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A Sovereign Stablecoin Framework



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Purpose and Scope

The stablecoin debate has moved on. Dollar stablecoins are already becoming a global payment rail. The policy question now is whether domestic currencies will have a regulated place on that rail, or whether digital settlement will default almost entirely to the US dollar.

This report argues that a well-designed sovereign stablecoin can give a domestic currency that place without forcing the state to build or operate every part of the system. Public authorities should control the rules for issuance, reserves, redemption, supervision, and the decision to scale or stop. Licensed institutions and infrastructure providers can execute within that mandate.

This report follows the path from early assessment to implementation, explaining how to define the instrument, assign decision rights, select infrastructure, manage compliance and risk, run a controlled pilot, and expand only when the results justify it.

This report examines KGST in Kyrgyzstan as a real-world example. The case illustrates how public authorities, licensed institutions, infrastructure providers, and a public blockchain can work together within one program.

In this report, “sovereign stablecoin” means a regulated stablecoin denominated in a country’s domestic currency and issued under a public mandate. The state or central bank does not have to be the direct issuer or bear the redemption obligation.

Not every country needs a sovereign stablecoin, and launching one is not proof of modernization. Each country must choose an issuer, reserve structure, settlement network, and regulatory approach that fits its own laws, institutions, and policy goals. If the instrument does not improve a real payment route, it should not scale.

The starting question is where a sovereign stablecoin can create clear public value. A sovereign stablecoin should be assessed against existing payment infrastructure and other available forms of digital money. This report focuses on the design and implementation questions that arise when authorities determine that a stablecoin model merits further consideration.

{01} PART I

Why a Multi-Stablecoin System Is Emerging

Stablecoins are already changing how value moves across borders. Estimated gross cross-border flows in USDT and USDC rose from US\$12 billion in the first quarter of 2020 to US\$316 billion in the first quarter of 2025. In Ukraine, Vietnam, and Belarus, gross flows reached more than 10% of annual GDP.^[1] About 98% of stablecoin value is denominated in US dollars.^[2] The policy question is no longer whether stablecoins will become a global payment rail. It is whether domestic currencies will have a regulated place on it.

This shift is creating more than a new digital asset market. It is creating a new payment rail. But global settlement alone does not solve local access, regulation, or distribution. That is where sovereign stablecoins become relevant.

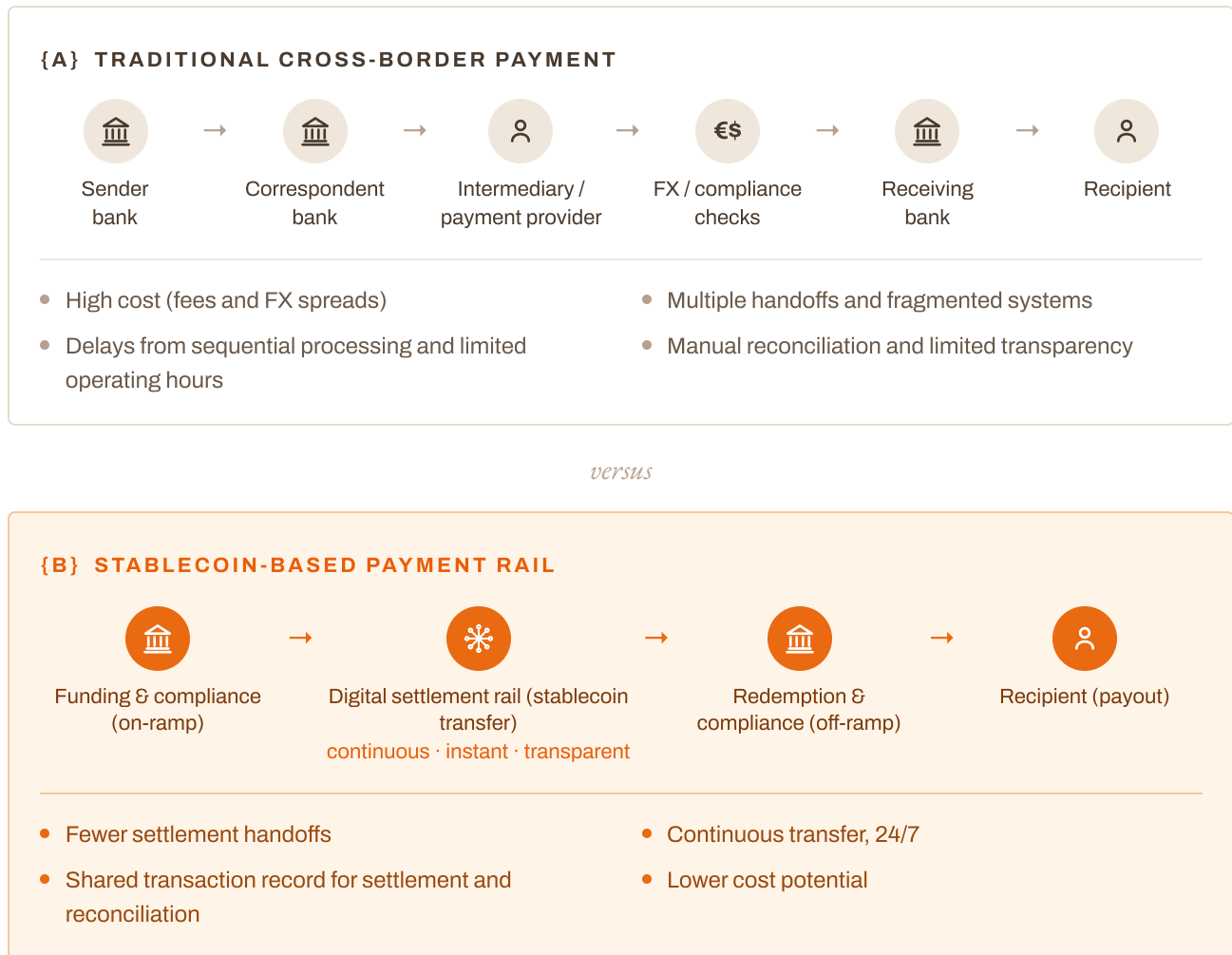
1. Stablecoins create a more direct payment rail

Cross-border payments remain expensive and fragmented. Households lose part of each remittance to fees and foreign-exchange spreads. Businesses face intermediary charges, delayed settlement, prefunding, and manual reconciliation. In the third quarter of 2025, the global average cost of sending a US\$200 remittance was 6.36%.^[3]

Much of this friction comes from the number of institutions and systems involved. Compliance checks, currency conversion, account updates, and final settlement may happen separately. Different operating hours and data standards add further delay.^[4] Access can also depend on a small number of correspondent banks or payment providers. In the Pacific, correspondent banking relationships fell by about 60% over the past decade, twice the global average.^[5]

{FIG. 01}

Two payment rails compared



Stablecoins can create a more direct settlement rail. They can reduce handoffs, support continuous transfer, and provide a shared transaction record for settlement and reconciliation.

