REPORT ON THE USE OF EMTS AND OTHER SELECTED STABLECOINS IN DECENTRALISED FINANCE

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Table of Contents

Executive Summary 3
1. Introduction and purpose of the analysis 4
2. Methodology 5
3. The DeFi landscape and use cases for stablecoins 7
3.1. Overview of DeFi market developments 7
3.2. Crypto-asset trading and lending via DeFi protocols 9
3.3. The DeFi-CeFi nexus 9
3.4. Role of artificial intelligence in facilitating access to DeFi 10
4. The use of MiCA EMTs and other selected stablecoins in DeFi and estimates about EU user engagement 11
4.1. The use of MiCA EMTs in DeFi 11
4.2. Use of other selected stablecoins 13
4.3. EU user engagement in DeFi 15
5. Potential challenges and risks 16
5.1. Consumer protection 16
5.2. Contagion effects from DeFi to CeFi 16
5.3. Regulatory arbitrage and broader risks 18
5.4. Monitoring and surveillance 19
6. Conclusion and next steps 19

Executive Summary

This report analyses the use of electronic money tokens (EMTs) and other selected stablecoins in decentralised finance (DeFi) and the implications from an EU regulatory and supervisory perspective.

Although DeFi is a relatively small segment of the overall crypto-asset market (the value of assets locked on DeFi represent around 3% of the total crypto-asset market capitalisation), and EU user engagement remains limited, DeFi is becoming increasingly accessible. Indeed, a number of crypto-asset service providers (CASPs) seem to be facilitating client access to DeFi via interfaces (or otherwise exposure to DeFi via structured products), and AI-enabled tools and agents are reducing access barriers. Overall, these trends may spur EU user engagement in DeFi.

Stablecoins play a central role in the DeFi ecosystem, acting as the primary asset for settlement, and as collateral for trading, borrowing and lending. These activities can enable stablecoin holders to generate 'yield' on otherwise non-yield bearing tokens. In the EU, as of July 2026, there are 37 EMTs and no asset-referenced tokens (ART) offered to the public under the Markets in crypto-assets Regulation (MiCA)[1]. Among these, USDC is by far the most widely used token across decentralised exchanges (DEXes) and lending protocols. Other EMTs, including EURC, USDG and EURCV, are increasingly being integrated into selected DeFi protocols, although their usage remains very limited, proportionate to their relatively small market capitalisation. Other stablecoins (for which no authorisation has been acquired under MiCA)—most notably USDT and USDe— are widely used in DeFi with USDT dominating.

The EBA identifies challenges and risks for consumers, supervisors as well as for issuers and CASPs arising from the deployment of EMTs in DeFi. Consumers engaging with DeFi may be exposed to counterparty, market and operational risks without understanding these risks, due to the absence of effective disclosures. Other risks may arise from the use of self-hosted wallets, as well as risks of fraud. From a supervisory perspective, DeFi creates opportunities for regulatory arbitrage, including circumvention of MiCA provisions requiring authorisation in order to offer to the public or admit to trading in the EU tokens that fall within the definition of EMT or ART. For centralised finance (CeFi) entities, in particular stablecoin issuers and CASPs, the deployment of EMTs in DeFi creates channels for the transmission of risks, notably in terms of market and reputational risks.

In light of these considerations, the EBA will continue monitoring the use of EMTs and other stablecoins in DeFi. Moreover, the EBA reiterates its response to the European Commission's targeted consultation on the review of MiCA[2], recommending the Commission assess whether additional regulatory requirements should be imposed on CASPs facilitating access to DeFi, in particular lending protocols.

[1] Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets (MiCA), OJ L 150, 9.6.2023.

[2] See EBA response to the EC targeted consultation on the review of MiCA, The EBA identifies priorities for the review of MiCA | European Banking Authority, 24 September 2026.

1. Introduction and purpose of the analysis

MiCA regulates the issuance, offer to the public and admission to trading of asset-referenced tokens (ARTs) and EMTs, and the provision of crypto-asset services, in the EU. The Regulation excludes from its scope services provided without an intermediary in a "fully decentralised manner"[3], and the activities of crypto-asset staking, lending and borrowing[4].

In 2024, the EBA carried out jointly with ESMA an analysis of decentralised finance (DeFi) with the findings published in the 2025 EBA-ESMA Report on recent developments in crypto-assets[5] (the 'EBA-ESMA report'). The report identified that DeFi is a niche phenomenon in the EU, with a relatively low number of active users. The report also noted that stablecoins are commonly used in DeFi, notably as a liquid settlement asset.

Since the publication of the EBA-ESMA report, the EBA has continued monitoring the relevance of DeFi in EU markets as part of its wider innovation monitoring initiatives[6]. In particular, in the first half of 2026 the EBA has conducted analysis to identify how EMTs are being used in DeFi (as at 30 July 2026, no ART is issued under MiCA) and how EU users may be exposed via DeFi to stablecoins that may fall within the definition of ART or EMT and where there is an identifiable issuer, but for which no authorisation has been acquired under MiCA. The objective of this analysis is to identify (i) trends in, and uses of, EMTs in DeFi, (ii) the use of DeFi as a means for EU users to access selected non-MiCA-regulated stablecoins, and (iii) challenges and risks, including for consumers, issuers, and supervisors.

The report is structured as follows: after describing the methodology (Section 2), an overview of the DeFi landscape and use of stablecoins in decentralised exchanges (DEXes) and DeFi lending protocols is provided (Section 3). The report goes on to summarise the use of MiCA EMTs and other selected stablecoins on a sample of protocols and cites indicators of EU user engagement (Section 4). The report highlights possible challenges and risks linked to the use of stablecoins in DeFi, and growing interconnections with issuers and CASPs entities (Section 5). Key takeaways and next steps for the EBA and for supervisors are then outlined (Section 6).

[3] Recital 22 of MiCA: "*Where crypto-asset services are provided in a fully decentralised manner without any intermediary, they should not fall within the scope of this Regulation.* […] *Where crypto-assets have no identifiable issuer, they should not fall within the scope of Title II, III or IV of this Regulation.*" To note that MiCA does not define the term "fully decentralised". See also ECB Working Paper, "Who to regulate? Identifying actors within DeFi's governance", March 2026.

[4] As part of the targeted consultation on the review of MiCA, the European Commission set out questions on whether such activities should become regulated. See PART 4– topics beyond the initial scope of MiCA, Targeted consultation on the review of MiCA, 20 May 2026 to 31 August 2026.

[5] See EBA-ESMA Joint Report on recent developments in crypto-assets (Art 142 MiCAR), 16 January 2025.

[6] Article 8(1)(f), 9(2) and 32 of Regulation (EU) No 1093/2010 (EBA Founding Regulation).

