

Contagion in cryptocurrencies market: Implications for financial stability

Norman Reinheimner *Student moderator*

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SOME BASICS OF FINANCIAL INSTABILITY

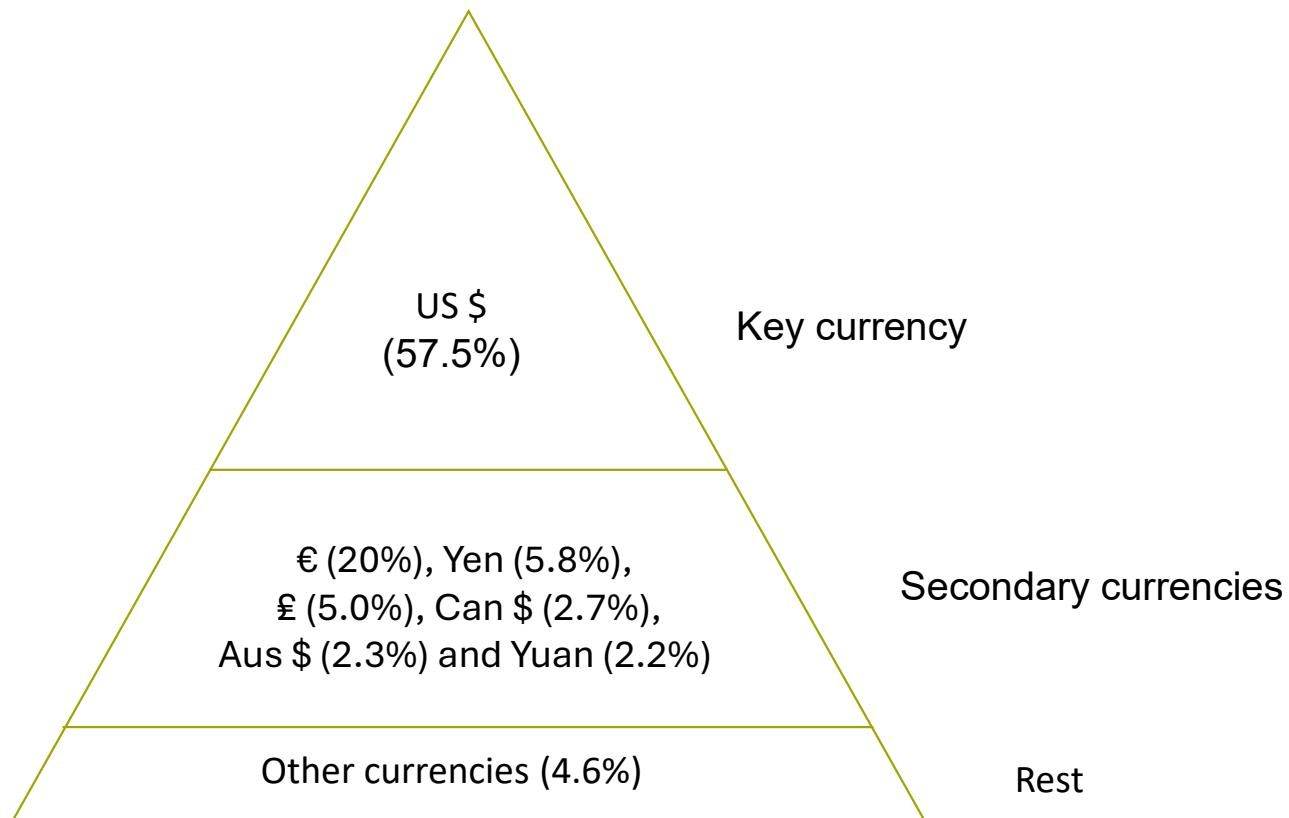
Dr. Martijn (Jeroen) van der Linden
Professor of Practice in New Finance
January 30, 2026

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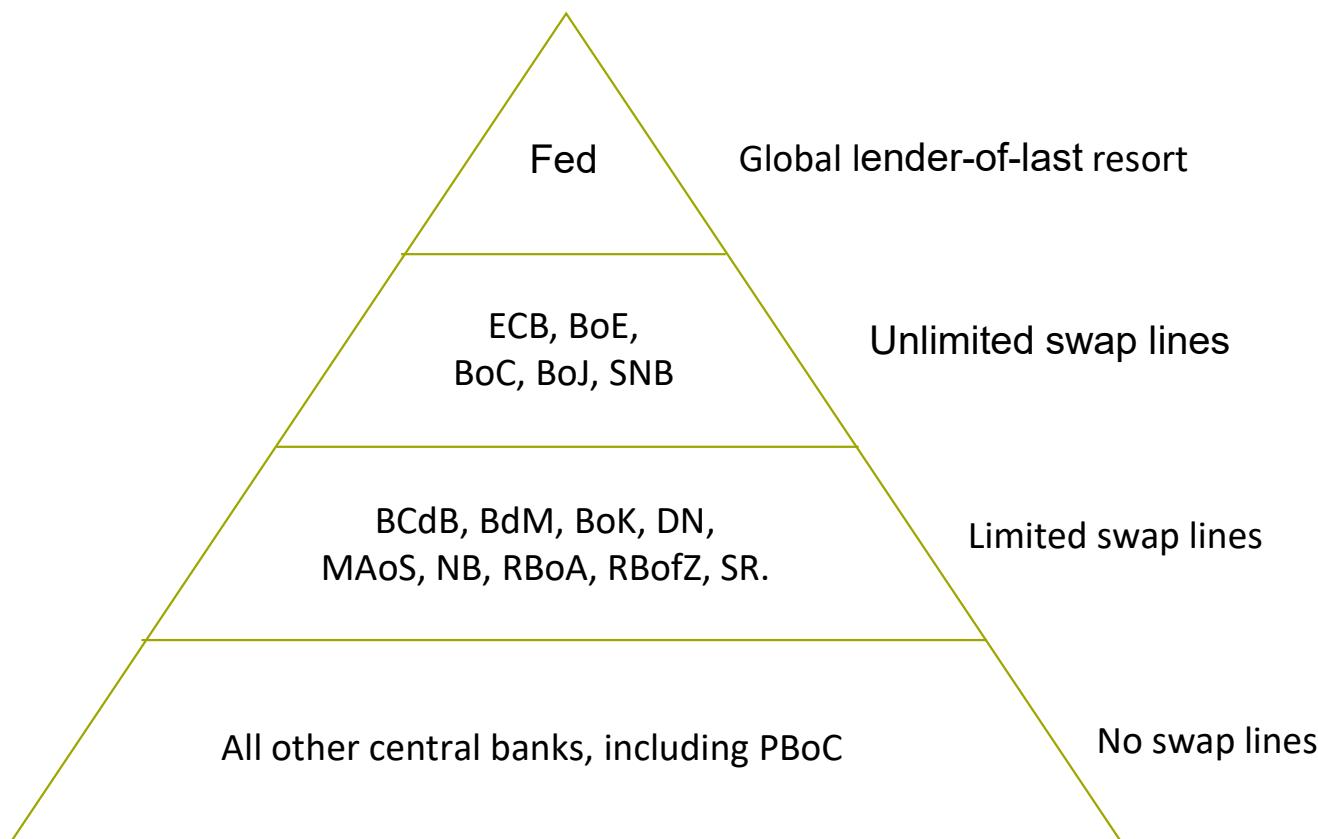
Agenda

- I. Hierarchies
- II. Systemic versus non-system financial crises
- III. Balance sheet approach
- IV. The two big questions

International hierarchy of currencies

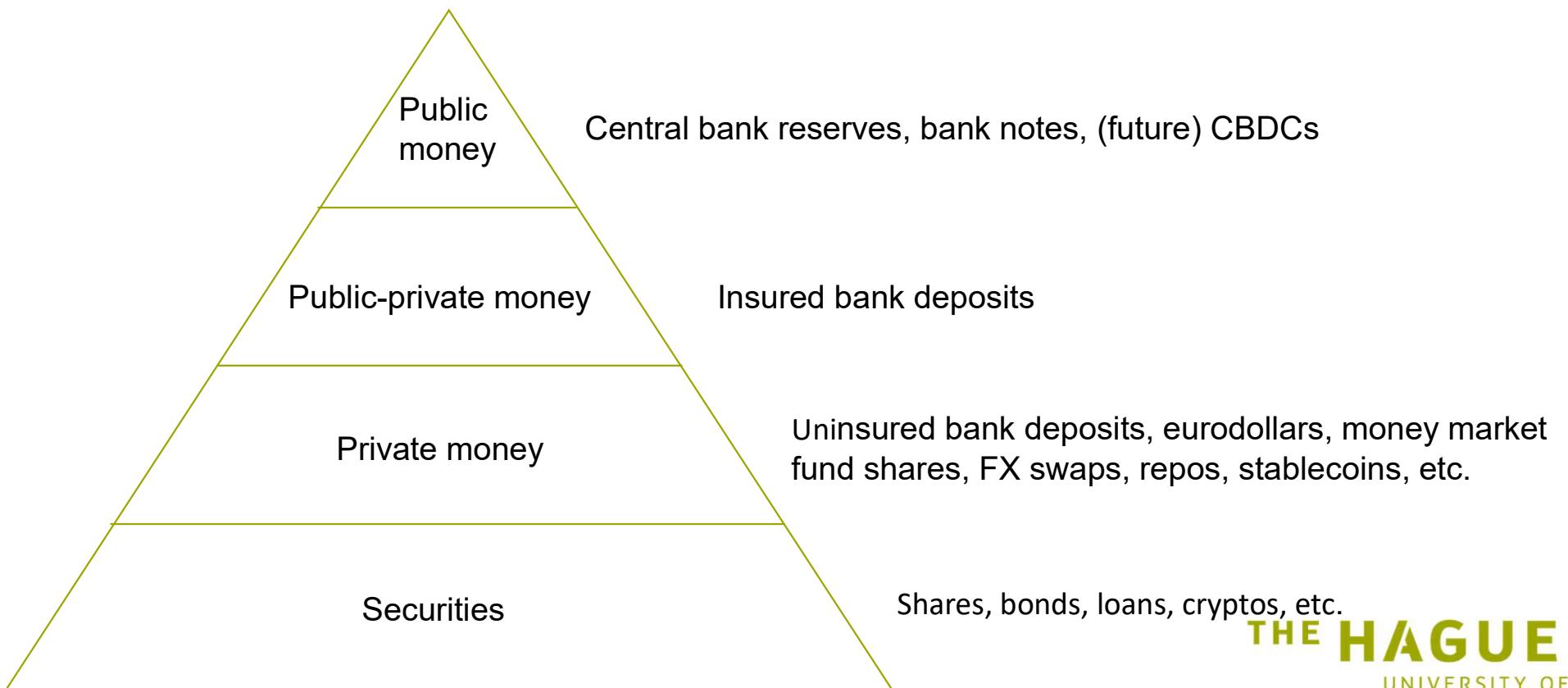


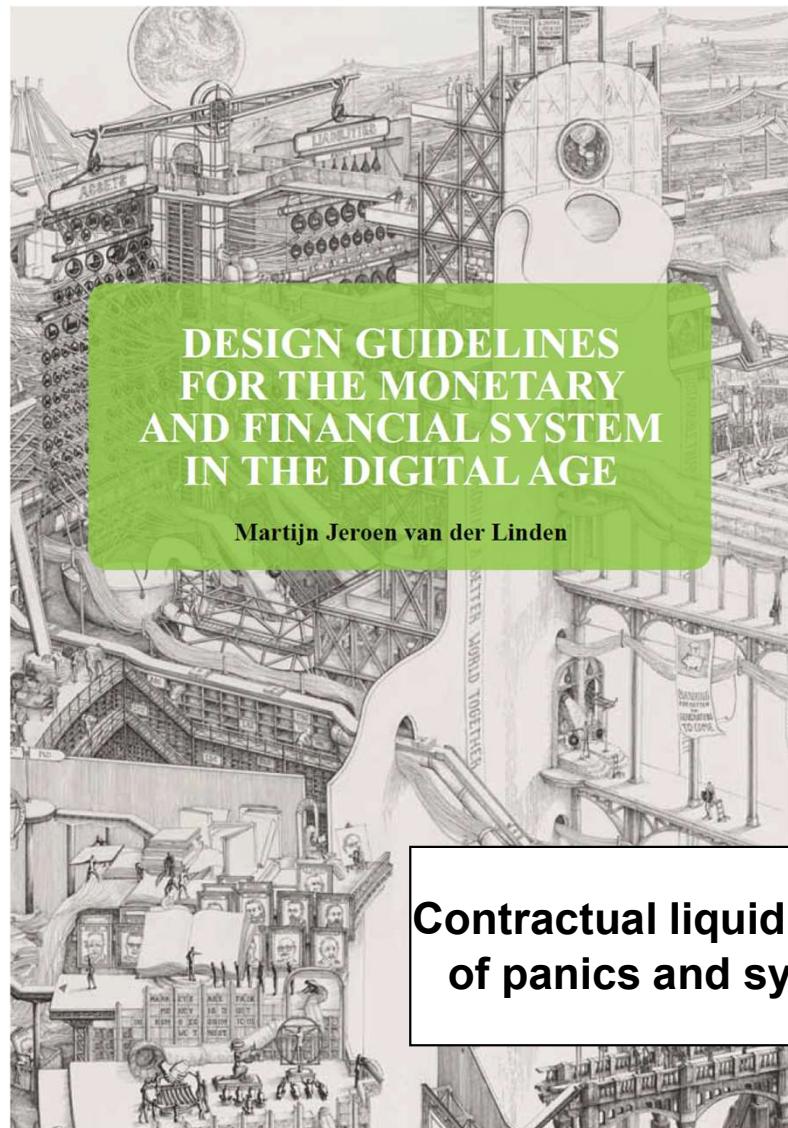
International hierarchy US\$ system



Increasingly money
is created offshore

Domestic hierarchy





Opinion Banks

Banks are designed to fail – and they do

This is a system that is essential to the functioning of the market economy but doesn't operate by its rules

MARTIN WOLF

✓ Added



Martin Wolf MARCH 14 2023

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Schwartz's (1987: 271-2) distinction between “pseudo” and “real” financial crises

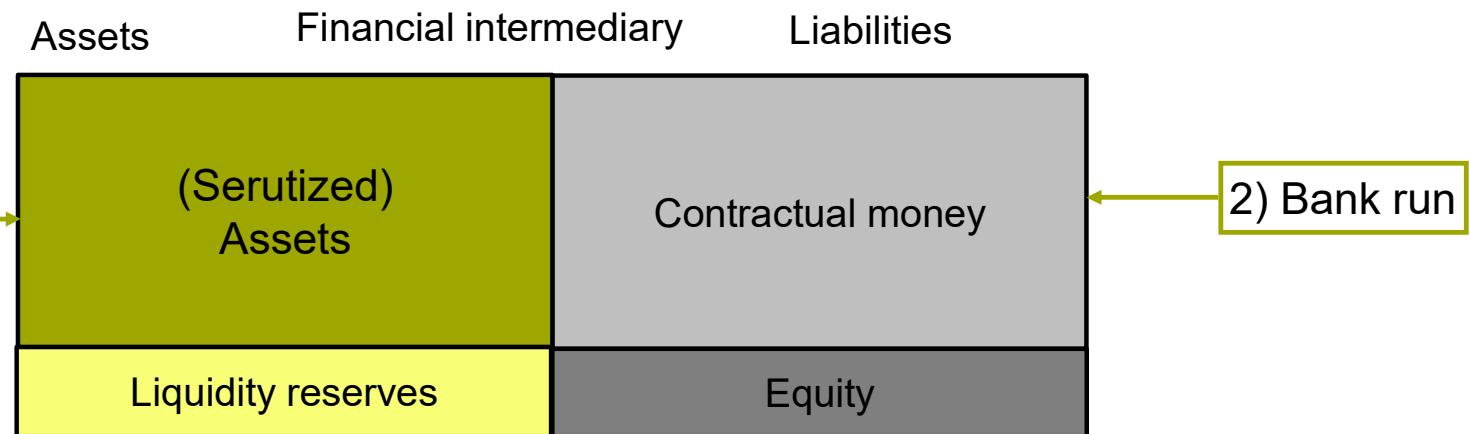
Pseudo (non-sysystemic) financial crises threaten and affect individual businesses, specific markets (tulips, cryptocurrencies) and in the worst-case whole sectors (as during the dot-com bubble).

