



From Crypto-Asset to Payment Instrument: The Regulation and Cost–Benefit of Stablecoin Payments

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ABSTRACT :

Stablecoins combine a transferable digital token with a claim, expectation, or mechanism intended to maintain a stable monetary value. Their legal treatment increasingly turns on the economic promise made to a holder rather than the ledger on which the token travels. This article compares the European Union's Markets in Crypto-Assets Regulation, the United States' enacted but not yet generally effective GENIUS Act, and the United Arab Emirates' Central Bank Payment Token Services Regulation, while locating Dubai's Virtual Assets Regulatory Authority within the UAE's divided supervisory architecture. It argues that fiat-referenced payment tokens warrant a payment-oriented regulatory perimeter when they are held out for transfer at par and supported by enforceable redemption and credible reserves. Such treatment remains conditional: a nominal one-to-one peg alone does not establish either a legal right or reliable liquidity. The article then evaluates a concrete cross-border settlement arrangement involving LuLu Financial Holdings and USDC. Circle reports a 25–30 per cent reduction in settlement costs, 40 per cent growth in cross-border settlement volume, and beneficiary credit within one minute after settlement; these are company-reported outcomes without public corridor-level denominators or independently audited counterfactuals. The principal plausible efficiency gain arises in the interinstitutional middle mile, where a token can move treasury value continuously. Origination, foreign exchange, local payout, liquidity management, consumer protection, and financial-crime controls remain. The resulting policy case supports conditional recognition of payment stablecoins, coordinated issuer and service-provider oversight, and comparable measurement of total consumer costs. It does not establish that stablecoins generally outperform other modern payment rails or should be treated as sovereign money.

Keywords: stablecoins; payment tokens; MiCA; GENIUS Act; UAE; remittances; correspondent banking; USDC.

1. INTRODUCTION

1.1 Background: The Rise of Stablecoins in Global Payments

Stablecoins are digital tokens designed to maintain a relatively stable value by reference to a currency or other assets. They emerged as a means of moving value between crypto-asset markets without repeatedly entering the banking system. A different application is now taking shape: institutions use a fiat-referenced token as an intermediate settlement asset for cross-border payments, while payers and recipients continue to use ordinary money. The distinction matters. A token transferred between two institutional wallets can shorten the period during which treasury funds wait for bank opening hours, but an individual recipient may never hold a token at all.¹

The regulatory stakes follow from this change in use. An unbacked crypto-asset is usually priced by a market; a fiat-referenced issuer invites holders to expect a particular monetary value. When that expectation is used in payment chains, a failure of reserves, custody, redemption, or operational continuity can affect users who never sought crypto-asset exposure. The Financial Stability Board's 2025 assessment found that cross-border payment improvements had yet to produce substantial global gains for end users, while the World Bank's published remittance measure reported an average cost of 6.36 per cent. These figures explain interest in alternative rails, although neither shows that a stablecoin lowers a particular corridor's total price.²

The European Union (EU) now treats certain single-currency tokens as electronic money tokens. The United States has enacted a dedicated issuer framework for payment stablecoins, subject to a delayed commencement. In the United Arab Emirates (UAE), central-bank rules expressly address payment-token issuance, conversion, custody, and transfer, while Dubai's separate virtual-asset regime retains a limited role for fiat-referenced tokens in the virtual-asset ecosystem. These different choices reveal a shared concern: a claim to monetary stability calls for protections concerning the backing asset and the holder's ability to turn a token back into usable funds.³

¹ Regulation (EU) 2023/1114 on markets in crypto-assets [2023] OJ L150/40, arts 3(1)(5)–(7), 48–49; Circle, 'LuLu Financial Holdings settles GCC, MENA, and APAC remittances 24/7 with USDC' <<https://www.circle.com/case-studies/lulu-financial-holdings>> accessed 25 September 2026.

² Financial Stability Board, 'G20 Roadmap for Cross-border Payments: Consolidated Progress Report for 2025' (9 October 2025) <<https://www.fsb.org/2025/10/g20-roadmap-for-cross-border-payments-consolidated-progress-report-for-2025/>> accessed 25 September 2026; World Bank, 'Remittance Prices Worldwide' <<https://remittanceprices.worldbank.org/>> accessed 25 September 2026.

³ MiCA (n 1), arts 3(1)(6)–(7), 48–54; Guiding and Establishing National Innovation for U.S. Stablecoins Act, Pub L No 119-27, 139 Stat 419 (2025) (GENIUS Act), ss 2–4, 20; Central Bank of the UAE, Payment Token Services Regulation, Circular No 2/2024 (effective 31 August 2024) (PTSR), arts 1–2.

2. CONCEPTUAL FOUNDATIONS: WHAT IS A STABLECOIN?

2.1 Defining Crypto-Assets and the Place of Stablecoins Within That Category

A crypto-asset describes a digital representation of value or rights capable of electronic transfer and storage using distributed-ledger or similar technology. MiCA's broad definition captures this technical form; its subsequent categories depend on what value the token purports to track. The label "stablecoin" is consequently useful as a market description but legally imprecise. It can refer to a dollar-redeemable claim, a token backed by several assets, or a mechanism that targets a peg without a redeemable reserve. The economic question is not simply whether a displayed price is close to one dollar. It is who owes the holder what, in which currency, at what time, against which assets, and subject to what insolvency risk.⁴

