Multi-Issuer Stablecoins and Cross-Border Insolvency

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Abstract

This paper models the redemption game that arises when a single fungible stablecoin is backed by reserves distributed across two legally distinct issuers regulated in different jurisdictions. Because the token trades not only on centralized exchanges but also on unregulated markets that draw no distinction based on geographic origin, losses are socialized through prices before formal insolvency proceedings begin and competent authorities set conversion rates. Four results emerge. First, simultaneous redemption at different rates is not implementable: arbitrage forces the higher-rate zone to drain first, transmitting insolvency to an otherwise solvent entity. Second, when insolvency regimes differ in speed, the zone that opens its redemption window first at a less favorable rate faces strategic waiting by holders anticipating access to the higher-rate zone. Third, when authorities independently estimate their coverage obligations, the dominant strategy is to minimize declared responsibility, leaving a share of token holders unserved. Fourth, the zone that can preempt the other's reserves extracts its full shortfall, degrading the solvent zone's conversion rate. The paper then derives policy implications for EU regulation and discusses the structural challenges of governing a multi-issuer stablecoin.

Keywords: Multi-issuer stablecoins, Cross-border insolvency, Redemption game, Loss mutualization, MiCAR

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1 Introduction

The stablecoin market has grown substantially over the past decade, reaching a global capitalization of $300 billion in 2025 (McKinsey, 2026). The growth reflects sustained demand for on-chain instruments combining instant transfer, low fees and price stability (Adrian et al., 2025). While blockchain settlement allows stablecoins to circulate worldwide without friction, the regulatory frameworks governing their issuance remain organized along national or regional lines. In response, major issuers have adopted multi-issuer arrangements, in which a single fungible token is issued by legally distinct entities each authorized under a different regulatory framework.

The main multi-issuer stablecoin is USDC, which is issued by two legally distinct entities: Circle Internet Financial, LLC, a US entity subject to the GENIUS Act (Krause, 2025), and its subsidiary Circle SAS, a licensed electronic money institution in France subject to MiCAR and supervised by the French regulatory authority ACPR, which operates under the Banque de France. Another multi-issuer stablecoin is USDG issued by the company Paxos, which achieves concurrent compliance across Singapore and the EU. USDC's circulating supply dwarfs that of USDG, particularly in the EU–US corridor governed jointly by MiCAR and the GENIUS Act; the discussion of practical implications in Section 10 therefore focuses on Circle's arrangement, with the EU regulatory framework as the primary vantage point.

Developing an appropriate regulatory framework for stablecoins requires departing from the bank-centered models on which existing prudential regulation is built. An insolvent stablecoin issuer is not exposed to a classic bank run in the Diamond-Dybvig (1983) sense, where rationing is first-come, first-served. Because the token is tradable on a continuously open secondary market, rationing occurs through prices. As soon as solvency comes into doubt, the token's market price falls below par, forcing the issuer to suspend redemptions. Losses are thus socialized immediately through the market price.[1]

Formal insolvency proceedings intervene only in a second stage, with the liquidation of reserves and the orderly redistribution of assets to token holders. When the insolvent issuer is one of several co-issuers of a single fungible token, this second stage raises additional coordination problems, the analysis of which is the goal of this paper. A two-jurisdiction redemption game is modeled, that arises when a single fungible stablecoin is backed by reserves distributed across two issuing entities and at least one entity is insolvent. Competent authorities set the conversion rate that holders can obtain in their jurisdiction with the objective of orderly insolvency

[1] The USDC depeg of March 10–13, 2023 illustrates this mechanism: following the announcement that Circle held $3.3 billion in reserves at Silicon Valley Bank, the secondary market price of USDC temporarily fell to $0.88 (Du et al., 2025).

proceedings that ensure the best and uniform treatment of covered holders.

