Response to 10 November 2025 Bank of England Consultation: Proposed regulatory regime for sterling-denominated systemic stablecoins

10 February 2026

About Innovate Finance

Innovate Finance is the independent industry body that represents and advances the global FinTech community in the UK. Our mission is to accelerate the UK's leading role in the financial services sector by directly supporting the next generation of technology-led innovators.

Our membership base is diverse across FinTech and financial services including but not limited to challenger banks, payments firms, electronic money institutions, consumer credit providers, credit information providers, alternative credit rating agencies, wallet providers, personal finance apps, RegTech firms and digital asset firms.

The Digital Pound Foundation

The Digital Pound Foundation (DPF), an Innovate Finance programme since completing a merger in February 2025, is dedicated to advancing the UK as a leading global centre for development and adoption of new forms of digital money, including stablecoins, central bank digital currencies (CBDC) and tokenised deposits. It is a member-led forum supporting a diverse, effective and competitive ecosystem for new forms of digital money in the UK and globally and the development of a legal, regulatory and political landscape that enables the UK to embrace opportunities to become a leader in the FinTech space.

The DPF's members include a wide range of firms interested in digital assets, digital money and payments including blockchain applications, payment systems and services, global stablecoin services, GBP stablecoin issuers, challenger banks and advisory firms.

In particular our membership includes global stablecoin issuers and services, UK GBP stablecoin start ups, and payments firms and challenger banks (including UK fintech unicorns) who are already providing stablecon services in other markets. **We therefore represent the full ecosystem of potential GBP stablecoin issuers and providers and have a unique 360 degree view of business models.**

Overview of response

This publication by the Bank of England (the Bank) moves the UK one step further to unlocking the growth potential of sterling-backed stablecoins, but significant issues remain with how these proposals correlate to stablecoin business models and adoption in practice. With the US and EU regimes providing more inclusive and integrated stablecoin regimes, the UK needs to keep up with global peers who are modernising financial markets. We urge the Bank to act on industry feedback from the UK start ups and scale ups, our world beating unicorn fintechs and international firms who can all play their part in developing a stable, resilient and globally competitive GBP stablecoin infrastructure and maintain the City of London's position as a leading financial centre.

The current proposals do not provide the basis for the emergence and growth of GBP stablecoin, and present a substantial risk that UK consumers and businesses could be subject to currency risk and geopolitical volatility. We have outlined alternative approaches on the key areas, with industry proposals on more effective and proportionate ways of managing systemic risks whilst also supporting growth and innovation and - through these - strengthening UK payments resilience, building sovereign capability and ensuring sterling retains its position as the fourth most traded currency in the world and the third most held reserve currency.

The opportunity

A flexible, proportionate regulatory framework for stablecoin in the UK can contribute significantly to UK growth, productivity, resilience and financial stability. UK development of GBP stablecoin can:

- **Boost British business**: By cutting the cost of import/export payments and cross-border transfers for businesses large and small, and reducing trade risk and improving cash flow through automated payments, stablecoins can create jobs and growth across the UK. Imperial College Business School's *Mind the Gap* report (September 2025) warned that the lack of a sterling stablecoin is forcing UK

businesses to rely on US dollar and euro alternatives, exposing them to foreign exchange risks and embedding "digital dollarisation" in international commerce.

- **Maintain the City of London as a leading global financial centre**: Stablecoins will provide the digital payment needed to support modernisation of the UK's financial markets, including digital gilts and securities. As capital markets adopt tokenization as an efficient method of trading assets, stablecoin will be the primary settlement instrument with GBP stablecoin playing a key role in the London market.

- **Ensure everyone in Britain has access to digital payments:** Stablecoins mean cheaper, faster and more secure remittances for those who send money abroad and an opportunity to create financial inclusion with low barriers to accessible digital money.

- **Futureproof the pound sterling as a top global currency:** As we begin this new technological wave, a well-regulated and internationally open GBP stablecoin would strengthen the Pound's position in tomorrow's economy, allowing the UK to adapt to new trends rather than cede monetary influence elsewhere. A strong base of GBP stablecoin issuers is needed to maintain GBP's current position as the 4th most traded currency in the world.

We set out the UK stablecoin opportunity in more detail last year in our Innovate FInance paper "Stablecoin: The UK opportunity, How the UK can be the leading global market and innovator for stablecoin."

The risk if we don't get this right

Over the last year we have seen huge interest in, and development of, stablecoin across the globe - led by major players in the US and with a strong wind behind the US dollar stablecoin around the world. We are also seeing significant digital money projects by the EU and China in developing Central Bank Digital Currencies. The market momentum is behind stablecoin as a major new payments and remittance instrument. Firms and markets will take investment decisions on GBP stablecoins on the basis of the Bank of England's regime. This will determine whether the UK and GBP is of any significance in international markets, and will determine whether UK digital payments in the future are dominated by a small number of large overseas firms or whether the UK can rapidly build its own national and international champions.

The right UK regime can ensure we attract overseas investment and benefit from international stablecoin issuers, and at the same time create the optimal conditions for significant and resilient UK home grown stablecoin issuers and services. We have some

impressive start up GBP issuers and mature fintech digital-first commercial banks and payments firms who can bring GBP stablecoins to market. And we have international stablecoin issuers who would invest in GBP stablecoin in the UK if the regime is competitive with elsewhere.

At present the Bank of England's proposals create a significant handicap to any business models that may be developed by our UK challenger banks, our payments firms and our stablecoin start ups. It provides no hope of building British stablecoin champions who can strengthen UK resilience and grow in overseas markets - the proposed regime ties both arms behind their back, and has a chilling impact on investment for all stablecoin issuers, systemic or not, because if they go on to be successful they run the risk of being subject to this regime.

Equally, US and other international firms will treat the UK as a fly-over state and focus on larger and more competitive markets rather than have to fundamentally change their global business model in order to issue GBP stablecoin in the UK. Collectively this in itself creates a significant financial stability risk to the UK.

We have engaged with a wide variety of firms since the Bank published its proposals in November 2025. This has shown that the proposals as constituted will unlock little, if any, investment in GBP stablecoin by UK head-quartered firms nor by overseas firms. UK head-quartered firms have already redeployed investment to develop stablecoin offerings in other markets. The proposals are also dampening investment in UK stablecoin issuers. And global stablecoin issuers and payment providers will continue to focus on other jurisdictions and other currency denominations unless we see a change in the regime.

Many of the established UK FinTechs who are looking at establishing stablecoin products and services are increasingly looking to develop these initially in the EU rather than the UK. A number of UK FinTech unicorns have already focused their stablecoin service offerings in the EU and with USD stablecoins.

A number of components of the bank's proposed regime (see below) will kill any prospect of UK based and grown GBP stablecoins - and will guarantee the dollarisation of the stablecoin market. The proposed approach on matters such as backing assets and holding limits prescribe the most expensive, disproportionate and potentially ineffective mitigations for risks which can be effectively managed in other ways (and are in other jurisdictions).

A way forward

We recommend the following changes to the Bank's proposals in order to unleash British stablecoin providers (whilst protecting consumers and financial stability) and attract international investment.

Holding limits for users: the Bank of England approach is based on an assessment of higher probability and scale of the risk of 'flight from bank deposits' than is likely and has been seen to date (for example in the USA). As a 'transitional measure' they will prove operationally extremely expensive and require significant cross-industry build of controls that will remove citizen privacy and destroy consumer trust in stablecoin - all for a temporary measure. No one will invest in GBP stablecoin whilst holding limits are in force.

A far more proportionate approach would be one that combined: market surveillance to assess the rate of movement from deposits to stablecoin; more flexibility in redemption management; enabling backing assets to include commercial bank deposits; and the development of financial markets to support household and SME lending, as recommended by the Bank of England in 2021, including a) increased issuance of wholesale debt by commercial banks and b) a shift to non-bank market-based financing.