A token can also occupy several regulatory relationships simultaneously. The issuer may promise redemption; a custodian may control private keys; an exchange may convert it into a different token; a remittance provider may take a customer's fiat and deliver fiat abroad. These parties have different liabilities. A transfer recorded on a blockchain establishes that control of a token has changed under the network's rules; it does not itself show that the receiving institution has discharged its fiat obligation to the eventual beneficiary. The distinction between ledger settlement, issuer redemption, and retail payout is fundamental to both legal classification and any claimed efficiency gain.⁵

Stable value is further a matter of degree and design. A secondary-market quotation near par can coexist with restricted direct redemption, imperfect reserve disclosure, or concentrated access to banking partners. Conversely, an enforceable redemption right and highly liquid segregated reserves can support market confidence even where the token briefly trades away from par. Payment law therefore asks questions that general crypto-asset definitions leave open: whether a holder has a claim, how the claim can be exercised, and what happens during stress. These are questions about performance of a monetary promise rather than the mere existence of a token.⁶

2.2 Types of Stablecoins: Fiat-Collateralized, Crypto-Collateralized and Algorithmic

Fiat-collateralized stablecoins seek to maintain a peg through reserves such as cash, bank deposits, or short-dated government securities. The backing need not be literal banknotes in a vault. Its quality depends on credit exposure, custody, currency, maturity, concentration, and the speed at which assets can be liquidated to honour redemption. A reserve disclosed at face value is not necessarily available in full during a run. There must also be a clear relationship between outstanding tokens and assets, a prohibition or control on reuse, and a priority rule if the issuer fails. The EU and US regimes express these concerns differently but both treat asset quality and access to redemption as central.⁷

Crypto-collateralized designs instead secure tokens with volatile digital assets, typically requiring excess collateral and automated liquidation. Overcollateralization cushions ordinary price movements but introduces oracle failure, market-gap, liquidation, and network-congestion risks. The nominal reference price may still be a fiat currency; the collateral and the legal relation with a holder differ sharply from a fiat-backed issuer's promise. MiCA's definition of an asset-referenced token potentially reaches an arrangement that purports to stabilise value by reference to assets other than a single official currency, subject to its exclusions and the specific facts of issuance. The mere presence of crypto collateral does not make such a token an electronic money token.⁸

Algorithmic models use issuance, destruction, incentives, or a linked token to defend a target price, without necessarily maintaining an exogenous asset reserve sufficient to redeem all outstanding claims. If demand retreats, a self-referential support mechanism may require ever more issuance of a falling asset. The GENIUS Act separately instructs a study of "endogenously collateralized payment stablecoins"; that study provision should not be misdescribed as conferring permitted-issuer status on an unreserved design. Taxonomy therefore has legal consequences. A price target says less about payment reliability than the source of value available to meet a holder's claim in adverse conditions.⁹

The three categories are analytical types rather than exhaustive legal boxes. A purported fiat-backed product could mix assets, offer redemption only to selected wholesale users, or issue through entities in multiple jurisdictions. The precise rights in its terms and the actual reserve location matter more than marketing. For the remainder of this article, "payment stablecoin" refers principally to a fiat-referenced token used or designed for payment or settlement and supported by an issuer's monetary redemption undertaking; other designs remain comparators rather than assumed equivalents.¹⁰

2.3 The Case for Reclassification: Why 1:1 Backing Invites Payment-Instrument Treatment

One-to-one issuance and redemption convert the token's commercial promise into a claim to monetary equivalence. If a provider accepts 100 units of currency and issues 100 tokens transferable to other parties, it is doing more than enabling speculation in a digital asset. It is soliciting reliance on an outstanding liability as transferable purchasing or settlement power. A payment-oriented perimeter is therefore justified by the exposure the issuer creates for holders and payment chains. It should attach to the legally enforceable undertaking and actual use, not merely to an advertised peg or an arbitrary numerical reserve ratio.¹¹

⁴ MiCA (n 1), art 3(1)(5)–(7); Bank for International Settlements, Annual Economic Report 2025, ch III <<https://www.bis.org/publ/arpdf/ar2025e.pdf>> accessed 25 September 2026.

⁵ PTSR (n 3), arts 1, 21–23; Circle, 'LuLu Financial Holdings' (n 1).

⁶ MiCA (n 1), arts 36, 39, 49, 54; BIS, Annual Economic Report 2025 (n 6).

⁷ MiCA (n 1), arts 36–39, 54; GENIUS Act (n 3), s 4(a)(1).

⁸ MiCA (n 1), art 3(1)(6)–(7), arts 16, 36–39.

⁹ GENIUS Act (n 3), s 14(b); BIS, Annual Economic Report 2025 (n 6).

¹⁰ MiCA (n 1), art 3(1)(6)–(7); GENIUS Act (n 3), s 2(22).

¹¹ MiCA (n 1), arts 48–49; GENIUS Act (n 3), ss 2(22), 4(a); PTSR (n 3), arts 21–22.

