WEBFORM SUBMISSION TO: https://app.keysurvey.co.uk/f/41683353/cfae/
EMAIL SUBMISSION TO: DP-stablecoinpaymentsystems@bankofengland.co.uk

To whom it may concern,

Re: Bank of England (BoE) Discussion Paper on the regulatory regime for systemic payment systems using stablecoins and related service providers

About Global Digital Finance (GDF)

GDF is the leading global members association advocating and accelerating the adoption of best practices for crypto and digital assets. GDF's mission is to promote and facilitate greater adoption of market standards for digital assets through the development of best practices and governance standards by convening industry, policymakers, and regulators.

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

As always, GDF remains 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 - Director of Global Policy & Regulatory Affairs - GDF

GDF

Response to the Consultation Report: Executive Summary

GDF convened its members to analyse the Bank of England (BoE) Discussion Paper on the regulatory regime for systemic payment systems using stablecoins and related service providers. GDF also engaged with other industry bodies to convene and streamline industry feedback. We support and endorse in particular the Discussion Paper response developed by the Digital Pound Foundation (DPF) which we contributed to as a DPF Partner.

Overall GDF is supportive of the aim of the discussion paper and the broader aims of the recommendations made in the BoE Discussion Paper (referred to henceforth as the DP). GDF believes firmly in their intent to support innovation and provide end to end regulation while following the principles of same risk, same regulatory outcome and simultaneously developing new regulatory requirements for new risks. We also appreciate the agility and speed with which the BoE has set out their DP alongside the Financial Conduct Authority (FCA) DP, and the Prudential Regulatory Authority (PRA) Dear CEO letter. The UK working towards its stated timelines for digital asset regulation is crucial for providing clarity to the financial services sector, and we believe the DP is an important step towards that end. As such, the response to this DP looks to provide suggestions of areas where further consideration and clarity may be needed for the creation of an appropriate and effective stablecoin framework in the UK.

GDF has worked with our members to provide constructive feedback on the regulatory regime, and also aims to identify options to overcome challenges identified in the DP. Through this process GDF members identified key areas that may require further drafting consideration or additional guidance for purposes of clarity, proportionality, and effective implementation. The six core areas identified are:

1. **Greater clarity needed on what is 'systemic' and what the regime aims to capture;**
2. **Clear delineation of the scope of the regime for business models (e.g., capturing the action of systemic payments or the systemic coins themselves);**
3. **Additional guidance on cliff edge risks when transitioning from non-systemic to systemic stablecoins;**
4. **Further consideration of the recommendations for backing assets;**
5. **Further consideration of the recommendations for capital buffers; and**
6. **Greater clarity on limits and how such limits would impact retail businesses as well as consumers.**

Greater clarity needed on what is 'systemic' and what the regime aims to capture

GDF is supportive of the proposed aims of designating certain stablecoins which may have a large impact on financial stability, markets, and retail and wholesale consumers as systemic.

However, we believe further clarity is needed on what exactly the approach to determining systemic status is and how it would be applied in practice. We would encourage additional detail be provided in future phases of the regulatory framework on the scope of the regime, on how systemic importance will be assessed, who would be captured by the regime, how it would be applied, and at what stage of a company's growth compliance with different aspects of the BoE regime would be required. We also believe there is a danger of cliff edge risks when transitioning from non-systemic to systemic that should be carefully considered. This is further discussed in our response to Q4 and Q5.

Clear delineation of the scope of the regime for business models (e.g., capturing the action of systemic payments or the systemic coins themselves)
GDF would note that as they exist today, stablecoins have multiple use cases beyond payments, including but not limited to trading, investment, as a store of value, and as collateral to transactions. As such, we would encourage the BoE to make clear delineations on what the framework will capture. If a stablecoin is issued, it could feasibly be used for payment purposes whether or not they are intended for that purpose by their issuers. There may also be stablecoins that emerge as systemic, in some form, but are not used widely for payments. We would encourage stablecoins that are *not* used for systemic retail payments such as these to be excluded from the proposals. We would welcome clarification that should such a stablecoin emerge that is widely used for purposes other than payments, the BoE would not seek to regulate it (or, for example, its issuer), given the framework under the Banking Act 2009 is intended for payments firms. This is also further discussed in our response to Q4 and Q5.

