

A Primer on: Stablecoins

SOCIAL CAPITAL_

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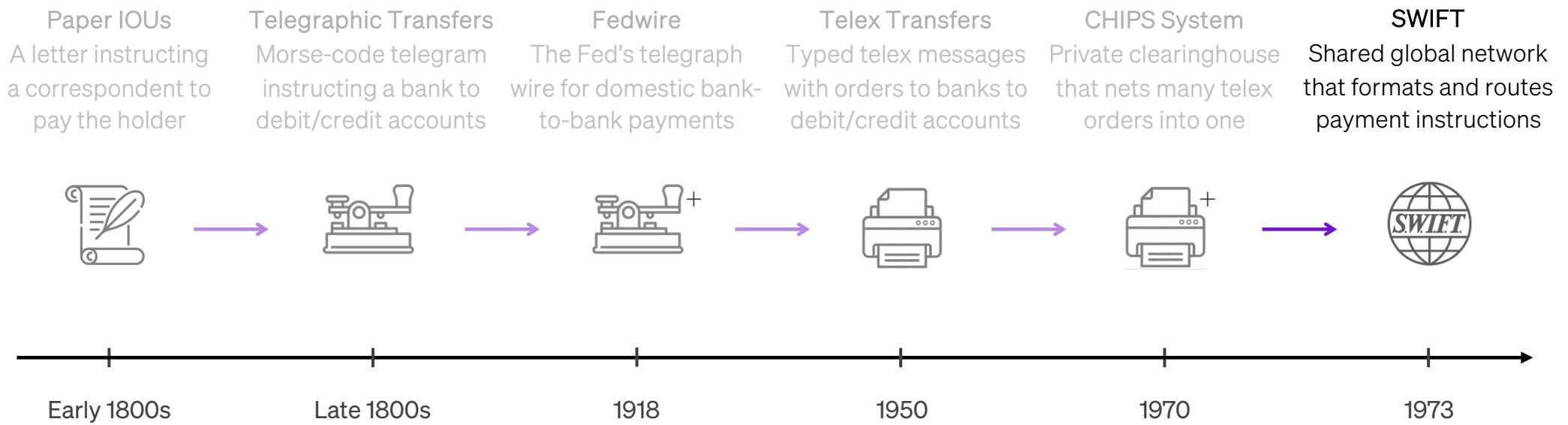
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Introduction

Over the course of history, money has transacted faster, become cheaper to move, and become **less geographically bound over time.**

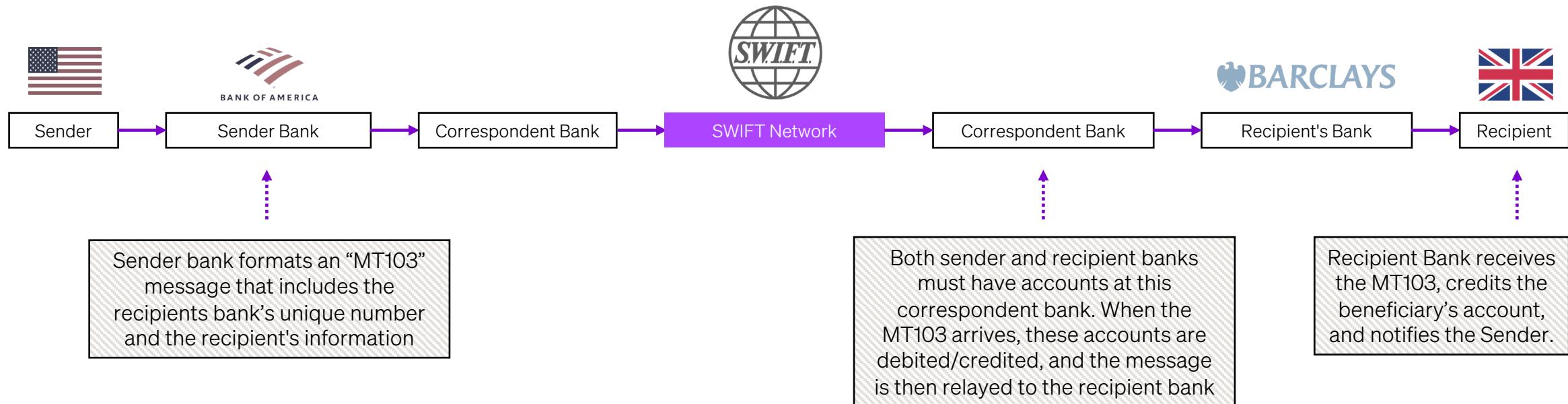
The last shift in how money moves globally occurred in 1973 with SWIFT, enabling banks to exchange transaction information electronically across borders.

What is the history of payment systems over the last 250 years?



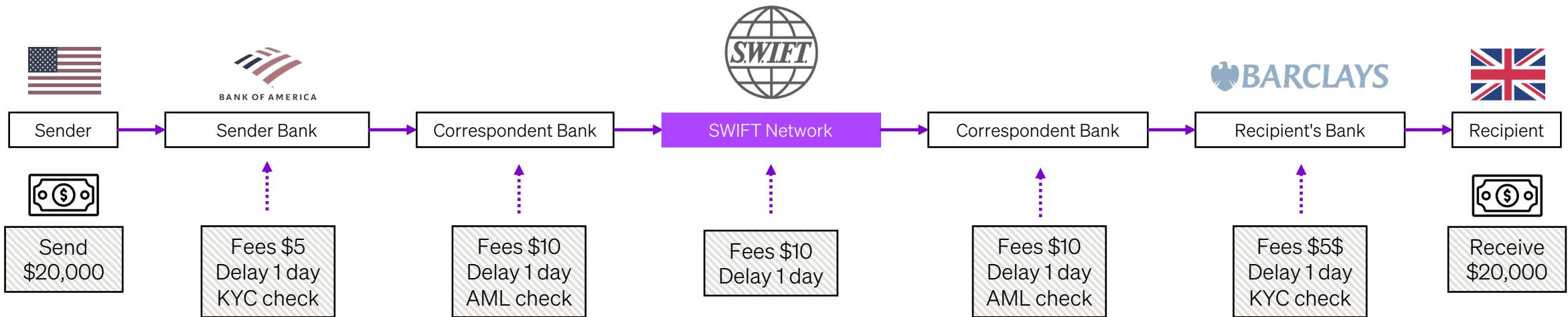
SWIFT passes payment instructions from one member bank to another before moving funds, leading to a delay between instruction and settlement.

How does a wire transfer on SWIFT work?



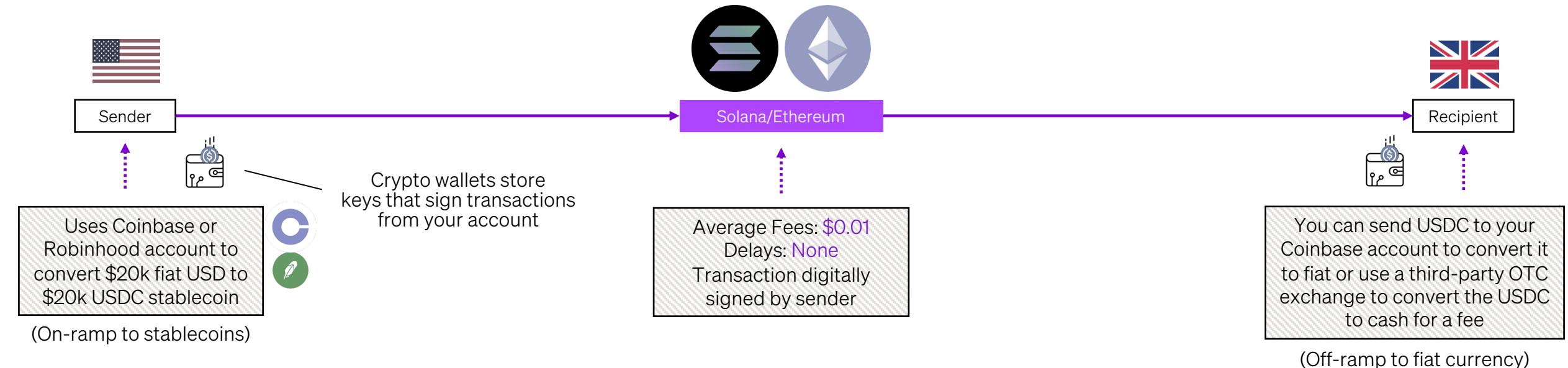
This delay between instruction and settlement requires reconciliation with the banks involved, leading to a chain of fees and processing delays.

What happens when you send \$20,000 from the United States to the UK?



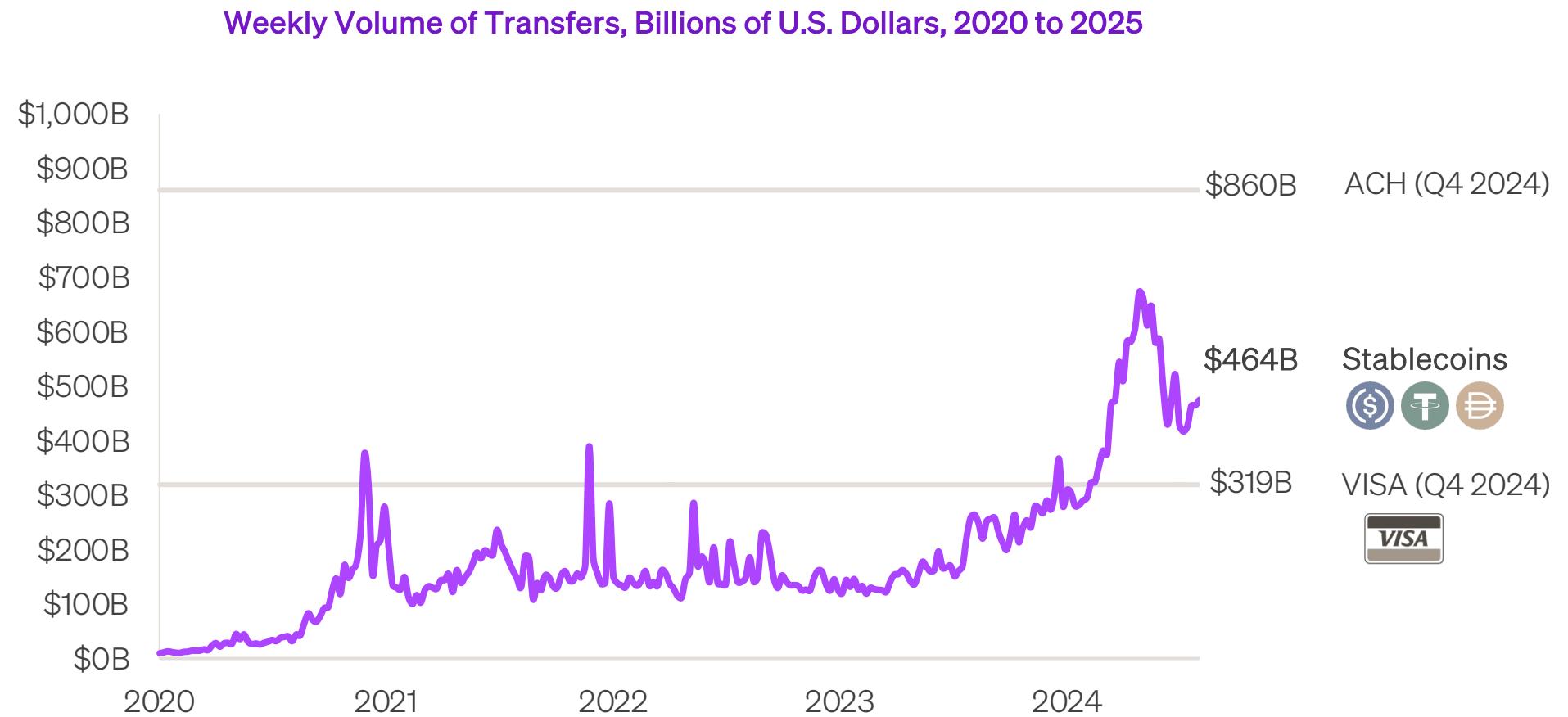
Stablecoins address these fees and processing delays by leveraging instant settlement from decentralized networks and the trust of established currencies.

What happens when you send \$20,000 from the United States to the UK via stablecoins?



This simple feature of near-zero fees and delays
may have profound implications for markets and geopolitics.

Hundreds of billions of dollars are already being transferred globally through stablecoins, despite it not being fully integrated into traditional financial institutions.



This deep dive will explain how stablecoins work while exploring their implications for markets, geopolitics, and the impact of U.S. regulatory clarity.

How Does it Work?



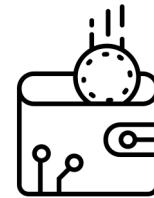
Cross-border Transfers



Stablecoins wrap U.S. dollars in software, so any amount of dollars can quickly transfer to anyone on the internet

What are the Use Cases?

U.S. Dollar Access



A company in Lagos invoices a client in Berlin, receives payment in U.S. dollars within 30 seconds through their phone

Payments



In countries where opening a USD savings account is difficult, putting money into a crypto wallet with USD stablecoins has less friction

Crypto Trading



A merchant in Manila receives payment instantly via stablecoins from a buyer in LA, bypassing credit card fees and processing delays

A trader can shift their crypto trading gains into stablecoins, exiting market volatility instantly within crypto ecosystem

So what is a stablecoin?

Stablecoin Basics

A stablecoin is a digital token that maintains a 1:1 value with an established currency, typically the U.S. dollar.

What is the underlying value of 1 stablecoin?

1 Stablecoin = \$1

One unit of a U.S.
dollar stablecoin...



...is redeemable for
one U.S. dollar



To maintain this 1:1 value, stablecoin issuers hold reserves equal to the tokens in circulation, backing the issued stablecoins with cash and bonds.

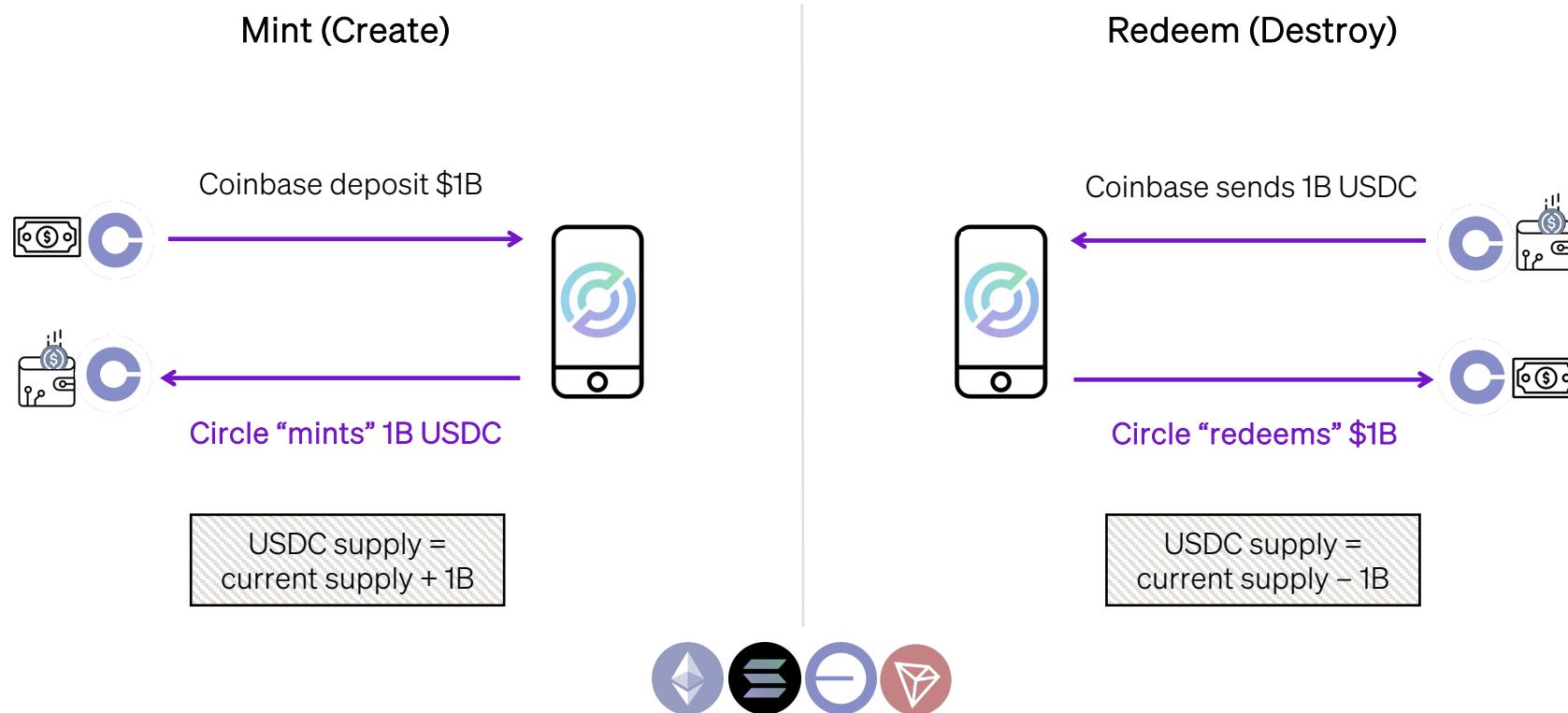
What is the composition of Circle's USDC Reserves?



