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For consultation

Functional analysis of existing regulatory frameworks and rand-pegged stablecoin arrangements in South Africa



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1. Executive summary

In this discussion paper, the Intergovernmental Fintech Working Group (IFWG) presents its understanding of rand-pegged stablecoin arrangements in South Africa as well as an assessment of whether existing financial regulatory frameworks can be extended to capture such stablecoin arrangements. This is the second paper in a series¹ that responds to the growing prominence of stablecoins. Recognising stablecoins' potential to serve as a means of payment, store of value and bridge between traditional and digital finance, the IFWG identifies them as a regulatory priority.

The paper's scope is limited to rand-pegged stablecoins, excluding algorithmic² and foreign currency-pegged³ variants and uses the stablecoin arrangement as a single analytical construct.

An overview of stablecoin arrangements is provided, detailing their flows and the risks presented, including prudential risks emanating from reserves, fragile stabilisation mechanisms, redemption rights and weak governance; cyber risk and operational vulnerabilities; market conduct risk that stems from inadequate disclosures and information asymmetries and interlinkages with traditional finance.

The jurisdictional analysis (Annexure 1) considers regulatory models from various countries, revealing a spectrum of approaches: some jurisdictions integrate stablecoins into existing frameworks, while others develop bespoke regimes. Common regulatory themes include definitions, licensing requirements for issuers and standards for reserve assets.

This paper presents a functional equivalence analysis examining how existing regulatory frameworks apply to stablecoin arrangements.

- **Electronic money (e-money):** Recognises functional similarities but notes technological and legal distinctions that may limit the appropriateness of automatic e-money treatment.

¹ This paper builds on the [2021 Position Paper](#) and the [South African Stablecoin Landscape Diagnostic \(Diagnostic\)](#)

² Algorithmic stablecoins aim to maintain a stable value by using algorithms and smart contracts instead of being backed by real-world assets.

³ Refers to stablecoins that are pegged to currencies other than the rand.

- **Collective investment schemes (CISs):** Finds that while there are structural parallels, the intent and use of stablecoins differ fundamentally from CISs, necessitating significant legislative amendments for fit-for-purpose regulation.
- **Deposit-taking:** Acknowledges that stablecoin arrangements may resemble deposit taking but highlights key differences in business models and the need for careful legal interpretation.
- **Derivatives:** Notes that stablecoins may technically fit the definition of derivatives but cautions against misalignment with their core value proposition and underlying structure.
- **Stablecoin-specific regime:** Assesses the option of a risk-based bespoke regulatory framework to address the unique risks and operational complexities of stablecoin arrangements.

The paper finds that, while elements of existing frameworks may be adapted, none are wholly sufficient and comprehensive enough without amendment and explores a risk-based approach as another alternative.

The IFWG invites stakeholders to provide input on the analysis presented, the adequacy of existing frameworks and additional considerations for the development of a comprehensive regulatory regime for rand-pegged stablecoins in South Africa.

2. Introduction

The Intergovernmental Fintech Working Group's (IFWG) 2021 *Position Paper on Crypto Assets*⁴ (Position Paper) acknowledged that new use cases would emerge and that it would continue to monitor crypto asset-related developments. Stablecoins – a crypto asset that aims to maintain a stable value relative to a specified asset or a pool or basket of assets⁵ – have gained traction within the crypto asset ecosystem and attracted the attention of the international regulatory community. Stablecoins have the potential to garner broad adoption and present financial stability risks. In this regard, the IFWG has prioritised and initiated analytical work on stablecoin arrangements. Phase 1 produced the South African Stablecoin Landscape Diagnostic⁶ (Diagnostic) that outlines current stablecoin use cases, associated risks and the regulatory gaps that persist in regulating stablecoins under the Financial Advice and Intermediaries Services Act 37 of 2002 (FAIS Act).

2.1 Intent

Following the Diagnostic, this discussion paper examines if existing regulatory frameworks can be extended to bring rand-pegged stablecoin arrangements into the regulatory remit.

2.2 Scope

This paper assesses if the existing regulations can accommodate rand-pegged stablecoin arrangements (as described in [3.1](#) below). For the purposes of this paper, the stablecoin arrangement is used as a single analytical construct encompassing multiple entities and all activities performed to produce stablecoins.⁷

Ancillary activities that are capable of being performed in relation to stablecoin arrangements, such as marketing, intermediation, and so on are not part of this paper. Equally, algorithmic stablecoins and foreign currency-pegged stablecoins are excluded (see [Annexure 2](#)).

The IFWG will focus on foreign currency-pegged stablecoins and foreign currency-pegged stablecoin arrangements in the next phase of work.

⁴ [2021 IFWG Position Paper on Crypto Assets](#)

⁵ Financial Stability Board, 2023

⁶ See [IFWG South African Stablecoin Landscape Diagnostic](#)

⁷ The use of an analytical construct is without prejudice to legal characterisation, governance arrangements or regulatory responsibilities of the underlying entities.

2.3 Rationale for regulating stablecoins in South Africa

The outright ban of stablecoins in South Africa would be inappropriate given the country's existing regulatory posture and global developments. Crypto assets have been incorporated into domestic regulatory frameworks including through anti-money laundering (AML) and combating the financing of terrorism (CFT) regulation, financial conduct standards and licensing. This demonstrates South Africa's adoption of a risk-based approach to regulating crypto assets rather than a prohibitive stance. Moreover, as a member of international standard setting bodies like the Financial Stability Board (FSB), International Organization of Securities Commission (IOSCO) and the Financial Action Task Force (FATF), South Africa is expected to align with their guidance, which advocates for proportionate regulation and oversight rather than outright bans.

Jurisdictions are actively developing tailored regulatory frameworks for stablecoins, focusing on governance, reserve management and systemic risk monitoring. Adopting a ban would therefore place South Africa at odds with global best practices, risk stifling innovation and push crypto activities into unregulated channels rather than ensuring transparency and accountability. Considering the borderless nature of crypto assets, a ban on stablecoins is also impractical from an enforcement perspective. If stablecoins are banned, the activity will most likely continue in grey markets or more clandestine avenues, with users using alternative platforms outside of the South African borders.

2.4 Structure

The rest of this discussion paper is organised as follows: [Section 3](#) presents an overview of the core elements and activities of rand-pegged stablecoin arrangements and the risks they present. [Section 4](#) presents an analysis of existing regulatory frameworks as well as a stablecoin-specific approach based on the risks presented by stablecoin arrangements. [Annexure 1](#) contains a jurisdictional analysis of the regulatory treatment of stablecoins in select jurisdictions.

3. Overview

3.1 Process flow

The typical process flow in a rand-pegged stablecoin arrangement involves several key steps and entities, as depicted in Figure 1 below.