Additional guidance on cliff edge risks when transitioning from non-systemic to systemic stablecoins
GDF members are concerned that under the current proposals there would be potentially large cliff edge risks for stablecoins when transitioning that could require an overhaul of their business model and backing assets, or a withdrawal from the UK market. Stringent requirements, that differ too widely from the non-systemic regime may also the unintended consequence of encouraging stablecoin issuers to seek out other jurisdictions instead where more flexible business models are permitted. GDF would encourage the BoE to work closely with firms throughout the process and make requirements clear in advance to support an orderly transition process. This is further discussed throughout our response and in our response to Q3.

Further consideration of the recommendations for backing assets
GDF believes that the proposed regime could be more flexible to accommodate different business models and structures. Mandating 100% backing by reserves held at the central bank with transaction fees only would severely limit the business models that currently exist in today's market. This may also have the unintended consequence of increasing some of the cliff edge risks that may occur if issuers transitioned from systemic to non-systemic. Furthermore, while it is important for backing assets to be part of the framework, perhaps not limiting this to sterling would be more future proof. Mandating implementation of backing assets to be cash reserves held at the central bank could be very limiting to business models and may not achieve the BoE's intended aims. This is further discussed in our response to Q5 and Q11.

Further consideration of the recommendations for capital buffers

GDF would encourage an adjustment and a reconsideration of the capital buffers. If in addition to the 100% backing of the stablecoin, requirements that apply to banks are also added on, there should be an adjustment as these reserve assets would be something that a bank would hedge for. In theory, if the stablecoin is backed 100% by reserve assets held in the central bank, there should be zero credit risk and the capital buffer should only cover wind down expenses. Unlike for banks, who hedge their credit risk, you should not fail if the central bank, in this case the bank of England, holds all of your reserve assets. This is further discussed in our response to Q20.

Greater clarity on limits and how such limits would impact retail businesses as well as consumers

GDF members believe that further clarity for the distinction in limits for consumers and the limits needed for businesses. It is crucial that the final framework does not exclude businesses. Additionally, if transactions are coming in and out it is difficult to have a limit for one day. The amounts could change widely through the day but then still be under the limit at the end of the day so it may not achieve its intended aim. It may also be difficult from an operational perspective for the BoE to supervise these limits for both businesses and consumers. Finally, as mentioned previously on cliff edge risks, it is important for the final framework on limits to consider the interaction between the FCA regime and the BoE regime with regards to limits. This is further discussed in our response to Q24.

Response to the Discussion Paper: Questions for Public Consultation

Please note that given our focus areas set out in the executive summary that we have not responded to each question in the DP. Instead, we have provided feedback and input on the specific questions and chapters that are relevant to the key areas.

1. Do you agree that, to preserve the singleness of money, systemic payment stablecoins must be fully interchangeable with other forms of money at par?

Yes, preserving singleness is crucial. GDF also agrees that systemic payment stablecoins (referred to hereafter as SPSs) should be fully interchangeable with other forms of money at par.

GDF is supportive of a future ecosystem in which multiple different forms of money - both public and private, and both those currently in use as well as new forms of digital money - coexist. In order for this to occur and for the development of a diverse, competitive and effective ecosystem for new forms of digital money to become a reality, seamless interoperability, convertibility, and - above all else - preservation of the singleness of money in all its varied formats, will be required.

2. Do you have views on further requirements that may be needed to ensure the singleness of money when stablecoins are traded in secondary markets?

3. Do you agree that the most likely, and suitable, payment systems using new forms of digital money to become systemic in the UK are sterling-denominated stablecoins which are backed by assets denominated in fi–t currency?

On a couple of separate points, GDF believes it is currently difficult to predict that the exact form of payment set out in the DP will be the most likely to evolve as systemic. First, it is not clear that the stablecoins as characterised in the DP will be the first stablecoins to emerge in the UK and in assessing the market it seems far likelier that we might see stablecoins being used for other financial functions than payments at a systemic level. For example, it is not clear that stablecoins used for retail payments purposes will be the first stablecoins to emerge in the UK, and far likelier that, at a systemic level, we may see stablecoins being used for other financial functions than payments (such as settlement of digital asset / tokenised asset transactions).

Additionally, it may not be the most suitable to mandate such stablecoins be sterling-denominated if other types of stablecoins already exist within the market. Were this to be the case, there would be potentially large cliff edge risks for stablecoins when transitioning that could require an overhaul of their business model and backing assets, or a withdrawal from the UK market. Furthermore, this type of stringent requirement may also have the unintended consequence of encouraging stablecoin issuers to seek out other jurisdictions instead where more flexible business models are permitted.

