



Crypto
Council for
Innovation

10 February 2026

SUBMITTED VIA EMAIL: CP-systemicstablecoin@bankofengland.co.uk

To whom it may concern,

Re: Bank of England on the proposed regulatory regime for sterling-denominated systemic stablecoins

About Global Digital Finance (GDF) and Crypto Council for Innovation

GDF and CCI are the two leading global members' associations representing firms delivering crypto and digital assets solutions. Our members span the digital asset ecosystem and include the leading global crypto exchanges, stablecoin issuers, digital asset Financial Market Infrastructure providers, innovators, and investors operating in the global financial services sector.

Together, our members share the goal of encouraging the responsible global regulation of crypto and digital assets to unlock economic potential, improve lives, foster financial inclusion, protect security, and disrupt illicit activity.

We believe that achieving these goals requires informed, evidence-based policy decisions realised through collaborative engagement between regulators and industry. It also requires recognition of the transformative potential of crypto and digital assets, as well as new technologies, in improving and empowering the lives of global consumers.

We support and encourage a comprehensive UK digital asset regulatory approach which is robust, proportionate, and pro innovation. Appropriate regulatory guardrails are crucial to ensure the continued growth of the UK ecosystem, to further attract the predominantly global industry, and to realising the goal of making the UK a digital finance hub.

The input to this response has been curated through a series of member discussions, industry engagement, and roundtables, and both GDF and CCI are grateful to their members who have taken part.

As always, we remain at your disposal for any further questions or clarifications you may have, and we would welcome a meeting with you to further discuss these matters in more detail with our members.

Yours faithfully,

Elise Soucie Watts – Executive Director – GDF

Laura Navaratnam - UK Policy Lead, CCI

Response to the Public Consultations: Executive Summary

Global Digital Finance (GDF) and the Crypto Council for Innovation (CCI) together welcome the opportunity to respond to the Bank of England's consultation on the proposed regulatory regime for sterling-denominated systemic stablecoins. Our joint response reflects extensive engagement with our respective members, which include stablecoin issuers, market infrastructure providers, financial institutions, and technology firms operating globally across both traditional and digital financial markets.

We strongly support the Bank's objective of safeguarding UK financial stability as stablecoins scale and become more embedded in payments and settlement. We also welcome several important evolutions in the Bank's proposals, including recognition of the role of short-term UK sovereign debt within reserve portfolios in conjunction with access to central bank money, and the development of liquidity facilities to support systemic issuers. These elements provide a constructive foundation for a world-leading systemic stablecoin regime.

However, our response identifies a set of conceptual and calibration issues which, if left unaddressed, risk undermining the regime's stated objectives by misdiagnosing where liquidity risk actually arises in mature stablecoin ecosystems and by inadvertently introducing new sources of financial-stability risk.

Key themes arising across our response include the need to draw clearer distinctions between:

- Liquidity and solvency;
- Business-as-usual conditions and stress or resolution scenarios and
- Redemption and conversion as distinct economic mechanisms.

The Bank's proposals, in their current form, implicitly assume that large-scale redemption at the issuer level is a business-as-usual outcome; and hence reserve composition, intraday redemption expectations and holding limits are calibrated accordingly. In practice, this does not reflect how stablecoins function at scale. Under normal conditions, users predominantly exit stablecoins through conversion via intermediaries, with liquidity distributed across market makers, payment service providers, and exchanges. Redemption, in contrast, operates as a legal and prudential mechanism to anchor confidence and secondary market pricing, and is, in practice, exercised sparingly in the context of overall market issuances. Please see our attached Annex with data on use cases as well as redemption.

Designing the systemic regime around a presumption of instantaneous, large scale redemption in BAU risks concentrating liquidity demands at the issuer, incentivising permanent immobilisation of central bank cash, and amplifying procyclical pressures in stress. It also risks conflating liquidity timing challenges with solvency risk in a context where systemic stablecoins are fully backed by high quality liquid assets.

We therefore recommend a recalibration that:

- Focuses reserve requirements on asset quality, resilience, and credible access to liquidity facilities, rather than assuming mass redemption in business-as-usual conditions.

- Explicitly distinguishes business-as-usual liquidity management from stress and resolution scenarios, with different supervisory expectations applying to each.
- Recognises conversion as the primary exit mechanism under normal conditions, with redemption preserved as a credible, clearly disclosed backstop.
- Aligns more closely with established financial stability principles that prioritise orderly asset disposal over forced liquidation.

We also emphasise the importance of regulatory continuity between the FCA and Bank of England regimes. The transition from non-systemic to systemic status should operate as a proportionate uplift in supervisory intensity and resilience requirements, rather than requiring firms to fundamentally redesign reserve models, redemption mechanics, or trust structures at the point of success. Abrupt step changes risk creating cliff edges that deter onshore scale and weaken the UK's influence over sterling-denominated digital money.

Finally, we highlight that reserve design choices have wider implications beyond issuer-level risk management. A well-calibrated systemic regime can support sterling's role in global financial markets, create stable demand for short-dated UK government debt, and reinforce the UK's broader digital finance strategy. Overly restrictive calibration, on the other hand, risks foregoing these benefits without commensurate gains in financial stability.

Taken together, we believe the Bank's proposals represent a welcome evolution and a strong baseline for calibration. With targeted refinements that better reflect how stablecoins function in practice, the systemic regime can achieve its objectives: protecting financial stability, safeguarding coinholders, and enabling viable, well-regulated sterling stablecoin issuance at scale.

Response to consultation questions

Question 1: 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?

In summary, we support the Bank's revised proposal to allow a mix of central bank deposits and short-term UK sovereign debt as backing assets for systemic stablecoins and welcome the move away from an exclusively unremunerated deposit model. However, we consider that the proposed calibration places too much weight on immediate redemption and cash immobilisation, and not enough on how liquidity is actually managed in mature stablecoin ecosystems. In our view, a more proportionate approach would be to combine high-quality liquid assets with credible access to liquidity facilities and clearer differentiation between business-as-usual and stress scenarios. This would better protect financial stability, safeguard coinholders, and support the commercial viability of systemic sterling stablecoin issuance.

In particular, access to central bank money as part of the reserve framework is a welcome and important feature of the systemic regime, offering a materially safer and more robust alternative to reliance solely on commercial bank deposits for liquidity management - the justification for mandating central bank reserves to be held on an unremunerated basis is not entirely clear, particularly in circumstances where it might appear to be more appropriate to incentivise the use of central bank reserves as the most liquid and stable form of backing.

Moreover, it is important to be precise about the financial stability risks that the proposed backing assets are intended to mitigate, and those they may themselves introduce. Short-term UK sovereign debt carries negligible credit risk, but it is not entirely risk-free from a financial stability perspective. [While short-dated gilts and Treasury Bills are high-quality liquid assets, secondary market liquidity in these instruments, especially at scale, can be limited in normal conditions and impaired during stress. If in the unlikely event one or more systemic issuers were required to liquidate significant portions of their gilt holdings simultaneously, this could amplify procyclical dynamics]. That said, it is worth noting demand for short-dated gilts from systemic stablecoin issuers would only account for a relatively limited share of the overall market, and a sudden and material increase in sovereign debt demand is not expected.

From the perspective of coinholders, the primary risk in a financial stability event involving a fully backed stablecoin is therefore not loss of value arising from insolvency, but rather the timing and mechanics by which par value is realised. In stress scenarios, coinholders may face temporary price dislocations in secondary markets, or delays in redemption as assets are monetised in an orderly way. These are fundamentally liquidity-timing risks, not solvency risks, provided the reserve assets are high quality and remain intact. The regulatory objective in such circumstances should be to ensure that all coinholders can ultimately be made whole within a reasonable and clearly disclosed timeframe, rather than assuming or requiring instantaneous liquidation of the entire reserve under all conditions. We note that liquidity risk is one of several fundamental risks that directly arise or are exacerbated by the requirement that issuers redeem for all holders on T+0 or T+1 basis rather than being permitted to manage

redemption through controlled timeframes and fees, as is the case for well-tested and proven stablecoins such as USDC and USDT. Please see our attached Annex with data on use cases as well as redemption.

The Bank's proposal recognises these realities in important ways. In particular, the accompanying proposed measures relating to access to liquidity lines and the ability for issuers to repo out backing assets represent genuine innovations. They acknowledge both the structural characteristics of UK gilt markets and the practical need for mechanisms that allow issuers to meet large, short-term liquidity demands without resorting to disorderly sales. Lending against high-quality collateral, rather than forcing outright liquidation, is a well-established and effective tool for managing liquidity stress while preserving market stability.

However, there is a potential inconsistency in how these tools would operate in practice if the regime assumes that very large redemption volumes, such as redemptions approaching 40% of outstanding supply, constitute a boundary between BAU conditions and recovery or resolution. Redemption requests at that scale should not be treated as a normal liquidity management problem. They are a clear signal of stress and loss of confidence, and they warrant a different regulatory response, including supervisory engagement, extended redemption timelines, and orderly wind-down mechanisms. If an issuer is already expected to enter recovery or resolution processes once redemptions reach that magnitude, then the practical opportunity to deploy liquidity lines or repo facilities may arise too late, undermining the purpose of having those tools available in the first place.

This points to the importance of clearly distinguishing between BAU liquidity management and stress or resolution scenarios. In BAU conditions, a fully backed systemic stablecoin issuer may need access to intraday or short-term liquidity to manage predictable redemption flows and settlement frictions. In these circumstances, central bank deposits and market-based liquidity tools can play an effective role. In stress or resolution scenarios, by contrast, the overriding priority should be ensuring that the issuer remains solvent and that coinholders are made whole over time. For a fully-backed stablecoin, solvency and liquidity are distinct concepts: an issuer can be solvent - holding assets equal to or exceeding liabilities - while still being unable or unwilling to liquidate those assets immediately without causing wider harm (and, in the process, adversely impacting not only the market for and price of those assets but also the coinholders themselves). In such cases, allowing assets to mature to their maximum tenor, or bridging liquidity gaps through secured lending facilities, is often the safer and more stable course.