The paper establishes four results. First, when a multi-issuer stablecoin trades on multiple continuously open secondary markets, simultaneous redemption at different conversion rates is not implementable: arbitrage forces the zone offering the higher rate to drain first, transmitting insolvency to an otherwise solvent zone through secondary market flows. Second, when insolvency regimes differ in speed, the zone that opens its redemption window first but at a less attractive rate faces strategic waiting by holders, whose option value of accessing the slower, higher-rate zone suppresses redemptions. Third, when competent authorities independently estimate the share of circulating supply they claim responsibility for, the dominant strategy is to minimize coverage to the level of own reserves, yielding par conversion in both zones but leaving token holders unserved. Fourth, when one zone holds a legal power to preempt the other's reserves, it extracts the amount needed to reach par, degrading the other zone's conversion rate even from a position of full solvency. The paper's final section discusses policy implications for EU regulation.

While the regulatory and financial stability risks of stablecoins have attracted considerable academic and policy interest (Adachi et al., 2022; Aldasoro et al., 2025; Arner et al., 2020; Catalini et al., 2022; Cerutti et al., 2026; van 't Klooster et al., 2025), the specific risks arising from multi-issuer arrangements have only recently begun to receive attention (Athanassiou, 2026; Zetzsche, 2026; Arnal, 2026a). Whereas European regulatory bodies tend to consider multi-issuance as a threat to financial stability (European Systemic Risk Board, 2025) and raise the possibility of a prohibition (European Central Bank, 2025; Portes, 2025; Lagarde, 2025), a contrasting view holds that multi-issuance risks are manageable through existing safeguards and operational coordination (Arnal, 2026a; Atallah, 2025). An intermediate view advocates graduated restriction, admitting foreign-issued tokens while limiting their use for domestic payments, as a promising direction for the international architecture (Arnal, 2026b). The present paper shows that any such framework, insofar as it preserves the global fungibility of the token in secondary markets, faces the strategic distortions formally identified here. Building on this emerging literature, the paper complements the legal analysis of targeted MiCAR reforms in Sotiropoulou and Direr (2026) by establishing the welfare benchmark against which such reforms should be evaluated. It also derives policy recommendations for the EU zone, where MiCAR's universal redemption obligations and the absence of extraterritorial reserve powers create specific vulnerabilities in the event of a cross-border insolvency.

Several experts (Portes, 2025; European Central Bank, 2025) observe that MiCAR's mandatory par redemption creates incentives to redeem preferentially in the EU and that reserve ring-fencing may prevent cross-border rebalancing under stress. The present paper formalizes and extends these insights for the EU–US configuration. First, if the US issuer becomes insolvent, secondary market arbitrage channels all redemptions through the EU entity, draining its reserves first even when the EU issuer is perfectly solvent. Second, since both US and EU competent authorities are legally required to cover all tokens they were issued in their jurisdiction, the impossibility of identifying those tokens may produce a coverage gap. Third, the GENIUS Act's automatic stay freezes outgoing transfers from the US issuer upon insolvency — including rebalancing flows contractually owed to the EU entity — preempting EU-allocated reserves before formal insolvency proceedings begin.

The paper is organized as follows. Section 2 sets out the model's framework and assumptions. Section 3 establishes the single-issuer benchmark. Sections 4 and 5 introduce multi-issuance, first without and then with secondary markets. Section 5 derives the main arbitrage result. Section 6 examines the implications of differential insolvency regimes' speed. Section 7 analyzes disagreement over the geographic distribution of tokens. Section 8 analyzes reserve preemption. Section 9 establishes loss mutualization as a welfare benchmark. Section 10 discusses policy implications for EU regulation, including targeted MiCAR amendments, the application of loss mutualization to the EU–US case, and a multi-issuance ban. Section 11 concludes.

2 Framework

There are two geographic zones, A and B, each with its own regulatory framework. The number of tokens in circulation in each zone is N_A and N_B. Their value is backed by reserves R_A and R_B. The stablecoin is initially fully collateralized in both zones:

$$\frac{R_A}{N_A} = \frac{R_B}{N_B} = 1$$

The analysis starts after an insolvency event that reduces the value of reserves in at least one of the two zones, so that the stablecoin can no longer be redeemed at par: R_A/N_A, $R_B/N_B \leq 1$, with at least one strict inequality. A competent authority then steps in.

Throughout this paper, the term "insolvency" is used broadly to designate the issuer's failure to meet its redemption obligations, while "insolvency proceedings" designates broadly any process — formal administrative resolution or judicial insolvency proceedings — by which an insolvent issuer's reserves are distributed to claimants through a "competent authority", whether a resolution authority or a State court.

