Insight

Sanctions in the Stablecoin Age

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Executive Summary

- The United States' increasing use of economic and financial sanctions has spurred terrorist organizations and rogue actors such as Iran and Russia to rely on non-traditional financial tools – including cryptocurrency, and most notably stablecoins – to circumvent U.S. sanctions and access funding.
- Sanctioned entities and other illicit actors received an estimated $141 billion of stablecoin in 2025, with the Iranian Revolutionary Guards Corp (IRGC) and affiliated groups reportedly receiving at least $1 billion worth of stablecoin from 2023–2025; the U.S. Treasury's Financial Crimes Enforcement Network warns that Iran has been using such cryptocurrencies, including a U.S. dollar denominated stablecoin issued by an Iran-linked crypto exchange registered in the United Kingdom, to circumvent U.S. sanctions.
- Although stablecoins present a threat to the efficacy of U.S. sanctions, three factors temper this threat: stablecoins' links to traditional financial institutions, their issuers' and exchanges' sanctions compliance obligations, and an expected Treasury rule intended to subject regulated stablecoin issuers to bank-style illicit finance regulations; nevertheless, because stablecoins are a quickly evolving technology, policymakers should continue to monitor the efficacy of existing sanctions in preventing illicit stablecoin finance.

Introduction

While the U.S. Treasury has been issuing economic and financial sanctions for more than 200 years, its use of sanctions has surged in the 21st century. Administered by the Office of Foreign Asset Control (OFAC), U.S. sanctions limit the ability of sanctioned individuals and entities to conduct business with individuals or businesses subject to U.S. jurisdiction.

Because global financial activity is usually routed through U.S. financial institutions, sanctions also limit access to the international financial system, incentivizing sanctioned actors to use alternative financial tools to access funding and conduct transactions.

Stablecoins, a particular form of cryptocurrency designed to maintain a stable value relative to a reference asset, have increasingly been used in sanctions evasion. TRM Labs, for instance, finds that stablecoins represent about 95 percent of all crypto inflows to sanctioned individuals or entities, with a total flow of $141 billion worth of stablecoin moving into illicit actors' wallets in 2025. (Illicit actors represent a broader category than sanctioned actors, encompassing groups involved in crimes such as money laundering). Confirming the Financial Crimes Enforcement Network's (FinCEN) warning that Iran and its proxies have been using cryptocurrency, including a U.S. dollar denominated stablecoin issued by a United Kingdom registered crypto exchange with links to Iran, to conduct financial transactions, TRM Labs further reports that the IRGC and affiliated groups received at least $1 billion in stablecoin from 2023–2025 through two United Kingdom registered crypto exchanges.

While stablecoins present a threat to the efficacy of U.S. sanctions, the current sanctions regime should temper this threat in three ways. First, stablecoins' link to traditional financial institutions for conversion into U.S. dollars creates a chokepoint at which traditional financial intuitions can block sanctioned entities from accessing the financial system, thereby reducing the value of stablecoins as a means of conducting crypto transactions with a stable, convertible cryptocurrency. Second, as money services businesses, stablecoin issuers and crypto exchanges are already required to comply with U.S. sanctions, meaning these businesses must block illicit financial transactions that violate sanctions. Third, OFAC and FinCEN's newly issued Notice of Proposed Rulemaking (NPRM) should strengthen stablecoin-driven illicit finance enforcement by subjecting stablecoin issuers regulated under the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act (a bill signed into law in 2025 to establish a regulatory framework for stablecoins) to illicit finance requirements with a similar stringency as those faced by traditional financial institutions. Nevertheless, because stablecoins are a quickly evolving technology, policymakers should continue to monitor the efficacy of existing sanctions in preventing illicit stablecoin finance.

This primer reviews the threat that stablecoins pose to the effectiveness of current sanctions, as well as factors that may temper this threat.

Stablecoins

Stablecoins are a cryptocurrency designed to maintain a stable value relative to a reference asset. Stablecoins are generally designed to trade at par with a national currency, which in most cases is the U.S. dollar. Issuers of these U.S. dollar-denominated stablecoins promise that consumers can redeem their stablecoin at a 1:1 basis, receiving one U.S. dollar for every stablecoin they redeem. (More details on the design of stablecoins can be found here.)

At the time of writing in July 2026, the overall stablecoin market sits at a market capitalization of about $300 billion, which, while significant, pales in comparison to the United States' roughly $23 trillion overall money supply (as measured by M2). Stablecoin issuers Tether and Circle dominate the stablecoin market with market caps of about $184 billion and $74 billion, respectively, for their stablecoins USDT and USDC.

Because of their relative stability, U.S. dollar-denominated stablecoins function essentially as digital dollars which can be almost instantly exchanged using blockchain technology. In theory, this design lends itself to two potentially transformative use cases: (1) improving inefficient and expensive cross-border payments; and (2) providing a stable store of value for consumers in countries with unstable currencies. Up to now, however, the primary use cases for stablecoins have been isolated to the crypto market, with stablecoins mainly being used in on/off ramping crypto (the process by which consumers use stablecoin as a middleman to move their money from dollars to crypto and vice versa) and facilitating transactions between different cryptocurrencies.