Backing assets: the requirement for 40% of backing assets to be Bank of England deposits not only creates a cliff edge with the FCA regime, but will effectively deter any systemic GBP stablecoin issuers (as will the holding limits). This makes business models unviable: constraining an issuer's ability to invest in the infrastructure, security builds and regulatory compliance necessary to support and sustain stablecoins and to achieve its potential to operate as a low-cost accessible means of payment for both business and consumers, and potentially increases the risk of financial instability for any firm that does apply the rules. This extreme caution creates a disconnect with the Chancellor's call to reset the balance between risk and growth, and undermines the premise of the strength and effectiveness of bank regulation if commercial deposits by stablecoin issuers are viewed as such a challenge.

Far less costly and disruptive solutions can be deployed to ensure liquidity in the event there were ever to be a run on a stablecoin: allowing backing assets to include commercial bank deposits; enabling different commercial redemption models (including fees and variable redemption periods); and allowing greater reliance on repurchase and reverse repo for liquidity. Issuers should be able to choose (and vary) the mix of backing assets between short-term government debt, commercial bank deposits and central bank deposits, and allow for issuers to match the 95% HQLA requirement in the FCA's proposed rule book.

Regulatory cliff-edge: the Bank's proposals rightly recognise the risk of a cliff edge between the FCA's regime (which is most likely to apply in the first instance) and the Bank of England's requirements which will apply if and when stablecoin issuers or services become 'systemically important', with further details still needed on exactly how this will be determined and for how long any transition measures will be managed. This needs to be clearer to ensure the UK can emerge as an international stablecoin hub and encourage domestic GBP stablecoin issuers to establish here and grow. At present the uncertainty presents a strong risk of disincentivising investors. It should be noted that addressing the issue of holding limits and backing assets will in itself significantly reduce some of the risks of the cliff edge.

Same day redemption: the Bank's requirement that redemption requests should be processed by the end of the day and that fees should be prohibited or cost-based is unduly restrictive, creating disproportionate requirements that the US and others have not mandated; potentially impacting KYC/AML checks; and reducing scope for innovation and competition. This should, in the first instance, mirror the US approach of requiring "timely" redemption of assets for fiat and for the issuer to publish and communicate clearly a redemption policy - and not explicitly mandating same-day.

Commercial bank issuance: the Bank's ban on UK commercial banks issuing stablecoins (as set out in the November 2023 Dear CEO letter) should be lifted. The same outcomes can be achieved by other measures: prevention of customer confusion about different protection levels can be achieved through outcome-based requirements rather than prescriptive branding and entity requirements. The concerns about insolvency are misplaced given that both the Bank of England and FCA regimes will have custody and safeguarding frameworks in place.

In summary, we need a cohesive regime between the FCA and Bank of England featuring regulatory clarity and proportionality, with underlying assets that are secure and interest bearing, and a communal push to make adoption work rather than measures which constrain investor appetite or consumer and business usability. To achieve this, we consider that limited but significant adjustments to the Bank's proposals are needed.

Consultation questions

Backing assets

Q1: Do you have views on our proposal to allow systemic stablecoin issuers to hold up to 60% of backing assets in short-term sterling-denominated UK sovereign debt securities alongside unremunerated deposits at the Bank, as an appropriate balance between business model viability and mitigation of financial stability risks?

Key points

We recognise that the Bank has engaged with industry resulting in small shifts in their approach including transitional measures, but these proposals remain problematic given they still mandate that longer-term stablecoin issuers should hold a significant portion of backing assets as cash deposits with the Bank of England without receiving interest, with the rest being limited to short-term sterling-denominated UK sovereign debt securities.

We understand the Bank is seeking to reduce the risks associated with:

- a run on stablecoin, and ability to redeem
- a drop in interest rates (e.g. zero interest on bond market), and the sustainability of commercial business models if yield income falls significantly
- size of the UK short-term government bond market

However, we believe that 40% of backing assets held as unremunerated Bank of England deposits is disproportionate to the risk and one of the most expensive mechanisms for managing these risks.

- It disrupts the stablecoin business model by removing income generation used to support underlying stablecoin infrastructure and stands to increase customers' costs.

- It interrupts equivalence with the USA and disincentivises the creation of UK stablecoins, where a lack of GBP stablecoins risks EUR/USD stablecoins dominating the future of finance and undermining London as a global financial centre.

A further shift is needed before this regime comes into force. There are alternative ways which would allow the percentage mandated into central reserves to be reduced from 40%, for example commercial bank holdings which could be complemented by reverse

repo arrangements would reduce capital inefficiency, but still maintain liquidity and support orderly redemption management.

Issuers should be able to choose (and vary) the mix of backing assets between short-term government debt, commercial bank deposits and central bank deposits, and to match the 95% HQLA requirement in the FCA's proposed rule book.

An alternative approach

We believe there are alternative ways which would allow the percentage mandated into central reserves to be reduced from 40%. This involves taking a 'risk based' approach and enabling a wider range of solutions:

- Commercial bank deposits should be allowed as backing assets. These can provide a liquidity alternative to central bank deposits. This is the approach taken in other jurisdictions including the EU. In the UK our members have indicated interest from commercial banks in providing deposit services for stablecoin backing assets (and as noted below this can also provide an alternative mitigation to the risk the Bank is seeking to address with holding limits). Whether commercial banks themselves are eager to hold stablecoin issuer deposits has been questioned by regulators, but our member discussions have indicated that there is real appetite from commercial banks to hold these backing assets (and they are experienced in doing so in other jurisdictions) given this also leads to a relationship with the issuer in terms of secondary business from holding their account and using treasury functions. Caps and diversification requirements on commercial bank holdings would be preferable to direct central bank holdings.

- We welcome the Bank's confirmation that repurchase agreements can be used to generate liquidity. Repo models are used in other markets to manage liquidity risk and can be more widely applicable for stablecoin. Reverse repo arrangements would reduce capital inefficiency, but still maintain liquidity and support orderly redemption management.

In the UK we already manage risks similar to stablecoin in relation to money market funds. There is no fundamental reason why the same approach taken in money market funds can not be taken for stablecoins.

Impact of Bank's proposals on business models, investment, and stability

We note that the Bank seems to desire a stablecoin business model in the UK that does not depend upon yield from backing assets. The Bank has expressed concern that stablecoin issuers are highly dependent on a single revenue stream (net interest income) and that this revenue is vulnerable in low interest rate environments. It has

suggested that requirements such as non-remunerated reserve deposits are intended to push issuers to develop alternative, non-interest sources of revenue such as transaction and service charges.

This would create a fundamentally different business model in the UK compared to most other jurisdictions. No international issuer or service provider would invest in UK GBP issued stablecoin if it requires a totally different business model - and no UK stablecoin issuer would be competitive globally. Other business models may emerge - some providers may develop service or transaction fees - but this should be a market development not a regulatory requirement.

By pre-emptively constraining revenues, particularly at the launch and scaling stages, the proposal risks interfering with the emergence of new business models altogether. In practice, the relatively higher net interest margins available today function as a transitional incentive, supporting early investment, infrastructure build-out, and operational maturity, even if those margins are ultimately competed away. Eliminating this path to interim profitability risks making entry uneconomic, rather than encouraging diversification. This concern is distinct from financial risk. The most consequential residual risks for stablecoin issuers are operational: failures of governance, controls, custody, or issuance processes. These are not mitigated by large reserve buffers. They are better addressed through audits, disclosure, and supervisory oversight, allowing business models to evolve without being foreclosed at the outset.

Furthermore, the Bank's insistence on 40% of backing assets generating no yield is a far greater risk than the possibility of a zero interest environment; and in a low interest environment the Bank's approach creates additional stress in itself, increasing this stability risk by reducing the proportion of assets that can deliver yield.