This is a conditional argument. One-to-one backing is an accounting relation at a point in time, whereas redemption is a legal and operational process across time. A cash deposit may expose the issuer to bank failure; a government security can incur liquidation costs; an intermediary may suspend access to the holder's wallet. A token accepted at par between counterparties may still trade at a discount outside that network. The BIS cautions that privately issued stablecoins cannot simply be equated with the singleness, elasticity, and integrity of sovereign money. Reclassification as a regulated payment instrument should thus strengthen safeguards without implying legal-tender status, deposit insurance, or unconditional equivalence to central-bank money.¹²

3. REGULATORY CLASSIFICATION: FROM CRYPTO-ASSET TO PAYMENT INSTRUMENT

3.1 The Classification Threshold: Technology-Based vs Function-Based Definitions

A technology-based definition starts with the token: a transferable representation on a distributed ledger enters the crypto-asset perimeter. This establishes a useful baseline for intermediaries, custody, disclosures, and market conduct. It cannot by itself decide whether an issuer is effectively circulating a monetary claim. Function-based analysis asks what the issuer promises, what the holder may demand, and what the token does in commerce. MiCA illustrates the two steps. It defines the wider crypto-asset class by digital transfer and storage, then distinguishes an electronic money token (EMT), which purports to maintain a stable value by reference to one official currency, from an asset-referenced token (ART), which purports to stabilise value by reference to another value or right, or a combination of them.¹³

The threshold is not the presence of payments alone. Even an unbacked asset can sometimes be tendered in settlement, and a token intended for payments can fail to give its holder an enforceable monetary claim. A careful test therefore examines representation, redemption obligation, reference unit, reserve mechanism, and service activity together. It also prevents a jurisdictional category error: the regulation of an issuer need not displace requirements applying to the business that converts, transfers, or holds the token. The overlap is especially evident when a remittance company uses an externally issued stablecoin while also providing fiat payment services.¹⁴

3.2 Comparative Frameworks

3.2.1 EU MiCA and the E-Money Token (EMT) Category

Under Regulation (EU) 2023/1114 (MiCA), a token purporting to maintain a stable value by reference to one official currency is an EMT. A token stabilised by reference to another value, right, or combination generally enters the ART category, provided the statutory conditions are met. This distinction is not a judgment that all stablecoins behave alike: it routes a single-currency claim toward the legal logic of electronic money. The EMT provisions in Title IV have applied since 30 June 2024; MiCA's broader regime has applied since 30 December 2024. These dates matter when describing current obligations.¹⁵

An EMT offered to the public or admitted to trading in the EU generally must be issued by an authorised credit institution or electronic money institution, subject to MiCA's qualifications and exemptions. MiCA deems EMTs electronic money and gives holders a claim against the issuer. On the holder's request, the issuer must redeem at any time and at par by paying funds other than electronic money; the white paper must explain redemption conditions. The law thereby ties the digital representation to a monetary liability and a specified means of exit. It also prohibits interest on EMTs, reducing the prospect that the instrument is marketed as a yield-bearing substitute for a deposit or investment.¹⁶

MiCA addresses safeguarding and liquidity as separate from formal classification. Article 54 requires at least 30 per cent of funds received for EMTs to remain in separate accounts at credit institutions; the remainder must be invested in secure, low-risk, highly liquid assets denominated in the referenced currency, in accordance with the Regulation. Significant EMTs attract additional requirements and EBA supervision. ART issuers operate under a different Title III authorisation and reserve regime, with an ongoing right of redemption framed by the market value or referenced assets rather than automatic single-currency par. A multi-asset token therefore cannot claim the EMT's status merely because its issuer manages a stable market price.¹⁷

This structure has a limit. EU recognition of the issuer's liability does not guarantee that every wallet provider or off-ramp can make the holder whole immediately, and a dollar EMT does not become euro money. MiCA also includes specific controls on widespread use of non-EU-currency ARTs and EMTs as a means of exchange, reflecting monetary-sovereignty concerns. The Union's model is best understood as a legally constrained monetary claim embedded in a broader crypto-asset services framework, with payment-sector questions still dependent on the actual service supplied.¹⁸

3.2.2 US GENIUS Act and "Permitted Payment Stablecoins"

The Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act), Public Law 119–27, was approved on 18 July 2025. Its definition of a "payment stablecoin" expressly requires that the digital asset be, or be designed to be, used for payment or settlement, and that its issuer be obligated to convert, redeem, or repurchase it for a fixed monetary amount while representing or creating a reasonable expectation of stable value. National currency, deposits, and securities are excluded as specified. The statutory test uses function, promise, and exclusion rather than assuming

¹² BIS, Annual Economic Report 2025 (n 6), ch III; GENIUS Act (n 3), s 11.

¹³ MiCA (n 1), art 3(1)(5)–(7).

¹⁴ MiCA (n 1), arts 48, 59; PTSR (n 3), arts 1–2.

¹⁵ MiCA (n 1), arts 3(1)(6)–(7), 149.

¹⁶ MiCA (n 1), arts 48(1)–(2), 49(1)–(4), 50.

¹⁷ MiCA (n 1), arts 16, 36–39, 43, 54, 56; European Banking Authority, 'Guidelines on redemption plans under MiCAR' (10 February 2025)

<<https://www.eba.europa.eu/activities/single-rulebook/regulatory-activities/asset-referenced-and-e-money-tokens-micar/guidelines-redemption-plans-under-micar>> accessed 25 September 2026.

¹⁸ MiCA (n 1), arts 22–23, 48–54; EBA, 'Guidelines on redemption plans' (n 19).

every dollar-priced token qualifies.¹⁹

The Act's full operative regime is subject to section 20: it takes effect on the earlier of 18 months after enactment or 120 days after the relevant federal regulators issue final implementing regulations. As at this article's cut-off, the statutory design should be discussed as enacted prospective law rather than assumed presently effective licensing. Once operative, issuance is limited to permitted payment stablecoin issuers, comprising approved subsidiaries of insured depository institutions and federal or state qualified issuers within the statutory framework. The choice of issuer perimeter responds directly to the risk created by circulating a redeemable private liability.²⁰