The Threat of Stablecoins to Sanctions

Stablecoins have also begun to be used in illicit cryptocurrency finance, which Chainalysis estimates to have reached $154 billion in value (across all cryptocurrencies) in 2025. TRM Labs, for instance, finds that stablecoins represent about 95 percent of all crypto inflows to sanctioned individuals or entities, with illicit actors receiving stablecoin transfers worth almost $141 billion in 2025. FinCEN reports that, for at least seven years, Iran and its proxies have been using cryptocurrency, especially USDZ, a U.S. dollar-denominated stablecoin issued by an Iran-linked crypto exchange registered in the United Kingdom, to conduct financial transactions.

These findings do not mean that all stablecoin or cryptocurrency flows are part of illicit finance. Indeed, TRM Labs also estimates that illicit inflows represented only 2.7 percent of all crypto inflows in 2025. These findings do, however, highlight the real and growing threat of stablecoins being used to evade sanctions and conduct illicit finance.

Since the beginning of the 21st century, the U.S. Treasury has typically responded to growing financial threats by restricting the ability of sanctioned actors to move money through the U.S. financial institutions that form the backbone of the international financial architecture. Stablecoins, however, bypass U.S. financial institutions because they are traded using blockchain technology. Unlike in a traditional financial transaction, there is therefore no point in a stablecoin transaction at which a financial institution can block a transaction violating the terms of U.S. sanctions. For a country such as Iran, this means it could circumvent U.S. sanctions by using stablecoin to receive payment for oil shipments or collect toll fees for passage through the Strait of Hormuz.

Mitigating Factors

All is not lost, however, in the fight against illicit finance using stablecoins. Indeed, stablecoins' intended stability also links them to the traditional financial system in a way that helps maintain the efficacy of U.S. sanctions. As former Chair of the Commodity Futures Trading Commission Timothy Massad writes: "The stable value of stablecoins is built on confidence in their ultimate convertibility into [U.S. dollars]. This redemption process [usually] relies on access to the U.S. banking and financial system" because, as noted, most stablecoins are denominated in U.S. dollars. If use by illicit actors or violation of existing anti-illicit finance requirements leads to a stablecoin issuer losing access to the U.S. financial system, stablecoins would lose the convertibility into U.S. dollars that enables them to effectively be used as digital dollars when conducting transactions. The existing sanctions regime, in other words, retains some of its effectiveness against illicit stablecoin finance not by preventing the use of stablecoins, but by threatening the stability that is at the core of their value.

A further mitigating factor for the effect of stablecoins on sanctions is that stablecoins can be programmed such that their issuers (for example, Circle or Tether) can freeze existing stablecoins, preventing whoever is holding the stablecoins from transferring or using them in any transaction. In the context of sanctions, this means that stablecoin issuers can restrict sanctioned individuals from not only using any of that issuers' stablecoin that the sanctioned individual might own, but also from receiving any of that issuers' stablecoin from other individuals. Although implementing these restrictions requires linking specific crypto wallets to sanctioned individuals – a difficult process, as crypto wallets are publicly identifiable only by an anonymous sequence of numbers and letters – sanctions enforcement against stablecoins can thus remain effective even after stablecoins are issued and transferred.

The dominant stablecoin issuers, Circle and Tether, have utilized their "blacklisting" ability to cooperate with law enforcement agencies on combatting illicit stablecoin finance. For example, this past April, Tether froze $344 million worth of their stablecoin, USDT, in cooperation with OFAC and other law enforcement agencies. Similar enforcement actions are likely to continue, if not increase, upon the implementation of OFAC and FinCEN's recently issued NPRM that would subject regulated stablecoin issuers under the GENIUS Act to illicit finance regulations like those faced by traditional financial institutions. (These new regulations would supplement stablecoin issuers' existing requirements to comply with OFAC and FinCEN rules in their roles as money services businesses.)

A final mitigating factor is that crypto exchanges, which often provide consumers with the digital wallets used to securely store stablecoins when they are not being used in transactions, are, like stablecoin issuers, legally required to comply with sanctions if they fall under U.S. jurisdiction. This means that when illicit actors attempt to conduct stablecoin transactions that circumvent traditional financial institutions using blockchain technology, it is still possible for these transactions to be blocked if they are conducted through sanctions compliant crypto exchanges and if the associated wallets have been properly connected to sanctioned actors.

These mitigating factors notwithstanding, the threat posed by stablecoins to the efficacy of U.S. sanctions could rapidly escalate as stablecoins continue to evolve. Policymakers should therefore continue to monitor the effect of stablecoins on sanctions to ensure that technological evolution does not enable further growth in illicit stablecoin finance.

Conclusion

While stablecoins present a threat to U.S. sanctions, stablecoins' reliance on the U.S. financial system for convertibility into dollars, their issuers' and exchanges' sanctions compliance obligations, and an expected Treasury rule intended to subject regulated stablecoin issuers to bank-style illicit finance regulations all suggest that traditional financial sanctions should temper the threat of illicit stablecoin finance.