Three Currency Areas Are Forcing Stablecoins to Split

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Why can't there be a single global dollar-stablecoin payments rail? At ProMarket in March, David Krause showed that the GENIUS Act's yield prohibition fails vertically—economic substance leaks from compliant issuers to compliant intermediaries at roughly 96 cents on the dollar (underlying empirical analysis). The architecture problem runs horizontally as well, and the horizontal version may matter more. A single dollar-anchored stablecoin cannot serve the European Union, Hong Kong, and mainland China at scale as a payments rail, regardless of how aggressively Section 4(a)(11) is enforced. Each currency area imposes regulatory constraints on non-domestic-currency stablecoin usage to preserve monetary sovereignty. The result is jurisdictional segmentation by currency anchor—not a single-token global rail.

I. Three Constraints, One Policy Driver

Three jurisdictions impose explicit limits on non-domestic-currency stablecoin usage. Different mechanisms, but underneath sits one policy concern: each jurisdiction protecting its domestic monetary infrastructure.

European Union — MiCA Article 58. The Markets in Crypto-Assets Regulation caps usage of non-EU-currency-referencing electronic money tokens at €200 million in daily transaction value or 1 million transactions per day, measured on a quarterly average basis, under Article 58 of Regulation (EU) 2023/1114 (see EBA Final Report on Draft RTS (EBA/RTS/2024/13) for measurement methodology; Article 23 establishes the parallel cap for asset-referenced tokens). The cap applies only to use as a means of exchange within a single currency area. Store-of-value holdings and trading flows through crypto-asset venues are explicitly carved out. Above the threshold, the issuer must stop issuing the EMT and submit a usage-reduction plan within 40 working days. The European Banking Authority's June 10, 2025 No-Action Letter on PSD2-MiCA interplay (EBA/Op/2025/08) added a second operational layer: from March 2, 2026, custody and transfer of EMTs by crypto-asset service providers require both MiCA CASP authorization and a payment institution or electronic money institution authorization under PSD2. The constraint operates on the payments rail; the carve-outs preserve the rest.

Hong Kong — Stablecoins Ordinance Cap. 656. Foreign-based issuers of non-HKD-linked fiat-referenced stablecoins may offer their tokens to Hong Kong professional investors only (Stablecoins Ordinance (Cap. 656), effective Aug. 1, 2025). Retail distribution requires HKD anchoring or HKMA local licensing. On April 10, 2026, the HKMA granted the first two issuer licenses—both HKD-anchored. HSBC (FRS02) plans direct retail integration through PayMe and the HSBC HK Mobile Banking App in the second half of 2026. Anchorpoint Financial Limited (FRS01)—a joint venture of Standard Chartered Bank (Hong Kong), HKT, and Animoca Brands—will issue HKDAP via a business-to-business-to-consumer model from Q2 2026. Of 36 applicants, 2 received licenses. No PRC-connected entity appeared in the first cohort, despite multiple state-owned commercial banks and a major state-owned enterprise having applied or expressed interest through September 2025; the exclusion list and its policy implications are developed in §IV.

Mainland China — 2017 and 2021 prohibitions. All non-RMB tokens are prohibited domestically under the PBOC 2017 ICO Notice and the PBOC 2021 framework on virtual currency trading speculation. In October 2025, the People's Bank of China and the Cyberspace Administration of China issued informal guidance that produced observable behavioral effects: Ant Group and JD.com suspended their Hong Kong stablecoin applications (Financial Times, *Chinese tech giants pause stablecoin plans after Beijing steps in*, Oct. 19, 2025; for accessible reporting on the same event see South China Morning Post); no PRC-connected entity—whether private internet group, state-owned commercial bank, or state-owned enterprise—appeared in HKMA's first-license cohort. The constraint is absolute domestically and extends informally—through unwritten guidance rather than published rule—to the indirect Hong Kong pathway.

United States and Singapore — no caps. The GENIUS Act (Pub. L. No. 119-27) does not cap non-USD stablecoin issuance or usage. Singapore's MAS Single-Currency Stablecoin framework (MAS Final Consultation Response, Aug. 15, 2023) accepts SGD or any G10-pegged token on equal footing.

United Kingdom — different axis. The Bank of England's revised proposals on sterling-denominated systemic stablecoins (consultation paper, Nov. 10, 2025) impose prudential constraints—reserve composition, holding limits—but do not cap non-sterling stablecoin usage as such. The asymmetry between sterling-systemic regulation and non-sterling laissez-faire is structurally different from the EU/HK/PRC pattern.

