

11 March 2026

SUBMITTED VIA EMAIL: hlfinserveg@parliament.uk

To whom it may concern,

Re: UK Parliament's House of Lords Financial Services Regulation Committee launches stablecoin inquiry

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

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

1. Overall, we support a UK stablecoin regime that is robust and internationally aligned, with clear supervisory coordination between the FCA and the Bank of England and a workable pathway for sterling stablecoins to scale safely. The key policy choice is not whether stablecoins will be used in the UK, but whether sterling-denominated stablecoins develop inside a proportionate UK perimeter, or whether UK users increasingly rely on foreign-issued instruments. We encourage the Committee to focus on the calibration points that determine practical adoption: reserve design and liquidity assumptions, the transition from non-systemic to systemic supervision, and clear permissions for regulated intermediaries to support stablecoin-based payments and settlement.
2. This is not a theoretical concern. The dominant stablecoins in global circulation today are USD-denominated, issued by US entities, governed by US law, and subject to US supervisory priorities. An issuer subject to US jurisdiction may, at the direction of US authorities, be required to freeze or block access to funds, a power that has been exercised in practice. UK users and institutions relying on such instruments are therefore exposed to operational dependencies and supervisory choices over which the UK has no direct influence. This does not mean that USD-denominated stablecoins have no role in the UK market, and GDF and CCI do not advocate for their exclusion. It does mean that a UK regulatory framework which crowds out domestic GBP issuance, leaving UK users with no credible sterling alternative, would leave the UK with less sovereignty over its own digital payments infrastructure than is either necessary or desirable.
3. Stablecoins may have developed within crypto markets, but their significance now lies in their role within the wider evolution of digital payments and financial market infrastructure. The central policy question for the United Kingdom is therefore whether sterling-denominated stablecoins will develop within a clear and proportionate UK regulatory perimeter, or whether UK users and institutions will increasingly rely on foreign-issued instruments embedded in offshore regulatory regimes.
4. Since 2014, stablecoins have evolved from niche settlement tools within cryptoasset trading into globally significant digital representations of fiat currency. They are now used in trading, cross-border payments, treasury operations and, increasingly, as the settlement asset for tokenised securities and other distributed-ledger-based financial markets. Major jurisdictions, including the United States and the European Union, have implemented or are finalising comprehensive regulatory frameworks. The UK has a timely opportunity, under the Financial Services and Markets Act 2023, to shape a regime that safeguards stability while reinforcing competitiveness.

5. We welcome the House of Lords Financial Services Regulation Committee’s careful consideration of how stablecoin growth engages the statutory objectives of the Bank of England, the PRA and the FCA, and agree that this provides the correct analytical framework for evaluating both risks and opportunities. In our view, a well-calibrated and internationally coherent regime can positively contribute to those objectives.

What is a Stablecoin

6. A stablecoin is a digital representation of fiat currency, issued on a distributed ledger and designed to maintain a stable value relative to a specified reference asset, most commonly a national currency such as the US dollar or sterling. Unlike unbacked cryptoassets, whose value fluctuates with market sentiment, a well-structured stablecoin is designed to hold its peg through full asset backing: for every unit of stablecoin in circulation, an equivalent unit of value is held in reserve, typically in the form of central bank deposits, short-dated government securities, or high-quality liquid assets. This one-to-one backing is the defining structural feature that distinguishes a regulated stablecoin from partially backed instruments, and it is the architecture that all leading global regulatory frameworks, including MiCA, the GENIUS Act, and the UK's proposed FCA and Bank of England regimes, are built around.
7. It is important to be clear about what a stablecoin is not. It is not a deposit. Deposits have fractional reserve backing: commercial banks hold a fraction of deposits as reserves and deploy the remainder as credit. By contrast, a regulated stablecoin issuer holds 100% of backing assets in reserve, does not lend against them, and does not create credit. The stablecoin is therefore closer in economic character to a narrow, fully reserved payment instrument, a digital representation of existing money, not a new form of credit creation. It is not an investment product. Stablecoins do not pay interest to holders and are not designed to generate a financial return to the holder. They are payment instruments: designed to move value quickly, reliably, and across borders, in a form that is programmable and operable on distributed ledger infrastructure.
8. The practical significance of the stablecoin as a payment instrument becomes clearest when viewed in context. A short-dated gilt is a stable, high-quality asset, but it cannot be used to make a cross-border payment at midnight on a Sunday. A stablecoin backed by that gilt can. Once issued on a distributed ledger, the token is transferable, programmable and operable on a 24/7 basis, without reliance on correspondent banking relationships, settlement windows, or intermediary chains that add cost and latency. It is this combination, the stability of high-quality assets with the functionality of digital

infrastructure, that gives stablecoins their utility as both a payments innovation and a building block for the next generation of financial market infrastructure.