Real (systemic) financial crises threaten the whole monetary and financial system, lead to large-scale and emergent government interventions and cause structural economic downturns.

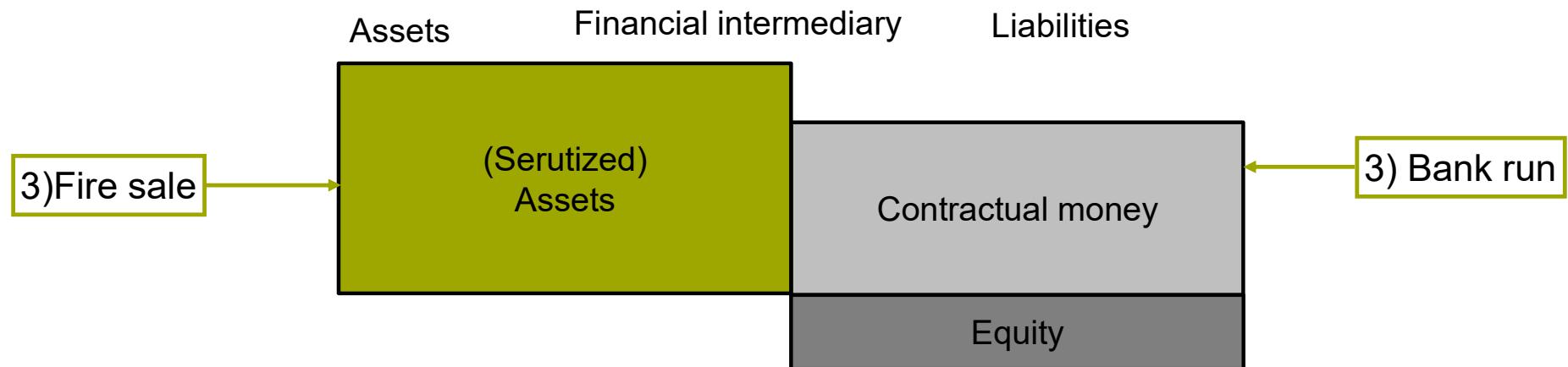
Debt cycle theory & bank run theory

Balance sheet approach

Bank run, panics, systemic financial crisis



Bank run, panics, systemic financial crisis



The Big Questions

What is the exact moment the run spreads to other institutions and becomes self-fulfilling?

“everyone expects everyone else to expect everyone else to expect the result; and everyone is powerless to deny it”
(Schelling 1980).

When do public institutions have to intervene?

Balancing market discipline and stability as a public



THANK YOU!

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From Cash to Code

Panel and Presentation
by
Brunello Rosa



The Hague, 30 January 2026

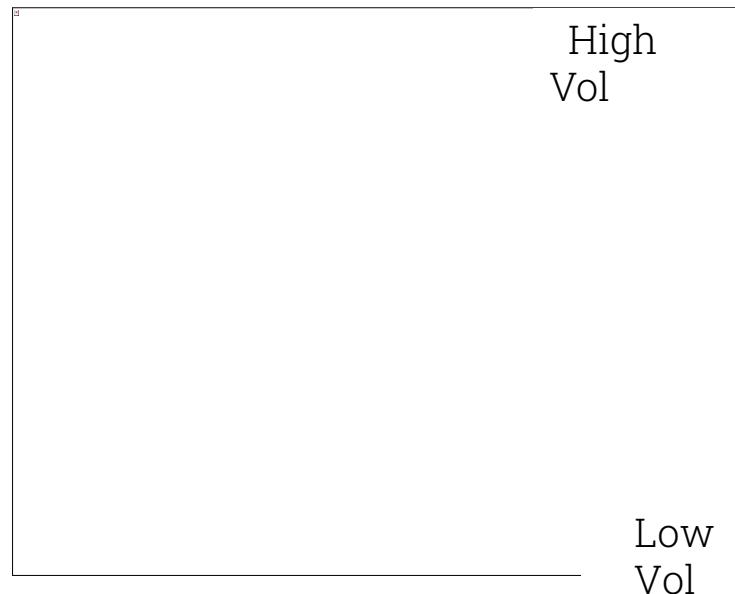
Contagion in cryptocurrencies market: Implications for financial stability

Digital Currencies

- **Crypto Currencies:** Are digital assets that operate on a decentralized network (blockchain), which records and verifies transactions, using cryptography.
- **Stablecoins:** Crypto-assets designed to maintain a stable value over time. Stablecoins achieve their stability via collateralization (backing) or through algorithmic mechanisms of buying and selling the reference asset or its derivatives.
- **Central Bank Digital Currencies (CBDCs)** are a digital liability of the central bank that are widely available to the general public.



The Three Layers of Digital Currencies



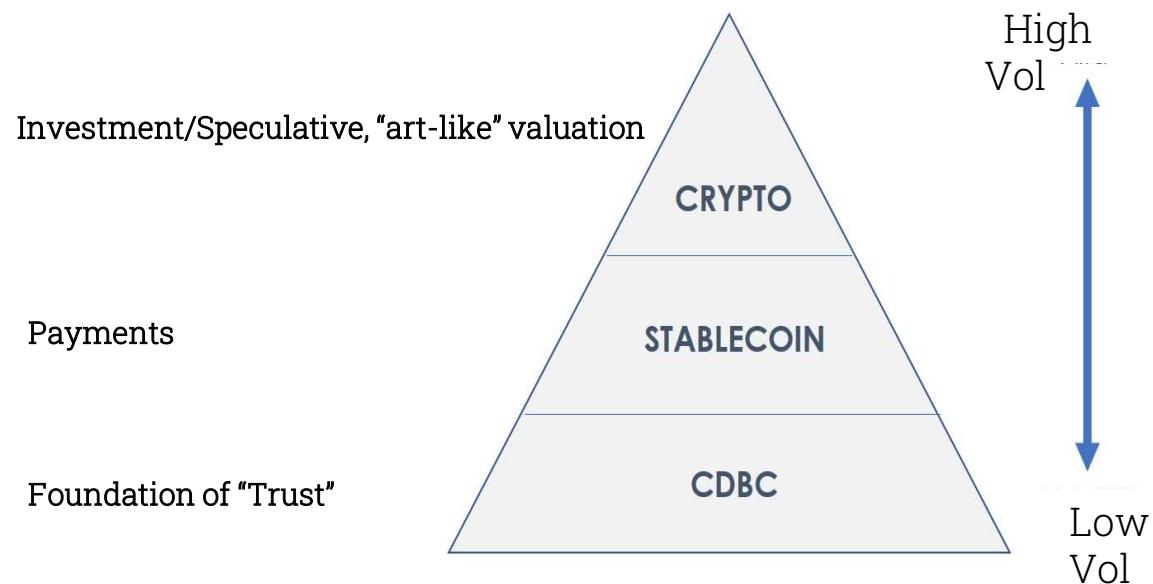
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Three Different Functions for Digital Currencies



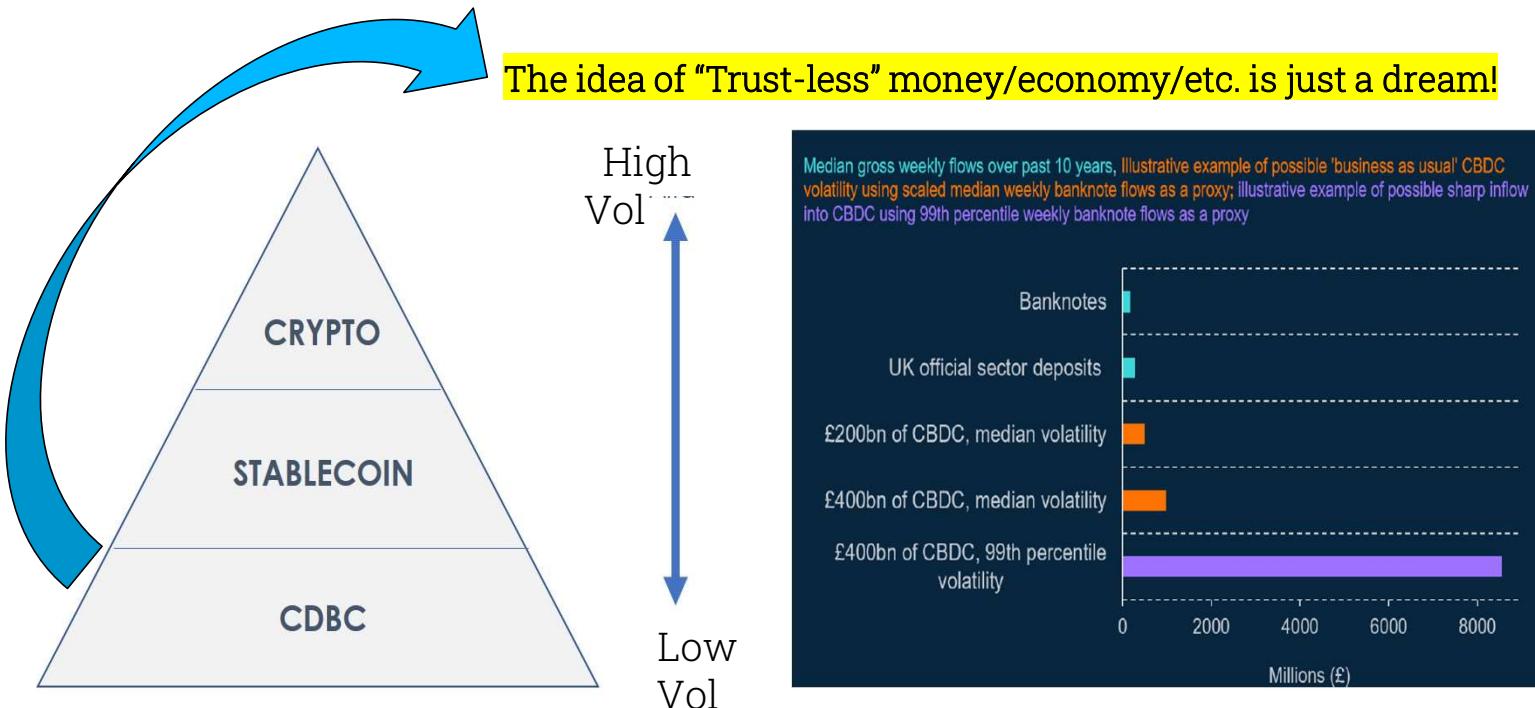
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CBDCs To be The Foundation of Trust in Digital Assets



In case of fear or market stress large inflows into CBDC accounts are
likely

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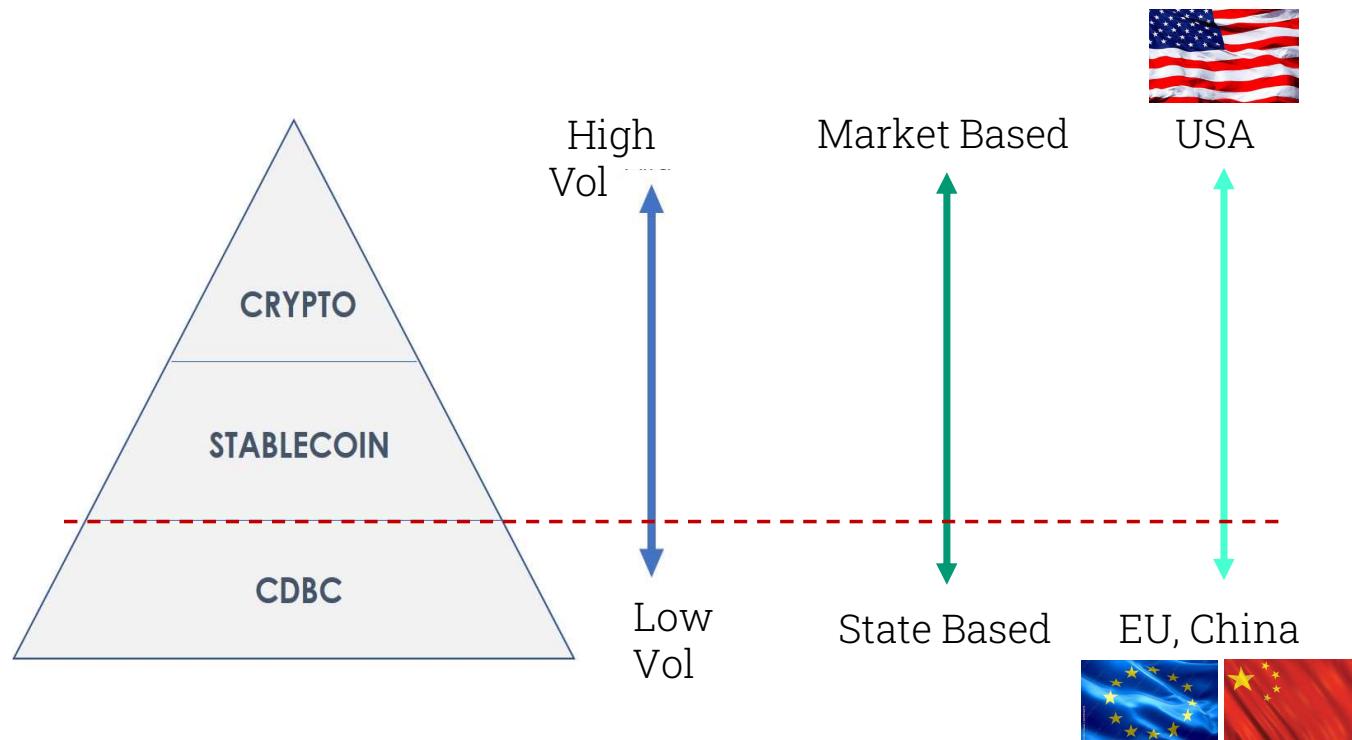


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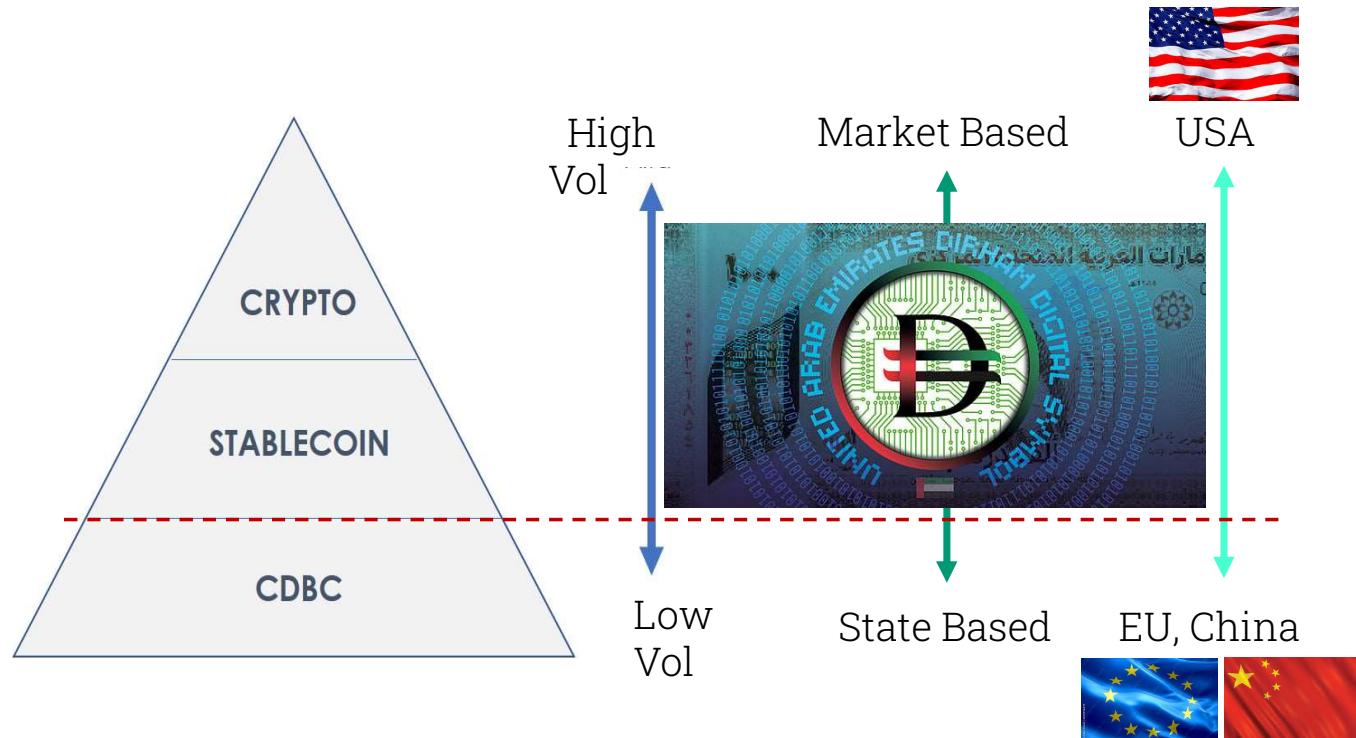