2. Methodology

The analysis has been informed by both qualitative and quantitative methods. Desk-based research (crypto and DeFi news[7], reports by national competent authorities (NCAs), international standard-setting bodies, and academic papers, DeFi market data etc) was carried out with a view to identifying key trends. Where available, data collected mainly from blockchain analytics[8] is used to assess the evolution of the total value locked (TVL)[9] on selected blockchains and DeFi protocols, as well as other metrics such as the volume and value of active loans, and sub-breakdowns by token and chains where relevant. Where possible, comparison is made with the figures presented in the EBA-ESMA report.

The DeFi ecosystem comprises layered infrastructure (see the EBA-ESMA report[10] and Chart 1 below):

- Settlement layer: foundational distributed ledger to record and settle transactions, and on which tokens and DeFi protocols are built. The key attributes when selecting a blockchain for issuing stablecoins typically combine wide adoption (network effect), strong security, high decentralisation, high throughput[11] and low transaction costs. Given the so-called blockchain trilemma[12], each network strikes a different balance of these attributes making its suitability vary depending on the use cases and user types. The operation of DLT involves environmental externalities: redundancy, extensive computations and data mining can generate high energy consumption, in particular, depending on the consensus mechanism used[13].
- Asset layer: this comprises native assets integral to the functioning of the blockchain and other tokens built according to network rules; a native asset is not fungible across different blockchains. However, the use of bridges can enable the transfer of assets, data, or tokens between two or more blockchain networks.

[7] Inter alia, cointelegraph, coindesk, cryptonews, The Block.

[8] DeFiLlama (including through Application Programming Interfaces), CoinMarketCap, coingecko, statista.

[9] Total Value Locked (TVL) measures the sum of the value of all assets deposited (i.e., 'locked') in a DeFi protocol.

[10] EBA-ESMA Joint Report on recent developments in crypto-assets (Art 142 MiCAR), op. cit., Annex 4 (page 67) describes the key features of the technical architecture underlying DeFi.

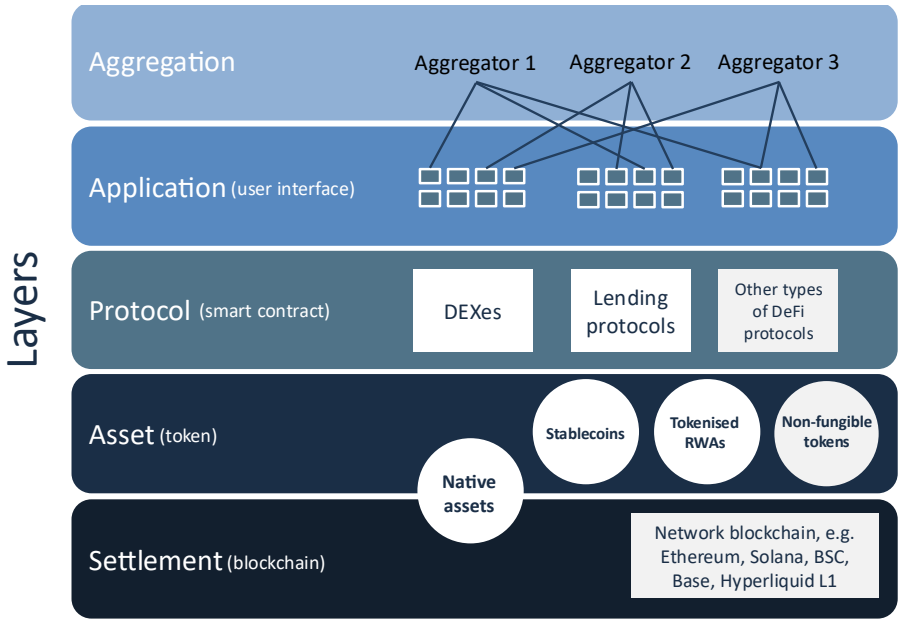
[11] In this context, the throughput refers to the number of transactions a blockchain network can process per second (TPS).

[12] There is a so-called blockchain trilemma to achieve optimal levels of decentralisation, security and scalability. Layer-2 (L2) blockchains, built on top of core L1 blockchains have developed to improve scalability by processing transactions off chain while still relying on the L1 blockchain for the final settlement and security.

[13] The energy consumption of DLT depends on its design, with Proof-of-Work (PoW) blockchains being more energy-intensive than non-PoW alternatives like Proof-of-Stake (PoS).

- Protocol layer: autonomous smart contracts that govern the creation, transfer and disposal of tokens on the ledger. DeFi protocols can be developed on different networks.
- Application layer: a user typically does not interact directly with the protocol smart contract but via an application installed on a device (e.g. computer, smartphone), which includes wallets. The user interface can also be provided by a centralised intermediary, while the underlying DeFi protocol remains decentralised.
- Aggregation layer: aggregators enable to combine several DeFi protocols for comparability and cross-functionality: they basically query multiple liquidity sources simultaneously and find the optimal execution path for trades.

Chart 1: The DeFi stack



Source: EBA.

As of June 2026, DeFiLlama lists 526 blockchains and 6 092 DeFi protocols, the latter representing a threefold rise from 2023[14]. The analysis focuses on a sample of selected blockchains, protocols and stablecoins considered by NCAs to be most relevant in the context of the focus of this analysis (DeFi exchange, borrowing and lending activities) given their market dominance or rapid market penetration. In sum, the sample encompasses:

- Six blockchains: Ethereum, Tron, Solana, BNB Smart Chain (BSC), Base, and Hyperliquid L1, on which a large part of stablecoin issuance is concentrated;
- Two types of DeFi protocol, where use of EMTs and other selected stablecoins is observed:

[14] See AMF, Finance décentralisée (defi), protocoles d'échange et gouvernance : vue d'ensemble, tendances observées et points de discussion réglementaires, June 2023.

- DEXes, which facilitate the programmatic exchange of crypto-assets directly between user wallets: four in sample - Uniswap, Aerodrome, PancakeSwap and Hyperliquid[15];
- Lending protocols, which automate the borrowing and lending of crypto-assets through smart contracts: six in sample - Aave, Morpho, Fluid, Spark, Compound and Justlend.

- Two categories of stablecoins: EMTs in scope of MiCA[16] – to the extent there is observable related DeFi activity given the high concentration of the stablecoin market, and other selected stablecoins with an identifiable issuer (USDT, USDe) for which no authorisation has been acquired under MiCA.

Additionally, the analysis takes account of data on self-hosted wallets, which constitute an essential access point for DeFi.