Where the requirement for 40% unremunerated is intended to provide adequate liquidity in the event of an issuer's failure or de-peg, it should be noted that at the time of Silicon Valley Bank's resolution Circle continued to honour redemptions for verified customers and USDC remained redeemable 1:1 for dollars through Circle's platform, with the de-peg only occurred on the secondary market and restored within several days. This points to a need for the Bank to engage with the wider ecosystem and payment system participants, rather than focusing narrowly on the issuer and its backing assets. Arrangements between issuers and distributors, and between distributors, exchanges, conversion providers and financial institutions will play an important role in ensuring liquidity and availability - similar to how physical cash is distributed via various market participants, with the issuer (the Bank) playing a very limited role. Oversight requirements and access to liquidity facilities for these market participants may in due course be appropriate in relation to a systemic stablecoin.

As a final note, in the regrettable event Bank reserves continue to be mandated then interest should be payable in the same way as to other institutions. The stablecoin business model passes benefits to consumers and users through low cost payments and transactions. In contrast it should be noted that the FCA found in 2023 that nine of the biggest savings providers, on average, only passed through 28% of the base rate rise to their easy access deposits between January 2022 to May 2023[1] (whilst UK challenger banks have generally passed on a higher interest rates rise and faster).

Wider discussion of backing assets arguments

Conflicting Objectives

The Bank's current framing reflects a tension between two stated objectives. On the one hand, the proposal is explicitly designed for a future in which sterling-denominated stablecoins become systemically important to the payments system. On the other, it is clear - both from the consultation paper and in discussion - that the Bank does not wish to assume incremental risk to its own balance sheet. Historically, however, systemically important financial instruments have almost always involved some degree of public backstop, precisely because the societal benefits they provide justify limited and well-managed public exposure.

Taking commercial bank deposits as an example, fractional reserve banking is structurally vulnerable to runs, yet we accept this risk because it is mitigated through supervision, capital requirements, and access to central bank facilities. By contrast, the proposed stablecoin regime goes beyond the mitigants applied to banks. Rather than pairing SIFI-style regulation with proportionate public support, the framework appears designed to eliminate the need for any backstop at all by requiring exceptionally large reserve buffers on more punitive terms than those faced by commercial banks. This moves beyond achieving the benefits of systemic protection and instead substitutes costly private mitigants for public infrastructure, creating an internal inconsistency in how systemic importance is being conceptualised.

Different Risks Require Different Mitigants

A run on a commercial bank and a run on a stablecoin issuer are fundamentally different. Commercial banks face both solvency risk and liquidity risk. Deposits are backed by private-sector loan books that may deteriorate in value, and those loans are typically long-dated and illiquid. A loss of confidence can therefore reflect genuine concerns about asset quality, while liquidity pressures can force asset sales even when loan repayments are still fundamentally sound. It is the interaction of these risks that

[1] FCA sets out 14 point action plan on cash savings (2023) Financial Conduct Authority

makes fractional-reserve banking inherently fragile and that has historically justified capital requirements and access to central bank liquidity.

Fully reserved stablecoin issuers, by contrast, face only liquidity risk, and that risk is more easily mitigated than in commercial banking. If reserves are held in government securities, there is no solvency risk arising from private credit exposure. And because markets for government securities are far more liquid than private loan books, liquidity risk is inherently lower. The primary residual risk arises from duration mismatches or temporary dysfunction in government bond markets. This is a different risk, and one that is materially easier to manage. It can be mitigated through familiar tools such as limits on portfolio duration, robust disclosure and operational requirements, and access to repo facilities during periods of market stress - an approach long applied to government money market funds. By instead imposing bank-style reserve requirements, including a large unremunerated cash buffer, the proposal applies a costly mitigant designed for a different business model and a different risk vector, rather than matching regulatory tools to the actual risks presented.

Commercial bank deposits as backing assets

In relation to the revisions to backing assets, we would urge the Bank to permit commercial bank deposits as backing rather than central bank reserves. Backing with commercial bank deposits would have the following benefits:

- Issuers would be able to earn interest, reducing commercial risk;
- Issuers could use their commercial bank deposits to participate indirectly in payment systems via their commercial banks. This would be more efficient and cost effective than setting up the operations and expertise to participate in payment systems directly; and
- The risk of deposit flight, which is the key driver behind the proposed holding limits, would be alleviated as the money would remain in the commercial banking system rather than being placed in the central bank.

Finally we would note that it appears somewhat incoherent for the Bank to argue that stablecoins must themselves achieve the same level of regulated safety as commercial bank deposits, positioning deposits as a safe form of money, meanwhile preventing issuers from holding commercial bank deposits as backing on the grounds that doing so would introduce an unacceptable degree of risk. The argument that this is necessary because of tiering also does not seem consistent with permitting HQLA, which also introduces tiering in the form of investment banks, brokers, and custodians.

Q2: Do you have comments on the step-up regime as a way of supporting innovation while mitigating financial stability risks?

Where unremunerated deposits at the Bank continue to be mandated, then it is welcome to adopt a step-up regime as a means to prevent a regulatory and financial cliff edge for stablecoin issuers moving to the Bank's systemic stablecoin rules.

The step-up does not however remove the fact that the systemic rules force a change of business model onto issuers, it merely delays the intensity and implications of this impact. It is unprecedented to require a full change of an existing business model to suit an emerging regulatory model.

There are no timings provided for the step-up regime, so it is also difficult to understand the timeframe that would be allowed for this transition, and this should be explained in more detail as soon as possible. The current proposal and wide discretion afforded to the BoE would present considerable regulatory uncertainty for firms in their planning, which undermines the business case for investment.

It must be recognised that industry's repeated requests for clarity around the meaning of "systemic" and the transition process reflect how negative the commercial consequences would be for issuers (and their service providers) who fall into the Bank's regime. For many investors and businesses, the commercial risks of the Bank's regime (as currently proposed) are too great to take on without more certainty.

Capital and reserve requirements

Q3: Do you agree with our approach to mitigating risks to the issuer and coinholders via risk-based capital and reserve requirements? If not, what approach would you see as more appropriate for systemic stablecoin issuers?

A regulatory framework comprising some basis of risk-based capital and reserve requirements is a well-established approach for financial institutions.

We support the Bank's decision to use capital requirements to address operational and wind-down risks, leaving redemption and backing asset risks to be managed by the rules on backing assets, such as the requirement for an off-balance-sheet segregated trust. As the Bank has recognised, loss absorbing capital requirements on the issuer's balance sheet would not address redemption or backing asset risks, which sit off balance sheet.

Q4: Do you agree with our proposal that the reserves of liquid assets to mitigate the financial risk of backing assets and cost of insolvency/wind down should be held on trust ring-fenced from the general estate of the issuer? If not, do you have alternative proposals to mitigate risks to coinholders in the event of issuer failure/insolvency and in the absence of a specific set of arrangements to deal with failure?

This seems like a reasonable way to deal with insolvency risk, and is consistent with approaches in other areas of financial services (for clarity's sake, this is on the basis that this trust should be distinct from the trust over the backing assets).

Q5: Do you have views on our proposal for calibrating capital for general business risk?

See answer to question 7.

Q6: Do you have views on calibrating the reserve requirements for insolvency/wind down?

See answer to question 7.

Q7: Do you have any other comments or suggestions on the proposals on the major policy revisions set out in Section 2.2?

Whilst a regulatory framework comprising some basis of risk-based capital and reserve requirements is obviously a well-established approach for financial institutions, due to the nature of stablecoin issuers it seems difficult to justify such a strict intervention as set out in the Bank's proposed rules.