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Cryptos and Stablecoins vs CBDCs



Cryptos and Stablecoins vs CBDCs



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Contagion



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Stablecoins



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Types of Stablecoins



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Types of Stablecoins

Fiat-backed (e.g. USDC)	Crypto-backed (e.g. dai)	Algorithmic (e.g. TerraUSD)
<ul style="list-style-type: none">Backed by financial assets like treasuries, bank deposits and other high quality liquid assets (HQLAs)Collateral is held off-chain by the minting entity (e.g. Circle, the US-company behind USDC and EURODC)Reliance on trust and audit reports of reserves: are the tokens really backed 100% in HQLAs denominated in the same Currency (e.g. USD, EUR, etc)?	<ul style="list-style-type: none">Crypto-coins/tokens are held as collateral in smart contractsHighly transparent, easy to audit the collateral at any timeAutomatic creation of new stablecoin tokens as soon as collateral pledgedOvercollateralised: more collateral held than tokens issuedAutomatic liquidation of collateral, if collateralisation falls below threshold	<ul style="list-style-type: none">Not backed by assetsThree different types:<ol style="list-style-type: none">Rebase (Ampleforth and Base-Protocol): new tokens are created/burned as 1:1 peg deviatesSeigniorage Share (e.g. terraUSD): second token used that is created/ burnt to enable arbitrage to maintain pegFractional: mix of crypto-backed reserve and algorithmic design
Centralised	Decentralised	
<ul style="list-style-type: none">Since fiat-backed stablecoins require off-chain assets, they are always centralised, i.e. controlled by an entity/corporation (e.g. Circle for USDC)Crypto-backed and algorithmic stablecoins can either be centralised or decentralised, i.e. implemented via smart contracts on a public DLT		

Source: [Deutsche Bank](#)



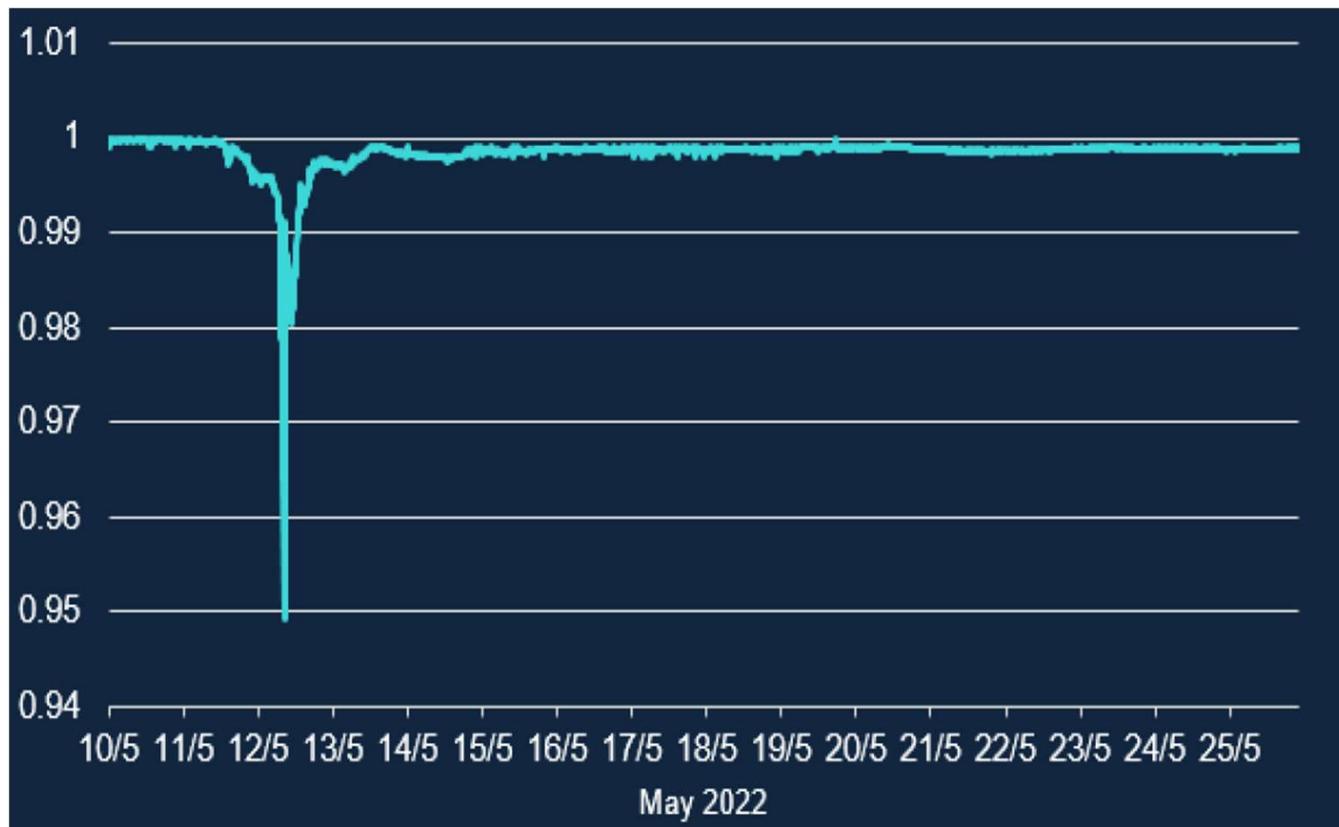
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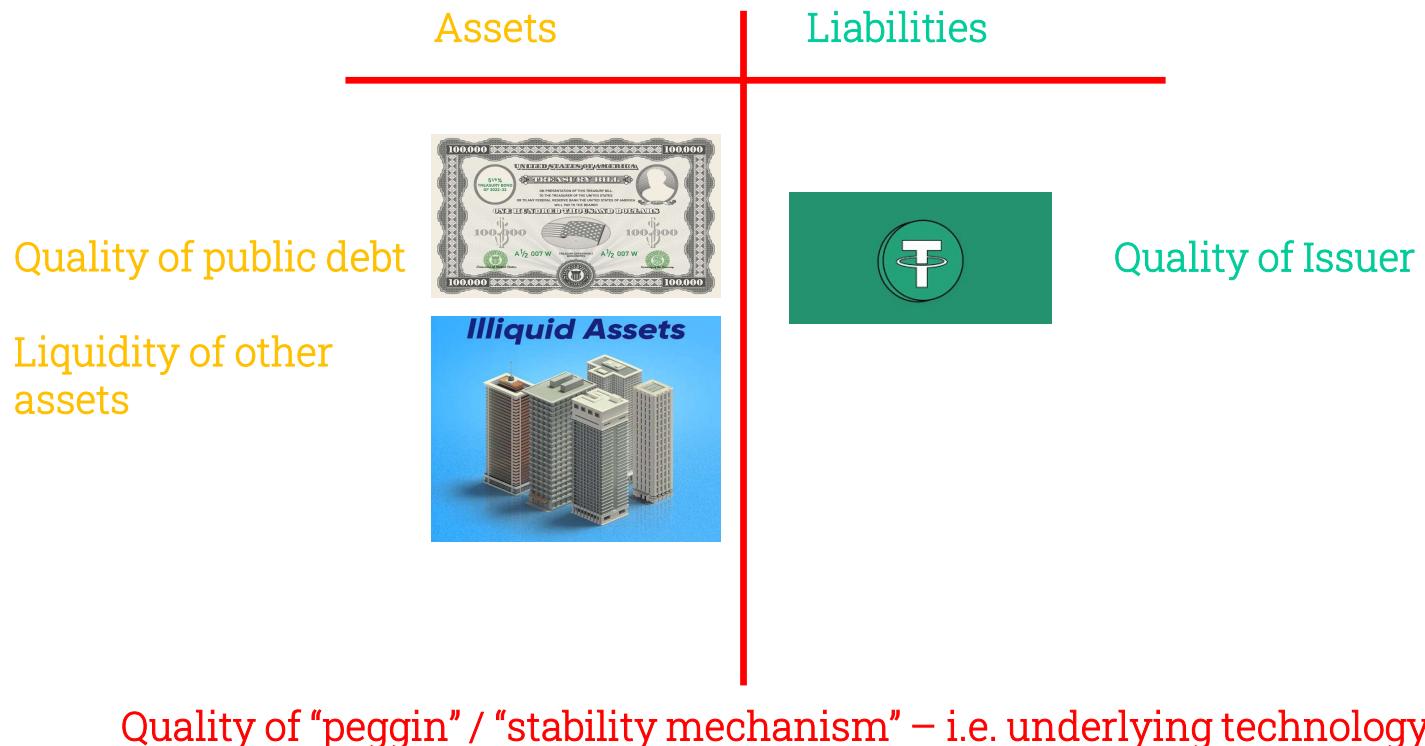
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Tether



Stablecoins: Points of Attack



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Regulation



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GENIUS Act

The key pillars of the Act are as follows:

Stablecoins

- Must be non-interest-bearing
- No federal guarantee, but holders receive first claim on reserves in bankruptcy

Reserve requirements

- Must be fully backed (100 percent) by fiat USD, including short-dated T-bills and other low-risk assets; mandatory public disclosure
- Cannot be rehypothecated or comingled with issuer assets

Issuer requirements

- Minimum capital and liquidity thresholds
- Robust risk management standards; enhanced public disclosure obligations

Regulator

- Oversight by the Federal Reserve (for banks) or OCC (for non-banks)
- State-level regulation permitted for issuers with <US\$10 billion in circulation

Offshore issuance

- Permitted only under foreign regulatory regimes deemed equivalent by US authorities

Source: [The stablecoin moment | State Street](#)

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MiCA vs GENIUS

Regulatory Feature [□]	MiCA (EU) [□]	GENIUS Act (US) [□]
1-Who can issue significant stablecoins [□]	Entities authorised by National Competent Authorities and supervised by the EBA if classified as 'significant' by size; non-banks allowed. [□]	Only federally or state-licensed entities approved by the U.S. Treasury; must meet governance and compliance requirements. [□]
2-Allowed reserve instruments (incl. tokenised) [□]	Cash, bank deposits, and highly liquid low-risk assets (e.g., sovereign bonds); in tokenised forms only if fully redeemable and low-risk. [□]	USD cash, insured bank deposits, and short-term Treasuries; tokenised reserves not expressly permitted unless approved by regulator. [□]
3-Reserve allocation rules (caps/minima) [□]	At least 60% in central bank or credit institution deposits for significant issuers (per EBA draft RTS); remaining in liquid safe assets. [□]	Must maintain full 1:1 backing; no formal caps/minima on reserve composition components. [□]
4-Re-use of reserve instruments [□]	Explicitly prohibited: reserves must be unencumbered and segregated from other operations. [□]	Rehypothecation or use of reserves as collateral is prohibited to ensure liquidity and user protection. [□]
5-Interest remuneration [□]	Prohibited: e-money and asset-referenced tokens may not offer interest to holders. [□]	Prohibited: GENIUS Act forbids stablecoin issuers from paying interest on balances. [□]
6-Supervisory authority [□]	EBA for significant issuers; NCAs for others; ECB oversight under the PISA framework (Payment Services and Systems Oversight Act). [□]	U.S. Treasury or delegated federal agency (e.g., OCC), depending on the issuer's license type. [□]
7-Supervision aspects [□]	Includes capital, reserves, redemption guarantees, governance, AML/CFT, cybersecurity, and business continuity. [□]	Covers reserve adequacy, liquidity, AML/KYC, risk management, cybersecurity, operational integrity, and redemption rights. [□]
8-Mandatory capital requirements [□]	EBA proposal: 2-3% of outstanding stablecoin value for significant issuers. [□]	Minimum capital required; precise amount to be defined by licensing agency and issuer risk profile. [□]



UAE - VARA

Dubai's VARA: The Gatekeeper of Tokenization

Dubai Law No. 4 (2022):
Regulator of virtual assets

Licenses:
Issuance, custody, exchanges, lending, advisory, investment

Standards:
AML/KYC, risk control, consumer protection

Requirements:
Whitepapers, governance, auditability

Coordination: CBUAE, SCA, DFSA

Mission:
Make Dubai a global hub for trusted tokenization

For more insight on FinTech, Tokenization & ESG, follow [in](#) Solmaz Gharoun



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Tackling Risks



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Risks According to the BIS

- 1) They do not respect the principle of the “singleness of money,” which is maintained by bank deposits with central bank reserves and a backstop of liquidity provision. Unlike cash or bank deposits, stablecoins may have varying values in secondary markets depending on the perception of the issuer's risk in guaranteeing redemption at par.
- 2) Stablecoins do not guarantee the necessary “elasticity” i.e. flexibility of liquidity provision to the economy. The BIS Report, already mentioned, refers to the need for “...money being provided flexibly to meet the need for large-value payments in the economy, so that obligations are discharged in a timely way without gridlock taking over.”
- 3) The third shortcoming of stablecoins as a form of money relates to the greater difficulty in ensuring the sector's integrity against financial crime and other illicit uses. Problems of that kind also exist with bank deposit activity, but the supervisory system can manage them more easily than with stablecoin blockchains. Recently, Duffie et al (2025) proposed a solution involving the use of digital identification tokens that would need to be introduced in stablecoin blockchains before they can be used.



Risks According to IMF (Hélène Rey)

Stablecoins

- **Pros:** faster, cheaper transfers; safe value for weak economies.
- **Cons:** dollarization, bank disintermediation, **seigniorage privatization**, illicit finance, lobbying power.

Tokenization (Digital representation of assets, e.g. bonds, stocks, CBDCs)

- **Pros:** Enables global financial integration, peer-to-peer transactions, bypassing banks.
- **Risks:** volatility, excessive capital mobility, fragmentation across multiple networks.

Impact on USD

- **Dollar stablecoins boost demand for Treasuries → strengthen U.S. “exorbitant privilege.”**
- Wealth shifts to private issuers, raising governance and transparency concerns

Currencies & Integrity

More competition among currencies; multipolar system possible.

- Cybersecurity crucial: quantum computing could threaten cryptography.

Strongest, most resilient currency networks may gain an “integrity privilege.”