4. Do you agree with the Bank's proposed approach to assessing the systemic importance of stablecoins used for payments?

While we are supportive of the proposed aims, we believe further clarity is needed on what exactly the approach is and how it would be applied in practice. Additional detail is needed on the scope of the regime, on how systemic importance will be assessed, who would be captured by the regime, how it would be applied, and at what stage of a company's growth compliance with different aspects of the BoE regime would be required. Furthermore, as discussed throughout our response, there is a danger of cliff edge risks when transitioning that should be carefully considered.

First, as they exist today, stablecoins have multiple use cases beyond payments, including but not limited to trading, investment, as a store of value, and as collateral to transactions. As such, we would encourage the BoE to make clear delineations on what the framework will capture. If a stablecoin is issued, it could feasibly be used for payment purposes whether or not they are intended for that purpose by their issuers. There may also be stablecoins that emerge as systemic, in some form, but are not used widely for payments. We would encourage stablecoins that are *not* used for systemic retail payments such as these to be excluded from the proposals. We would welcome clarification that should such a stablecoin emerge that is widely used for purposes other than payments, the BoE would not seek to regulate it (or, for example, its issuer), given the framework under the Banking Act 2009 is intended for payments firms.

GDF members are concerned that the DP suggests a future regime that may "prevent(s) stablecoins from performing other functions, such as lending or investment" is at odds with the nature, purpose, and use of stablecoins. We would note that as the market exists today, stablecoins are not established uniquely as payment instruments, so to treat them as such and to expect them to behave as such is inconsistent with the reality of the market. Furthermore, from the perspective of competition, it is likely that it would be neither attractive nor feasible for most existing stablecoins and their issuers to design a stablecoin specific for the UK market nor one that is limited to payment purposes. As such, we would encourage the BoE to further consider how their requirements may apply or not apply to stablecoins at large, and at what point in the value chain it is feasible to draw the distinction and apply payments regulation.

Additionally, throughout the DP stablecoin issuers and payment systems are used interchangeably. This makes it unclear if the regime aims to capture the action of the payment or the stablecoin itself. In summary, clear delineation of the scope is crucial.

Second, we would encourage the BoE to clarify at what specific threshold a payment stablecoin is deemed to be systemic. We would encourage further clarity around at what point prior to this - or at what point after crossing this threshold – that a payment system must comply with requirements for systemic payment stablecoins and how this process could be managed. While we understand that it may be difficult to have an exact quantitative systemic threshold, we would encourage consideration of *indicative* quantitative thresholds to provide further clarity. For example, this already exists in other areas of UK regulation such as MREL policy and overseas branch policy and such thresholds are beneficial for firms in their planning and preparedness to meet regulatory requirements, whilst still leaving the regulators discretion to consider individual cases.

For example, within Box E it is noted that the BoE will consider 'the number and value of the transactions that the system presently processes or is likely to process in the future'. This is slightly vague as it is not clear how far in the future these projections may be made. Given that significant changes to a SPS business model may be needed if it changes from non-systemic to systemic, it would be beneficial to know along what timelines it is being assessed.

Another point that requires further clarity is that the DP notes the nature of the transaction and if it is wholesale or retail will be assessed. As this regime is focusing on retail systemic stablecoins, this seems to be an unneeded distinguishing factor. Furthermore, as noted further under Q5 stablecoins may be used for both retail and wholesale purposes. Using this as an assessment factor may not be an effective way of determining retail systemic importance.

Further to the above points, we would also encourage additional guidance on how the BoE will differentiate between systemic indicators and thresholds for the different types of payments firms within the value chain. As the DP states that, "The Bank will regulate recognised service providers in the light of the risks those entities pose to the functioning of the payment chain as a whole. These could include, for example, entities such as wallet providers and payment service providers, as well as issuers (if separate from the recognised payment system operator)." As these different types of firms will have different business models and metrics, it will be important for the regulators to work with industry to determine what systemic measures would be appropriate in each category of firm. From that determination, greater specificity will also be required in their ongoing regulation and supervision as a wallet provider for example, will likely have different appropriate regulatory requirements to a stablecoin issuer.

Finally, given the very broad discretion that HMT and the BoE has in designating or specifying firms so as to bring them within scope of its regulation, and recognising that these assessments will necessarily be firm and fact specific, we would welcome the introduction of a clear and transparent process under which firms could seek indicative assessments from the BoE as to whether they are likely be considered systemic. This could take the form of a "no action letter" style process under which the BoE could specify, in respect of a firm's particular business model and growth plans, the conditions under which the BoE would be likely to continue to consider the firm non-systemic. Those assessments (or summaries of them) could be published, creating a bank of precedents that would provide clarity to the industry on how HMT and the BoE will approach their determinations of systemic status.