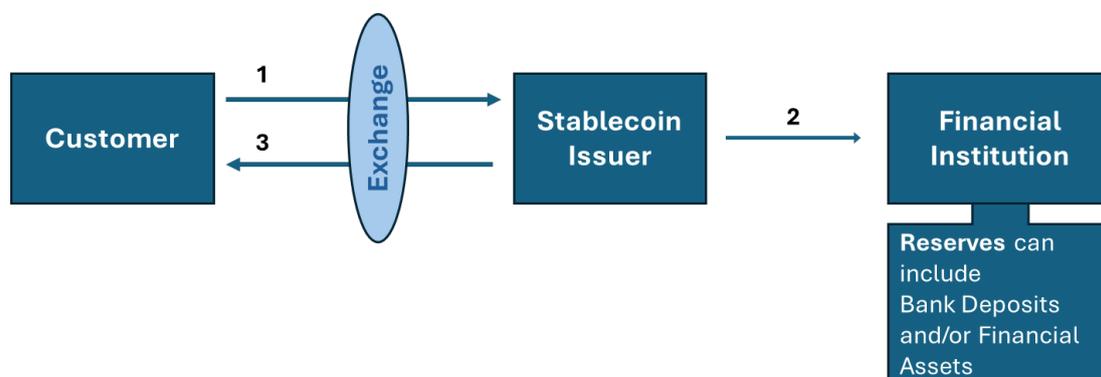


Figure 1: Rand-pegged stablecoin arrangement flow

Step 1: Purchase of stablecoins – A customer initiates the process by exchanging fiat/paying for stablecoins either directly from the issuer or through an exchange (which may act as an intermediary).

Step 2: Reserve allocation and custody – The stablecoin arrangement receives the fiat currency and allocates it to reserves, which are generally held at a regulated financial institution such as a bank or investment firm. Reserves can take the form of bank deposits (fully or partially held in custodial accounts) and/or financial assets such as Treasury bills, money market funds or commercial paper. These reserves are meant to act as a stabilisation mechanism and maintain the value peg⁸ (e.g. 1 stablecoin = 1 rand).

Step 3: Token minting and issuance – Once reserves are secured, the issuer mints stablecoins on a blockchain or ledger, representing a claim against the reserve assets. These tokens are delivered to the customer or exchange. The customer can use the stablecoin for payments, trading, remittances, decentralised finance (DeFi) participation, etc.

Step 4: Redemption (not depicted) – Customers may redeem stablecoins back to fiat either through the stablecoin arrangement or an exchange. The stablecoin

⁸A peg refers to the mechanism by which a stablecoin's value is linked to another reference assets, in this case, the South African rand (ZAR). A 1:1 ZAR peg means the stablecoin issuer aims to keep the value of each token equal to one rand. This peg is maintained by reserves (e.g. cash, short-term government securities) that back every issued token. This paper focuses only on reserves denominated in rand.

arrangement ‘burns’ the token, thereby reducing the number of tokens in circulation and transfers fiat back to the customer.

3.2 Definitions

The FSB provides the foundational definition used by many other standard setting bodies, including the Committee on Payments and Market Infrastructures (CPMI), IOSCO and the FATF, noting that use of the term is not an endorsement of the stability of these tokens. The FSB defines a stablecoin as “a crypto asset that aims to maintain a stable value relative to a specified asset or a pool or basket of assets.”⁹

While the Basel Committee on Banking Supervision (BCBS) – in its standard for the *Prudential treatment of cryptoasset exposures* (prudential standard), through its classification framework – considers stablecoins lower risk if they-

- peg effectively and remain redeemable even under stress (i.e. an effective stabilisation mechanism);
- have clear legal claims and settlement finality;
- rely on trusted, resilient technology; and
- are issued and operated by regulated institutions with strong governance.

Given the pending adoption and implementation of the BCBS standard by the Prudential Authority (PA), alignment to the prudential standard would be essential for any regulatory framework to avoid regulatory arbitrage across the regulatory frameworks and ecosystem. For this paper and fostering a common understanding, the IFWG uses the following definition-

Rand-pegged stablecoin¹⁰ – a type of crypto asset¹¹ pegged to the South African rand which maintains a stable value by collateralising with reserves denominated in South African rand and which is redeemable at par.

⁹ FSB, 2023.

¹⁰ Rand-pegged stablecoins can then be further categorised as (1) fiat-backed stablecoin – a rand-pegged stablecoin that is backed by an equivalent amount of the fiat currency held in reserve and (2) asset-backed stablecoin – a rand-pegged stablecoin that is backed by an asset, other than fiat currency, like a financial instrument or commodity held in reserve.

¹¹ As defined in the 2021 IFWG Position Paper on Crypto Assets

3.3 Risks of stablecoins

The potential benefits of stablecoins are primarily attributed to their underlying digital and ledger-based technology, including more efficient payment and settlement mechanisms, improved transaction efficiency, expanded access to digital payments and increased scope for competition and innovation. Regulators and international standard setting bodies recognise that stablecoins may enhance payment efficiency and financial inclusion if they are well-designed and subject to comprehensive regulation, supervision and oversight (FSB, 2020, CPMI-IOSCO, 2022).

Stablecoin arrangements, especially those with potential for wide usage in payments or store-of-value functions, could become systemically important. This raises financial stability concerns if users come to rely on them for everyday transactions or savings. A loss of confidence, malfunctioning redemption mechanisms or insufficient reserve transparency could have contagion effects across traditional financial markets and institutions (FSB, 2023).

The International Monetary Fund (IMF) warns that even non-systemic stablecoins could trigger instability if poorly regulated, particularly in economies with weaker monetary frameworks or high crypto adoption. A sudden collapse of a widely used stablecoin could, for instance, disrupt remittance flows or lead to a loss of confidence in digital finance more broadly (Bains et al., 2022).

3.3.1 Prudential risks arising from reserves, fragile stabilisation mechanisms and redemption rights

Stablecoin arrangements introduce a range of prudential risks that, in many respects, mirror those found in traditional financial institutions engaged in maturity transformation or payment intermediation. Although stablecoins are often framed as straightforward digital representations of fiat currency, their stability depends fundamentally on the quality, liquidity and governance of the underlying reserve asset (FSB, 2023). Stablecoins depend on mechanisms that claim to maintain a stable value, even though these mechanisms often lack transparency and robustness. In fiat-backed models, there is no assurance that issuers hold quality reserves of equivalent quantity (Bains *et al.*, 2022).

The nature, location or risk profile of the reserve assets underlying stabilisation mechanisms are currently not regulated or supervised (monitored and verified on an ongoing basis). Stablecoin arrangements may hold illiquid, long-duration or high-yield instruments to maximise profits while maintaining the façade of full backing.

Regulators are concerned that this opacity gives rise to investor harm, particularly during market dislocations. If users are unable to redeem tokens when needed or if redemption is delayed or partial, this can lead to contagion effects both within the crypto sector and potentially into traditional finance if linkages exist (Financial Conduct Authority (FCA), 2023).

Without regulation, issuers can maintain inadequate or risky reserve portfolios while promising redemption at par. This disconnect is a core concern, as even slight disruptions in user confidence can trigger sudden outflows or ‘runs’, especially where real-time proof of reserves or enforceable redemption mechanisms are absent (FSB, 2023).

Stablecoins that promise convertibility to fiat claim to maintain high-quality liquid reserves. However, without strict oversight, issuers may be tempted to hold riskier assets to generate yield. This mismatch between liabilities (redeemable at par) and assets (possibly volatile) introduces liquidity and credit risks. Liquidity and solvency risks are exacerbated during redemptions on demand. If reserves cannot be liquidated quickly enough or are worth less than claimed, issuers may be unable to honour withdrawals, triggering fire sales or collapse. The issue is further compounded by the absence of third-party audits or regulatory scrutiny (IOSCO, 2023).

In many cases, stablecoin holders do not have a direct legal claim against the issuer or the underlying assets. Redemption rights are vague, discretionary or non-existent under applicable law. This creates a serious mismatch between user expectations and actual legal protections. In this regard, the FSB recommends that redemption rights be clearly defined and enforceable under applicable laws (FSB, 2023).