A key consideration in assessing reserve composition and liquidity calibration is the distinction between conversion and redemption, and how their roles evolve as a stablecoin becomes widely used and potentially systemic. Redemption involves stablecoins being returned to the issuer and extinguished, with backing assets mobilised to meet claims at par. It is a fundamental legal and prudential safeguard that anchors confidence and supports arbitrage, but it is operationally intensive and directly concentrates liquidity demands on the issuer and backing assets for these reasons, redemption is best understood as a liquidity and stability backstop rather than a routine liquidity channel for end-users, particularly as scale increases.

Conversion, by contrast, refers to the exchange of stablecoins into other forms of money - such as commercial bank deposits or other stablecoins - via intermediaries including payment service providers,

exchanges, and market makers. Conversion does not require backing assets to be liquidated and does not impose liquidity demands on the issuer. Instead, liquidity is distributed across the market and managed by intermediaries that are structurally designed to absorb flows and settlement risk. In practice, conversion is the dominant mechanism through which users enter and exit stablecoins under BAU conditions, and this tendency strengthens as a stablecoin becomes more embedded in the payments ecosystem and begins to function as money in its own right.

This distinction matters directly for the Bank's proposed reserve calibration. A framework that implicitly assumes large-scale redemption as a business-as-usual outcome and imposes an artificial T+0 redemption timeframe will naturally drive high requirements for immediately available central bank money, such as the proposed 40% unremunerated deposit requirement. However, this risks misdiagnosing where liquidity is actually managed in an effective stablecoin ecosystem. Where conversion is the primary channel for routine outflows, liquidity pressures are absorbed across intermediaries rather than concentrated at the issuer, reducing the likelihood that reserve assets must be mobilised en masse and lowering the risk of disorderly asset sales.

In this context, redemption, together with the quality and stability of backing assets, plays a different but crucial role in preserving confidence and the singleness of money. The credible right to redeem at par anchors secondary market prices, because intermediaries who provide conversion can rely on redemption as a liquidity backstop, even if it is exercised at relatively low volumes in normal conditions. Designing the systemic regime around redemption from this perspective allows reserve requirements to focus on asset quality, resilience, and credible access to liquidity facilities, rather than permanently immobilising large volumes of unremunerated cash. This approach better reflects how money-like instruments function at scale and supports financial stability without inadvertently creating new sources of stress.

Against this backdrop, the proposed requirement to hold 40% of reserves as unremunerated central bank deposits does not strike the right balance between financial stability and commercial viability. Unremunerated reserves impose a significant and ongoing economic cost on issuers, particularly where reserve income is the primary means of funding operations, technology investment, compliance, and resilience. Over-reliance on unremunerated cash also risks crowding out more efficient reserve structures, even where high-quality liquid assets could safely fulfil the same role if supported by appropriate liquidity facilities.

We would therefore encourage the Bank to consider a more proportionate calibration. One approach would be to require a smaller proportion of reserves to be held as deposits at the Bank of England, sufficient to meet routine liquidity needs and settlement obligations. The remainder could be held in commercial bank deposits (which would be held on a remunerated basis), and short-dated UK sovereign debt and other forms of HQLA, including a portion of commercial bank deposits, explicitly supported by robust and credible mechanisms for repo, secured lending, and access to liquidity lines. This combination would preserve the safety and integrity of the reserve pool, enhance the issuer's ability to meet redemption demands without destabilising markets, and materially improve the commercial sustainability of systemic stablecoin issuance. Please see our attached Annex with data on use cases as well as redemption. This approach would also better align with emerging frameworks around the world for the treatment of stablecoins, thereby better positioning the UK to encourage stablecoin growth and

innovation. (Permitting commercial bank deposits would also materially reduce the deposit flight risk that drives the proposed holding limits.)

As an alternative or complementary approach, we would also support permitting a portion of central bank reserves to be held on a remunerated basis. Allowing remuneration on a portion of deposits held at the Bank of England would materially mitigate the ongoing commercial viability concerns associated with large unremunerated reserve balances, while preserving the full financial stability benefits of central bank money. Fundamentally, we are supportive of systemic stablecoin issuers having access to central bank reserves; ensuring that such access is economically neutral would better align incentives, reduce distortions in reserve design, and support sustainable onshore issuance without compromising safety.

Approaches such as these would also better align the systemic regime with the broader structure of UK financial regulation, in which liquidity risk is managed through a combination of HQLA, central bank facilities, and supervisory oversight, rather than through the permanent immobilisation of large volumes of unremunerated cash. Crucially, it would reinforce the distinction between liquidity support in BAU conditions and orderly resolution in extreme stress, reducing the risk that regulatory design itself becomes a source of instability.

We also note that reserve composition choices have implications beyond issuer risk management. International experience demonstrates that well-regulated stablecoins can become significant, stable holders of short-dated sovereign debt, creating structural demand for domestic government securities. A framework that permits an appropriate share of short-term UK gilts within systemic stablecoin reserves can therefore reinforce sterling's role in digital markets, deepen gilt market liquidity, and support the UK's broader digital finance strategy, provided this is combined with robust liquidity management tools and clear recovery and resolution arrangements. Overly restrictive reserve calibration risks foregoing these wider benefits without commensurate gains in financial stability.

The Bank's proposal is a strong and constructive foundation. With clearer differentiation between liquidity and solvency, more explicit recognition of BAU versus recovery scenarios, and a more proportionate calibration of unremunerated central bank reserves alongside effective liquidity facilities, the regime can better achieve its stated objectives: protecting financial stability, safeguarding coinholders, and enabling viable, well-regulated systemic stablecoin issuance in sterling.

Absent further calibration, issuers may need to consider how best to absorb the economic cost of non-remunerated or immobilised reserves. In some cases, this could translate into adjustments to pricing structures (for example, transaction pricing or limited cost-recovery charges). We highlight this not as a preferred direction, but as a potential secondary effect that could reduce transparency and increase friction for users compared with a model that supports low-cost, high-utility payments.

The more proportionate calibration discussed above should be coupled with more flexible redemption timeframes that reduce liquidity risk and better reflect the safer mechanics of stablecoin ecosystems in which conversion is primary on/off ramp.

More broadly, GDF and CCI are concerned that the cumulative effect of the Bank's proposals, including reserve calibration, holding limits, intraday redemption expectations, and step-up dynamics, risks creating a chilling effect on issuance and scale. Taken together, these measures may disincentivise firms from launching or growing GBP-denominated stablecoins in the UK, encouraging activity to remain offshore or migrate to jurisdictions with more proportionate systemic regimes. This would undermine the UK's competitiveness objectives and weaken the case for sterling to play a meaningful role in the next generation of digital payment and settlement infrastructure. It could also have the unintended consequence of increasing risk by driving market participants to less safe offshore alternatives.

Question 2: Do you have comments on the step-up regime as a way of supporting innovation while mitigating financial stability risks?

A core principle of proportionate regulation is that similar economic functions and risks should be subject to similar regulatory outcomes, with additional safeguards layered on as scale and interconnectedness increase. The transition from non-systemic to systemic status should therefore operate as an uplift to an existing issuer regime, not a shift into an entirely separate construct that requires firms to fundamentally redesign reserve models, liquidity arrangements, or redemption mechanics mid-flight.

We consider it important to distinguish between the step-up regime as a conceptual pathway from the FCA's stablecoin framework to the Bank's systemic regime, and the individual calibration mechanisms proposed within that regime. Measures such as the 95% reserve scaling option for issuers designated systemic at launch are best understood as risk-management tools operating within a step-up framework, rather than as the step-up regime itself. Maintaining this distinction is critical to avoiding unintended cliff edges and preserving regulatory continuity as firms scale. For the purposes of our response, we are providing comment on the step-up regime as a conceptual pathway, referring specifically to glide path mechanisms like the 95% explicitly as appropriate.

From a UK competitiveness perspective, abrupt step changes risk deterring firms from scaling within the UK regulatory perimeter, encouraging artificial caps on issuance or relocation offshore. The Bank's systemic regime should operate as a proportionate uplift to the FCA framework, rather than as a fundamentally new or discontinuous regime. While specific features of the Bank's proposals such as reserve concentration requirements or the 95% reserve scaling option for issuers designated systemic at launch may function as tools within a step-up regime, they should not be conflated with the step-up concept itself. The UK's strategic advantage lies in creating a coherent regulatory pathway that enables firms to scale responsibly within the perimeter, rather than forcing structural redesign at the point of success. A step-up model that builds on FCA authorisation - by increasing supervisory intensity, resilience requirements, and recovery and resolution expectations as scale and interconnectedness grow - would preserve regulatory continuity, reduce transition risk, and support innovation and competition. In contrast, introducing a materially different regime at the point of systemic designation risks creating cliff edges, distorting incentives to scale in the UK, and undermining the very objective of developing globally competitive, sterling-denominated digital money. An uplift approach ensures that systemic safeguards are strengthened where they matter most, while maintaining consistency across regimes.

Building on this, while we welcome the Bank's recognition that financial stability risks may be lower for issuers designated systemic at launch, we remain concerned that the proposed step-up regime risks creating a material cliff edge in practice. In particular, the way in which certain calibration features like the 95% scaling option interact with materially different backing asset requirements risks being perceived as redefining the regime itself rather than operating as a transitional mechanism within a coherent step-up framework. The divergence between the FCA and Bank backing-asset regimes risks forcing issuers to undertake fundamental and potentially disruptive changes to their reserve composition, liquidity management, and revenue models at the point of designation. For many firms, especially those whose commercial viability is closely linked to returns on reserve assets, such abrupt shifts would not be operationally or economically feasible.