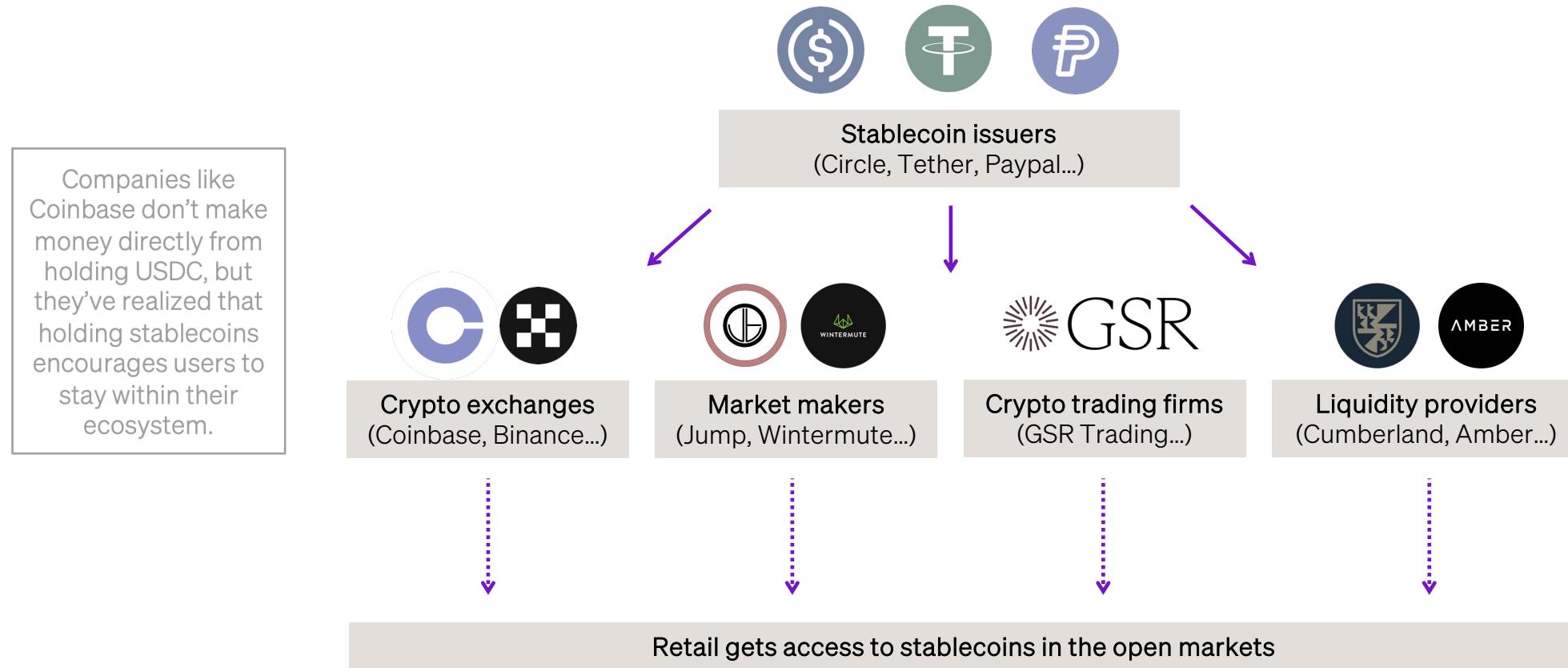
Stablecoins are issued by Circle, Tether, MakerDAO, PayPal, and other companies.

These issuing companies create and destroy stablecoins to maintain parity with their reserves, which establishes a stablecoin's intrinsic value.

How does the stablecoin “mint and redeem” process work?

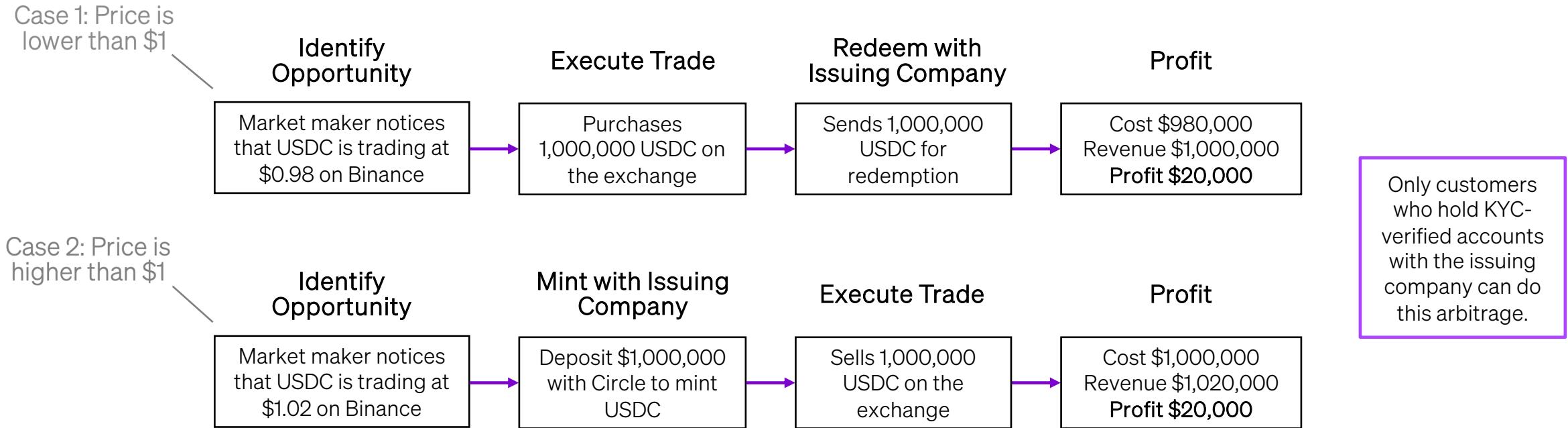


Issuing companies sell directly to institutional purchasers, who then make the stablecoin available to retail investors through their platforms.



To keep the trading price on exchanges pegged at \$1 per stablecoin, market makers engage in arbitrage through the mint-redeem process whenever prices deviate from \$1.

How do stablecoins maintain price stability on exchanges?

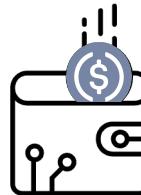


How do stablecoins achieve
faster settlement and lower fees?

Stablecoins settle faster with lower fees because they leverage the infrastructure built on decentralized networks.

What are the layers of the crypto infrastructure that make stablecoins possible?

A **wallet** signs transfers without repeated ID verification



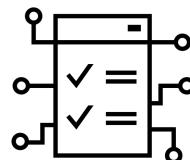
Automates ID verification

A **token** wraps the assets to be transferred between parties



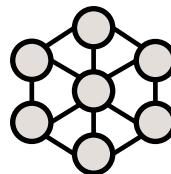
Creates the asset that is transferred

A **smart contract** executes code that enforces an asset's properties



Makes an asset programmable

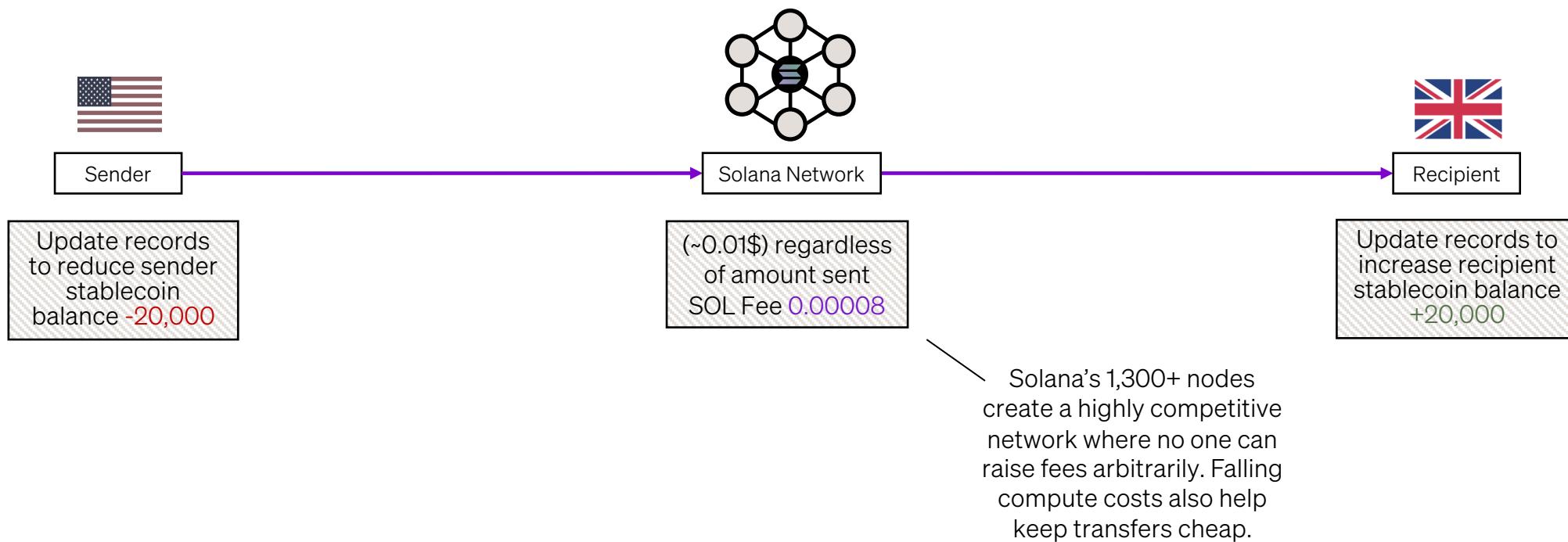
A **decentralized network** runs 24/7 without intermediaries



Drives fast and cheap transfers

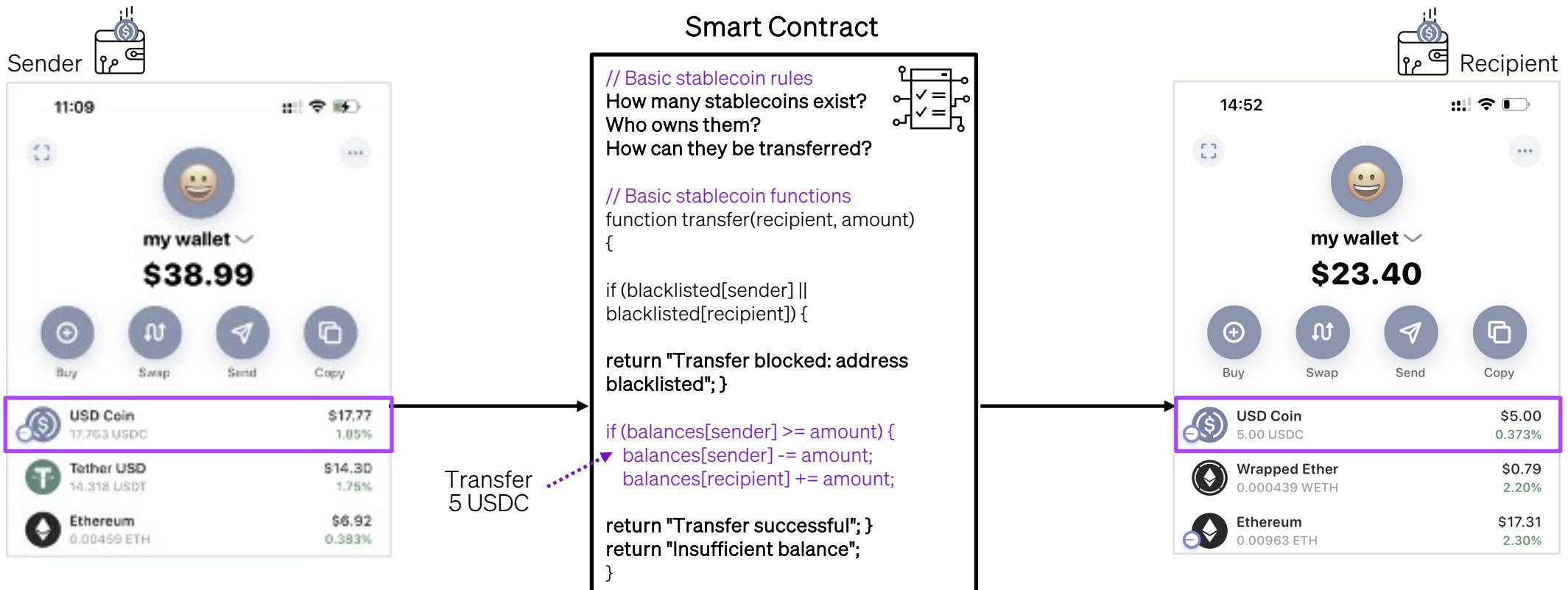
Decentralized networks require computing power to operate, so users only pay the fee to compensate the nodes that maintain the network's operations.

What incentives keep stablecoin transfer costs low?



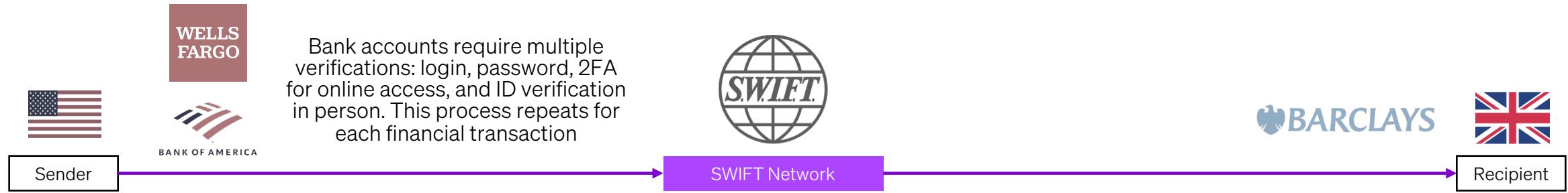
Tokens built with smart contracts allow assets to transfer within seconds between parties on a decentralized network.

What happens when you send 5 USDC through Rainbow?



Crypto wallets employ key-based authentication, which eliminates the need for repeated identity verification before transfers.