Limitations

As highlighted in the EBA-ESMA Report, scoping DeFi activities from a geographic perspective, including in the EU is challenging. This stems from data gaps arising from the absence in DeFi of intermediaries subject to the requirement of regular or ad hoc reporting, the pseudonymity inherent to blockchains compounded by the use of self-hosted wallets, and the borderless nature of DeFi protocols. Against this background, findings regarding the scale of DeFi activities in the EU rely on a cross-section of geographically partial surveys and approximations (e.g. French ADAN survey[17], Chainalysis index[18]).

3. The DeFi landscape and use cases for stablecoins

3.1. Overview of DeFi market developments

Since the EBA-ESMA report, the global crypto-asset market capitalisation has continued to show high volatility. The share of DeFi TVL as a portion of the total crypto-asset market capitalisation has remained stable at around 3%, illustrating the correlation between the evolution of global crypto-

[15] Hyperliquid was developed for perpetual futures and spot trading targeting institutional users, while the other three DEXes within the scope are accessible to retail users.

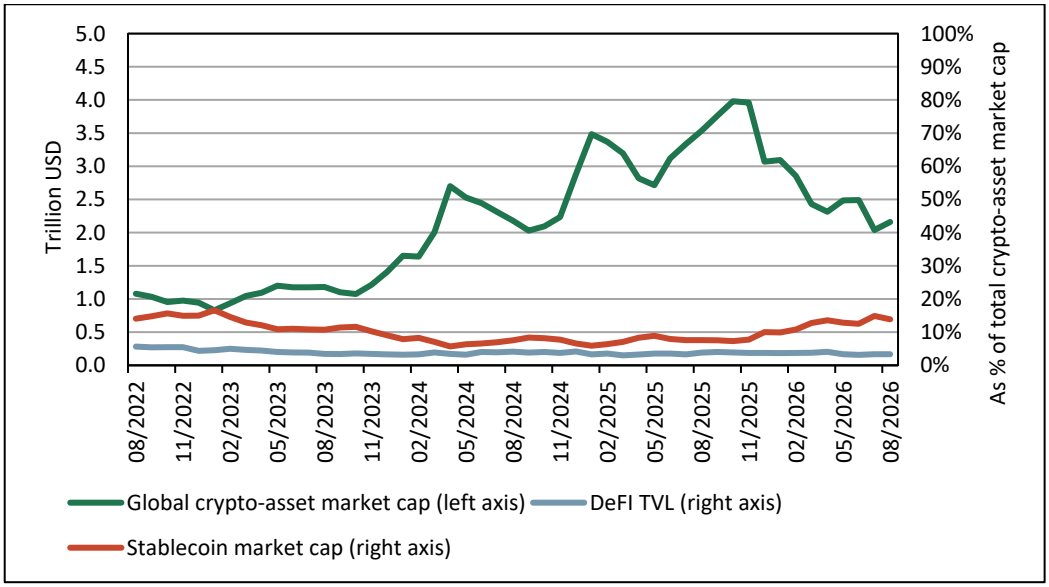
[16] As of 30 July 2026, the ESMA MiCA register records 37 EMTs issued by Allunity (EURAU, SEKAU, CHFAU, USDAU), Eurodollar (Eurodollar), Paxos (USDG, eUSD, EUROe), Circle (USDC, EUR), SG Forge (EURCV, USDCV), Salvus (EUROP), Oddo BHF (EUROD), OuiTrust (HEURO), Caceis (EURXT), Monerium (EURe), UAB Blue (BLUEUR), Newrails (EURW), Banking Circle (EURI), AIEU Services (BREUR), SIA GR8 Pay (EUR.PA, USD.PA), StablR (EURR, USDR), Stable mint (EURSM, USDSM), Fiat Republic (ENEUR, ENGBP, ENUSD), Quantoz Payments (USDQ, EURQ, EURD, PLNQ, GBPQ, RONQ), StaBillon (StaBillion).

[17] ADAN-Ipsos survey, The adoption of crypto-assets in France and in Europe, 2026 Barometer, 9 April 2026.

[18] Chainalysis, The 2025 Geography of Crypto report, 2 September 2025.

asset market cap and the DeFi TVL (see Chart 2 below). The TVL measures the sum of the value of all assets deposited ('locked') in a DeFi protocol. The DeFi TVL displays high volatility due to both volume and price effects[19]. After reaching a peak in Autumn 2025, the DeFi TVL halved to USD 75 billion in July 2026 amid overall macroeconomic uncertainty, Bitcoin price correction and security incidents reaching record frequency, reinforcing capital outflows from DeFi.

Chart 2: Evolution of the DeFi TVL and stablecoin market cap as a share of total crypto-asset market cap



Source: DeFiLlama, coinmarketcap, EBA. The scale corresponding to the total market capitalisation of crypto-assets is represented on the left axis (green line). The stablecoin market cap (red line) and DeFi TVL (blue line) are represented as a percentage share of the total crypto-asset market cap, on the right axis. Since 2024, the share of stablecoins in the total crypto-asset market cap tended to increase, while the DeFi TVL appears correlated with changes in the total crypto-asset market cap, standing at around 3% share.

Nonetheless, there are signs of growing activity for certain segments of DeFi, including lending and institutional user engagement. Although DeFi lending has experienced material fluctuations, the value of DeFi active loans has followed an upward trend, more than doubling since 2024[20]. Furthermore, DEXes increased their share of combined DEX/centralised exchange (CEX) crypto-asset spot trading[21].

[19] The TVL fluctuates both with the number of assets deposited and their market prices; hence, a decline in TVL does not necessarily reflect a drop in the number of assets deposited, but also a decrease in asset valuation.

[20] According to DeFiLlama, at the start of 2024, the value of active loans across DeFi protocols was of USD 9 billion. As of 30 July 2026, the value was USD 26 billion after surpassing USD 50 billion valuation in September 2025.

[21] Estimates about the actual extent of the growth vary. CoinGecko evaluates that the share of combined DEX/CEX crypto-asset spot trading increased from 6.9% at the start of 2024 to 13.6% in January 2026 (with a 24.5% peak in June 2025), see CoinGecko report, CEX & DEX Trading Activity Report 2026, May 2026. This includes all token types listed on CEXes and DEXes, e.g. stablecoins, memecoins, tokenised real-world assets, etc. DeFiLlama data suggest that DEXes increased their share of global spot trading from roughly 4% to around 20%.

Large holdings in self-hosted wallets may also be an indicator of DeFi engagement, albeit holding stablecoins in self-hosted wallets can serve other uses such as mere storage of tokens. According to July 2026 estimates[22], around 65% of global USD-denominated stablecoin supply resides in addresses that cannot be conclusively identified due to blockchain pseudonymity.