The paper is lacking detailed analysis of what would likely happen in the event of the failure of a stablecoin issuer, which would play out differently to that of a bank, and be less damaging than a bank failure due to the presence of wider backing assets.

Q8: What are the operational challenges to implementing holding limits or other tools we are exploring? How might those challenges be addressed, including for individual and business limits?

Holding limits present operational challenges for stablecoin issuers. In essence they are complex to achieve - verging on unimplementable - and very expensive.

For individual firms there is the cost of building and maintaining a robust system to record a specific customer or business holdings of stablecoins, plus participation in any aggregation system for which further operational requirements and rules must be created. This all adds to the compliance burden especially if this will then only be needed on an interim basis, given the operational requirements involve significant technological, legal and compliance infrastructure. Accuracy in this regard would also be a trade off over loss of consumer privacy.

Key Operational Requirements

- **Cross-Platform User Identification (Universal ID)**: Systemic stablecoin issuers must be able to identify all wallets held by a single user across different intermediaries (exchanges, custodians, self-custody). This requires a unified, possibly blockchain-native, identity system that links disparate wallet addresses to a single, KYC-verified natural or legal person.
- **Real-Time Transaction Monitoring:** Systems must support instantaneous monitoring of incoming and outgoing transfers to update wallet balances immediately. This is crucial to prevent "chaining" transactions that exceed limits within short timeframes.
- **Centralised Database/Registry:** A shared ledger or centralized database, likely under the supervision of regulators or a systemic operator, is required to track the aggregated balance of a user across different service providers.
- **"Freeze" Functionality:** Wallet providers and issuers must have technical capabilities to freeze assets or reject transactions that would cause a user to exceed their designated holding limit.
- **Smart Contract Enforcement:** On decentralized networks, smart contracts must be programmed to automatically enforce holding limits at the protocol level, allowing for automatic rebalancing or limiting inward transfers when a cap is reached.
- **Comprehensive KYC and AML:** Stringent Know Your Customer (KYC) and Anti-Money Laundering (AML) programmes will be essential to ensure the accuracy of user identification data.

Operational Challenges and Considerations

- **Privacy vs. Oversight:** The requirement to monitor balances across all platforms presents significant data privacy challenges, demanding strong data protection protocols.
- **Cross-Border Jurisdictional Issues:** For stablecoins used internationally, enforcing limits on users in different jurisdictions requires international cooperation and consistent regulatory standards (e.g., EU's MiCA, UK's FCA regime).
- **"Temporary" Nature:** raises questions about how they will be safely removed later.

Our members, including leading providers of digital assets custody services, note that these requirements are very substantial. They will require significant new cross-industry infrastructure and protocols; invasion of customer privacy which could kill customer trust and confidence in the product; and expensive technical and product build. Stablecoin issuers and services in other jurisdictions do not face these requirements. This places UK GBP stablecoin issuers and services at a very significant disadvantage and deters any international players entering the UK market. Furthermore, the fact these are intended to be temporary will act as a dead hand on any investment in GBP stablecoin - why invest in a market where such additional sunk costs are incurred that will then be lifted in due course? This is one more requirement which will all but guarantee the dollarisation of payments and digital money.

For it to be reasonable for stablecoin issuers to even begin scoping possibilities in this regard, the expectations would need to be clearer, more proportionate and be accompanied by greater clarity on the timetables for implementation and withdrawal of such limits. For example how long does temporary mean, and is it e.g. five years from when the first issuer is deemed systemic or does this reset with each new systemic issuer?

This is further complicated by the lack of clarity over who, when and by what criteria a stablecoin company may be deemed systemic and therefore need to implement such an experimental system, increasing the risk this requirement could result in costly dormant infrastructure that is never activated.

Q9: What are your views on the usability of stablecoins in the presence of holding limits, both for individuals and businesses? What use cases do you envisage would require exemptions from the proposed limits? What uses would not be possible given the proposed limits?

We have significant concerns that the introduction of holding limits will act as a constraint on the use and usability of stablecoins, in terms of attitudes to adoption from an individual's perspective and operational friction from a business perspective.

Holding limits also risk stifling investment into UK-based issuers as they signal cautious national ambitions for the growth of this sector.

Retail holding limits

From an individual perspective, Bank of England analysis considers that the limits for individuals are at the top end of holdings the majority of the population would be likely to have given £20,000 means 94% would still be permitted to receive their monthly salary payments and 90% would be able to hold their full current account balance if this was exchanged in full for stablecoin. This could however equally be used as an argument that holding limits are just not required for individuals, given the expectation that most people won't exceed the limit. At this point the compliance machinery may be more for supervisory comfort than real-world risk-reduction. The Bank would be imposing huge technical, legal and operational costs on the sector, massively disincentivising growth and investment, for no real purpose. All the operational investment described under question 8 would be intended for no more than 6% of the potential population (and for a transitional period). This simply does not meet any cost benefit rationale.

Limits also ignore the benefits of encouraging stablecoin usage where retail transactions costs have the potential to be much lower, and reverse the increase in costs that the transfer from cash to cards has led to for merchants and indirectly for their customers.

Commercial holding limits

From a business viewpoint, there are many use cases that may exceed the proposed limit as from a corporate treasury standpoint, £10 million may feel very low, and whilst exemptions may be possible this introduces a level of uncertainty, bureaucracy and delay into stablecoin transactions that may hinder their adoption in the first place or frustrate their further usage and benefits.

- For example a manufacturing business' orders may not be consistently smooth throughout the year. They may be mostly below £10m, but were they to secure a larger international order from someone who requests to pay in stablecoin to remove the currency exchange from transaction charges they would need to decline this payment method or put resources into how to obtain an exemption if this has not previously been needed. Equally a mid sized professional services firm may have a small number of high value international contracts that breach the £10m limit.

- These limits also present further risk and complications if e.g. a company is holding £9 million in stablecoins and is due to receive a payment of £1.5m or more. If this is transferred to them are they then in breach with no transitional terms, or would the payment need to be rejected or would it even be automatically rejected?

In short, medium sized British import or export businesses would be severely limited by these limits - restricting usage in a key business sector that would gain productivity improvements from adoption of stablecoin for overseas orders.

Expanding the evidence base

Since January 2025, one of our members - Stripe - have seen stablecoin transaction volumes grow steadily at 30% month over month. That means that each month, stablecoin transactions grow nearly as much as the 38% that Stripe-wide transactions grew over the entirety of 2024. This growth suggests that some customers, perhaps those who lack access to traditional banking, or who pay with methods unsupported by international retailers, are eager to pay with stablecoins. Real-world examples demonstrate the potential benefits: for example businesses using stablecoins for corporate fund transfers, such as between Mexico and the US, which drastically cuts FX costs and reduces settlement times to minutes. Additionally, businesses seek the flexibility to prefund wallets for immediate transactions.

Holding limits constrain this ability and, consequently, diminish these potential advantages. Allowing UK businesses to leverage stablecoins for more efficient, faster, and cheaper corporate treasury management directly enhances the competitiveness of the UK economy. Based on the practical use cases we are observing, the current proposed limit could act as a barrier to realizing these significant benefits.

Stripe transaction data shows that adding stablecoin payments methods attracts new customers. Across businesses on Stripe, customers who pay with stablecoins are 2x more likely to be net new than customers paying with other methods. This data suggests that many businesses have potential customers out in the world who want their product—but can't purchase it until they're able to pay with stablecoins. This reinforces the points above, to demonstrate that stablecoin payments could be a significant factor in growing UK SME exports (and increasing their productivity by reducing transaction costs).

The proposed approach could also see a business using stablecoins for its corporate treasury management system under the FCA stablecoin regime only to then be faced with holding limits under the Bank's proposed regime. Discord between regulatory regimes is likely to be highly disruptive, costly, and operationally challenging. The more probable result is that large corporations will be discouraged from adopting GBP-denominated stablecoins for corporate treasury management. It is highly unlikely that a corporate treasurer would commit to using stablecoins until the proposed holding limit transition period concludes.