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Stablecoins vs Tokenised Deposits

Stablecoin and tokenized deposit comparison		DETAILED COMPARISON ACROSS USER'S AND REGULATORS' PERSPECTIVE AVAILABLE IN THE REPORT
OVERVIEW	Stablecoin backed by fiat assets¹⁾	Tokenized deposit
Issuing entity	Mainly private companies, with recent inroads of financial institutions ²⁾	Regulated financial institutions
Infrastructure	Public blockchains (e.g., Ethereum)	Mainly private blockchains
Assets backing the tokens	Cash and short-term, low risk securities ³⁾	Fiat money on issuer's balance sheet
Type of instrument	Bearer	Non-bearer.
Key use cases	<ul style="list-style-type: none"> Cross-border remittances and retail payments Crypto trading and DeFi Cross border corporate payments Digital asset native companies' payments 	<ul style="list-style-type: none"> Inter-bank settlement Cross-border corporate payments

¹⁾ Stablecoin pegged to a fiat currency and backed by financial assets and cash denominated in this currency; ²⁾ E.g., Paypal's PYSD (deployed), Societe Generale Forge's EURCV (announced); ³⁾ E.g., USDC backed by ~20% cash and >80% short-term US government bonds

Source: "Stablecoins: Survivorship, Transactions Costs and Exchange Microstructure" (January 2022), BIS, USDF, Georgetown University Law Center, Digital Euro Association; desk research; Roland Berger

Roland Berger



STABLECOIN DESIGN REQUIREMENTS FOR RETAINING STABILITY

Deep connections to banking and payment systems	Stablecoins require strong integration with the banking system to honor mint and redemption requests. Without the ability to mint and redeem on demand in the primary market, maintaining a stable value in secondary markets can become difficult.
High-quality reserve assets to maximize stability and trust	Stablecoin reserves should consist of cash and short-duration government securities denominated in the stablecoin's reference currency, in an amount that matches or exceeds the amount of the stablecoin in circulation. This is necessary to foster trust that par value will always be maintained and the ability to redeem will always be available.
High degree of reserve transparency	High levels of reserve transparency should be enshrined globally through legislation and regulation. Independent audits by accounting firms are necessary, and additional measures may be required to ensure that stablecoin holders will always be confident that their holdings can be redeemed at par in a timely way.



Will the US dollar be dethroned?



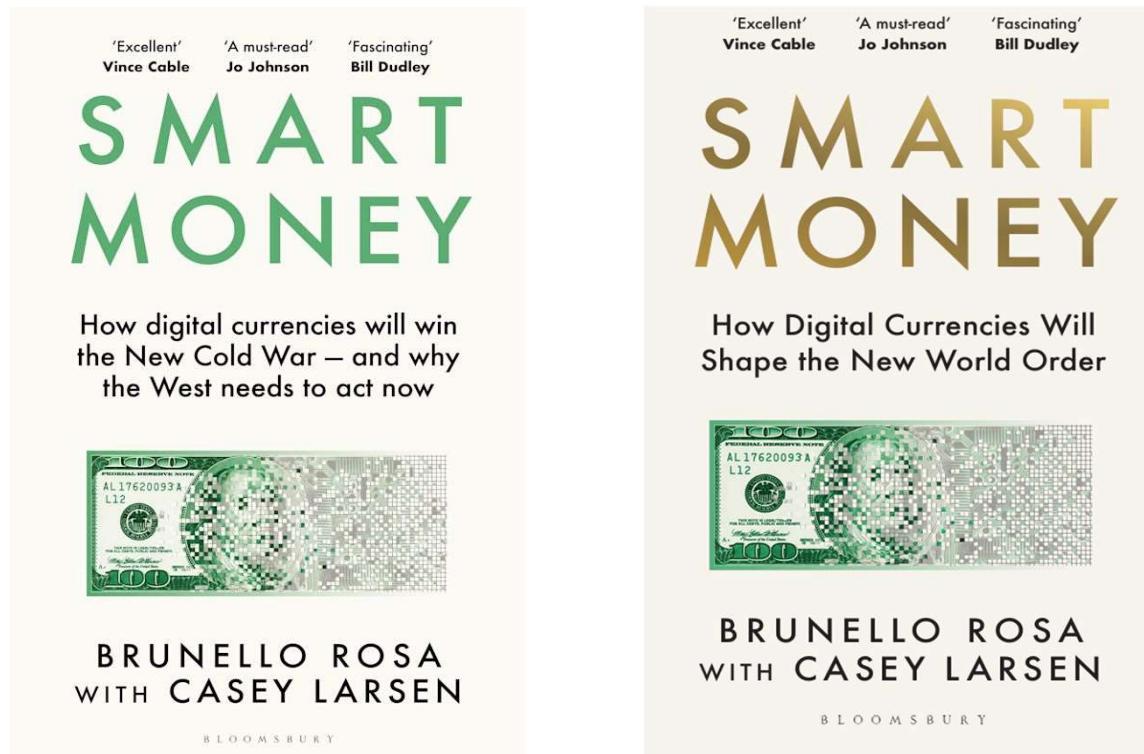
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The Book



Amazon: <https://www.amazon.co.uk/Smart-Money-digital-currencies-needs/dp/1526675870>

Bloomsbury: <https://www.bloomsbury.com/uk/smarter-money-9781526675873/>

Contact: brunello.rosa@rosa-roubini.com

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Best-seller and FT's Best Economics Book 2024

Best books of 2024: Economics

Martin Wolf selects his must-read titles

Books of the Year 2024



'Excellent'
Vince Cable
'A must-read'
Jo Johnson
'Fascinating'
Bill Dudley

SMART MONEY

How digital currencies will win
the New Cold War – and why
the West needs to act now



BRUNELLO ROSA
WITH CASEY LARSEN

BLOOMSBURY

All this week, FT writers and critics share their favourites. Some highlights are:

Monday: *Business* by Andrew Hill
Tuesday: *Environment* by Pilita Clark
Wednesday: *Economics* by Martin Wolf
Thursday: Fiction by Laura Battle
Friday: Politics by Gideon Rachman
Saturday: FT Critics' choice

'Excellent'
'A must-read'
'Fascinating'

Smart Money: How Digital Currencies Will Win the New Cold War – and Why the West Needs to Act Now by Brunello Rosa with Casey Larsen (Bloomsbury)

Rosa is a former Bank of England economist and lead author of this book. It makes two propositions. The first is that digital currencies are the future of money. It is indeed clear that this is how payments are going to be made. The second is that the digital renminbi is a way for China to displace the western monetary system that is now at the heart of the world economy. This, then, is a battle over who controls what the book calls “the payment rails” on which the world economy will run. The argument is both important and open to question.

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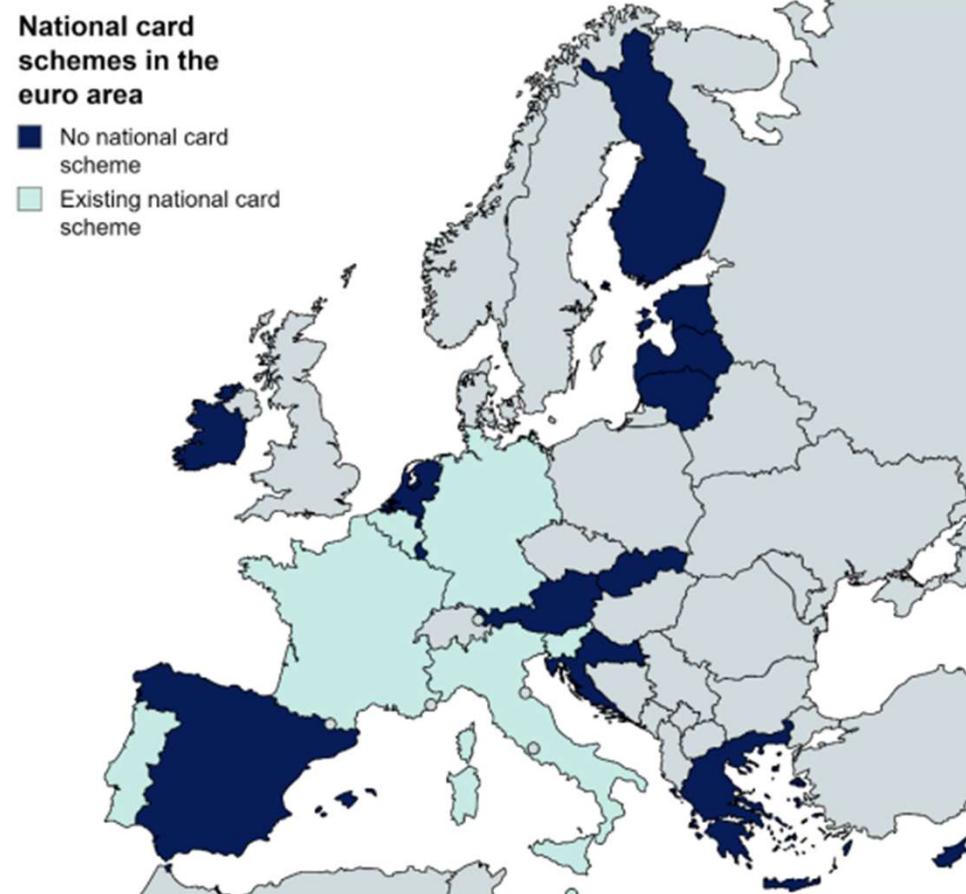
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European «Strategic Autonomy»



Sources: ECB



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Motivations for Introducing CBDCs in China

Two Main Motivations

- Re-gaining control of information about payment systems – *aka* increase domestic surveillance
- Internationalisation of RMB – instrument for BRI expansion

SOURCE: <https://www.bankofengland.co.uk/news/2020/january/central-banks-group-to-assess-digital-currencies>



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Timeline

2012/2013



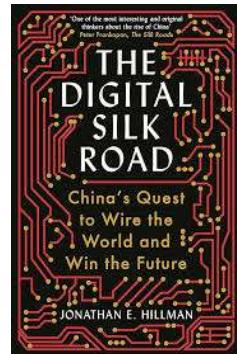
2013 (September/October)



2014



2015



2015



2015

Tech War



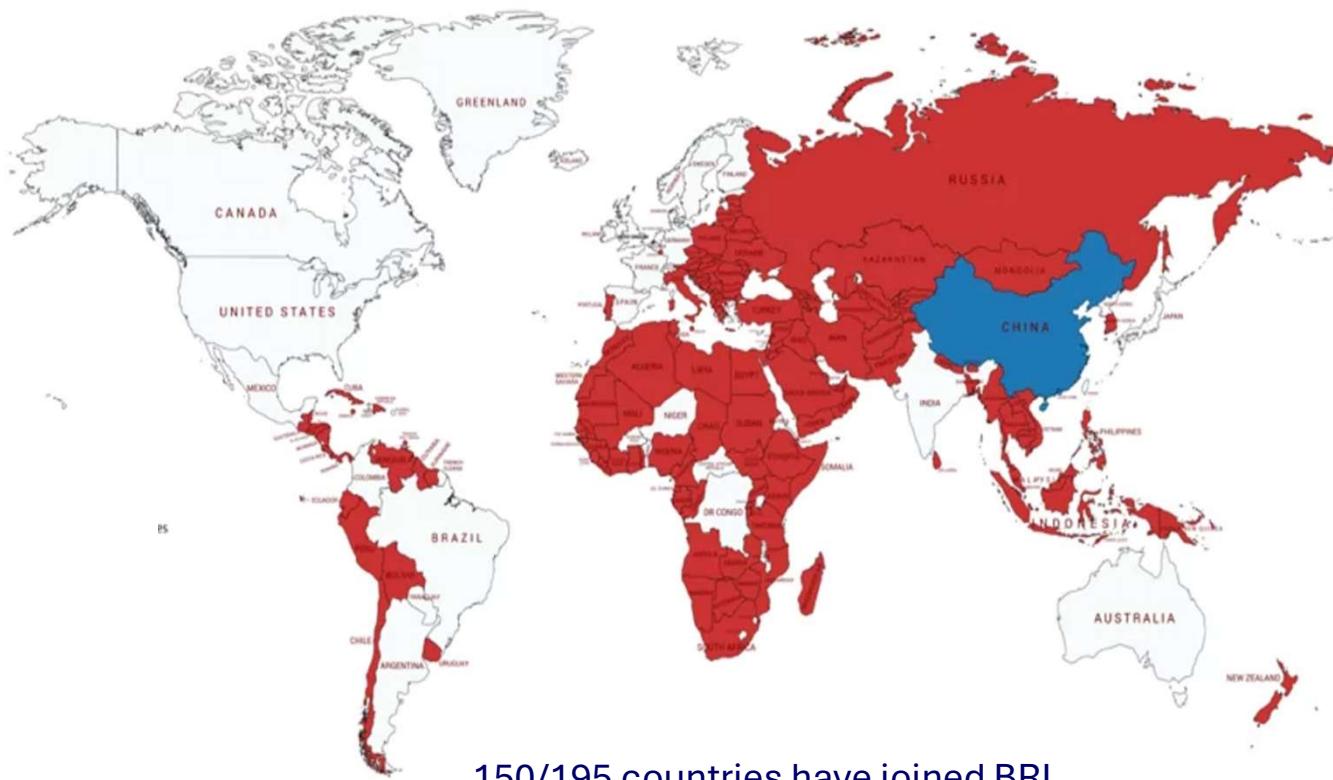
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Belt and Road Initiative (BRI)



150/195 countries have joined BRI

75% of world population

50% world's GDP

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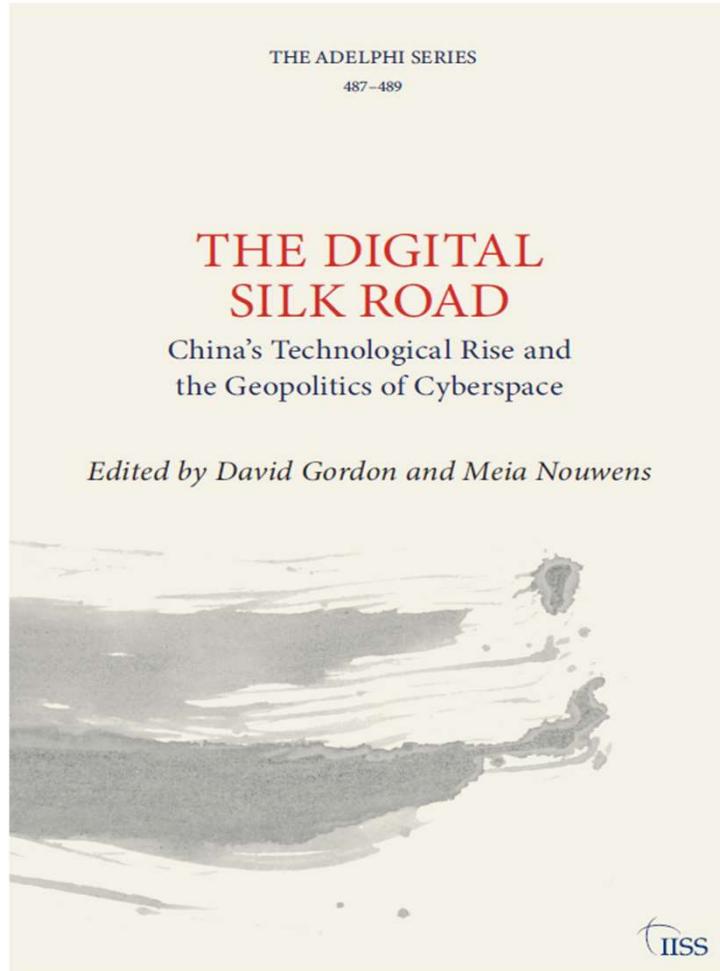


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The Digital Silk Road (DSR)



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DSR Projects

Table 1: New DSR-related projects by technology type, 2015 and 2020

	2015	2020
5G	4	22
Data centres	5	116
E-commerce	5	2
E-governance	1	1
Fintech	3	12
Transfer-of-knowledge projects	14	15
Academic programmes	10	11
People-to-people connection programmes	0	1
Satellite technology	1	2
Surveillance and security	15	30
Smart city	3	6
Terrestrial or submarine cables	2	16
Telecoms (pre-5G)	42	9

