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Date:

10 February 2026

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

Coinbase Global, Inc. (together with its UK subsidiary CB Payments Ltd., **Coinbase**) welcomes the opportunity to respond to the consultation paper published by the Bank of England (**the Bank**) on a regulatory regime for sterling-denominated systemic stablecoins.

This is one of the most consequential regulatory considerations facing the UK today. How digital money is permitted to operate within the country's payment ecosystem will determine its continued role as a global financial centre. To this end, we believe the current proposals fall short.

As outlined in our response, we strongly support more flexibility on backing assets; however, we have significant concerns with the Bank's proposals for holding limits that would place an unjustified cap on innovation and threaten a competitive "multi-money" system. The Bank's calibration is based on overly pessimistic stress scenarios. Stablecoins and commercial bank deposits will serve distinct, complementary roles in the financial ecosystem, meaning the projected hollowing out of the banking sector is an unlikely tail risk that should not dictate the baseline rules for a nascent industry.

Coinbase remains committed to bringing advancements to UK financial markets and working with the Bank to achieve its goals.

Yours sincerely,



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Introduction

We welcome the chance to respond to the Bank of England's consultation on sterling-denominated systemic stablecoins and are grateful to the Bank for maintaining an open dialogue with a range of stakeholders on how to best move forward. There is a substantial opportunity for the Bank to support the development of successful sterling-backed stablecoins, driving competition in payments, preserving the competitiveness of the City through tokenisation, strengthening the position of the UK in the global economy, and providing new possibilities for UK consumers and businesses to embrace the innovative possibilities of blockchain technology.

The Bank of England's framework for systemic stablecoins should balance three overarching objectives: (i) enabling innovation in the financial sector; (ii) enhancing the role of sterling in global digital money; and (iii) mitigating risk to consumers and the broader financial system. Finding the right balance between these objectives will help realise the transformative role stablecoins can have in delivering the next generation payments ecosystem.

We agree with the Bank's overarching objective of an interoperable 'multi-money' system, and the inclusion of stablecoins and DLT in the National Payment Vision. However, we believe the current approach will discourage responsible operators from issuing or scaling sterling-denominated stablecoins under the UK regime. A more risk-sensitive and data-driven framework, combined with robust but proportionate issuer prudential safeguards and dynamic supervisory tools, would better align with the government's stated ambition to make the UK a global hub for digital assets.

To this end, we think it is important for the Bank to further recognise that a clear regulatory framework for stablecoin issuers removes systemic risk concerns from the financial system – regulated sterling stablecoins could in fact become a safe asset during any stress period, enhancing the resilience and diversification of the UK monetary system. A proportionate regime should lay the groundwork for the long-term integration of stablecoins into the UK's financial system and provide regulatory clarity to support responsible innovation.

Positive revisions in response to prior feedback

We commend the Bank's revisions and clarifications in response to feedback on three areas of the prior proposals and suggest one further refinement that we believe is consistent with a strong regime for stablecoin regulation in the UK:

- **No longer requiring all reserves to be held at the central bank and allowing some backing assets to be held in remunerated short-term government debt.**

We believe the Bank has appropriately moved away from requiring 100% of backing assets to be held at the central bank in cash, with no ability to earn interest. This recognises that backing asset remuneration to the issuer is crucial for the viability of stablecoin issuance models, and will avoid 'cliff-edge' risks when stablecoins move from FCA to Bank supervision.

- **While the Bank is now proposing 60% of assets can be held in short dated government debt, we believe the Bank has not gone far enough.**

Greater flexibility in composition is necessary and warranted, given the low risk associated with reserves held in short dated Government debt and the Bank's proposal to allow access to an emergency liquidity facility in the very unlikely event of a liquidity shortfall on a stablecoin that is 1:1 backed. As has been demonstrated in prior stress periods – i.e. the global financial crisis and Covid – the availability of safe assets backed by short term sovereign debt ensures that there is not an over-reliance on one aspect of the financial system during stress. To support financial stability, the Bank should help to increase the availability of such safe assets, and UK regulated stablecoins would be a positive addition to this.¹ To that end, we propose that 90% of backing assets be allowed in short dated government debt, with 10% held at the central bank in cash.

- **Unlike other jurisdictions, the Bank is not introducing requirements to hold reserves at commercial banks, which avoids additional credit risk in the system.**

We continue to agree that the Bank should not require reserves to be held in commercial bank deposits. As became clear with the failure of Silicon Valley Bank (SVB), holding reserves at commercial banks introduces credit risk in the system for stablecoin issuers, even if only minimal. The more robust solution is to utilise cash reserves at the central bank and avoid altogether the credit risk associated with commercial banks or the

¹Fed staff economists showed that government money market funds, with the same underlying reserve assets as contemplated here, "The assets of domestic government MMFs increased by \$827bn (i.e., by 31%) in March 2020 and by \$334bn (36%) in September 2008. Similar inflows were observed into offshore government funds, both in March 2020 (70%) and in September 2008 (65%)." https://www.newyorkfed.org/research/epr/2022/epr_2022_mmlf_anadu.html

reconciliation process should they fail. We believe this is further bolstered by support for direct issuer access to CHAPS and other payment systems – this would align with recent considerations made by the U.S. Board of Governors² – as this avoids the need to hold a float with commercial banks which are relied on for access.

- **Providing access to the Bank’s emergency liquidity facility would offer a helpful backstop and allay the Bank’s concerns around a fire-sale of gilts.**

Concerns have been raised that a run on a stablecoin issuer could trigger a fire-sale of gilts. We believe the proposed access to the Bank’s emergency liquidity facility would address this concern, as a liquidity shortfall could be met without a need to dispose of short-term government debt. Moreover, stablecoins are likely to support a healthy demand for UK sovereign debt, which in turn could help to develop the size and resilience of the UK’s gilt market.

Further recommendations for change

Beyond these positive revisions to prior positions, we continue to be concerned that a number of the Bank’s proposals will make the UK an outlier internationally and have a significantly detrimental impact of stablecoin innovation and growth in the UK – with consequential impact for the competitiveness of the City, the role of the pound in global markets and competition in payments, to the benefit of consumers.

Our further recommendations are set out as follows:

- **Remove holding limits for both retail and business holders** - they are operationally impractical to enforce and will otherwise have a detrimental impact on the attractiveness of the UK as a location to launch and utilise stablecoins.

The Bank states that it is introducing caps to smooth the transition due to concerns over a precipitous outflow of deposits, and the impact this could have on credit in the UK economy. However, we believe the Bank’s accompanying analysis overstates the risk to credit availability, because it does not recognise the stickiness of customer-bank relationships from customer switching costs, relationship loyalty, and the continued need for bundled services that banks provide.

² In the U.S. the Federal Reserve Board of Governors is considering a new “Payment Account” that would give non-bank payment institutions access to certain payment systems tailored to the risks and needs of institutions focused on payments innovation.
<https://www.federalregister.gov/documents/2025/12/23/2025-23712/request-for-information-and-comment-on-reserve-bank-payment-account-prototype>

Furthermore, the premise that protecting bank balance sheets is essential for preserving credit availability does not account for the increasing diversity of credit availability in the UK economy: non-bank lenders now account for approximately 55% of all lending to UK businesses and have driven nearly all net lending growth since the financial crisis.³ This is strong evidence that the UK economy is already showing its ability to diversify credit lines; protecting incumbent banks from innovation to save a credit model that has already shifted elsewhere is a misalignment of policy.

Gold plating banks' ability to dominate the market is not justified. Moreover, UK banks have more than £800bn deposited in remunerated accounts at the Bank of England, the majority of which is excess, not being extended as credit, and allowing banks to make up to £40bn a year from interest on these deposits for no commercial effort of their own. This excess slack in lending capacity is good evidence for the need to make lending markets and commercial bank deposits a more competitive proposition for customers; it is not evidence to support incumbent practices over those of new entrants.

There is no empirical evidence from jurisdictions that have had large stablecoin markets for many years – or markets like the U.S. where there are over \$6 trillion in similarly structured money market instruments⁴ – that an increase in stablecoin holding will be linked to deposit outflows or any corresponding drop in the cost or availability of credit. Protecting against an unsubstantiated and theoretical concern through even temporary holding limits will slow the scale of adoption and have a chilling effect on the viability of the UK stablecoin market. This approach is at odds with the UK's established regulatory principles, including the requirement under section 3B of the Financial Services and Markets Act 2000 that regulatory activity be proportionate to the risks being addressed.