In terms of drivers for user engagement in DeFi, the search for 'yield' appears to be critical among both retail and institutional investors. Crypto-asset trading and lending activities in DeFi may bring returns on assets, including on EMTs that are not of themselves yield-bearing.

3.2. Crypto-asset trading and lending via DeFi protocols

DEXes allow users to exchange a crypto-asset for another directly from self-hosted wallets, without centralised exchange intermediation[23]. On DEXes, stablecoins are used to provide liquidity in pools as part of trading pairs (e.g. BTC-USDT). Perpetual DEX has become one of the fastest-growing pillars of DeFi trading, indicating increasing engagement by professional traders. Perpetual DEX allows the trading of perpetual futures (derivatives without expiry date), with stablecoins usually serving as collateral for traders. The largest perpetual DEX, Hyperliquid's spot orderbook volume, grew from USD 12 billion in 2024 to USD 117 billion in 2025[24].

Lending protocols allow users to lend (and borrow) crypto-assets through smart contracts. In 2025, lending protocols were one of the strongest-performing protocol categories in DeFi[25]. Key features include liquidity pools allowing quick access to crypto-assets, including stablecoins, deposited for borrowing/lending without an intermediary.

Loans are typically made in stablecoins, whereas more volatile crypto-assets tend to represent the majority of locked assets. This suggests that users deposit volatile crypto-assets to borrow more stable assets, which may then be redeployed (e.g. loaned) to amplify positions, magnifying both potential returns and losses. Stablecoins can also be used as collateral for loans or to finance short positions when betting that the price of another crypto-asset will fall.

3.3. The DeFi-CeFi nexus

Typically, stablecoins are first acquired by users via centralised exchanges. These may then be transferred to self-hosted wallets and deployed in DeFi protocols.

Historically, access to DeFi has required a relatively high level of technical knowledge. However, increasingly, some centralised service providers (including CASPs) are facilitating user access to DeFi

[22] Dune analytics, 15 July 2026.

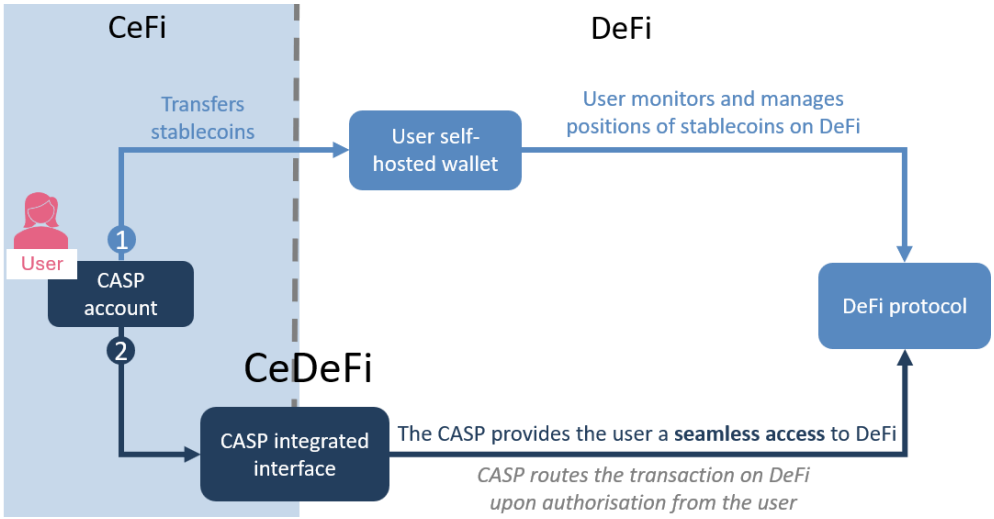
[23] Most DEXes rely on automated market makers (AMMs), which are smart-contract based systems using liquidity pools and algorithmic pricing mechanisms rather than traditional order books.

[24] Data from DeFiLlama. USDH (Hyperliquid's native stablecoin) and USDC are the two settlement assets used by Hyperliquid's traders; it follows a competition among major stablecoin issuers in 2025, including Ethena and Paxos, to power their stablecoin on the protocol.

[25] See DeFiLlama report, State of DeFi in 2025, 23 December 2025.

via their interfaces (or otherwise exposure to DeFi via structured products)[26]. This is expected to enhance user engagement in DeFi by enabling users to avoid core technical onboarding barriers (Chart 3). Furthermore, some service providers offer users the opportunity to 'invest' stablecoins in DeFi protocols (e.g. via investment structures) without the user needing to open a self-hosted wallet, shifting the counterparty risk to the centralised platform.

Chart 3: CASP gateway to DeFi protocols



Source: EBA.

Similarly, some major software wallet providers have integrated features to facilitate exposure to DeFi. For example, some allow self-hosted wallet users to earn passive income on stablecoins such as USDC and USDT by deploying tokens on selected DeFi lending protocols without users manually moving funds between protocols.

3.4. Role of artificial intelligence in facilitating access to DeFi

Artificial intelligence (AI) is also increasingly lowering technical barriers to enter DeFi[27]. The use of AI chatbots can provide a 'guide' instructing users about how to use DeFi protocols and to connect between a user's self-hosted wallet and a DeFi protocol. The EBA-ESMA report evidenced that AI systems can also allow users to 'code' an interconnection with a DeFi protocol using automated and/or AI-powered 'bots': 17% of DeFi users were interacting with DEXes through Telegram bots at the time of the analysis in 2024. Now, with increasingly sophisticated AI agents, users can even 'delegate' a broad range of DeFi interactions. As such, AI agents can be programmed to interact directly with protocol smart contracts enabling automated portfolio management, permanent monitoring of lending and trading positions and yield optimisation across multiple DeFi protocols.