Traditional Banking User Experience



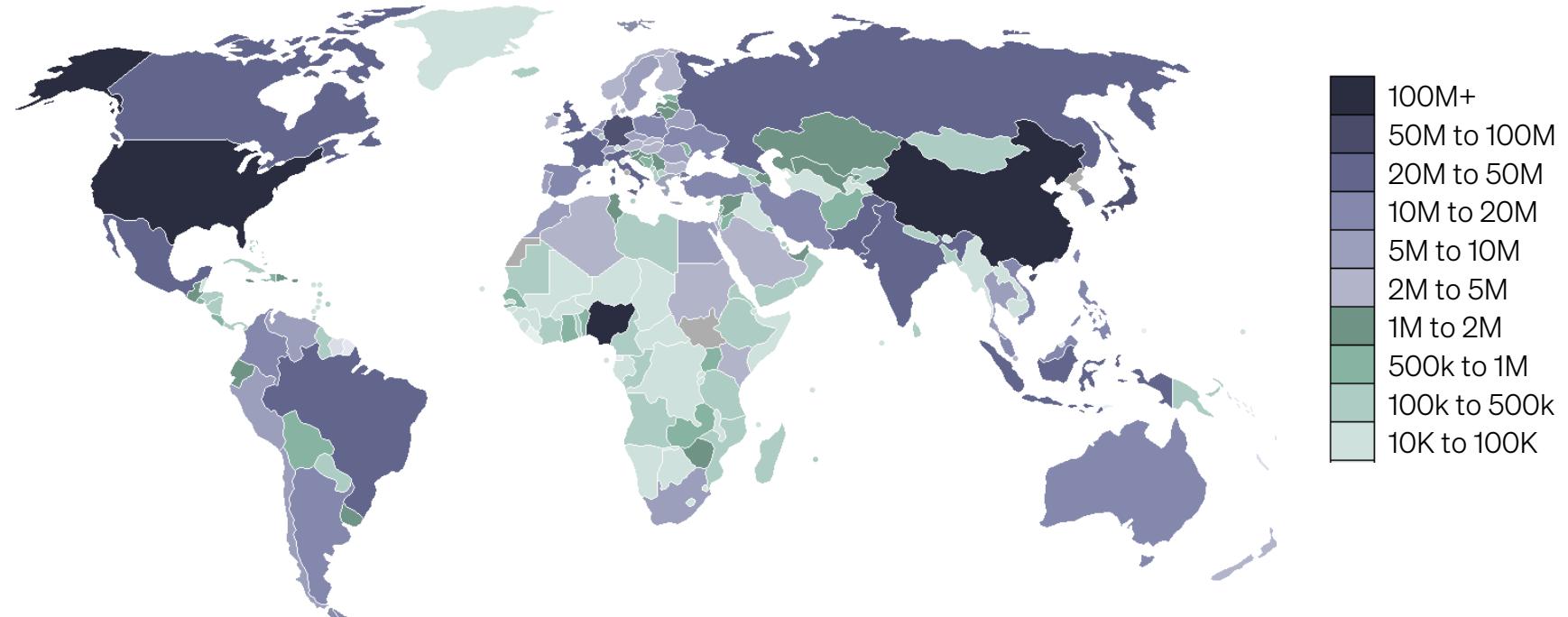
Crypto User Experience



These layers of innovation essentially wraps the U.S. dollar in software, so dollars can travel anywhere the internet reaches within seconds.

Dollars moving over the internet within seconds
reshapes how people move, invest, and store money globally.

Heat Map of 4+ Billion Internet Users, by Country, 2020



Stablecoin Use Cases

First, stablecoins are emerging as the superior method for cross-border money transfers, offering lower fees and faster processing times than traditional systems.

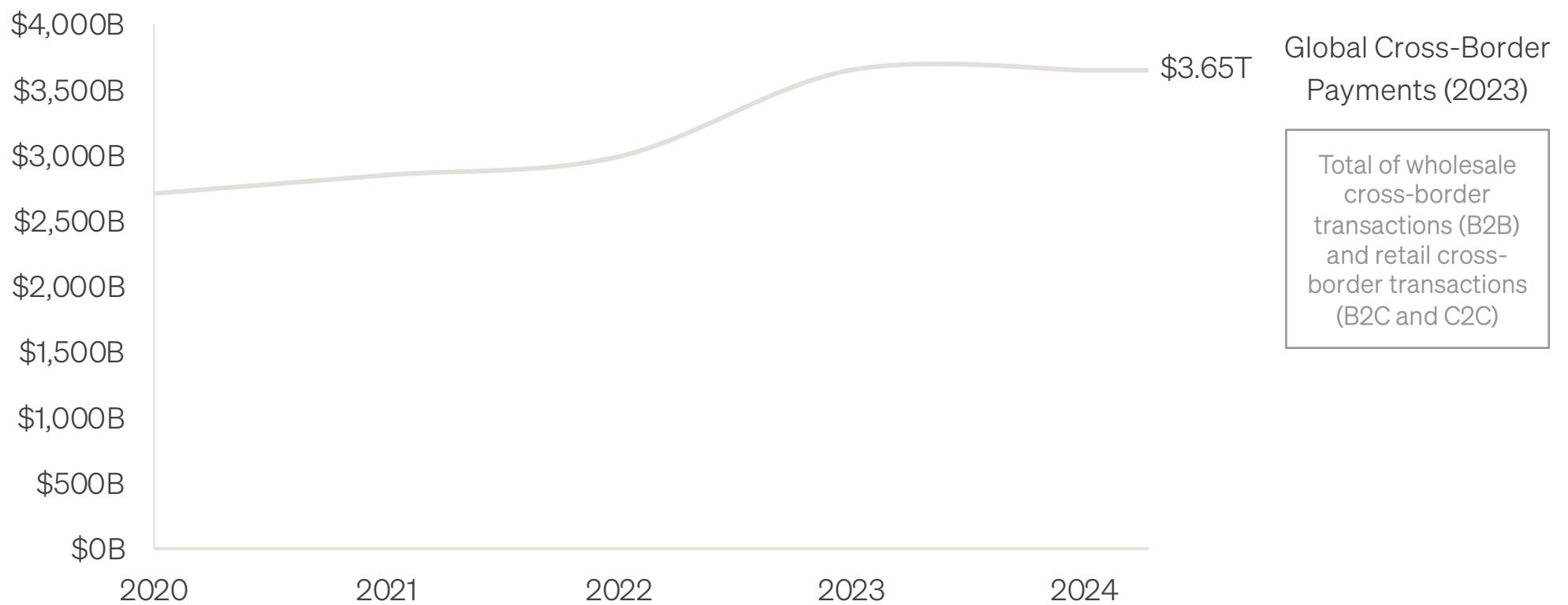
How do stablecoins compare with traditional cross border money transfer options?



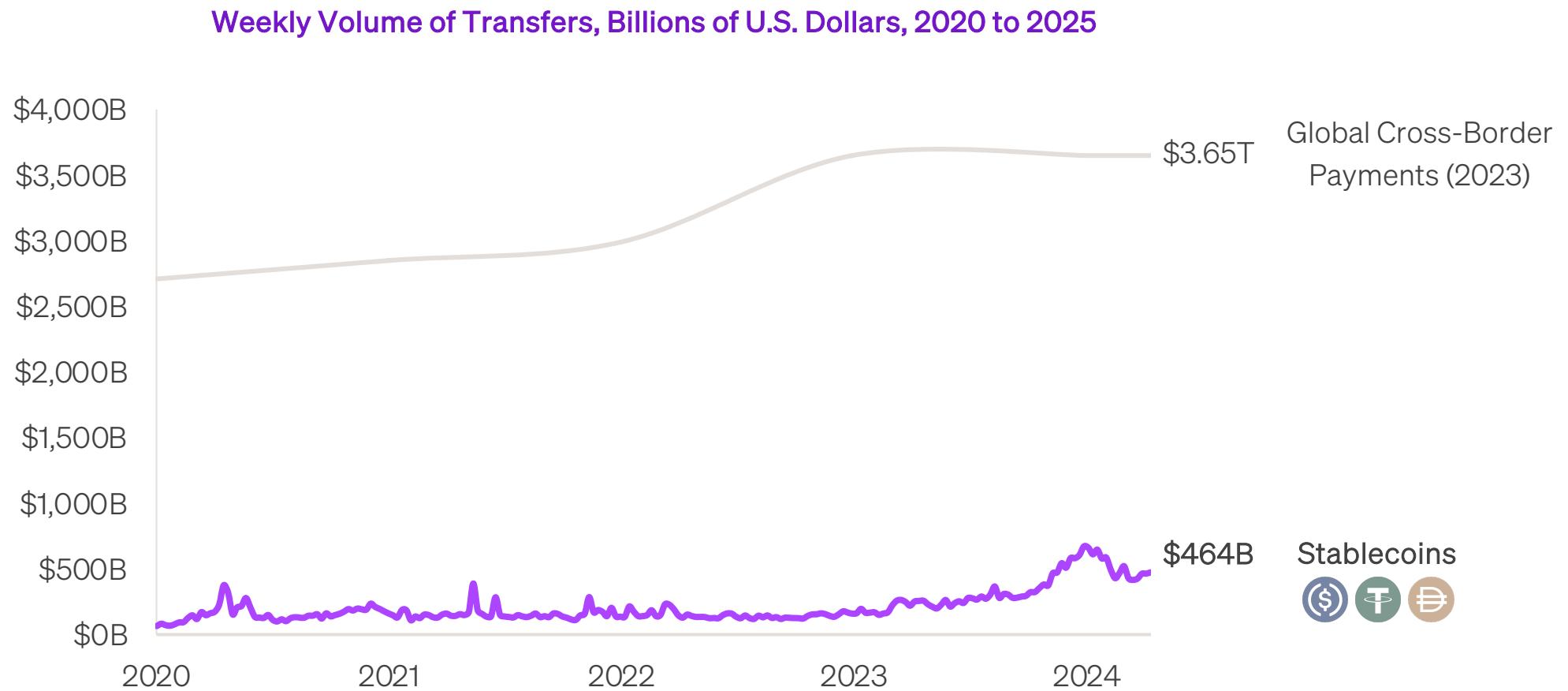
	Stablecoins	Western Union or MoneyGram	Wire Transfer
Transfer Fees	<0.01\$	\$5 to \$100	\$10 to \$50
Settlement Time	Instant	Cash pickup within minutes/hours	3 to 5 business days
Onboarding	Requires setting up a crypto wallet	ID verification to send and receive	Bank account required
Geographic Limitations	Global access	Limited by physical locations	Subject to bank/country regulations
Security	High, wallet keys control assets	Secure, but susceptible to fraud/scams	Secure, but susceptible to fraud/scams
Maximum amount that can be sent	No limits	\$10k to \$50k per transfer per day	No limits, however individual banks set own thresholds

Trillions of dollars are transferred across borders weekly, despite the current system's delays and fees.

Weekly Volume of Global Cross Border Transfers, Billions of U.S. Dollars, 2020 to 2025

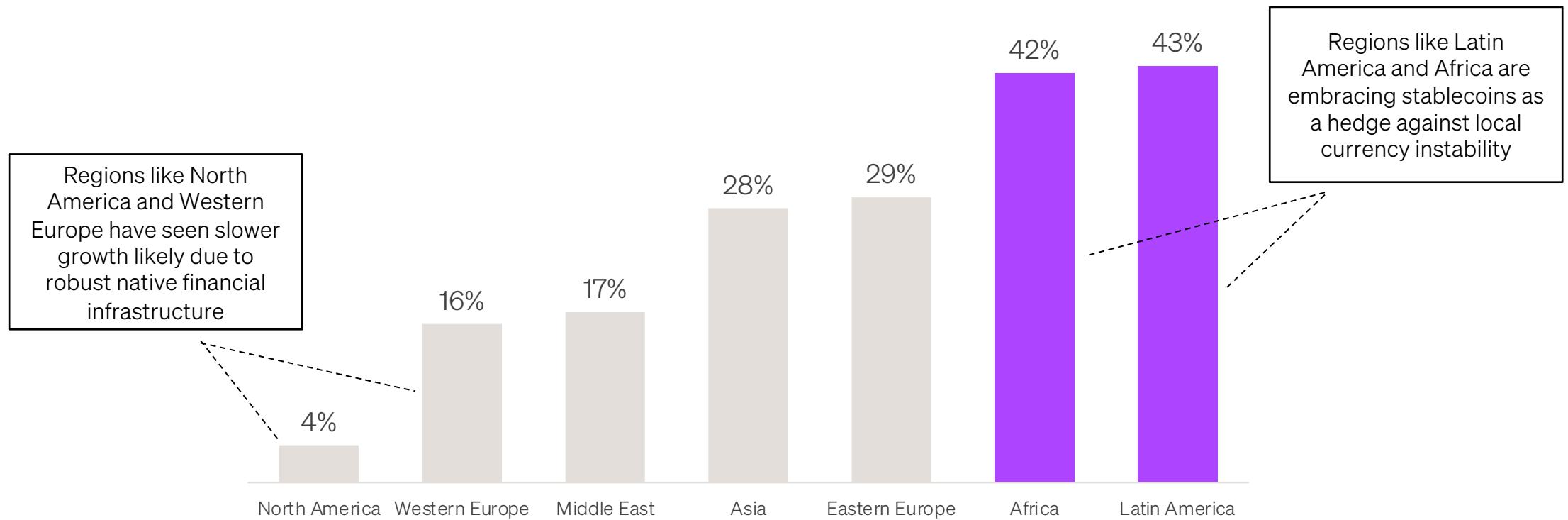


Although stablecoins are the fastest growing method for cross-border transfers, adoption for this use case is still in the early stages.



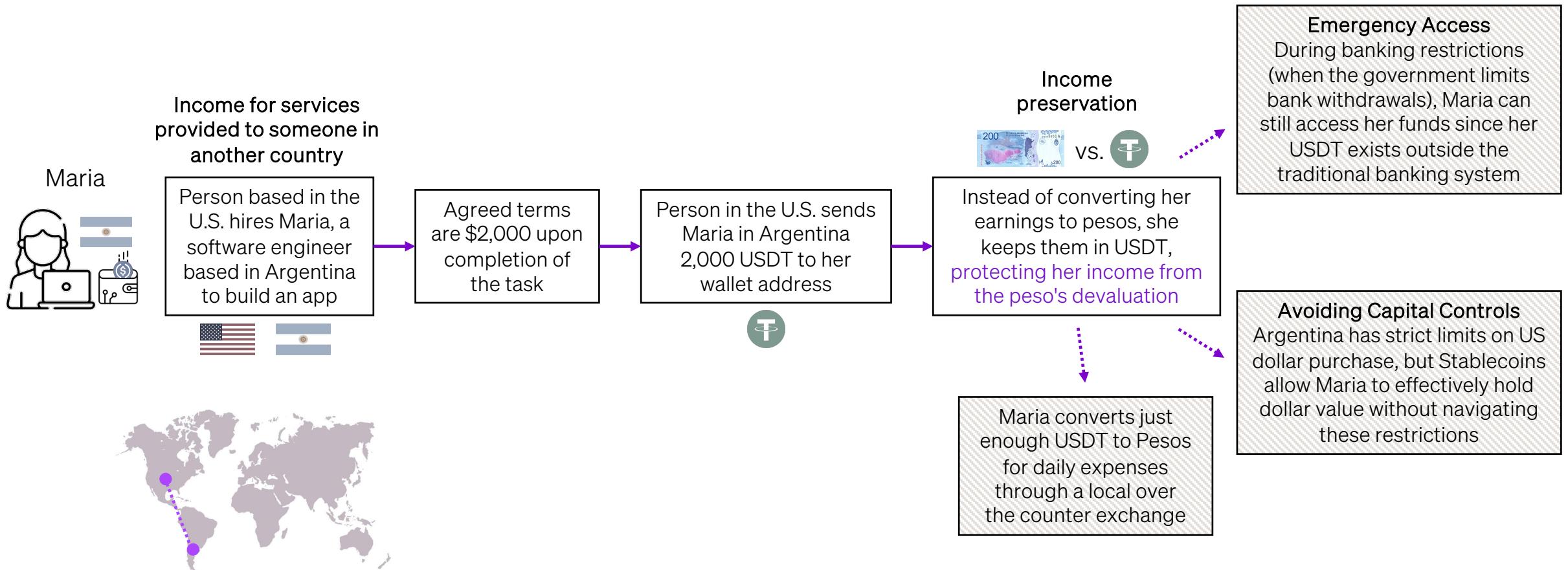
The second use case of stablecoins is that they increase access to U.S. dollars in countries with weak currencies or restrictive banking systems.