But the blockchain transaction is only one part of the payment. Users still need foreign exchange, compliance, funding, redemption, and local payout. A faster settlement rail does not by itself solve how money enters and leaves the financial system.

That is the next problem a sovereign stablecoin can address.

2. Sovereign stablecoins connect on-chain settlement to the domestic financial system

Dollar stablecoins can move globally, but regulated access remains local.

Moving between a stablecoin and the domestic financial system still depends on local banks and payment institutions, customer onboarding, foreign exchange, compliance, redemption, and payout. In many markets, this connection is more fragmented than the on-chain transfer itself.

The demand is already visible. Foreign-currency stablecoin use often increases when inflation is high, the local currency is volatile, or access to foreign currency is limited.^[6] For economies that rely on capital-flow management measures or foreign-exchange restrictions, this creates an additional policy concern: stablecoin flows may weaken the effectiveness of those controls by allowing value to move outside traditional banking channels.^[6] Nigeria has accounted for roughly 60% of stablecoin inflows into sub-Saharan Africa since 2019, with stablecoins used for remittances and payments to overseas suppliers.^[7]

A sovereign stablecoin can bring the domestic currency onto the same digital settlement rail through a regulated local gateway. It does not need to replace dollar stablecoins. It gives local banks, payment institutions, businesses, and users a regulated way to move between domestic money and digital settlement networks.

Where demand for dollars is driven by inflation or depreciation, a stablecoin cannot solve weakness in the underlying currency. Credible monetary, fiscal, and exchange-rate policy remains essential. But where the problem is payment access and infrastructure, a sovereign stablecoin can provide a new domestic route. A weak currency does not become strong because it moves on-chain. Stablecoins can improve payment rails; they cannot repair monetary policy.

For some countries, that route may do more than improve the existing system. It may offer a faster way to build digital payments in the first place.

3. Stablecoins accelerate digital payments where banking infrastructure is limited

Digital access is growing faster than traditional financial infrastructure in many markets. 1.3 billion adults globally still lack a financial account, yet 900 million of them own a mobile phone and 530 million own a smartphone.^[8]

Countries in this position may not need to reproduce every layer of branch, card, acquiring, and correspondent-payment infrastructure before expanding digital payments.

Wallets, regulated fiat gateways, and stablecoin settlement can provide a shorter path. Existing mobile connectivity can become a distribution layer, while licensed institutions continue to provide onboarding, conversion, compliance, customer protection, and cash-in and cash-out.

This is not a replacement for the banking system. Banks and regulated financial institutions remain central to reserves, fiat connectivity, redemption, and supervision. The opportunity is to avoid making every market rebuild the full legacy payment stack before it can participate in digital settlement.

Our view: the future is multi-stablecoin

One global stablecoin will not replace every domestic currency. The more credible outcome is a multi-stablecoin system in which dollar stablecoins provide international liquidity while regulated domestic stablecoins provide local access, settlement, and regulatory control. Shared infrastructure and public blockchain networks can connect these instruments across markets.

{ FIG. 02 }

A multi-stablecoin system: global rail, local gateways



A more direct payment rail

Stablecoins move value faster and more directly across the globe.



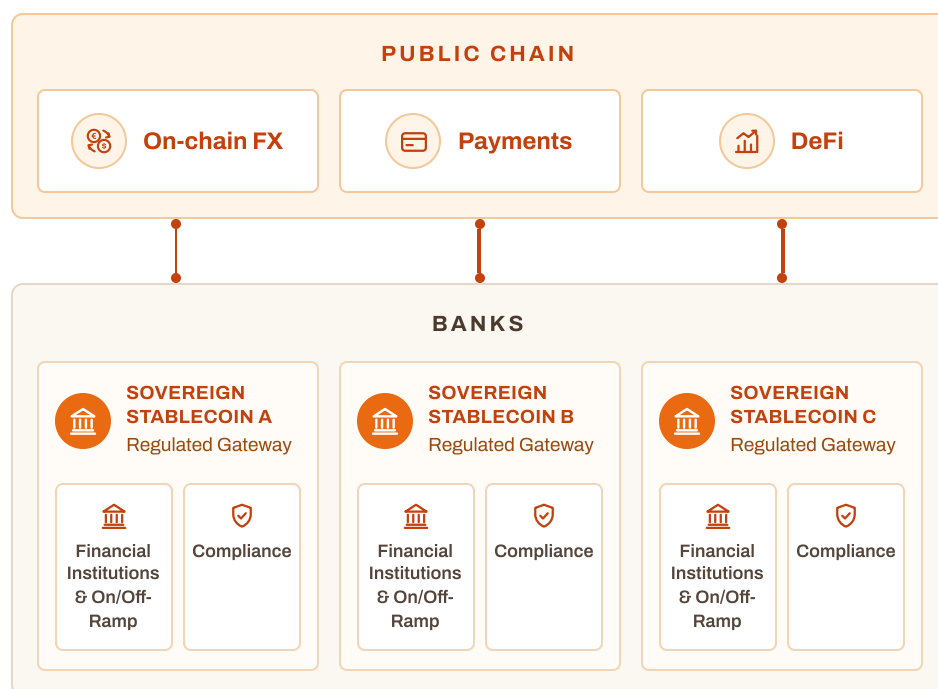
A regulated domestic bridge

Sovereign stablecoins connect digital settlement with domestic financial systems through regulated on/off-ramps.



A faster path to digital payments

Countries with limited legacy infrastructure can expand digital payments faster and more inclusively.