3.3.2 Weak governance with prudential risk implications

Stablecoin ecosystems are often composed of loosely affiliated entities (issuers, custodians, wallet providers and protocol developers) with issuance, wallet provision, reserves and redemption managed by separate entities. Additionally, entities in the value chain may be unlicensed or operate under pseudonyms. This decentralised governance structure makes it extremely difficult to enforce accountability or ensure operational integrity.

Such fragmentation increases the likelihood of cyber incidents, fraud and system failures going unresolved or undetected. Without regulation, there is often no single entity responsible for risk management, user protection or continuity of service. At the

same time, weak governance increases the likelihood of operational failures, cyber threats and mismanagement of reserves (Bank of England (BoE), 2023).

Conversely, some stablecoin arrangements have consolidated these functions into a single entity. The consolidation of issuance, reserve management, custody, redemption, market-making and other functions inside a single corporate group is considered a major concentration and governance risk that multiplies single-point-of-failure, conflict-of-interest and contagion channels (FSB, 2023 and BoE, 2023).

If one entity performs issuance, reserve management and custody, an operational failure like a cyberattack, outage, key-person loss or legal action can simultaneously disable issuance, block redemptions and make reserves inaccessible. This produces immediate runs on stablecoin arrangements and can lead to broader market disruption (FSB, 2023).

Combining profit-seeking activities (e.g. market-making, reserve investment and lending) with safekeeping and issuer liabilities creates obvious conflict. The entity may be tempted to pursue maturity transformation or seek yield at the expense of liquidity or creditor seniority (Bains *et al.*, 2022; CPMI-IOSCO, 2022).

When custody and reserve management are part of the same group, the legal clarity of stablecoin holders' claim is weakened. In the absence of a clear legal title and bankruptcy-remote custody, reserves may not be available to holders when an issuer or affiliate fails (FSB, 2023). An entity that issues the stablecoin and runs the reserve portfolio can face dangerous feedback loops. A redemption wave forces asset sales (by the same group) that depress reserve values, which in turn accelerates redemptions and price contagion into broader money markets. This increases the risk of systemic fire-sale externalities (FSB-IMF, 2023).

3.3.3 Cyber risk and operational resilience

Technological dependencies challenge operational resilience. The Bank for International Settlements (BIS) emphasises that reliance on public blockchains or opaque smart contract infrastructure can pose risks to security, upgradeability and governance. Failures in these systems may have outsized impacts if stablecoins are integrated into broader financial services (CPMI, 2023). Where such consolidated arrangements provide banking services, offer liquidity support or engage bank counterparties, the failure of the consolidated entity can quickly transmit to regulated banks (FSB-IMF, 2024).

Stablecoins are heavily used within DeFi and crypto trading platforms. Their role as collateral, unit of account or settlement asset means that any malfunction can have cascading effects across crypto markets. This interconnectedness amplifies systemic risk, particularly in the absence of prudential regulation governing leverage, liquidity or risk exposures in adjacent markets (IOSCO, 2023).

3.3.4 Market conduct risks related to inadequate disclosures and information asymmetries

In addition to prudential risks, stablecoin arrangements are exposed to significant market conduct risks. These arise from how products are structured, marketed and governed as well as the quality of information made available to users. Misleading claims about stability, backing or redemption rights, especially where stablecoins are promoted as ‘risk-free’ digital equivalents of fiat, can distort consumer understanding and confidence. The FSB (2023) and IOSCO (2023) both stress that clear, fair and non-misleading disclosures are fundamental to user protection and market integrity.

The World Economic Forum notes that “transparency remains a key issue for stablecoins”, with persistent questions surrounding the nature and quality of reserves leading to increased scrutiny and past regulatory fines for opaque practices in some jurisdictions.¹² The recurring theme of unreliable reserves, opaque disclosures and the explicit statement by the FSB that ‘stablecoin’ does not imply actual stability¹³ highlights a fundamental challenge in public perception. The market term ‘stablecoin’ creates an expectation of stability that is often not legally or practically guaranteed, especially for retail holders. The consequence is that this discrepancy between perception and reality, combined with a lack of transparency and legal recourse, makes stablecoins highly susceptible to confidence crises and runs. This implies that clear, mandatory disclosures, robust auditing and strong consumer education are vital to managing expectations and protecting users from stablecoin arrangements.

The lack of mandated disclosure standards creates significant information asymmetries between stablecoin arrangements and users. Many stablecoin arrangements provide little to no public information on their reserve holdings, redemption policies, governance structures or operational risks. Where disclosures exist, they are often unaudited and/or non-standardised.

¹² World Economic Forum, 2025. Stablecoins: <https://www.weforum.org/stories/2025/03/stablecoins-cryptocurrency-on-rise-financial-systems/>

¹³ FSB, 2020.

Regulators are concerned that this undermines market discipline and creates conditions for misrepresentation. The ambiguity in legal claims over stablecoin reserves and user protections in insolvency scenarios also raises concerns. Users may not fully understand the nature of their rights, particularly in stablecoin arrangements that lack transparency or legal clarity (FCA, 2023).

Users may incorrectly assume that a stablecoin is 'safe' or equivalent to a bank deposit, when it actually lacks comparable safeguards (FCA, 2023, IOSCO, 2023).

Conflict of interest also features prominently among market conduct concerns. Stablecoin arrangements may commingle user funds with operational accounts, invest reserves for proprietary profit or engage affiliated entities for custody and assurance services, raising the risk of self-dealing. Without strict segregation of client assets and transparency of related-party arrangements, users bear unacknowledged risks of loss or delay in redemptions (Bains *et al.*, 2022).

3.3.5 Interlinkages with traditional finance

As stablecoins scale, their linkages to traditional financial institutions increase. Banks and payment providers offering access to stablecoin services could be exposed to crypto-related volatility, potentially amplifying risks in the broader system. While innovation in payments is encouraged, these new forms must meet established standards for reliability, governance and consumer protection (FCA, 2023).

Stablecoin arrangements are also becoming increasingly interlinked with the traditional financial system through their reserve asset structures. The fiat-backed reserves that underpin most stablecoin arrangements are typically held in commercial bank deposits or invested in short-term, highly-liquid financial instruments. The BIS found stablecoin arrangements to be among the top holders of treasury bills in 2024; and, as of March 2025, stablecoin arrangements held over \$100 billion in US treasuries.¹⁴ Where commercial banks provide significant services to stablecoin arrangements (e.g. holding reserve deposits) or if they hold large amounts of stablecoins on their balance sheets, a stablecoin failure can cause liquidity strain or direct losses for those banks. This integration creates direct exposures between stablecoin arrangements and the traditional financial sector.

¹⁴ Bank for International Settlements [Annual Economic Report 2025](#)

4. Functional equivalence analysis of existing regulatory frameworks

The stablecoin lifecycle, as described in section [3.1](#), has elements that closely mirror financial activities currently subject to financial regulation in South Africa. This section considers the feasibility of using existing regulatory frameworks to regulate rand-pegged stablecoin arrangements.

4.1 Analysis of stablecoin arrangements as e-money

4.1.1 Definition

E-money is generally defined as monetary value stored electronically, representing a claim on the issuer and accepted as a means of payment by entities other than the issuer (CPMI, 2016). E-money issuers are generally required to hold customer funds in cash, in bank accounts. For this reason, it is important to compare e-money specifically to fiat-backed stablecoins, to ensure equivalence.