Percentage Growth of Stablecoin Activity from 2023 to 2024 (Transfers Under \$1m)



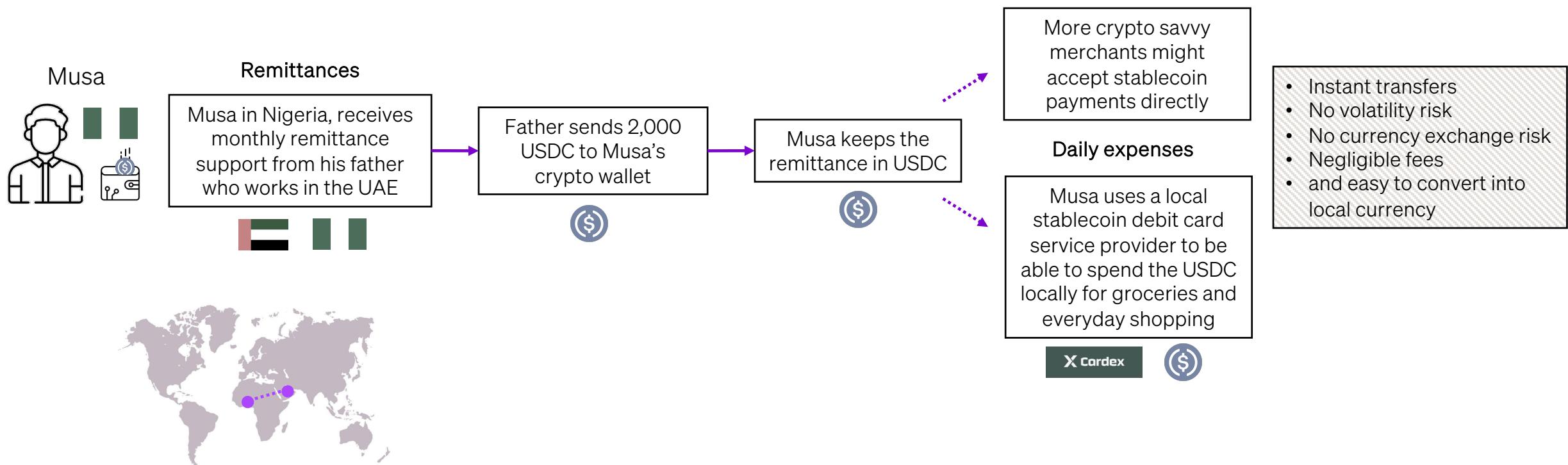
This connects people in these countries with the global economy and gives people the ability to transact, save, and invest in a highly trusted currency.

How do people in Argentina, a country with a weak currency, benefit from stablecoins?



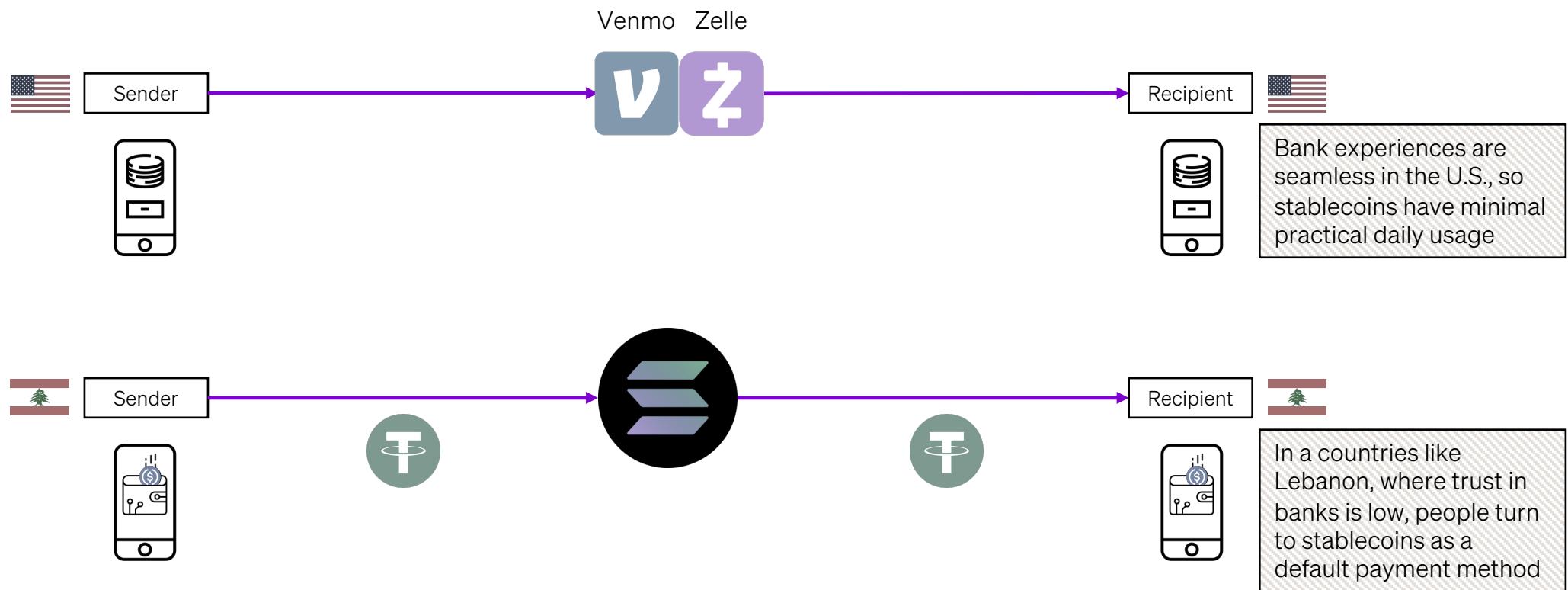
And as stablecoins become adopted within a country, they create local network effects and people start using them for everyday transactions as well.

How do people in Nigeria, a country with limited access to U.S. Dollars, benefit from stablecoins?



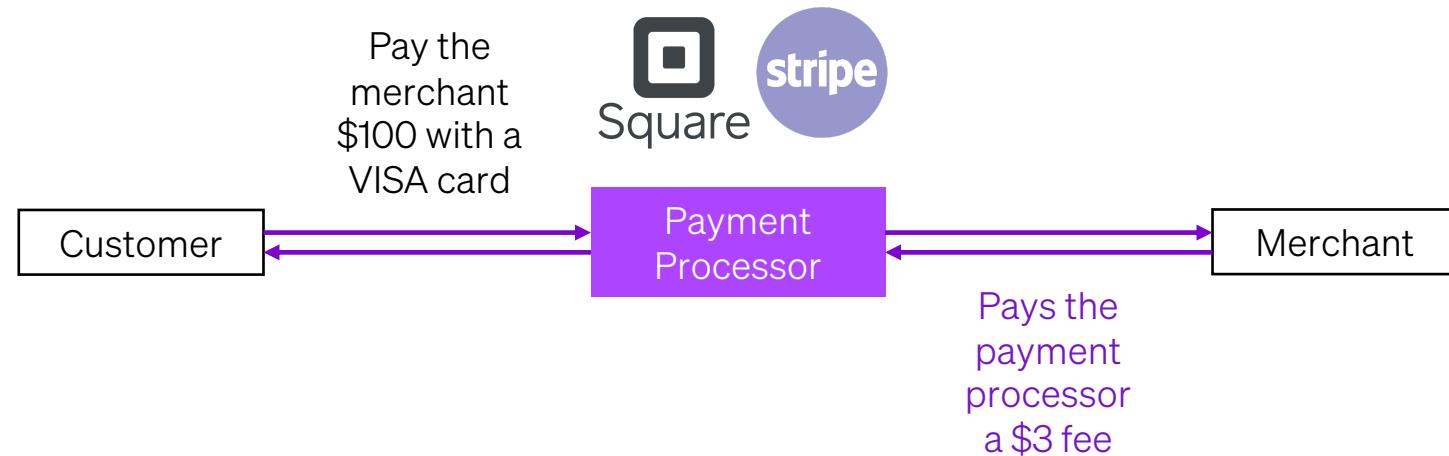
Stablecoins allow people in these countries to leapfrog traditional financial infrastructure, as payments and transfers are as easy as sending a text message.

How do people in Lebanon, a country with distrust in its banking sector, benefit from stablecoins?



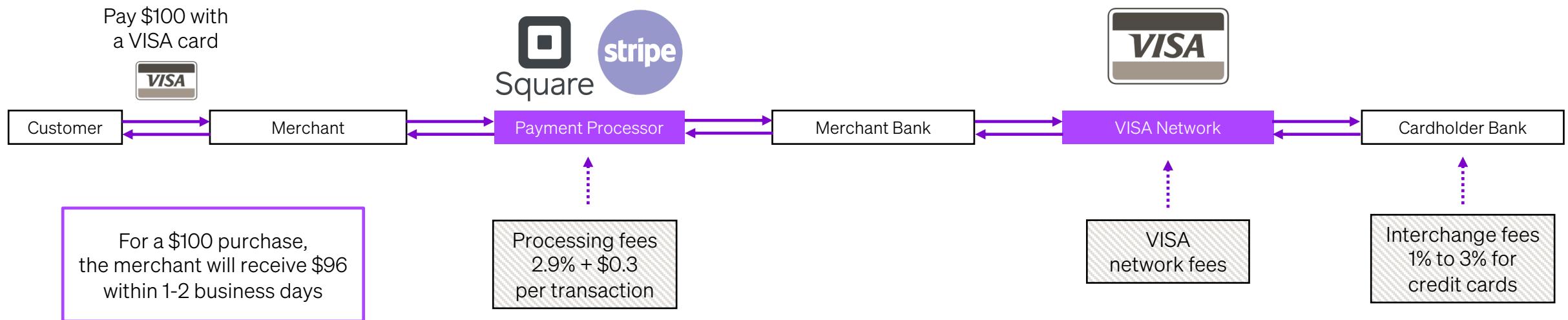
Third, stablecoins lower costs for merchants by reducing the fees charged per transaction.

What happens when a customer pays a merchant \$100 using a credit card?



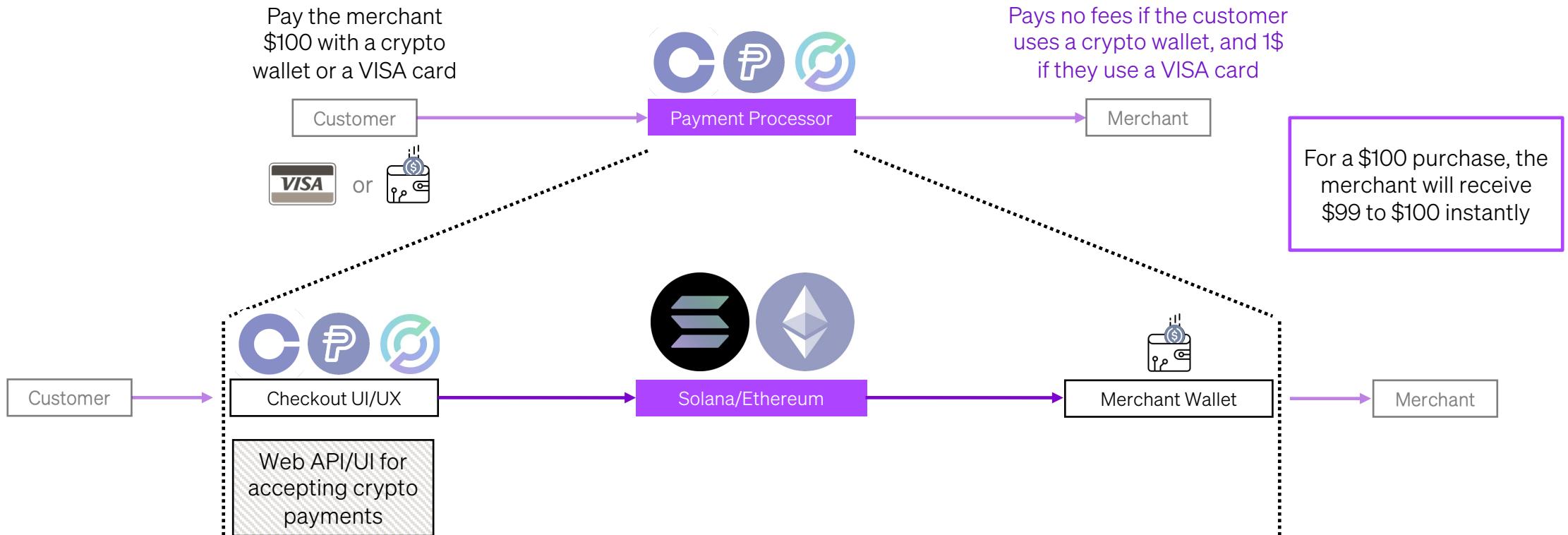
Today, sellers who use Square or Stripe typically pay 3–5% in processing fees when a customer pays with a card.

What happens when a customer pays a merchant \$100 using a credit card?

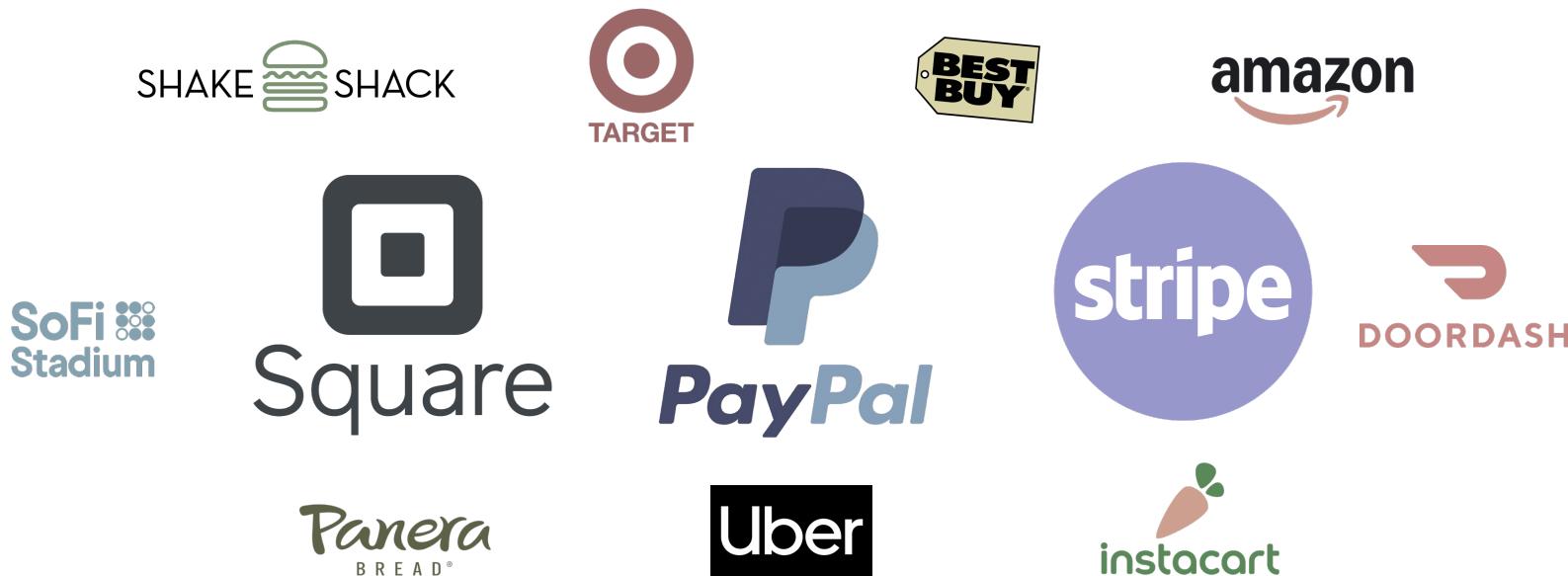


With stablecoin payment rails, businesses can offer the same checkout experience while paying much lower fees behind the scenes.