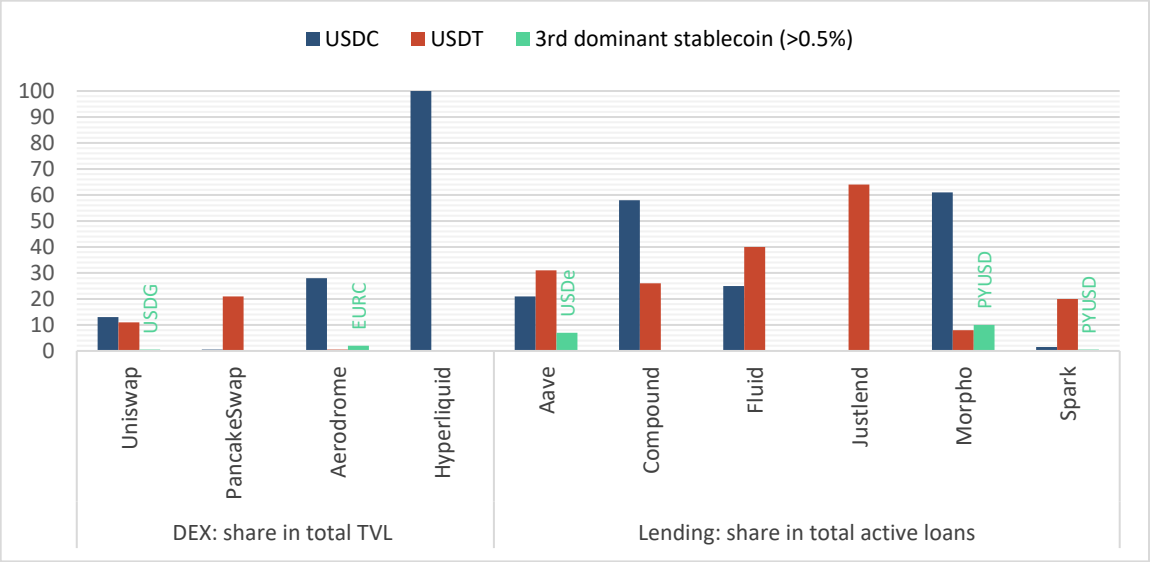
[26] This is also noted by the FATF, see FATF Targeted Report on Regulatory Challenges from Decentralised Finance (DeFi), July 2026.

[27] See CoinGecko, 2026 Q1 Crypto Industry Report | CoinGecko, July 2026.

4. The use of MiCA EMTs and other selected stablecoins in DeFi and estimates about EU user engagement

Among MiCA EMTs, USDC is by far the most widely used across selected DEXes and lending protocols while, among other stablecoins, USDT dominates as evidenced in Chart 4. The distribution differs across selected protocols, due to uneven compatibility on underlying blockchains. Overall, DeFi engagement linked to EU users remains very limited.

Chart 4: Share of Top-ranking Stablecoins (by market cap), including EMTs, on DEX and DeFi Lending Protocols



Source: DeFiLlama, Uniswap and PancakeSwap websites, EBA, 30 July 2026.

4.1. The use of MiCA EMTs in DeFi

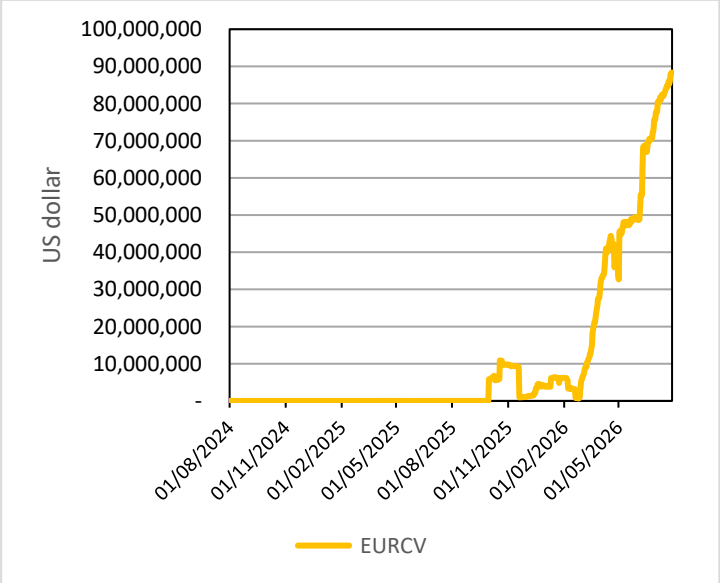
Among MiCA EMTs, USDC is predominantly used in DeFi protocols. The deployment of other MiCA EMTs is substantially more limited in line with their overall market capitalisation. However, individually, some MiCA EMTs (EURC, USDG) are showing rising trading activity and sometimes exhibit significant DeFi activity relative to their market capitalisation (EURCV).

As of July 2026, USDC has a market capitalisation of USD 73 billion. This large supply confers on USDC liquidity depth, spurring its acceptance as a liquid settlement asset in DeFi. This acceptance drives DEX trading volumes with an important part of USDC transactions now taking place via DEXes. USDC is also the most borrowed EMT across lending protocols considered in this analysis[28]. The token can represent from around a quarter (Aave, Fluid) to half (Morpho, Compound) of the number of tokens borrowed via DeFi lending protocols.

[28] USDC is barely used on Spark and JustLend.

In comparison, other MiCA EMTs are scarcely used in DeFi, and only on a few protocols, commensurate to their limited market capitalisation. Following the launch of Paxos' USDG (USD 3.25 billion market capitalisation) trading pairs on Uniswap, the DEX concentrates most of USDG DeFi activity. As for EUR-referenced EMTs, a few are used in selected DeFi protocols, albeit DeFi activity can sometimes represent the most important use case for those tokens. As at July 2026 Circle's EURC has a market capitalisation of USD 435 million. On Uniswap, EURC ranks as the sixth highest reserve-backed stablecoin by trading volume and second on Aerodrome. EURC is also lent on Aave, but represents less than 0.1% of active loans. Since SG Forge deployed the EMT EURCV (USD 145 million market cap) on Morpho[29], the EMT has become the most used EUR-referenced EMT on the lending protocol; more than half of the EURCV in circulation are supplied in a vault on the DeFi lending protocol (see Chart 5).

Chart 5: Evolution of EURCV TVL on Morpho



Source: DeFiLlama, EBA

Similarly, although Monerium's EURe (USD 33 million market capitalisation) represents less than 0.1% of active loans on Aave, its use on the lending protocol appears considerable relative to its size, with 40% being lent out via the DeFi protocol as at end-July 2026.

[29] SG Forge press release, Societe Generale-Forge deploys its euro and dollar stablecoins in decentralized finance via its partners | Sg Forge, 30 April 2026.

The appeal of lending EMTs on DeFi protocols can be explained by user search for 'yield', usually measured through the annual percentage yield (APY) representing interest earned by lenders. Charts 6 and 7 below illustrate the alleged APY for respectively USDC and USDT lent on selected DeFi protocols, as well as a sample of EMTs when deposited on Morpho (the lending protocol with the widest range of EMTs loaned/borrowed suggesting that it may be most popular for EU users).