5. Do you agree with the Bank's proposed approach to the regulatory framework for systemic payment stablecoins, as set out in Section 2?

While GDF is supportive of the aims of the proposed framework, we believe further consideration may be needed to develop an effective and proportionate approach.

First, as set out in response to the above question we believe it is crucial to clarify what exactly is meant by 'systemic' in the context of stablecoins. We would encourage the BoE to provide further guidance on what specific metrics will be used, and if these metrics will vary from those currently used to assess the systemic impact of existing payments systems. Furthermore, as noted under the previous questions further clarity is required for firms to know at what point prior to this - or at what point after crossing this threshold - a payment system must comply with requirements for SPSs.

Second, we believe that the proposed regime could be more flexible to accommodate different business models and structures. Mandating 100% backing by reserves held at the central bank with transaction fees only would severely limit the business models that currently exist in today's market. This would also serve to increase some of the cliff edge risks that may occur if issuers transitioned from systemic to non-systemic. For example, significant changes would be needed to the issuer's business model under the current proposals. For an SPS at non-systemic level, they could have a model whereby they are able to back with HQLA / cash reserves mix and generate income off the assets (lowering transaction fees if not eliminating them) but then at systemic level they would only generate income from transaction fees as well as changing their entire treasury management function, among other changes needed. This would be a significant burden that may also have the unintended consequence of discouraging issuers from becoming systemic.

Further to the above risk to businesses in transitioning from one regulatory regime to the other, there are financial stability risks associated with a disorderly transition that should be considered. If a firm grows under the FCA regime and has a large number of customers relying on them for payments, if the if the business was to suddenly stop being profitable due to inability to transition with new systemic business model requirements this could have an unintended adverse impact on consumers as well as financial stability,

Next, we would raise the issue that there seems to be a potentially arbitrary distinction being drawn between retail and wholesale stablecoins. An SPS could potentially be used for both retail and wholesale purposes. However, if it is possible for the same stablecoin to be used for both retail and wholesale purposes and in different regulated systems, then this may result in unintentionally creating an artificial limitation. Especially as a stablecoin wholly backed by reserves held at the central bank - a synthetic CBDC in effect - would be hugely appealing to wholesale digital asset markets.

Additionally, we would also note that further clarity is needed for the 'systemic risk manager. It is unclear how the designation of a systemic risk manager would work in practice and who would take on the responsibility. Additionally, it would be logical to align this type of risk management to the practices and roles that exist within other aspects of the UK's financial services regulatory regime. We would encourage alignment across these different regimes when creating risk management proposals and believe that the most effective and appropriate way would be to rely on oversight of the most relevant players rather than a separate risk manager. Furthermore, we would encourage additional consideration of what liability the systemic risk manager has across the whole of the payments chain. It is important that the burden on the systemic risk manager is reasonable and workable, otherwise it is likely that this will not be a viable framework for market participants.

Finally, while we are supportive of the Bank's objectives in maintaining a clear differentiation and delineation between the activities and regulatory status of banks, versus those of stablecoin issuers, we would draw a distinction between stablecoin issuers and institutions that create credit. In our view, it is not the level or type of risk taken on by the issuer that distinguishes it from a bank; rather, it is the ability of a bank to create credit through its engagement in fractional reserve banking that is the key differentiator. Therefore, we would challenge the DPs proposal to apply "equivalent standards as those applicable to commercial bank money". As systemic stablecoins do not create credit, the standards around risk management - and backing assets in particular - should be proportionate to the nature of the activities being undertaken - which, by any measure, will be less risky, not more so, than those undertaken by commercial banks in the course of credit creation through fractional reserve banking. GDF members are concerned that the DP appears in places to suggest a false binary choice between the banking regime and the 100% central bank reserves backing model whereas there are in fact a spectrum of potential business models in between, and the regime should be able to facilitate those business models, supported by proportionate regulation.

6. Do you agree with the Bank's assessment of the risks posed by vertical integration of stablecoin functions? Are there other risks that the Bank should consider based on existing business models? What mitigants could be put in place to ensure that risks posed by multi-function entities are addressed?