To this end, the Bank acknowledges that limits are set at levels which would prevent entire use cases, such as property or car purchases where stablecoins offer the opportunity to accelerate traditionally slow and burdensome processes. Furthermore, hard limits would introduce significant operational and enforcement challenges for firms and regulators given the nature of blockchain technology and the scale of surveillance monitoring that would be required.

We strongly believe that the Bank should not introduce caps at the outset and consider implementation only in the event that its concerns start to materialise. Deposit displacement and changes to credit intermediation in the UK economy can be monitored and a decision taken whether any such measures are necessary, rather than pre-empting this eventuality. We do not agree with the view that there will be no time to act if concerns

³ See "City warns regulation is choking UK growth", <https://www.thebanker.com/content/b2cc7ad5-ade6-4295-9818-7370f47f97cb>

⁴ \$6.3 trillion as of January 21, 2026. <https://www.ici.org/research/stats/mmf>

arise with regard to credit intermediation in the UK economy. The Bank will have ample time to monitor stablecoin impacts in the FCA regime, before they transition across.

- **Permit a greater proportion of backing assets in remunerated HQLA** – requiring 40% of backing assets to be unremunerated will challenge the viability of stablecoin business models.

While we commend the introduction of some remuneration in the backing asset pool and believe it will have significant positive impact on the commercial viability of stablecoin models, the current 40% threshold of backing assets in central bank deposits remains a limitation that is not proportionate to any risk. Unlike the FCA regime, rigid composition requirements prevent issuers from taking a tailored approach to liquidity that reflects their business model and use cases. If limits are retained, we believe they should require no more than 10% in central bank deposits. 10% should be sufficient to reassure the Bank of its concerns around the unlikely event of a run on a stablecoin that is backed 1:1 in highly liquid assets, and a resulting fire-sale of gilts to liquidate those backing assets.

- **Focus the capital regime on operational risks** – we agree that stablecoin issuers should have adequate capital requirements to absorb operational losses, but the proposed approach to prudential requirements which double-count financial risk is disproportionate.

As stablecoin issuers will need to hold backing assets in either high-quality liquid assets or central bank deposits on a 1:1 basis there is limited justification for additional financial risk reserves that go beyond operational risk considerations and wind-down costs. Unlike banks, fully collateralised stablecoin issuers do not engage in maturity transformation or credit creation, particularly if reserves do not include commercial bank deposits. Therefore, the capital framework should focus predominantly on operational risk rather than financial risk. In addition, the concept of ‘largest plausible loss event’ will need careful calibration, to ensure that issuers are not required to lock up a disproportionate amount of capital for events with a probability close to zero.

- **Remove restrictions for wholesale use** – the time for experiments and sandboxes has passed; restricting adoption of stablecoins in core wholesale markets, alongside restrictive limits, will threaten UK tokenisation ambitions.

Stablecoins are necessary for onchain settlement in fiat currencies, including DVP processes that make use of smart contracts that can only be executed onchain. Other jurisdictions, such as the US, have acknowledged the strategic importance of stablecoins in advancing their tokenisation ambitions in traditional clearance and settlement functions, and they are no longer considering experimental settings; they are pursuing mainstream

adoption.⁵ To keep up, the Bank should also consider their use beyond the currently contemplated DSS setting, and permit their use in wholesale markets outside of a sandbox environment. This will be necessary to clearly signal to the market that the UK is serious about its tokenisation ambitions. These ambitions cannot be achieved if stablecoins are not allowed for settlement in core financial markets in the UK, or outside the DSS, which is subject to strict limits.

- **Confirm that rewards on stablecoins are permitted** – further clarity is needed from the Bank of England on its approach to rewards.

The Bank of England must provide urgent clarity on its regulatory stance toward rewards, which represent a fundamental business enabler through enhanced competition.

While the Bank proposes a prohibition on the direct payment of stablecoin interest to holders, its ongoing ambiguity regarding rewards by non-issuers risks creating a structural disadvantage for digital asset platforms and other businesses who promote their use in the ecosystem. For a competitive money ecosystem to thrive on a level playing field, non-issuers must retain the autonomy to offer loyalty-based incentives to promote their product suites, much like what is already permitted with cashback on spending or switching bonuses commonplace in traditional financial services offerings to retail. This would also ensure the treatment of stablecoins is not more restrictive than that of e-money, given that providers of prepaid cards and other electronic money instruments are able to offer rewards including cashback. These types of rewards are operational tools for customer engagement, not investment returns.

The Bank's failure to consult the industry on this critical commercial mechanism is a significant oversight: we strongly recommend formal engagement with market participants before a position is finalised in the forthcoming consultation. The Bank has a secondary duty to facilitate competition and growth, which must be taken into account here, to ensure legacy business models are not hard-coded or protected where there is no compromise to overall financial stability.

- **Settlement finality is a legal determination and not a financial risk** – While the Bank's openness to public permissionless ledgers is positive, we disagree they bring inherently greater risks to accountability or settlement finality.

Public ledgers have transparency built in by design, allowing transaction flows and settlement to be externally verified. Permissionless systems also enable modular innovation through the use of open-source "money lego blocks." By allowing developers to build on top of existing financial primitives without requiring top-down permission, the

⁵ <https://www.cftc.gov/PressRoom/PressReleases/9146-25>

UK can foster a far more responsive and effective infrastructure than is possible within the technical silos of permissioned ledgers.

Because they are decentralised, public blockchains remove the single point of failure which exists in many legacy payment systems while permitting issuers to implement all the same record-keeping, audit, and compliance requirements that the Bank is proposing. As the Bank has noted, comprehensive risk mitigants around business continuity and operational resilience have been demonstrably applied to business models that utilise public permissionless ledgers, and for those with varying needs, programmable blockchains allow for additional controls through smart contracts and 'layer 2' solutions, as detailed above.

In most ways, onchain settlement finality is an improvement over existing practices. While traditional settlement frameworks rely on sequenced processes - execution, clearing, and eventual settlement - that are separated in time, smart contracts allow these functions to be collapsed and recorded atomistically on a blockchain. This removes many of the systemic settlement exposures that exist in traditional finance by restructuring the settlement process so that they do not emerge in the first place.

Unlike with traditional settlement that relies on institutional rules and operational procedures to establish finality, blockchains achieve it through cryptography and economic deterrence. On a proof-of-stake network like Ethereum, a transaction becomes technically final when it is incorporated into a validated block and subsequently confirmed. Although consensus finality can be formally probabilistic depending on the consensus mechanism used, the economic cost of reversing even a handful of confirmations makes rollback practically impossible.

To unwind a confirmed transaction on a major proof of stake chain, a malicious actor would need control of a supermajority of validators and would incur massive slashing penalties. Billions in staked collateral would be automatically destroyed. This deterrent exceeds any comparable mechanism in traditional payment systems, where reversals can be initiated by a central operator, a court order, or a back-office correction. In other words, technical finality on blockchains produces an economic guarantee that can be stronger than centralised ledgers.

The only remaining challenge is the alignment of technical finality with legal finality. But this is not a novel or complex issue. Financial systems have long established legal rules that determine when a payment or securities transfer becomes final, even when the underlying technical process remains reversible for a period. This can be decided by regulatory fiat or market agreement. Specifically, settlement finality risk mitigation can be achieved and supported through contractual certainty, system rules, and industry

standards, even in decentralised environments, particularly where validation is economically costly and consensus is widely distributed.

We urge the Bank to maintain a technologically neutral approach by applying regulation to centralised issuers and intermediaries rather than the underlying technology, and engage further with the industry to explore how the concerns identified can be appropriately mitigated.

- **The Bank has not set out detail on how it may use its remit over non-issuer actors in stablecoin payment systems.**

Under the Bank's remit, it could seek to regulate wallet providers, on- and off-ramp services, and infrastructure providers. While the Bank has set out helpful expectations for issuers, ambiguity remains as to how it may seek to use its remit over these other providers in stablecoin payment systems. Firms need regulatory clarity in order to confidently offer stablecoin products and services, including stablecoin payments, and without this the UK risks being left behind by the growing number of jurisdictions with developed payments frameworks in place for stablecoins.

We urge the Bank, HM Treasury, and the FCA to set out how stablecoin payment chains will be regulated, and in doing so maintain a tech-neutral approach by focusing on the regulation of centralised intermediaries, rather than placing restrictions on underlying infrastructure.

The opportunities stablecoins present for the UK are significant, from driving forward tokenisation ambitions, to supporting cheaper, faster payments for businesses and consumers. This consultation demonstrates the notable steps that have been taken to deliver a more proportionate regime, but this progress is limited by a restrictive approach to caps and backing asset composition, and a lack of clarity on the treatment of other providers in stablecoin payment chains. In our responses below, we set out where the Bank should go further to enable stablecoins to play a role in an innovative multi-money ecosystem.