Exemptions

The Bank's latest proposals include an exemptions regime which could be implemented through issuers to allow limits to be adjusted in certain cases. It is not clear to us how exemptions would be managed between the Bank, issuer, and end user, or what requirements would need to be met, including the types of businesses eligible for exemptions. The idea of introducing exemptions shows some recognition of the consequences of introducing holding limits (i.e. they could constrain legitimate business activities), but if wide application of exemptions is to be entertained then this undermines the necessity of the concept in the first place as a potential false premise.

This is why we recommend the Bank should pivot its approach to introducing limits only under extreme market conditions as a backstop option, instead of proactively adopting limits and whereby exemptions are used. At a bare minimum, an exemptions regime should include classes of activities that are exempt (e.g. corporate treasury management) and enable exemptions to be requested and granted for growing businesses as well as larger, established ones.

These exemptions will need to be clearly drafted to enable the relevant business users to have confidence in using stablecoins. In addition, we would prefer objective exemptions based on status or activity, rather than a case-by-case request for an exemption (i.e. a process more akin to the FCA's waivers). That said, this itself returns us to the challenge of operationalising those exemptions within the ecosystem: as well as building the holding limits, issuers will need the ability to disapply those, also on a per-coin aggregated basis.

Potential destabilising effects

Holding limits also risk having significant destabilising effects on the functioning of the stablecoin ecosystem. By preventing the distributor from supplying more stablecoin once it nears its limit, the holding limit prevents supply from meeting demand. This creates an artificial shortage, forcing users either (i) to bid up price of the stablecoin above its peg as they try to source it on the secondary market (from exchanges or OTC), or (ii) to dump the stablecoin as it is no longer seen a reliable and viable settlement asset for their on-chain financial services (trading, capital markets, payments, etc), again creating a destabilising effect on the stablecoin's peg.

Similarly, the holding limit prevents market participants from providing secondary market demand, through market making services which ensure there are buyers for anyone looking to convert the stablecoin back into fiat. The more firms can play these roles, providing both supply and demand, the more stable the secondary market price. As the market matures we are seeing financial institutions step into this natural role. To support stability and an efficient stablecoin ecosystem, the Bank should encourage this

secondary market activity, not limit it. By imposing limits, the Bank significantly increases risk rather than reducing it.

Finally, by artificially limiting the way that the stablecoin ecosystem functions, the Bank will not be able to use the transition period to observe any emerging risks around stablecoins as the Bank has suggested. Rather, the Bank will be observing a stunted, dysfunctional market and may not learn important lessons throughout its evolution.

Q10: Other than holding limits, what do respondents consider are the tools best suited to mitigating the risks we have identified?

Challenging the assumption regarding likelihood of deposit outflows

First we would challenge the risk assessment made by the Bank. The risk identified is of an outflow from commercial bank deposits to stablecoin - either as part of a readjustment of financial markets or as part of a stress event. The primary concern from the Bank is that such a reduction on commercial bank deposits will in turn impact the availability of household and SME lending. In terms of the risk of such a rapid change in consumer behaviour, we believe such a risk is very low over the next 5 years or more.

The FCA Financial Lives survey (conducted in February-June 2024 and published May 2025) showed that 4.3% of adults held cryptoassets, a 1% drop since 2022.[2] Outcomes of a recent YouGov survey[3] (conducted by the Digital Pound Foundation in January 2026) showed this has remained fairly stable over the last two years - 6% of respondents reported currently owning or using a digital asset (defined in the survey as cryptocurrencies, stablecoins, or tokenised assets).

The YouGov survey also assessed public awareness, perceptions, and potential use of stablecoins for everyday payments, with results indicating that stablecoins are not currently understood well enough to be perceived as a substitute for bank deposits among the general public. The vast majority of respondents were unfamiliar with the concept, and were unlikely to use stablecoins for everyday payments at this time. It is worth noting that respondents strongly valued lower fees on small payments, 24/7 functionality, and clear consumer protections - this points to an awareness gap in the UK around the role stablecoins can play (either directly or as back-end infrastructure) rather than an absence of demand for the benefits that regulated stablecoins could bring to the payments ecosystem. Where awareness of stablecoins does currently exist (namely, in younger, male, higher-income respondents), there is marginally more

[2] Financial Lives 2024 Survey- Payments- Selected findings (May 2025) Financial Conduct Authority

[3] YouGov PLC (2026) survey commissioned by Innovate Finance on behalf of the Digital Pound Foundation; survey costs funded by Circle. The survey was conducted among a nationally representative sample of 2097 UK adults. Fieldwork 23 - 25 January 2026 online. Figures have been weighted and are representative of all UK adults (aged 18+).

openness to crypto-related products. However, this group represents a relatively small proportion of total retail deposits and does not translate into a systemic risk today or in the near term.

On that basis, we are not persuaded that rigid holding limits are necessary or proportionate to achieve the Bank's stated aims, where there is an absence of clear evidence that regulated stablecoins pose a credible risk of large-scale deposit flight in the near future.

Holding limits make even less sense for individual consumers, given that bank deposits have an FSCS guarantee of £120,000 - 91% of the population do not have more than £100k of savings[4], with 28% holding savings of up to £5000 and 25% claiming they simply do not save at all.

Whilst corporate and business accounts do not benefit from deposit insurance, the possibility of moving to stablecoins may be marginally higher in these markets. But as noted above, holding limits for business will unduly constrain productivity gains and remove the most significant business use cases for cross border and treasury use of stablecoins. Business use of stablecoins will generally be part of a treasury function which will look to spread risk and seek return so will be more likely to sweep funds into income generation once used for a transaction.

Stablecoins are not the only new technological models for money that have arisen in recent years. E-money has been in use for some time and has not faced the same regulatory constraints. There were similar concerns about the risk of deposit flight with the emergence of money market funds, but these concerns have not been borne out.

The FPC estimated last December that GBP money market funds hold around £300bn[5], which exceeds the current aggregate estimate of $310bn[6] for all stablecoins globally. Further, given that the majority of current stablecoin use in the UK is for trading, it seems more likely that users will convert from US dollar backed coins to GBP coins to transition away from US dollar currency risk, not fund GBP positions from fiat bank deposits. These factors suggest that implementation into the financial system will not be statistically substantial in the UK at least initially, and will evolve as use and business cases mature.

In the USA where stablecoin adoption has been growing for a longer period, research indicates that the growth of dollar-pegged stablecoins such as USDT and USDC has not

[4] Extreme Savers (2023) Kantar
[5] Financial Stability Report (December 2025) Bank of England)
[6] Stablecoins & CBDCs (December 2025) Coin Desk Data

led to material deposit flight or market disorder[7] with stablecoins frequently perceived and deployed as a payment rather than savings vehicle. This is further supported by recent research from Cornell University which concludes "to date, stablecoin adoption has not produced meaningful aggregate outflows from traditional bank deposits"[8].

We appreciate that the US banking market relies substantially less on deposits for credit creation, but the US demonstrates that stablecoins have grown alongside, and not replaced, conventional payment methods.

Impact on commercial banking and UK business and household lending

In 2021 when the Bank of England published its discussion paper on digital money[9], it explored the question of deposit outflows in detail and concluded that "in aggregate, given existing liquidity resources, the banking system should be able to withstand sudden deposit outflows" - "Banks could use current liquidity holdings and liquidity available from the Bank to cover their uninsured deposits." The Bank's report also noted that continued lending to the economy could be achieved through increased issuance of wholesale debt by commercial banks and a shift to non-bank market-based financing. "In theory, there could be significant benefits to be gained from a marked shift to market-based financing. First, it offers an alternative source of credit for some borrowers. This could allow them to continue borrowing even if the banking system was to enter into stress. Second, some academic literature[10] [...] suggests that bank-based systems can stifle lending to the most innovative enterprises due to the higher risk involved. It is further suggested that the non-bank financial system is better able to provide credit to higher-risk, potentially more productive investment opportunities."