We make the following assumptions:

H1. Competent authorities can verify the geographic residency of token holders and restrict access to each zone's redemption window accordingly. Centralized exchanges operating within each jurisdiction also enforce residency checks as part of their know-your-customer obligations, so that zone i's window serves only zone i residents.

H2. The geographic distribution N_A and N_B of the token supply is observable at the time of insolvency (Section 7 relaxes this assumption).

H3. No entity is treated as too big to fail: competent authorities operate under a strict no-bailout constraint, and losses are absorbed entirely by token holders.

H4. The model abstracts from cross-border financial contagion beyond reserve losses: the insolvency of one issuer affects the other zone exclusively through the reserve and coverage mechanisms analyzed here, not through broader credit, liquidity, or confidence channels.

H5. Token holders' preferences: Each holder derives utility $u(\tau)$ from a conversion rate $\tau \in [0, 1]$, where u is strictly increasing and strictly concave, with $u(0) = 0$.

H6. Competent authority's preferences: For a rate schedule $\tau_i(k)$ applied to the k-th token ($k \in [0, N_i]$), the authority maximizes $\int_0^{N_i} u(\tau_i(k))\, dk$ subject to the budget constraint $\int_0^{N_i} \tau_i(k)\, dk \leq R_i$ and $\tau_i(k) \in [0, 1]$.

The objective of zone i's competent authority is to maximize total holder utility in its zone. By strict concavity of u and Jensen's inequality, the unique solution is the constant schedule $\tau_i(k) = R_i/N_i$ for all k: a uniform rate applied to every token in the zone, which is the highest feasible rate consistent with available reserves.

A redemption equilibrium is then a pair of optimal conversion rates (τ_A, τ_B).

3 Single-Issuer Stablecoin

As a counterfactual, suppose two distinct tokens are in circulation, one per regulatory zone, each with its own redemption window. In the event of insolvency, the redemption equilibrium is $(R_A/N_A,\ R_B/N_B)$. Holders in zone A are redeemed at rate $\tau_A = R_A/N_A$, and holders in zone B at rate $\tau_B = R_B/N_B$. In particular, if a solvency crisis affects zone B ($R_B/N_B < 1$) but not zone A ($R_A/N_A = 1$), the insolvency is resolved in zone B without spreading to zone A.

4 Multi-Issuance without Secondary Markets

A single token now circulates across both zones. Holders can buy and sell tokens only through centralized exchanges that perform KYC checks and can discriminate among customers on the basis of geographic residence. The redemption equilibrium is still $(R_A/N_A,\ R_B/N_B)$. Holders in zone A can still be redeemed at rate $\tau_A = R_A/N_A$, and holders in zone B at rate $\tau_B = R_B/N_B$. If a solvency crisis affects only zone B, the insolvency can be resolved there without contaminating zone A.

5 Multi-Issuance with Secondary Markets

Holders can buy and sell tokens on centralized exchanges but also on unregulated markets that draw no distinction based on geographic origin. A simultaneous redemption at two different conversion rates is no longer implementable, since holders in both zones can trade tokens at a common market price.

Suppose holders in zone A are redeemed at rate $\tau_A = R_A/N_A \leq 1$ and holders in zone B at rate $\tau_B = R_B/N_B < R_A/N_A$. After arbitrage is eliminated, the secondary market price q settles at the more favorable conversion rate: $q = R_A/N_A$, so that (i) holders in zone B prefer to sell on the secondary market rather than redeem at their dedicated window, and (ii) holders in zone A purchase tokens on the secondary market and redeem them at rate R_A/N_A through centralized exchanges.

A differential conversion rate requires sequential redemption. Zone B's redemption process does not effectively begin until zone A's reserves are exhausted. The insolvency of the zone B entity first produces a run on zone A's redemption window until its reserves are exhausted, even if zone A's entity is solvent ($R_A/N_A = 1$). Once zone A's reserves are exhausted, the secondary market price falls to the zone B conversion rate: $q = R_B/N_B$. Holders in zone B then turn to their dedicated redemption window until the associated reserves are exhausted.