Assumptions behind the Bank's position on holding limits

We appreciate the publication of Financial Stability Paper No. 53 alongside this consultation, which sets out the Bank's considerations around holding limits.

From an economic perspective, the Bank's "severe illustrative stress" scenario relies on highly conservative assumptions that diverge from standard behavioral economics and operational constraints. These assumptions have led the Bank to propose severe restrictions on stablecoin holdings, which significantly limit the viability of a UK stablecoin ecosystem.

Diversification of credit creation among non-banks

The model assumes that outflows from commercial bank deposits could lead to an unsustainable loss of credit availability. However, this fails to account for the reality that the UK corporate finance market is already highly diversified away from deposit-taking institutions. Non-bank lenders are currently responsible for around 55% of all UK business lending and nearly all net lending growth since 2008. The correlation between commercial bank deposit levels and the availability of credit to the real economy is far weaker than the Bank's stress scenario implies.

Opportunity cost and yield sensitivity

The scenario projects a massive flight of capital from UK bank deposits into GBP stablecoins during stress, but the greater risk is not addressing the global currency competition in an increasingly digital world. By significantly limiting the utility of sterling-backed stablecoins, the Bank's model risks sterling being globally less relevant, which would encourage capital flight out of the UK entirely, into more accessible and uncapped foreign currencies, commodities, and dollar or euro-backed stablecoins.

The fear of deposit flight is unfounded, the same way it was unfounded decades ago with the advent of Government debt or gilt-backed money market funds, both of which often offer both a low risk-profile and returns above that available on commercial bank deposits. This has not led to a crisis in bank deposit outflows or credit availability – indeed banks are able to hold sufficient deposits in reserve in the UK (with £800 billion held in remunerated Bank of England accounts rather than being actively utilised in credit activities) that the interest these generate alone provides them with up to £40 billion in annual income.

Operational frictions and the continued need for banking services

The model assumes "no frictions in moving to multiple forms of money at once". This theoretical assumption does not consider the operational realities of regulated finance. In practice, the switching costs related to KYC and KYB onboarding, interoperability of

business payment relationships, wallet configuration, and internal treasury governance create natural barriers that prevent the instantaneous migration of deposits. By assuming seamless substitutability between commercial bank liabilities and stablecoins, the model vastly overstates the potential velocity of liquidity outflows, and therefore the unsustainability of any movement from commercial bank deposits.

The model assumes an outflow rate of 100% for uninsured business deposits. This assumption represents a corner solution that implies businesses have no deposit stickiness, no working capital requirements that necessitate banking services (e.g. overdraft facilities), and no relationship or reputational loyalty. Such an extreme calibration generates a solvency impact in the model that may not reflect the resilience of a diversified financial ecosystem.

Conclusions

Taken together, these dimensions suggest that the “severe illustrative stress” scenario constructs a compounding tail risk that is effectively decoupled from market mechanics. By simultaneously assuming a “corner solution” of 100% business outflows and “frictionless” substitution, the model creates a theoretical environment where stablecoins are treated as having infinite liquidity and zero opportunity cost.

Even in a scenario where flight from commercial banks is towards private forms of money, the model disregards the broader, global digital money ecosystem to which this capital flight could occur if GBP stablecoin holding is limited - including assets outside of the UK which would constitute a greater financial stability risk. In reality, the continued presence of yield-generating gilts and money market funds offer more likely destinations for capital; the Bank’s model artificially inflates projected demand for stablecoins as a store of value in a crisis.

Consequently, this worst-case stacking drives an over-calibrated policy response: the imposition of rigid holding limits to solve a modeled solvency crisis that is unlikely to ever materialise. If the scenario were adjusted to reflect the operational stickiness of corporate treasury functions and the natural preference for sovereign safety and yield, the projected tipping points for bank liquidity would likely recede without the need for intervention. We urge the Bank to recognise that economic gravity provides a more organic, efficient guardrail against disintermediation than static, operationally complex caps.

Answers to Specific 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?

The Bank has revised its previous proposal to require full backing of systemic stablecoins with unremunerated central bank deposits, and has now proposed to allow for up to 60% to be held in short-term sterling-denominated UK sovereign debt, on the basis that this is an appropriate level to balance business model viability with sufficient confidence in the ability of issuers' to meet redemption demands. We agree with the Bank's position that systemic stablecoins should be fully backed by high quality liquid assets (**HQLA**), because high quality backing is important to ensure trust in stablecoins as an innovative form of digital money.

Supporting the use of short-term sovereign debt securities provides a vital remuneration route for commercial viability, and helps to somewhat mitigate cliff-edge risks between the FCA non-systemic proposals and the Bank's regime. However, we do not believe it is necessary to impose a strict limit of 60% short-term sovereign debt - with the remaining 40% required to be held in cash at the central bank with no ability to earn interest - to achieve confidence in issuers' ability to meet redemption demands. Nor do we believe that the composition requirements set out provide sufficient flexibility for business model viability in a lower interest-rate environment. With appropriate liquidity requirements and dynamic risk monitoring in place, systemic stablecoin issuers could maintain a secure, and sufficiently liquid backing asset pool without compromising the competitiveness of the UK regime. If a central bank deposit minimum does need to be set, a lower limit of 10% would be a more proportionate way of ensuring baseline liquidity while supporting the viability of issuance business models.

The Bank's own worst-case modelling of deposit disintermediation relies on extreme assumptions that ignore the counter-balancing effect of safe asset recycling. In reality, funds moving from commercial bank deposits to stablecoin reserves are not lost to the system: they are re-injected into the economy through the purchase of government gilts and high-quality liquid assets, maintaining overall system liquidity without requiring artificial caps. In the future, stablecoins could also support lending activities, so we urge the Bank to avoid a static analysis which contemplates stablecoins only as a means of payment or settlement, rather than the diverse future use cases they could provide.

While the Bank's current proposal for a split between sovereign debt and central bank deposits provides a vast improvement for the regime's design relative to the Bank's initial thinking, the Bank should remain open to further changes to the threshold. Over time, as the market matures and liquidity profiles are proven, the Bank could explore expanding the range of eligible HQLA, for instance to include longer dated government debt.

Crucially, this diversification would help to solve the Bank's concerns regarding the 'thinness' of the UK gilt market. By allowing issuers to allocate the stable, "idle" portion of their reserves into a broader basket of HQLA rather than concentrating solely on short-term gilts. In this way, the regime could scale without distorting government debt markets or creating concentration risk in any particular gilt maturity.

Financial Stability Risks: Liquidity

A fundamental function of a systemic stablecoin is to meet redemptions reliably, even under stress. Liquidity risk is a function of two principal factors: the likelihood of a sudden run on the entity's liabilities, and the ease with which its assets can be liquidated without loss. Understanding these two dimensions is crucial for assessing financial stability.

When comparing these two factors, we find that banks are inherently more exposed to runs and liquidity risk than a fully collateralised stablecoin issuer. First, the likelihood of a run is greater for banks because their assets are significantly riskier, often including long-term, illiquid commercial loans that can fluctuate heavily in value, unlike the highly liquid, low-risk assets required to back a stablecoin.

Second, a bank's ease of asset liquidation is complicated by the fact that only a fraction of its balance sheet is held in HQLA. Under Basel III, the Liquidity Coverage Ratio (LCR) requires banks to hold HQLA sufficient to cover 100% of expected net cash outflows over a 30-day stress period. In practice, this corresponds to roughly 10%-15% of total assets in HQLA, which can include both remunerated central bank reserves and other high-quality liquid assets, such as government gilts. Stablecoins will be required to invest 100% of reserves in HQLA, making them significantly more liquid than banks.

Importantly, under Basel III, there is no regulatory distinction between gilts and central bank reserves. They are both considered Level-1 HQLA for LCR purposes. On the other hand, the proposed systemic stablecoin regime requires stablecoins to have at least 40% of assets in unremunerated central bank reserves. Such regulatory distinction between central bank reserves and gilts is unique to stablecoins. This raises the question: if gilts are considered liquid enough for banks, why are they not for stablecoins? If the Bank is concerned that a fire-sale of gilts might disrupt bond markets, the Bank's proposal to give issuers access to an emergency lending facility would provide the mitigation by making gilts monetisable, just as banks can access BoE repo operations. Once this access is

permitted, it further materially undermines the case for discriminating against gilts as a reserve asset.