In South Africa, at the time of publishing this paper, e-money is defined as “monetary value represented by a claim on the issuer. This money is stored electronically and issued on receipt of funds, is generally accepted as a means of payment by persons other than the issuer and is redeemable for physical cash or a deposit into a bank account on demand”.¹⁵

4.1.2 Similarities

E-money and fiat-backed stablecoins share the following characteristics:

- **Monetary value representation:** fiat-backed stablecoins are a representation of value, issued upon receipt of funds and backed by fiat currency reserves.
- **Stored electronically:** fiat-backed stablecoins exist digitally on a blockchain platform and are accessed through wallets.
- **Acceptance as payment by entities other than the issuer:** like e-money, fiat-backed stablecoins are increasingly used for peer-to-peer transfers, merchant payments and remittances across various platforms and merchants, functioning as a medium of exchange.

¹⁵ See [SARB Position Paper on e-money, 2017](#)

4.1.3 Differences

Technological architecture: intermediary-based consensus versus code-based validation. Traditional e-money relies on ‘intermediary-based’ systems where a trusted third party validates transfers on a centralised database. In contrast, stablecoins are typically ‘code-based’ digital assets that operate on permissionless networks where consensus is achieved through algorithmic protocols rather than institutional oversight. This shift to code-based consensus means that stablecoin transfers are final and irreversible, whereas e-money transfers, governed by intermediaries, can be reversed in the event of error or fraud (Milne and Lawack, 2024). This introduces unique risks related to settlement finality and operational resilience that is not present in traditional e-money systems (CPMI, 2023, BIS, 2025)

Stablecoins often facilitate ‘programmable’ finance and DeFi integration, a capability that traditional e-money currently lacks. Because stablecoins are native to distributed ledger technology (DLT) environments, they can be integrated into smart contracts, enabling automated DeFi applications. E-money is primarily a retail payment instrument and lacks the same level of interoperability with the broader crypto-asset ecosystem (Adrian *et al.*, 2025).

Cybersecurity and blockchain risks, such as smart contract bugs, protocol exploits or governance attacks are unique to crypto assets and would not be addressed by traditional e-money rules that focus more on issuer solvency, redemption rights and customer balances.

The use of public-private key cryptography as the sole mechanism for asserting ownership is the defining feature of digital assets, including stablecoins, distinguishing them from traditional e-money. Traditional financial assets like bank deposits and e-money have been digital for decades and they are accessed via instructions to an intermediary. Stablecoins, however, are directly held because the holder uses a private key to exercise absolute control over the asset on a shared ledger (Milne and Lawack, 2024).

Stablecoins often represent a separate unit of account from fiat currency, whereas e-money is legally required to be a proxy for fiat at par. E-money is an indirectly held asset which represents a liability of the issuer, who has a legal obligation to exchange it for fiat on demand. Stablecoins, however, are often managed to maintain a target value but may lack a legal redemption claim at par, making them more akin to money market funds (MMFs) with fluctuating market values (Milne and

Lawack, 2024). This distinction is critical for ‘monetary singleness’, as stablecoins may not always be identically equal to the fiat currency they purport to track (BIS, 2025).

The ‘backing’ or reserve management of these assets varies significantly in terms of legal transparency and regulatory oversight. E-money issuers are strictly regulated to hold safe, liquid assets to meet redemption demands. Stablecoins use various ‘backing’ mechanisms, ranging from traditional high-quality liquid assets (HQLA) held by third parties to other crypto assets (as seen in decentralised stablecoins like DAI), which introduces unique systemic ‘run’ risks that are often absent in the more tightly defined e-money frameworks (BIS, 2025, FSB-IMF 2024).

4.1.4 Feasibility of classifying stablecoins as e-money in South Africa

The South African Reserve Bank (SARB) is currently making regulatory changes in the national payment system, suggesting that e-money could soon be accessible to other institutions other than just banks. If a decision is made to regulate stablecoins as e-money, the ongoing legislative changes could prove timely.

However, as guided by Milne and Lawack (2024), automatic e-money treatment would not be appropriate. Instead, either strict separation between the two should be maintained and enforced or existing regulatory principles should be adapted to address the risks and differences that arise from stablecoins’ code-based nature and the structural differences in stablecoin issuance, trading and redemption.

4.2 Analysis of stablecoin arrangements as collective investments

4.2.1 Definition

CISs, colloquially referred to as unit trusts, are financial vehicles in which multiple investors combine their funds to invest in a professionally managed portfolio. These schemes are regulated under the Collective Investment Schemes Control Act 45 of 2002 (CISCA).

The discussion that follows regarding the potential treatment of stablecoins as CISs is based primarily on the current legislation governing CISs, which is CISCA. Although the Conduct of Financial Institutions (CoFI) Bill is, at the time of publishing this report, set to repeal the CISCA and replace it with a chapter in the Financial Sector Regulation Act 19 of 2017 (FSR Act), the fundamental structure of CISs will not be altered by the proposed regulatory changes.

CISs generally comprise the following role players: trustee/custodian, manager, investors, the scheme and the FSCA. The role and function of each of these role players is illustrated in Figure 2 below.

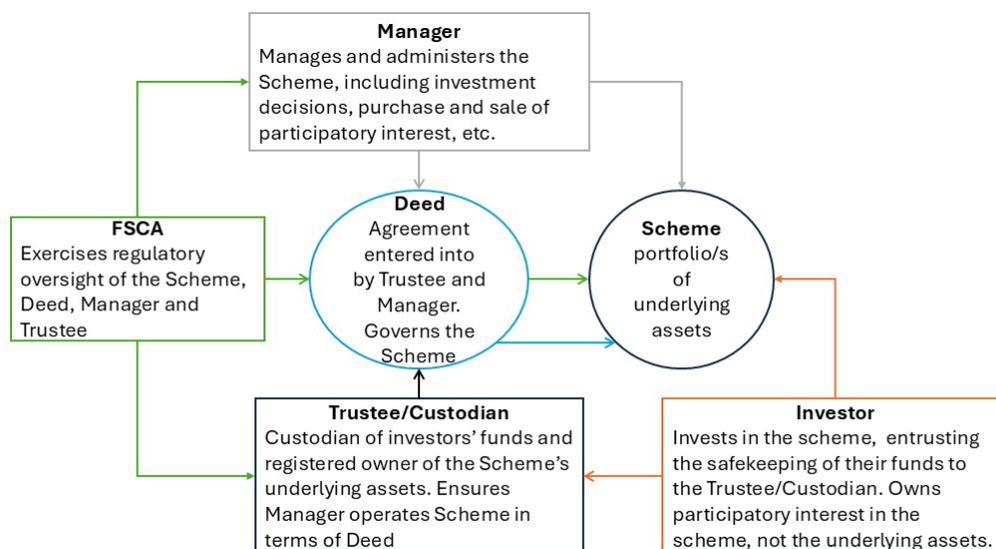


Figure 2: Roles and functions of role players in CISs

4.2.2 Similarities

At first glance, there appears to be congruence in the structure and functioning of stablecoin arrangements and CISs. Both invite the public to purchase a unit, shares or token linked to underlying assets; both collect public funds to invest them; both seek to either own or track the value of the underlying asset; and in both instances, the public is permitted to redeem their unit or token. Stablecoin arrangements and CISs are also typically structured with a segregation of functions between the party with whom the public interfaces to acquire the stablecoin or unit, and the party managing the funds received from the public.

4.2.3 Differences

A closer examination of the functioning of CISs and stablecoins reveals fundamental differences in the two structures.