This risk is heightened by the current misalignment between the FCA's proposed allowance of cash, short-dated government securities, reverse repos and MMFs, and the Bank's significantly narrower approach for systemic issuers, focused on central bank deposits and a limited set of HQLA. Absent greater alignment or a clear transition pathway, issuers may be unable to plan for sustainable growth under the Bank's regime based on financial performance achieved under the FCA framework. The consequence may be that firms seek to constrain issuance artificially, delay scaling, avoid systemic designation, or be deterred from entering the UK market altogether, undermining the UK's innovation and competitiveness objectives and discouraging onshore issuance.

From an industry perspective, there remains limited clarity as to why the FCA's backing-asset framework is not considered sufficiently safe and proportionate as a baseline for systemic issuers, particularly where additional safeguards, such as enhanced stress testing, mobilisation limits, recovery planning, or supervisory overlays, could be applied. Retaining optionality for the Bank to impose more restrictive reserve requirements where warranted, rather than mandating a wholesale redesign of reserve models by default, would be more consistent with the conceptual purpose of a step-up regime. This approach would also materially reduce cliff-edge effects while preserving financial stability outcomes. We also note that international experience over the coming months is likely to generate valuable empirical evidence on the performance of different reserve models at scale, which could usefully inform calibration.

We therefore strongly encourage the Bank to consider a more explicit and graduated glidepath between the FCA and Bank regimes. In doing so, it would be helpful to clearly distinguish between the existence of a step-up framework and the specific calibration choices applied within that framework at any given point. One potential approach would be to permit remunerated central bank deposits and to set a minimum proportion of reserves to be held in these instruments, with that proportion increasing progressively as the issuer scales or as systemic risks crystallise. This would allow firms to adapt their balance sheets and business models over time, provide greater predictability to investors, and avoid destabilising step-changes at the point of designation. Such a glidepath could also deliver stronger financial stability outcomes than alternative international approaches that rely more heavily on commercial bank deposits, which may amplify contagion risks between stablecoins and the banking sector.

Finally, clarity around the designation process itself remains critical. Firms require transparent guidance on the metrics and transaction scopes used to assess systemic thresholds, the sequencing of designation

decisions, and the expected timelines for compliance with Bank requirements. Feedback from market participants suggests that uncertainty around designation and transition costs is already acting as a deterrent to investment. Given the significant negative commercial consequences of entering the Bank's regime, without greater predictability, there is a material risk that GBP-denominated stablecoin issuance migrates offshore, including by firms already established in other jurisdictions where the incentives to issue onshore are more closely aligned with the associated regulatory and commercial costs. We would encourage specific clarity in further guidance and policy statements around what constitutes systemic, the specific criteria for systemic designation, and expected compliance timeline once a participant is deemed "systemic". Indicative thresholds used by the PRA in relation to bank insolvency mechanisms provide an illustration of the type of guidance that could be helpful.

Question 3: 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?

We agree in principle with the Bank's objective of adopting a risk-based approach to mitigating risks to issuers and coinholders. However, for fully reserve-backed systemic stablecoin issuers, it is essential that capital and reserve requirements are calibrated to address distinct risk drivers, and that capital is not used to substitute for deficiencies in reserve quality, liquidity effectiveness, or legal segregation. If these tools are not clearly differentiated, there is a risk of internal inconsistency and unnecessary duplication within the regime.

For a systemic stablecoin that is fully backed and whose reserve assets are legally segregated for the benefit of coinholders, the primary line of defence for coinholders is the reserve itself, not the solvency of the issuer. Where reserves are held on trust or through an equivalent arrangement, coinholders should be insulated from issuer credit risk. In this context, capital should not be expected to absorb losses arising from reserve valuation movements or liquidity stress. Using issuer capital to address reserve shortfalls risks undermining the legal separation between the issuer and the reserve pool, creating ambiguity over loss allocation and potentially weakening confidence in resolvability outcomes.

The central financial stability issue for systemic stablecoins is therefore liquidity under stress rather than solvency, provided reserves are of high quality and remain intact. Reserve requirements should be designed to ensure that coinholders can be made whole in an orderly manner, including in stress scenarios, without forcing disorderly liquidation of assets. This includes allowing for realistic redemption timelines for asset monetisation, supported where appropriate by secured funding, repo, or central bank liquidity facilities. Capital should play a different role: absorbing losses to ensure that the issuer can continue to operate through periods of disruption, meet operational and legal obligations, and execute recovery or orderly wind-down plans without impairing the reserve.

Against this backdrop, we consider an alternative framework to be more appropriate for systemic stablecoin issuers. This could focus on reserve sufficiency and liquidity effectiveness, including conservative eligibility criteria for backing assets, concentration limits, valuation and haircutting frameworks, transparency and disclosure, and credible access to liquidity tools to manage stress without

generating procyclical market impacts. This could then be the primary mechanism through which coinholder protection and financial stability objectives are achieved.

We would also caution that overly conservative or duplicative capital calibration, when layered on top of full reserve backing and restrictive liquidity constraints, may have unintended systemic effects, including concentration of issuance among a small number of large incumbents and reduced diversity of payment providers. From a financial stability perspective, resilience is enhanced not only through buffers, but through a competitive and well-distributed issuer landscape operating within a clear and coherent supervisory framework.

In summary, we support a risk-based approach to capital, but only where it is clearly focused on issuer-specific, non-reserve risks and supports effective recovery and resolution. Coinholder protection should be delivered primarily through reserve quality, legal segregation, and liquidity effectiveness, with capital acting as a complementary tool to ensure operational resilience and orderly resolvability. This approach better reflects the economic characteristics of systemic stablecoins and delivers more coherent and proportionate financial stability outcomes.

Question 4: 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 support the Bank's proposal to require ring-fencing of reserve assets, and we see strong alignment with the FCA's stablecoin framework. We encourage the Bank to build on that foundation by maintaining an outcomes-based approach, ensuring operational clarity in insolvency, and preserving flexibility where equivalent protections can be demonstrated. Doing so will enhance coinholder protection, support credible resolvability, and ensure a coherent and proportionate UK regulatory framework for stablecoins as they scale toward systemic importance.

We agree that reserves of liquid assets backing systemic stablecoins should be legally segregated and ring-fenced from the general estate of the issuer, such that coinholders are protected in the event of issuer failure or insolvency. This objective is fundamental to maintaining confidence, preserving par value, and supporting orderly outcomes in stress. In this respect, the Bank's proposal is fully aligned with the approach taken by the FCA in its stablecoin regime, and we strongly support maintaining that alignment as firms transition from non-systemic to systemic status.

We would emphasise that the supervisory objective should be effective insolvency remoteness and timely access to reserves for coinholders, rather than mandating a single legal form. Where trust structures or equivalent safeguarding arrangements demonstrably deliver the same outcomes - legal segregation, bankruptcy remoteness, and orderly administration in wind-down - they should be treated as functionally equivalent across both FCA and Bank regimes. This approach supports domestic coherence while also facilitating international interoperability and mutual recognition over time.

Under the FCA's framework, the core policy outcome is that backing assets are held for the benefit of coinholders, are insolvency-remote, and are available solely to meet redemption claims. The statutory trust is one means of achieving this outcome, but the FCA has been clear that the regulatory objective is effective segregation and protection, rather than adherence to a single legal form. We believe this outcomes-based approach should be preserved at the systemic level, to ensure continuity between regimes and avoid unnecessary disruption as firms scale.

From a financial stability and resolvability perspective, the effectiveness of a trust or equivalent arrangement depends not only on legal segregation, but also on operational clarity in failure scenarios. The Bank's systemic regime is therefore an opportunity to strengthen the FCA framework by explicitly addressing how ring-fenced reserves are accessed, administered, and distributed in practice if an issuer fails. This includes clarity on beneficiary treatment for both direct and intermediated holders, evidencing and validation of claims, and the powers of trustees or reserve administrators to manage an orderly wind-down. These elements are essential to ensuring that segregation delivers real, timely protection rather than merely formal legal separation.

We also encourage the Bank to ensure that trust arrangements are designed in a way that enhances resilience rather than introducing fragility. In particular, allowing modest operational buffers or over-collateralisation within the ring-fenced structure can improve robustness against timing mismatches, valuation movements, or costs associated with wind-down, without undermining the fully backed nature of the stablecoin. Similarly, consistent with the FCA's approach, there should be legal clarity that income generated on reserve assets may be retained by the issuer (subject to disclosure), without creating beneficiary rights to yield or recharacterising the stablecoin as an interest-bearing product.

Crucially, we do not consider the existence of a trust or ring-fenced reserve to be a substitute for credible failure preparedness. Both the FCA and the Bank recognise that stablecoin issuers should be able to exit the market in an orderly manner without loss to coinholders or disruption to the wider system. To that end, trust arrangements should be complemented by proportionate requirements for pre-positioned wind-down planning, operational continuity, and clear governance over reserve administration in insolvency. These measures materially reduce the likelihood that a failure becomes disorderly, and they support the Bank's financial stability objectives without relying on bank-like depositor protection models.

Where alternative legal mechanisms can demonstrably achieve the same outcomes (namely insolvency remoteness, exclusive availability of reserves to coinholders, and effective administration in failure), we believe the Bank should retain discretion to recognise such arrangements, consistent with the FCA's approach. This flexibility is particularly important for cross-border groups and for ensuring that firms are not forced to restructure unnecessarily as they move into the systemic regime, provided equivalent protections are in place.