Finally, proposed stablecoin regulations in other key jurisdictions, including the US, Singapore, and UAE, do not make such distinctions between government bonds and central bank reserves. Consistent with Basel III, they consider them both Level-1 HQLA. Two exceptions are Japan, which requires at least 50% of reserves in commercial bank deposits, and the EU, which requires 30% of reserves in commercial bank deposits. However, commercial banks are fragile, and relying on them to hold stablecoin deposits might increase depegging risks, as we have seen during the Silicon Valley Bank crisis. The Bank of England is thus correct to rule out commercial bank deposits as backing assets for systemic stablecoins.

Business Model Viability: Limiting to short-term maturities

As acknowledged in the Consultation Paper, the availability of short maturity UK sovereign debt in the UK is limited and market activity low. Permitting their use in stablecoins will be a welcome development as demand will necessarily increase and form the basis for a more liquid market along the full range of the yield curve. Allowing issuers to monetise backing assets through sales and repurchase agreements or by, over time, assessing the merit of extending the maximum maturity set by the Bank will also enhance the ability of issuers to optimally structure reserves.

An assessment as to whether the remuneration opportunities available to issuers from the permitted sovereign debt would be sufficient to support business model viability can only come once the Bank has published the maximum maturity it would permit. However, in order to ensure that commercial viability under this regime is more readily achievable, we urge the Bank to reconsider the 60% limit on sovereign debt securities to ensure a greater proportion of backing assets can be remunerated, without compromising stability as noted above.

Business Model Viability: Transaction Fees

A second concern for the Bank of England is the reliance of stablecoin issuers on interest from HQLA as their primary source of revenue and profit. In prolonged periods of very low or near-zero interest rates - such as between 2009 and 2022, when the official bank rate remained below 1% - the viability of stablecoin issuers could be compromised. While interest income currently supports most stablecoin operations, this could change as market conditions evolve.

Artificially manipulating the ratio of unremunerated reserves to remunerated HQLA to force diversification is both unnecessary and counterproductive. In a rapidly evolving sector, the Bank should remain model-agnostic, allowing the market to naturally discover viable revenue structures through competition and trial. Different stablecoin models may

eventually compete in wholly separate markets - from retail payments to wholesale settlement - and a one-size-fits-all top-down approach ignores this diversity. We strongly believe that revenue diversification must be an organic response to market conditions, not a result of regulatory micromanagement.

Conversely, if the concern is that stablecoins could become overly profitable, this would be mitigated by the Bank committing to review the prohibition on interest as the market matures, ensuring that the benefits of innovation flow to everyday users rather than concentrating in the hands of few stablecoin issuers, and spearheading adoption of sterling-based stablecoins worldwide.

Summary

The Bank's objective is to ensure systemic stablecoins are fully backed by high-quality assets with sufficient liquidity to meet redemption demands in normal and stress scenarios. We agree with this objective, but a rigid limit on short dated government debt for reserves is counterproductive to firms tailoring backing assets to best support their business models - some issuers may see frequent redemption demand, but in many cases we believe it is reasonable to expect the majority of stablecoin-fiat exchanges to take place through trading platforms and intermediaries on the secondary market. To ensure a competitive, adaptive, and safe regime, the Bank should align with the FCA's proposals to support compositions determined by individual risk assessments and redemption forecasts. In times of stress, liquidity risk is mitigated by the low-risk composition of the wider pool, which can be used to generate liquidity through the Bank's lending facility in the unlikely case of an unmanageable increase in redemption demand.

Greater flexibility on this remunerated portion is welcome, but does not go far enough. The large proportion of unremunerated deposits required would place issuers at a competitive disadvantage, and in many cases force increased fees that would pass unnecessary costs to consumers and businesses.

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

The Bank proposes to implement a step-up regime under which firms moving from the FCA's regime to the Bank's regime could increase the amount of reserves held in unremunerated central bank deposits in increments, rather than starting at the 40% of central bank deposits required under the full regime. While we agree that such a transitional arrangement is needed to reduce cliff-edge risk and give issuers the time necessary to adjust the pool and their revenue model, we do not agree that it is necessary to make a distinction between different forms of Level-1 HQLA at all, as the Bank's composition requirements diverge from Basel III.

Treating all Level-1 HQLA identically would retain the fully-backed objective while ensuring sufficient high-quality, low-risk backing assets to meet redemption demands. As the Bank notes, repurchase facilities can be used to generate liquidity in unlikely stress scenarios, even where issuers hold assets with longer maturity. At a minimum we believe this justifies a lower central bank deposit requirement, potentially at 10% depending on the issuance model.

If a specific minimum allocation to central bank reserves is nonetheless deemed necessary, a step-up regime, which gradually increases the requirement based on the stablecoin's size or systemic importance, would be the preferred mechanism to mitigate disruption to existing issuer business models; allowing a low proportion of central bank reserves within the backing composition is needed to make this viable. The Bank proposes to require this to increase in increments (initially holding up to 95% of banking assets in UK Government debt securities) as they scale, to the 40% of reserves held in central bank deposits under the full regime. If the Bank pursues its approach to backing assets (despite the strong opposition), we agree that the percentage of remunerated assets should only be reduced to the lowest permissible level of HQLA without impeding its viability. We also agree that the step up regime should apply both to those stablecoin issuers designated systemic at launch (vital to support commercial viability), and to those that transition from the FCA's non-systemic regime, to follow a similar path over an appropriate time horizon.

However, further clarity is also required as to how the "step-up" regime would be managed when issuers under the FCA regime may be permitted to hold a broader range of 'expanded backing assets' (including PDCNAV MMFs and longer term government debt), subject to additional liquidity modelling and risk mitigation measures. Requiring issuers to make substantial changes to their backing asset composition while the stablecoin is already distributed in the market adds an unnecessary risk of disruption. Greater clarity on these operational and legal uncertainties is needed to ensure the step up regime is workable and does not deter credible entrants.

A more flexible approach would not mean introducing unacceptable risk to the backing asset pool. The Bank's more restrictive approach to backing asset composition has a stated aim of ensuring sufficient liquidity to execute redemptions. But 'sufficient liquidity' is different depending on the specific business and distribution model of an issuer, because this dramatically affects redemption rates. Some stablecoins will have a large number of small holdings, used for high volume, low value retail payments. Others may be disproportionately held by a small number of large institutional actors, where redemptions may be less frequent but greater in value. Some stablecoins may see most holders coming directly to the issuer for redemption, while others see the majority of stablecoin-fiat exchanges executed through trading platforms and intermediaries on the

secondary market. Dynamic risk modelling enables a tailored approach to ensure liquidity meets redemption demands and scales naturally as issuers grow.

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?

The Bank has proposed that capital must be held largely in line with Common Equity Tier 1 capital, and set at the higher of the cost of recovery from the largest plausible loss event, or six months of current operating expenses. In addition, reserves of high quality liquid assets would need to be held on trust for the benefit of coinholders, to mitigate the financial risks of backing assets and the cost of winding down. We agree that stablecoin issuers should have adequate capital requirements to absorb operational losses, but we believe the proposed approach to prudential requirements is disproportionate because in some cases – in particular the financial risk reserve and the calculation of loss event recovery costs – risks to coinholders' claims are double counted after being substantially mitigated by maintaining a 1:1 backing asset pool on trust, of low risk, high-quality liquid assets.

Issuers will need to hold backing assets for stablecoins in high-quality liquid assets, with a significant proportion (we recommend 10% as sufficient) in central bank deposits. This is a very low risk asset pool – no credit risk and only de minimis financial risk for short duration gilts – further bolstered by being held under a statutory trust. As the FCA regime has shown, such a statutory trust can cover both the backing asset pool, and assets that *should* be in the pool e.g. where the issuer has not topped up a shortfall as required. As a result, there is no need to hold additional financial risk reserves even where short-term UK government debt securities have been monetised. The Bank's flexibility around temporary deviations from the strict composition requirement, and proposed access to the emergency lending facility, further mitigate liquidity risks, and help to safeguard holders' ability to claim at par without additional assets needing to be held for financial risk.

We therefore believe the additional financial risk reserves during going concern are duplicative. Unlike banks, fully collateralised stablecoin issuers do not engage in maturity transformation or credit creation. Therefore, the capital framework should focus predominantly on operational risk rather than financial risk, which is already significantly mitigated by the 1:1 backing model.

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?

We agree that in the case of issuer failure or insolvency, holders should have a priority claim over backing assets. We support a statutory trust as the method of securing this, which aligns with the FCA's non-systemic regime. A statutory trust ring-fenced from the general estate of the issuer will help to achieve bankruptcy remoteness and increase trust in systemic stablecoins among holders and the wider market. This aligns with jurisdictions like the US under the GENIUS Act, which mandates segregated reserves to grant coinholders super-priority claims.