II. What the Three Constraints Are Protecting

The three constraint regimes (EU, HK, PRC) share a policy driver that differs from the policy driver behind issuer-level prudential regulation. Reserve requirements, capital adequacy, redemption mechanics, and AML mandates are present in all six jurisdictions surveyed in a companion Multi-Jurisdiction Stablecoin Compliance Matrix (on file with author); they address consumer protection, financial stability, and law enforcement. The non-domestic-currency caps address something else. They address monetary sovereignty—the sovereign authority over which currencies dominate domestic payments infrastructure.

For the European Union, the euro's role in eurozone payments is an explicit European Central Bank policy objective. Large-scale dollar-denominated EMT flows used as means of exchange within the eurozone would erode that role and complicate ECB monetary policy transmission. Article 58 lets dollar EMTs persist as store of value or trading instruments, where the sovereignty concern is attenuated; it constrains them only where they would substitute for euro money supply in transaction settlement.

For Hong Kong, the HKD-USD peg is the foundation of HKMA monetary policy. Large-scale non-HKD FRS circulation among retail users would introduce speculation channels that complicate peg defense. Restricting non-HKD FRS to professional investors preserves the peg's operational space while permitting institutional cross-border activity.

For mainland China, the digital yuan program is a PBOC strategic priority. Private RMB-linked stablecoins—or large-scale dollar stablecoin circulation—would fragment monetary authority and complicate the e-CNY rollout. The October 2025 PBOC and CAC informal guidance signaled that the concern operates on the boundary between private and state authority to issue currency-like instruments. The first-license cohort composition confirms it: state-owned banks and enterprises were excluded along with private internet groups. The PBOC's posture is about who issues currency-like instruments, not about who is PRC-connected. The PRC case is over-determined: the prohibition extends to most private crypto-asset activity domestically, not only to non-RMB stablecoins. The monetary-sovereignty motive is one operative driver among several, and the October 2025 guidance targeting the indirect Hong Kong pathway specifically reflects it.

The United States imposes no cap because the dollar is already the default global reserve currency. There is no monetary sovereignty erosion to defend against; the asymmetry runs in the United States' structural favor. Singapore imposes no cap because the Singapore dollar is not under dominant-currency pressure—Singapore's regulatory strategy positions SGD alongside G10 currencies as a stable Asian financial center, and currency neutrality is an advantage rather than a vulnerability.

The geography matches the policy. Currencies under dominant-currency pressure—the euro, the Hong Kong dollar, the renminbi—face caps on cross-currency-area substitution. Currencies not under such pressure—the dollar and the Singapore dollar—do not. Sterling sits on a different axis altogether: BoE's prudential constraints apply to systemic sterling stablecoins as a domestic-currency systemic-stability question, not as a non-sterling cap. The same regulatory landscape produces three structures, not one.

III. The Architecture That Follows

What follows is regulatory plurality between currency areas—not regulatory competition in the Tiebout sense, but each currency area exercising independent authority over its monetary infrastructure. Each area has imposed—or declined to impose—regulatory constraints to preserve—or take advantage of—its currency's monetary infrastructure. For firms operating across currency areas, these constraints are permanent features of the regulatory landscape, not transition-period frictions that fade once supervisors finalize technical standards.

A single dollar-anchored stablecoin cannot serve six jurisdictions at scale as a retail payments rail. Article 58's transaction cap, Hong Kong's professional-investor threshold, and mainland China's prohibition bind differently but produce the same structural effect. The dollar's structural advantages preserve substantial cross-border activity (treasury holdings, trading flows, professional-tier settlement); the retail payments rail cleaves along currency-area boundaries.

In practice, the architecture that follows is multi-currency. Each currency area's regulated retail rail anchors to its own currency token, with concrete implementations (USDC, EURC, HKDAP, sterling stablecoins where regulated) downstream of this architecture rather than constitutive of it. Cross-currency settlement migrates to licensed FX rails or trading venues, not to a unified single-currency token. Mainland China remains foreclosed in both direct and indirect channels.

For cross-border business-to-business treasury, the constraint is light: holding USD-denominated stablecoin balances in EU corporate treasuries does not trigger Article 58, since the cap applies to means of exchange, not store of value. For retail and consumer payments, segmentation is unavoidable: a euro-area user transacting in USD stablecoin above means-of-exchange thresholds contributes to the issuer's quarterly cap; a Hong Kong retail user cannot receive USD stablecoin in regulated channels; a mainland China user cannot transact in USD stablecoin at all. The assumption that a single dollar token would become a universal global payments rail does not survive the regulatory geography. What does survive is a layered architecture: dollar tokens for cross-border B2B treasury, currency-area-specific tokens for retail rails, and licensed FX venues for cross-currency settlement.

IV. Two Limits, Different Perimeters

Two limits on the post-GENIUS regulatory regime are now in view. Krause has identified the vertical limit: Section 4(a)(11)'s textual reach does not extend to intermediaries that route economic substance through their distribution arrangements. The analysis above identifies the horizontal limit: regulatory geography forces segmentation by currency area regardless of vertical enforcement.