The pair $(R_A/N_A,\ R_B/N_B)$ is the unique redemption equilibrium: the objective of distributing reserves at a uniform rate is achieved within each zone, even if rates differ across zones.

Note that when a general solvency crisis uniformly erodes reserves in both zones ($R_A/N_A = R_B/N_B < 1$) both authorities offer the same conversion rate. The secondary market price settles below par: $q = R_A/N_A = R_B/N_B < 1$. Redemption proceeds simultaneously in each zone.

6 Differential Speed of Insolvency Proceedings

The sequential insolvency dynamics described above assume that both redemption windows open simultaneously. In practice, insolvency regimes differ in speed: legal frameworks vary in their procedural timelines, the discretion afforded to authorities, and the existence of fixed statutory deadlines.

Two cases arise depending on which zone opens its redemption window first.

6.1 Zone A opens first and offers the more attractive rate

This is the base case of the preceding section ($\tau_A > \tau_B$). Holders immediately prefer zone A's window, zone A's reserves drain first, and zone B's wind-down stalls until zone A's window is exhausted. Speed and rate advantage reinforce each other; no new mechanism arises.

6.2 Zone B opens first and offers the less attractive rate

In the case $\tau_B < \tau_A$, holders now face a waiting game: redeem immediately at zone B's inferior rate, or hold and wait for zone A's window to open. The following scenarios emerge.

Strategic waiting. If holders are sufficiently confident that zone A will open promptly at a higher rate, they defer redemption. The secondary market price during this waiting period incorporates the option value of zone A. It settles above R_B/N_B, reflecting anticipated access to zone A's superior terms. Zone B's window attracts few redemptions and its wind-down stalls, despite being open first.

Redemption under uncertainty. When holders are uncertain about the timing or the rate at which zone A will open, whether because zone A's own reserves may be impaired, or because its insolvency procedure is opaque, the option value of waiting is eroded. Holders may prefer to redeem at zone B immediately rather than bear this uncertainty. Zone B can therefore complete its redemption first, even at a less favorable rate, provided uncertainty about zone A is sufficiently large.

Mixed strategies. Between these two polar cases lies a range of intermediate configurations in which holders are heterogeneous in their assessment of zone A's prospects. More pessimistic holders exit by selling their tokens on the secondary market rather than redeeming at zone B's inferior rate; less pessimistic holders buy these tokens, anticipating access to zone A. The secondary market price q adjusts to clear these transactions, settling below the expected zone A rate but above τ_B. Zone B's window therefore remains largely inactive, as in the pure strategic-waiting case.

7 Disagreement on the Geographic Distribution of Tokens

The preceding sections assume that the two authorities jointly account for the entire circulating supply: zone A covers N_A tokens and zone B covers N_B tokens, exhausting the total supply. In practice, each authority independently decides the number of tokens it is responsible for. This number could be based on estimates of regional market shares. Yet tracking the effective volume of tokens circulating in each jurisdiction is extremely difficult. A large share is held in self-custodied wallets or omnibus accounts that carry no reliable geographic identifier. Moreover, each authority has an incentive to minimize that estimate.

The model is amended by letting each authority choose M_i, the number of tokens it claims responsibility for. Each zone simultaneously declares M_i and, given available reserves R_i, sets its conversion rate at $\tau_i = R_i/M_i$. Since each authority maximizes the uniform rate it offers to its covered holders, minimizing M_i is a dominant strategy. The feasibility constraint $\tau_i \leq 1$ imposes the lower bound $M_i = R_i$. The dominant-strategy equilibrium is therefore:

$$\tau_A = \frac{R_A}{R_A} = 1, \qquad \tau_B = \frac{R_B}{R_B} = 1$$

Both zones resolve at par, each covering only what its reserves can support. The $N_A + N_B - R_A - R_B$ remaining tokens (those that neither zone claims) are orphaned: no redemption window serves them, and their holders recover nothing.

Two remarks are in order. First, the existence of orphan tokens as a result of strategic undercounting is more likely in the presence of additional unresolved jurisdictions.[2] When the stablecoin circulates across more than two zones, each authority can credibly attribute unclaimed tokens to other zones not yet involved in redemption. Since geographic estimates are imprecise by nature, this attribution is difficult to contest.