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

We agree that issues should hold sufficient assets for business risk, and support a risk-based approach that reflects individual business models.

While we appreciate the intention to ensure very low risk for Bank-supervised issuers, six months of operating expenses is double the amount proposed under the FCA's fixed overheads requirement. This would be a significant additional undertaking for a firm designated systemic at launch, or a firm holding 3 months of operating expenses under the FCA's regime. In addition, the concept of 'largest plausible loss event' will need careful calibration, to ensure that issuers are not required to lock up a disproportionate amount of capital for events with a probability close to zero.

If the Bank imposes high capital requirements for general business risk on top of the significant portion of backing assets that cannot be remunerated, the financial risk reserve, and wind-down reserve, it creates a barrier to entry relative to regulatory frameworks in other jurisdictions that favors incumbent banks over new entrants. We recommend aligning the calibration with the FCA's approach, focusing on the cost of an orderly solvent wind-down.

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

We understand the reasoning for an insolvency reserve and agree that the costs of wind-down will vary significantly with the complexity of the issuer's structure. Reserves

should be calibrated based on the complexity of the issuer's structure rather than a linear function of issuance.

We support the flexibility to hold these reserves in assets with higher maturity profiles, and agree with the Bank's assessment that the wider regime will help to minimise the level of these reserves. The calibration should reward operational simplicity and transparency.

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

We disagree with the Bank's rationale for the 60:40 split (60% gilts, 40% unremunerated cash). The Bank indicated this split was chosen partly to push issuers to adopt a transaction-fee revenue model rather than relying on interest income, thereby ensuring viability in low-interest environments. We believe issuers should have the flexibility to determine their own revenue mix. If an issuer judges that transaction fees are necessary to survive a low-rate environment, they will implement them organically. While we accept the prohibition on interest as a conservative initial baseline, cementing this distinction permanently creates a two-tier system where banks are protected as primary deposit takers while stablecoins are forced into a fee-based, utility role. We urge the Bank to adopt a neutral stance: if the assets are safe (HQLA) and coinholders rights are protected, the revenue model should be left to market competition. At a minimum, we believe a lower central bank deposit requirement of 10% is justified given the low-risk nature of the wider backing pool.

Holding Limits

The Bank's policy revisions in section 2.2 are intended to address feedback on creating a level playing field and reducing inconsistencies with other jurisdictions. The continued proposal for holding limits undermines the benefits of the positive revisions on remuneration and step-up regimes, because holding limits are not present in other key jurisdictions, and are not applied to other forms of money in the UK. We urge the Bank to acknowledge international evidence that increased stablecoin usage does not correlate to deposit flight and to recognise the other risk-reducing tools already embedded in the UK regime.

Holding Limits

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?

While we support the Bank's objective of a safe transition to digital money, commercial systems are not designed for holding limits and the Bank's proposed limits will undermine the utility of UK stablecoins and risk making the systemic regime unworkable in both a local and global setting. For regulated stablecoins to work they must operate on an equal footing with other forms of money. Holding limits - both retail and business - would have a detrimental impact on the attractiveness of the UK as a location to launch and utilise stablecoins, and go against the objective of developing a multi-money system in the UK. The Bank states that it is introducing caps to smooth the transition due to concerns over a precipitous outflow of deposits, and the impact this could have on credit in the UK economy.

We believe the Bank's analysis in support of caps overstates the risk to credit availability, because it does not recognise the natural frictions that exist from customer onboarding, relationship loyalty, and the continued need for services that banking can provide. Moreover, there is no evidence from jurisdictions with larger existing stablecoin markets that an increase in stablecoin holding is linked to deposits outflows and a corresponding drop in the cost or availability of credit. Given the pace of innovation and the misalignment with other jurisdictions, even temporary limits are likely to have a chilling effect on the viability of the UK stablecoin market. The Bank acknowledges that limits are set at levels which would prevent entire use cases, such as property or car purchases where stablecoins offer the opportunity to accelerate traditionally slow and burdensome processes.

We strongly believe that the Bank should not introduce caps at the outset but keep them in reserve in the event that its concerns start to materialise; deposit displacement and changes to credit intermediation in the UK economy can be monitored and a decision taken whether any such measures are necessary, rather than pre-empting this eventuality.

Operational and enforceability challenges

Moreover, holding limits introduce significant operational complexity, market distortions, and cross-border frictions. These operational challenges are structural barriers that could render the asset class unviable for mainstream payments.

Limits are extremely difficult to enforce across wallets on a "per person" or "per business" basis on open blockchains. To enforce a limit, the issuer would need a real-time, universal view of total holdings across the entire ecosystem by individual holders. This requires a centralised identity database that links all blockchain addresses to real-world identities, raising severe privacy concerns and creating a single point of failure for data security. Currently, there are no practical solutions to monitor holdings across multiple wallets on public blockchains, and more interventionist approaches such as centralised identity databases linking personal data to wallet addresses could bring unnecessary privacy concerns and data protection vulnerabilities. Meeting these requirements could also entail significant smart contract modifications (e.g. programming the token contract to reject transfers that would push a wallet over the limit), which could interfere with how the stablecoin interacts with other systems. Even these measures can be circumvented by users creating new wallets or using offshore intermediaries, illustrating the frailty of purely technical enforcement in an open blockchain environment.

Regarding breaches, the consultation proposes that issuers implement the limits, but it is not clear how a breach should be handled in real time. For example, if an incoming payment in stablecoins would put an individual over £20,000, should the transaction be blocked automatically, or reversed after the fact? Would the issuer have authority to freeze or redeem stablecoins in a user's wallet if they exceed the cap? The policy language is vague on the "responsible participants" for enforcement and the consequences of violations. This uncertainty creates compliance risks: issuers and intermediaries (like exchanges or wallet providers) do not yet know their obligations if a user's balance goes above the limit. To address this, clear rules or guidance must be established on enforcement actions, for example, whether issuers should refuse redemption of excess coins, whether wallets in breach must be frozen, or whether users could face penalties. Each of these options has downsides (freezing coins could undermine confidence and potentially conflict with a holder's property rights). Clear regulatory frameworks will be needed so that all parties understand how limits are to be policed and who bears responsibility for oversight and remediation.

Moreover, given many retail customers hold cryptoassets with custodians in omnibus wallets (a practice explicitly supported under the FCA and other regimes, and beneficial for efficiency and reducing costly onchain transactions), issuers would also need a view of individual customer holdings recorded on custodians' internal records. Given stablecoins can be held globally, and most custodians, if not all, will be outside of the Bank's regime, such an expectation of internal information access appears unfeasible, and further adds to data security risks.

Enforcing limits also creates significant operational risks for payment finality. If a business or individual is near their cap and receives an inbound payment that pushes them over the limit, this would result in a bounced payment and failed commercial settlements. The

Consultation Paper suggests "waterfall" mechanisms to auto-sweep excess funds into commercial bank accounts. This would require tight, real-time integration between blockchain rails and legacy banking infrastructure, and if the legacy rail is offline or delayed, the blockchain transaction would fail or have to be reverted. This reintroduces the very settlement delays and counterparty risks that stablecoins are designed to eliminate.

This complexity also introduces a significant operational risk when an issuer transitions from the FCA regime to the Bank's systemic regime. Limits would effectively switch on overnight for users. Operationally, this requires complex versioning of token contracts and could force issuers to freeze, liquidate, or reject user assets, risking a loss of confidence in the stablecoin, potential consumer loss, and wider market instability via forced selling.

The Consultation acknowledges that limits are applied "per-coin," meaning a user could simply split holdings across multiple issuers to bypass the cap. In such cases, users would be able to fragment their liquidity across multiple providers to achieve their desired transaction size. This fragmentation degrades the user experience and reduces capital efficiency without actually preventing the aggregate larger balances the Bank fears.

Risks to interoperability and monetary sovereignty

Interoperability between forms of money is a key objective for the Bank. As caps would likely require enforcement through smart contracts, this would prevent interoperability with other systems (e.g., programmable payments, bridges, DeFi integrations). Interoperability and composability are key features that make blockchain technology valuable to financial markets, and are harmed by the necessary frictions created by operationalising holding limits.

Caps also create an operational barrier that isolates the UK ecosystem from global liquidity. Global stablecoin standards (e.g., stablecoins under the GENIUS Act) do not impose holding limits. If UK-regulated coins have hard caps, they become operationally incompatible with global pools and cross-border settlement flows. As a result, UK businesses and consumers may default to USD-denominated stablecoins for cross-border trade, as these assets do not carry arbitrary friction. Rather than mitigating risk, this prevents the UK from taking the opportunity to use stablecoins to strengthen sterling's role in global trade, and risks the further dollarisation of areas of UK financial markets, diminishing the Bank's monetary sovereignty.