The rail can be global. The gateway, currency, and regulatory control should remain local.

In this model, countries do not need to choose between participating in global digital settlement and retaining control over domestic issuance, reserves, redemption, and supervision. The two can coexist.

The next question is therefore what sits behind each sovereign stablecoin: who owes redemption, what supports that obligation, and what gives the instrument its value.

{02} PART II

Defining the Sovereign Stablecoin

Before a country designs a sovereign stablecoin, it has to be clear about what it is issuing. The token itself is only the digital form. What matters is the claim behind it. A token without dependable redemption cannot function as credible digital money. It is a promise with an interface.

A sovereign stablecoin is denominated in the domestic currency and designed to be redeemable at par. An authorised issuer is responsible for that redemption, and a defined pool of reserve assets supports the obligation. Together, the claim, the reserves, and the redemption mechanism determine whether the instrument can maintain its value.

The design turns on three questions:

Who owes redemption at par?

The program must identify the entity responsible for returning the underlying currency, who has the right to redeem, and how quickly redemption must occur.

What supports that obligation?

Reserves must be sufficient, liquid, properly held, and available when users redeem. Their custody, segregation, and reporting matter as much as their nominal value.

What happens if part of the structure fails?

The legal framework should state what happens if the issuer, reserve bank, custodian, or another critical provider fails. This determines where risk ultimately sits.

A sovereign stablecoin can combine this regulated issuance and redemption model with circulation on a public blockchain. Approved institutions can manage issuance, onboarding, and redemption, while the instrument can move across compatible wallets, payment providers, and applications.

With those foundations settled, the remaining task is to build the legal, financial, and technical system around the instrument.

{03} PART III

Building the Sovereign Stablecoin

A sovereign stablecoin is not a standalone token. The system links the claim described in Part II to reserves and banks, along with settlement infrastructure, liquidity, compliance, and the people who use it.

Its architecture has three operating layers and two functions that cut across them.

The Operating Stack

1. Issuance, reserves, and redemption

The first layer is the regulated core: the authorised issuer, reserve accounts, custody and reserve management, reconciliation, and the processes for minting and redemption.

The issuer should mint new units only after confirming receipt of funds and remove units from circulation when they are redeemed. Circulating supply, reserves, and the redemption obligation must stay aligned throughout the instrument's lifecycle.

Reserves support redemption at par; liquidity determines how easily users can acquire, exchange, transfer, and redeem the stablecoin in daily use. They serve different purposes.

2. Settlement and liquidity

After issuance, the stablecoin needs reliable infrastructure for circulation. This layer covers the settlement network, wallets and custodians, exchanges and payment providers, liquidity providers, and any approved infrastructure that connects markets or networks.

The settlement network affects transaction speed, access to wallets and liquidity, institutional tooling, security infrastructure, and potential distribution.

3. Distribution and use cases

Distribution is the point at which the stablecoin reaches actual use cases, such as government payments, cross-border trade, remittances, treasury settlement, business payments, and selected consumer transactions.

Architecture should follow the use case. A remittance program may need different arrangements for liquidity, payout, compliance, and distribution than a program for government procurement or institutional settlement.

Compliance and supervision apply across all three layers, as does fiat connectivity.

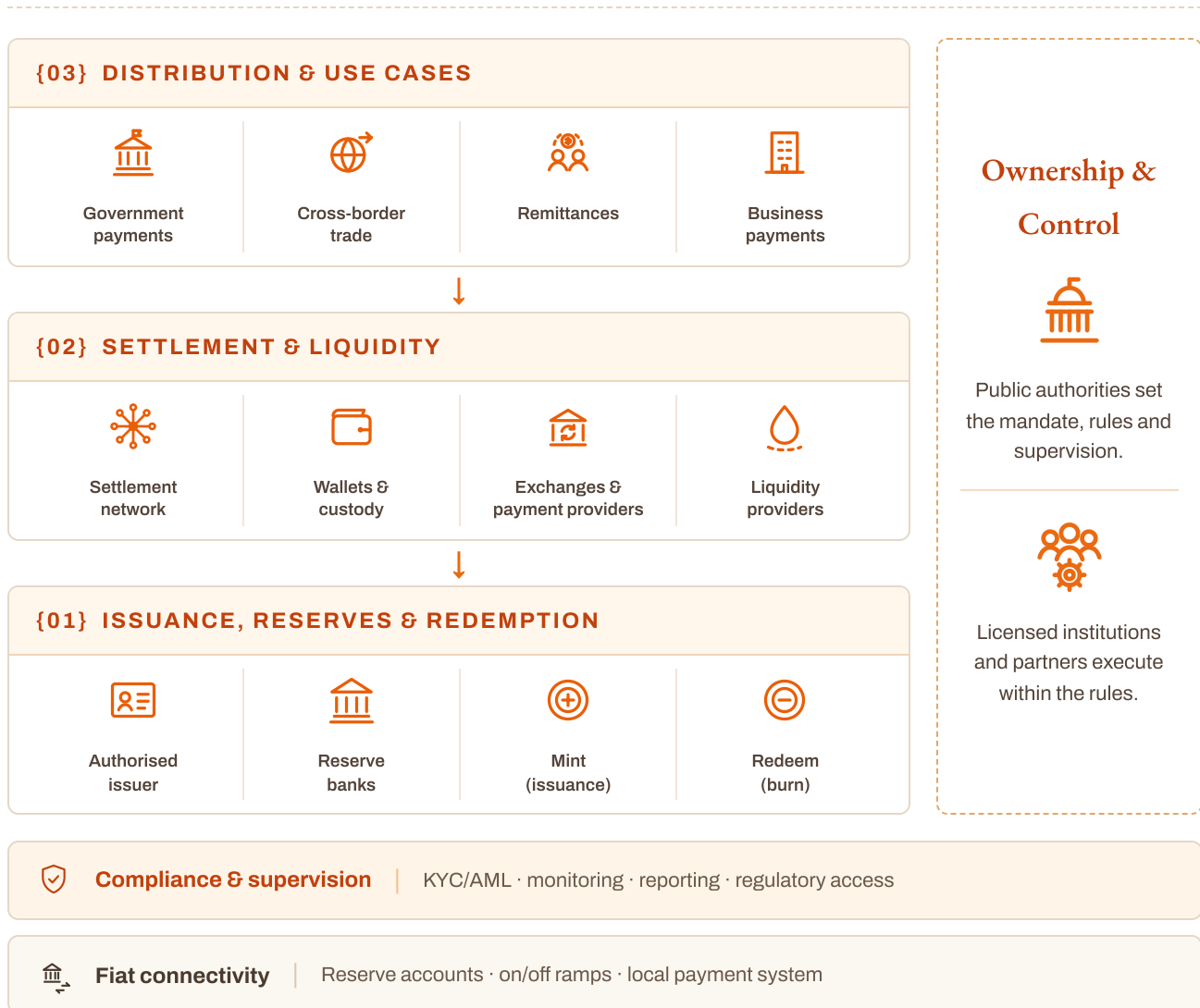
Compliance and supervision cover licensing, customer due diligence, sanctions screening, transaction monitoring, reporting, and regulatory access. These controls need to be built into the operating model from the beginning.