We would also encourage the Bank to explicitly confirm alignment with the FCA's stablecoin regime in its final framework, particularly in relation to the objectives and design of trust or equivalent segregation arrangements. Clear confirmation that the Bank and the FCA are pursuing the same outcomes - namely insolvency remoteness, exclusive availability of reserves to coinholders, and credible, orderly wind-down

- would provide important legal and supervisory certainty to firms as they scale toward systemic status. Such alignment would reduce transition risk, avoid duplicative or conflicting structural requirements, and reinforce the UK's position as a coherent and proportionate jurisdiction for regulated sterling-denominated stablecoins.

Question 5: Do you have views on our proposal for calibrating capital for general business risk?

GDF and CCI support the inclusion of capital to address general business risk for systemic stablecoin issuers, but only where it is clearly focused on issuer-specific operational and execution risks, aligned with the FCA's prudential framework, and calibrated in a transparent, proportionate, and progressive manner that avoids duplicating reserve and liquidity safeguards.

We agree that a calibrated capital requirement for general business risk (GBR) is appropriate for systemic stablecoin issuers, provided it is clearly targeted at the risks it is intended to mitigate and is coherent with the prudential approach applied by the FCA to stablecoin issuers at the non-systemic stage. Even where coinholders are protected through fully backed, ring-fenced reserves, the issuer remains exposed to operational, legal, and execution risks that could impair service continuity or the orderly management of stress and failure. Capital held against these risks therefore plays an important role in supporting financial stability and credible resolvability.

Consistent with both the FCA's prudential proposals and our response to them, we consider that the primary purpose of GBR capital should be to ensure that an issuer can continue operating through disruption and execute an orderly recovery or wind-down, rather than to absorb losses associated with reserve assets. In practice, this includes the ability to meet costs arising from operational incidents (including cyber events, systems outages, fraud, or processing errors), legal and compliance actions (including remediation and enforcement), third-party or outsourcing failures, and the administrative, communications, and execution costs associated with an orderly wind-down. This mirrors the FCA's use of fixed overhead-style buffers to fund continuity and wind-down and reflects a shared understanding across regimes of what capital is intended to achieve in a fully backed model.

We note and welcome the Bank's clarification that, to avoid doubt, general business risk capital is not intended to cover financial risks associated with backing assets. It is therefore important to be clear about what GBR capital should not be expected to do. In a fully reserve-backed stablecoin framework, capital should not be calibrated to absorb reserve valuation or liquidity risks, nor should it be used to compensate for deficiencies in reserve quality, segregation, or liquidity arrangements. Those risks are more appropriately addressed through strict reserve eligibility criteria, conservative valuation and reconciliation practices, robust liquidity management tools, and legal ring-fencing. Allowing GBR capital to function as a de facto buffer for reserve risk would introduce duplication, blur the distinction between issuer risk and coinholder protection, and cut across the logic underpinning both the FCA and Bank regimes.

Taking this logic forward, we would encourage the Bank to ensure that this distinction is preserved not only in principle but in calibration, such that capital requirements are not indirectly increased to address backing-asset risks that are already mitigated through the reserve and liquidity framework.

In line with our position on the FCA prudential framework, we therefore consider that a simple, transparent calibration approach is most appropriate. This would comprise a clear baseline requirement, such as a fixed overheads or operating-expense-based buffer, designed to demonstrably fund business continuity and orderly wind-down over a defined period. This baseline could then be supplemented by risk-sensitive supervisory add-ons, calibrated to observable factors such as operational complexity, reliance on critical third-party providers, intragroup dependencies, governance and control weaknesses, incident history. Such an approach directly links capital to the risks it is intended to mitigate and avoids the blunt effects associated with volume-based or reserve-linked capital charges.

This approach also supports regulatory coherence and proportionality across the FCA and Bank frameworks. As issuers transition from the FCA regime into the systemic perimeter, GBR requirements should represent an uplift in intensity and supervisory scrutiny, rather than a fundamental change in the role that capital plays within the stablecoin business model. Abrupt or duplicative increases in capital requirements (particularly when layered on top of full reserve backing, restrictive liquidity constraints, and ring-fencing) risk distorting incentives, discouraging responsible scaling within the UK perimeter, and concentrating issuance among a small number of incumbents without delivering commensurate financial stability benefits.

Finally, we encourage the Bank to articulate clearly how GBR calibration interacts with recovery and resolution expectations, including the role of pre-positioned wind-down planning and operational continuity arrangements. Framing GBR capital explicitly as a tool to support continuity, recovery, and orderly exit, consistent with the FCA's prudential logic, would enhance clarity, reduce the risk of double counting, and strengthen confidence in the coherence of the UK's systemic stablecoin regime.

Question 6: Do you have views on calibrating the reserve requirements for insolvency/wind down?

We broadly support the Bank's proposal to require a dedicated reserve to cover the costs and risks associated with an orderly insolvency or wind-down of a systemic stablecoin issuer. A wind-down reserve held on trust would provide an important safeguard by ensuring sufficient resources are available to maintain essential functions, particularly redemption processing and core administration, following issuer failure, thereby reducing the likelihood that operational disruption or delays could harm coinholders or amplify wider confidence effects.

We also welcome the Bank's proportionate and flexible approach to calibration. In particular, we support allowing issuers latitude to size wind-down reserves by reference to their own operating models and independently verified wind-down cost estimates. This appropriately recognises that wind-down costs will vary materially depending on factors such as business complexity, degree of outsourcing, automation, and the ongoing cost base of the issuer, and that firms with leaner operating models and simpler structures should not be required to hold excessive reserves by default.

To ensure the requirement is calibrated effectively, the reserve should be sized to credibly cover foreseeable wind-down costs, including maintaining operational systems, staffing, and critical third-party

services for a defined period while redemptions are completed and assets distributed. The Bank could support consistency and predictability by providing guidance or an indicative methodology for estimating these costs, while preserving scope for firm-specific assessment and supervisory judgement.

At the same time calibration should also be assessed as part of the overall prudential package to avoid unnecessary duplication and to ensure that different requirements are appropriately targeted at distinct risks. In particular, there is a risk of overlap between wind-down reserves required to maintain critical services during orderly wind down, and capital held for general business risk. For example, the reference in PFMI 15 to six months of operating expenses appears to be intended to ensure that an entity has sufficient resources to support recovery actions or an orderly exit, though the Bank draws on this in the context of capital held against general business risk. We would welcome additional clarity on the distinction between capital held for loss absorption and resources earmarked for wind-down continuity.

Taking the Bank's proposals as a whole, including general business risk capital, wind-down reserves, high unremunerated reserve requirements, and other prudential constraints, there is a risk that cumulative conservatism leads to excessive capital and liquidity immobilisation relative to the risks being mitigated. From a GDF and CCI perspective, this raises concerns around proportionality and international competitiveness. Absent careful calibration and avoidance of duplication, the UK regime may be perceived as materially more expensive than comparable frameworks elsewhere, potentially discouraging issuers from scaling or entering the GBP systemic stablecoin market in the first place.

Question 7: Do you have any other comments or suggestions on the proposals on the major policy revisions set out in Section 2.2?

A further point where additional clarity would be valuable is the approach to redemption fees. We understand the Bank's expectation that redemptions should be free of charge wherever feasible, while recognising that narrowly scoped, cost-reflective fees may be appropriate in limited cases. More explicit guidance on what qualifies as proportionate cost recovery would promote consistent application across firms and reduce uncertainty in interpretation.

Redemption fees should be permitted to reflect redemption dynamics. Many, indeed, most, direct customers of the issuer will bulk issue and redeem rather than making high volume low value regular redemption requests. This is how the stablecoin ecosystem is designed, in order to minimise liquidity pressure on the issuer and ensure orderly reliable redemptions. Both the leading stablecoins, USDC by Circle and USDT by Tether, issue and redeem for onboarded customers who represent only a fraction of one percent of total stablecoin holders. Permitting tiered and premium fees would support issuer liquidity management, which directly mitigates financial stability risk. It would also promote additional revenue sources for the issuers, reducing reliance on backing assets.

Question 8: 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?

GDF and CCI recognise and support the Bank's objective of safeguarding financial and monetary stability, including mitigating the risk of large and rapid deposit outflows from the banking sector during a disorderly transition to widespread adoption of systemic stablecoins. We also acknowledge that, in principle, transitional tools such as holding limits may offer a mechanism to manage uncertainty during early phases of scaling. That said, we have significant concerns regarding the operational feasibility, proportionality, and longer-term effectiveness of the proposed limits, particularly as currently calibrated. To further support the below points set out, please see our attached Annex with data on use cases as well as limits.

Operational and implementation challenges

First, the practical implementation of per-coin holding limits presents material operational complexity for issuers and ecosystem participants. Tracking and enforcing limits across wallets, intermediaries, and use cases, particularly where users may hold stablecoins across multiple custodians or self-hosted wallets, raises significant challenges around data aggregation, monitoring, and enforcement. These challenges are magnified for multinational businesses and group treasury operations, where balances may routinely and legitimately exceed the proposed £10 million threshold, even absent any consumer-facing or deposit-substituting activity.

Second, there are non-trivial privacy and data-governance considerations. Comparable regimes in other jurisdictions have demonstrated that enforcing individual-level limits can require intrusive monitoring, complex identity-linkage mechanisms, or centralised tracking infrastructures, all of which risk creating unintended privacy harms and compliance burdens that are disproportionate to the risks being mitigated.

Third, from a commercial and usability perspective, low or rigid limits risk materially constraining legitimate payment, treasury, and settlement use cases. For enterprises, particularly those using stablecoins for intra-group liquidity management, cross-border payments, or operational settlement, a £10 million cap is unlikely to be workable in practice. For individuals, low limits may undermine consumer confidence and adoption, especially where functionality is perceived as materially inferior to economically equivalent instruments.