We would welcome an update on the Bank's work to manage this transition. Rather than holding limits to reduce the risk of a flight from deposits, the Bank and HM Treasury should work with industry as a matter of urgency to transform the UK lending market over the next five years - to adapt to the evolution of markets.

Alternative approaches:

We would recommend that a mix of alternative approaches are taken instead of holding limits:

Market surveillance

We believe that monitoring rather than mitigation would be the most appropriate approach for risk management at the outset of the stablecoin regime.

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[7] Stablecoin's impact on community bank deposits (July 2025) CRA for Coinbase

[8] Stablecoins and Banking: Deposit Dynamics, Financial Stability, and Regulatory Design (February 2026) Cornell University

[9] New forms of digital money (2021) Bank of England

[10] Innovations in Financial Services, Relationships and Risk Sharing (1999) Allen & Gale

Holding limits introduce a constraint on fintech innovation at a time we should be ensuring the UK keeps apace with and drives forward new ideas internationally.

In the first instance, it would be easier to monitor how much of a coin has been issued, how much is being held in public wallets, as well as in what forms stablecoins are being redeemed. The Bank of England could simultaneously also monitor bank deposits for early flags of whether these levels are changing and likely drivers. To allay regulator concerns over systemic control, leaving the door open to potential future use of distribution caps in response to evidence gathered from monitoring would be a more proportionate evidence-based measure based on experience and real-world usage.

Redemption management

The Bank's 2023 Discussion Paper on stablecoins also stated that the Bank would reserve the right to require, or allow for, a temporary pause on redemption for financial stability reasons, for example through a direction to the systemic stablecoin issuer. We note that this supports and enables some of the alternatives to holding limits (for more details on redemption management see answer to question 11).

Commercial bank deposits as stablecoin holding assets

We have made a strong case for commercial bank deposits to be eligible to be included in the mix of backing assets for stablecoins. This also has the benefit of reducing the risk of 'flight from deposits'. The Bank has indicated a desire to isolate commercial banks from any systemic linkage with stablecoin. In practice, this is not possible and the Bank's approach risks creating greater instability. Allowing stablecoin issuers to make deposits with commercial banks could provide an additional stability mechanism to protect commercial bank deposits.

Commercial banks allowed to issue stablecoins

We make the case in this response for commercial banks to be allowed to issue and brand stablecoins. It is worth noting that would create an additional income for commercial banks which would further strengthen the viability of the commercial bank deposit sector.

Developing an alternative model of SME and household lending

Some of our challenger bank member firms would echo the view that - in the long term - digital money could lead to a reduction in bank deposits and thereby reduce the supply of funding for lending to the real economy. But they are equally clear that the solution is not holding limits.

Pragmatically, there is the possibility that the future lending model in the UK may continue to evolve regardless of stablecoin adoption, for any number of wider

technological or economic reasons, for example moving towards a more proactive state-led wholesale funding approach to lenders for SMEs, and it will be important to also recognise this alongside considerations more specific to stablecoin policy.

Conclusion

In summary, in the short term **redemption management tools and market surveillance** are far better tools for addressing the risk identified together with allowing commercial bank deposits to be included in the stabilisation backing assets mix. In the longer term, a new model for lending to the economy is needed, and offers an opportunity for a market-based approach that widens access to productive capital. Our members are keen to work with the Bank on exploring and developing how this can be achieved.

Legal claim and redemption

Q11: Do you have views on our proposal that systemic stablecoins should access payments systems that support interoperability across different forms of money directly rather than through a sponsoring participant?

Access to payment systems

We welcome the Bank allowing issuers to use intermediaries to fulfil redemptions on their behalf, but the simultaneous obligation to directly access payment systems themselves is likely to be costly and complex, and may not align with the scale of adoption - at least in the early stages of the sector's development. This risks discouraging issuers or raising costs for customers.

Direct participation in UK fiat payment systems carries pre-funding and reserve obligations for each payment which will substantially increase the issuer's financial requirements. Indirect clearing arrangements provide the benefit of pooled assets for individual indirect clearing firms to meet the scheme prefunding and reserve obligations.

Direct participation in major payment systems like CHAPS and RTGS is also generally limited to established payment service providers (banks, authorised payment institutions, and e-money institutions) that possess the necessary technical and compliance expertise. This is a substantial operational, risk, and compliance commitment. Mandating direct participation would therefore impose yet more commercial challenges for issuers brought into the Bank's regime.

A more proportionate approach would be to **allow systemic stablecoin issuers to have the choice to access payment systems either directly or through regulated**

third-party participants, who themselves - already and for this purpose - would have to demonstrate they meet the legal, operational and technological requirements to ensure a stablecoin issuer's obligations for redemption can be met through their infrastructure. Clearing firms provide on/off ramping real-time fiat payment capabilities and interoperability among multiple UK payment systems.

Redemption vs Convertibility - an important distinction

Strictly speaking, stablecoin "convertibility" and "redemption" are two distinct mechanisms that allow stablecoin holders to exchange their tokens for other forms of money - however the Bank appears to use these interchangeably. They operate in different ways, serving different functions and therefore should be viewed as playing distinct roles in the stablecoin ecosystem.

Convertibility involves the ability of stablecoin holders to exchange their tokens with other market participants for other forms of money, such as bank deposits or other stablecoins. Today, convertibility is generally facilitated by exchanges or intermediaries. When a stablecoin is converted to another form of money, the stablecoin continues to exist but is held by a new owner.

Redemption involves returning stablecoins to the issuer in exchange for commercial bank money, or e-money (or, in the future, potentially Central Bank Digital Currency), after which the stablecoins are 'burned': removed from circulation. In contrast to convertibility, when a stablecoin is redeemed, it ceases to exist outside the issuer, and the original owner holds the equivalent value in another form of money. Redemption results in a reduction in the circulating supply of the stablecoin. While convertibility will likely play a role in stablecoins' everyday functionality, redemption may, in the long term, become a more occasional, exceptional option rather than a core, routine feature of stablecoin use.

Instead of direct redemption for all users, stablecoin issuers typically provide redemption and issuance rights to a subset of onboarded clients who actively participate in the secondary market. Secondary market sale and purchase arrangements then provide proven and increasingly available mechanisms for reliable on- and off-ramping.

Intermediaries provide reliable liquidity, driven by secondary market participants who operate directly on the exchange, buying and selling in response to minor price deviations in order to make a return ('arbitrage') through bulk redemptions or bulk issuance at 1:1 directly with the issuer.

Thus, the regulatory regime should recognise that direct redemption between end users and the issuer is not the key price stability mechanism that it is sometimes assumed to be, while convertibility is a critical mechanism for exchanging value in and out of stablecoins. However we note that the Bank's proposals appear to use these terms

interchangeably and predominantly use 'redemption' in the context of intermediaries and end user customers. We would recommend clearer distinction between the two in future policy discussions, guidance and rules.

Convertibility and redemption of stablecoins serve distinct purposes, and in BAU scenarios, convertibility is often more critical for operationalising the utility of a stablecoin as a medium of exchange. This is essential for ensuring that stablecoins can function effectively in everyday transactions, enabling users to leverage their holdings for payments, remittances, or trading across platforms. Unlike redemption, convertibility relies on interoperability across a network of intermediaries, exchanges, and payment processors to facilitate liquidity and usability. A robust convertibility framework is therefore key to maximising the utility and adoption of stablecoins in the broader financial ecosystem, while redemption mechanisms serve as a critical backstop to maintain confidence in the stablecoin's value. But this convertibility does not in itself require prescriptive regulating at this stage - greater flexibility should be allowed (subject to clear customer communication) for the market to offer different approaches.