Chart 5: Average APY for depositors of USDC and USDT on lending protocols, July 2026

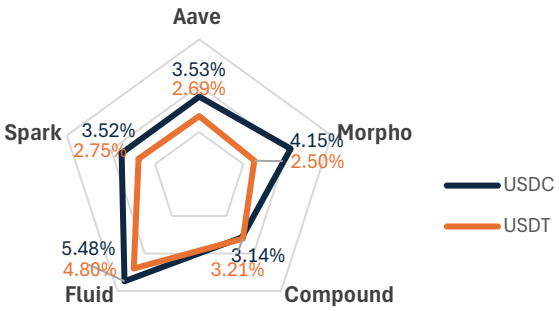
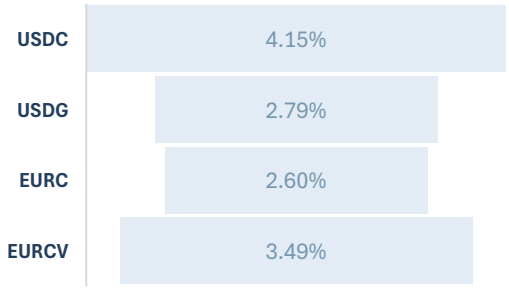


Chart 7: Average APY for depositors of EMTs on Morpho, July 2026



Source: DeFiLlama, Morpho, EBA, 30 July 2026.

4.2. Use of other selected stablecoins

As of July 2026, Tether's USDT has a market capitalisation of USD 184 billion. Such large size and broad adoption make USDT (and its bridged version USDT0) a commonly used stablecoin in DeFi due to its deep market liquidity (as for USDC). On DEX Uniswap, USD 884 billion of USDT has been traded YTD. On lending protocols Aave, Fluid and Spark, USDT (and bridged USDT0) is the stablecoin with the highest demand. On Justlend, USDT is almost exclusively demanded by borrowers, since it dominates on the Tron blockchain on which the protocol is built[30]. Compared to USDC, USDT is proportionally less used on Compound and Morpho protocols.

Ethena's USDe has a market capitalisation of USD 4 billion[31] and is used in some of the protocols considered in this analysis. On Uniswap, USD 17 billion of USDe has been traded YTD. On Aave, USDe is in the top five of borrowed tokens, i.e. about USD 600 million worth of active loans.

The other selected stablecoins in our sample appear varyingly used on DEXes and lending protocols. Paypal's PYUSD (USD 2.6 billion market cap) is the second most lent token on Morpho (around 10%). Ripple's RLUSD (USD 1.5 billion market cap)[3233] is traded on Uniswap (USD 1.8 billion YTD), and represents 6% of active loans on Morpho (USD 241 million).

[30] In 2024, Circle announced discontinuing USDC issuance on TRON due to compliance-related concerns.

[31] USDe market cap declined from USD 14 billion in September 2025, to 4 billion in July 2026.

[32] As of mid-July 2026, Ripple is well an authorised EMI in Luxembourg but RLUSD is not offered to the public in the EU under MiCA.

[33] Value to 15 July 2026, Uniswap.

Looking beyond, a wide range of 'decentralised' stablecoins with no identifiable issuer[34] are available in DeFi, including some major ones (in terms of market capitalisation) collateralised with centrally issued stablecoins (see Textbox 1).

Textbox 1: USDC exposure to decentralised stablecoins: the cases of Sky protocol

Decentralised stablecoins maintain a peg autonomously through algorithmic mechanisms* and on-chain collateral. Unlike reserve-backed stablecoins managed by the issuer, decentralised stablecoins are backed by crypto-assets, such as stablecoins, locked in smart contracts dynamically adjusting supply based on demand.

USDS, issued by Sky Protocol is the largest decentralised stablecoin, with a market capitalisation rising steadily to USD 9.8 billion as of 24 July 2026. Sky Protocol, the rebranded successor of MakerDAO, was designed as an upgraded version of the DAI stablecoin. The 'peg stability mechanism' (PSM) aims to maintain parity with the US dollar using a smart contract that allows users to swap USDC for USDS (and vice versa) at 1:1 ratio. Overcollateralisation is required for other assets (e.g. ETH). In practice, a USDC holder can swap USDC for USDS, and stake its USDS to receive sUSDS, the decentralised stablecoin (backed by USDS) that gives access to the 'Sky Saving Rate', which yielded between 4-8% in Q1 2026. As of July 2026, the Sky PSM was the biggest USDC holder on Ethereum, with USD 4.5 billion worth of USDC in reserves, i.e. 9% of USDC supply on Ethereum (USD 50 billion)**.

Such large decentralised stablecoins create counterparty risks for centralised issuers: rapid liquidations may ultimately result in a surge in redemption requests toward the issuer of the stablecoin used as collateral. Decentralised stablecoins are also exposed to vulnerabilities of reserve-backed stablecoins. In March 2023, the temporary de-peg of USDC caused by the failure of Silicon Valley Bank holding 8% of USDC reserves, prompted MakerDAO to cut the daily minting of DAI and increasing fees on USDC trades, to discourage redemptions. In June 2026, a governance proposal within the Sky ecosystem aimed to double USDC PSM buffer to USD 800 million to enhance the protocol capacity to handle large outflows in view of historical data which revealed massive outflows, including a record USD 1.75 billion DAI redeemed on 18 May 2026, highlighting the need for a larger liquidity cushion***.

[34] Unlike centrally issued stablecoins backed by reserves managed by a single entity, decentralised stablecoins achieve stability through algorithmic mechanisms using smart contracts, and on-chain collateral. They are backed by other crypto-assets, including centrally issued stablecoins deposited by DeFi users and locked in smart contracts, often requiring overcollateralisation to maintain the peg.

*Pursuant to recital 41 of MiCA, 'algorithmic' crypto-assets seeking to stabilise their value by referencing one or several assets, including an official currency, fall under Title III (ARTs) or IV (EMTs) of MiCA **Data from Etherscan, 15 May 2026*** See Coinalertnews article, Sky Proposal Seeks to Double USDC PSM Buffer to $800M, Bolstering Stablecoin Liquidity, 13 June 2026.*

4.3. EU user engagement in DeFi

As noted in the EBA-ESMA report, data limitations mean that it is challenging to gauge the level of EU user engagement in DeFi, in particular due to the use of self-hosted wallets. Where geographic attributions are estimated, these tend to derive from 'timestamping' inflows and outflows of crypto-assets from self-hosted wallets, and modelling transaction patterns in DeFi protocols. Latest estimations confirm that EU user engagement in DeFi appears to remain marginal, consistent with the findings of the EBA-ESMA report. Indeed, a very limited share of crypto-asset transactions carried out via self-hosted wallets and interacting with DeFi is estimated to be linked to EU users, as compared to the rest of the world (TRM Labs data[35]). Within the EU, Germany, France and Spain (in descending order) are where the most self-hosted wallets are estimated to be attributed. This correlates with the latest Chainalysis index which indicates that Germany, France and Spain are the EU countries where the highest level of interactions with DeFi protocols may be implied[36]. However, this engagement still ranks relatively low from a global perspective (ranking 18th, 19th and 26th respectively), behind countries such as India (1st), the US (2nd) and the UK (12th).