Comparability and consistency with economically similar instruments

We also note that the proposed limits appear difficult to reconcile with the treatment of other liquid, low-risk instruments, such as money market funds, e-money, or narrow-bank structures, which are similarly backed by high-quality liquid assets but are not subject to equivalent holding caps. While we understand the Bank's concern about deposit outflows, the primary differentiator in this context appears to be the technology used, rather than a demonstrably higher risk profile. Moreover, as payment stablecoins under both the FCA and Bank frameworks are envisaged to be non-yield-bearing, commercial banks retain a structural advantage through deposit remuneration, which should naturally constrain large-scale substitution absent other factors. In addition, the deposit outflow risk stems solely from the Bank's own

policy choices. If the Bank permitted backing to include a portion of commercial bank deposits, it would alleviate the risk of deposit outflow.

Evidence, proportionality, and future recalibration

Importantly, available data from other jurisdictions does not currently support the conclusion that regulated, non-systemic stablecoins have driven material or destabilising deposit outflows from the banking sector. While we appreciate the Bank's desire to act prudently in the face of uncertainty, we believe this underscores the importance of an evidence-based and revisitable approach.

In this context, we note that there do not currently appear to be systemic stablecoin issuers poised to launch in the UK in the near term. We would therefore strongly encourage the Bank to commit explicitly to reviewing the calibration, necessity, and duration of holding limits as market data emerges. Should concerns around deposit outflows not materialise, particularly based on observed behaviour under the FCA regime, we believe there should be a clear pathway to loosening and ultimately removing such limits.

Alternative and complementary tools

We also encourage the Bank to continue exploring alternative tools, including those we have set out throughout our response, that may better target the underlying risks without constraining privacy, usability or innovation.

In particular, we would be supportive of the Bank of England committing explicitly to how they can monitor changes, such as volatility, duration of holding, amount of holding, of stablecoin holdings in omnibus wallets. This data is far more readily available at the level of the owner/controller of the omnibus wallet as well as at the level of wallet-as-a-service provider. This kind of instantaneous visibility, which leverages inherent features of the blockchain technology combined with privacy preserving approaches, can serve as a signal to if and where risk of stablecoin holdings may be accumulating.

In addition to enhanced monitoring of aggregate flows, rather than individual holdings, the Bank could consider targeted stress testing, mobilisation limits linked to growth phases, or supervisory triggers tied to specific risk indicators. These could also include waiver mechanisms for regulated businesses, supported by reporting expectations and supervisory processes.

Equipped with such tools, which may prove more effective and proportionate in addressing financial stability risks while allowing payment and settlement use cases to develop, the Bank can consider having the power to impose holding limits, rather than installing them as a default temporary requirement at the onset of the regime.

In summary, while we acknowledge the Bank's financial stability concerns and its intention to use holding limits as a transitional safeguard, we consider the proposed limits to present significant operational, privacy, and commercial challenges that risk acting as a disincentive to onshore issuance and scaling. We therefore urge the Bank to (i) provide greater clarity on implementation, tracking,

exemptions, and end-states; (ii) commit to a data-driven review of limits as the market evolves; and (iii) remain open to alternative tools that achieve the Bank’s objectives without stifling innovation or undermining the viability of UK-based stablecoin models.

We emphasise that holding limits are most defensible as a transitional and evidence-led tool rather than a permanent feature of the regime. Their continued application should be subject to periodic review against observable indicators of deposit substitution risk, usage patterns, and system-wide stress, with a clear expectation that limits are relaxed or removed where evidence does not support their ongoing necessity.

Question 9: 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?

GDF and CCI recognise the Bank of England’s objective of managing financial stability risks during a potential transition to widespread adoption of systemic stablecoins. However, we consider that holding limits, particularly at the levels proposed, would materially constrain the usability of stablecoins and significantly narrow the range of viable use cases, especially for business and institutional participants. In doing so, they risk undermining the very utility that would justify regulated adoption in the first place. To further support the below points set out, please see our attached Annex with data on use cases as well as limits.

Usability impacts for individuals

For individuals, a £20,000 per-coin holding limit may allow for basic person-to-person payments or limited retail transactions, but it would materially constrain higher-value or time-sensitive payment use cases. These include, for example, property-related payments, large consumer purchases, escrow arrangements, or holding balances temporarily for settlement or risk management purposes. Such use cases are infrequent, but represent an important use case, and notably involve short-term balances rather than store of value behaviour. In practice, such limits risk positioning stablecoins as inferior substitutes to existing electronic money or bank deposit products, reducing consumer confidence and adoption precisely at the point where trust and reliability are most critical.

Moreover, the presence of holding limits introduces behavioural frictions: individuals may be incentivised to fragment balances across multiple providers or instruments, increasing complexity and operational risk without delivering clear financial stability benefits. This outcome would be counterproductive to the Bank’s objectives and could undermine transparency and oversight. It may also reduce the effectiveness of AML, monitoring, and supervisory controls by encouraging unnecessary account proliferation.

Usability impacts for businesses

For businesses, the proposed £10 million holding limit presents a far more significant constraint. Many legitimate and economically valuable use cases would routinely exceed this threshold, even where

stablecoins are used solely as a payments or settlement mechanism rather than a store of value. These include:

- Corporate treasury management, including short-term liquidity staging and intra-group transfers.
- Exchanges, market makers, custodians, and large merchants.
- High-value wholesale payments and settlements, particularly in capital markets, commodities, or trade finance contexts.
- Cross-border payments and FX-related settlement flows, where balances may spike temporarily due to time-zone differences or batching.
- Payment service providers, marketplaces, and platforms holding client funds operationally prior to onward distribution.

For multinational firms or groups using stablecoins for internal liquidity management, balances well in excess of £10 million may be operationally unavoidable, even where exposure is short-lived and risk-neutral in nature. Requiring exemptions on a case-by-case basis for such routine activities, risks creating uncertainty, delays, and supervisory bottlenecks that would significantly impair usability.

Distribution

Stablecoins are distributed via a small number of distributors onboarded to the issuer. In the case of Tether and Circle for example, distribution goes through parties that represent only a fraction of one percent of total holders. These distributors bulk issue and redeem and provide critical supply and demand to the wider secondary market, supporting price stability. If they cannot provide supply, prices may be bid up. If they cannot make a market, prices may fall. The entire stability of the stablecoin would therefore be at risk if they were subject to holding limits. The wider the ecosystem, and the more users are permitted to hold stablecoins, the less significant this risk.

Use cases likely to require exemptions

From a financial stability perspective, exemptions are most justified where holdings reflect operational or settlement functions rather than balance-sheet substitution away from bank deposits.

Given the above, exemptions would likely be required for a wide range of core economic activities, including but not limited to:

- Treasury and intra-group settlement functions.
- Payment institutions and PSPs facilitating high-volume transactional flows.
- Market infrastructure-adjacent use cases, such as margining, collateral movement, or atomic settlement.
- Escrow, safeguarding, and client-money-like arrangements where balances may temporarily accumulate.
- Institutional on- and off-ramping activity supporting regulated financial firms.

The fact that exemptions would be required across such a broad set of mainstream, low-risk, activities suggests that holding limits may be poorly calibrated to the risk they are intended to address. The breadth of use cases requiring exemptions raises questions as to whether holding limits are the most effective or proportionate tool to address the Bank's underlying concerns as set out above in response to Q7.

Use cases that would not be possible under the proposed limits

Absent broad and predictable exemptions, the proposed limits would likely preclude or severely impair:

- Meaningful wholesale or institutional payment use cases.
- Corporate treasury adoption at scale.
- Use of stablecoins as a settlement asset in capital markets or financial market infrastructure contexts.
- High-value commercial and cross-border transactions where balances exceed thresholds even temporarily.

In effect, stablecoins would be confined to low-value retail use cases, functionally resembling capped prepaid instruments rather than general purpose digital settlement assets, undermining their potential role as a general-purpose digital settlement asset and limiting their contribution to competition, efficiency, and innovation in payments.

Evidence, proportionality, and future review

We also reiterate, as set out under Q7, that available international evidence does not currently demonstrate that regulated stablecoins, particularly non-systemic ones, have led to destabilising deposit outflows at scale. This is especially true where strong redemption rights, asset backing, and supervisory oversight are in place. Given that there do not appear to be systemic stablecoin issuers poised to launch imminently in the UK, we would strongly encourage the Bank to commit to revisiting the necessity and calibration of holding limits as empirical data emerges. If concerns around deposit outflows do not materialise, limits should be loosened and ultimately removed.

In summary, while holding limits may provide transitional comfort in principle, at the levels proposed they materially impair the usability of stablecoins for both individuals and businesses and risk rendering many economically valuable use cases unviable and increase stability risk in the secondary market. We therefore encourage the Bank to (i) clarify and broaden the scope of exemptions, (ii) consider alternative tools that target systemic risk more directly, and (iii) commit to an evidence-based review of limits over time. This approach would better balance financial stability objectives with innovation, competition, and the development of viable UK-based stablecoin models.

Question 10: Other than holding limits, what do respondents consider are the tools best suited to mitigating the risks we have identified?

We recognise the Bank's objective of avoiding a disorderly transition to widespread adoption of systemic stablecoins, safeguarding monetary and financial stability, and preserving access to credit to the UK economy. We also recognise the identification of stress conditions, and the appropriate supervisory response will ultimately remain a matter of Bank judgement. As set out in the consultation, holding limits are primarily intended as a transitional tool to mitigate the risk of large and rapid deposit outflows from the banking sector, particularly under stress, and the associated implications for credit provision (in BAU) and acceleration of contagion (during a stressed scenario). However, we consider that BAU holding limits are not the most effective or proportionate means of addressing these risks, and that alternative tools exist which target the underlying risk channels more directly.