What happens when a customer pays a merchant \$100 using stablecoins? 



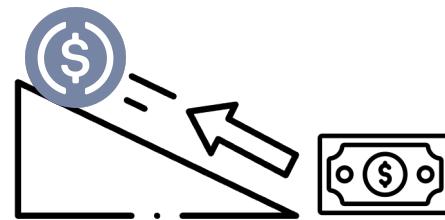
The most immediate impact will be on U.S.-based companies and companies that sell into the U.S. market, because credit card usage and fees are highest here.



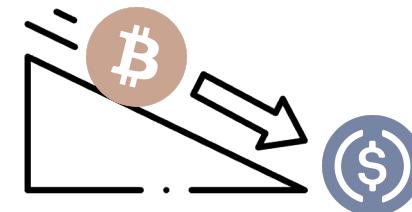
Over time, stablecoins create competitive pressure that will drive down the processing fees charged by payment networks and processors.

Fourth, stablecoins serve a key role in the crypto ecosystem by creating both a stable on-ramp for new users and a flight-to-safety option for existing participants.

Crypto On-Ramp



Crypto Off-Ramp

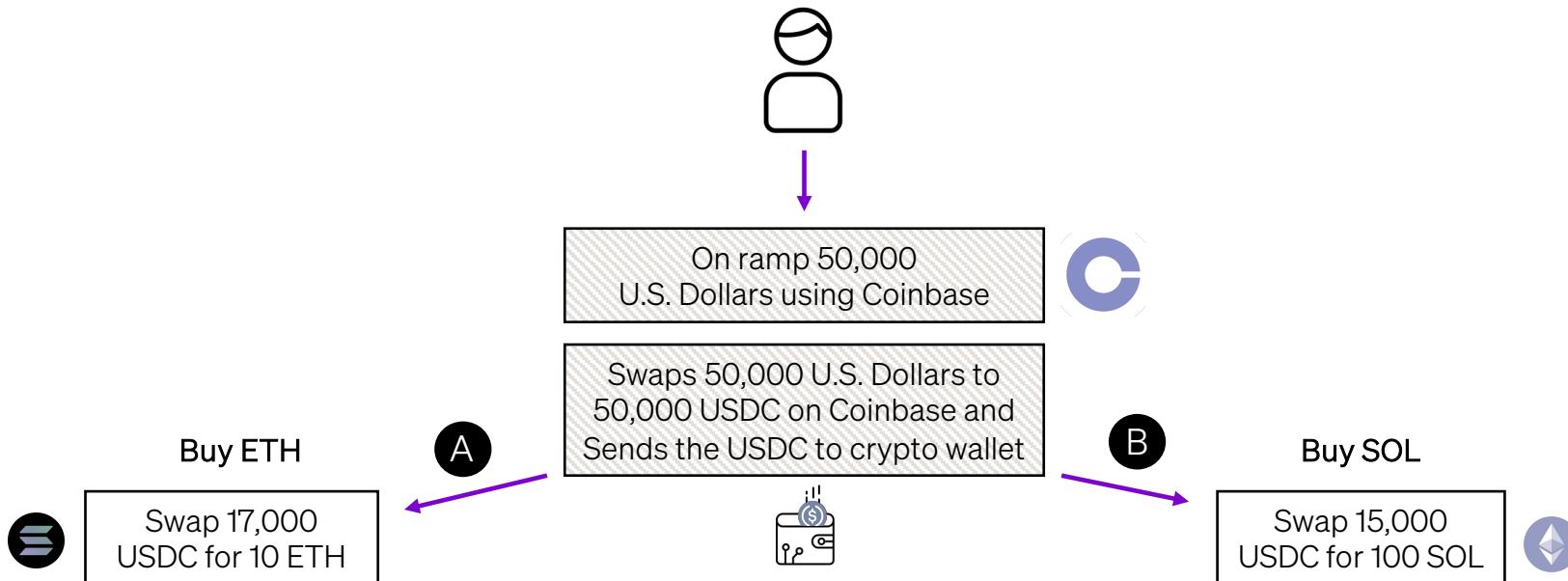


To “on-ramp” is buying crypto with regular money, stablecoins offer a first stop before diving into riskier coins

To “off-ramp” is turning crypto back into regular money, stablecoins offer a way to park in crypto assets

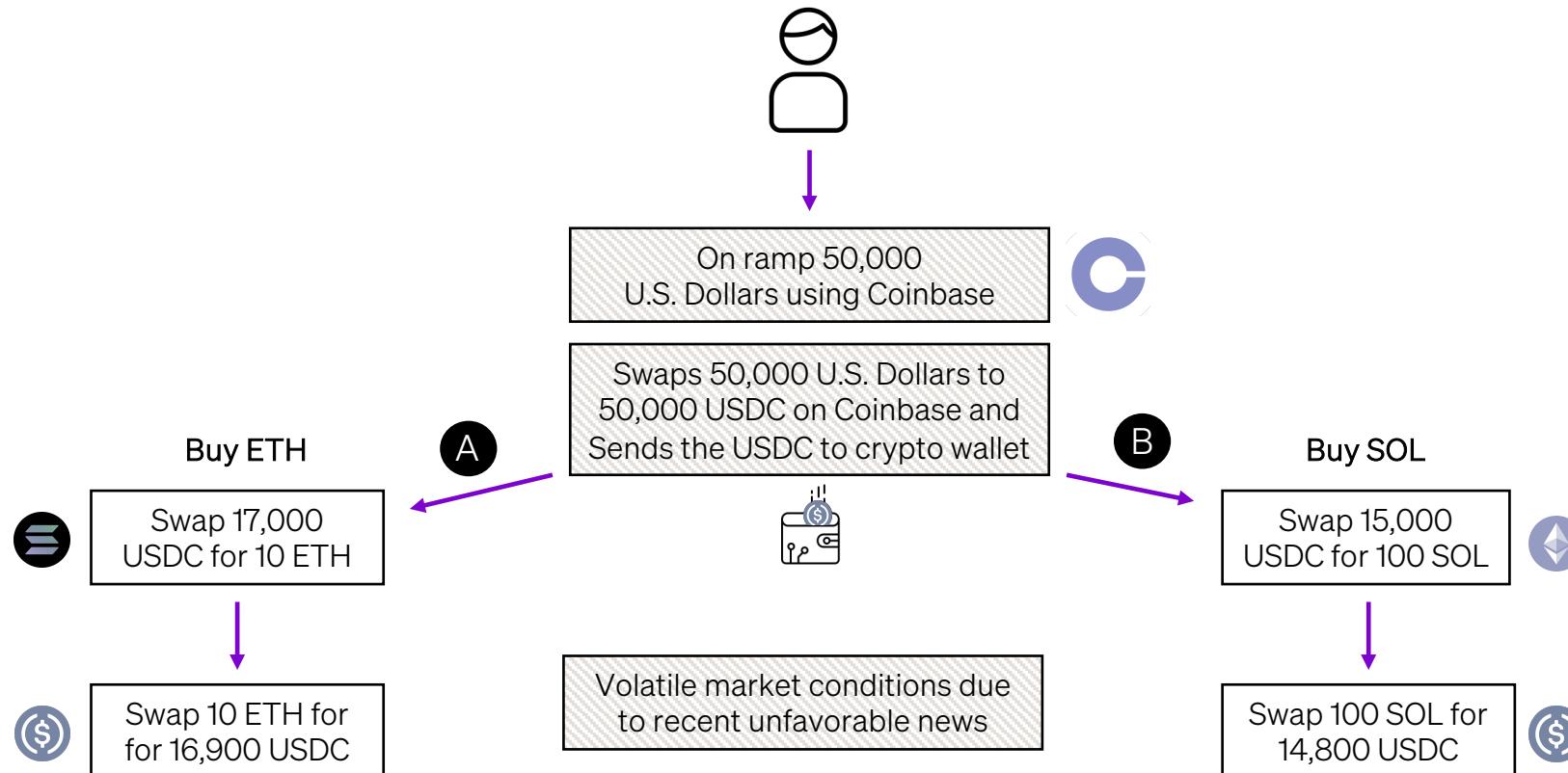
New users can enter crypto through U.S. dollars before moving into riskier tokens, lowering the barrier to adoption by easing people into the ecosystem.

How do people on-ramp to crypto using stablecoins?



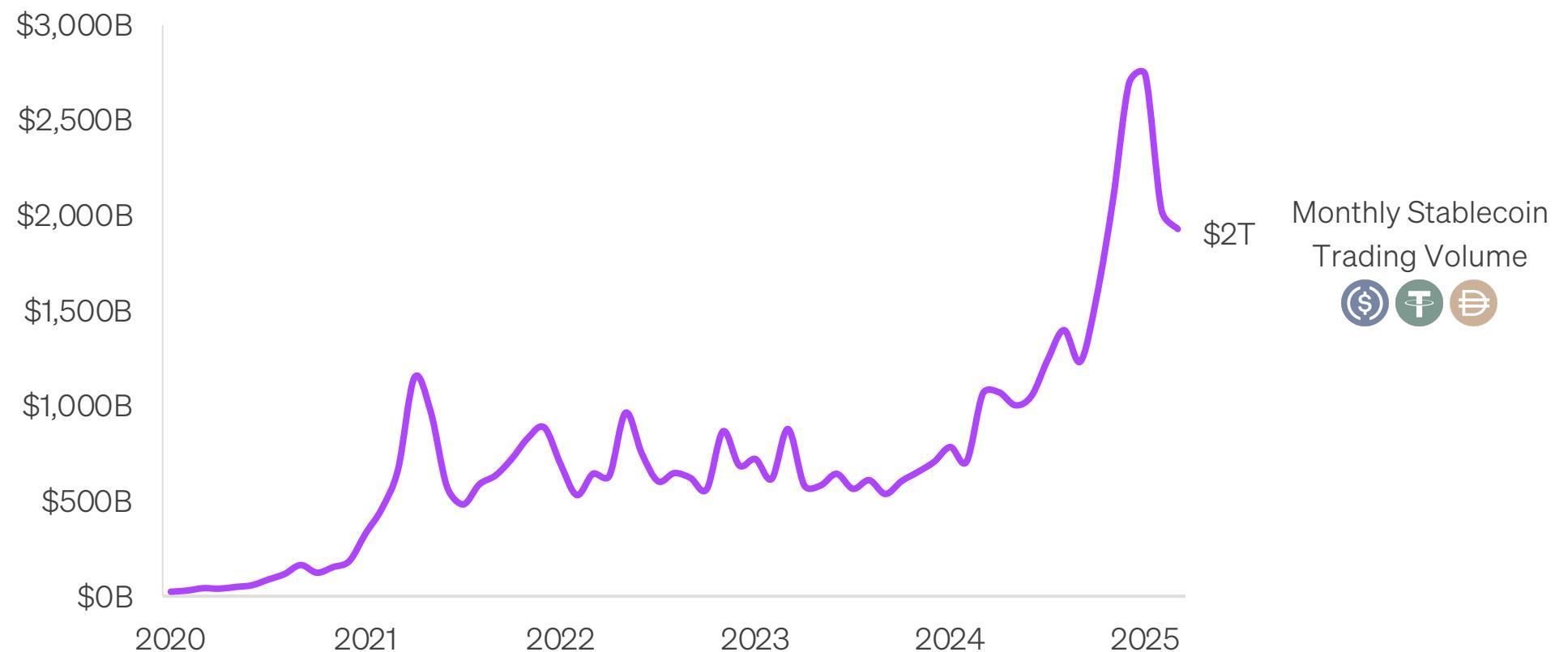
More experienced traders can instantly escape volatility by shifting into stablecoins without leaving the decentralized finance ecosystem.

How do people off-ramp from crypto using stablecoins?



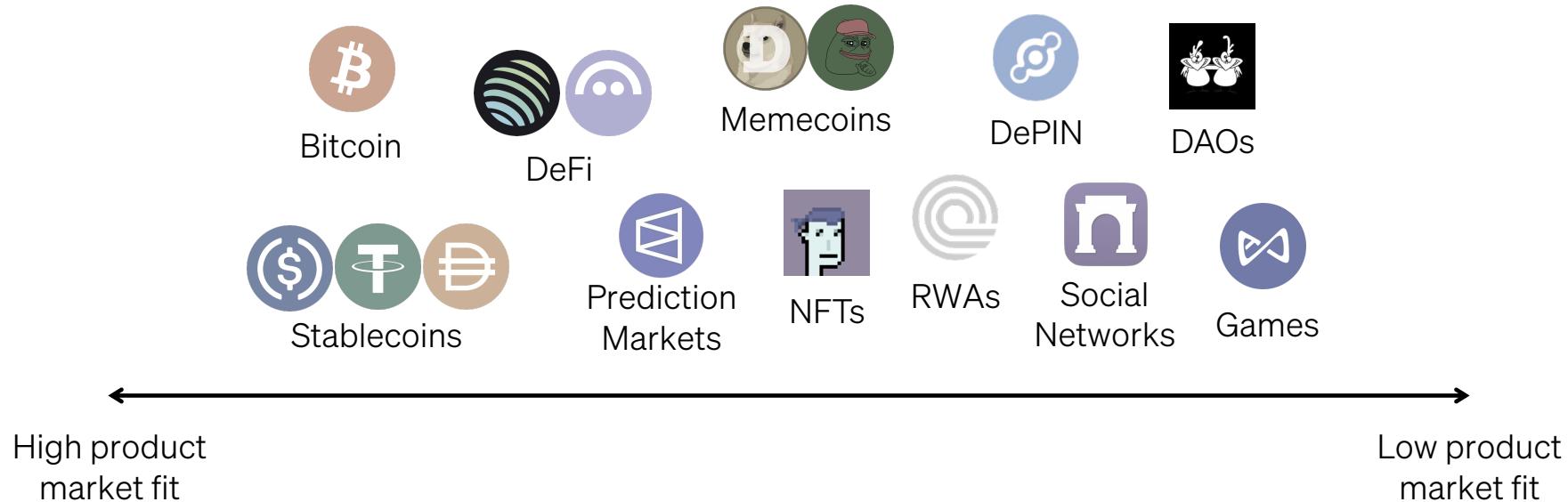
This stabilizes crypto markets and supports broader adoption of investing and trading within the crypto ecosystem.