Business limits and exemption regime bottlenecks

The proposed £10 million limit for businesses ignores the operational reality of corporate

treasury and institutional settlement. For large corporations and merchants - spanning both B2C retail and B2B industrial sectors - £10 million is a trivial amount for daily cash flow. Capping holdings limits the ability of businesses to use stablecoins for essential functions such as payroll, supplier payments, or intraday liquidity management. While the Bank proposes an exemptions regime, operationally, this creates a bureaucratic bottleneck. If every major supermarket, utility provider, payroll processor, or B2B merchant must apply for an exemption, the Bank and issuers will be overwhelmed by administrative requests, slowing market adoption to a crawling pace.

To avoid this, the Bank should pivot toward categorical, automatic exemptions for high-volume activities that exceed this threshold in the ordinary course of business. This must include institutional market makers required for peg stability, regulated payment gateways holding pooled transit funds for merchants, and entities conducting wholesale financial settlement.

Furthermore, the fear that unlimited corporate holdings will trigger a run on commercial bank deposits is economically unfounded. Corporate treasurers are rational actors who prioritise yield: they will naturally keep the bulk of their surplus cash in interest-bearing accounts rather than non-interest-bearing stablecoins. This natural economic gravity acts as a far more effective and organic limiter on stablecoin holdings than any arbitrary regulatory cap.

Crucially, the Bank should not define business models top-down during this nascent phase of the industry. The market must be allowed to naturally experiment with diverse models - some of which may compete in entirely different ecosystems - rather than being forced into a narrow regulatory mold through administrative friction.

Addressing challenges without hard caps

The Bank asks how these challenges might be addressed. We argue they should be addressed by abandoning limits in favour of economic design.

The Bank's fear of a "run to stablecoins" assumes that in a crisis, capital flight would occur to private forms of money rather than yield-generating Gilt-backed instruments or the central bank, as recent historical data suggests. Even in a scenario where this plays out as true, limiting holdings for GBP, regulated systemic stablecoins risks a flight out of the UK into alternative assets without such limits, including USD or Euro stablecoins, foreign currencies, or precious metals. The movement of capital into secure, fully backed GBP stablecoins appears inherently less risky than flight out of the UK. In any event, broader yield-bearing instruments including Government debt and Gilt-backed MMFs, already exist in the UK, and for rational actors seeking safety and returns are attractive destinations for capital that are underplayed in the Bank's assumptions.

This widespread availability of yield-generating assets other than stablecoins, tied to treasury holdings or the central bank, acts as a natural, operationally efficient guardrail against an unsustainable concentration of capital into systemic stablecoins. Therefore, the Bank can avoid the extreme run scenarios it describes through the thoughtful design of reserve requirements and the natural incentives of yield-seeking behaviour, rather than imposing operationally brittle caps that distort the market.

Ultimately, the operational cost of enforcing hard limits outweighs the theoretical stability benefits. Constructing the necessary enforcement infrastructure would be privacy-invasive, technically brittle, and fundamentally at odds with the interoperable nature of blockchains. Proceeding with these caps risks engineering a regime that is functionally useless for the high-value, real-time commerce that innovation stands to benefit. The Bank possesses a far more effective and less distortive lever than crude technical constraints: economic gravity. By trusting the natural segmentation between different forms of money, the Bank can achieve its financial stability goals without suffocating the sterling ecosystem and forcing UK users to migrate toward frictionless USD-denominated alternatives.

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?

In our response to Q8, we highlighted that enforcing hard limits onchain is operationally challenging and technically infeasible without intrusive surveillance. However, even if these operational challenges were solved, the proposed limits would fundamentally break the economic utility of the asset class. The Bank's analysis assesses usability primarily through the lens of current retail habits - receiving a salary or holding a current account balance. While a £20,000 limit accommodates daily retail spending, usability in digital money is about enabling programmable, atomic settlement (swapping an asset for cash instantly in the same transaction). If a transaction exceeds a holding limit, the settlement is no longer atomic. It must revert to legacy banking rails (T+1 or T+2 days) via "waterfall" mechanisms, reintroducing the very counterparty and settlement risks the technology was designed to eliminate.

The proposed £10 million per-business cap would materially constrain large-scale and institutional use of sterling stablecoins unless broad exemptions are available. While it may be workable for smaller firms, it is inadequate for the treasury, payroll, supplier-payment and cross-border cash-management needs of larger corporates and institutional participants, where routine monthly flows can exceed this level.

Under the proposed limits, several high-value and high-utility use cases become impossible or practically unviable. The Bank's own data acknowledges that limits function as a hard barrier to these transactions:

- **Individual high-value settlement:** The Bank's own data acknowledges that purchasing a house or a new electric car exceeds the proposed limits. Under the proposal, these transactions cannot happen entirely onchain. This effectively bans the use of systemic stablecoins for the settlement of high-value tokenised Real World Assets (RWA), forcing this entire sector of innovation back onto legacy payment rails or into USD-denominated alternatives. This could be read as the Bank of England pursuing a systemic stablecoin that is not, in fact, systemic.
- **Corporate intraday liquidity:** For businesses, a £10 million cap would prevent intraday liquidity or wholesale settlement. Large corporations and payment processors frequently move hundreds of millions in single batches. A hard cap forces them to fragment these flows or abandon the asset class entirely.
- **Payroll:** A large payroll provider disbursing funds to thousands of workers will likely hold balances exceeding £10 million just to facilitate a single pay run. The limit makes streaming payroll or payouts operationally risky.
- **Payment aggregators and service providers:** Firms whose primary business is processing third-party funds (e.g., merchant acquirers and payroll processors) would not be able to operate under the caps. Their balances are pass-through and do not represent a store of value risk in the same way as idle corporate treasury.
- **High-volume retailers:** Supermarkets and large e-commerce platforms will exceed the £10 million limit within hours of transaction processing.
- **Tokenised asset settlement:** Entities facilitating the settlement of regulated financial instruments (under the Digital Securities Sandbox or otherwise) would see failed trades under the caps.

We strongly recommend that the Bank abandon the holding limits at this stage, but keep them in reserve in the event that its concerns start to materialise; deposit displacement and changes to credit intermediation in the UK economy can be monitored and a decision taken whether any such measures are necessary, rather than pre-empting this eventuality.

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

We strongly believe that the Bank should not introduce caps at the outset but keep them in reserve in the event that its concerns start to materialise. Deposit displacement and changes to credit intermediation in the UK economy can be monitored and a decision taken whether any such measures are necessary, rather than pre-empting this eventuality. We do not agree with the view that there will be no time to act if concerns arise with regard to credit intermediation in the UK economy. The Bank will have ample time to monitor stablecoin impacts in the FCA regime, before they transition across.

We believe the Bank's approach to and analysis of holding limits does not sufficiently account for the broader requirements which would apply to systemic stablecoins, which provide alternative mitigants for the risks the Bank has identified. Unlike holding limits, the development of risk-based stress testing would allow for a more dynamic approach that does not cap innovation on the basis of overstated assumptions of capital flight risk, or risk a counterproductive effect of encouraging capital to move *out of the UK* instead.

Stablecoins would not be the first alternative within the ecosystem of money and money-linked instruments to commercial bank deposits. Yield-generating MMFs and gilts are available, often with higher returns than the interest rates offered on commercial bank deposits, and with a low risk profile. In a normal interest rate environment, rational economic actors - especially the corporate treasurers the Bank is concerned about in the extreme business run scenarios - will naturally optimise for yield. They have been able to do so by holding savings in interest-bearing instruments like MMFs, without this causing harm to the availability of credit or commercial bank deposit outflows. This highlights that the Bank is satisfied under the status quo that the availability of alternative, safe instruments does not require caps to bring systemic risk down to an acceptable level, even where they are yield-generating.

With this in mind, we suggest the Bank rely on the following targeted tools rather than crude caps. For example, minimum liquidity buffers, redemption notice periods in stress, and enhanced disclosures can reduce run risk without limiting legitimate usage.

The near-instant settlement that stablecoins offer drives novel interoperability. Consumers can move funds between wallet providers without friction, escaping siloed payment networks. Similarly, businesses can achieve seamless value movement between unconnected platforms, such as executing atomic, programmable payments between a supply chain finance platform and a logistics provider immediately upon delivery verification. We believe stablecoins will provide significant advantages to actors across financial services without making traditional deposits redundant, rendering holding limits not just unnecessary, but actively harmful to the ecosystem's core value proposition.

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?