Section 4 requires reserves of at least one-to-one value in specified assets, including US currency, certain deposits and short-dated Treasury instruments. It requires a published redemption policy and monthly disclosure of reserve composition, constrains reuse of reserves, and prohibits interest or yield paid merely for holding or using the stablecoin. These rules seek to keep the issuer's obligation liquid and intelligible. They do not make every holder's funds an insured bank deposit. The Act separately gives holders priority with respect to required reserves in issuer insolvency, demonstrating that backing, entitlement, and insolvency treatment are distinct elements of the payment promise.²¹

Federal and state supervisory routes are calibrated partly by a \$10 billion consolidated issuance threshold for state-qualified issuers, with further statutory conditions and supervisory mechanisms. The Act also addresses foreign issuers through a conditional comparability and registration route and provides for consideration of interoperability standards. Yet the definition and issuer permissions do not settle the entire end-to-end remittance chain: payment initiation, customer-facing disclosures, local licensing, sanctions, and off-ramp obligations must still be assessed in the relevant jurisdiction. The US approach is therefore an issuer-centred payment-stablecoin regime, rather than a universal passport for token-based payments.²²

3.2.3 VARA (UAE) and VASP-Based Treatment

The UAE illustrates why a single "crypto or payment" dichotomy can mislead. The Central Bank of the UAE's PTSR, effective 31 August 2024, creates a specific framework for payment-token issuance, conversion, and custody and transfer within its territorial scope. Article 2 generally prohibits providing such services in the UAE, or directing them to persons there, without the applicable central-bank licence or registration. Its detailed rules distinguish dirham and foreign payment tokens and constrain particular foreign-token uses; cross-border use cannot be inferred from a token's mere availability. Financial free zones require separate territorial analysis under the Regulation's definitions.²³

The PTSR is the principal payment instrument in this comparison. It attaches licensing or registration to the service and specifies obligations for reserves, redemption, safeguarding, governance, and customer protection as applicable to the category. For example, foreign issuers may have a registration route, and a virtual-asset custodian licensed by a local authority may seek the central bank's non-objection registration for foreign payment-token custody and transfer. An existing VASP licence does not alone satisfy the PTSR where a separately regulated payment-token service is performed.²⁴

Dubai's Virtual Assets Regulatory Authority (VARA) operates across Dubai outside the Dubai International Financial Centre. Its virtual-asset rules license activities such as exchange, custody, and transfer and settlement. VARA's fiat-referenced virtual asset (FRVA) issuance rules require a Category 1 issuance licence and approval of each token; they impose reserve and enforceable par-redemption requirements. Crucially, VARA expressly excludes dirham-referenced issuance from its approval route in favour of the central bank and limits FRVAs issued under its rules to purchases and sales within the virtual-asset ecosystem, barring their use for goods and services payments in the UAE.²⁵

The resulting allocation is substantive, not merely semantic. A dollar-linked asset handled by a Dubai VASP may raise VARA activity questions, while a UAE-facing service that meets the PTSR's payment-token definitions may raise central-bank questions as well. It would be wrong to treat VARA's FRVA approval as a general payment authorisation or to assume that every overseas USDC remittance is permissible under the PTSR. One must identify the issuer, token category, custody and conversion providers, transfer purpose, UAE nexus, and the exact person serving the payer and payee. The legal analysis follows the transaction rather than the product's brand.²⁶

3.3 The Common Thread: Reserve Quality, Redemption Rights, and Supervisory Conditions as the Real Determinant of Status

The three regimes do not formally confer a single universal status. MiCA's EMT is a crypto-asset deemed electronic money; the GENIUS Act constructs a distinct federal payment-stablecoin category with deferred operation; the UAE distributes oversight between the central bank and its local virtual-asset authority. What they share is a shift from asking whether a ledger contains a token to asking whether a private issuer can meet a monetary obligation. The actual determinant of safe payment use is the conjunction of an eligible issuer, credible liquid reserves, a clear claim to redemption, safeguards against reserve misuse, and supervisors able to verify continued compliance.²⁷

No single condition substitutes for the others. Perfect reserve value without a directly enforceable holder claim leaves an entitlement problem. A legal claim without accessible assets leaves a solvency problem. Both can exist while delays in wallet access, conversion, and local payout defeat the purpose of a payment. The comparison supports a layered regulatory principle: classify the issuer's monetary undertaking by its economic function, license each service that creates separate customer risk, and assess cross-border legality at both ends. It also cautions against an overstatement: the legal category of

¹⁹ GENIUS Act (n 3), s 2(22)–(23).

²⁰ GENIUS Act (n 3), ss 3, 5, 20; OCC, 'GENIUS Act Regulations' (n 5).

²¹ GENIUS Act (n 3), ss 4(a)(1)–(3), 4(a)(11), 11.

²² GENIUS Act (n 3), ss 4, 5, 12, 18.

²³ PTSR (n 3), Introduction, arts 1–2, 5; <<https://rulebook.centralbank.ae/en/rulebook/payment-token-services-regulation>> accessed 25 September 2026.

²⁴ PTSR (n 3), arts 5, 8–9, 21–23.

²⁵ Dubai Virtual Assets Regulatory Authority, Virtual Asset Issuance Rulebook, annex 1, Fiat-Referenced Virtual Assets Issuance Rules (2025), pt I rr A.2, B.1–5, pt III; <<https://rulebooks.vara.ae/rulebook/annex-1-fiat-referenced-virtual-assets-issuance-rules>> accessed 25 September 2026; VARA, 'Licensed Activities' <<https://www.vara.ae/en/licenses-and-register/licensed-activities/>> accessed 25 September 2026.