Total Monthly Volume of Stablecoin Transactions, U.S. Dollars, 2020 to 2025

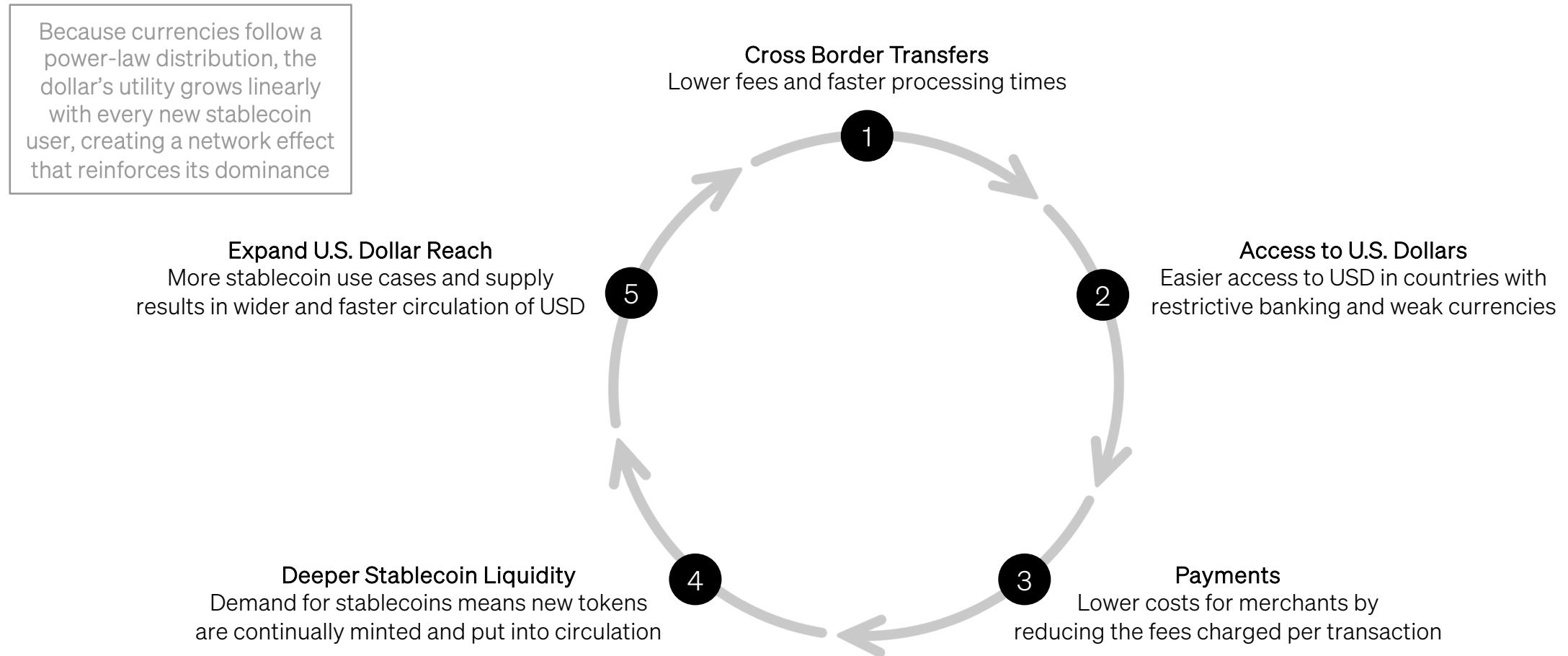


Overall, stablecoins have established clear use cases that millions of people already utilize daily, making them crypto's second killer app.

What products in the crypto ecosystem have product-market fit?



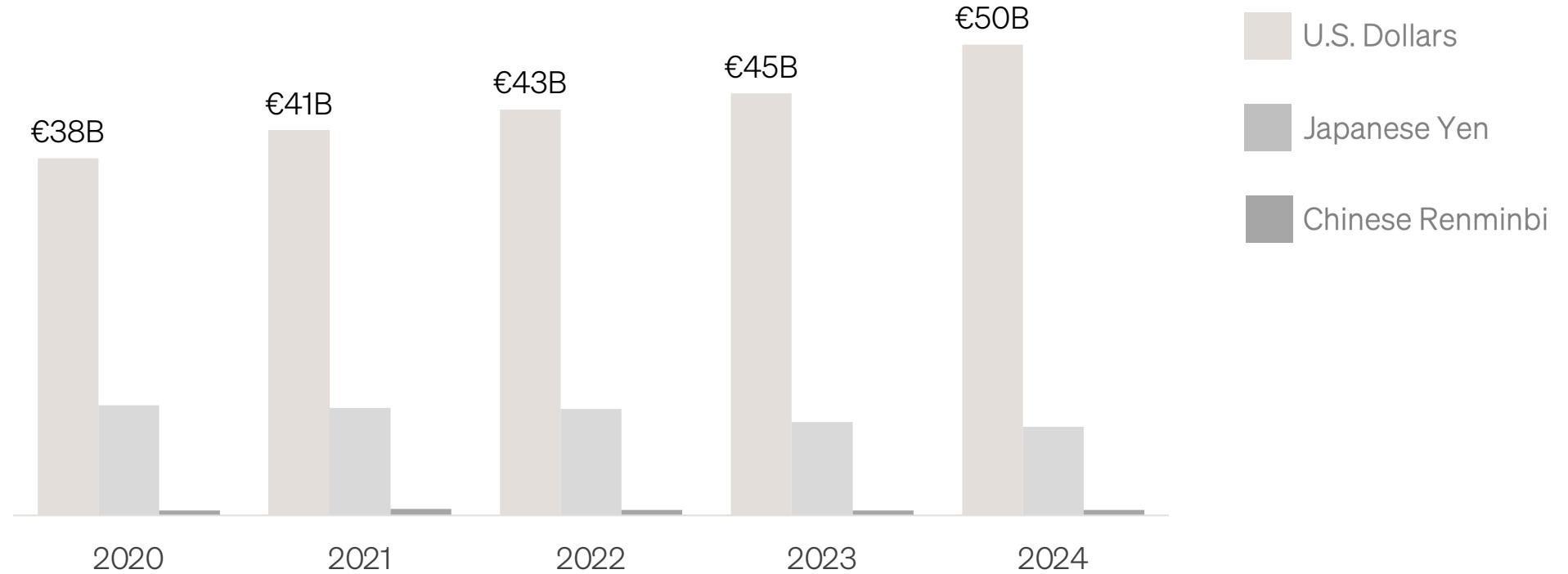
And these use cases create a virtuous cycle, driving demand and enabling wider, faster circulation of U.S. dollars.



Dollar Hegemony

The dollar accounts for around 60% of foreign exchange reserves held by central banks, which creates a foundation of international demand for dollars.

European Central Bank Foreign Currency Holdings, 2020 to 2024



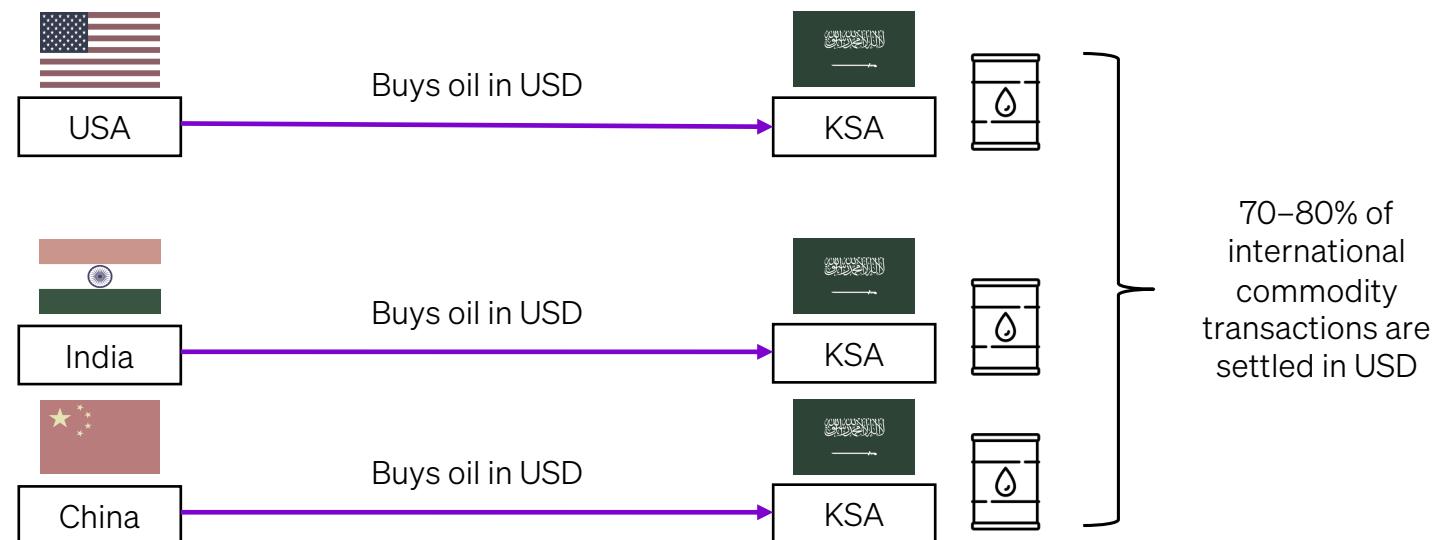
The ECB holds majority of its reserves in U.S. Dollars because, when push comes to shove, dollars are the only currency they can deploy at scale instantly, safely, and everywhere.

And roughly half of all international trade is invoiced in dollars, even when neither the buyer nor seller is American.

Oil and other commodities trading is priced in USD forcing countries to maintain USD reserves

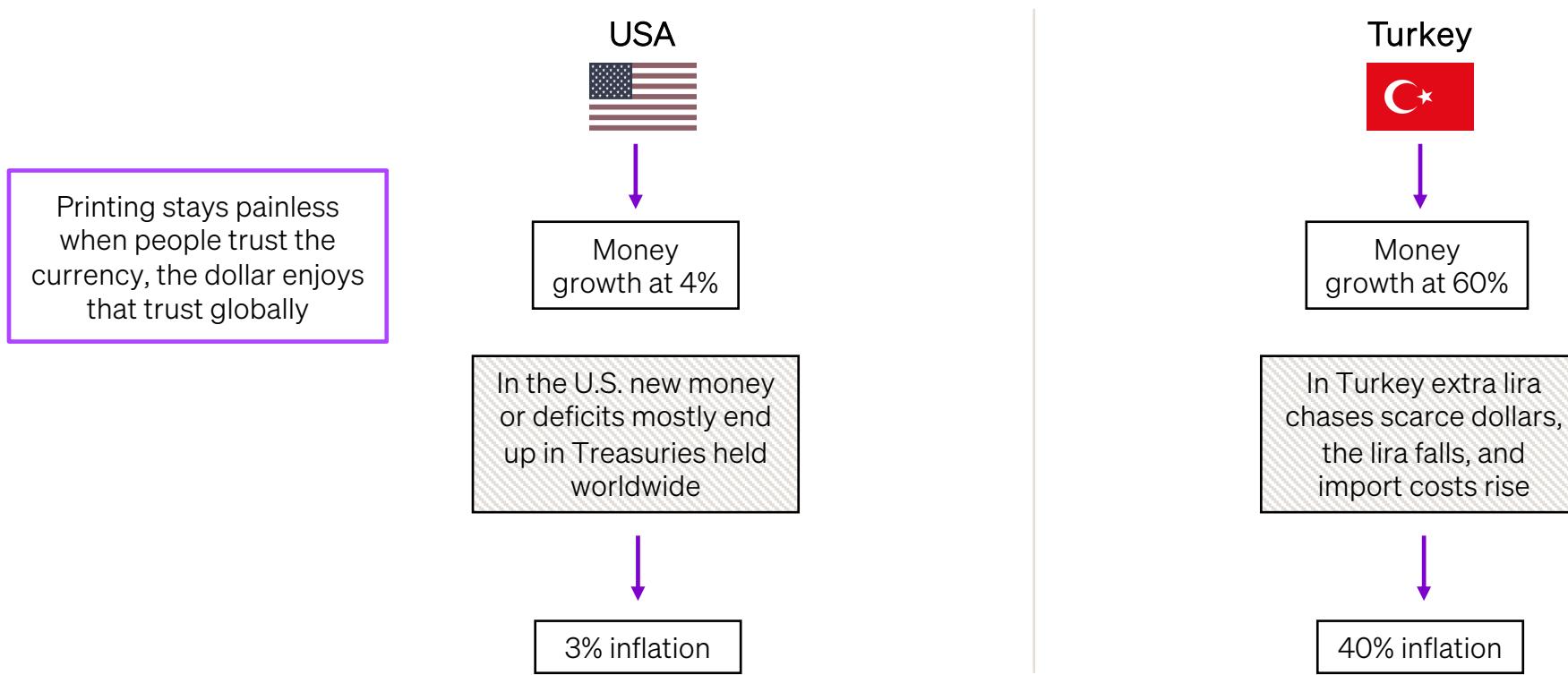


Some countries like China are trying to upend this dominance, building rails so that paying for oil in yuan becomes easier, but analysts expect the shift to be incremental single-digit percent shares by the late 2020s.

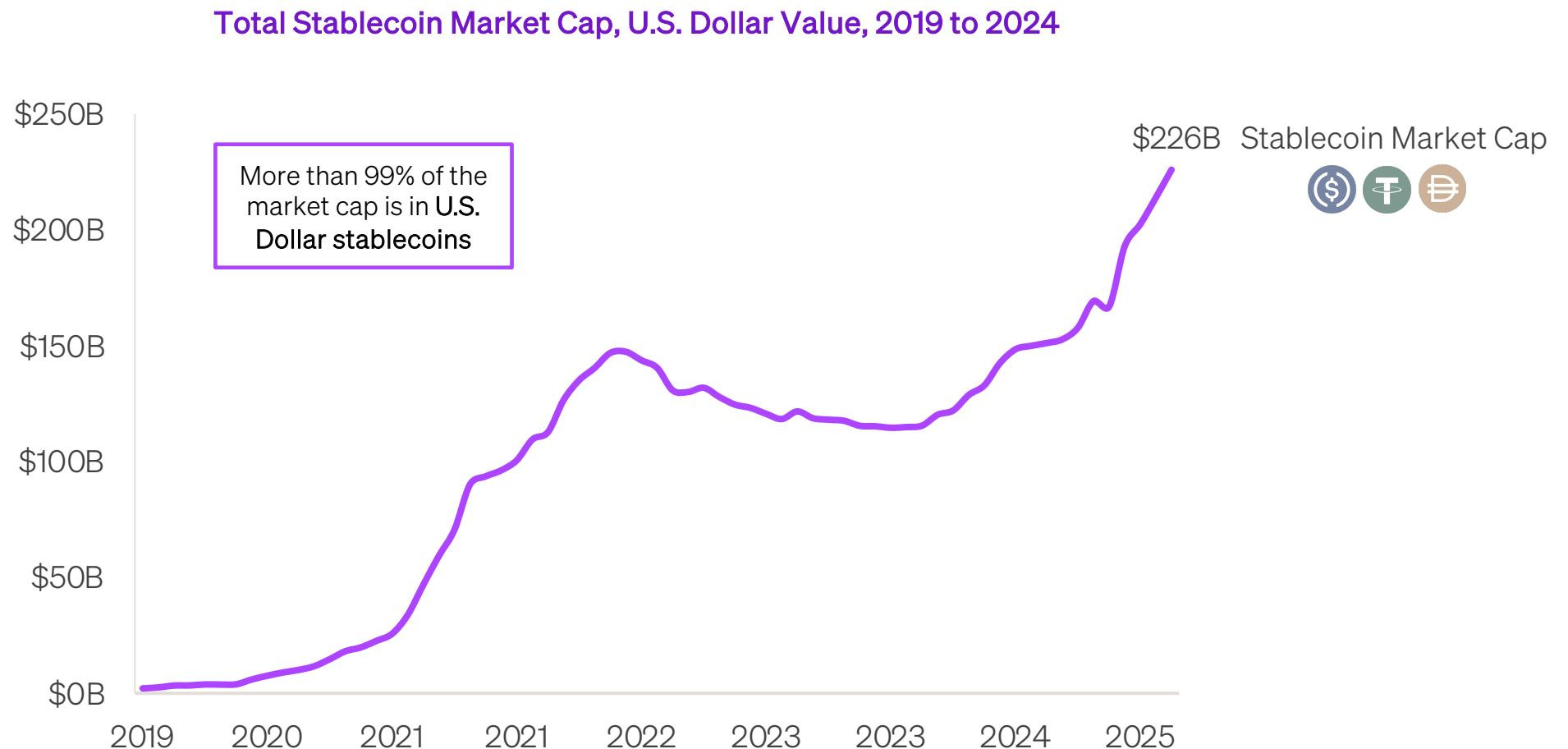


Dollar dominance allows the U.S. government to borrow at low rates, run larger deficits, and print its currency with less inflationary consequences than other countries.