Fiat connectivity connects the stablecoin to the existing monetary system. It includes reserve bank accounts, funding and redemption flows, local payment institutions, and the mechanisms through which users move between the stablecoin and domestic currency.

The stack is modular. Different institutions can perform different functions. But every function needs a clear owner, and the program must operate within rules set by the responsible public authorities.

{ FIG. 03 }

The operating stack



Choosing the Settlement Network

A sovereign stablecoin needs a settlement network that can support regulated issuance at national scale. Speed and fees matter, but they are only part of the decision. Four factors deserve greater weight.

Our recommendation is clear: if a sovereign stablecoin is meant for cross-border use or broad digital distribution, we believe that authorities may wish to start with a mature public network rather than build a new national blockchain. A bespoke chain may offer tighter technical control, but it begins without users,

liquidity, wallets, or institutional integrations. Those are not secondary features. They are the route to adoption. Closed or purpose-built infrastructure may still be appropriate where confidentiality, law, or resilience requirements make public settlement unsuitable.

A country does not need a national blockchain to put its currency on-chain. It needs a credible currency, clear rules, and a network people already use.

1. Liquidity and distribution

A stablecoin needs places to be held, exchanged, and used from the start. Authorities should look at available liquidity, wallets, custodians, exchanges, payment providers, and institutional counterparties. The relevant question is not only how large a network is, but whether it can support the markets and transaction sizes the program needs.

2. Issuer controls and supervisory compatibility

The network and token design must support the rules set by the authorities. This can include controlled minting and redemption, role-based permissions, transaction records, and the ability to pause or restrict activity where legally required. Regulators also need reliable access to the information required for reconciliation and supervision.

3. Resilience and institutional maturity

A national program depends on infrastructure that can operate reliably at scale. Authorities should assess network finality, operational history, validator and governance design, security practices, custody integrations, developer tooling, and incident response. Performance matters most when it remains reliable under real production load.

4. Proven deployment and optionality

Live deployments can tell authorities more than technical benchmarks. They should check whether the network has supported regulated issuers and whether issuance, redemption, liquidity, and distribution have worked in practice. The design should leave room to add networks or switch providers as the program develops.

BNB Chain can be assessed against this same framework. Its network currently supports about US\$18 billion in stablecoin supply and more than 78 million stablecoin holders.^[9] BNB Smart Chain is EVM-compatible, with block times around 0.45 seconds and fast finality of roughly one second.^[10] It also provides a live sovereign-stablecoin precedent through KGST, which Part IV examines in detail.

Who does what

A sovereign stablecoin program involves public authorities, licensed financial institutions, infrastructure providers, and the settlement network. They may divide functions between them, but roles and decision rights must be clear from the outset.

Public authorities set the mandate. They determine the legal status of the instrument, who may issue and use it, reserve and redemption requirements, approved use cases, supervisory access, and the conditions for launch, expansion, suspension, or termination.

Licensed financial institutions connect the program to the existing financial system. Depending on the jurisdiction, banks and payment institutions may hold reserves, provide custody, onboard customers, conduct KYC and AML/CFT controls, fund issuance, and process redemption and local payout. Major markets have adopted different models for fiat-backed stablecoin issuance. The United States uses a permitted-issuer model under the GENIUS Act.^[11] The European Union regulates fiat-linked stablecoins under MiCA.^[12] Hong Kong requires issuers of fiat-referenced stablecoins to be licensed by the HKMA.^[13]

Despite their differences, these regimes increasingly share several principles: a supervised and identifiable issuer, credible reserves, clear redemption rights, transparency, and financial-crime controls.

Countries need not use the same issuer model. The United States can support multiple permitted issuers within its own financial and regulatory structure. Other countries may choose one designated issuer or a small number of authorised institutions.

Authorities therefore need to decide who may issue the domestic stablecoin, which reserve and redemption rules apply, and who will supervise the program. Copying a foreign model is not the objective.

Infrastructure providers support execution. Their services can include issuance and redemption workflows, system integration, compliance tooling, reconciliation, reporting, and links to domestic and international payment institutions.

The settlement network provides the environment in which the stablecoin moves. It settles transactions and connects the instrument to wallets, liquidity, exchanges, and other applications.

Policy control remains with public authorities and regulated institutions, which are responsible for the decisions and obligations assigned to them by law. Execution partners do not assume that authority.

Sovereignty does not require the state to build every wallet, contract, or API. It requires public authorities to retain control of the rules that matter.

