** a crisis-only, collateralised liquidity backstop for issuers of significant EMTs. Central-bank deposits as a reserve asset remain an option at the Eurosystem's discretion. (Question 25)
4. **Introduce a workable equivalence and recognition regime for foreign-currency stablecoins that retains an EU issuer and an EU-located reserve.** Tokens issued in the Union and under a recognised third-country regime would be assessed jointly for full backing, with the foreign share held onshore in the currency of denomination, a binding rebalancing mechanism and supervisory cooperation. EU legislature. (Questions 29-30, 40-41)

5. **Where multi-issuance continues, make these conditions binding:** measured EU holdings with granular reserve reporting, contractually binding and stress-tested rebalancing, redemption at the EU issuer for EU holders, Article 58(2) add-ons, and EBA supervision with binding home-host cooperation. Largely feasible under existing empowerments, although redemption differentiation requires Level 1. (Questions 33-39, especially 36-38)
6. **Replace the automatic issuance stop in Articles 23 and 58(3) with graduated supervisory escalation,** keeping the existing thresholds as a monitoring trigger and the Article 24 powers as the backstop. EU legislature. (Question 34)
7. **Pursue the strategic defence against dollarisation outside MiCAR:** the digital euro, the Eurosystem's retail CBDC, for everyday payments, and settlement of tokenised transactions in central bank money on DLT, through the Eurosystem's Pontes project, live since 21 September 2026, and the long-term Appia initiative. Eurosystem and EU legislature. (Questions 31-33)
8. **Replace the prohibition of Articles 40 and 50 with a remuneration ceiling** linked to the policy rate and below both the rate on ECB reserves and standard deposit rates, applied uniformly to issuers and CASPs. Keep transaction-based rewards outside the rule and regulate lending and staking as activities. EU legislature. (Question 20)
9. **Transfer CASP supervision to ESMA,** and keep issuer supervision, including the recognition of third-country issuers, at the EBA. Market integration and supervision package.

Four open questions merit the Commission's attention, and in part its data collection. **First**, are the rates paid on EMT reserve deposits below market rates of comparable maturity? If the quota creates captive depositors, the spread is measurable, and the Commission is well placed to collect it. **Second**, what did the delisting of USDT do to spreads, volumes and execution quality on EU venues? The one observable precedent for exclusion has, to our knowledge, never been studied causally, although it is the single most policy-relevant natural experiment MiCAR has produced. **Third**, how reliable are cross-border rebalancing arrangements under stress, and what legal commitments would make the foreign share of the reserve available to the EU issuer when it is needed? **Fourth**, should supervision of standard EMT issuers move to the EBA, given that the tier in which all issuance currently takes place combines the thinner rulebook with purely national supervision?

The direction of all nine recommendations is the same. MiCAR's regulatory goals deserve better instruments than the ones they received. An outcome-based liquidity test protects redemption better than a counterparty quota. Recognition with jointly assessed backing protects holders better than fragmented pools or empty perimeters. Graduated supervision protects sovereignty better than an automatic stop, and modern euro infrastructure protects it better than either. An enforced ceiling

protects stability better than a circumvented zero. The review is the opportunity to make the regulatory goals real, at a cost the enabling objectives can bear.

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