²⁶ PTSR (n 3), arts 1–2, 5; VARA FRVA Rules (n 27), pt I r B.4–5.

²⁷ MiCA (n 1), arts 49, 54; GENIUS Act (n 3), ss 2–5, 20; PTSR (n 3), arts 21–23.

payment token does not by itself prove commercial efficiency or monetary equivalence.²⁸

4. COST–BENEFIT ANALYSIS: STABLECOINS IN CROSS-BORDER REMITTANCES

4.1 The Structural Inefficiency of Correspondent Banking

A remittance from one currency area to another has several stages. A provider takes the sender's funds, conducts checks, acquires or allocates foreign-currency liquidity, transmits instructions or value through intermediaries, and arranges payout through a local bank or agent. Traditional correspondent arrangements can require prefunded accounts and several institutions with distinct operating hours. Delays arise not only in the transfer message but also in settlement, reconciliation, access to liquidity, and compliance review. A payment rail that accelerates a single stage cannot automatically shorten every other stage.²⁹

Two official benchmarks establish the policy context without constituting a stablecoin counterfactual. The World Bank reports an average remittance cost of 6.36 per cent in its published global measure; this is a consumer price that incorporates charges and foreign-exchange effects across covered services. The Financial Stability Board reports sticky global costs notwithstanding some faster payments. The G20 target is an average charge of no more than 3 per cent for sending a \$200 remittance by 2030. Comparing a wholesale stablecoin settlement fee with that retail percentage would conflate different denominators and services. The relevant evaluation measures the customer's delivered funds, total fees, exchange rate, failed transactions, and time from initial payment to usable receipt.³⁰

Correspondent banking has compensating strengths. It provides access to established fiat accounts, regulated counterparties, legal finality within payment systems, and familiar dispute procedures. Prefunding can assure that a local recipient gets paid before the provider's own cross-border reimbursement completes, even though it ties up capital. For a stablecoin route to improve on this, any reduction in idle liquidity, messaging friction, or operating-hours dependence must exceed the expense of acquiring tokens, safeguarding keys, maintaining partner liquidity, and redeeming or selling tokens at the destination. The comparison is marginal and corridor-specific, not an assertion that banking is uniformly inefficient.³¹

4.2 Case Study: LuLu Financial Holdings and USDC-Based Settlement

Circle describes a LuLu arrangement in which a subsidiary supports remittance infrastructure used by licensed financial institutions and fintechs across GCC, MENA, and Asia-Pacific markets. Circle's account identifies the problem as dollar settlement constrained by bank hours and multiple partners. Because Circle issues USDC and reports a commercial relationship with LuLu Money Singapore, its case study is valuable direct evidence of the described workflow but an interested source for performance claims. It neither identifies every corridor, pricing contract, licensing entity, transaction volume denominator, nor an independently assessed baseline.³²

4.2.1 Transaction Mechanics: On-Ramp, Settlement, Off-Ramp

The disclosed transaction begins when US dollars enter the company's Circle Mint account and are converted one-to-one into USDC. The token then moves to partner wallets to fund cross-border settlement. A receiving partner may retain the USDC as working liquidity or redeem it into fiat through supported banking and payout rails. The sequence shows the token's role as interinstitutional treasury value. It does not establish that an individual sender buys USDC or that a beneficiary receives it. Nor does an on-chain wallet transfer specify the rate at which a different local currency is paid to a recipient.³³

The point of possible improvement is the settlement interval between the remittance institution and its partner. A blockchain can make a transfer instruction and value movement available outside the hours of correspondent banking, while mint and redemption access provide bridges to dollars. But the fiat on-ramp still depends on an eligible account and available dollars; the off-ramp still requires redemption or a counterparty willing to buy the token, a local payout partner, and whatever screening the payment entails. The mechanism may reduce the amount or duration of prefunded positions when partners accept token settlement, but no public LuLu balance-sheet data quantify such a working-capital release.³⁴

A further distinction is between transfer completion and beneficiary credit. A receiving partner may credit the ultimate beneficiary immediately using its own funds and reconcile subsequently, or may wait until conversion and screening finish. The contractual allocation of settlement risk between partners determines when each obligation is discharged. Circle reports beneficiary credit within one minute after settlement completes, which is narrower than an end-to-end promise measured from a customer's first instruction. Any empirical comparison should timestamp the origin payment, token mint, token transfer, partner acceptance, currency conversion, and final beneficiary access separately.³⁵

4.2.2 Measured Benefits: Cost, Speed, and Volume Outcomes

Circle reports a 25–30 per cent reduction in settlement cost on cross-border flows, 40 per cent growth in cross-border settlement volume, and beneficiary credit in less than one minute after settlement completion. The percentages are relative company-reported outcomes: they are neither

²⁸ MiCA (n 1), arts 48–54, 59; GENIUS Act (n 3), ss 4–5; PTSR (n 3), arts 2, 21–23.

²⁹ FSB, 'Consolidated Progress Report for 2025' (n 2), 4–8; Circle, 'LuLu Financial Holdings' (n 1).

³⁰ World Bank, 'Remittance Prices Worldwide' (n 2); FSB, 'Consolidated Progress Report for 2025' (n 2); Financial Stability Board, 'G20 Targets for Enhancing Cross-border Payments' <<https://www.fsb.org/work-of-the-fsb/financial-innovation-and-structural-change/cross-border-payments/g20-targets-for-enhancing-cross-border-payments-2/>> accessed 25 September 2026.

³¹ FSB, 'Consolidated Progress Report for 2025' (n 2), 4–8; BIS, Annual Economic Report 2025 (n 6), ch III.