DECISION OR FUNCTION	WHO SETS THE RULES	WHO EXECUTES
Issuer eligibility	Regulator / central bank	Authorised issuer
Reserve and redemption rules	Regulator / central bank	Issuer, reserve bank, custodian
Customer onboarding	Regulatory authorities	Banks / payment institutions
AML/CFT monitoring	Supervisor / FIU	Regulated institutions
Technical platform	Public requirements	Infrastructure provider
Settlement network	Public approval criteria	Network provider
Program scope	Public authorities	Program office / partners

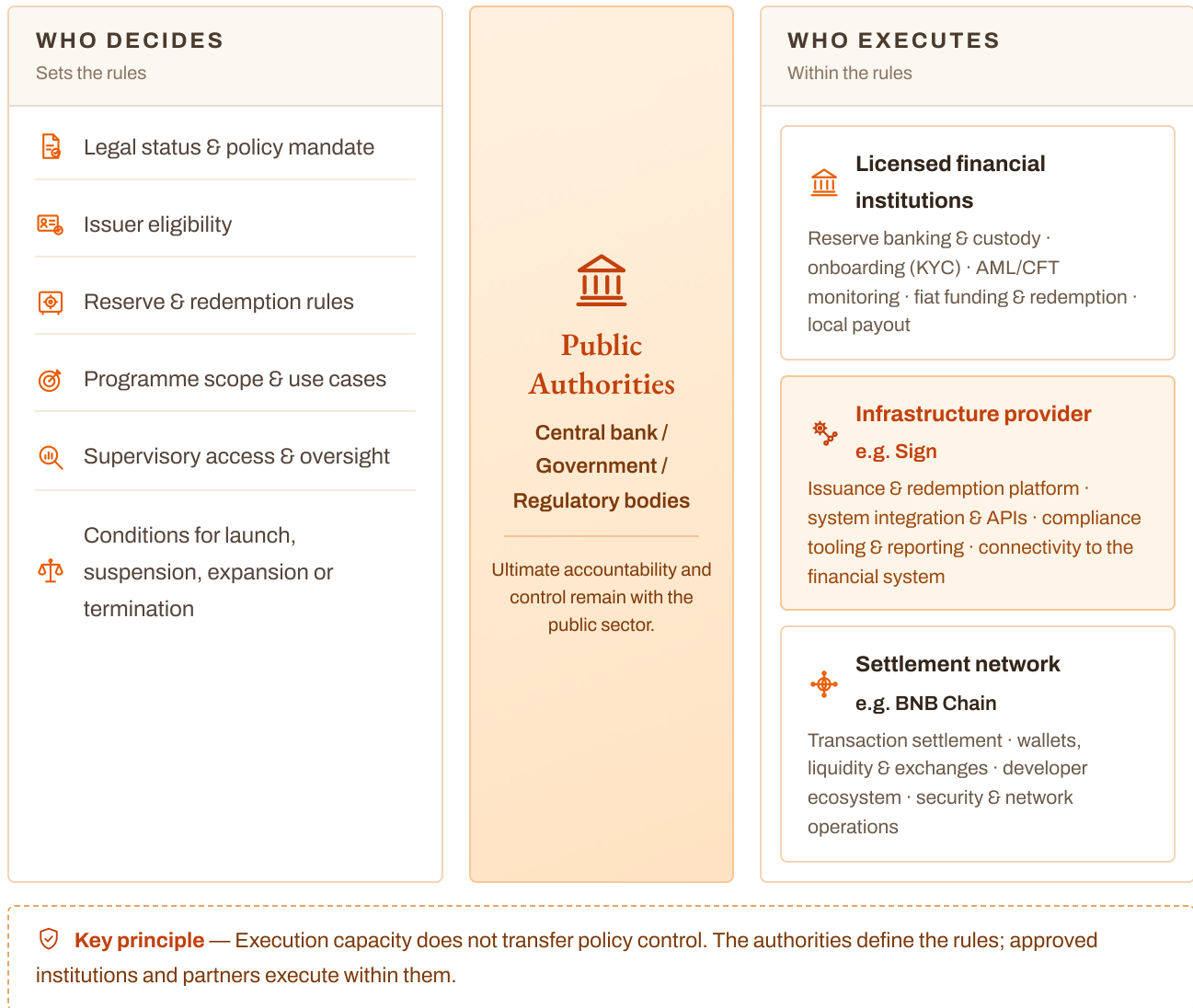
{TBL. 01} Decision rights and execution across a sovereign stablecoin program.

Sign and BNB Chain illustrate two different execution roles within this model. Sign can support regulated issuance and redemption, fiat connectivity, system integration, and compliance workflows. BNB Chain can provide the public settlement environment, together with access to its wallet, liquidity, and application ecosystem.

Neither role replaces the public mandate or the responsibilities of licensed financial institutions. The authorities define the rules; approved institutions and infrastructure partners execute within them.

{ FIG. 04 }

Who decides, who executes



{04} PART IV

KGST: A Sovereign Stablecoin in Practice

KGST in Kyrgyzstan provides an early-stage example of how the framework described in the previous sections can be implemented in practice. It combines public policy, regulated issuance, domestic reserves, private infrastructure, and settlement on a public blockchain.

KGST is designed to maintain a one-to-one value with the Kyrgyz Som. Its first public offering was registered by Kyrgyzstan's financial regulator in June 2025 through KGSToken LLC.^[14] According to the program's disclosures, KGST is backed by som-denominated reserves held with licensed Kyrgyz banks and is issued on BNB Chain.^[15]

1. Policy and legal foundations came first

KGST did not begin with a token contract. Kyrgyzstan had already established a legal framework for virtual assets through its 2022 Law “On Virtual Assets” and related implementing rules.^[16] In April 2025, the President created the National Council for the Development of Virtual Assets and Blockchain Technologies to coordinate state policy, regulation, and investment in the sector.^[17]

Kyrgyzstan continued to develop the institutional framework after KGST entered the market. In 2026, Kyrgyzstan amended its virtual-assets law to define stablecoins more explicitly.^[18] It also established the National Agency for Virtual Assets and Blockchain Technologies, or NAVA, as a dedicated state body for the sector.^[19]

Kyrgyzstan built the instrument within an existing legal and policy framework. The order is important: technology carries out the public mandate described in Part III; it does not define it.

2. Responsibilities are divided across the program

KGST distributes its functions among several institutions rather than assigning every role to one.

Public authorities set the rules and operating conditions. KGST’s disclosures place financial regulators and the National Bank of the Kyrgyz Republic within the supervisory structure, while licensed domestic banks support the program’s reserves and fiat operations.^[15] The public-sector architecture has continued to evolve with the creation of NAVA in 2026.

Within that framework, the issuer, banks, infrastructure providers, and settlement network each perform their assigned functions.

In practice, this follows the division set out in Part III: public authorities make the rules, while approved institutions and technology partners handle execution.

3. The lifecycle connects reserves, issuance, and redemption

KGST links an on-chain token to reserves held off-chain.