Second, the symmetric equilibrium breaks down if one zone operates under a legal obligation to serve all remaining token holders, regardless of their geographic origin. Such a zone cannot freely minimize N_i: it is constrained to cover the full residual supply after the other zone has resolved. The unconstrained zone resolves first at par; the constrained zone covers all remaining $N_A + N_B - R_A$ tokens at the degraded

[2] Arnal (2026b) reports the existence of 7 jurisdictions and regulatory frameworks: EU (MiCA), US (GENIUS Act), UK (FCA/BoE), Hong Kong (Stablecoins Ordinance), Singapore (MAS), Japan (Payment Services Act), and UAE (CBUAE federal and free zones).

rate:

$$\frac{R_B}{N_A + N_B - R_A} < \frac{R_B}{N_B}$$

The regulatory protection that obliges one zone to ensure universal redemption thus becomes a strategic liability: the unconstrained zone exploits it to externalize the entire residual burden.

8 Reserve Preemption

The availability of a zone's reserves is not legally guaranteed, particularly when those reserves are located in the other zone. Inter-entity rebalancing rests on a private-law agreement between the two issuers that may not survive insolvency. Reserves may be ring-fenced and fall outside the issuer's discretionary control. Insolvency proceedings introduce further frictions (automatic stays, judicial oversight of asset transfers, competing priority claims) that can prevent reserves from being repatriated to the zone to which they are nominally allocated (Odinet & Tosato, 2026).

Suppose zone B holds a power to preempt zone A's reserves prior to the formal insolvency process. The game gains a preliminary stage in which zone B chooses $P \geq 0$, the amount of zone A's reserves it seizes, before conversion rates are set. Since seizing P raises zone B's effective reserves and lowers zone A's, zone B's dominant strategy is $P = N_B - R_B$. The subgame-perfect equilibrium is therefore:

$$\tau_B = 1, \qquad \tau_A = \frac{R_A - (N_B - R_B)}{N_A}$$

Zone B resolves at par by extracting exactly the shortfall it faces from zone A's reserves. Zone A bears the full cost of zone B's insolvency in addition to its own. Since $P = N_B - R_B$ increases with zone B's insolvency depth, τ_A declines accordingly, even when zone A was initially fully solvent. Reserve preemption thus constitutes a second contagion channel, distinct from the rate-arbitrage mechanism of the preceding sections.

9 Loss Mutualization

The distortions identified above — rate arbitrage, orphan tokens, and reserve preemption — all drive decentralized outcomes below the welfare optimum. A natural benchmark is the first-best allocation, in which a social planner maximizes joint holder utility across both zones:

$$\max_{\tau_A,\tau_B} \; N_A\, u(\tau_A) + N_B\, u(\tau_B) \quad \text{subject to} \quad N_A\tau_A + N_B\tau_B \leq R_A + R_B, \quad \tau_i \leq 1$$

The first-order conditions require $u'(\tau_A) = u'(\tau_B)$; since u is strictly concave, u' is strictly decreasing, so the optimum requires $\tau_A = \tau_B$. Substituting into the binding budget constraint yields the optimal pooled rate:

$$p^* = \frac{R_A + R_B}{N_A + N_B}$$

This result is a direct application of Borch (1962): risk-averse holders are best served by equalizing conversion rates across zones, as if the two issuers formed a single entity. By Jensen's inequality applied to the population-weighted mixture of zone-specific rates, the Section 5 outcome always delivers strictly lower welfare than mutualization whenever the two zones are asymmetrically impaired ($R_A/N_A \neq R_B/N_B$):

$$N_A\, u\left(\frac{R_A}{N_A}\right) + N_B\, u\left(\frac{R_B}{N_B}\right) < (N_A + N_B)\, u(p^*)$$

Mutualization eliminates all the strategic distortions identified in this paper — the rate-arbitrage race, the conflict over token distribution, the reserve preemption game, and the temporal externalities arising from differential insolvency regimes' speed — since a single agreed rate leaves no room for unilateral deviation.