³² Circle, 'LuLu Financial Holdings' (n 1), especially 'Treasury movement that stopped waiting for the banking day' and commercial-relationship note.

³³ Circle, 'LuLu Financial Holdings' (n 1), 'Treasury movement that stopped waiting for the banking day'.

³⁴ Circle, 'LuLu Financial Holdings' (n 1); FSB, 'Consolidated Progress Report for 2025' (n 2).

³⁵ Circle, 'LuLu Financial Holdings' (n 1), headline metrics and description of the on-ramp and receiving partners.

absolute fees paid by an individual sender nor a claim that customers saved 25–30 percentage points. The report does not publish the original cost, observation period, control corridors, sample size, or attribution method. Volume growth could follow a cheaper rail, new partners, market expansion, or several factors together. An observed operational gain is consistent with a plausible mechanism, but the public material cannot identify its independent causal contribution.³⁶

Suppose a provider's old interpartner settlement cost was \$1.00 per transaction; a 25 per cent reduction would save \$0.25 at that layer. Whether the sender saves \$0.25 depends on pass-through, fixed fees, FX spreads, and other costs. This is an illustration, not a reported LuLu baseline. Similarly, a sub-minute post-settlement credit may coexist with a slower compliance hold or delayed fiat funding before settlement. A defensible result is therefore narrower than a headline claim of near-free or instantaneous remittances: Circle's account evidences an operational use case and reports improved settlement outcomes, subject to substantial measurement limits.³⁷

4.3 What Stablecoins Actually Remove (and What They Do Not): Disintermediating the Middle Mile, Not FX or Compliance Costs

A token can replace part of the chain of correspondent movements between participating institutions. The transfer of USDC may move a dollar-denominated claim directly between wallets, reducing dependence on a sequence of cross-bank settlement windows. It does not eliminate the entity that issues the claim, the reserve custodians, the platform that mints and redeems it, or the institutions accepting and paying out funds. In this sense, the relevant gain is the redesign of the middle mile, rather than the disappearance of intermediation. Risks that were once borne by correspondent institutions can move to an issuer, a custody provider, a blockchain, and an off-ramp.³⁸

Foreign exchange remains unavoidable where the payer earns one currency and the recipient spends another. A US dollar token may simplify the dollar settlement leg, yet the provider must still obtain dollars at origination or sell dollar value for destination currency. The economic cost includes bid-ask spread, hedging, liquidity inventory, and the price of a local payout network. Stablecoin liquidity can improve execution in some corridors and worsen it in others, especially when token-fiat markets are thin or redemption access is limited to selected institutions. Comparing blockchain network fees alone with a bank transfer price excludes the potentially dominant FX and access costs.³⁹

Compliance likewise remains a service, not an incidental delay that can simply be deleted. A remitter must identify customers, screen sanctions and suspicious activity, handle fraud, preserve records, and comply with destination rules. Token transfers can improve traceability of ledger events but do not automatically identify the beneficial owner behind an unhosted wallet or satisfy travel-rule obligations. The FATF's 2026 targeted report highlights the risk of peer-to-peer stablecoin movements outside regulated intermediaries and difficulties in controlling cross-chain activity. A regulated corridor may therefore spend more on analytics, identity, partner due diligence, and monitoring even if its settlement message moves faster.⁴⁰

There are additional operational cost transfers. Treasury must choose a blockchain, manage keys and authorisations, withstand outages and failed transfers, reconcile token movements to customer liabilities, and preserve sufficient fiat liquidity for weekends and redemption stress. A cheaper middle mile can still improve the aggregate transaction if these costs remain smaller than the released prefunding and correspondent expenses. That is an empirical proposition requiring full-cost accounting. It should be evaluated against alternatives such as better-linked domestic instant-payment systems and expanded banking hours, rather than an artificially slow or expensive banking baseline.⁴¹

4.4 The Interoperability Gap: Closed-Loop Corridors vs Open, Cross-Institutional Transfer

LuLu's disclosed workflow works because its institutions and partners agree to accept, hold, or redeem USDC. Such a corridor can be operationally successful without proving open interoperability. Another remitter may use a different chain, an issuer whose token the recipient cannot redeem, or a custody arrangement that cannot transfer to the chosen wallet. An institution may also decline a token on legal, sanctions, reserve, or counterparty grounds. Network reach has to be measured by the number and quality of usable fiat on- and off-ramps, not by the abstract global accessibility of a blockchain address.⁴²

Interoperability has at least four dimensions: technical compatibility between networks and wallets; commercial agreements on acceptance, pricing, and liquidity; legal recognition and redemption rights in each jurisdiction; and common information for identity and compliance. A bridge that creates a wrapped token may add smart-contract, custody, and redemption risk even if it speeds a chain-to-chain transfer. The GENIUS Act calls for assessment and possible standards on compatibility among issuers and with wider digital finance. This legislative acknowledgment of the problem is not evidence that all permitted tokens will immediately be interchangeable.⁴³

A provider's best initial route may be a bounded corridor in which institutions control entry and exit, maintain reliable liquidity, and know their counterparties. That design may achieve substantial savings where the present middle mile is costly. It also limits the network effects promised by an open payment instrument: adding a new recipient institution requires due diligence, token acceptance, and payout integration. Regulation can improve portability by standardising disclosures and redemption expectations, but divergent capital, payments, and data rules can still fragment a nominally

³⁶ Circle, 'LuLu Financial Holdings' (n 1), headline metrics (all three values).