According to the program, every circulating KGST is backed one-to-one by cash or cash-equivalent reserves held with licensed banks and custodial institutions.^[15] Units can enter circulation and transfer on-chain; redemption then brings the instrument back into the domestic financial system.

The public ledger shows token supply and transfers. Reserve backing is verified through the banking system: programme disclosures state that the underlying reserves are held with licensed Kyrgyz banks and verified through bank records and reconciliation.^[15]

KGST ELEMENT	EVIDENCE AVAILABLE	STATUS
Token contract & settlement network	Public blockchain records	Independently verifiable
Maximum total supply	560,721,206 KGST as of 25 August 2026 ^[20]	Independently verifiable on-chain
Transfer activity	77,721 transfers as of 25 August 2026 ^[20]	Independently verifiable on-chain
Reserve structure & backing	Programme / official disclosures	Bank-verified according to programme disclosures

{TBL. 02} What can be verified about KGST, and how.

Together, they connect the digital instrument to the claim that gives it value.



4. Public-chain settlement expands distribution

KGST is a BEP-20 token on BNB Chain.^[15] This gives it access to a public-chain environment compatible with wallets, exchanges, payment applications, and liquidity infrastructure.

Issuance by itself does not create distribution. Users and institutions still need a network where they can hold, transfer, exchange, and integrate the asset.

Public-chain settlement leaves the regulated financial layer in place. Authorised institutions still handle reserve banking, customer onboarding, fiat funding, redemption, and local payout.

KGST follows the Part III model: regulated issuance and fiat connectivity alongside open-network settlement and distribution.

5. Sign and BNB Chain fill different execution roles

The KGST program also illustrates how infrastructure and settlement roles can be separated. Public reporting identified EthSign (Sign) as a technology partner supporting the development of blockchain-based digital solutions in Kyrgyzstan.^[21]

Based on Sign's implementation role in the programme, Sign provides the infrastructure and orchestration layer connecting participating banks and payment institutions to KGST. Its APIs and system integrations support the fiat flows and operating processes for funding, issuance, redemption, and reconciliation.

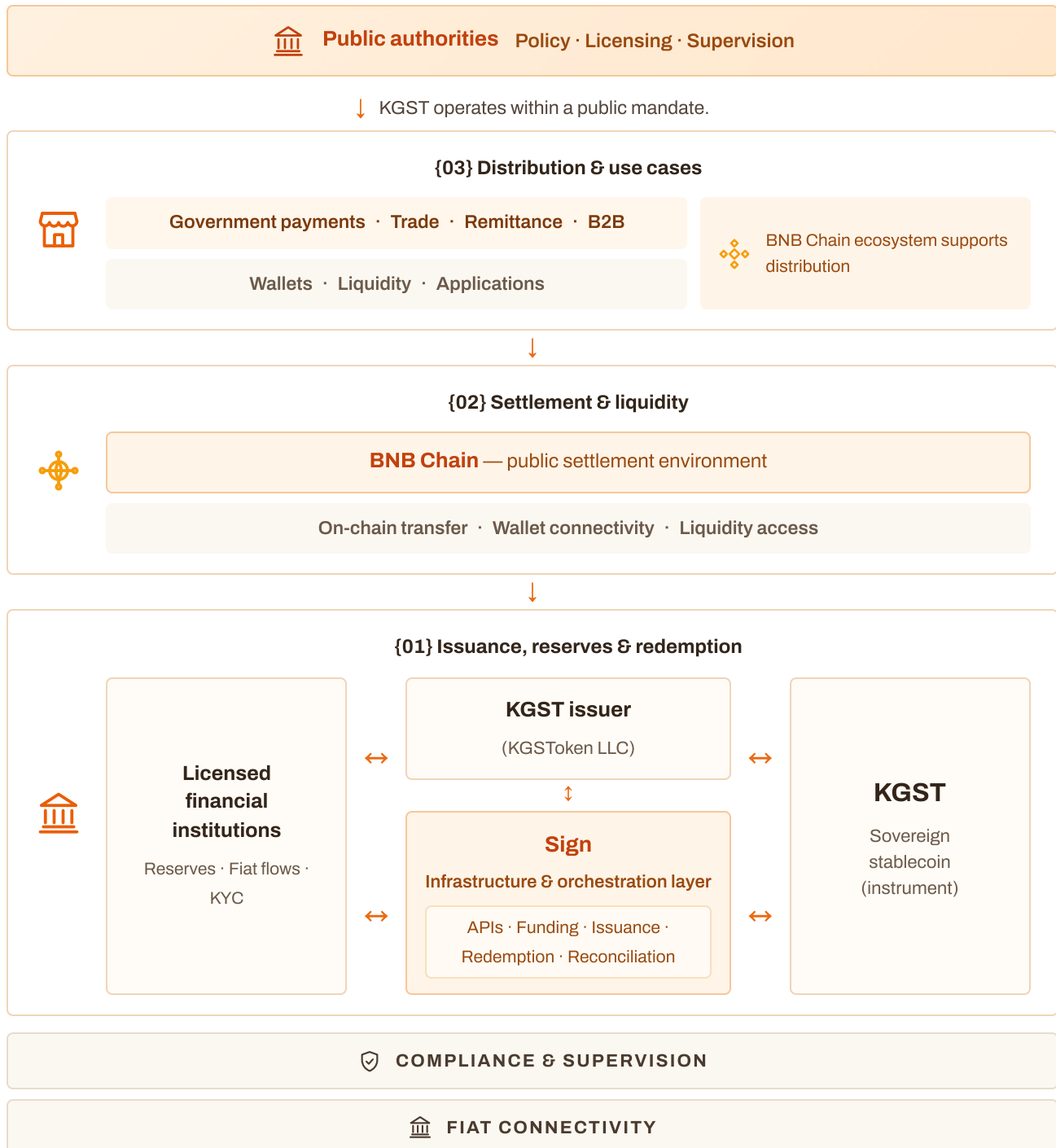
Financial institutions can therefore use a shared infrastructure layer instead of building the technical connections themselves.

BNB Chain is the public settlement environment where KGST circulates, with connections to wallets, liquidity, exchanges, and applications.

The two roles link the regulated financial system to the on-chain settlement and distribution layer. Currency design, reserve rules, issuer eligibility, and the supervisory mandate remain public and regulated decisions rather than choices made by either technology partner.