We strongly support the proposal for direct access to payment systems, to facilitate interoperability between different forms of money and to allow redemptions to be processed promptly. Relying on sponsoring participants creates tiering risk, tethering stablecoin stability to a competitor bank's operational health and risk appetite. In the event that only a small number of direct CHAPS participants are willing to service stablecoin issuers, this also adds concentration risk to the settlement of redemptions. Direct access to the Bank of England's CHAPS system is essential for minimising counterparty risk and ensuring that stablecoins can truly function as a resilient payment rail.

We acknowledge the Bank's work to integrate some positive elements into the clarified redemption policy to align more closely with the FCA's non-systemic regime, such as beginning redemption timelines after receipt of AML/KYC documentation, allowing proportionate fees, and supporting the outsourcing of redemption. We appreciate that deposits held with the Bank of England can be liquidated quickly, and agree with the objective of prompt redemptions without undue burden.

However, direct access to payment systems does not resolve the substantial operational challenge of executing redemptions by end of business day. This strict requirement does not account for the borderless nature of the underlying technology, through which requests can be made from anywhere in the world at any time. Issuers will need to carry out AML/KYC checks on new customers, which in many cases would not be complete on the same day, particularly when stablecoins are held internationally. In addition, many payment systems, both domestically (e.g. BACS) and internationally (e.g. SWIFT) do not support same day settlement, and others would not process same day if requests are received late in the afternoon. The same day redemption timeline does not align with the UK's position on securities settlement, which has a deadline for moving from T+2 to T+1 of October 2027. Clarity is also needed on whether the Bank is aligning with the FCA on concluding the redemption timeline at the placement of a payment order, rather than upon being credited to the holder's account.

While retail payment activity may be a focus of the Bank's regime, stablecoin use cases are diverse. If holders are given a right to redeem at par, and clear expectations around expected timelines, we do not see prescriptive timelines as necessary. Other regimes, including in the EU and US, do not set out this prescription, and the operational burden could have a deterrent effect on firms seeking to launch a stablecoin in the UK.

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?

We support the Bank's aim of ensuring that backing assets are legally protected and segregated from issuer insolvency. The proposed use of third-party trusts can provide strong safeguards for coinholders and is consistent with established UK practice. However, we encourage the Bank to allow flexibility in how these outcomes are achieved. A strict statutory trust requirement may not always be the most practical or efficient mechanism, other legal structures, such as contractual ring-fencing or secured custodial arrangements, may offer equivalent protection when combined with appropriate regulatory oversight.

Prescribing a single structure could add unnecessary complexity, especially for firms transitioning from the non-systemic regime or those operating across multiple jurisdictions. An outcomes-based approach would give issuers the flexibility to maintain robust protections without requiring wholesale restructuring.

We also question the need for additional financial risk reserves on top of the 1:1 backing and unremunerated central bank deposits. Given the existing safeguards and potential access to liquidity tools such as repo facilities, further capital requirements should be proportionate and evidence-based to avoid distorting competition and undermining the viability of stablecoin models.

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.

We recommend that the legal structure of trust arrangements be guided by clarity of claim hierarchy and operational efficiency, rather than mandating a rigid form. A single trust covering both backing assets and reserve components may be simpler to administer and easier for coinholders to understand, while multiple trust structures may in some cases provide clearer separation of risks or obligations. Neither structure appears inherently incompatible with the Bank's intended outcomes, so the choice should ultimately depend on which configuration best preserves coinholder rights and supports insolvency protections in practice.

To that end, we suggest the Bank clearly articulate the outcomes that trust arrangements must achieve in terms of segregation, priority, and continuity, while allowing firms flexibility to select from a range of legally robust structures. Provided the chosen arrangement delivers unambiguous legal protections and aligns with supervisory expectations, firms should not be required to adopt a single prescribed model, especially where alternative structures may better suit their operational setup or jurisdictional context.

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 agree with the categories of risk set out, but we challenge the assumption that public ledgers are inherently riskier than private, permissioned ledgers, for example.

Accountability

At the application layer, regulated financial institutions provide the necessary locus of accountability, regardless of whether they are operating on a permissioned or permissionless blockchain.

A public, permissionless ledger does not have a central counterparty responsible for its operation, but this does not prevent the apportioning of clear liability within the stablecoin regime. Regardless of the ledger technology used, Issuers under the Bank's regime would be centralised entities responsible for meeting the Bank's requirements. Assuming the Bank relies on the FCA's rules around disclosures, issuers would need to provide clear and accessible information to holders about the underlying technology related to the stablecoin and the key risks this poses. They would also be accountable for meeting redemption requests and maintaining 1:1 backing. This accountability could be applied agnostic to whether a public permissionless ledger is used - the centralised issuer is accountable for providing clear, fair, and not misleading information to holders, and meeting redemption requests promptly. The Bank should recognise that while the protocol layer remains neutral and open, essential regulatory controls - including KYC, AML, and discretionary oversight - are most effectively implemented at the application layer. It would be liable if information is knowingly inaccurate, or it did not comply with redemption timelines. Alongside issuers, other regulated intermediaries will have accountability for the activities they execute on public blockchains, and for ensuring customers are aware of the technology being used.

We acknowledge that accountability is an important issue in the retail payments context, but believe the fact that underlying features of public blockchains are outside a single provider's control is consistent with the existing traditional payments stack and its regulatory coverage.

Under the UK's existing payments regulations (PSRs 2017), liability is applied to the payer's and payee's payment service providers at different stages of a payment chain. These providers are responsible for the actions they must take to authorise payments, execute them to the right payee, and credit them promptly to the payee's account. They are in most cases not in control of the payment system or card scheme used, and the number of counterparties and interdependent systems means that outages are often not pinned onto a single firm. The PSRs liability framework recognises the areas in control of each provider, and areas that are outside of their control - the regulations have an explicit provision around 'force majeure', which does not apply liability for 'abnormal and unforeseeable circumstances beyond the person's control'. In the event that a payment is sent outside of the UK, in most cases the PSRs place liability only on the UK side of the transaction, noting that UK payment service providers cannot control the operation of overseas payment systems. These limits to accountability are not a defect of the regulation, but a recognition of where reasonable accountability can be applied. Were the technology and infrastructure supported in the UK regulated payment stack restricted to that which a given PSP could control end to end, the options would be far more limited than what is available today.

The same approach should be taken to ledger technology - centralised providers can have clear accountability applied to the activities that are in their control, and make clear disclosures to their customers to ensure that they are fully informed on the technology being used and the associated risks.

Operational resilience and cybersecurity

We accept that for systemic payment chains, the risk tolerance for system faults or outages is likely to be low, but a decentralised blockchain is not inherently riskier than systems where a central counterparty exists. Because the continued operation of the system is not reliant on a central person, it is also not subject to a single point of failure. Unlike permissioned systems that rely on a single operator or consortium, permissionless networks eliminate single points of failure by distributing security across a global network of independent nodes. This distributed resilience can act as a safeguard against the systemic outages and single-operator errors that frequently impact centralised legacy infrastructure. Critical centralised payment systems have suffered major outages, such as the July 2024 outage of the SWIFT network, which also caused an outage of CHAPS.

Public blockchains are historically more operationally resilient than centralised systems, offering reliable uptime through global decentralisation. When things do go wrong, public permissionless blockchains are transparent and externally analysable. Rather than a costly and interventionist assessment of private systems, the cause of failures can be identified through open-source investigation on already public data. Furthermore, they have been battle-tested in extremely adversarial environments. The open-source and transparent nature of blockchain technology allows vulnerabilities to be immediately identified by both good and bad actors, meaning they are effectively subjected to a continuous, high-stakes security audit by the world's most sophisticated actors. This survival under attack demonstrates a level of structural resilience that centralised ledgers, protected primarily by perimeter firewalls and obscurity, cannot match.

Settlement finality

Modern consensus mechanisms are rapidly moving toward deterministic finality that is orders of magnitude faster than existing securities settlement cycles (T+2). The Bank has recognised that technical finality could be translated into legal finality under the UK framework through amendments to the Settlement Finality Regulations - this would reflect the fast and externally verifiable settlement that is possible on public permissionless blockchains, and unlock the benefits of the continued innovation in this space.

The industry trajectory is clear. On the Ethereum network, the Fusaka upgrade has introduced proposer lookahead, enabling pre-confirmations that allow users of layer 2 solutions to receive guaranteed settlement in less than a second. Looking further ahead, the Ethereum roadmap includes a planned upgrade to reduce Layer 1 finality to 12-16 seconds. On Solana, where optimistic confirmation is offered in ~400ms, the network is testing the "Alpenglow" consensus upgrade, which intends to achieve fully deterministic finality in ~150ms.