First, it is important to distinguish between BAU adoption dynamics and stressed-scenario behaviour. A GBP stablecoin is extremely unlikely to be designated systemic at launch; systemic designation is a decision for HM Treasury, informed by scale, usage, and interconnectedness, and historically such designations have occurred only once payment systems have reached significant levels of activity. In practice, any GBP stablecoin would first operate under the FCA regime and take time to scale before entering the Bank's systemic perimeter. This provides the Bank with a meaningful observation period to assess adoption trajectories, usage patterns, and consumer behaviour in a BAU context, and to evaluate whether there is credible evidence of large-scale deposit substitution that would warrant structural constraints on usability.

Second, in a BAU scenario, the risk of material deposit outflows is further mitigated by the fact that stablecoins are not permitted to pay interest, while commercial banks retain a monopoly over the payment of interest on deposits. The Bank's analysis appears to focus on potential outflows from current accounts, which at the overwhelming majority of commercial banks are low- or zero-interest products. Commercial banks are able to respond quickly and directly to competitive pressure by improving remuneration and product features on these accounts. In such circumstances, it is difficult to see a sustained economic incentive for end users to move balances en masse from competitively remunerated deposit accounts into an unremunerated stablecoin. Holding limits therefore risk addressing a BAU risk that can more efficiently be managed through normal competitive and monetary transmission channels.

Third, where the Bank's concern is a stress scenario, in which systemic stablecoins may act as an additional perceived safe haven and accelerate deposit flight across the banking system, we consider that stress-specific and system-wide tools are more appropriate than permanent BAU holding limits. In particular, we consider that:

- Incorporating stablecoin-related outflow channels into supervisory stress testing and liquidity preparedness for banks would allow the Bank to study, quantify, and manage these dynamics directly.
- Relying on existing, time-limited stressed-market measures (including, where appropriate, temporary restrictions or frictions on commercial bank deposit withdrawals) is more

proportionate than imposing continuous limits on a payment instrument that is otherwise functioning normally.

- Consider the development of a central bank liquidity backstop for systemic stablecoin issuers, in line with the consultation's discussion of lender-of-last-resort style support to manage temporary liquidity constraints where an issuer remains solvent but experiences unusually high redemption requests.

It is difficult to see how the imposition of even temporary holding limits on stablecoins can be justified as a proportionate response to risks that arise fundamentally from the structure and resilience of commercial bank funding and risk models, rather than from stablecoins themselves. The Bank's analysis repeatedly acknowledges that the underlying concern is the potential for deposit outflows from the banking system, particularly in stress. Yet the regulatory response is directed not at commercial banks - who are best placed to manage their own liquidity, funding diversification, interest rate competitiveness, and stress preparedness - but at a new, fully backed payment instrument that is explicitly prohibited from engaging in maturity transformation or credit creation. This risks entrenching existing incumbents by shielding them from competitive pressure, weakening incentives for banks to modernise current account offerings or improve competitiveness and resilience, and placing the burden of adjustment on new entrants rather than on the sector whose business models generate the risk.

From a competition and growth perspective, such an approach is particularly problematic for the UK; it constrains the usability and attractiveness of regulated sterling stablecoins just as other jurisdictions are enabling non-bank innovation in payments, potentially pushing activity offshore while preserving a commercial bank-centric status quo. A more proportionate and economically coherent approach would focus on ensuring commercial banks are robust to the emerging competition and stress scenarios that could arise from the introduction of systemic stablecoins to the payments ecosystem - through supervision, stress testing, and liquidity preparedness in response to broader technology changes which have the potential to make deposits less sticky. We believe this would be more effective than preemptively limiting the scale and functionality of a new form of digital money that is, by design, structurally safer than the deposits it is being asked to protect.

Question 11: 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 agree with the Bank's underlying objective of ensuring that systemic stablecoins can interoperate effectively with other forms of money and payment systems, and that reliance on indirect or sponsored access should not become a structural bottleneck as scale and importance increase. Direct access to relevant payment systems can enhance resilience, reduce dependency risks, and support more efficient conversion between different monetary instruments. However, we consider it important that this proposal is grounded in a clear understanding of how interoperability is expected to function in practice, and the role that different mechanisms, beyond redemption, play in a well-functioning stablecoin market.

As set out in our earlier responses, redemption is not, and should not be assumed to be, the primary mechanism through which users move between different forms of money, particularly as a stablecoin becomes widely used and systemically embedded. In practice, conversion through secondary markets, payment rails, and intermediated exchange mechanisms will be faster, cheaper, and less operationally burdensome than large-scale redemption into backing assets. Redemption remains a critical backstop to anchor par value and preserve confidence, but it is a blunt and expensive tool to rely on for routine interoperability. A regulatory framework that implicitly assumes redemption as the dominant channel risks overloading issuers' operational processes and mischaracterising how digital money actually circulates.

In a mature and competitive stablecoin ecosystem, end users should be able to convert between bank deposits, stablecoins, and other forms of money through multiple pathways, including banks, PSPs, exchanges, and other payment and market intermediaries. This plurality of conversion routes is precisely what supports liquidity, resilience, and price stability, and reduces the likelihood that stress in any single channel translates into systemic disruption. From that perspective, interoperability is a system-level outcome, not something that can be delivered solely through issuer redemption arrangements or a single mandated access point.

We also consider it essential that the Bank clarifies which payment systems it has in mind when referring to “payments systems that support interoperability across different forms of money”, and the specific risks that direct access is intended to mitigate. At present, there are no established payment systems that perform this function in a comprehensive or standardised way for stablecoins, and it is unclear whether the Bank envisages access to existing RTGS infrastructure, future market-led interoperability platforms, or new arrangements yet to be developed. Without this clarity, it is difficult for issuers to assess the feasibility, cost, or necessity of direct participation.

Relatedly, we would encourage the Bank to set out clear and proportionate criteria for when direct access in such systems would be required, rather than treating it as a default expectation for all systemic issuers and all payment systems. Factors such as scale, transaction volumes, interconnectedness, and the extent to which an issuer's stablecoin is used as a primary settlement asset should be relevant to this assessment. For some issuers and for some payment systems, indirect access via regulated intermediaries may remain entirely appropriate and operationally efficient, while still delivering the Bank's desired interoperability outcomes.

In addition, one area that would benefit from further consideration is settlement finality and legal eligibility. Access to certain payment systems or settlement accounts may be contingent on an entity's legal form or regulatory classification. The Bank may wish to assess whether additional legal or institutional arrangements are required so that systemic stablecoin issuers can achieve settlement finality on a par with other payment system participants.

Finally, we note there are enormous operational, legal, regulatory, compliance, and risk costs of participation in payment systems. Requiring direct participation would involve capabilities and processes that issuers simply would not have. It would represent another significant cost of entering the Bank's regime. It would be particularly disproportionate given that indirect use of payment systems via clearing

banks works more than well enough for the limited closed-loop payments made by issuers. Issuers are not payment services providers. They receive payments from onboarded customers in exchange for issuance and make payments back to those same customers (in the same designated bank account) as part of redemption.

In summary, we support the goal of improved interoperability and reduced reliance on fragile access arrangements, but caution against a framework that over-privileges redemption or mandates direct system access without a clear articulation of the underlying infrastructure, use cases, and proportionality criteria. A flexible approach that recognises multiple conversion mechanisms, evolving market structure, and the current absence of dedicated interoperability systems will better support resilience, efficiency, and innovation as systemic stablecoins develop.

Question 12: Do you agree with our proposed approach to safeguard backing assets? If not, what alternative measures do you propose?

We agree with the Bank's core objective of safeguarding backing assets to ensure that systemic stablecoin holders are protected at par, and that backing assets are legally segregated, insolvency-remote, and available solely for the benefit of coinholders. We also agree that trust-based arrangements can provide a strong legal foundation for achieving these outcomes. However, drawing on our experience with the FCA's parallel proposals, we consider that aspects of the approach as currently articulated risk creating tension between legal form and operational reality, which could undermine rather than strengthen resilience if not addressed.

In particular, we caution against an approach - such as that proposed by the FCA in its CP25-14 - that prohibits overcollateralisation within the trust while simultaneously requiring any shortfall in backing assets to be met using issuer capital held outside the trust. This structure risks cutting across the very legal segregation the trust is designed to achieve. A statutory trust is intended to protect coinholder assets by clearly separating them from the issuer's own funds; forcing issuers to rely on external capital injections to address shortfalls introduces ambiguity around coinholder rights, operational responsibility, and insolvency treatment. Over time, this may incentivise inefficient or risk-bearing capital management strategies that are misaligned with the fully backed, non-credit-creating nature of stablecoins.

We therefore recommend that the Bank explicitly permits a degree of transparent overcollateralisation within the trust itself, as a means of enhancing resilience to valuation movements, timing mismatches, and operational frictions. This recommendation is intended solely to preserve legal and operational clarity around reserve treatment and does not imply support for interest-bearing or deposit-like characteristics. Allowing a limited buffer inside the ringfenced structure reduces the likelihood that shortfalls arise in the first place, limits the need for ad-hoc capital injections from outside the trust, and preserves legal clarity for coinholders. This approach is more consistent with the objectives of insolvency remoteness and operational continuity, particularly in stressed conditions.

Relatedly, we would strongly encourage the Bank to provide clear guidance on the treatment of income, yield, or capital appreciation generated by backing assets held on trust. As under the FCA proposals, there

is currently legal uncertainty as to whether such income accrues to coinholders by default under trust law, or whether it may be retained by the issuer, notwithstanding the prohibition on paying interest to stablecoin holders. Clarity is needed on:

- Whether income or yield may be retained by the issuer and on what basis.
- Whether any such income forms part of the trust or is excluded from it.
- How these arrangements avoid recharacterising stablecoins as interest-bearing or deposit-like products.