{ FIG. 05 }

The KGST program architecture



KGST shows how regulated issuance, banking connectivity, and public-chain settlement can work together in one sovereign stablecoin programme.

6. What the KGST case demonstrates

At this stage, KGST shows that the main components of the framework can be assembled within a live operating structure:

- a domestic legal and regulatory foundation;
- an authorised issuer;
- reserves held within the domestic financial system;
- regulated issuance and redemption;
- public-chain settlement;
- separate roles for public authorities, financial institutions, and infrastructure partners; and
- access to a broader digital distribution environment.

KGST is still a young program, so outcomes such as adoption, remittance savings, liquidity at scale, and monetary impact will require more operating data.

KGST is not evidence that every country should launch a sovereign stablecoin. It is evidence that the model can be built, operated, and evaluated in the real world.

KGST also exists alongside Kyrgyzstan's separate work on a central-bank digital som. The two instruments have different institutional structures and policy roles; this case study focuses specifically on the stablecoin model.[\[22\]](#)

The significance of KGST is not that it proves the model. It is that it makes the model testable.

Countries considering a sovereign stablecoin can now work from a live example instead of a blank page.

{05} PART V

From Pilot to Adoption

Issuance does not guarantee adoption. The stablecoin must solve a real problem and offer a clear improvement over the existing payment route.

Issuance is a technical event. Adoption is an economic verdict.

The first pilot should address the need that justified the program. Cross-border trade or institutional settlement will often provide the strongest starting point because the participants are known and performance can be measured against an existing route. A remittance corridor may be more compelling where household costs or payout delays are the central policy problem. Selected government payments can also provide a controlled entry point. A mass retail launch should come later, after the program has proved redemption, liquidity, and operating control with a narrower group.

The objective is to test measurable improvement where demand already exists, not to manufacture demand for a new token.

1. Start with a use case that already has demand

Three use cases are especially suitable for an early pilot.

Cross-border trade and institutional settlement offer a controlled test. The participants are known, transaction sizes can be set, and the new route can be measured against existing processes for cost, settlement time, prefunding, and reconciliation.^[4]

Remittance corridors are useful where fees, foreign-exchange spreads, or payout delays remain high. A pilot should focus on one corridor with identified sending and receiving institutions and a dependable local payout route.^[3]

Government and treasury payments provide another practical option. Procurement, supplier payments, and selected treasury flows can be defined and monitored more easily before the model extends to salaries, pensions, or social transfers.^[23]

Each country will have a different starting point. The chosen use case needs real demand, identifiable participants, and measurable current performance.

2. Set a baseline and measure the full payment journey

A pilot should begin with a clear picture of how the existing system performs.

For cross-border payments, that baseline should cover the entire journey from the sender's funds to money the recipient can use. Funding, foreign exchange, compliance, transfer, redemption, and local payout all affect the outcome. International work on cross-border payments also evaluates cost, speed, access, and transparency across the full route, rather than measuring one technical step in isolation.^[24]

Useful measures can include:

- total transaction cost;
- foreign-exchange spread;
- settlement and payout time;
- prefunding requirements;
- failed or delayed transactions;
- redemption performance; and
- reconciliation effort.

The test is whether the entire route gives users or institutions faster, cheaper, or more reliable access to usable funds, not simply whether the blockchain transaction is faster. **If the full payment route is not cheaper, faster, or more reliable, a one-second blockchain transaction is irrelevant.**

3. Build distribution around the stablecoin

Adoption depends on both the stablecoin as a settlement asset and the infrastructure around it. A working route needs four capabilities.

A compliant and redeemable asset. Users and institutions need clear issuance and redemption rules, backed by credible reserves.

Liquidity. Participants must be able to acquire, exchange, and redeem the instrument in the amounts required by the use case.

Payment orchestration. Participating institutions need infrastructure for funding, routing, compliance checks, settlement, reconciliation, and reporting. APIs and shared infrastructure can connect these functions without requiring each institution to build the full technical stack independently.

Local access and payout. The stablecoin must connect to the accounts, payment systems, mobile-money networks, and other channels that people and businesses already use.

Different institutions and infrastructure partners can provide these functions, but they must operate as a single payment route within the model set by the authorities.

4. Interoperate without creating new dependencies

At launch, a new sovereign stablecoin may lack direct liquidity against some currencies or markets.

The program can use existing liquidity venues, regulated payment institutions, other settlement networks, and, where appropriate, established foreign-currency stablecoins. Those links can extend the domestic instrument's reach while its own liquidity develops.

Interoperability should avoid creating a single point of dependence. The design needs room to add banks, payment providers, liquidity venues, currency pairs, or settlement networks over time.

The sovereign stablecoin should connect to existing digital markets while preserving domestic oversight and future flexibility.

5. Scale through clear gates

A staged path from pilot to wider adoption lets the program expand only when the evidence supports it.

{01}	Policy mandate	The authorities define the problem, program objectives, responsible institutions, and conditions for proceeding.
{02}	National blueprint	The program translates those decisions into the legal, reserve, governance, technical, and operating model.
{03}	Controlled pilot	One use case is tested with a limited group of institutions, defined transaction limits, and clear funding and payout routes.
{04}	Limited launch	The program adds approved institutions or users while maintaining operating limits, supervisory visibility, and the ability to adjust or pause the system.
{05}	Evidence-based scale	Additional corridors, institutions, use cases, or networks are added after the program demonstrates reliable performance against the original baseline.

At each gate, the authorities should have three options: proceed, adjust, or stop. A pilot that cannot be stopped is not a pilot. It is an uncontrolled launch.

Demonstrated value, rather than issuance alone, should determine whether a sovereign stablecoin scales. The instrument should earn the right to scale.

{06} PART VI

Compliance, Risk, and Control

A sovereign stablecoin needs more than sound technology. Once the instrument is live, the program needs to show that its reserves remain credible, its compliance controls continue to work, and the institutions responsible for critical decisions can act when something goes wrong.

The objective is not to eliminate every risk. It is to identify the main risks, assign responsibility for controlling them, and produce evidence that the responsible authorities can review.

1. Compliance starts with the operating model

Compliance must be part of issuance, transfer, and redemption from the outset.