Nonetheless, increasing facilitation of access to DeFi protocols by CASPs indicates a growing interest to serve local investor appetite, including in the context of 'search for yield'. The 2026 ADAN survey reveals that, in Western Europe, about 15% of the population holds crypto-assets and 19% of French people say they are familiar with DeFi, which has also remained relatively stable over the past two years[37]. For example, according to Chainalysis between 2023 and 2025 large-value transfers in DeFi attributed to the EU grew faster than smaller transfers (implying greater institutional engagement). Likewise, the 2026 EY-Coinbase Institutional Investor Survey found that 42% of European-based respondents expect to engage with DeFi protocols by 2028, with the primary use case being lending[38].

[35] TRM Labs data provided to Global Digital Finance, analysis based on a sample of 60 000 self-hosted wallet addresses, see GDF, Report on self-custody wallets and their role in digital finance, 2026.

[36] Chainalysis, The 2025 Geography of Crypto report, op.cit.. Countries are ranked by their DeFi transaction volume, based on web traffic patterns of DeFi services and protocols for millions of crypto-asset transactions and more than 13 billion website visits. Such methodology bears limitations, as some crypto users likely employ VPNs and other similar tools to hide their true physical locations.

[37] See ADAN-Ipsos survey, op.cit.

[38] EY survey, 2026 Institutional Investor Digital Assets Survey, Volatility Drives Discipline, Not Retreat, March 2026. 351 institutional decision-makers were surveyed in January 2026, from firms with over USD 1 billion of assets under management across the US (60%), Europe (20%) along with APAC, LatAm, Africa (20%).

5. Potential challenges and risks

The deployment of EMTs in DeFi, and access via DeFi to other stablecoins, raises challenges and risks for consumers, for supervisors and for regulators where room for regulatory arbitrage arises. Risks also arise for issuers and CASPs as interconnections between CeFi and DeFi deepen.

5.1. Consumer protection

EU consumers engaging in DeFi are exposed to risks arising from (i) an absence of information about the risks of these activities, including risks from high leverage, (ii) aggressive or misleading claims about returns on DeFi, and (iii) accessing stablecoins that may not conform to authorisation and regulatory requirements under MiCA.

Taking each in turn, engagement with DeFi is not subject to *ex ante* disclosure requirements about the risks involved compared to centralised activities to which MiCA requirements apply[39]. Such risks arise from the activities themselves – e.g. from the risk of non-repayment of loaned stablecoins, the capacity to build highly leveraged positions, collateral liquidations, as well as operational vulnerabilities, including from the use of self-hosted wallets which may be particularly prone to attacks[40]

Indeed, the DeFi knowledge asymmetry (between consumers and institutional users) places consumers at an inherent disadvantage when engaging in DeFi; a challenge that might become exacerbated if an increasing number of regulated CeFi entities facilitate consumer access to DeFi protocols. More generally, no complaints handling, recourse or redress mechanisms typically apply.

Finally, consumers may be exposed via DeFi to unauthorised stablecoins i.e. that are not subject to the regulatory requirements appliable to EMTs under MiCA, and thus to inherent structural weaknesses in such tokens (e.g. insufficiently liquid reserve of assets to meet large redemption requests).

5.2. Contagion effects from DeFi to CeFi

At present, contagion channels between DeFi and CeFi appear limited given the relatively small size of DeFi compared to the traditional financial system. Nevertheless, increasing DeFi-CeFi integration could strengthen transmission mechanisms from DeFi to traditional entities over time through *inter alia* (i) operational and reputational risk, as well as (ii) institutional exposures and pricing effects.

For example, the failure of a DeFi protocol concentrating an important share of the circulating supply of a reserve-backed stablecoin (such as an EMT) could affect an issuer through confidence effects triggering a sudden surge in redemption requests. In particular, early 2026 large DeFi hacks or exploits exposed cyber-related vulnerabilities of the DeFi sector, exempted from operational

[39]For instance, Article 66(3) of MiCA requires CASPs to warn clients of the risks associated with transactions in crypto-assets.

[40] See, for example, the joint EBA-ESMA report, page 15.

resilience requirements (in the EU, the Digital Operational Resilience Act (DORA)[41]). These can reduce investor confidence and prompt withdrawals from centralised exchanges and custodians, with possible reputational effects on CeFi entities (see Textbox 2).

Textbox 2: Ripple effects of DeFi operational vulnerabilities on stablecoin issuers

In DeFi, operational risks can stem from vulnerabilities in the design of the blockchain or from the technical or economic design of the protocol itself, possibly leading to losses of stablecoins invested. At the infrastructure level, attacks could target directly the blockchain (e.g. 51% attack or block timestamp), the nodes or the consensus mechanism (e.g. maximal extracted value (MEV) attacks). On top of blockchain vulnerabilities, smart contracts on which protocols are built can also contain vulnerabilities. DeFi protocol audits of the smart contracts could help to mitigate the risk of exploits. Finally, attacks can occur at the application layer with the most known being oracle price manipulations*.

Spring 2026 was marked by major hacks happening in DeFi projects, with possible ripple effects on stablecoin issuers. The Drift protocol hack sheds light on counterparty risks linked to the use of stablecoins in DeFi. Drift protocol is a DEX protocol built on the Solana blockchain for advanced trading. A major exploit in April 2026 resulted in losses of around USD 285 million, a large portion of which were swapped into USDC. During the hack, USDC remained movable, allowing the attacker to transfer most of the stolen USDC to Ethereum and swap it into other assets. Circle faced criticism from the crypto community for not freezing the stolen USDC quickly enough. As a result, Drift Protocol migrated from USDC to USDT as its primary settlement layer upon relaunch. The shock sparked mistrust in the DeFi community, although remained mainly contained in the DeFi ecosystem and especially on Solana.

** Some DeFi protocols retrieve off-chain information from the real world to function, e.g. from CEXes or other DeFi AMM-based DEX. Such prices used by the DeFi protocol can be manipulated and result in an oracle attack.*

Moreover, the holding of stablecoins in self-hosted wallets for use in DeFi protocols may complicate the identification and location of holders for the purpose of calculating reserve requirements in the case of multi-issuer stablecoins (e.g. where one issuer is based in the EU, and another outside the EU), making it harder to assess potential redemption flows towards each issuer, and elevating risks that reserves may be insufficient to meet redemption flows[42].

[41] Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 on digital operational resilience for the financial sector (DORA), OJ L 333, 27.12.2022.

[42] EBA response to the EC targeted consultation on the review of MiCA, op. cit.