Purpose and intent: There are noteworthy differences in the intention and purpose of CISs and stablecoins. Whereas CISs are created solely for the purpose of investing or purchasing a group of assets to diversify or benefit from its medium- to long-term return or growth in value, stablecoins are created for various purposes. The use-cases cited by stablecoin arrangements consulted by the Crypto Assets Regulatory Working Group (CAR WG) include as a payment mechanism; for arbitrage trading; and for

participation in staking or liquidity pools.¹⁶ Although staking and liquidity pools could potentially be viewed as investing, the other stablecoin uses are notably different. The short-term nature and specific risks posed by stablecoins as a payment method, stand in stark contrast to the longer-term market-specific risks that accompany investments, raising two separate but related hypotheses:

- the different uses of stablecoins in South Africa reflect the difficulty in employing a single, existing regulatory classification for all stablecoin arrangements; and
- the distinct intent and purpose of stablecoins and CIS raise doubts about classifying stablecoins as CISs.

Peg: Although stablecoins may have multiple assets in their reserves, the value of the stablecoin has a fixed ratio that is determined by the peg. While the value of a unit in CISs is determined by the underlying portfolio and fluctuates.

Obligation to invest reserve assets and participatory interest: CISs, by their nature, invest in assets for the benefit of investors. However, whether stablecoin arrangements invest reserve assets and apply the returns from these investments for the benefit of holders is the business decision of the particular stablecoin arrangement and is not an inherent feature of stablecoin arrangements.

Requiring stablecoin arrangements to invest reserve assets for the profit or loss of stablecoin investors arguably reposition rand-pegged stablecoin arrangements from being a medium of exchange, to providing investment services; it potentially changes rand-pegged stablecoins from functioning as digital representations of money to digital representations of investment portfolios, and it raises questions around whether holders should be prohibited from using these stablecoins for payments and remittances.

Granting stablecoin investors a participatory interest in the investment of reserve assets also alters the business model of many stablecoin arrangements that generate revenue and profits from the returns on these reserve asset investments. Since CIS structure provides investors with a pro rata claim to the investment returns, stablecoin arrangements must rely on alternative compensation, like charging fees.

While these issues are not inherently problematic, CISCA and/or CoFI would need to clarify which assets stablecoin arrangements may hold as reserves to prevent undue

¹⁶ See [IFWG South African Stablecoin Landscape Diagnostic, 2025](#)

erosion. It should also be considered whether stablecoin issuers should be barred from deducting fees from reserve assets for the same protective purpose.

4.2.4 Feasibility of classifying stablecoins as CISs in South Africa

One of the key advantages of classifying stablecoin arrangements as CISs is the level of consumer protection and product safety that comes with doing so. The regulatory oversight of CISs is comprehensive, ensuring the soundness and suitability of nearly every aspect related to a CIS. Most notably, consumers would be granted an automatic right of redemption against the trustee/custodian and a legal claim to anyone who contravenes Cisca and causes the consumer to suffer loss as a result. The regulatory (and time) costs associated with registering and operating a CIS could be onerous. Should this approach be pursued, it would be important for regulations to strike a balance between protecting consumer interest and the economic feasibility of stablecoin arrangements as well as being cognisant of the underlying technology and the associated changes in risk sets and potential utility of stablecoin arrangements.

While classifying stablecoins as CISs presents an opportunity for the comprehensive regulation of stablecoin arrangements from a conduct and consumer protection perspective, the differences in the use, structure and business models of CISs and stablecoins would likely result in certain aspects of stablecoins being insufficiently regulated under current Cisca provisions, while simultaneously altering the very nature of stablecoin arrangements and transforming them into tokenised investment portfolios.

Aspects of stablecoin arrangements that would not be adequately accommodated in Cisca and/or its regulations and require consideration include:

- permissible stablecoin stabilisation methods;
- clarity on other reserve asset requirements or restrictions, such as:
 - whether reserve assets may be encumbered;
 - limitations on investors' claims to profits to ensure a certain reserve asset level is maintained;
- redemption-specific laws, such as:
 - whether redemption must be at par value or may be set at a value determined by the stablecoin arrangement;

- whether the stablecoin arrangement may set minimum redemption thresholds; and
- whether payment laws and regulations apply to stablecoin arrangements as CIS, and if so, the extent to which such laws and regulations apply.

4.3 Analysis of stablecoin arrangements as deposit taking

4.3.1 Definition

The Banks Act 94 of 1990 (Banks Act) broadly defines a deposit as well as the act of taking a deposit to include an amount of money paid by one person to another person under an agreement in which:

- a. an equal amount of money will be conditionally or unconditionally repaid either by the person who received the money or by another person;
- b. the repayment will be with or without a premium;
- c. the repayment will be on demand or at specified or unspecified dates or in circumstances agreed to between the person making the payment and the person receiving it; and
- d. interest will either not be paid on the amount or may be paid at specified intervals.

Due to stablecoin arrangements receiving funds and undertaking to repay those funds on demand or at short notice, a comparative analysis of stablecoins and deposit-taking may be useful.

4.3.2 Similarities

The fiat accepted by a stablecoin issuer is in essence subject to an agreement that at least an equal amount of money will be repaid to the holder of the stablecoin once the holder redeems the stablecoin for fiat. As a result, stablecoin issuance can be seen as the acceptance of money, which acceptance is subject to an agreement to repay an equal amount of money:

- a. conditionally or unconditionally;
- b. with or without a premium;
- c. on demand (usually); and
- d. with or without interest.

This repayment occurs at redemption (i.e. moving from the stablecoin to fiat currency). Accordingly, stablecoin arrangements closely resemble the activity of deposit taking as it is defined in the Banks Act.

To the extent that a stablecoin arrangement is deemed to be 'deposit taking' by accepting funds from the 'general public'; and considering that stablecoin arrangements use funds received to invest on their own behalf, such stablecoin arrangements could fall within the definition of 'the business of a bank'.¹⁷

4.3.3 Differences

The definition of 'the business of a bank' contemplates that the money (or the interest from such money) accepted by way of deposits is used for granting loans or acting as a lender; for investment acting as the investor; or for the financing – wholly or to any material extent – of any other business activity of the person accepting the deposit. In contrast, stablecoins should be fully backed by reserve assets in order to maintain the peg or stabilisation mechanism. The fiat received in exchange for the stablecoin should arguably not be used for granting loans; or for investment (other than to invest the fiat in specific assets to maintain the stabilisation mechanism); or for financing any other business activities of the stablecoin arrangement. In this way, the business model of entities conducting 'the business of a bank' and entities that offer stablecoins are quite distinct.

4.3.4 Feasibility of classifying stablecoins as deposit taking in South Africa

The underlying activities of rand-pegged stablecoins appear to fall within the definition of 'deposit' and 'the business of a bank'. However, the overall business model of stablecoin arrangements is incongruent with the business of a bank and may not appropriately be addressed under the Banks Act. Further consideration would need to be given to whether-

- stablecoin arrangements can be accommodated under any existing exemption notices in the Banks Act, including the draft specific activities conducted in the national payment system exemption (see section on e-money in this paper); and
- to the extent that a bespoke framework is developed for stablecoin arrangements, that framework needs to explicitly define stablecoins or stablecoin arrangements to not include a 'deposit as defined in the Banks Act'.

¹⁷ The term 'the business of bank' is defined in section 1 of the Banks Act.

4.4 Analysis of stablecoins as derivatives

4.4.1 Definition

According to the Financial Markets Act 19 of 2012 (FMA), a derivative instrument is a type of security that establishes rights and obligations. Its value is determined by or comes from the value of one or more underlying assets, rates or indexes, on an economic measure or a default event. Common underlying assets include currencies, commodities, stocks, bonds and interest rates. Derivatives can take various forms, including futures, options, swaps and forwards. These are primarily used for hedging risk, speculation and gaining exposure to financial markets without direct ownership of the underlying asset. Stablecoins resemble financial contracts whose value is based on the price of an underlying asset. They allow investors to speculate on price movements without directly owning the underlying assets.