On backing asset composition, we agree that systemic stablecoins should be backed 1:1 by the highest-quality, highly liquid instruments in line with emerging global norms. Within those parameters, some limited operational flexibility could be helpful, for example by permitting closely equivalent instruments or structures that deliver the same liquidity and risk outcomes, provided coinholder protections remain unchanged.

Addressing these points explicitly is essential to ensure legal certainty, avoid unintended regulatory consequences, and maintain consistency with international approaches (including those adopted in other major jurisdictions).

We also agree that discrepancies in the backing asset pool must be addressed promptly and transparently, but caution against rigid requirements that mandate the immediate extraction of excess value from the trust while requiring issuer capital to cover any shortfall. Such asymmetry effectively bans prudent overcollateralisation and undermines the logic of the trust framework. In a properly functioning stablecoin market, temporary excesses and shortfalls can arise due to settlement timing, intraday flows, or market movements; these are best managed through disclosure, governance, and internal buffers rather than through structural prohibitions that weaken resilience.

More broadly, we would encourage the Bank to adopt an outcomes-based approach, consistent with both the proposed FCA regime and international best practice. Where non-statutory trust structures or alternative legal arrangements can demonstrably achieve equivalent outcomes - namely legal segregation, insolvency remoteness, and effective protection of coinholders - they should be capable of recognition, subject to supervisory approval. This flexibility is particularly important for cross-border groups and for ensuring smooth transition from the standard FCA regime to systemic status.

Finally, we agree that ongoing assurance is central to confidence and consumer protection. Alongside traditional audits and reporting, the Bank may wish to encourage technology-enabled verification tools that demonstrably improve timeliness and transparency, such as automated reconciliations or cryptographic proof-of-reserves mechanisms, provided they are reliable and subject to appropriate independent assurance.

Question 13: 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.

When assessing whether to use a single trust or multiple trusts, we consider there to be advantages in establishing separate trusts for backing assets and for wind-down reserves. This approach creates a clearer distinction in both purpose and beneficiary interests: one trust would hold the backing assets exclusively for the benefit of coinholders to support par redemptions, while a separate trust would ring-fence resources to finance the practical execution of an orderly wind-down. Keeping these pools distinct helps avoid commingling, clarifies priority, and can reduce legal uncertainty in an insolvency scenario.

Question 14: 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 would encourage the Bank to adopt a more outcome-focused, technology-specific assessment of risk relating to public permissionless ledgers. For example, operational resilience is shaped by infrastructure design, redundancy, and validator diversification; settlement finality by the precision, speed, and robustness of consensus mechanisms; and accountability by transparency, auditability, and the rules and incentives that govern participation and behaviour. Where these features are well designed and credibly implemented, the resulting risk profile can differ fundamentally from that of centrally operated systems. Recognising these distinctions can help ensure that regulatory approaches remain proportionate, technologically neutral, and aligned with the actual characteristics of the underlying infrastructure.

Against that backdrop, we offer three observations on the Bank's articulation of the risks posed by public permissionless ledgers.

First, the question of accountability on public permissionless ledgers is more layered than a base-layer assessment alone may suggest. The assertion that public permissionless ledgers lack a clear locus of accountability is misleading when assessed solely at the protocol layer. These systems are deliberately designed to operate in a decentralised manner, precisely to remove the risks introduced by the presence of controlling or discretionary intermediaries. Blockchains that function autonomously, operating, executing, and enforcing transactions and other activities without human intervention eliminate the risks that arise from controlling intermediaries.

Further expanding on this point, we note that accountability in practice continues to rest with the regulated firms that choose to build on or interact with public permissionless ledgers. Firms remain responsible for their governance, operational risk management, compliance, and control frameworks, including network selection, smart contract design, key management, and third-party dependencies. This mirrors established regulatory practice in other contexts: regulated entities, such as banks, are routinely held accountable for risks arising from their use of public internet infrastructure, open-source software,

and shared technical standards, none of which have a single controlling intermediary. The use of public blockchain rails does not displace accountability; it reallocates it to the appropriate layer.

Second, the suggestion that public permissionless ledgers do not provide meaningful settlement finality could benefit from distinguishing legal finality concepts used in intermediated infrastructures from the technical finality models used in on-chain settlement. On-chain settlement on public blockchains should be transparent, atomic, and irreversible once confirmed according to the protocol's consensus rules. While legal finality frameworks may need to adapt to recognise these characteristics, the underlying technical finality can be robust and fast once confirmation thresholds are met under the protocol's consensus rules, though legal recognition and operational policies remain important. Distinguishing between legal finality and technical finality is critical; failure to do so risks mischaracterising robust on-chain settlement mechanisms as inherently weaker than legacy alternatives.

Third, with respect to operational resilience and cybersecurity, it is a misconception to assume that public permissionless ledgers carry by default higher cybersecurity risk than permissioned ledgers. Their decentralised architecture can help reduce single points of failure and increase resilience to outages, cyberattacks, and institutional distress. Open-source code, continuous public scrutiny, and real-time auditability can further enhance security and transparency. The absence of a central operator does not equate to an absence of resilience; rather, resilience is achieved through architectural decentralisation and redundancy.

We acknowledge these are the risk categories for systemic use; our suggestion is that expectations should be articulated in a way that is specific to network design features and the regulated roles within the arrangement.

Question 15: 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?

In the context of public permissionless ledgers, we consider that the most crucial issues warranting the Bank's focus in addition to the inherent characteristics of the ledger is how these systems interface with regulated financial activity and how risk is introduced at points of control, aggregation, or intermediation.

Material risks may arise where control is overlaid with otherwise decentralised infrastructure. This includes gateways such as custodial wallets, centralised exchanges, centralised stablecoin issuers, and other intermediated services. At these points, traditional risks around governance, operational resilience, consumer protection, and financial stability re-emerge, and it is appropriate for the Bank to focus its attention on ensuring that these entities meet robust standards.

Additionally, clarity around settlement concepts remains an important area for collaboration. As mentioned in our response to question 14, the key challenge is not that public permissionless ledgers lack settlement finality, but that existing regulatory frameworks often do not clearly distinguish between legal finality and the technical finality delivered by on-chain settlement. Collaborative work between

regulators, legal experts, and industry to better articulate how on-chain finality should be recognised within legal and supervisory frameworks would materially reduce uncertainty and support safe adoption, without undermining the strengths of blockchain-based settlement mechanisms.

Finally, protocol-level operational resilience, including cybersecurity, is an area where continued dialogue is valuable, but it should be approached with an appreciation of decentralised architectures. Public permissionless ledgers can significantly reduce single points of failure. The most constructive role for the Bank is therefore to engage on standards, information-sharing, and stress-testing approaches that recognise decentralisation as a resilience feature, while supporting best practices around software assurance, incident response, and ecosystem coordination, rather than seeking to replicate centralised accountability models.

Question 16: Can you identify other risks which you believe that will have a material impact on these technologies in the future?

No comment.

Question 17: 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.

GDF and CCI broadly welcome the Bank's decision to maintain the approach set out in the 2023 discussion paper and to apply its existing Codes of Practice on operational resilience to recognised payment system operators and recognised service providers. In particular, we support the Bank's articulation that issuers and service providers will be held accountable for meeting supervisory standards and for managing the risks associated with the technologies they choose to deploy, including reliance on third-party providers. This approach is appropriately consistent with the Bank's supervision of existing FMIs within its remit and reflects a technology-neutral, outcomes-focused model that industry broadly supports.

We also welcome the Bank's confirmation that it does not intend to apply a specialist regime akin to the Critical Third Parties (CTP) framework, or an expanded version thereof, to service providers. This provides helpful reassurance that firms will not be subject to duplicative or disproportionate layers of regulation solely by virtue of operating in a DLT-enabled environment.

However, respondents have previously highlighted, and we reiterate, that the application of existing operational resilience frameworks to DLT-based systems raises specific interpretive and practical questions. In this context, we would emphasise the importance of predictability and advance notice should operational resilience expectations evolve or diverge materially from those applied to non-systemic firms under the FCA's regime. As with other elements of the proposed framework, avoiding cliff edges will be particularly critical in the operational resilience context. Changes to technology stacks, governance arrangements, and third-party dependencies are complex, resource-intensive, and risk-sensitive processes that cannot be implemented quickly without introducing new operational or systemic risks.

We therefore encourage the Bank, in coordination with the FCA, to ensure that any future changes or enhancements to operational resilience requirements for systemic stablecoin arrangements are communicated clearly, well in advance, and, where possible, introduced through graduated transition periods. This would allow firms to plan, test, and implement changes in a controlled manner, consistent with the objectives of operational resilience itself.

Finally, we note that GDF and CCI have previously provided detailed industry input on operational resilience, outsourcing, and third-party risk management in digital asset and DLT-based systems, including in the context of payments, custody, and market infrastructure. These responses have consistently emphasised the value of outcome-based standards, proportional application, and close supervisory dialogue as technologies and risk profiles evolve. We would welcome continued engagement with the Bank and FCA as this guidance is developed, including the opportunity to provide practical examples and implementation insights drawn from our members operating across multiple jurisdictions and regulatory regimes.

Question 18: 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 agree with the Bank's core principle that systemic stablecoins should not be interest-bearing and should not function as investment products. Aligning systemic stablecoins with e-money and the FCA's proposed framework for non-systemic stablecoins in this respect is appropriate and helps preserve a clear distinction between payment instruments and savings or yield-generating products.

However, we consider it important to distinguish clearly between interest, yield, and rewards, while also recognising that these concepts carry established meanings across financial markets that may not always align neatly with digital-asset terminology. In the broader market context:

- Interest refers to a contractual or periodic return to a holder on the basis of the time value of money, arising from a legally defined obligation of the issuer to pay a fixed or variable rate over time.
- Yield represents the effective rate of return derived from market-based performance, price movements, or reinvestment of underlying assets, capturing realized or expected returns linked to market exposure rather than contractual payment.
- Rewards should denote discretionary, opt-in, or promotional benefits offered to users, such as rebates or transaction-linked incentives, that are not contractually guaranteed, do not reflect investment of reserves or exposure to market risk, and are analogous to consumer loyalty or cashback programmes rather than investment returns.