Yes, GDF is supportive of the risk assessment, and believe that the risks posed by vertical integration should be mitigated appropriately by SPSs. Furthermore, we support vertical integration issues being dealt with on a case-by-case basis rather than blanket restrictions on what activities can or can't be combined. We believe this approach is proportionate and pragmatic. We also agree that, in line with the PFMIs, systemic payment systems using stablecoins should be required to focus particular attention on certain aspects of their governance and risk management arrangements to address the risks posed by vertical integration. GDF members also support these arrangements to potentially include legally separating the non-stablecoin services that a multi-function entity provides, if those services present a distinct risk profile from, and potentially pose significant additional risks to, the activities performed within the stablecoin payment chain.

7. Do you agree with our approach regarding subsidiarisation of non-UK issuers? Do you agree with our approach to other non-UK elements of the payment chain? What alternative policy arrangements could be used to effectively supervise, oversee, and regulate non-UK systemic stablecoin issuers and other non-UK elements of the payment chain?

As a broad approach, GDF is supportive of the subsidiarisation of systemic non-UK issuers, provided that other mitigants to the relevant risks cannot address the relevant risks. This is consistent with the UK's approach to international firms. However, practical questions remain about the implementation of the approach. For example, we would encourage greater specificity on how the regime would address discrepancies between the business models of potential stablecoin issuers and their non-UK businesses vs. a putative UK business. Furthermore, consideration should be given to how this impacts the attractiveness of the UK market. There is a risk of the potential appeal of non-sterling denominated stablecoins issued in other jurisdictions which may become used for certain retail purposes in the UK. Overall, the practical implementation would need specificity and greater clarity in order to avoid perverse outcomes for consumers.

8. Do you consider that the Bank's existing binding rules on governance, operational resilience and third-party outsourcing risk management are suitable for systemic payment systems using stablecoins?

Yes, GDF is supportive of the existing operational resilience framework, as well as the existing framework on governance and third-party outsourcing risk management and believes it would be fit for purpose for SPSs as well.

We would also note that when considering third party management, that there is a broad spectrum of technologies that underpin stablecoins and the emerging new digital payments systems. While also discussed under a subsequent question, we would note that it is important to consider that for stablecoin issuers who build a business on layers of technology, there isn't necessarily a binary choice of using permissionless vs permissioned ledgers. There is a spectrum of different technologies, and different layers of distributed ledgers each with differing levels of control. The responsibility for the issuer, much like with third party risk management, is to ensure that when building their own technology stack and enterprise, that they are able to appropriately mitigate the risks to their particular business model.

An analogy can be drawn to retail banks who have banking applications for consumers. The application must use and be interoperable with the internet, yet the bank itself is not responsible for the resilience and governance of the internet itself or the internet provider. They simply must mitigate the risks for their consumers and their application. Similarly, a stablecoin issuer should be able to demonstrate to supervisors and regulators that it is mitigating risks for the technology and third-party providers it chooses to use. This is consistent with the UK's existing guidance on outsourcing. This is further expanded upon in our response to the following question.

9. Do you consider that stablecoin issuers can exercise sufficient control over, and mitigate the risks of, public permissionless ledgers (be it via rule setting and/or the use of innovative solutions)?

GDF would encourage the BoE to first consider permissionless ledgers as a whole and what role they play in the ecosystem. We would suggest that it is not feasible, nor practical for the BoE to seek to regulate the underlying technology layer (the ledger). Instead, it would be practical to apply payments regulation at the entity level where the regulated financial activity is occurring.

The DP queries whether any entity can have control over permissionless ledgers. However, this is not a practical proposal. No one entity can or should be expected to have control over the ledger, and any framework should not focus on this level. Similarly, in the existing banking system banks are not expected to have control over the totality of the internet upon which banking applications run. Instead, requirements should be imposed on the entities that build on top of and use the ledgers so that they properly manage the risks involved.

GDF members are concerned that a restriction on the type of underlying ledger could limit future innovation and prevent solutions from being developed that would appropriate mitigate risks. Instead of preventing future use of permissionless technology, we would encourage instead a specific requirement for stablecoin issuers, systemic or otherwise, to demonstrate a process for analysing their visibility, controls, and governance that meet the standards and requirements of UK authorities. This would mitigate risks and in fact, could provide enhanced monitoring and transparency due to the potential for increased visibility due to the inherent features of blockchain and DLT networks.

10. How do you consider that existing and emerging stablecoin payment chains operating with a public permissionless ledger may be adapted in order to meet the Bank's expectations and international standards?