Full co-insurance generates however allocation distortions in the presence of moral hazard (Pauly, 1968). A competent authority that expects part of the losses in its zone to be absorbed by the other zone has weakened incentives to maintain stringent oversight of its issuer, as the cost of supervisory laxity is partially externalized onto the other jurisdiction. Mutualization under these conditions transfers risk from the less stringent to the more stringent regime, creating a subsidy to regulatory arbitrage. The optimal mutualization policy therefore reflects a tradeoff between these two forces: the welfare gains from loss pooling against the moral-hazard costs of weakened supervisory incentives.

10 Implications for EU Regulation

10.1 Differential insolvency regimes' speed: the EU–US case

Section 6 shows that when insolvency regimes differ in speed, the order in which redemption windows open shapes the redemption equilibrium. Applying this framework to Circle's two entities requires identifying which legal track actually governs each side. Circle LLC's insolvency regime is itself in transition. Under its current network of state money transmitter licenses, Circle falls under ordinary state and federal judicial bankruptcy law, with no dedicated insolvency framework. But since USDC's circulating supply exceeds the GENIUS Act's $10 billion threshold for non-federally-chartered issuers, this structure cannot be maintained permanently: Circle applied for an OCC charter in June 2025, and on July 10, 2026 received final OCC approval to establish First National Digital Currency Bank, N.A., to operate as Circle National Trust. No opening date has been announced; once the charter takes effect, Circle LLC will be removed from ordinary bankruptcy court jurisdiction altogether and placed under a dedicated Federal Bank Resolution Regime, in which the OCC triggers failure and a specialized private receiver, rather than a bankruptcy judge, executes the wind-down.

Circle SAS, by contrast, is licensed as an electronic money institution rather than a credit institution, and therefore falls outside the EU's bank resolution framework. An impaired EMI is instead funneled into ordinary national judicial insolvency proceedings — in France, *liquidation judiciaire* before the commercial court, with a court-appointed liquidator administering the estate. The ACPR's role is to enforce, within that judicial process, the redemption plan and reserve ring-fencing mandated by MiCAR Article 47, so that segregated reserve assets are prioritized for token holders rather than absorbed into the general insolvency estate.

Both sides are therefore in flux, and in opposite directions: the EU side is judicial, with a regulator enforcing a pre-agreed redemption plan onto a court-appointed liquidator; the US side is presently judicial as well, but statutorily required to migrate toward a dedicated administrative regime once Circle's federal charter takes effect. Which track will in fact resolve faster is untested in either configuration: neither the interaction between French judicial insolvency law and the ACPR's enforcement powers under MiCAR, nor the OCC's prospective Federal Bank Resolution Regime for a stablecoin issuer, has any operational precedent at the scale of a multi-billion-dollar failure. This is precisely the setting of Section 6's uncertainty mechanism (§6.2): holders facing genuine uncertainty about which track will complete first, and at what rate, may redeem wherever redemption appears more advanced, independently of which side opened its window first.

10.2 MiCAR's specific vulnerabilities

Allowing multi-issuer stablecoins under the current MiCAR framework is unsatisfactory. Specific features of MiCAR make the disadvantages identified in this paper particularly severe for the EU zone.

Three mechanisms stand out. First, MiCAR's mandatory redemption regime makes the EU zone's legal protections vulnerable to cross-border insolvency shocks. Under Article 49(6), EU issuers are generally prohibited from charging redemption fees, though Article 46 permits an issuer to impose liquidity-related fees as part of a recovery plan triggered by a reserve shortfall. Under Article 49(2), any holder holds a statutory right to redeem at par regardless of nationality or country of residence. This right does not depend on a contractual relationship with the issuer, extending even to holders who acquired the token on the secondary market with no direct link to the issuer. The GENIUS Act is comparatively imprecise on this point: its redemption obligation is framed around the issuer being "obligated," without clarifying whether the right extends to all holders or only to verified customers and institutional clients. The right of redemption depends on the token's origin. If it was issued by a MiCAR-regulated entity, redemption is owed by this entity. As long as the EU issuer is solvent, it is legally committed to redeeming at par, but only for tokens it issued itself. It bears no obligation toward tokens issued by the non-EU entity.