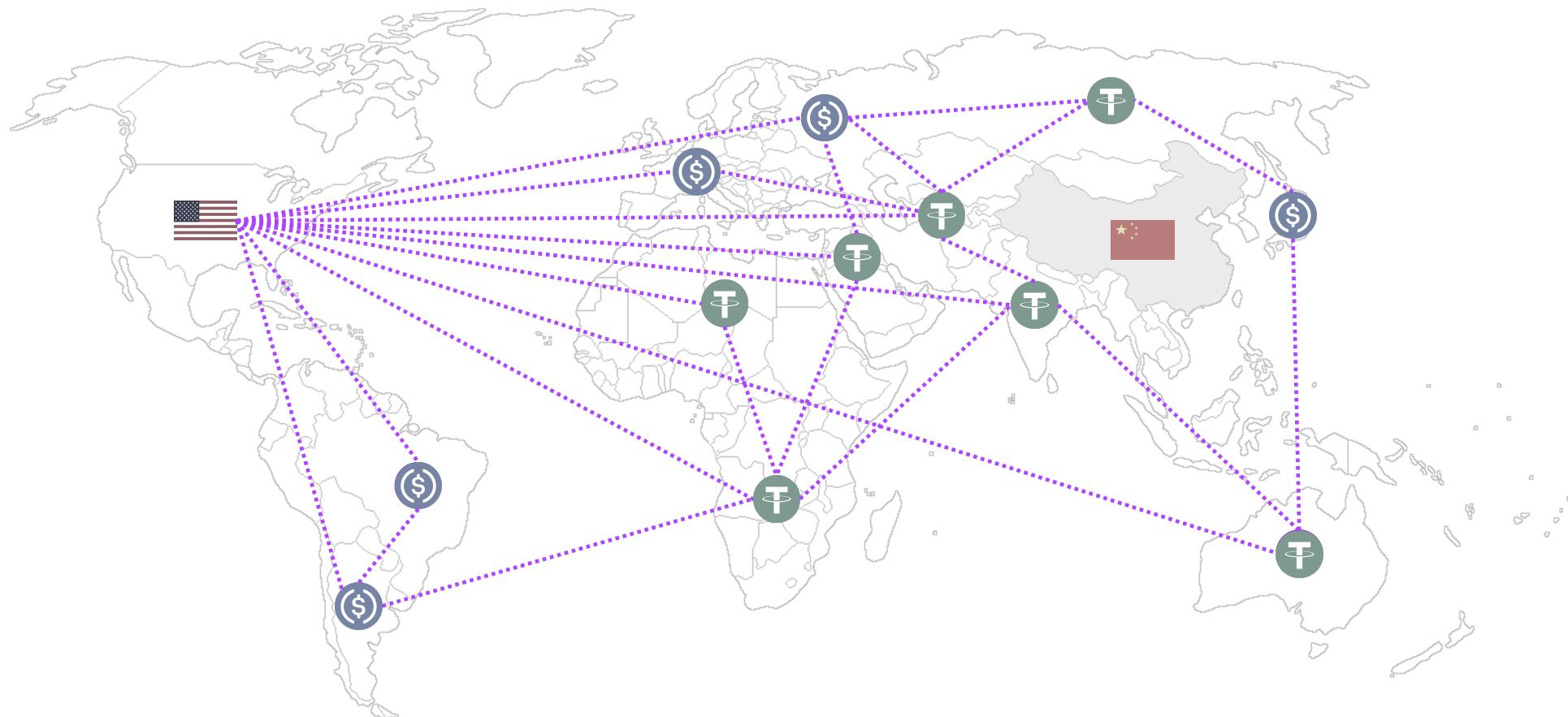
Why can the USA print more money than other countries at lower consequences?



Stablecoins reinforce this dollar dominance by increasing distribution and liquidity of dollars as a global trading and transaction vehicle.



This is especially important because China has banned cryptocurrencies, locking them out of this ecosystem.



This is one key reason why the current administration is supportive of crypto and stablecoins.



Howard Lutnick – U.S. Secretary of Commerce

“Dollar hegemony is fundamental to the United States of America, that’s why I’m a fan of properly backed stablecoins. I’m a fan of Tether; I’m a fan of Circle. They drive demand for U.S. Treasuries and are fundamental for the U.S. economy.”



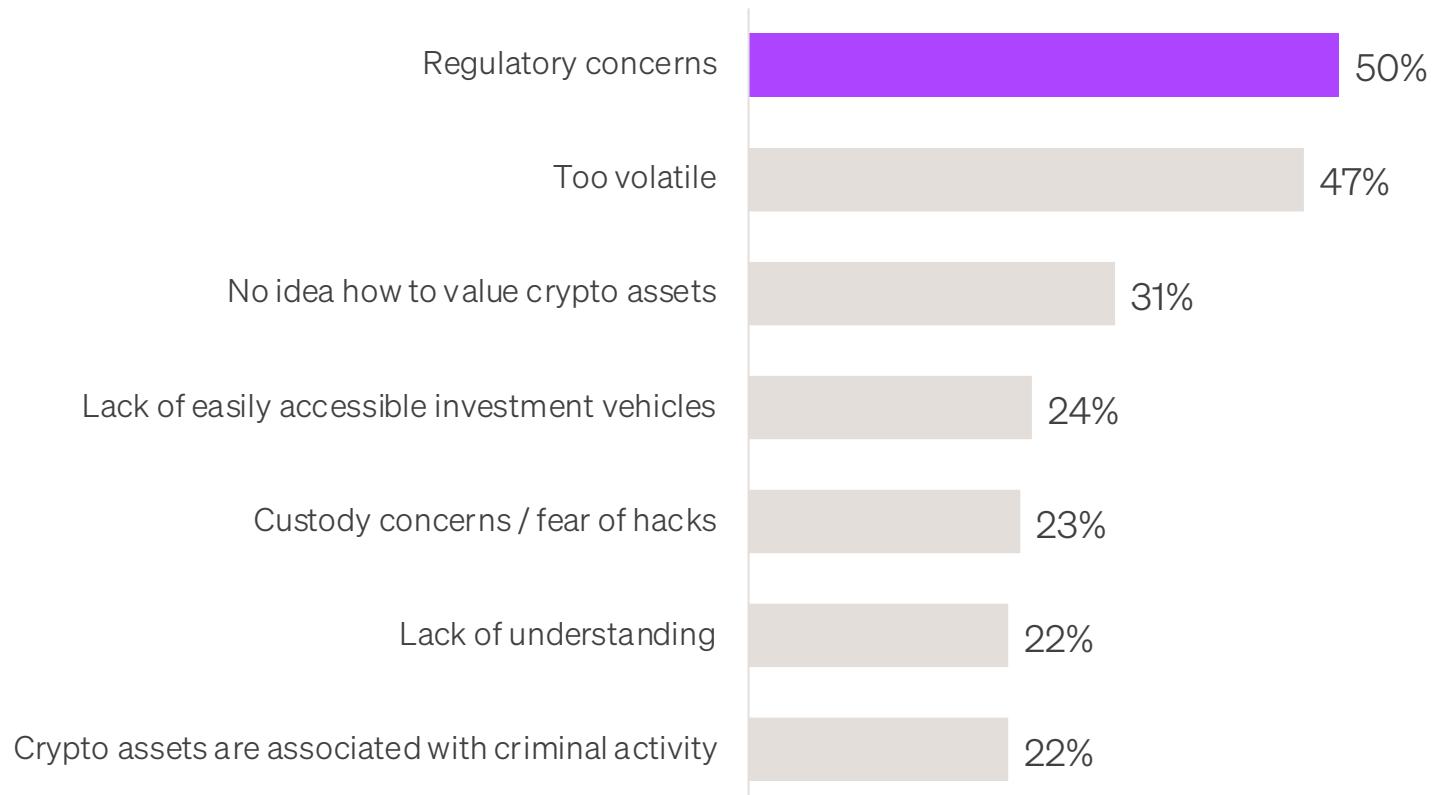
David Sacks - White House AI & Crypto Czar

“Stablecoins have the potential to ensure American dollar dominance internationally, expanding digital-dollar use as the world’s reserve currency and creating potentially trillions of dollars of demand for U.S. Treasuries.”

Regulatory Environment

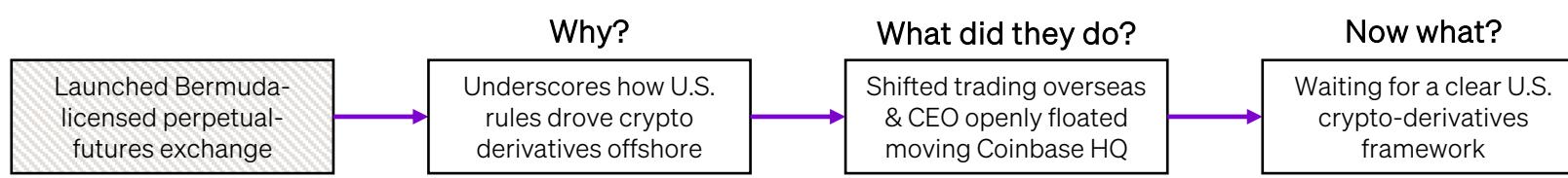
Lack of regulatory clarity in the U.S. is the number one reason preventing stablecoin adoption.

“What is preventing you from increasing your investment in crypto assets?” Survey with 430 Investment Advisors, December 20, 2025

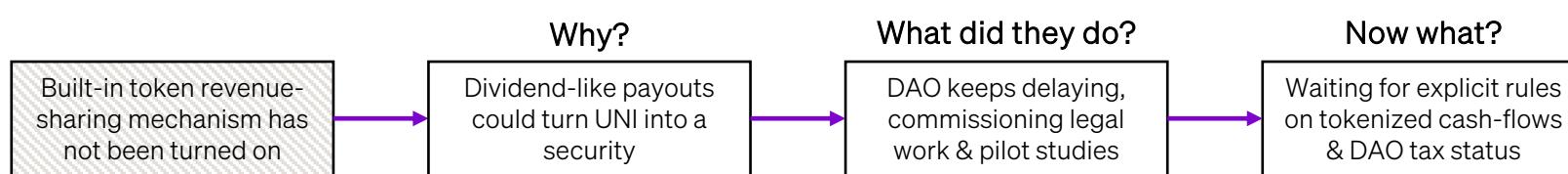


Regulatory fog has led companies to limit involvement with crypto, move offshore, and delay the release of crypto products and services.

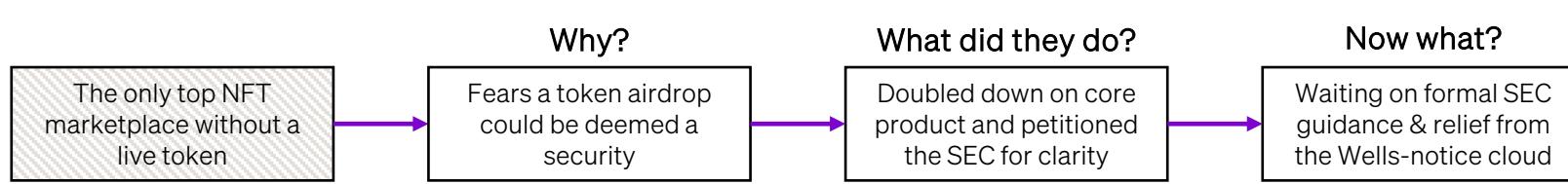
Coinbase



Uniswap

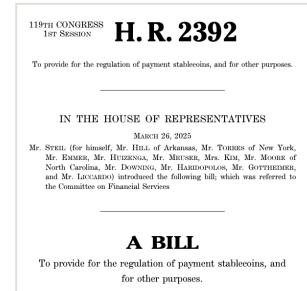


OpenSea



U.S. regulatory clarity for stablecoins is starting to emerge, with two competing bills progressing through Congress.

The Stable Act - H. R. 2392



In practice, only one of the competing stablecoin bills is likely to become law because congressional negotiators typically fold overlapping proposals into a single compromise package

Would authorize only approved issuers to create USD stablecoins, require them to maintain full reserves with monthly public disclosures, prohibit any suggestion that the coins are government-backed, promote interoperable standards, and mandate ongoing studies to keep the regulatory framework up to date.

The Genius Act - S. 394



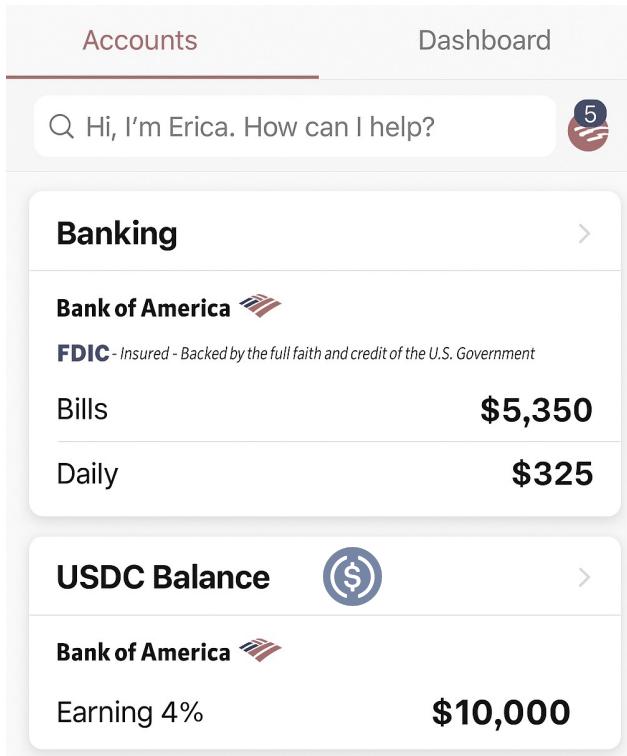
Would establish a dedicated federal charter for both banks and non-banks to issue fully 1:1-backed USD stablecoins, impose capital and risk-management standards, outline a bankruptcy and resolution regime to safeguard users, and direct federal and state regulators to craft coordinated rules.

These bills are designed to create a legal and regulatory environment that enables compliant entities to issue their own stablecoins.

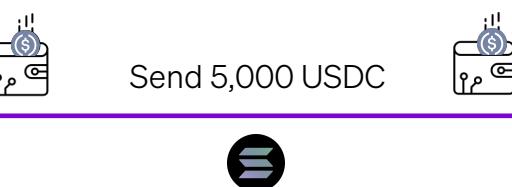
What happens when major Banks issue their own stablecoins?