GDF would note our response to question 9 above. GDF members feel that the development of a future regulatory framework would be more future proof if it was also open to the possibility of public permissionless ledgers being used, subject to risks being identified and adequately managed and mitigated. We believe that this would be crucial to enabling continuity for existing and emerging stablecoin chains operating on public permissioned ledgers, subject to their compliance with these risk management obligations.

11. Do you agree with the Bank's assessment of the important role of backing assets in ensuring the stability of value of the stablecoin?

Yes, GDF members agree that the role backing assets play is crucial. However, we believe that there are some fundamental clarifications that are needed within the assessment. We agree and fully support the BoE's requirement that any form of money used with confidence as a means of payment in the UK economy must maintain its value at all times and is interchangeable at par for other forms of sterling-denominated money. Yet, we would note that stablecoins have some fundamental differences from commercial bank models and commercial bank money and do not believe it is beneficial for stablecoins to be regulated as part of the banking regime.

The distinguishing feature of credit institutions is their ability to create deposits by making loans / extending credit. An issuer of a systemic stablecoin that is backed by a mixture of HQLA plus cash reserves does not have the same model as a commercial bank as they are not creating deposits. As discussed by the BiS, stablecoins are bearer instruments, commercial bank money (deposits), in any form including tokenised, cannot be.

From a competition perspective, the proposed 100% central bank reserve backing requirement is also far more conservative and inflexible than international comparators. We would encourage further consideration of this, especially in light of the UK's stated intention of being a hub for the development of digital finance.

Furthermore, while it is important for backing assets to be part of the framework, perhaps not limiting this to sterling would be more future proof. Mandating implementation of backing assets to be cash reserves held at the central bank could be very limiting to business models and may not achieve the BoE's intended aims. There are additional challenges that we would also encourage the BoE to consider such as the fact that holders of stablecoins will not always be customers of the issuer and it may be very difficult to determine the exact quantity of UK customers.

As such, GDF would encourage the development of a framework that mandates appropriate and proportionate risk management with respect to backing assets. We are supportive of a regime for backing assets that requires a mixture of cash and cash-equivalent HQLA, and it would be reasonable to expect these to be GBP-denominated in order to minimise FX risk. Parameters could be set around permissible HQLA that would ensure only assets having minimal liquidity, counterparty and market risk exposure could be used as backing assets. Such a regime could also mandate risk management arrangements and methods (including potentially mitigants such as over-collateralisation) that would be proportionate to the level and type of risk taken by the issuer, and firms' proposals around backing asset composition and management could be individually assessed by the regulator, similar to advanced model approval. This would not be disproportionately cumbersome, as we do not anticipate that there will be a vast number of issuers at the systemic level. It would however give rise to a greater diversity of business models and a healthy ecosystem for different types of stablecoins.

Finally, as also noted in our response to the FCA DP other stablecoin proposals in other jurisdictions have presented alternative approaches that set a more flexible standard for backing assets. The HKMA Proposals for example set out that:

"*6.2.2. Investment limitations: The reserve assets must be of high quality and high liquidity with minimal market, credit, and concentration risk. Reserve assets should be held in the referenced currency, with flexibility allowed on a case-by-case basis, subject to approval by the MA. In determining the composition of reserve assets, the FRS issuer should take into account the liquidity requirements of the FRS concerned and how the reserve assets will be managed and invested to meet such requirements. The MA will need to be* *satisfied that the types of investment the FRS issuer proposes to hold are appropriate. In this regard, the FRS issuer should put in place an investment policy for reserve assets that is reviewed for suitability on a sufficiently frequent basis as the FRS business develops.[1]"*

12. Do you agree that the proposed remuneration policy is consistent with systemic stablecoins being used primarily for payments?
GDF agrees with the proposed prohibition on payment of interest to stablecoin holders but would also encourage the BoE to consider how to build flexibility into the regulatory framework. There may be new and still developing business models which may approach renumeration differently and a future-proof approach would be beneficial for fostering innovation in UK markets.

13. Do you agree with the Bank's proposed requirements on the redemption process, including the role of all firms in the payment chain?
Yes. GDF is supportive of this proposal.

14. Do you have views on requirements on redemption fees, or prohibiting these, to minimise any frictions across the redemption process?
GDF members would encourage that if the only income that issuers can generate is from transaction fees, then it may be beneficial to permit redemption fees to at least cover costs. It may also be beneficial to also potentially allow a fixed percentage add on, on top of costs.