Redemption times

To ensure stablecoin redemption processes are both efficient and practical, the UK regime should require issuers to process redemptions within a reasonable timeframe. But this should not be prejudged by regulators at this early stage.

The Bank's requirement that redemption requests should be processed by the end of the day (T+0) and that fees should be prohibited or cost-based is unduly restrictive, creating disproportionate requirements that the US and others have not mandated; potentially impacting KYC/AML checks; and reducing scope for innovation and competition. This should, in the first instance, mirror the US approach of requiring "timely" redemption of assets for fiat (not explicitly mandating same-day) and for the issuer to publish and communicate clearly a redemption policy.

The Bank rightly recognises challenges which may interrupt the execution of requests occurring within the same day, including AML/KYC/CFT checks where the issuer has had no prior dealings directly with the redeeming customer. We welcome acknowledgement that these would need to be completed by the customer in advance of redemption requests for this time period to be achievable.

However, the unavoidable requirement for KYC (along with onboarding and setting up fiat payment channels) significantly undermines the purpose of the Bank's proposed requirement for all holders to have on-demand redemption rights. The proposal does not achieve seamless conversion between forms of money. Conversion in the secondary

market, where holders have already KYC-ed with their providers, is the way that on and off ramping safely works in the market today. This is fundamentally different to the Bank's proposal for a universal holder redemption right.

For example, USDT, issued by Tether, the largest stablecoin issuer, is held by hundreds of millions of separate holders, and is issued in the hundreds of billions of dollars. However, according to the latest regulatory reporting from 2025, it is directly issued and redeemed by fewer than 1000 onboarded customers.

Circle's IPO filing with the SEC illustrates a similar market structure. USDC is issued in the tens of billions of dollars and held by hundreds of millions of users, but Circle has fewer than 2000 direct issuing and redeeming customers. Clearly the secondary market model functions well. It serves the key purpose of reducing liquidity and operational risk on the issuer. The secondary market conversion and distribution model reduces liquidity and solvency risk on the issuer's backing assets, in favour of a dispersed and very low risk in relation to secondary market price. This secondary market risk is reducing all the time as more conversion providers, distributors and market participants come to market and as backing assets are increasingly subject to regulation.

Redemption fees

We also appreciate the possibility to charge fair, transparent and proportionate fees to cover operational costs of redemptions and to reflect the dynamics of redemption activity. The revenue to run the stablecoin infrastructure will need to be recouped from some part of the process, and the regime as currently proposed already limits this in other areas given no interest is to be provided on backing assets held in central bank reserves, and extensive additional outlay would be required to design and meet the requirements imposed by holding limits. More flexibility should be allowed to enable different commercial models, where redemption periods and fees can be traded for other benefits and services in a competitive market.

Most direct customers of the issuer engage in bulk issuance and redemption, as opposed to frequent, low-value requests. This model is crucial for the stablecoin ecosystem as it minimises liquidity pressure on the issuer and ensures orderly, reliable redemptions. Allowing tiered and premium fees would aid issuer liquidity management, thereby directly mitigating financial stability risk, and would also provide issuers with additional revenue streams.

Similarly, stablecoins are generally intended to be capable of cross-border use, operating on global blockchains. This means that a universal redemption right would require the issuer to make payments to fiat accounts located overseas with associated costs.

Temporary pause or delay on redemption

The Bank's 2023 Discussion Paper on stablecoins also stated that the Bank would reserve the right to require, or allow for, a temporary pause on redemption for financial stability reasons, for example through a direction to the systemic stablecoin issuer. We note that this supports and enables some of the alternatives to holding limits which we recommend above.

More detailed analysis of wholesale redemption process
(By corporates and by intermediaries direct with issuers)

Users can put in place their own bilateral arrangements with secondary market participants such as brokers and liquidity providers by which they ensure they have reliable access to 1:1 conversion without ever using an exchange. Like a large-scale ATM service might operate in relation to physical cash, these bilateral arrangements enable end users to buy and sell at 1:1 (for a fee) as if they had a direct redemption access to the issuer. The liquidity provider must have direct or indirect access to redemption with the issuer to ensure it will always be able to convert the stablecoins it receives in the secondary market. However, the end user does not require this level of access to the issuer. If, for example, a large corporate chose to accept stablecoins as payment or to use stablecoin to pay suppliers, it may first put in place a direct arrangement with a liquidity provider who buys and sells direct to them for a fee. The liquidity provider would itself have a direct arrangement with the issuer, including certain volume or value related incentive arrangements, which may include yield sharing.

Rather than providing direct redemption rights to all holders, the issuer puts in place redemption and issuance arrangements with only a selection of onboarded clients. This is significantly more practical and cost effective for the issuer. It should also be a safer model than the regulatory proposals for on-demand and universal redemption rights, as it gives the issuer more scope to manage the risks around liquidity events and large-scale redemptions (akin to bank runs) by putting in place terms and conditions that allow it to halt or delay redemptions.

The regulatory regime should recognise that, provided issuers are free to agree terms and commercial incentives with secondary market participants, there are reliable ways that stablecoin users can access 1:1 conversion without themselves having a direct line to redemption with the issuer. Ensuring that redemption is sufficiently accessible to enable liquidity in the secondary markets should be the regulatory objective, rather than forcing issuers to offer a costly, risky, and unnecessary redemption right to all holders.[11]

Issuers should not be required to fulfill 100% of redemption requests at any given time; instead, issuers should have discretion to implement a cap of, say, 40-50% of total

[11] MICA imposes a requirement for universal on-demand redemption. In practice, however, issuers impose onboarding and KYC conditions that effectively limit redemption to larger institutions and secondary market participants. It is not clear that it has had any notable positive effect on stablecoins' price stability or consumer protection.

outstanding stablecoins within a 24-hour period to manage liquidity risk and prevent market disruptions (in reality any redemption requests at this level are likely to imply that there is a 'run' on the stablecoin and business-as-usual (BAU) requirements are not appropriate. The issuer may already be effectively in recovery and resolution).

This approach balances the perceived consumer protection benefits of prompt redemptions with the practicalities of reserve management and operational constraints. Additionally, redemption should be encouraged from the intermediating commercial distributor who is more likely to already have a relationship with the stablecoin holder and thus be able to redeem more efficiently.

Safeguarding of backing assets and reserves

Q12: Do you agree with our proposed approach to safeguard backing assets? If not, what alternative measures do you propose?

[Blank]

Q13: Do you have views on the proposed legal structure of the trust arrangements for backing assets and reserves to deliver the desired outcomes set out in this consultation paper? This includes feedback on the overall structure of the trust arrangements and whether these should be structured as a single trust covering both backing assets and reserve requirements or as two or more separate trusts.

Backing assets should be insolvency remote, and separate from the issuer's own assets. A statutory trust is one way to achieve this - the regulatory focus here should be on the outcomes the rules are trying to achieve.

Ledgers

Q14: Do you agree with the Bank's view that the prominent risks around public permissionless ledgers are accountability, settlement finality, and operational resilience, including cybersecurity?

We welcome the Bank's acknowledgement that DLT brings benefits of efficiency and operational benefits, and the Bank's openness to the use of public permissionless ledgers by systemic stablecoin issuers. Not doing so would fundamentally change the operational model of these businesses.

The risks listed - similar to modern banking systems based on the internet and dependent on internet access - are correctly identified as the types of challenges that arise from not owning or controlling a foundational component.