Source: IISS China Connects



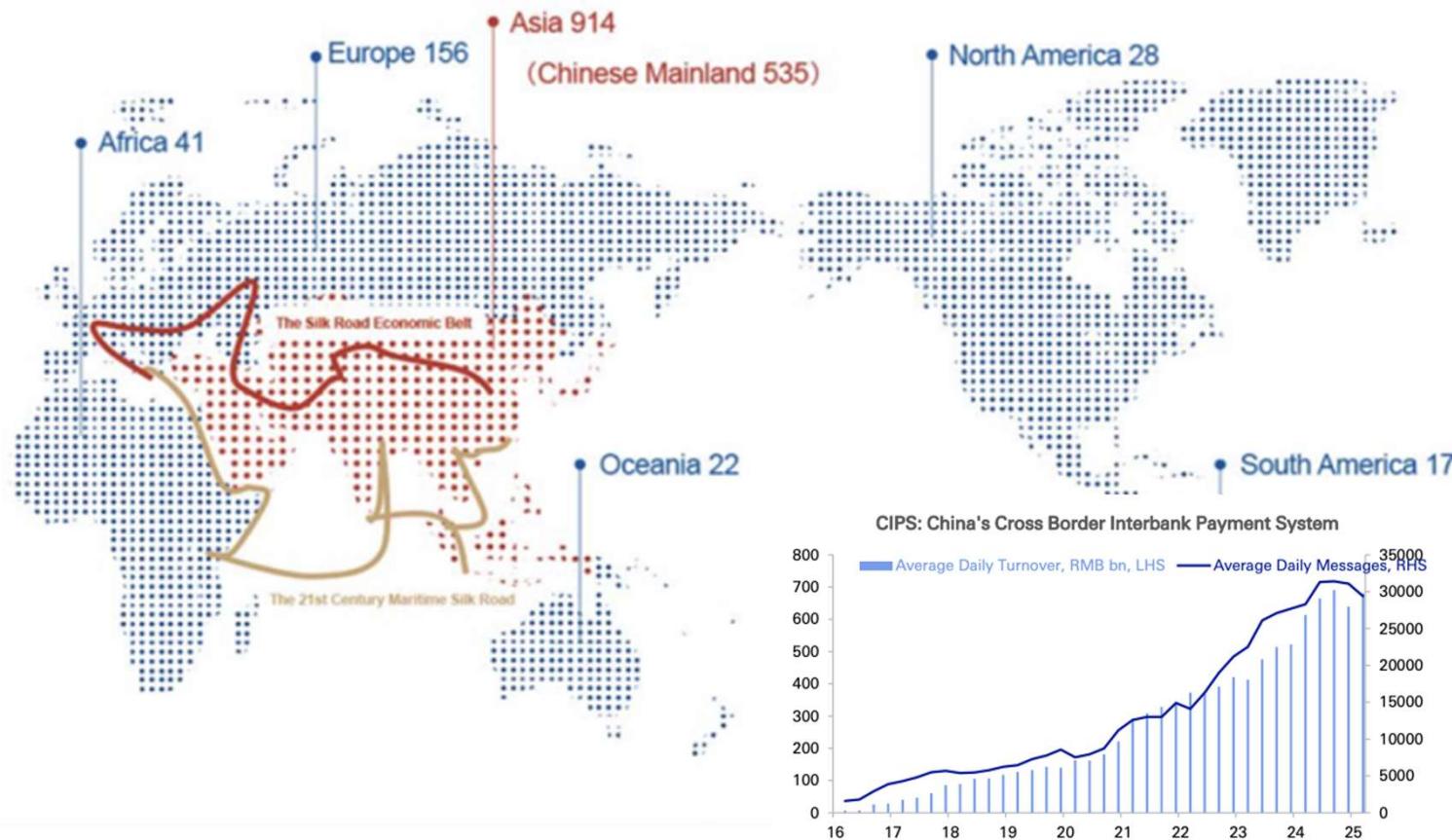
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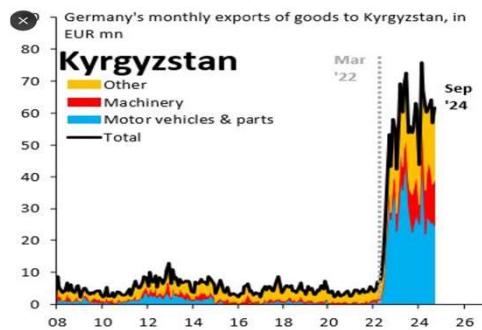
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Cross-Border International Payment System (CIPS)



China Helped Russia Circumvent Financial Sanctions

- With the beginning of the war in Ukraine, Russia has been subject to sanctions, including the ban from SWIFT
- To circumvent the sanctions, Russia has adopted three strategies:
 - Moved to CIPS
 - Utilised e-CNY, cryptos
 - Imported from neighbours



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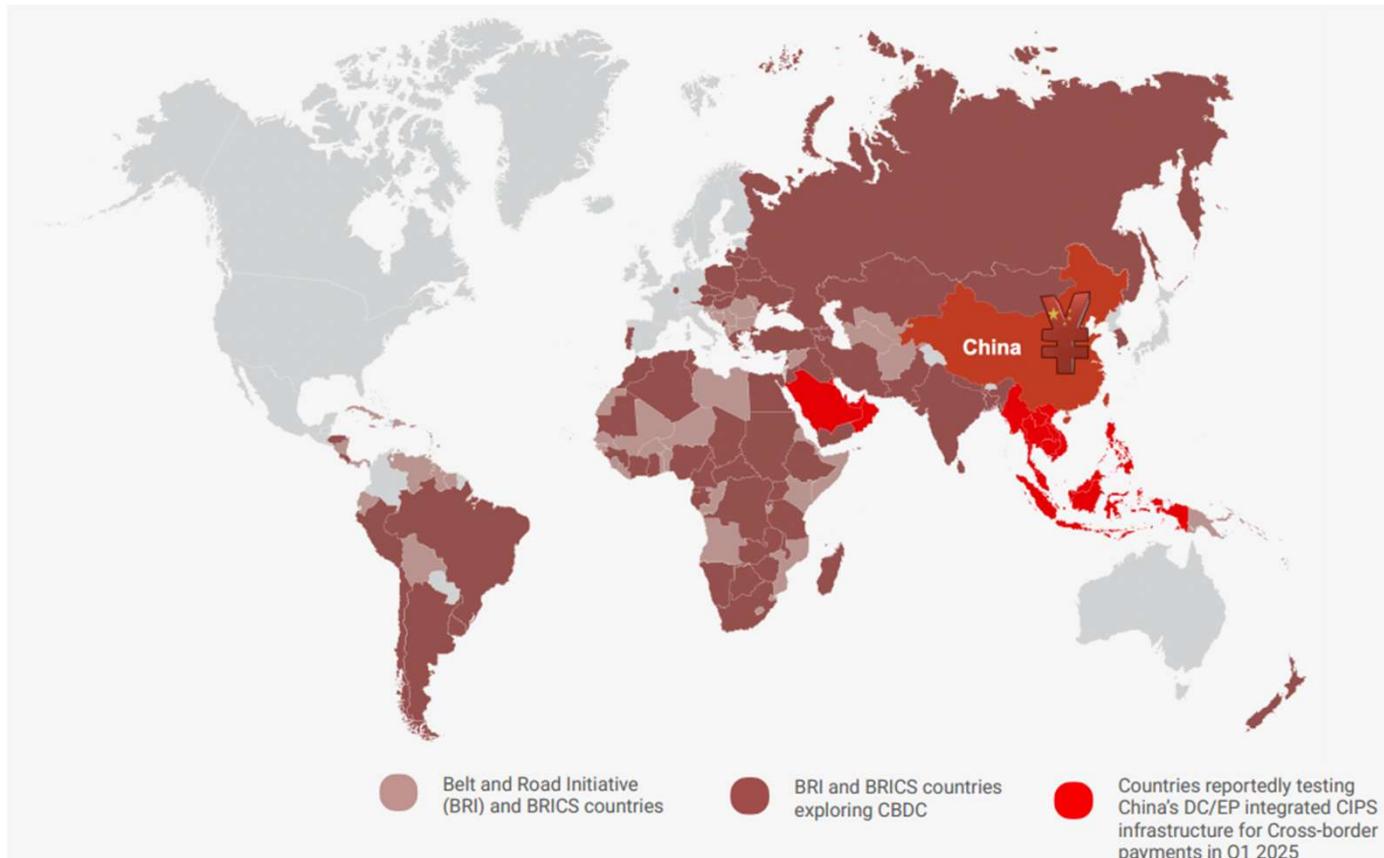


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BRI - BRICS - CBDCs



Source: DFMI - *NEURAL FINANCE & THE FUTURE OF MONEY: Building a Sovereign Digital Asset Economy for the UK*

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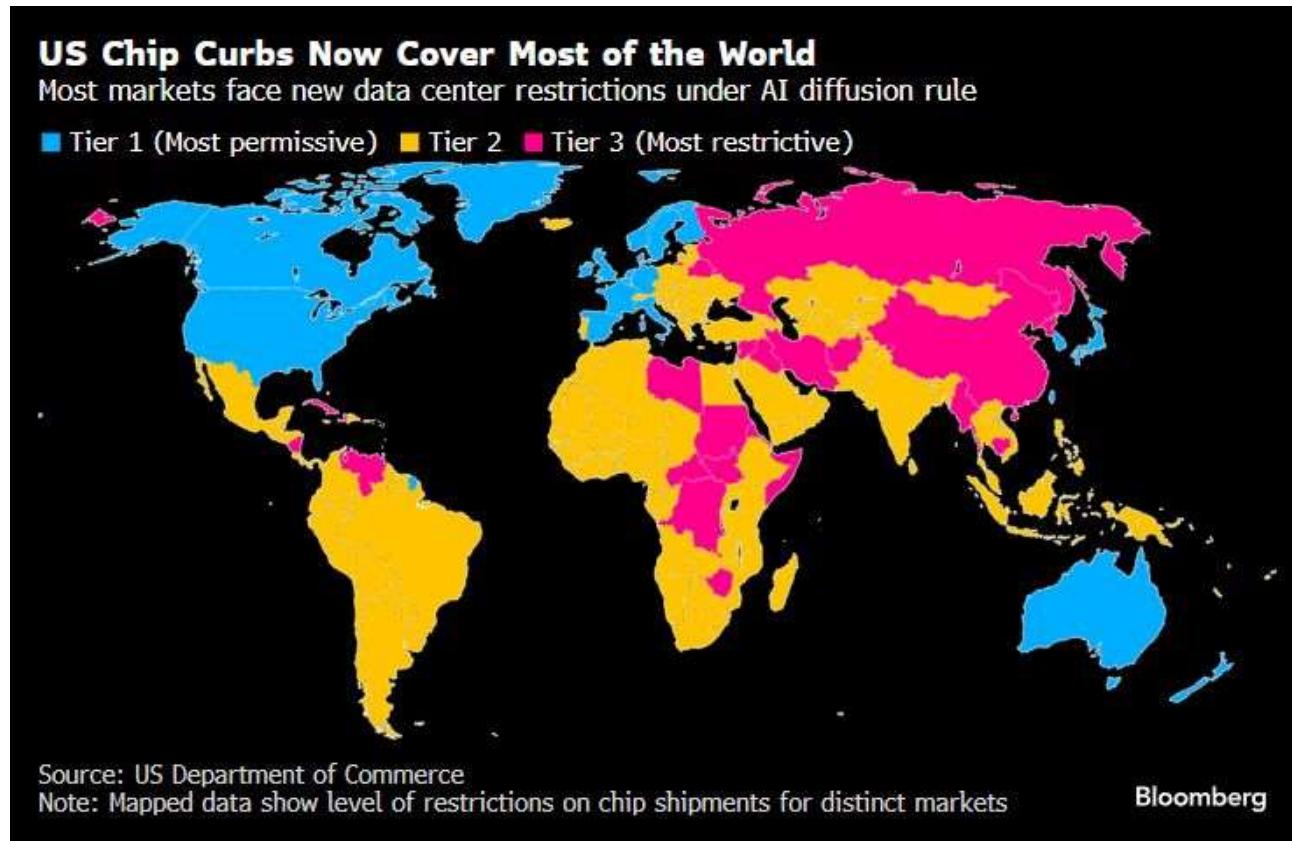


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US Chip Curbs



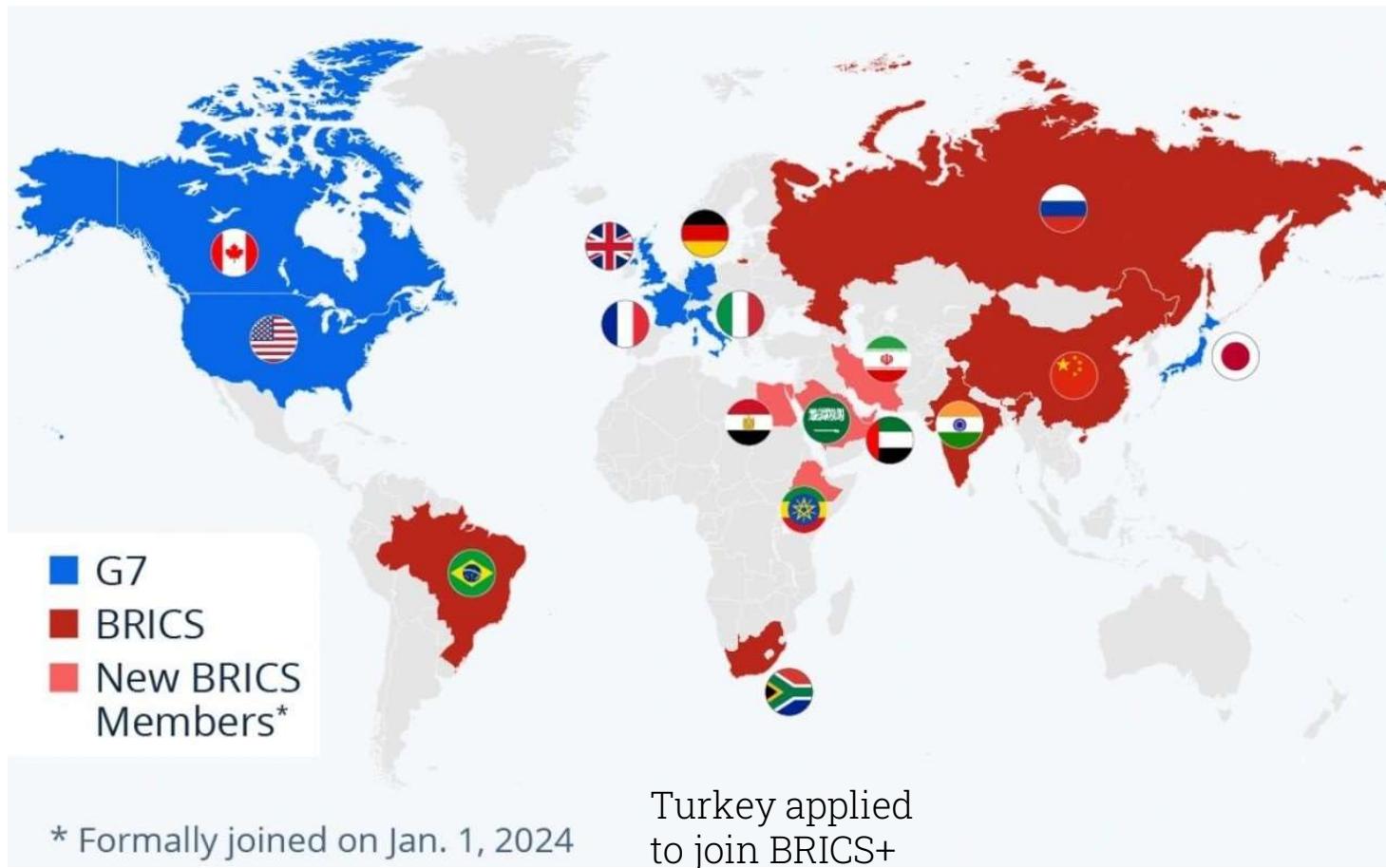
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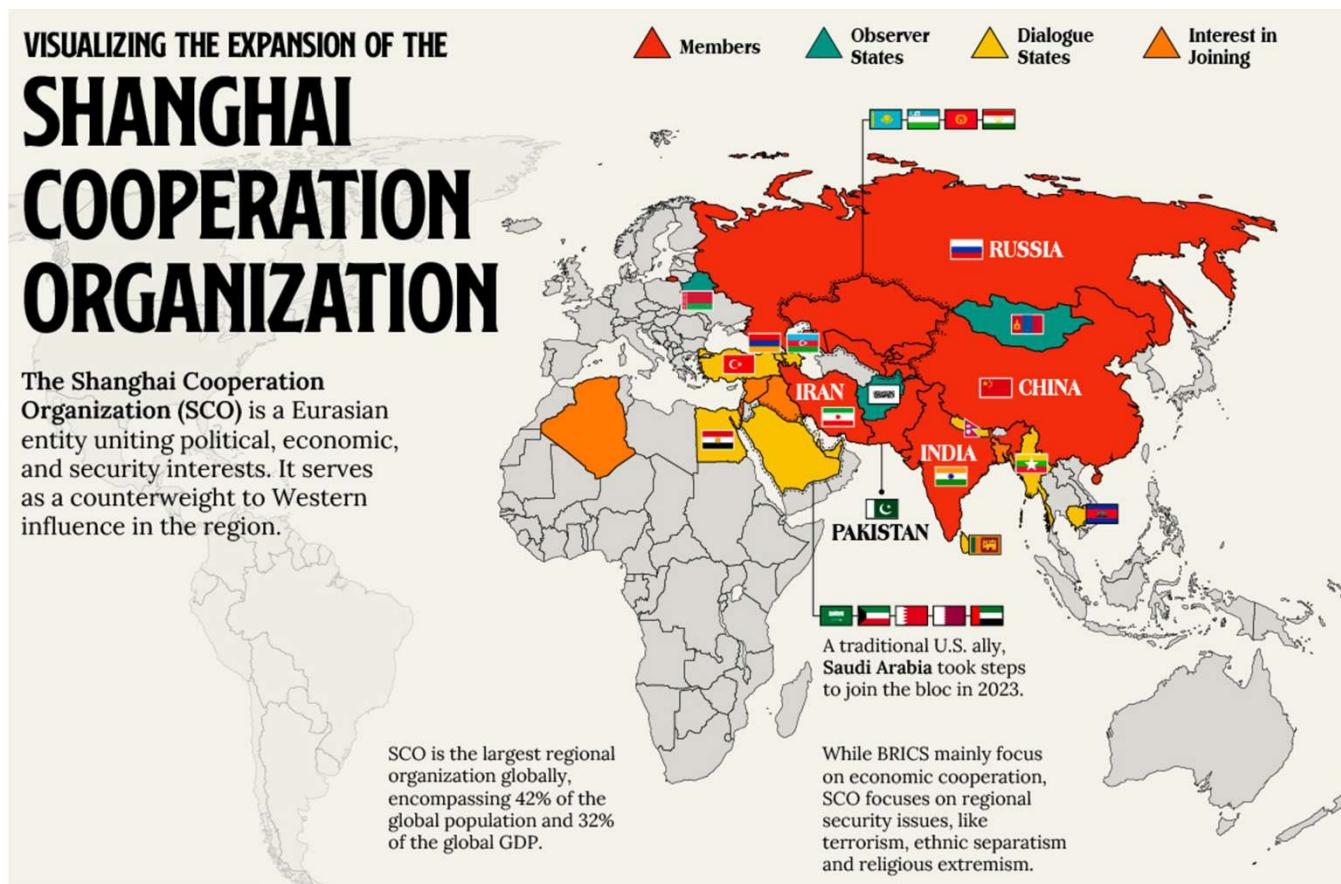
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G7 vs BRICS+