The two limits work on different perimeters. Krause's vertical case targets the issuer-intermediary boundary—closing the leak that lets economic substance flow through distribution arrangements. The horizontal case here is different: it is about whether one token can serve multiple currency areas as a retail rail at all, regardless of how that boundary is policed. Both can be true at once. Krause has argued in CLS Blue Sky that the vertical evidence warrants expanding Section 4(a)(11)'s reach to cover intermediaries; even if enacted, the horizontal segmentation would remain. MiCA Article 58, Hong Kong's professional-investor restrictions, and mainland China's prohibitions are not addressable through US federal legislation.

A sub-argument is worth flagging for readers tracking the post-GENIUS regulatory regime. Krause's vertical concern is deposit flight: economic substance moving from compliant issuers to compliant intermediaries shifts purchasing power away from the banking system. The horizontal segmentation partly addresses that concern in the cross-currency-area frame. Euro-area deposit flight into USDC as means of retail payment is already bounded by Article 58; Hong Kong retail deposit flight into USD stablecoin is bounded by the professional-investor cap; mainland China deposit flight is prohibited. Krause's vertical concern is most acute in the within-currency-area domestic US case—US bank deposits routed through US intermediaries into US-anchored stablecoin returns. Expanding Section 4(a)(11)'s reach addresses that case directly; in the cross-currency-area cases, the horizontal constraints have already done substantial work. The two limits operate on different perimeters, but overlap where currency-area boundaries intersect deposit-flight pathways.

A Stigler-Peltzman skeptic might read this differently. The HKMA first cohort licenses HSBC and Anchorpoint Financial Limited (a Standard Chartered Bank (Hong Kong) joint venture)—two of Hong Kong's three note-issuing banks under a commercial-bank banknote-issuance system dating to 1846. From outside, this could read as incumbent capture. But the third note-issuing bank is Bank of China (Hong Kong)—the third commercial bank authorized to issue Hong Kong dollar banknotes alongside HSBC and Standard Chartered—and BoCHK was absent from the first cohort, as were ICBC (Asia), Bank of Communications (Hong Kong), China Construction Bank (Asia), and PetroChina, all incumbent institutions with stablecoin license applications or feasibility studies through September 2025. If the criterion were incumbent protection, BoCHK would be in the first cohort. It is not. The October 2025 PBOC/CAC informal guidance—which paused PRC-connected applications across both private and state categories—indicates the operative criterion was the boundary between private and state authority to issue currency-like instruments. Currency-issuing authority is a sovereign function exercised through statutory mandate, not a private rent captured through agency relationships.

For stablecoin issuers, the operational reading is direct: single-currency global expansion at retail scale is foreclosed by regulatory geography, not by technology or market preference. Multi-currency issuance keyed to currency anchors is the available architecture. The middle case—a single dollar token attempting unified retail reach across currency areas—has no place in the regulatory landscape that took shape between July 2025 and May 2026.

Krause's vertical observation and the horizontal observation here together imply a regulatory architecture that neither a Section-404-focused reading nor a pure cross-currency reading captures alone. Future regulatory action—whether further restriction in Krause's direction or accommodation in another direction—will need to address both limits to change the architecture meaningfully.

About This Post

This post is part of a series on Section 404 of the proposed Digital Asset Market Clarity Act and the broader doctrinal architecture of stablecoin regulation following the GENIUS Act. The vertical-limit observation it engages with is David Krause's empirical work on USDC reward pass-through through January 2026. The cross-jurisdictional regulatory geography it reports is developed in detail across ten dimensions and six jurisdictions in the companion Multi-Jurisdiction Stablecoin Compliance Matrix. A separate piece in CLS Blue Sky (*The Routing Question Across Six Jurisdictions*, forthcoming 2026) maps a parallel cross-jurisdictional question: whether the *Reves* fourth-factor allocation logic—which supplies the structural template under which Section 404 should step back from arrangements already governed by the 1940 Act in the US—transplants to the comparable parallel-track regimes in the five other jurisdictions surveyed here. Currency-area segmentation (this piece) and routing-architecture portability (the companion piece) operate on different planes. The full operational framework for the US Section 404 question, including a quantitative routing-versus-yield distinction and on-chain auditable thresholds, is developed in Narrowing the Section 404 Prohibition (SSRN, May 2026), filed as written input with the SEC Crypto Task Force (May 7, 2026).

I have received no compensation—direct, contingent, or otherwise—for this piece, the underlying research, my SEC Crypto Task Force submission of May 7, 2026, or my CLS Blue Sky companion post. I am not currently engaged in advisory, consulting, employment, or other compensated relationships with any party having a financial interest in the regulatory outcomes discussed.