Finally, since CeFi is often the first gateway to the crypto-asset ecosystem, centralised intermediary outages or insolvencies could significantly impair available liquidity in DeFi. Transmission channels also exist as most DeFi protocols rely on market prices that ultimately reflect trading on centralised exchanges through oracles. As such, sharp price movements on CeFi could trigger large liquidations in DeFi. Moreover, a loss of confidence in a stablecoin could also spread rapidly through DeFi lending, trading, and collateral markets due to the particular use of stablecoins in these contexts.

Overall, as highlighted by the BIS[43], expanding interconnection raises the potential for spillovers through both the asset and liability of financial intermediaries bridging DeFi and CeFi.

5.3. Regulatory arbitrage and broader risks

As recalled in the EBA's response to the EC's targeted consultation on the review of MiCA[44], the use of DeFi can undermine MiCA's effectiveness in achieving intended policy objectives (e.g. consumer protection, market integrity). For example, DeFi may be used to make available to EU consumers stablecoins for which no authorisation has been acquired under MiCA, undermining the effectiveness of the EU regulatory perimeter. Indeed, the 2026 ADAN[45] survey indicates that USDT is held by 15% of the surveyed individuals in Western Europe notwithstanding that its offer to the public in the EU is prohibited (as no authorisation has been sought under MiCA)[46] . Hence, some EU consumers might hold non-MiCA stablecoins in self-hosted wallets, possibly acquiring them via DeFi.

Moreover, MiCA prohibits issuers and CASPs from paying interest on EMTs and ARTs. Although MiCA does not regulate crypto-asset activities carried out in a "fully decentralised manner"[47], individual token holders and broader market participants may pursue yield-generating strategies on EMTs through DeFi. Indeed, there is evidence of some CASPs are marketing access to DeFi protocols as a way for users to 'earn' on stablecoins. This access facilitation by CASPs raises regulatory arbitrage risks around and circumvention of interest payment prohibition on EMTs. The European Systemic Risk Board (ESRB) pointed out that DeFi services may gain market share if compliance with regulations reduces attractivity of services provided by CASPs, especially to the

[43] See BIS, Quarterly review, DeFi risks and the decentralisation illusion, December 2021.

[44] EBA response to the EC targeted consultation on the review of MiCA, op. cit.

[45] See ADAN survey, op. cit.

[46] See ESMA Opinion on the provision of crypto asset services in relation to non-MiCA-compliant asset-referenced tokens and e-money tokens, 8 October 2026.

[47] MiCA does not set any criteria to assess the actual level of decentralisation. An ECB working paper unveiled that governance power is often concentrated with few governance token holders, developers and sometimes centralised exchanges, indicating that "full" decentralisation may not be achieved for a number of DeFi protocols. See ECB Working Paper Series, Who to regulate? Identifying actors within DeFi's governance, op. cit..

extent that DeFi enables to generate income on stablecoin holdings, or facilitates additional non-MiCA services (borrowing and lending)[48].

Finally, the use of stablecoins for illicit transactions within the DeFi ecosystem, facilitated by anonymity provided by self-hosted wallets raises further operational and reputational challenges for centralised market participants[49].

5.4. Monitoring and surveillance

Although blockchain transparency can provide supervisors with access to transaction-level information, the decentralised and composable nature of DeFi, combined with data gaps (e.g. no requirements for CASPs to report if there are facilitating, on behalf of users, access to DeFi) makes it difficult (if not impossible) for supervisors to identify the economic purpose of transactions, attribute activity to individual users or jurisdictions, or assess underlying financial risks. This presents particular challenges for supervisors in monitoring risks of regulatory arbitrage via DeFi as well as consumer protection and interconnectedness risks.

The use of reserve-backed stablecoins in DeFi protocols warrants particular monitoring in view of consumer protection, contagion to CeFi and regulatory arbitrage risks. Furthermore, the increasing use of AI agents capable of initiating and executing blockchain transactions with minimal manual actions, may amplify market activity and volatility and, as a result, systemic risk within the DeFi and crypto ecosystem by triggering automated liquidation at scale. Against this background, supervisors responsible for crypto-asset market supervision should continue to monitor any risk build-up and links to CeFi, in order to inform any need for subsequent adjustment to the existing regulatory framework[50].

6. Conclusion and next steps

The analysis concludes that stablecoins continue to be a key component of the DeFi ecosystem, serving as the primary source of liquidity, collateral and settlement across trading and lending activities. While DeFi remains relatively small compared with the overall crypto-asset market, indicators suggest that user engagement may gain ground as a result of growing integration with centralised market participants. Technological developments, including AI-enabled and CeFi-provided interfaces are further lowering barriers to entry and may accelerate user engagement in DeFi.

[48] See ESRB, Report on Crypto-assets and decentralised finance, May 2023.

[49] The FATF highlights that shortcomings persist in the assessment of ML/TF risks associated with the DeFi ecosystem, with such gaps being even compounded as financial institutions and VASPs, expand their engagement with DeFi platforms. See FATF, Targeted Update on Implementation of the FATF Standards on Virtual Assets and Virtual Asset Service Providers, July 2026.

[50] See policy options set out in the ESRB 2023 report, op. cit.

DeFi raises important consumer protection and regulatory arbitrage concerns, including in relation to the prohibition of interest on ARTs and EMTs and access to stablecoins that are not authorised under MiCA.

Given these developments, continued monitoring of stablecoin use in DeFi is warranted notwithstanding data limitations inherent to anonymity provided by the use of blockchain-based self-hosted wallets. Supervisory efforts should focus on tracking the evolution of use of MiCA-scope EMTs, assessing EU consumer exposures to other major non-MiCA reserve-backed stablecoins, and analysing emerging CeFi-DeFi interconnections, including channels for contagion between DeFi and issuers.

In 2027, the EBA will continue monitoring crypto-asset market developments, including DeFi as a means for consumers to access stablecoins that are not authorised under MiCA. Such monitoring may also inform relevant additional contributions (as appropriate) to the European Commission's review of MiCA, building on the EBA's response to the Commission's targeted consultation. In that response the EBA recommended the Commission carry out a cost benefit analysis to consider establishing requirements for CASPs where they facilitate client access to DeFi lending protocols (e.g. via interfaces)[51]. The EBA indicated possible requirements that may be considered, including suitability tests (to mitigate risks of consumers accessing high risk/unsuitable products), additional disclosure requirements (including additional requirements where access is facilitated to DeFi lending protocols), leverage limits, and prohibitions on facilitating via DeFi access to borrowing and lending involving crypto-assets that meet the definition of ART/EMT under MiCA but for which no authorisation has been obtained, as well as a certification regime for DeFi lending protocols. The EBA also highlighted the need to address data gaps that impede supervisors' ability to effectively monitor crypto-asset activities, including via DeFi.

[51] EBA response to the EC targeted consultation on the review of MiCA, op. cit.

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