Shanghai Cooperation Organisation - Security



US Stablecoins vs China's CBDC



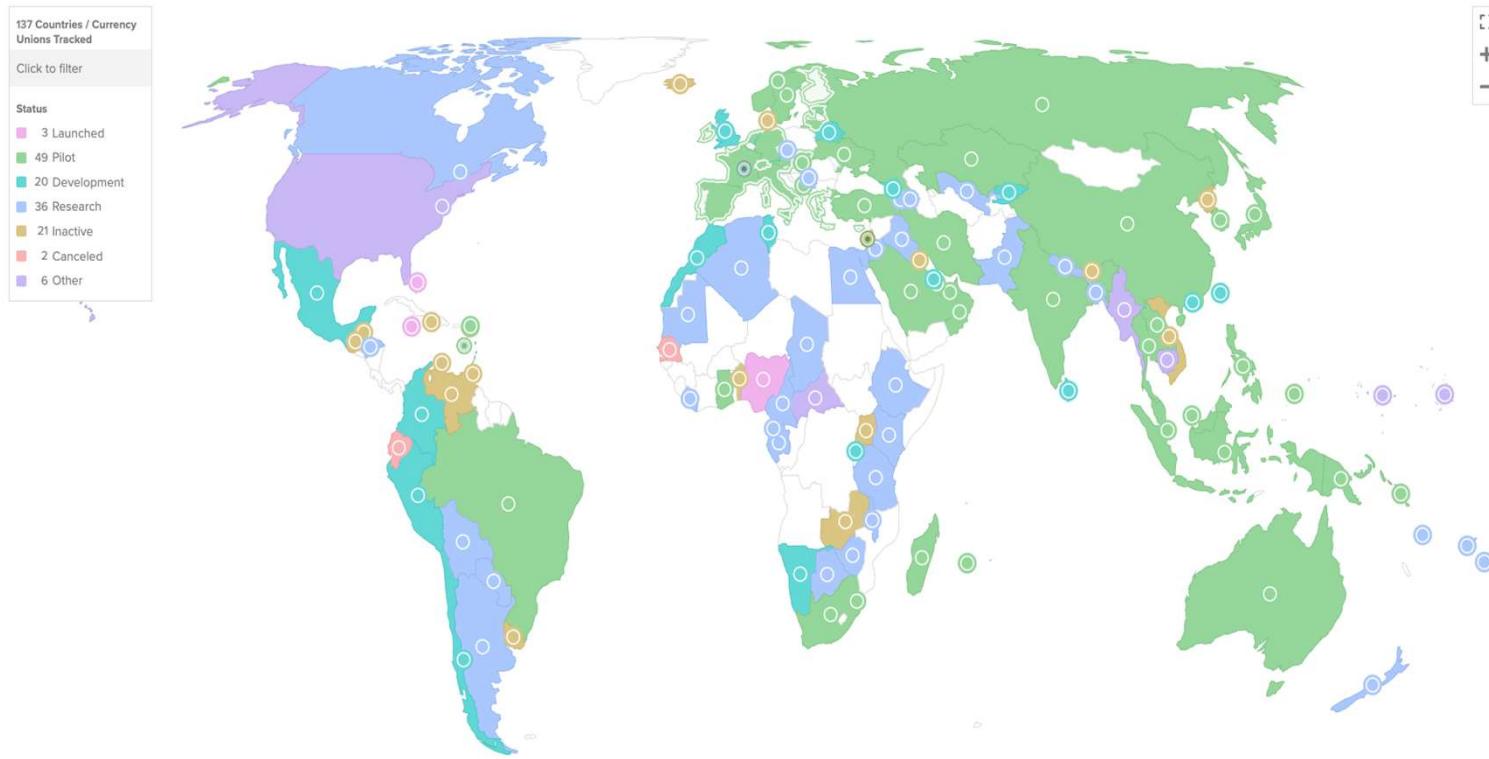
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CBDC Projects



Source: [Atlantic Council](#)



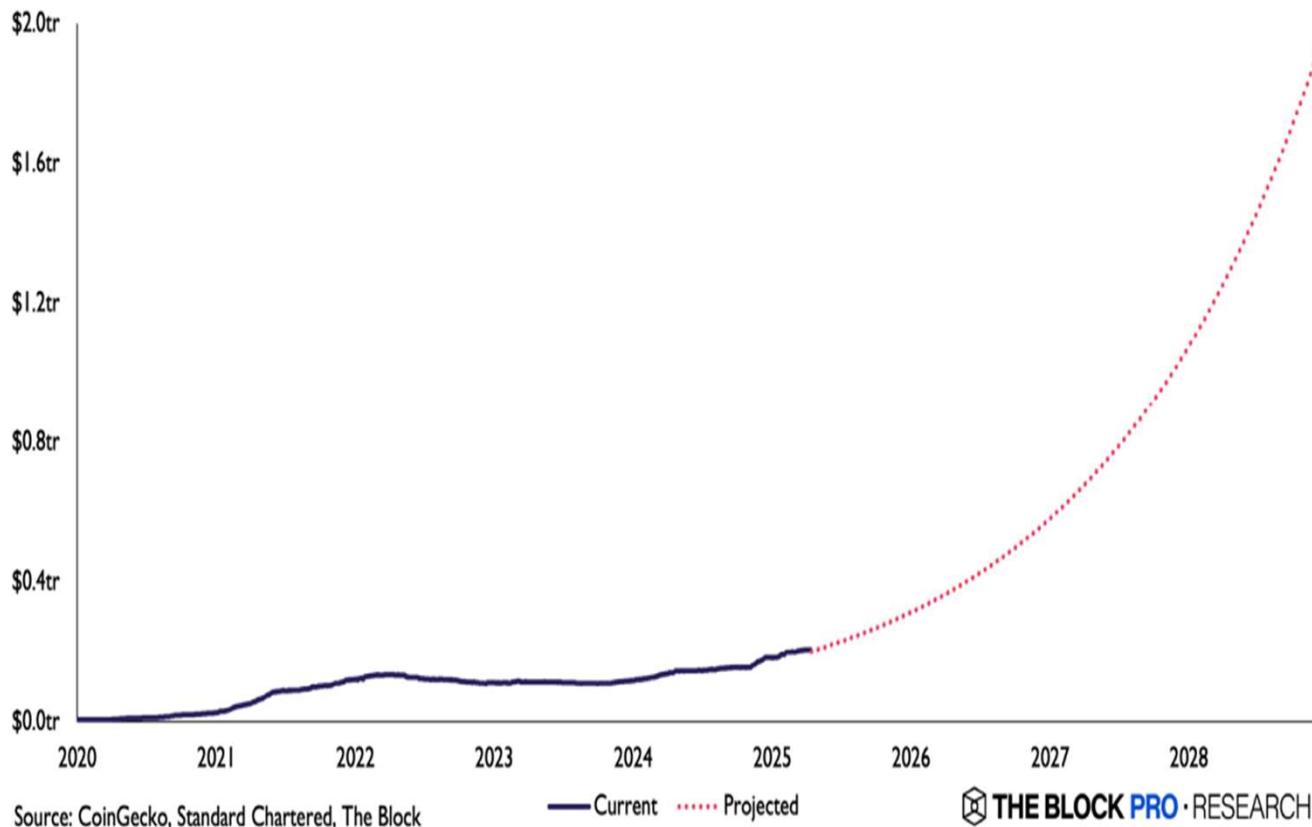
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Projected Stablecoin Market Cap



Sources: The Block Research, Billions to Trillions: Stablecoin use cases poised to expand the market



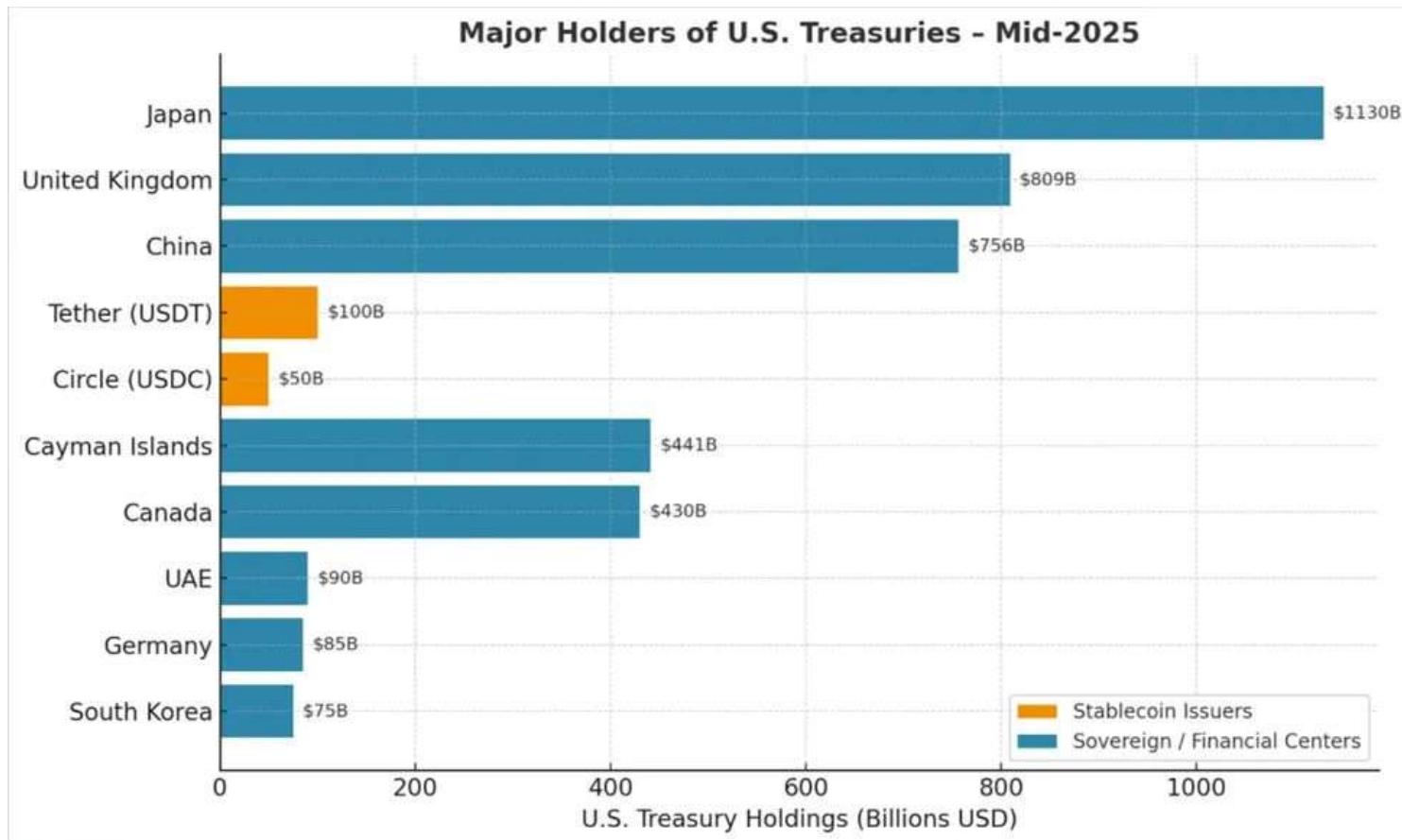
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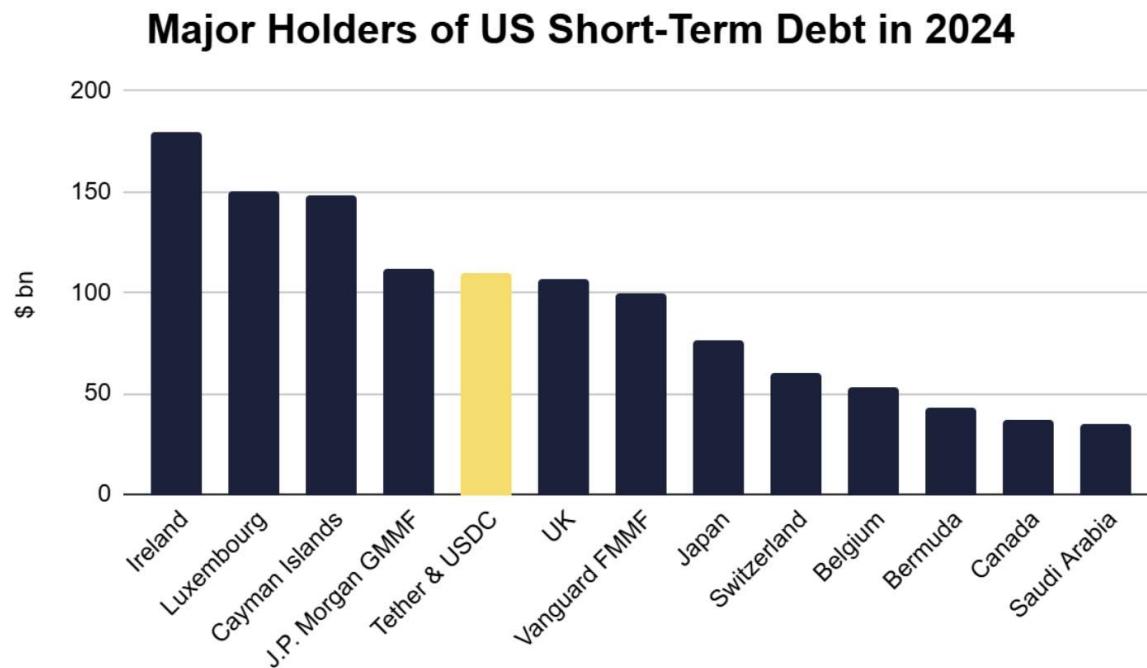
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Stablecoins Among Major Buyers of US Debt