What in practice channels redemption demand toward the EU zone when the non-EU issuer faces distress is the token's technological fungibility, not the EU issuer's legal commitment as such: because the two entities' tokens are indistinguishable once in circulation, holders can acquire claims on the secondary market and redeem them through the EU window irrespective of where they originated, exploiting the arbitrage mechanism of Section 5. This arbitrage forces the higher-rate zone to drain first, transmitting insolvency to an otherwise solvent entity. The legal protections that MiCAR provides to the holders of EU-issued tokens thus become the mechanism that imports insolvency into the EU zone. The most protective regime becomes the preferred redemption destination in a crisis.

Second, the ring-fencing risks studied in Section 8 are particularly acute for EU issuers. Circle SAS holds a substantial share of its reserves in US dollar-denominated assets located in the United States. Under Circle LLC's current bankruptcy framework, insolvency triggers an automatic stay on all outgoing asset transfers, including those owed to Circle SAS under inter-entity rebalancing agreements; once Circle's federal charter takes effect, an equivalent freeze will operate under the Federal Bank Resolution Regime through OCC receivership rather than bankruptcy court. The EU issuer's effective reserves are thus reduced by the amount it was contractually entitled to receive but cannot access. EU competent authorities cannot impose a comparable freeze on US-located assets. The EU issuer therefore bears the risk of the US issuer's default with no legal recourse to prevent the extraction.

Third, the GENIUS Act imposes a mandatory and comprehensive coverage obligation on the US competent authority: Section 11(b)(2) provides that, notwithstanding any other provision of law, any holder of a token issued by the relevant US issuer is deemed to hold a claim against it. The US competent authority therefore has no statutory discretion to limit its declared coverage. The vulnerability is not legal but technical. To honor this obligation, the competent authority must determine which circulating tokens were issued by Circle LLC and which by Circle SAS — yet on-chain, USDC is a single fungible asset: once minted and commingled in secondary circulation, the two entities' tokens are indistinguishable. The EU competent authority faces the same constraint, since MiCAR's redemption obligation under Article 49(2) is likewise tied to the token's issuing entity. This tracing problem differs from the strategic undercounting analyzed in Section 7, where each authority minimizes declared coverage as a dominant strategy. Here, both authorities are legally required to cover all tokens they issued. Yet the impossibility of identifying those tokens may produce a coverage gap that is functionally equivalent to the orphan-token outcome.

10.3 Targeted MiCAR amendments

Three structural asymmetries disadvantage the EU issuer in any insolvency episode involving a non-EU co-issuer: mandatory par redemption, the absence of extraterritorial reserve powers, and the asymmetric exposure created by token fungibility, under which the EU entity may face global redemption demand exceeding the tokens it actually issued. These asymmetries persist regardless of how well-capitalised or well-supervised the EU entity is. Three adjustments follow directly from the analysis.

First, Article 46's existing recovery-plan exception, which permits liquidity-related fees once an issuer's own reserves are impaired, could be extended to a non-reciprocity trigger: where the non-EU co-issuer is subject to materially weaker redemption standards, the EU issuer would be permitted to invoke the same fee mechanism even absent its own reserve shortfall, limiting the arbitrage channel identified in Section 5. Second, MiCAR could require that reserves backing EU-facing redemptions be held within the EU jurisdiction, directly addressing the reserve preemption mechanism of Section 8. Third, since coverage obligations are already legally defined for both competent authorities, the operative gap is technical rather than legal: the EBA could require co-issuers to adopt a verifiable mechanism for attributing circulating tokens to their issuing entity — for instance, a shared minting registry or distinguishable on-chain issuer identifiers — making the legal perimeter enforceable in practice rather than merely declaratory.

These amendments address the asymmetry of obligations. They do not, however, eliminate the underlying coordination problem: as long as the two insolvency regimes differ in redemption rates, speed and their reserve availability rules, strategic distortions remain. The next subsections examine the merits and limits of more drastic measures: the implementation of loss mutualization (Section 9) across the two zones, and multi-issuance prohibition.

10.4 Implementing loss mutualization in the EU–US case

Section 9 establishes loss mutualization as the first-best welfare benchmark, while also showing that it transfers risk toward the more stringent regime under moral hazard. To be operational in the EU–US case, the EBA would require a verifiable mechanism for attributing pooled reserves and circulating tokens to each issuing entity, since coverage obligations are already legally defined under both regimes but cannot be reconciled for mutualization purposes absent such a mechanism, as discussed in Section 10.