15. Can you identify any issues with the requirements on systemic stablecoin issuers and other relevant firms within a payment chain to cooperate and support the appointed administrators with a view to facilitating redemption or payout in the event of a firm failure?
GDF members agree that it is reasonable for the Bank to expect that issuers and other relevant participants in the payments chain should cooperate with administrators or insolvency officials, in the event of an insolvency, to facilitate redemption and payout to all impacted holders of a stablecoin.

16. Do you agree that issuers should have access to customer information to be able to fulfil redemptions in the case of the failure of an entity providing the customer interface, e.g., a wallet provider and/or to facilitate a faster payout in insolvency?
GDF members believe that this proposal requires further clarification. If it is implying that issuers should know who is holding the stablecoin at any time, this may note technically be feasible. If you consider stablecoins to be bearer instruments, this is not a workable requirement especially where holders self-custody their stablecoins as may be the case in particular for retail markets.

Furthermore, we would note that provision of the customer data to the issuer may still result in a requirement for the issuer to on-board the customers directly, which could be time-consuming and expensive. Consideration should therefore be given to the prospective timelines and compensation given to the issuer for the additional operational overhead, as well as any additional considerations that may be warranted for the wallet provider's insolvency regime.

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[1] https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2023/20231227e4a1.pdf

17. Do you have views on the Bank's proposed safeguarding regime being centred on two key features (statutory trust in favour of coinholders; and safeguarding rules)?
GDF members believe that some of these proposals require further clarity. For example, under the safeguarding rules they have set out requirements for segregation. However, if in line with the proposals the backing assets are reserves held by the Bank of England. If this is the case the segregation requirement seems unnecessary as the backing assets would already be segregated.

18. Do you think there are any other features that need to be reflected in the safeguarding regime for systemic payment stablecoins?

19. Do you agree with the requirements for stablecoins owned by the issuers held in treasury wallets?

20. Do you consider that the capital requirements would effectively mitigate risks that may result in a shortfall in the backing assets or that can threaten the ability of issuers to operate as a going concern?
In addition to our above comments on backing assets, we would add the additional views for consider on capital buffers.

First, we would encourage an adjustment and a reconsideration of the capital buffers given that stablecoin issuers are not banks as discussed above. If in addition to the 100% backing of the stablecoin, requirements that apply to banks are also added on, there should be an adjustment as these reserve assets would be something that a bank would hedge for.

In theory, if the stablecoin is backed 100% by reserve assets held in the central bank, there should be zero credit risk and the capital buffer should only cover wind down expenses. Unlike for banks, who hedge their credit risk, you should not fail if the central bank, in this case the bank of England holds all of your reserve assets.

Noting competitiveness again, these capital requirements seem to be more stringent than the PFMIs and other international standards. This could cause stablecoin issuers and other participants in the value chain to seek other jurisdictions instead of the UK.

Overall, we would encourage a reconsideration of the capital requirements as systemic stablecoin issuers are not banks and under the DPs proposals would have a very different credit risk profile.

21. Do you have views on the approach (including any existing or bespoke methodologies) that should be considered for calibrating capital requirements?
Please see above comments under Q20.

22. Do you have views on the requirement to hold reserve assets in a statutory trust, to ensure that stablecoins are fully backed and the backing assets are duly protected and available to satisfy coinholders' redemption requests at all times?

23. Do you have views on the range and quality of the assets issuers would be required to hold to mitigate shortfall risks?

24. Do you agree that, at least during a transition, limits would likely be needed for stablecoins used in systemic payment systems, to mitigate financial stability risks stemming from large and rapid outflows of deposits from the banking sector, and risks posed by newly recognised systemic payment systems as they are scaling up?

Further clarity is required as while consumers may be able to operate within the limits businesses won't be able to. It is crucial that the final framework does not exclude businesses. If a retail consumer takes a direct deposit in stablecoins and then wishes to use it for rent or groceries etc. and businesses won't accept it (due to the limits) then it is likely that stablecoins won't be used, with the result that there will be no systemic stablecoins in the UK.

Additionally, if transactions are coming in and out it is difficult to have a limit for one day. The amounts could change widely through the day but then still be under the limit at the end of the day so it may not achieve its intended aim. It may also be difficult from an operational perspective for the BoE to supervise these limits for both businesses and consumers.

Finally, as mentioned previously on cliff edge risks, it is important for the final framework on limits to consider the interaction between the FCA regime and the BoE regime. The regimes should aim to avoid the unintended consequence of consumers losing access to their payments services due to misalignment in requirements if a firm they are interacting with becomes systemic.