Stablecoins Among Major Buyers of US Debt



Note: Foreign Short-term debt holdings as of 30 June 2024; Tether and USDC holdings as of December 2024; J.P. Morgan GMMF Treasury holdings as of 31 May 2025, Vanguard Federal Money Market Fund T-Bills holdings as of 31 May

Source: Particula, Circle, JP Morgan, Tether, Vanguard, U.S. Treasury



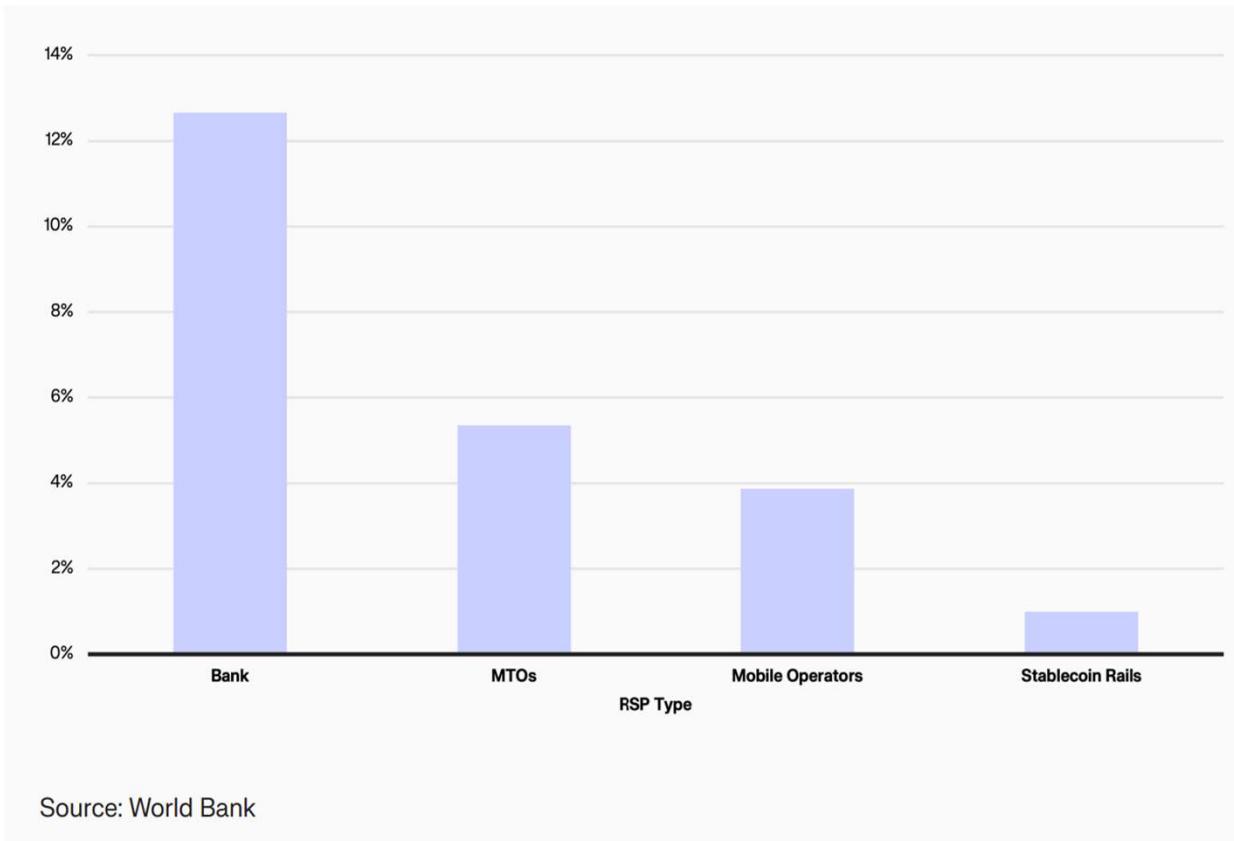
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Stablecoins Can Reduce Remittance Costs by 92%



Sources: The Block Research, Billions to Trillions: Stablecoin use cases poised to expand the market



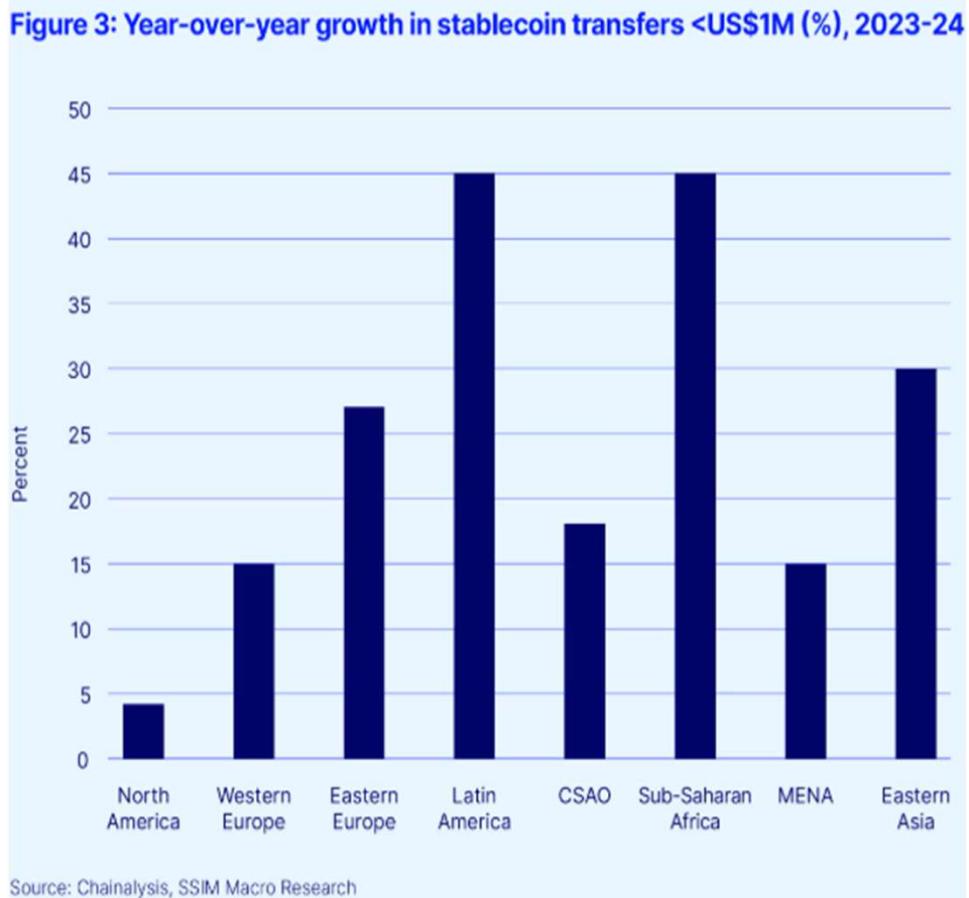
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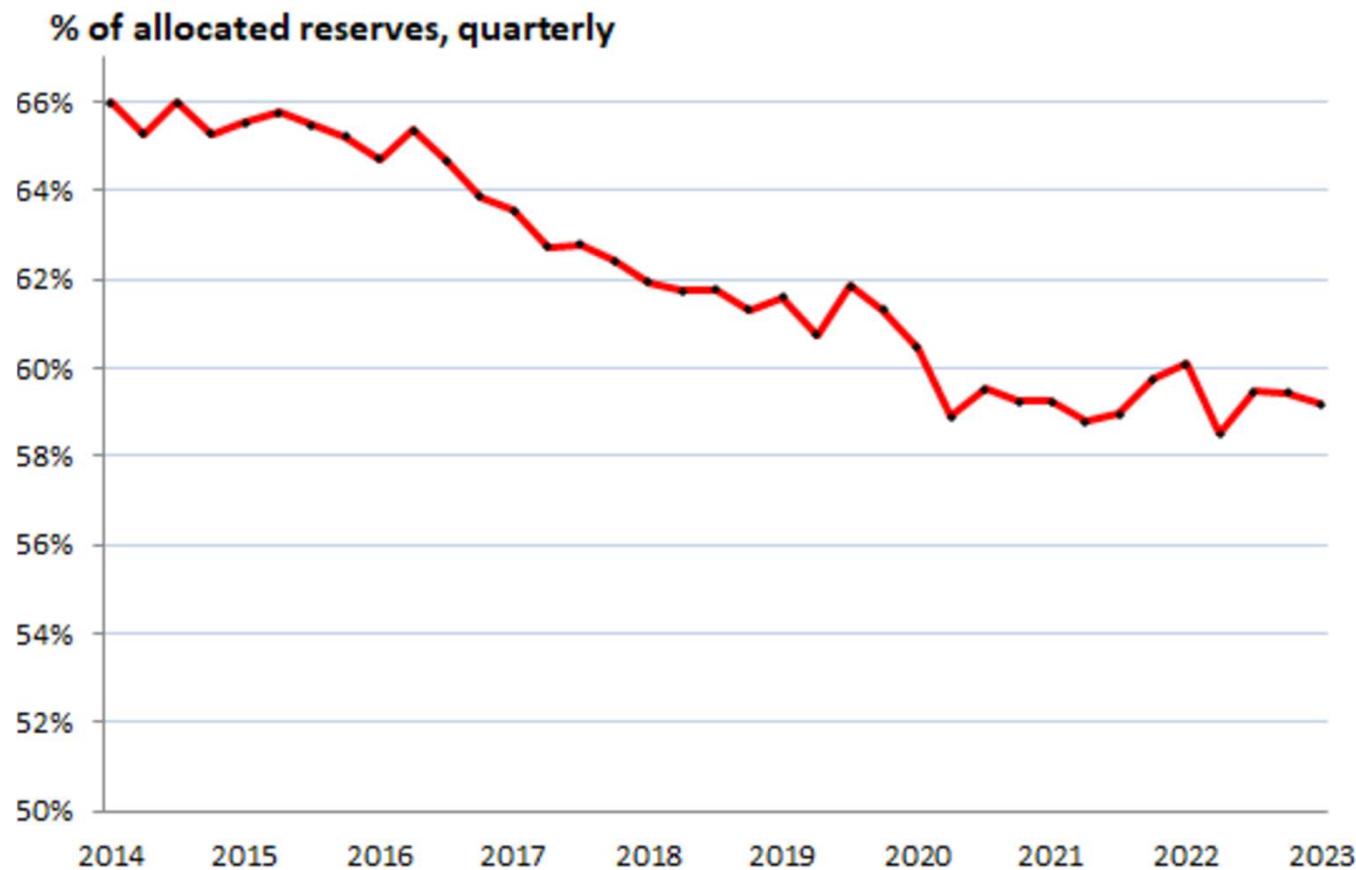
Rapid Adoption in EMs



- As 99 % of stablecoin AUM is USD-denominated, a comparable asset substitution dynamic could emerge in non-US jurisdictions.
- In these regions, deposits may flow out of the domestic banking system into USD-backed stablecoins, potentially exacerbating currency depreciation.
- This dynamic is particularly acute for emerging and frontier markets (EM/FM).
- While the exact market cap share of emerging markets in stablecoin AUM is unknown, the significant use cases in these regions suggest that a substantial portion of the overall market capitalization is either held or transacted within these economies, supporting rapid uptake.



USD as a Reserve Currency



SOURCE: [IMF](#)



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CNY As A Reserve Currency

From US-based System

- Current Account Deficit
- Open Capital Account

To Tech-based System

- CBDCs
- CIPS



Trump on BRICS Currency



Mohamed El-Erian · Following · ... ·
President @ Queens' College, Cambridge...
1h ·

President-Elect Donald Trump on "the BRICS Countries [that] are trying to move away from the Dollar."

[...more](#)



Donald J. Trump
@realDonaldTrump

The idea that the BRICS Countries are trying to move away from the Dollar while we stand by and watch is OVER. We require a **commitment** from these Countries that they will **neither create a new BRICS Currency, nor back any other Currency to replace the mighty U.S. Dollar** or, they will face 100% Tariffs, and should expect to say goodbye to selling into the wonderful U.S. Economy. They can go find another "sucker!" There is no chance that the BRICS will replace the U.S. Dollar in International Trade, and any Country that tries should wave goodbye to America.



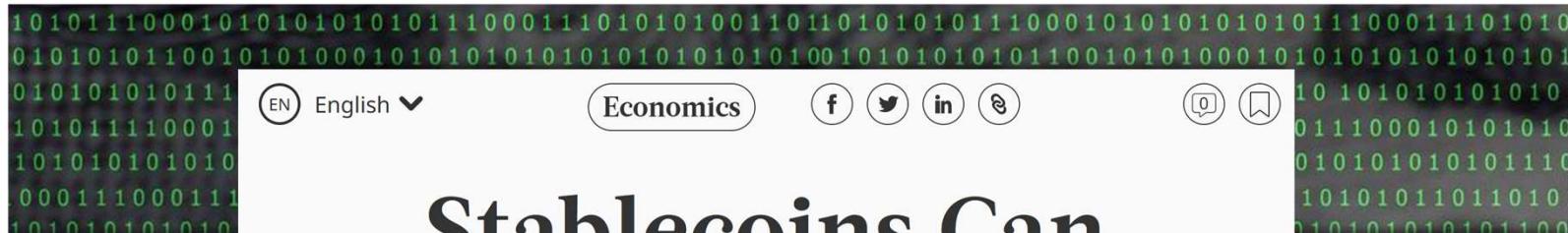
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De-Dollarisation ?



Stablecoins Can Defend the Dollar's Global Status

Nov 5, 2024 **PAUL RYAN**

China is devoting significant resources to creating an alternative to the dollar payments system. To counter this push, American policymakers should support private firms issuing stablecoins, which can ensure demand for US government debt and boost the greenback's global standing and reach.