Requirements depend on local law and each participant's role. At a minimum, the program should specify who may issue, distribute, and redeem the stablecoin. It should also define how customers and businesses are identified, how AML/CFT and sanctions controls apply, how suspicious activity is escalated, and what information supervisors can access.

FATF applies AML/CFT obligations to relevant participants in stablecoin arrangements. It identifies customer due diligence, monitoring, and risk-based technical controls as important safeguards.^[25]

Licensed institutions remain accountable for their legal obligations. Infrastructure providers can support them with APIs, screening tools, transaction monitoring, reporting systems, and policy controls.

Technology can support compliance, but regulatory responsibility stays with the regulated institutions.

2. Reserves and redemption must remain visible

Users must be able to redeem a sovereign stablecoin at par. For a domestic-currency stablecoin issued under a public mandate, full backing in approved liquid assets and timely redemption at par should be entry conditions, not future goals. If the program cannot demonstrate both, it is not ready to launch.

That promise depends on the relationship between circulating tokens and the assets backing them. The program should regularly reconcile supply and reserves, keep clear custody and segregation arrangements, and report reliably to the responsible authorities.

Authorities should monitor redemption as an operating function. They need to know redemption volumes and completion times, whether requests are delayed, and whether enough liquidity remains during periods of higher demand.

The FSB's stablecoin recommendations follow the same principles: clear legal claims, timely redemption at par for single-currency stablecoins, prudential safeguards, transparent disclosures, and supervisor access to relevant data.^[26]

As Part II explains, the claim behind the token is credible only when the evidence for reserves and redemption is credible.

3. Each risk should map to a control and evidence

A practical risk framework can be built around three questions: **What can go wrong? What control addresses it? What evidence shows that the control is working?**

RISK	CONTROL	EVIDENCE
Reserve shortfall	Full backing in approved liquid assets; segregation; issuance only against confirmed funding	Supply-to-reserve reconciliation; bank records; attestation
Failed or delayed redemption	Clear redemption rights; sufficient liquidity; defined procedures for exceptions	Redemption volumes; completion times; outstanding requests
Financial crime	KYC/KYB; AML/CFT monitoring; sanctions screening; escalation and reporting	Screening logs; case records; regulatory reports
Technical and cyber risk	Security review; controlled permissions; incident and recovery procedures	Audit reports; permission records; incident logs
Consumer and data risk	Clear terms; error resolution; access controls; appropriate data handling	Complaints; failed-payment records; access logs
Network and concentration risk	Resilient infrastructure; provider limits; continuity and migration plans	Uptime; provider exposure; recovery tests

{TBL. 03} Mapping each material risk to a control and its evidence.

The FSB similarly places governance, risk management, operational resilience, cyber security, data access, recovery planning, and redemption within the supervisory framework for stablecoin arrangements.^[26]

This framework is meant to ensure that every material control produces evidence that can be inspected. More documentation by itself is not the goal.

4. Technical control requires clear authority

Legitimate authority must be established separately from technical capability.

Stablecoin contracts may support minting, burning, freezing, pausing, or upgrading. FATF also recognises freezing, burning, allow-listing, and deny-listing as possible risk-based tools for stablecoin arrangements.^[25]

The program must decide who may use each function, in which circumstances, with what approvals, and how each decision will be recorded and reviewed.

Authority also matters outside the smart contract. The program may need to authorise someone to suspend an institution, pause new issuance, respond to a cyber incident, or change a material operating parameter.

These powers should follow the decision-rights model in Part III. The FSB also calls for clear responsibility and accountability across every function in a stablecoin arrangement.^[26]

Technology partners may implement a control, but the responsible institution must authorise its use.

5. Wider financial effects should be monitored as the program scales

Some risks emerge only as adoption grows.

Large shifts from bank deposits into a sovereign stablecoin can change the composition and cost of bank funding. Holding reserves in a small number of banks can also create exposure between the program and those institutions. At greater scale, reserve management and redemption flows can affect wider liquidity and financial stability.^[27]

The effects depend on the reserve model, where reserves are held, user adoption, and the response of banks. The IMF notes that stablecoin adoption can affect deposit funding and lending, while concentrated reserves can create risks for issuers and banks.^[27]

Monitoring should expand with the program. As adoption grows, authorities can track circulation, reserve concentration, redemption patterns, bank funding, and other indicators.

The institutions and controls needed for supervision should grow alongside the sovereign stablecoin.

A credible program makes its main risks visible, assigns them to accountable institutions, and produces evidence that authorities can inspect. Credibility does not require the absence of risk.

{07} CLOSING

The Choice Ahead

A sovereign stablecoin should start with a policy problem rather than a token. Too many digital-money discussions begin with the technology and work backward in search of a use case. Authorities should do the opposite: identify the payment failure, establish the baseline, and make the instrument prove that it can do better.

This report maps the process from initial assessment to implementation. The stablecoin needs a clear claim, credible reserves, and dependable redemption. Its operating model must assign roles to public authorities, licensed financial institutions, infrastructure providers, and the settlement network. A pilot should then test the full payment journey and measure any improvement in cost, speed, reliability, or access.

KGST shows how these elements can work within one program. It also demonstrates a central distinction: public authorities can use private infrastructure and public settlement networks while retaining responsibility for the currency, reserve rules, issuer eligibility, and program scope.

Evidence should determine whether the program scales. A successful controlled pilot can support the gradual addition of institutions, users, corridors, or networks. If the pilot fails to deliver the expected value, the program should be adjusted or stopped. Supervision, reserve monitoring, compliance, and operational controls must grow alongside it.

Public authorities do not have to build every part of the infrastructure. Banks, payment institutions, infrastructure providers, and public networks can supply execution capacity, connectivity, liquidity, and reach. The responsible institutions, however, must retain control of the rules and the decision to expand or stop. More execution capacity cannot come at the expense of sovereign control.

The purpose is to determine whether putting a national currency on-chain creates measurable public value while preserving the institutions, rules, and controls behind the currency.

Putting a national currency on-chain is not modernization by itself. It is modernization only if money becomes measurably easier to use.

The countries that succeed will not necessarily be those that launch first. They will be those that know what must stay sovereign, what can be shared, and when the evidence justifies scale.

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