25. Do you have views on the use, calibration and practicalities of limits?

Please see above comments under Q24.

26. Do you have other views on the Bank's proposals for requirements for systemic stablecoin issuers, as set out in Section 5?

27. Considering the requirements for issuers in Sections 4 and 5, how might business models need to change in order to retain commercial viability from those in the market today?

We would note, as discussed in response to previous questions that there are significant cliff edge risks involved in the complete overhaul of a business model. This may have the unintended consequence of businesses collapsing or exiting the UK market.

Furthermore, GDF members would note that as the model proposed by the BoE does not exist for any current market participants, there is a risk of transitioning to an entirely new and untested business model.

Finally, we would encourage further clarity to be provided on what the business model transition would imply for the firm's previous FCA license. As they would now have a new type of business, would a new FCA registration and licensing be required? If so, this could also pose a cliff edge risk and potentially add an additional compliance burden on organisations.

28. Do you agree with our proposed expectations for custodial wallet providers for systemic stablecoins (including when provided via exchanges) and how we propose applying them in a systemic stablecoin payment chain?

29. Do you consider that unhosted wallets could operate in a way that the systemic stablecoin payment chains can meet the Bank's expectations (including for the issuer to deliver against the Bank's requirements set out in this Discussion Paper)?

Yes, unhosted wallets should be considered as able to participate fully in the stablecoin payment chains.

The Bank's expectation for custodial providers includes identity authentication, safeguarding control and administering legal rights, and facilitating exchange (table 6.2). 'Unhosted' or 'self-hosted' wallets are software ('hot') or hardware ('cold') solutions that, as the Bank correctly identifies, 'provide users with full control over the means of access to their stablecoins'. They have a range of benefits, including managing counterparty risk from the centralised storage of assets, and providing customers with direct control in a safe & secure way. Whilst the technology is unique, a similar analogy could be drawn to a leather wallet that contains payment cards (read 'keys') inside that allow control and use of assets. This helps to safeguard coinholders control over their stablecoins, including removing segregation risks, protecting customer beneficial ownership, retention of customer ability to redeem directly from the issuer, and minimising intermediary operational risks, such as hacks or fraud. The Bank notes that seed phases can lead to the irrevocable loss of stablecoins; whilst this is true, we would emphasise the range of technological solutions that exist to manage this risk (including the removal of seed phases entirely) and should not be considered a barrier to customer right to decide whether or not they would prefer to use such a wallet.

Self-hosted wallets do not themselves undertake - and therefore do not preclude - exchange or identity authentication services or facilities. These are undertaken at the exchange or issuance level and whilst the wallet provider would not be required to take additional steps to know or verify the identity of the wallet holder, that holder of these coins would regardless have to go through these checks when receiving or using their stablecoins, ensuring that exchangers or issuers would have sufficient information regarding the transaction. The publicly verifiable aspect of a ledger, based on pseudo-anonymous addresses, means that the ability is retained to track coins across multiple addresses or users. The 'on/off' ramp should be considered the gate at which holders are checked and verified to abide with regulatory principles.

Self-hosted wallets do not preclude or prevent issuers from delivering against the Bank's requirements. Their sole role as the storage of the keys required to demonstrate ownership and enable use of stablecoins means that holders of coins in a self-hosted wallet would retain the same legal rights and issuers would be able to undertake their requirements as if these coins were held in a custodial wallet. We would encourage that other restrictions that the Bank envisages could be enforced at the exchange or issuance level.

Finally, we would also note that the AML/CTF regime is likely appropriate and sufficient to supervise and mitigate risks associated with unhosted wallets. This would be consistent with the application of AML and CTF regimes across other sectors of financial services.

30. Do you agree with the Bank's proposal to regulate off-chain ledgers operated at systemic scale under the same requirements otherwise applicable to systemic payment systems?

31. Do you agree with the Bank's approach to regulating service providers to firms operating in systemic stablecoin payment chains?

32. The Bank will have due regard to the Public Sector Equality Duty, including considering the impact of proposals for the design of the regulatory framework for systemic payment stablecoins on those who share protected characteristics, as provided by the Equality Act 2010. Please indicate if you believe any of the proposals in this Discussion Paper are likely to impact persons who share such protected characteristics and, if so, please explain which groups of persons, what the impact on such groups might be and if you have any views on how any impact could be mitigated.

GDF does not foresee the proposals in this Discussion Paper as being likely to impact persons sharing protected characteristics.