Whether loss mutualization can still offer a coherent regulatory path remains debatable. On one hand, such agreements could remain acceptable between jurisdictions maintaining comparable supervisory standards. Access to the EU single market through a multi-issuer arrangement could be conditioned on a positive equivalence determination by the European Commission, informed by technical advice from the EBA, restricting co-insurance to jurisdictions whose regimes are sufficiently comparable to MiCAR. On the other hand, an effective loss-mutualization agreement requires an exceptional degree of cross-border coordination — on reserve standards, insolvency procedures and coverage, and crisis management — for which neither the institutional infrastructure nor the international legal framework currently exists. If such an international agreement is not feasible or acceptable to the two competent authorities, the model's results suggest a multi-issuance ban as a second-best policy.

10.5 Multi-issuance prohibition

A prohibition on multi-issuer stablecoins, a possibility raised by the European Systemic Risk Board (ESRB, 2025), would require issuers to replace the multi-issuer token with a euro-area stablecoin issued exclusively by the EU entity and fully subject to MiCAR, while the global dollar token would continue to circulate outside the Union under distinct branding.[3]

Once the EU-issued token is legally and technically distinct from the token circulat-

[3] Tether has moved in this direction with the launch of USAT (USAT) in January 2026, a GENIUS Act-compliant stablecoin issued through Anchorage Digital Bank (a federally chartered OCC bank), legally and technically distinct from the global USDT.

ing in the United States, and provided reserves are clearly segregated between the two instruments, the arbitrage channel, the orphan token problem, the reserve preemption game, and the temporal externalities arising from differential redemption speed would all cease to apply. Without such segregation, the two tokens would share a common reserve pool and the strategic distortions identified in this paper would persist under a different name.

A ban would eliminate the EU-specific exposure analysed above, but would not entirely remove European holders' exposure to dollar stablecoins: tokens issued by Circle LLC would continue to circulate and be held by EU residents through unregulated channels, outside any supervisory perimeter (Arnal, 2026a; Zetzsche, 2026) as is currently the case with Tether's USDT. Another cost of this approach would be capital fragmentation. Separating a single global token into two zone-specific instruments would dissolve a unified liquidity pool: the euro-zone instrument would start with a smaller circulating supply, shallower secondary markets, and weaker network effects than the global token it replaces. A full cost-benefit assessment of a multi-issuance ban, weighing these costs against the stability gains identified in this paper, lies beyond its scope.

11 Conclusion

This paper has examined the redemption game that arises when a single fungible stablecoin is backed by reserves distributed across two legally distinct issuers operating under different regulatory regimes. The central question is the conversion rate holders can obtain in each jurisdiction when the stablecoin issuer becomes insolvent, and how interaction between competent authorities shapes that rate.

The four mechanisms identified — rate arbitrage, differential insolvency speed, strategic undercounting, and reserve preemption — all originate in the same structural feature: a single fungible token issued by legally distinct entities that are technologically indistinguishable, creating a wedge between legal obligations and market realities that no competent authority can bridge unilaterally.

The paper's policy recommendation follows directly from these results. Full loss mutualization — a bilateral agreement between competent authorities to pool reserves and apply a single conversion rate to all circulating tokens — eliminates all four distortions simultaneously and constitutes the first-best outcome. Where international coordination proves infeasible, a prohibition on multi-issuer arrangements, requiring zone-specific tokens with clearly segregated reserves, would also remove the distortions at the cost of capital fragmentation and a reduced regulatory perimeter over dollar-denominated tokens held by EU residents.

A natural extension is to move beyond two zones. When a token circulates across N jurisdictions simultaneously, authorities may form bilateral coalitions to coordinate their declared coverage and jointly externalize residual losses onto non-coalition zones, introducing a layer of strategic interaction absent from the present model. This extension also sharpens a key institutional requirement: any cooperative agreement presupposes verifiable attribution of circulating tokens to their issuing entity, for instance through a minting registry or on-chain issuer identifiers. The technical feasibility of such a mechanism, and its implications for token fungibility, remain open questions.

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