We believe public permissionless ledgers are compatible with clear, targeted accountability standards that align with the treatment of existing regulated payments. The transparency and distributed nature of public blockchain operations benefits continuous resilience testing, avoids a single point of failure, and offers near-instant, externally verifiable settlement. The benefits of this innovation should be supported within the Bank's regime.

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?

Accountability is the most crucial area for regulatory focus. While the ledger itself is decentralised, the issuer is a centralised entity. The Bank should focus its supervision on

the issuer's control over the issuance process (including their governance of the mint/burn process), rather than attempting to regulate the underlying blockchain protocol itself.

Crucially, preserving the neutrality of the base layer is essential for fostering a competitive market. By regulating the issuer rather than the protocol, the Bank ensures that the underlying infrastructure remains a permissionless platform open to all developers, institutions, and businesses which is the primary driver of long-term competition and innovation.

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

The most material risk is regulatory isolation. If the Bank enforces requirements such as holding limits that are incompatible with public blockchains, UK-regulated stablecoins will lose composability - the ability to interact seamlessly with DeFi protocols, exchange/wallet infrastructure, and global liquidity. This would prevent the Bank from achieving its aim of a highly interoperable money ecosystem in the UK, and render UK stablecoins comparatively illiquid compared to dollar-denominated counterparts.

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.

We appreciate the additional detail provided on operational resilience and agree with the need for further guidance on how Codes of Practice will apply within systemic stablecoin payment systems.

We support the idea that issuers and intermediaries should be responsible for ensuring they have considered the risks associated with the technologies they utilise within their services, in line with the approach taken to existing FMIs within the Bank's remit.

We agree that systemic stablecoin issuers should be responsible for issuance functions which they outsource to third parties, however we are concerned by the ambiguous scope of potential specified service providers. Specifying 'firms providing the infrastructure to enable the operation of the ledger' risks applying operational resilience standards to the operation of blockchains, which would be extremely difficult to comply with and enforce.

We would like further specificity on the extent of coverage sought for operational resilience standards, and encourage the Bank to ensure that requirements are targeted to the aspects of stablecoin payment chains that are in the control of intermediaries, rather than attempting to regulate blockchains.

Policy Unchanged

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.

We strongly support the exploration of equivalence arrangements for non-UK based systemic stablecoins, irrespective of the currency the stablecoin is denominated in.

As Treasury's legislation limits the scope of the FCA's regime to UK-issued stablecoins, the Bank's approach risks creating significant market disruption if overseas issuers are forced to move operations to the UK. This is because an issuer of a sterling or non-sterling denominated stablecoin based overseas may have built up a customer base and had its stablecoin distributed widely across the market, and it would be counterproductive to good consumer and business outcomes were an issuer to face the significant business disruption that comes from having a new regime and forced relocation applied.

Where a regime in another jurisdiction provides for similar standards, we believe it would be disproportionate to apply a UK subsidiary requirement to the issuer. Instead, UK-based regulation can come through the regulation of UK-authorised trading platforms, intermediaries, and custodians.

The Bank proposes that systemic stablecoin issuers should not pay interest to coinholders, which it states is in line with the proposal that stablecoins should not be seen as investment products. The Bank acknowledges the possibility for rewards that may be offered by issuers and third parties, and has not yet taken a position on these. We appreciate the need for customers to be informed about the products and services they access, and it should be clear to them whether such products meet their needs. We strongly believe that this is compatible with the ability for stablecoin rewards, which allow holders to receive benefits while maintaining a clear right to redeem their stablecoins at par value. There is a demonstrable precedent for rewards on non-'investment' products, such as credit or debit card cashback, interest on savings accounts, and rewards for switching current accounts. Such rewards are also permitted in relation to electronic money products such as prepaid cards, even where interest is prohibited. These programs have been instrumental in driving adoption of products and making them

“sticky” with end-users - if we want to provide payment competition to cards for the benefit of consumers and merchants, it is imperative to allow a level playing field with regard to incentives. We strongly encourage the Bank to engage with the industry before formalising a position on rewards in its later consultation.

New Areas to Highlight

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.

We welcome the Bank’s vision for a ‘multi-money’ system with interoperability as a central objective, and are encouraged to see stablecoins and DLT recognised in the National Payment Vision. Central to effective competition is the principle of base layer neutrality. Just as net neutrality ensures internet traffic is treated equally, a permissionless architecture provides an impartial foundation that prevents dominant players from using infrastructure to block competitors or control market access. The seamless integration of stablecoins into retail payment chains would support the UK’s ambition to maintain a world-leading payments ecosystem. As the Retail Payments Infrastructure Board begins to translate this vision into practice, it is important that expertise across the ecosystem is harnessed. We stand ready to support this work.

However, there is a lack of clarity on how stablecoin payment chains will be regulated under the new regime. Many jurisdictions have already implemented regulatory frameworks for stablecoin payments and seen innovative, regulated models brought to market. Following HM Treasury’s deferral of stablecoin payments regulation, the UK risks falling behind, with payment chains falling under regulated activities designed more for cryptoasset trading than retail payments.

The Bank notes in this consultation that HM Treasury may decide to recognise service providers within systemic stablecoin chains, and bring them under the Bank’s supervision. To date, the Bank has only set out initial plans for the regulation of systemic stablecoin issuers. There is currently no detail as to which other service providers are envisaged to fall under the Bank’s remit, or how they would be regulated. Clarity here is needed to avoid unknown cliff-edge risks for a broader range of actors who may seek to innovate within the UK payments ecosystem. We encourage the Bank, HM Treasury, and other regulatory partners to focus on clear and proportionate regulation for centralised intermediaries, ensure regulation creates a level playing field between stablecoins and

other retail payment assets, and not seek to regulate the underlying infrastructure which supports stablecoin payments.

We are encouraged by the Bank's recognition of stablecoins' role in innovation within wholesale markets, including through their use as the 'cash leg' in the Digital Securities Sandbox (DSS). The technology to support stablecoins' transformative potential in wholesale markets is here, offering a low-risk opportunity to make settlement more efficient at lower cost without compromising stability. These use cases must be allowed to leave the sandbox environment, to bring the benefits of innovation to UK financial markets.

While we support the Bank's efforts alongside its regulatory partners to explore these opportunities, continued advocacy for holding limits has a chilling effect. At a time when many jurisdictions are moving quickly to harness the potential of wholesale stablecoin models, the UK must be seen as a jurisdiction through which the use of stablecoins can scale, with proportionate guardrails in place.

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

We do not believe the relevant risks for the Bank from non-sterling-denominated stablecoins are the same as those from sterling-denominated stablecoins, even where such stablecoins meet the Bank's systemic threshold. For example, non-sterling backing assets do not implicate the Bank's financial stability remit in the same way, as they involve neither UK debt markets nor sterling deposits with UK banks. The Bank should mitigate the risks associated with non-sterling stablecoins through interoperability standards rather than extraterritorial restrictions. If UK consumers or businesses seek to utilise USD stablecoins (which currently dominate the stablecoin cross-border market), the UK framework should focus on the regulation of authorised intermediaries and custodians which will be in place under the FCA's regime, and appropriate disclosure requirements for authorised trading platforms.

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. We agree that the regulation of non-UK based issuers of non-sterling stablecoins should be deferred to the home authority's regulatory and supervisory framework, and this should not prevent such stablecoins from being utilised in the UK. As noted, this would be in line with the Bank's approach to non-UK FMI's and would also align more closely with HM Treasury's position to limit the FCA's non-systemic regime to UK issuers.

We strongly advocate for a regime of deference and equivalence, avoiding double regulation while ensuring safeguards are in place. If a stablecoin is regulated by a competent authority in a comparable jurisdiction (e.g., GENIUS-compliant stablecoin in the US, MiCA-compliant stablecoin in the EU), the Bank should defer to that home authority. Layering additional UK-specific requirements on a global USD or EUR stablecoin would likely result in that issuer exiting the UK market, forcing UK users to access these assets via offshore, unregulated venues.

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

We agree with the proposed factors. Assessing 'broadly similar outcomes' should not mean seeking rule-by-rule equivalence, but focusing on outcomes such as 1:1 backing and segregation of funds. This is particularly important when considering aspects of the Bank's regime that are unique, such as holding limits, where a strict equivalence requirement would effectively act as a ban.

We also believe regulatory equivalence should account for a stablecoin's use cases and distribution model. Aspects of the Bank's systemic regime designed towards stablecoins which are retail-payment focused (such as backing requirements which assume high volumes of low value redemption requests), would not be appropriate to require of an overseas regime, were a stablecoin used only for wholesale use cases to become systemic.