4.4.2 Similarities

Stablecoins and derivatives share structural similarities in that each is economically anchored to an external reference asset rather than deriving value from its own intrinsic properties. With derivatives, the reference asset determines the amount of money exchanged at settlement or maturity, while with stablecoins, the reference asset determines the token's intended stable value. In both cases, the link to the reference asset is created and maintained through a combination of legal arrangements, financial resources (such as collateral or reserves) and operational systems that enable valuation, settlement and redemption. As a result, the reliability of both instruments depends on the soundness of the contractual terms, the adequacy of the reserve or collateral assets and the resilience of the systems that operationalise their arrangements. A further similarity relates to the risk faced by stablecoin holders that the stablecoin arrangements is unable to redeem the stablecoin, which can be likened to derivatives' counterparty risk in terms of which a counterparty is unable to meet its contractual obligations.

4.4.3 Differences

Derivatives are contractual agreements tied to price movements of an underlying asset and are often exposed to the price fluctuations of that underlying asset. Stablecoins, on the other hand, are a digital representation of the assets to which they are pegged. Some types of derivatives, such as contracts for difference (CFDs), could be seen as a representation of the underlying asset. However, CFDs are not pegged to the

underlying asset price in the same way as stablecoins are. Instead, CFD brokers use the market price to quote CFD prices.

And while CFDs are primarily used to speculate on the price movement of the underlying asset, the underlying asset for stablecoins serves to maintain the stablecoin's price. In other words, the value of a CFD relative to the rand rises and falls in line with the value of the underlying asset, whereas the value of a rand-pegged stablecoin remains pegged on a one-to-one ratio with the rand. In general, derivatives function as financial contracts to speculate on, or hedge against, price movements or volatility of underlying assets, whereas stablecoins function as digital representations of assets to which they are pegged.

In addition, the use of leverage in derivatives is a feature not (yet) replicated in stablecoins. While some stablecoins may include features resembling derivatives, such as yield-bearing mechanisms, their fundamental purpose remains distinct from traditional derivative contracts.

Derivatives derive their value from an underlying asset's price movements, whereas stablecoins are designed to maintain a stable value based on the reserve assets. Derivatives gain or lose value based on market fluctuations, whereas stablecoins aim for price stability, though they can still experience volatility in cases of de-pegging or systemic failure. Algorithmic stablecoins or partially collateralised stablecoins can experience extreme volatility, bringing them closer in nature to derivatives.

Another key distinction between stablecoins and derivatives is that derivatives are often forward-looking instruments based on the future price of an asset, while stablecoins aim to maintain a stable present value. Derivatives involve speculation on price movements over time, whereas stablecoins are designed for stability and immediate use in transactions. This fundamental difference affects their risk profiles and regulatory classifications.

In terms of market risk, derivatives are directly impacted by the price fluctuations and volatility in the underlying asset. However, due to stablecoins being pegged to their reference asset – when properly designed and adequately backed – stablecoins effectively mitigate volatility by maintaining a stable price to their reference assets; although, certain stablecoin designs, particularly those reliant on algorithmic mechanisms or synthetic collateralisation, may exhibit risk characteristics like derivatives.

4.4.4 Feasibility of classifying stablecoins as derivatives in South Africa

In the South African context, derivatives are regulated in the FMA. In terms of the FMA Regulations, 2018, over the counter (OTC) derivative providers (ODPs) must be authorised by the Financial Sector Conduct Authority (FSCA), and be regulated in terms of standards made by the FSCA and the PA.

Given the FMA's definition of 'derivative instrument', a stablecoin appears to meet the criteria for a derivative. Presumably, the terms 'depends on' and 'derived from' could include 'pegged to'; and it may be argued that the value of stablecoins is determined 'on a measure of economic value' being the market price of the reference asset.

The implications of integrating stablecoins into existing derivatives legislation would include greater consumer protection than South African stablecoin users currently have and significant regulatory obligations for stablecoin arrangements. Stablecoins would then only be issued by authorised ODPs and traded on licenced exchanges or OTC platforms regulated by the FSCA. Clarity would thus be needed regarding whether on-chain issuance and trading of stablecoins is considered OTC issuance and trading, rendering stablecoin arrangements ODPs. If so, current ODP regulations will likely need to be amended to include stablecoin-specific risks such as redemption rights and permitted reserve assets. Equally, consideration should be given to the appropriateness of margining, prudential capital reserves and transaction reporting obligations that ODPs are currently required to adhere to.

It is worth noting that although stablecoins may technically fit the definition of 'derivative instrument' in the FMA, it may be argued that there is a fundamental difference between contractual agreements tied to price movements of an underlying asset (i.e. derivatives) and digital tokens that peg their value to an underlying asset (i.e. stablecoins). The former is a contract that amounts to speculation in the underlying asset and used for hedging risk, while the latter is a contract with its value set by the underlying asset. Their core economic functions reinforce this distinction between derivatives and stablecoins. Derivatives are inherently forward-looking, structured around expectations of future price movements, while stablecoins are designed for present stability and transactional efficiency. Applying the FMA to stablecoins without addressing the risks and differences may misalign the fundamental purpose and hinder the utility of stablecoins in the financial system.

4.5 Analysis of a stablecoin-specific regime

4.5.1 Rationale

Bains *et al* (2022) emphasises that stablecoins bring unique structural and operational complexities such as decentralised governance, diverse stabilisation mechanisms and smart-contract automation. Existing or traditional rules often prove inadequate in addressing these complexities. This is equally demonstrated in the analysis in the previous sections where the frameworks analysed would require some revision to adequately address the full risk sets posed by stablecoin arrangements. Bains *et al* (2022) further notes that regulations must be “comprehensive, consistent, risk-based, flexible and focus on their [stablecoins] structural features and use.” In practice, this means covering all facets of stablecoin arrangements, from issuance and redemption to stabilisation mechanisms and systemic access, with heightened oversight for the ones that grow systemically significant.

In addition, BIS Bulletin No. 108 (Ocampo *et al*, 2025) highlights how stablecoins’ expanding linkages with traditional finance present fresh policy challenges that include money laundering, financial integrity and macroprudential pressures. Particularly compelling is the recognition that the familiar principle of ‘same risks, same regulation’ has limits when confronting stablecoins’ hybrid nature; standard banking or investment rules simply do not align with how these instruments operate and evolve.

A bespoke framework enables regulators to design functional licensing regimes and prudential standards tailored to the actual economic functions that stablecoins perform, whether as instruments for payment, settlement or investment (Ocampo *et al.*, 2025).

An additional consideration is legal accountability, as many stablecoins operate via decentralised protocols or fragmented issuer arrangements, raising questions about who is legally responsible when something goes wrong. Bains *et al.* stresses that bespoke regulation can impose clear governance and transparency obligations, including clearly defined lines of responsibility, decision-making protocols and accountability frameworks.

Stablecoin arrangements may face run risk and fire-sale dynamics during stress, which can cascade into broader market instability as reflected in Section [3.3](#) above. Tailored regulation can ensure reserve quality, redemption rights and liquidity buffers designed specifically for these scenarios (Ocampo *et al*, 2025).