³⁷ Circle, 'LuLu Financial Holdings' (n 1). The \$1 example is illustrative arithmetic, not company data.

³⁸ Circle, 'LuLu Financial Holdings' (n 1); BIS, Annual Economic Report 2025 (n 6), ch III.

³⁹ World Bank, 'Remittance Prices Worldwide' (n 2) (methodology and remittance-price coverage); FSB, 'Consolidated Progress Report for 2025' (n 2); Circle, 'LuLu Financial Holdings' (n 1).

⁴⁰ Financial Action Task Force, 'Targeted Report on Stablecoins and Unhosted Wallets: Peer-to-Peer Transactions' (3 March 2026) <<https://www.fatf-gafi.org/en/publications/Virtualassets/targeted-report-stablecoins-unhosted-wallets.html>> accessed 25 September 2026, 'Mitigating Risks'; PTSR (n 3), arts 2, 34–35.

⁴¹ FSB, 'Consolidated Progress Report for 2025' (n 2); BIS, Annual Economic Report 2025 (n 6), ch III; PTSR (n 3), arts 23, 35.

⁴² Circle, 'LuLu Financial Holdings' (n 1), descriptions of partner wallets and supported payout rails.

⁴³ GENIUS Act (n 3), s 12; FATF, 'Targeted Report' (n 42), discussion of cross-chain risks.

global token network.⁴⁴

4.5 Costs and Risks: Issuer Solvency, Reserve Quality, Regulatory Fragmentation, and AML Exposure

Issuer risk is the principal new concentration point. Holders may all seek redemption when they doubt the quality or location of reserves. Even safe assets can require liquidation under stress; a bank deposit component introduces bank counterparty exposure; an issuer may rely on a limited set of redemption partners. Disclosure helps a user understand these exposures but is not itself liquidity. MiCA's safeguarding regime, the GENIUS Act's permitted reserve list and insolvency priority, and the PTSR's category-specific reserve and safeguarding provisions respond to different aspects of this same fragility. They do not remove it.⁴⁵

A separate custody or network failure can prevent otherwise solvent tokens from reaching the person entitled to redeem. Smart-contract vulnerabilities, compromised keys, unavailable issuers, and chain congestion create loss or delay. Private settlement finality must also be distinguished from final discharge of the remittance provider's obligation under applicable contract and payment law. A token transfer may be irreversible on-chain while an incorrect beneficiary, frozen wallet, or failed off-ramp still leaves a contested claim. These risks justify operational resilience, custody controls, and clear allocation of loss rather than assuming immutable transfers are synonymous with completed payments.⁴⁶

Regulatory fragmentation raises fixed costs that a simple transaction-fee comparison omits. A token compliant as an EU EMT may still require separate treatment in a US-facing offer or UAE payment service; an approval for Dubai virtual-asset ecosystem use cannot be repurposed as general UAE retail-payment permission. Entity-level licensing, territorial limits, permissible foreign tokens, customer disclosures, and AML requirements all affect the corridor. A provider might optimise the rail only to find that its issuer or off-ramp lacks authorisation in a destination market. Rules that raise compliance cost can nevertheless reduce the probability and social cost of failure, fraud, and monetary instability; the net assessment should include both sides.⁴⁷

Financial-crime exposure poses a particular cross-border challenge. A public ledger can supply a transaction trail, but pseudonymous addresses and movements outside supervised intermediaries complicate attribution. FATF recommends that jurisdictions implement virtual-asset standards and consider proportionate controls for stablecoin arrangements, including risk-based issuer technology and due diligence at redemption. A closed institutional corridor with identified partners can manage this risk more readily than an unrestricted consumer wallet network, but it must still apply the controls relevant to each leg. Regulatory classification does not confer an AML exemption; it defines which responsible actors must implement the controls.⁴⁸

The evidence leaves the overall consumer cost-benefit question open. Circle's results indicate potential wholesale efficiency and faster post-settlement credit, while global remittance statistics measure a different, end-user outcome. An adequate independent study would compare like-for-like corridors over the same period, include FX spreads and failed transfers, adjust for volume and payout method, and report the share of settlement savings passed to senders. Until then the empirical claim is conditional: under suitable liquidity and lawful corridor arrangements, stablecoins may cut a material part of interinstitutional settlement costs without guaranteeing cheaper remittances for every user.⁴⁹

5. DISCUSSION: RECONCILING CLASSIFICATION AND COST-BENEFIT FINDINGS

5.1 Does the Cost-Benefit Case Justify Payment-Instrument Status?

The case for payment classification should not depend on proving a particular percentage of cost saving. Regulation follows the risk of a widely transferable monetary promise: holders and counterparties rely on the issuer to provide par value on demand. Even an expensive stablecoin used for payment warrants rules governing its issuer's liabilities and reserves. Conversely, a fast token lacking a redeemable claim cannot acquire the legal protections of an EMT or permitted payment stablecoin simply through commercial success. The doctrinal justification is the undertaking and its circulation, while economic analysis tests whether the resulting arrangement delivers an actual improvement.⁵⁰

This separates two propositions often conflated in advocacy. First, a well-regulated, fiat-referenced token may be suitable as a settlement instrument between institutions. Second, its deployment may lower the complete price paid by an individual. LuLu's reported experience supports the first proposition and supplies suggestive operational evidence for the second; it does not establish broad pass-through or an independently measured consumer saving. Payment-instrument recognition should consequently be conditional on enforceable redemption, sound reserves, oversight, and legal usability, without being described as a guarantee of universal cost superiority.⁵¹

5.2 Policy Implications for Regulators and VASPs

Regulators should map the actors in a corridor and assign duties to the party controlling each risk. Issuers should evidence reserve ownership, composition, liquidity, redemption rights, and failure arrangements; custodians should safeguard assets and keys; conversion providers should disclose executable rates and liquidity conditions; remitters should identify customers and specify when a payment is final for the beneficiary. This layered

⁴⁴ Circle, 'LuLu Financial Holdings' (n 1); FSB, 'Consolidated Progress Report for 2025' (n 2); GENIUS Act (n 3), ss 12, 18.