Applying these distinctions, the prohibition on remuneration should be understood as preventing systemic stablecoins from functioning as investment products through interest- or yield-bearing features, rather than restricting consumer-facing rewards that are designed to encourage transactional usage. Usage-based

incentives linked to payment activity do not alter the non-interest-bearing nature of a stablecoin, nor do they create an expectation of passive return on balances held. These should be clearly distinguished from interest paid to holders by virtue of holding balances over time, as well as from service or transaction fees charged by issuers or intermediaries for payment, redemption, or ancillary services, which are a standard feature of payments markets and do not constitute remuneration. Instead, they are a common feature of modern payment systems and an important driver of adoption, network effects, and merchant acceptance.

In practice, prohibiting all forms of incentives would risk placing systemic stablecoins at a structural disadvantage relative to incumbent payment methods, without delivering a commensurate financial-stability benefit. We therefore welcome the Bank's indication that it will consider further whether such practices should be permitted. In our view, guidance should clearly distinguish between contractual interest or market-based yield, which may raise prudential or investment-product concerns, and non-financial promotional rewards, which do not.

Clear delineation in this area would support consistent interpretation, preserve the payments-only objective of systemic stablecoins, and enable innovation and competition in UK payment rails while remaining fully aligned with the Bank's financial-stability objectives.

Finally, we note that these issues intersect with the Bank's broader location and cross-border policy objectives. Under the EU's Markets in Crypto-Assets Regulation (MiCA), e-money token issuers are required to be locally authorised, meaning that a UK-based GBP stablecoin issuer seeking to access the EU market would need to establish an authorised EMI or credit institution within the EU. Against the backdrop of the Bank's proposed approach to deference and international cooperation, we would encourage close engagement with foreign counterparts to avoid outcomes that inadvertently force UK-based issuers into multi-issuance or fragmented structural models in order to access overseas markets. Such outcomes would introduce unnecessary operational complexity, increase costs, and risk cutting across the Bank's location policy objectives, without delivering clear financial stability benefits. Coordinated approaches to recognition and deference would better support efficient cross-border activity while preserving robust supervisory outcomes.

Question 19: 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 strongly support the Bank's and FCA's exploration of how regulated stablecoins could enable on-chain settlement within the Digital Securities Sandbox (DSS), including by providing the payment leg for delivery-versus-payment transactions. From an industry perspective, this is one of the most important near-term use cases for regulated stablecoins and a critical enabler of meaningful experimentation with end-to-end on-chain market infrastructure. Allowing tokenised securities and digital settlement assets to

interact within the DSS would materially improve the realism, scalability, and policy relevance of sandbox activity.

We would welcome greater clarity on the scope of stablecoins that may be used for this purpose, in particular whether the DSS is envisaged as permitting only sterling-denominated regulated stablecoins, or whether non-sterling regulated stablecoins could also be used where appropriate. Given the inherently cross-border nature of capital markets activity, early clarity on this point would help participants design viable test cases and avoid unnecessary architectural fragmentation within the sandbox.

Relatedly, we encourage the Bank and FCA to articulate a clear and workable process by which stablecoins may be assessed and approved for use within the DSS. One potential approach would be for the Bank, in coordination with the FCA, to assess the suitability of individual regulated stablecoins against defined criteria (for example, reserve quality and segregation, redemption mechanics, operational resilience, governance, and legal certainty), resulting in an approved list of stablecoins that DSS participants may use as the payment leg for sandbox transactions. This would provide supervisory assurance while preserving flexibility and competition and would avoid the need for ad hoc bilateral approvals at the transaction or participant level.

More broadly, using the DSS as a controlled environment to test stablecoin-based settlement would offer valuable insights into interoperability, liquidity management, and risk transmission across tokenised markets. It would also provide an important foundation for future policy decisions beyond the sandbox, including the potential role of regulated stablecoins in wholesale settlement and financial market infrastructure more generally. We therefore strongly support continued collaboration between the Bank, the FCA, and industry to ensure that the DSS enables meaningful experimentation with regulated digital money alongside tokenised securities.

Question 20: How should the Bank seek to mitigate risks from non-sterling-denominated systemic stablecoins?

We agree that it is appropriate for the Bank to consider any risks which might be associated with the use of non-sterling-denominated stablecoins, particularly where they become widely used in UK payment activity. These risks are primarily macro-financial and cross-border in nature and therefore require targeted mitigants that are proportional to the specific channels through which risk may arise, rather than a simple extension of the sterling systemic regime.

Any mitigation framework should therefore be calibrated to UK-specific usage and risk transmission channels, rather than applied uniformly across cross-border activity that does not materially affect UK monetary or financial stability.

- Currency substitution and monetary transmission risk

Where non-sterling stablecoins are used at scale in UK payments, the principal concern is that they could

weaken monetary policy transmission and reduce the role of sterling as the unit of account. This risk is best mitigated through use-based and disclosure-based measures. Clear differentiation between sterling and non-sterling instruments in payment interfaces, explicit FX disclosure, and restrictions on default settlement currency for domestic retail payments would directly address this risk without constraining legitimate cross-border or wholesale use cases.

- *Stress-driven capital and liquidity outflows*

The Bank highlights the potential for non-sterling stablecoins to act as conduits for rapid capital outflows - not only from the UK banking system, but from sterling as a currency - in stress. This is a system-wide risk. Mitigants might include incorporating stablecoin-driven FX outflow scenarios into system-wide stress testing, monitoring aggregate flows through payment systems, and ensuring banks and FMIs are operationally prepared for digital era stress dynamics. These tools allow the Bank to study and manage stress behaviour directly, rather than attempting to suppress it ex ante through blunt constraints.

- *Cross-border supervision, enforceability, and resolution risk*

Where issuers and backing assets are located offshore, the key risk is not asset quality per se but limited supervisory reach and coordination in stress or failure. This argues for robust supervisory cooperation arrangements to be pursued, including enforceable information sharing arrangements, access to data relevant to UK financial stability, and clarity on how UK user interests would be treated in resolution or insolvency. These mitigants target the real source of risk, cross-border fragmentation, rather than imposing additional domestic prudential requirements that may not be enforceable in practice.

- *Operational and payment-system contagion risk*

If non-sterling stablecoins become embedded in UK payment flows, operational disruption could transmit across systems and currencies. This risk is best mitigated through operational resilience, governance, and interoperability standards at points of integration with UK payment systems, rather than by constraining the stablecoin itself. Clear requirements around settlement finality, operational continuity, and incident management at interfaces with UK infrastructure would materially reduce contagion risk.

- *Consumer understanding and confidence risk*

The Bank is rightly concerned that users may treat non-sterling stablecoins as equivalent to sterling money without understanding FX and legal risk. This is most effectively addressed through clear consumer disclosures where non-sterling stablecoins are used in UK domestic scenarios, labelling, and conduct requirements, ensuring users understand that these instruments are denominated in foreign currency, are not regulated or supervised in the UK, and are not protected or supported in the same way as sterling money and money-like instruments.

Question 21: 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?

We support the Bank exploring a conditional deference or recognition framework for non-sterling systemic stablecoins issued by non-UK entities where the home regime is demonstrably robust and effective. Done well, deference can reduce duplicative oversight and fragmented compliance, while preserving UK access to global stablecoin liquidity and maintaining strong safeguards through clear conditions and supervisory cooperation.

We note that the provision of stablecoin-based payment services to UK consumers would still require local authorisation for firms undertaking these activities and therefore provide a local touchpoint and mechanism for the application of consumer protection and market abuse requirements.

We recognise that deference should remain conditional and revocable, and that the Bank must retain the ability to impose additional requirements or withdraw recognition where UK financial stability considerations warrant it. Any deference should be outcomes-based, focusing on the protections most relevant to financial stability and coinholder interests, such as reserve quality and segregation, redemption rights, governance and accountability, operational resilience, and wind-down readiness, alongside confidence in the home authority's supervisory effectiveness and enforcement record. It should also be underpinned by formal cooperation and information-sharing arrangements that give the Bank timely access to relevant data and workable escalation channels, calibrated to the scale and nature of UK activity. A framework of this kind aligns with established cross-border supervisory approaches, supports international consistency, and reduces incentives for regulatory arbitrage.

Question 22: If so, do you agree with the factors the Bank intends to consider? Are there additional factors the Bank should consider?

We support the Bank's proposed factor-based approach to deciding whether to defer to a non-UK home authority for a non-sterling systemic stablecoin and agree that deference should be available only where it can be relied upon without increasing UK financial stability risk. We also welcome the Bank's focus on outcomes-based equivalence and on practical, well-functioning cooperation arrangements proportionate to the scale of UK activity and the risks involved.

In assessing equivalence, we agree the Bank should test whether the home regime delivers protections comparable to the UK framework in the areas most relevant to coinholder outcomes and stability, including reserve quality and segregation, capital and liquidity for general business risk, redemption rights and consumer protections, governance, and operational resilience. In addition, we suggest the Bank place particular emphasis on two further factors: (i) cross-border safeguarding and custody, including whether arrangements are legally robust and transparent and whether UK users could face frictions in redemption where key functions sit offshore; and (ii) operational cooperation in practice, including whether information-sharing channels and coordinated supervisory action are tested and capable of functioning effectively during incidents and periods of market stress.

Question 23: Please indicate in your response if you believe any of the proposals in this paper are likely to impact persons who share protected characteristics under the Equality Act 2010 and, if so, please explain which groups and what the impact on such groups might be.

No comment.