Given the limitations presented by existing regulatory frameworks, an alternative approach is the creation of a new, comprehensive stablecoin-specific regulatory regime. Based on the risks presented by stablecoin arrangements, the bespoke stablecoin framework could conceivably be contained in the CoFI Bill and/or the FSR Act.

5. Conclusion

Stablecoin arrangements engage in a range of activities that closely resemble regulated financial activities within South Africa. This speaks in part to the multiplicity of the token – a stablecoin is many things at once. The analysis indicates that current frameworks would be inadequate to address the full risk set and activities undertaken by stablecoin arrangements without amendment. An alternative approach to extending existing frameworks to include stablecoins is the creation of new bespoke regulations and guardrails based on the risks presented by stablecoin arrangements.

6. Request for comments

The IFWG invites stakeholders to provide input on the analysis presented, the adequacy of existing frameworks and other considerations for the development of a comprehensive regulatory regime for rand-pegged stablecoins in South Africa.

7. Contact details

Stakeholders are invited to submit written comments on this discussion, using the prescribed comment template by Monday, **18 May 2026**. Comments should be sent to IFWGSecretariat@resbank.co.za.

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Abbreviations

AML/CFT	anti-money laundering and combating the financing of terrorism
ARTs	asset-referenced tokens
Banks Act	Banks Act 94 of 1990
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BoE	Bank of England
CAR WG	Crypto Assets Regulatory Working Group
CFD	contracts for difference
CIS	collective investment schemes
CISCA	Collective Investment Schemes Control Act 45 of 2002
CoFI Bill	Conduct of Financial Institutions Bill
CPMI	Committee on Payments and Market Infrastructures
DARE Act	Digital Assets and Registered Exchanges Act
DeFi	decentralised finance
DLT	distributed ledger technology
EMT	electronic money tokens
FATF	Financial Action Task Force
FCA	Financial Conduct Authority
FI21	Financial Innovation and Technology for the 21st Century Bill
FAIS Act	Financial Advisory and Intermediary Services Act 37 of 2002
FMA	Financial Markets Act 19 of 2012
FSB	Financial Stability Board
FSCA	Financial Sector Conduct Authority
FSR Act	Financial Sector Regulation Act 9 of 2017
GENUIS Act	Guiding and Establishing National Innovation for US Stablecoins Act
HKMA	Hong Kong Monetary Authority
HQLA	high-quality liquid assets

IFWG	Intergovernmental Fintech Working Group
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commission
MAS	Monetary Authority Singapore
MiCA	Markets in Crypto-Assets Act, 2024
MMF	money market fund
ODP	over-the-counter derivative providers
OTC	over the counter
PA	Prudential Authority
SARB	South African Reserve Bank

Annexure 1: Jurisdictional analysis¹

1. Introduction

Globally, regulators continue to develop frameworks to mitigate risks posed by stablecoins. While jurisdictions are at different maturity levels, ranging from established comprehensive legal frameworks to early discussion stage, two broad approaches are evident. Some jurisdictions incorporate stablecoin regulation into existing laws, while other jurisdictions propose new, standalone laws for stablecoins. Equally, in some approaches all stablecoins are treated the same, while others differentiate between different types of stablecoins based on their intended uses or the assets to which the stablecoins are pegged (reference assets).² Each of these stages and approaches to stablecoin regulations offers valuable insights for South Africa as it considers important policy decisions related to stablecoins.

2. General overview of laws and regulations

Stablecoin laws and regulations vary across jurisdictions, reflecting differences in regulatory philosophies, financial sector priorities and market structures. The diverse approaches taken by the jurisdictions under review highlight that there is no universally accepted regulatory model for stablecoin regulation.

2.1 *The European Union*

The European Union (EU) has adopted a comprehensive approach with its Markets in Crypto-Assets Act, 2024 (MiCA)³, which became fully effective and operational on 30 December 2024. MiCA categorises crypto assets into three types: asset-referenced tokens (ARTs), electronic money tokens (EMTs) and others.⁴ Under the framework, stablecoins cannot be publicly offered or traded on platforms unless the issuer obtains authorisation within the EU and publishes a white paper approved by the national competent authority.⁵

Stablecoin issuers must also adhere to specific requirements based on the type of token. These requirements include marketing communications, conflicts of interest, notification of management changes, governance arrangements and reserve

¹ This analysis reflects information available as at 30 November 2025

² [FSI Insights, No 57. \(2024\)](#)

² [Regulation \(EU\) 2023/1114: Markets in Crypto Assets](#)

³ See Article 3 Definitions; Title III Asset-Referencing Tokens; and Title IV E-Money Tokens

⁴ See Articles 16–18 for ARTs; Article 48 for EMTs ; and Article 5 for other crypto assets

management. For instance, a threshold of 1 million transactions or over 200 million euros a day is imposed on companies issuing ARTs.⁶ Other provisions include consumer protection and obligations to provide clear information about the risks associated with these investments.

2.2 The United Kingdom

The United Kingdom (UK) is considering the integration of stablecoins into existing payment and financial services laws, with stablecoins used in systemic payment systems falling under the oversight of the BoE, while all other stablecoins are set to be regulated by the Financial Conduct Authority (FCA).⁷ The BoE proposes to classify systemic payment stablecoins as a type of 'inside money', meaning that they are issued by the private sector and have their value preserved through both regulation and access to central bank deposits; in contrast to 'outside money' which is backed by the state.

In terms of regulatory frameworks, the BoE's Financial Policy Committee has established two primary expectations for the regulation of systemic payment stablecoins. First, payment chains utilising stablecoins should adhere to regulatory standards equivalent to those applied to traditional payment systems using commercial bank money. Second, when stablecoins are used as money-like instruments, they should meet standards comparable to commercial bank money in terms of stability of value, robustness of legal claims and the ability to redeem at par in fiat currency.⁸

2.3 The United States of America

The US passed its first stablecoin law at the federal government level, the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act) in July 2025. There are additional stablecoin-related regulatory proposals that have been put forward and are, at the time of writing, under review in the US, including the 2023 Clarity for Payment Stablecoins Bill⁹, the 2024 Clarity for Payment Stablecoins Bill, the STABLE Bill of 2025,¹⁰ the Lummis-Gillibrand Payment Stablecoin Bill¹¹ and the

⁵ See Article 23

⁶ [Bank of England discussion paper](#) and the [Financial Conduct Authority \(UK\) Discussion Paper](#)

⁷ See section 1.4

⁸ [H.R.4766- Clarity for Payment Stablecoin Act of 2023](#)

⁹ [H.R.2392 - STABLE Act of 2025](#)

¹⁰ [S4155 - Lummis-Gillibrand Payment Stablecoin Act](#)

Financial Innovation and Technology for the 21st Century Bill (FI21).¹² The FI21 Bill aims to regulate digital assets in general rather than stablecoins in particular.

2.4 *Other jurisdictions*

Singapore and Hong Kong have developed frameworks that focus on prudential supervision, with Singapore's Payment Services Act¹³ and Hong Kong's Stablecoins Ordinance¹⁴ focusing on fiat-backed stablecoins.

Outside of these major financial centres, Dubai and the Bahamas have pursued more flexible regulatory models. Dubai's Virtual Assets Regulatory Authority provides licensing regimes to broadly defined stablecoins¹⁵ and the Bahamas' 2024 Digital Assets and Registered Exchanges Act (DARE Act)¹⁶ incorporates stablecoins into broader virtual asset regulations.