SOURCE: [Project Syndicate](#)

FEATURED

1

Trump Won, but Trumpism Did Not

Nov 18, 2024 |
BRUCE ACKERMAN



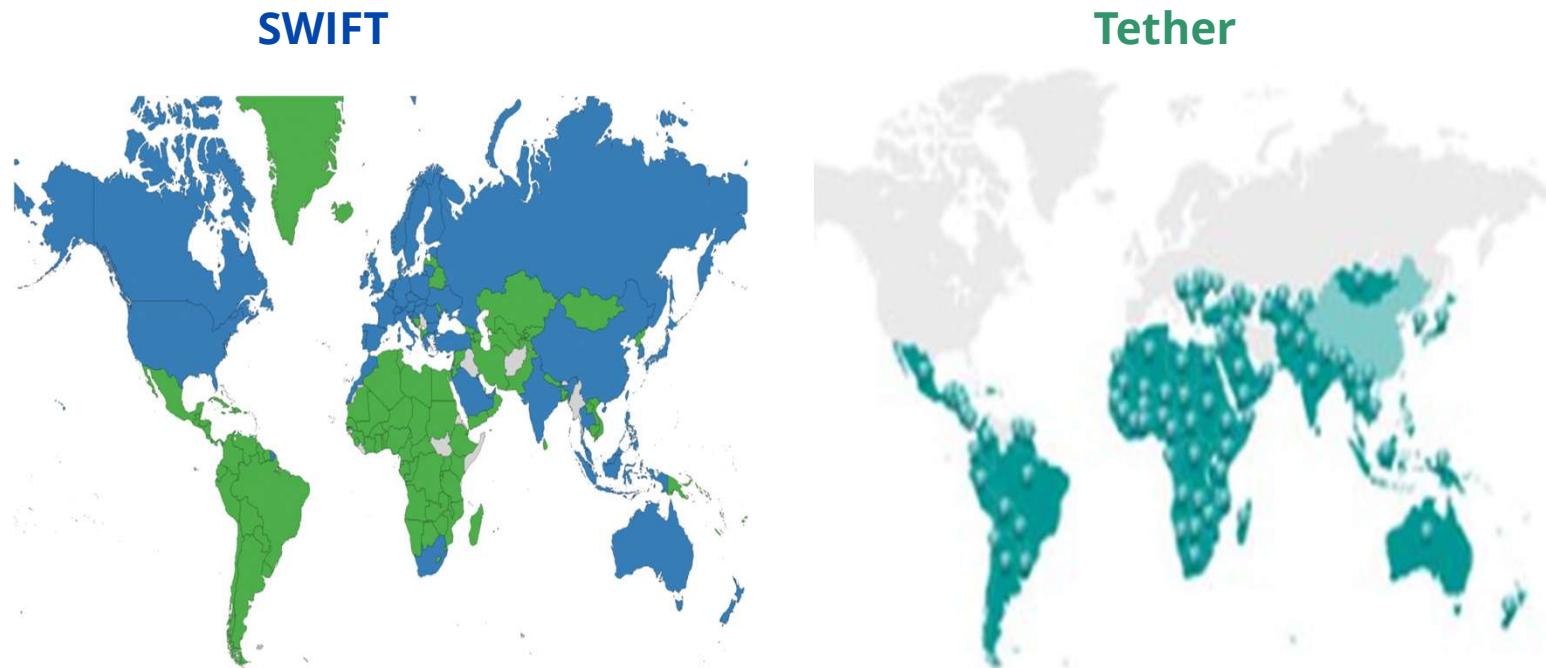
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Re-Dollarisation - Tether is Strong Where SWIFT was Weak



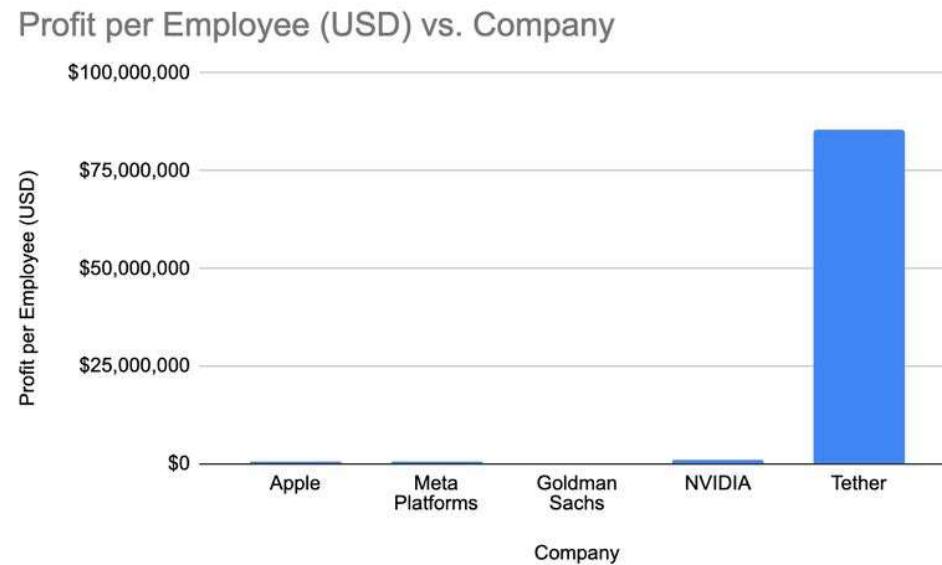
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[Swift Institute](#) and
[Tether](#)
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Why Companies Issue Stablecoins?



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Contagion in cryptocurrencies market: Implications for financial stability

Norman Reinheimner *Student moderator*

Dr. Mathis Mourey *Researcher & Lecturer in Data Science and Finance at THUAS*

Brunello Rosa *Honorary Visiting Professor at City University London*

& CEO and Head of Research at Rosa & Roubini

Dr. Martijn van der Linden *Professor of Practice in New Finance at THUAS*

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Financial Stability & Crypto Markets

TradFi-Crypto Interconnections

Mathis Mourey
Senior Researcher & Lecturer – THUAS
Associate Researcher – UGA

Three Channels of Interconnection



Bitcoin ETFs

\$120B+

AUM Jan 2026

Institutional access via regulated exchanges



Stablecoins

\$235B+

Market Cap

Integration into settlement layer



Institutional Flows

\$8B+

FTX losses alone

Direct investment in exchanges

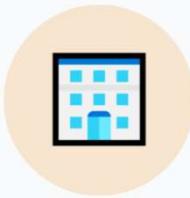
Sources: The Block (2026); CoinGecko; FTX Bankruptcy Filings

BTC ETF: How Does It Work?



Investor

Buys ETF shares on exchange



ETF Issuer

Creates/redeems shares



Custodian

Holds underlying Bitcoin



Price Track

NAV reflects BTC price

Key Features of Spot Bitcoin ETFs

Regulatory Oversight:

SEC-approved; daily NAV disclosure; strict custody requirements

Custodian Model:

Coinbase holds 90%+ of ETF Bitcoin (~1.1M BTC across all ETFs)

Creation/Redemption:

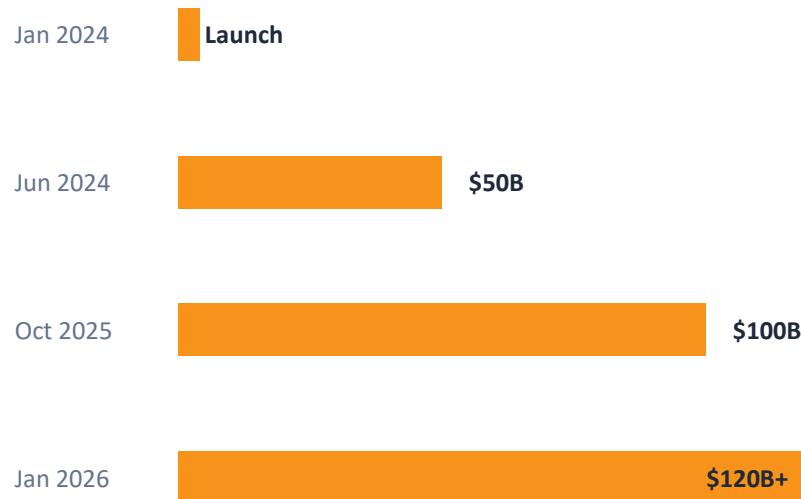
Authorized participants arbitrage NAV vs market price

Tax Efficiency:

No direct BTC ownership; standard securities taxation

BTC ETF: Figures & Numbers

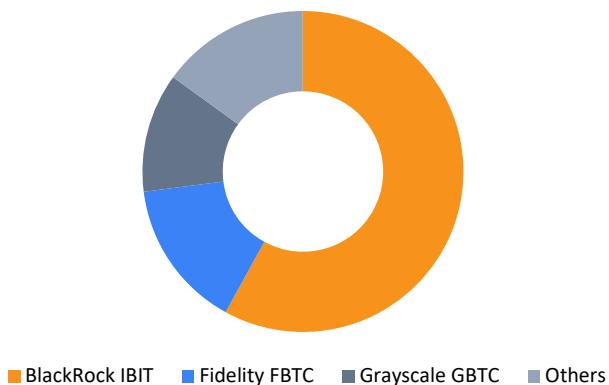
Cumulative Growth (Jan 2024 - Jan 2026)



Key Metrics

- Cumulative trading volume: **\$2+ trillion**
- 2025 net inflows: **\$21.8 billion**
- Fastest ETF to \$100B: **435 days (vs 2,011 for VOO)**

Market Share by Issuer (AUM)



BlackRock IBIT: \$70.6B AUM, 773K BTC

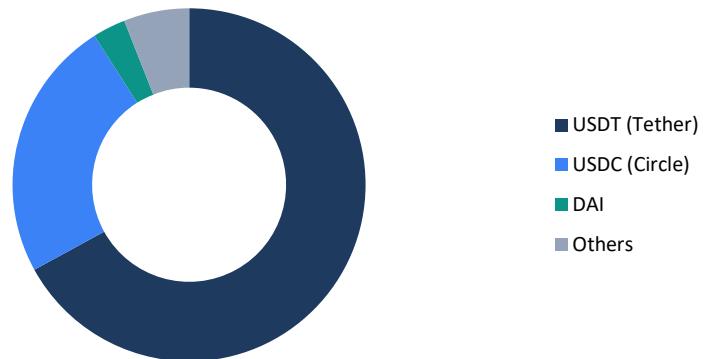
Fidelity FBTC: \$17.7B AUM (in-house custody)

Market concentration: Top 2 issuers = 73% share

Sources: The Block (Jan 2026); Bloomberg Intelligence; SoSoValue

Stablecoins: Different types

Market Cap Distribution (\$235B+)



Stablecoin Types



Key Market Figures (Jan 2026)

\$159B

USDT

Market cap

\$76B

USDC

Market cap

\$88B+

Daily Volume

Tether alone

120M+

Active Wallets

Monthly

Sources: CoinGecko; The Motley Fool (Jan 2026); Arkham Intelligence

Stablecoins: How Do They Work?

Fiat-Backed

USDT, USDC

- 1 User deposits \$1 USD
- 2 Issuer mints 1 stablecoin
- 3 Reserves held 1:1
- 4 Redeem anytime for \$1

Risk: Reserve transparency

Crypto-Collateralized

DAI (MakerDAO)

- 1 Deposit ETH collateral
- 2 Smart contract mints DAI
- 3 150% over-collateralized
- 4 Liquidation if ratio drops

Risk: Crypto volatility

Algorithmic

UST (collapsed May 2022)

- 1 No backing reserves
- 2 Algorithm adjusts supply
- 3 Arbitrage maintains peg
- 4  Death spiral risk

Risk: Complete failure

Stablecoins: Systemic Mechanism

Interconnection to Traditional Finance

US Treasury Holdings

Tether + Circle: **\$177.6B** (0.6% of \$29T outstanding)

Treasury Ranking

Tether: **19th largest** non-sovereign T-bill holder

Interest Income (2025)

Tether: ~\$6B/year • Circle: ~\$1.5B/year

Settlement Layer Function

Annual Transaction Volume

\$8.9 trillion on-chain (2025 alone)

24/7 Trading Infrastructure

Enables crypto markets outside banking hours

DeFi Dominance

75%+ of DeFi transactions use stablecoins

Systemic Risk Channels

- 1. Reserve Concentration:** Banking partner failures freeze reserves (SVB → USDC depeg)
- 2. Market Freeze:** Mass depeg halts crypto trading (no stable settlement)
- 3. Treasury Market Impact:** Forced T-bill liquidation if redemptions spike

Sources: *Brookings* (Davidovic et al., 2025); *IMF Crypto Monitor* (Oct 2025); *Fed FEDS Notes* (2025)

Case Study: FTX Collapse

November 2022: Institutional Capital at Risk

Pre-Collapse Valuation

\$32B company valuation (Series C, 2022)

1M+ retail customers

#2 largest crypto exchange globally

Institutional Investors Exposed

Sequoia Capital: \$213.5M → \$0

Ontario Teachers' Pension: \$95M loss

SoftBank: \$100M loss

Tiger Global, BlackRock, Temasek also invested

Total institutional losses: >\$700M

Collapse Timeline (November 2022)

Nov 2

CoinDesk reveals Alameda's FTT holdings

Nov 6

Binance announces \$580M FTT liquidation → \$1B withdrawals in 24h

Nov 8

FTX halts customer withdrawals

Nov 11

Chapter 11 bankruptcy: \$8B hole, 100+ entities bankrupt

Sources: FTX Bankruptcy Court Filings; WSJ; CoinDesk

FTX: Real Economy Consequences

Customer Losses

- 1M+ retail customers
- \$1-2B unaccounted funds

Contagion Cascade

- BlockFi bankruptcy (Nov 28)
- Genesis: \$3.5B owed
- Gemini: \$485M outflows

Market Impact

- BTC fell to \$16K (2-yr low)
- FTT: -98.4% (\$2.6B wiped)

Legal Aftermath

- SBF: 25 years prison
- Crypto lending model questioned

Sources: FTX Bankruptcy Filings; Reuters; Bloomberg; DOJ Sentencing (Mar 2024)

Case Study: SVB & USDC Depeg

March 10-13, 2023: When Traditional Banking Shook Crypto

Mar 9	SVB bank run: \$42B withdrawn in 24h
Mar 10	SVB seized by FDIC; Circle reveals \$3.3B exposure
Mar 11	USDC drops to \$0.87 (13% depeg)
Mar 12	FDIC backstop announced; peg restored

Key Figures

\$3.3B

Circle SVB Exposure
8% of USDC reserves

\$0.87

USDC Price Low
13% below peg

4+

Contagion Spread
stablecoins depegged

\$0.34B

Circle Equity at Risk
vs \$3.3B frozen

Key Finding: Two-Way Contagion Channel

TradFi → Crypto: Bank failures freeze reserves, trigger depegs

Crypto → TradFi: Stablecoin runs could accelerate bank withdrawals (feedback loop)

Sources: Fed FEDS Notes (Dec 2025); BIS Working Paper 1164; Sanhaji (2024)

Systemic Risk Framework

Federal Reserve Bank of New York, Economic Policy Review (Nov 2024)

1. Valuation Pressures

Outsized price drops trigger margin calls and forced selling across interconnected markets

Example: BTC -80% drawdowns; stablecoin depegs

2. Leverage Vulnerabilities

High leverage reduces ability to absorb shocks without selling assets or defaulting

Example: DeFi liquidation cascades; CEX margin calls

3. Funding/Run Risk

Sudden large-scale withdrawals create bank-run dynamics in crypto intermediaries

Example: SVB → USDC run; Terra collapse; FTX

4. Interconnections

Cross-market linkages amplify shocks; ETFs create new bridges to traditional finance

Example: ETF redemptions; stablecoin reserves in banks

Source: Azar et al. (2024) 'Financial Stability Implications of Digital Assets', Fed NY EPR Vol. 30 No. 2

Growing TradFi-Crypto Interconnection

Evidence of Integration

- **Spot BTC ETFs:** Approved in US, EU, Hong Kong, Australia
- **BTC-S&P 500 Correlation:** Rose to 0.5-0.88 beta post-ETF
- **Institutional Exposure:** 86% have or plan digital asset allocation
- **Corporate Treasuries:** MicroStrategy holds 640K BTC (\$78B)

Regulatory Response

- **US GENIUS Act (2025)**
Stablecoin licensing framework; reserve requirements
- **EU MiCA Regulation**
Stablecoin issuers must hold EU bank reserves
- **SAB 121 Repeal (2025)**
Banks can now custody crypto (BNY Mellon entering)

Systemic Implication

Crypto is no longer isolated from traditional finance.
Crisis in crypto can propagate to TradFi, and vice versa.

Key metrics to watch: ETF AUM growth, stablecoin reserve composition, BTC-equity correlation, custody concentration

Sources: Lee & Lee (2024); ECB FSR (May 2025); Amundi Research (2025)

Thank you for participating!

See you in half an hour in the Aula!

14.30 **Break** | Atrium

15.00 **Opening plenary session** | Aula

What is the “true” price of Bitcoin?

Will the US dollar be dethroned?

17.00 **Drinks, Snacks & Networking** | Atrium

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