Banks will custody a crypto wallet for their customers

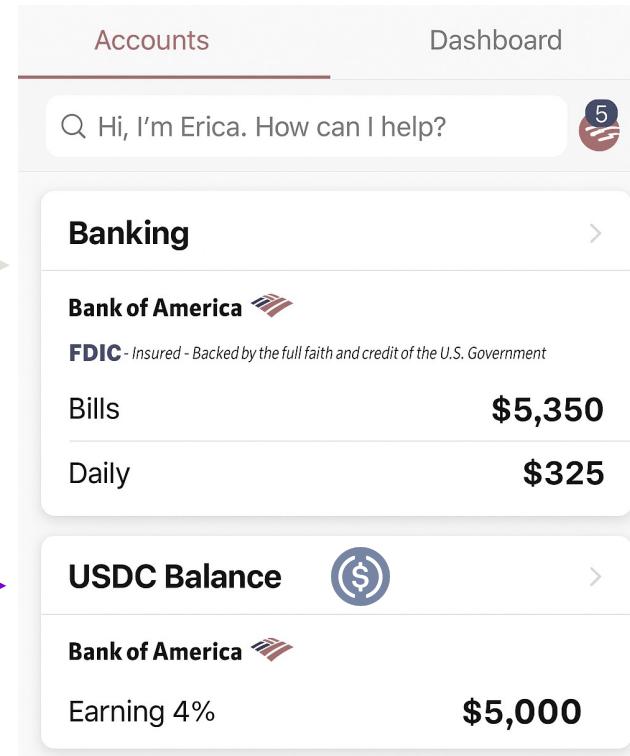
Account 1



Send USD via Venmo/Zelle?
Send USD via Wire transfer?
Send USD via ACH?



Account 2



All U.S. Dollar stablecoins are interchangeable with each other, making the experience seamless across applications and wallets

Given the business model of becoming a stablecoin issuer, this will likely lead to an influx of stablecoin issuers.

How do stablecoin issuers generate profits?

As of December 31, 2024	Tether USDT	
Total Stablecoin Supply	137.6B USDT	
U.S. Treasury Bills	\$94.5B	
Overnight and Term Reverse Repos	\$17.2B	
Money Market Funds (Indirect T-Bill Exposure)	\$6.5B	
Precious Metals	\$5.3B	
Bitcoin	\$7.9B	
Other	\$12.38B	
Total Reserves Backing Tokens	\$143.7B	

Generated \$7B in profits from T-bill yields

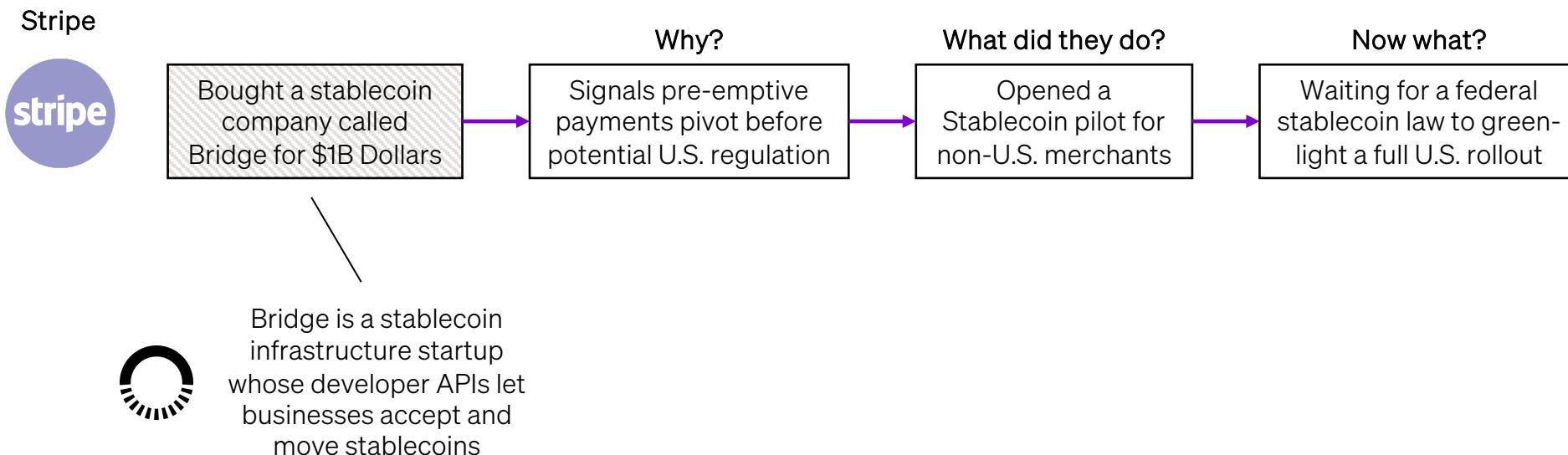
Generated \$1.7B in profits from T-bill yields

Stablecoin issuers are running internet money-market funds, except the “shareholders” (token holders) waive their interest, making it a straightforward, high-margin business.

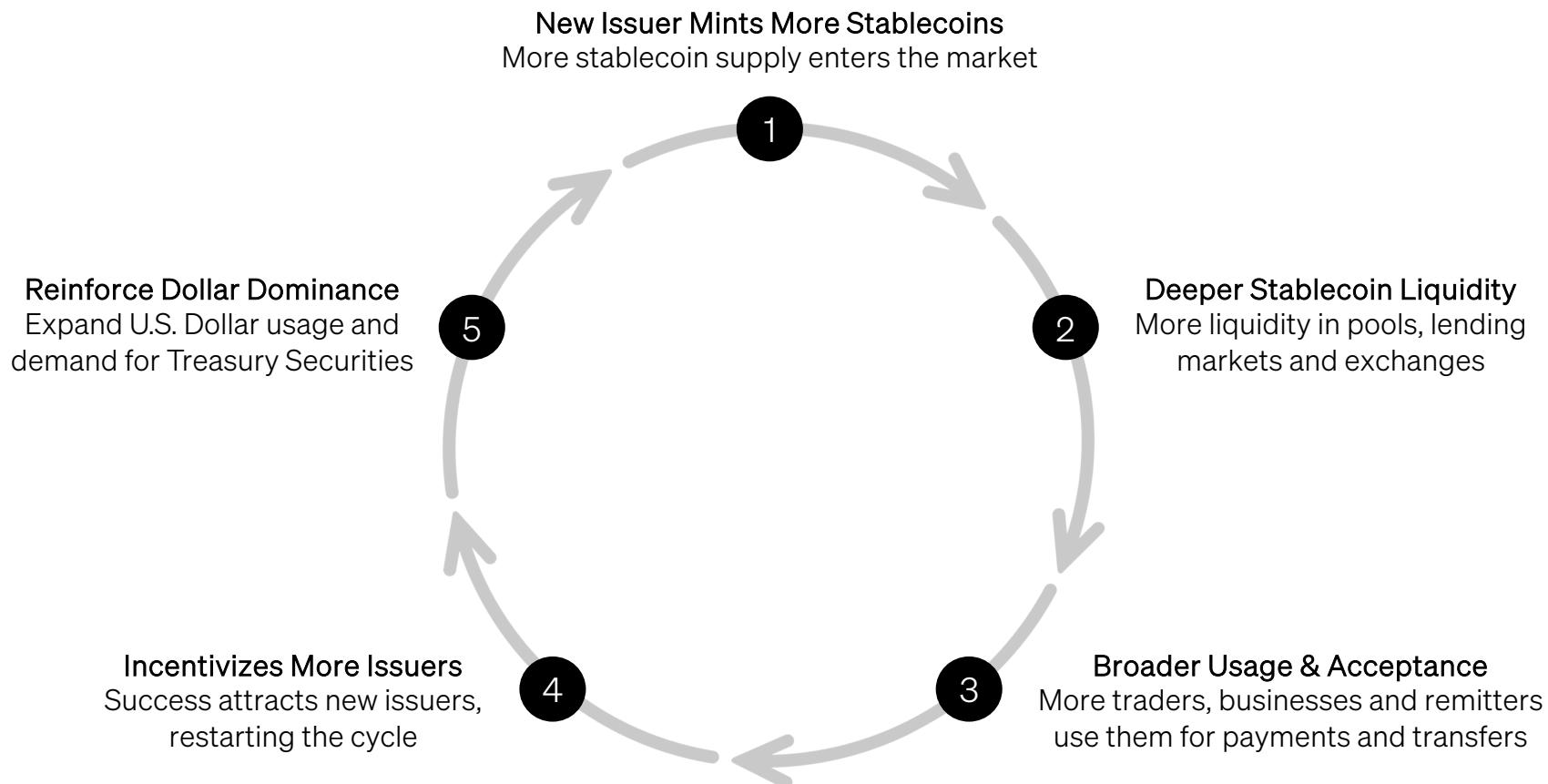
As of December 31, 2024	Circle USDC	
Total Stablecoin Supply	43.9B USDC	
U.S. Treasury Bills	\$14.7B	
U.S. Treasury Repurchase Agreements	\$21.8B	
Cash	\$1B	
Cash held at regulated financial institutions	\$6.4B	
Total Reserves Backing Tokens	\$43.9B	

Companies like Stripe are already making plans in response to potential regulatory changes by beginning to test their own USD-backed stablecoins.

How is Stripe positioning itself for the inevitable stablecoin legislation?



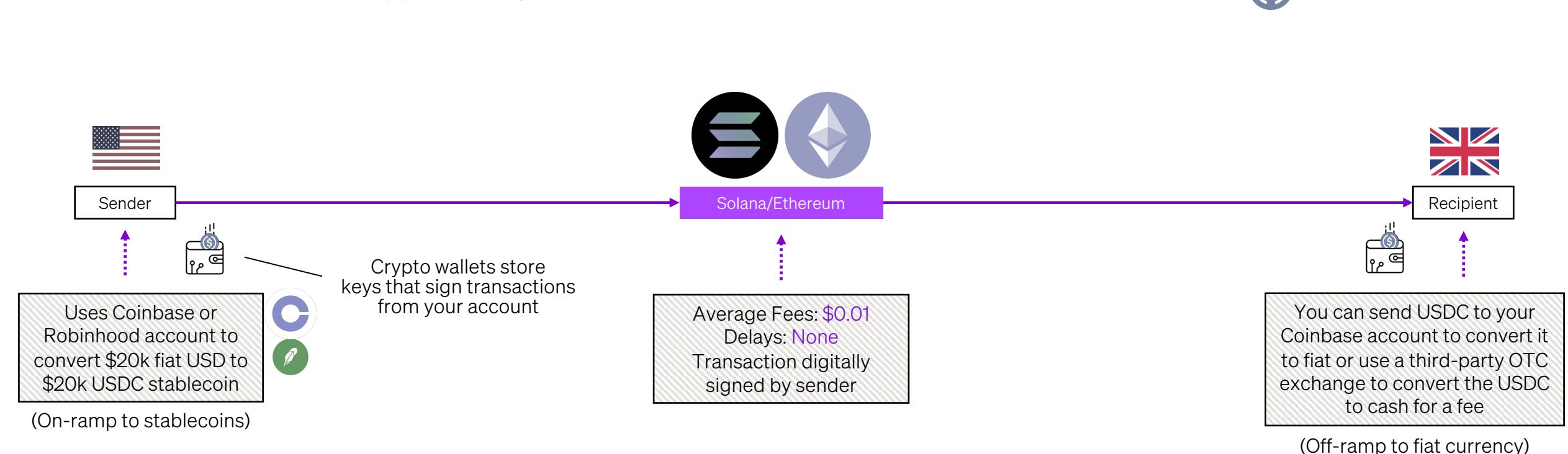
New stablecoin issuers buy dollars and U.S. debt while supporting distribution of dollars globally, which reinforce the dollar's dominance.



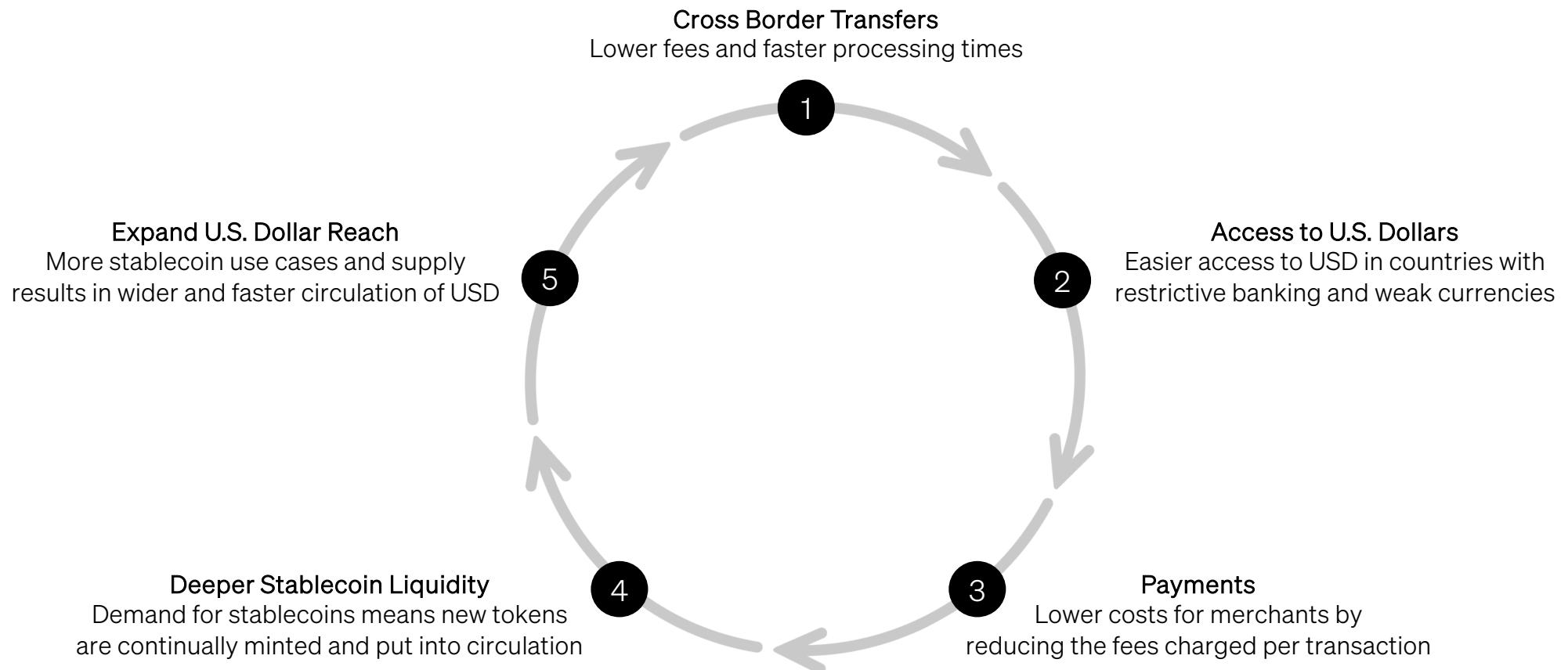
Wrapping Up...

Stablecoins leverage crypto's infrastructure for lower fees and faster processing speeds compared to traditional systems.

What happens when you send \$20,000 from the United States to the UK via stablecoins? 



Stablecoins have several use cases, all of which support liquidity and wide distribution of dollars globally.

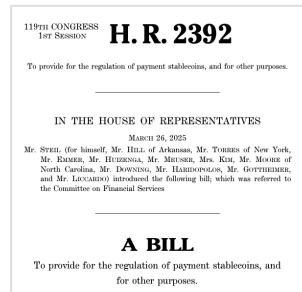


Stablecoins reinforce the dollar's dominance, which serves U.S. geopolitical interests.



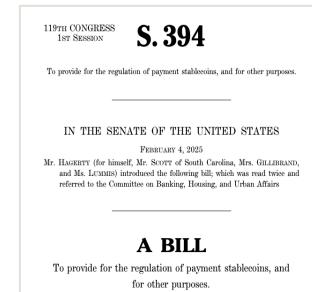
The Trump administration aims to enact comprehensive stablecoin legislation later this year.

The Stable Act - H. R. 2392



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The Genius Act - S. 394



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