⁴⁵ MiCA (n 1), arts 36–39, 54; GENIUS Act (n 3), ss 4, 11; PTSR (n 3), arts 9, 21–23.

⁴⁶ PTSR (n 3), arts 23, 32, 35; FATF, 'Targeted Report' (n 42).

⁴⁷ MiCA (n 1), arts 48–54, 59; GENIUS Act (n 3), ss 3–5, 18, 20; PTSR (n 3), arts 1–2; VARA FRVA Rules (n 27), pt I r B.4–5.

⁴⁸ FATF, 'Targeted Report' (n 42), 'Mitigating Risks'; PTSR (n 3), arts 34–35.

⁴⁹ Circle, 'LuLu Financial Holdings' (n 1); World Bank, 'Remittance Prices Worldwide' (n 2); FSB, 'Consolidated Progress Report for 2025' (n 2).

⁵⁰ MiCA (n 1), arts 48–49; GENIUS Act (n 3), ss 2, 4; PTSR (n 3), arts 1, 21–22.

⁵¹ Circle, 'LuLu Financial Holdings' (n 1), headline metrics; MiCA (n 1), art 49; GENIUS Act (n 3), s 4.

approach preserves the distinction between a token's regulatory category and the licenses necessary to use it. It is particularly important in the UAE, where central-bank payment-token obligations coexist with Dubai virtual-asset permissions.⁵²

Public reporting should distinguish the bank-to-wallet on-ramp, token settlement, redemption, local payout, and complete customer journey. Providers should publish comparable total-cost and speed measures, including spreads and exceptions, rather than headline network throughput. Supervisors can support technical and compliance interoperability through common data standards and reciprocal arrangements where law permits; they must also retain clear rules for foreign issuers and wallet-to-wallet activity. The GENIUS Act's contemplated interoperability work and FATF's 2026 risk guidance indicate different, complementary parts of that task.⁵³

Finally, a policy choice between stablecoins and improvements to existing rails should be evidence based. Longer settlement windows, linked instant-payment systems, and modernised correspondent relationships can also reduce friction. Stablecoins have a distinctive ability to move an issuer's claim continuously between connected wallets, but their claim structure imports reserve, redemption, and concentration risks. The correct question for a regulator or VASP is whether a lawful arrangement improves the chosen corridor's complete performance after these risks and safeguards are priced, not whether the settlement token is technologically novel.⁵⁴

6. CONCLUSION

6.1 Summary of Findings

Payment stablecoins occupy a dual legal space: they are transferable digital assets and, when issued against an enforceable fixed monetary promise for payment or settlement, instruments that create payment-system risk. MiCA classifies a single-official-currency token as an EMT and attaches electronic-money claims and par redemption. The GENIUS Act establishes a prospective US issuer and reserve framework, with commencement governed by its effective-date clause. The UAE's PTSR directly regulates payment-token services, while VARA's fiat-referenced issuance route in Dubai has a restricted virtual-asset-ecosystem use. None of these regimes makes a marketed peg alone sufficient proof of payment safety.⁵⁵

The LuLu-USDC arrangement supplies a concrete, institutionally mediated example of how a token can shorten the cross-border settlement middle mile. Circle reports lower settlement costs, higher volume, and rapid credit following settlement, but has not released the data necessary to measure causal effects or consumer pass-through. FX conversion, local distribution, customer checks, liquidity, and issuer risk remain. The strongest conclusion is therefore conditional: a regulated fiat-referenced claim may improve a well-integrated corridor, provided its total cost and end-to-end performance justify the new operational and legal exposures.⁵⁶

6.2 Limitations and Directions for Future Research

This study relies on public regulatory texts and one interested-party case study. It does not review LuLu's private contracts, transaction logs, reserve holdings, or customer-level prices, and it does not offer a country-by-country legality opinion on every remittance leg. Future research should use matched corridors to compare bank and token routes by delivered value, duration, failure rate, and liquidity tied up, while tracking who ultimately bears custody and issuer losses. It should test whether interoperable token networks scale beyond closed partner arrangements and whether regulation makes redemptions reliable during a joint market and banking shock. These inquiries would show when payment-token recognition advances public payment objectives rather than simply changing the form in which settlement risk is held.⁵⁷

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⁵² MiCA (n 1), arts 48–54, 59; PTSR (n 3), arts 1–2, 21–23; VARA FRVA Rules (n 27), pt I r B.4–5.

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⁵⁴ FSB, 'Consolidated Progress Report for 2025' (n 2); BIS, Annual Economic Report 2025 (n 6), ch III.

⁵⁵ MiCA (n 1), arts 3, 48–54; GENIUS Act (n 3), ss 2–4, 20; PTSR (n 3), arts 1–2, 21–23; VARA FRVA Rules (n 27), pt I r B.4–5.

⁵⁶ Circle, 'LuLu Financial Holdings' (n 1); World Bank, 'Remittance Prices Worldwide' (n 2); FSB, 'Consolidated Progress Report for 2025' (n 2).

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