3. Stablecoin issuers

The EU, Singapore and Hong Kong require issuers to be licensed as financial institutions, ensuring strict regulatory oversight of stablecoin issuers. The UK looks to follow a similar model for systemic stablecoins, which are set to be subject to regulation and oversight by the BoE. Likewise, in the US, the GENIUS Act requires 'permitted stablecoin issuers' to be subsidiaries of insured depository institutions that have been permitted to issue stablecoins. A federal qualified issuer or a state qualified issuer is an approach followed in the draft US Bills such as the Lummis-Gillibrand Bill and the Clarity for Payment Stablecoins Bill which also advocates for bank-like treatment of stablecoin issuers by requiring them to be depository institutions or non-banks with either a state or federal approval to be issuers of stablecoins.

Dubai and the Bahamas have adopted a more inclusive approach, allowing non-banks to issue stablecoins provided that they meet risk and reserve requirements.

With respect to the type of person permitted to issue stablecoins, the prevailing approach is to authorise entities, with the EU and Singapore opting to use the terms 'legal person' and 'person' respectively, thus arguably including natural persons as stablecoin issuers.

¹¹ [H.R.4763 - Financial Innovation and Technology for the 21st Century Act](#)

¹² [Monetary Authority of Singapore- Media Release](#)

¹³ [Hong Kong Monetary Authority](#)

¹⁴ [AMI 7.2.5A Guidance](#)

¹⁵ [Securities Commission of the Bahamas- Digital Assets and Registered Exchanges Act, 2024](#)

4. Reserve assets

Reserve requirements play a crucial role in ensuring the safety and redeemability of stablecoins and common reserve requirements indicate that reserve assets must:

- i. consist of liquid assets;
- ii. be maintained at par value (or that the reserve asset and stablecoin ratio must be 1:1);
- iii. be redeemable; and
- iv. be segregated from arrangement's funds or held in custody.

However, differences can be observed in the level of granularity that is applied to the above requirements. For example, Singapore requires reserve assets to be low-risk, highly liquid assets; the GENIUS Act lists the various financial assets that are suitable as reserve assets, such as US coins and currency, funds held in demand deposits, US Treasury Bills with a maturity date of 93 days or less; while Hong Kong is more specific in permitting only fiat currencies; and the UK is more specific still, proposing the limitation of permitted reserves to BoE deposits. Under the MiCA regulatory framework, reserve requirements are characterised by a high degree of stringency to ensure the stability and security of ARTs. Specifically, issuers are mandated to hold a minimum of 30% of their reserves in deposits with regulated credit institutions, with this threshold increasing to 60% for entities classified as significant issuers. The remainder of the reserves must be allocated to secure, low-risk assets that meet the criteria for highly liquid financial instruments, thereby reinforcing the liquidity and prudential soundness of the reserve structure.

Overall, stringent reserve requirements are prevalent across the jurisdictions, although the Bahamas and Dubai are less prescriptive in terms of liquidity standards and asset composition.

5. Stablecoin reference assets

Reference assets are external assets or benchmarks to which the stablecoin is pegged or linked and aims to match its value. In other words, a reference asset in stablecoins is the value anchor, such as a fiat currency or commodity, that defines what the stablecoin is meant to reflect in terms of price.

The reference assets are generally defined according to how jurisdictions define stablecoins, not a separate regulatory category. In other words, the regulations

reviewed did not mandate or prohibit any types of reference assets; instead, they described the reference asset associated with a regulated stablecoin.

Many of the jurisdictions regulate multiple types of reference assets, with Singapore and Hong Kong being the latest to regulate only fiat-backed stablecoins.

Annexure 2: Stablecoin definitions and terminology

Types of stablecoins

For the purposes of this paper and to foster a common understanding, the following terms are used as described below:

Asset-backed stablecoin – a type of crypto asset designed to maintain a stable value by holding reserves in assets other than just fiat currency, irrespective of the instrument to which it is pegged

Fiat-backed stablecoin – a type of crypto asset that seeks to maintain a stable value by holding reserves in fiat currency, irrespective of the instrument to which it is pegged

Fiat-pegged stablecoin – a type of crypto asset that pegs its value to one or more fiat currencies, irrespective of the assets held in reserve

Key terms used in respect of stablecoins

Reference asset – the asset that represents the value to which the stablecoin is pegged

Reserve assets – the assets held in reserve from which the stablecoin will be redeemed, often referred to as the asset ‘backing’ the stablecoin

International approaches to stablecoin definitions

Although stablecoins are broadly recognised as digital assets pegged to an underlying asset, the legal definition of stablecoins across jurisdictions differs. The Financial Stability Board defines stablecoins as crypto assets that aim to maintain a stable value relative to a specified asset, a pool or a basket of assets.

The EU’s MiCA defines stablecoins by making a distinction between e-money tokens (EMTs), which function like e-money and must be fully backed by fiat and asset-referenced tokens (ARTs), which may be pegged to other assets or a basket of assets. EMTs are defined as “a type of crypto asset that purports to maintain a stable value by referencing the value of one official currency”, while ARTs are defined as “a type of crypto asset that is not an EMT and that purports to maintain a stable value by referencing another value, a right or a combination thereof, including one or more official currencies”.¹ This dual stablecoin differentiation contrasts with Singapore, where regulation focuses more narrowly, primarily regulating fiat-backed stablecoins to mitigate financial risk.

The Monetary Authority of Singapore (MAS) has aligned its definition of stablecoins to the FSB’s by defining stablecoins as “digital payment tokens designed to maintain a constant value against one or more specified fiat currencies”.² Similarly, the December 2023 Consultation Paper published by the Hong Kong Monetary Authority (HKMA)³ dealt primarily with ‘fiat-referencing stablecoins’. The more recent Stablecoins Ordinance introduces a ‘specified

stablecoin' that is defined more broadly as a stablecoin⁴ that purports to maintain a stable value with reference wholly to either one or more official currencies, one or more units of account or stores of economic value or a combination of the two.⁵

The UK and USA have taken a functional approach, proposing to categorise stablecoins based on their role in payments or financial markets, rather than seeking to define them as a distinct asset class. The BoE's *Regulatory regime for systemic payment systems using stablecoins and related services* discussion paper defines a systemic payment stablecoin as "a stablecoin that is used as the digital settlement asset by a payment system that is recognised by HM Treasury as systemic." The GENIUS Act regulates 'payment stablecoins' which are defined as digital assets that are – or are designed to be used as – a means of payment or settlement.⁶ This is similar to the Lummis-Gillibrand Bill, which proposes to define a 'payment stablecoin' as "a crypto asset that is or is designed to be used as a means of payment or settlement..."⁷ Meanwhile, Dubai and the Bahamas offer more flexible definitions, incorporating stablecoins within broader frameworks for virtual assets rather than imposing rigid classifications. In the DARE Act, a stablecoin means an asset token designed to or that purports to have its value fixed or pegged relative to one or more reference assets, including but not limited to fiat currency, legal tender, commodities or digital assets, for the primary purpose of encouraging price stability."⁸

Importantly, there is no universal definition of stablecoins. Broad recognition of stablecoins as digital assets is the common thread in the variations of stablecoin definitions; and these variations influence how stablecoins are regulated, particularly in terms of issuer obligations and stablecoin holder protection measures.

1 Articles 3(6) and (7)

2 [Monetary Authority of Singapore](#)

3 [Legislative Proposal to Implement the Regulatory Regime for Stablecoin Issuers in Hong Kong](#)

4 A 'stablecoin' is defined as in clause 3 in relation to both its reference asset and its use. A 'specified stablecoin' is a type of stablecoin that is subject to HMK regulation.

5 Clause 4

6 Section 2(22)

7 Section 1(13)

8 Section 2