Before determining any regulatory interventions in relation to the use of public blockchains, the Bank must ensure it understands the ways that blockchains address the identified risks. For example, with fewer intermediaries involved in processing payments, and with payment tools representing simple bearer / standalone assets rather than debt claims against banks (as is the case for deposits) the risks around payments failing to settle, and therefore the risks around settlement finality, are significantly reduced in the case of stablecoin transfers compared to bank deposit payments via payment systems.

Q15: From the above risks, in your opinion, which ones are most crucial, specifically in the context of public permissionless ledgers, that necessitate Bank's focus and collaborative solutions?

From a stablecoin perspective, it is important that industry and regulators collaborate to determine the most appropriate and acceptable approaches to settlement finality.

There are both legal and technological mitigations that can reduce this risk. From a legal perspective the work underway by HM Treasury and the Bank of England to update the Settlement Finality Regulations would overcome a potential gap between technical finality and legal finality.

From a technological perspective there may be the possibility to build in delays for the event the ledger becomes unstable. Accompanied by real-time monitoring of a ledger's stability this would help respond quickly if it were to start behaving unpredictably.

The other risks named in question 14 are important to identify, mitigate and prepare for, in the same way as reliance on internet use would be considered by banks and other financial institutions.

Q16: Can you identify other risks which you believe that will have a material impact on these technologies in the future?

[Blank]

Operational resilience and approach to service providers

Q17: Section 2.3 above outlines minor policy refinements and clarifies the details of policy positions set out in the 2023 discussion paper. As such, specific questions for feedback are not asked for each sub-section. Respondents are invited to provide general comments or suggestions on the proposals set out in this section.

[Blank]

Remuneration of coinholders
Location policy for sterling-denominated stablecoins
Joint regulation
Stablecoin custodianship
Supervisory approach

Q18: Section 2.4 above outlines unchanged policies from the 2023 discussion paper. As such, specific questions for feedback are not asked for each sub-section. Respondents are invited to provide general comments or suggestions on the proposals set out in this section.

There is genuine industry concern regarding the approach to joint regulation, and the potential for a cliff-edge to arise in a transition from non-systemic to systemic regimes. More clarification is needed in terms of how this will work in practice. We recognise and welcome that a paper is due later on in 2026, but whilst this may seek to explain varying responsibilities and any transitional periods, it may not overcome the substantial differences in nature of the FCA vs PRA regime and the significant necessary changes to a stablecoin issuer's business model that this looks set to mandate.

Whilst the UK authorities continue to reflect on the exact criteria that will define "systemic" may in some ways seem justified given the sector itself continues to evolve, there is a risk this constrains investment into issuers as it is unclear which regulatory regime may apply and whether from the outset or at a specific stage of growth. The European Banking Authority (EBA) have now very clearly set out what will be included for an issuer to be deemed "significant" - based on holdings and usage - and at a minimum some guidance would be welcome in the UK as investors will expect to see a threshold communicated, especially given the huge transition to a firm's business model that this triggers.

Remuneration of coinholders
The Bank of England's future consideration of rewards offered by stablecoin issuers is noted. A business model supporting stablecoin adoption requires sharing reserve

earnings as rewards or commercial arrangements with distribution partners and network participants. The ability to share rewards is essential for new stablecoins to compete with established ones, incentivising platforms and developers to build on issuer platforms. Prohibition on rewards would unfairly constrain normal business incentives and hinder competition, as users need these rewards to fund tailored loyalty programmes and incentives. A distinction must be made between "rewards" (economic incentives for business users/distribution partners) and "interest" (paid to consumer holders). Prohibiting rewards would be catastrophic for emerging stablecoin issuers.

Interoperability in money and payments
Approaches to innovation in wholesale markets

Q19: Section 2.5 below introduces emerging policy areas that are intended to prompt further engagement with stakeholders. These areas are presented to support ongoing dialogue and to help shape the Bank's future approach. Respondents are invited to provide general comments or suggestions on the thoughts set out in this section. Specific questions for feedback are not asked except in sub-section 2.5.3.

Prohibition on commercial banks from participating in stablecoin issuing activities
The consultation confirms the PRA's 2023 Dear CEO policy which prohibits banks from participating in stablecoin issuing activities – either directly as an issuer or from holding backing assets of group issuers. We note that the stablecoin sector has grown substantially since that time, increasing to become nearly 10% of all digital assets[12] and be the dominant on-chain settlement asset. A true multi-money environment will include all financial services participants and not bifurcate banks from new forms of payments.

Regarding the Bank's stated concerns on contagion, the strength and comprehensive nature of the FCA and BoE stablecoin regimes and the highly mature nature of the UK banking regime, the Bank's extreme caution does not seem founded. The Bank's insistence on removing any exposure to bank failure at the systemic level is not consistent with US and EU regulatory regimes, against the Bank's own desire to develop internationally consistent rules.

The Bank's restriction from safeguarding assets "within group" are not necessary given that assets would be held on trust. The Bank's restrictive policy appears to arise from the intra-group prohibition under the Electronic Money Regulations 2011. We note that the UK gold plated the underlying EU directive by including this restriction. The EU has

[12] Stablecoins & CBDCs (December 2025) Coin Desk Data

continued to reject intra-group holding restrictions in recently proposing under PSD3 new obligations for issuers to manage concentration risks relating to safeguarding providers.

Participating in a new and fast growing part of financial services offers a meaningful opportunity for growth to the contracting challenger e.g. the mid-tier banking sector. Despite some inroads that the challenger bank sector has made into the market share of the four largest UK banks, the high street banks continue to hold around 60% of deposits . High capital requirements and structural barriers limit opportunities for competition in core markets. While the high street banks at this time prefer to develop tokenised deposit offerings, not all banks should be precluded from participating fully in the stablecoin market.

The UK's regime is not harmonised with other international regimes, with banking groups in other jurisdictions afforded wider commercial stablecoin opportunities. The EU and the US allow banks to issue and in the EU banks may hold assets of group issuers. The following US banking groups are all exploring stablecoins: JP Morgan, Citigroup, US Bancorp, Bank of America and Wells Fargo. In Europe, a consortium of 10 banks recently announced plans to issue a MiCA compliant stablecoin. This demonstrates that regulators in other peer jurisdictions do not share concerns regarding contagion risk or consumer confusion.

With the largest bank groups planning stablecoin activities in peer jurisdictions we believe that it is inevitable that some UK banks will seek to develop stablecoin offerings. The UK restriction diverts investment from banking groups which are participating in stablecoins in other markets and risks leaving UK banks behind their international peers.

Q20: How should the Bank seek to mitigate risks from non-sterling-denominated systemic stablecoins?

[Blank]

Cross-border arrangements

Q21: For non-sterling-denominated systemic stablecoins issued from a non-UK entity, do you think the Bank should consider deferring to the stablecoin's home authority?

Yes, in principle this is a sensible approach where there is an internationally-recognised proportionate regime in place. In practical terms this is most likely to be the USA's

Genius Act or the EU's MiCA regime, although it puts UK-based firms at a disadvantage where they are subject to more stringent rules than companies operating from these jurisdictions. There must be a level playing field for UK issued stablecoins - which requires the key changes to the Bank's GBP stablecoin regime advocated for in this response.

Q22: If so, do you agree with the factors the Bank intends to consider? Are there additional factors the Bank should consider?

This variation in regulatory requirements risks resulting in stablecoin issuers choosing to locate in jurisdictions outside of the UK. By extension this could result in USD stablecoins dominating globally, including as a means of payment that could come to be widely adopted within the UK, but without UK regulatory control over issuers. This balance and the extent to which UK regulations diverge from existing international regimes should therefore be carefully considered so as not to disincentivise UK-based firms.

Q23: Please indicate in your response if you believe any of the proposals in this paper are likely to impact persons who share protected characteristics under the Equality Act 2010 and, if so, please explain which groups and what the impact on such groups might be.

[Blank]