9. As set out in detail in the [Global Stablecoin Regulatory Playbook](#), GDF and CCI define a qualifying stablecoin as one that is: fully backed on a one-to-one basis by high-quality liquid assets; issued and redeemable at par; subject to robust reserve custody, disclosure and attestation requirements; operated within a clear AML/CFT and sanctions compliance framework; and governed by transparent redemption rights that are enforceable by holders. This is the definition that underpins our engagement with the FCA, the Bank of England, and HM Treasury, and it is the framework against which we assess the calibration of the proposed UK regime throughout this response.¹
10. Overall, the stablecoin market has evolved materially since these instruments first emerged. What began as a settlement tool within cryptoasset trading venues has developed into a global digital payment and financial market infrastructure layer, with applications spanning cross-border payments, corporate treasury management, wholesale securities settlement, collateral mobility, and, increasingly, the "cash leg" for tokenised financial markets.

How do Stablecoin Issuers Make Money

11. Understanding how stablecoin issuers generate revenue is important context for the regulatory design questions this inquiry is considering, in particular the calibration of reserve asset requirements and the proposed level of unremunerated central bank deposits. The business model is straightforward, but its commercial viability is directly sensitive to regulatory choices.
12. The core revenue mechanism is the reserve spread. When a stablecoin issuer mints a coin, it receives fiat currency from the purchaser and holds that fiat in a portfolio of backing assets, typically short-dated government securities, central bank deposits, and high-quality liquid equivalents. The issuer retains the interest income generated on those assets. It does not charge holders transaction fees for using the coin, and (in most emerging regulatory regimes) does not pay interest or yield to holders. The stablecoin in circulation represents, in effect, a claim on the reserve portfolio, and the issuer's earnings are the yield on that portfolio net of operating and distribution costs.

¹ It is important to note that as stablecoin adoption increases, it will become important for stablecoin issuers to explore ways to preserve personal privacy on transparent blockchains. Many digital asset projects have developed privacy preserving features that can be leveraged for stablecoin transactions. Such features, in fact, may become critical for financial institutions to comply with UK data privacy requirements.

13. This model is transparent and well-evidenced from publicly available issuer data. Circle, the issuer of USDC, reported total revenue and reserve income of \$2.7 billion for the full year 2025, a 64% increase on 2024², driven primarily by growth in the volume of USDC in circulation and prevailing interest rates on its reserve assets, which are held predominantly in US Treasury bills and government money market funds. Circle's reserve return rate in Q3 2025 was approximately 4.2%³. Tether, the issuer of USDT and the world's largest stablecoin by market capitalisation, reported net profits exceeding \$10 billion in 2025⁴, supported by total US Treasury exposure of over \$141 billion. Both figures reflect the scale achievable at USD market capitalisation, where network effects, deep liquidity, and established distribution channels have enabled very large reserve portfolios.
14. Two important structural features of the model are worth highlighting for the purposes of this inquiry:
15. First, the business model is rate-sensitive. Because revenue is derived from the yield on reserve assets, profitability is directly linked to prevailing interest rates. At higher rates, the reserve spread is wider and the model is more commercially robust. As rates decline, the viable proportion of unremunerated reserves shrinks because the remaining yielding assets must cover a higher share of total operating and distribution costs. This is directly relevant to the Bank of England's proposed requirement that systemic stablecoin issuers hold 40% of backing assets in unremunerated central bank deposits. At current Bank Rate, a 40% unremunerated requirement reduces the effective yield on total issuance to approximately 60% of the prevailing rate, net of distribution and operational costs. For an early-stage sterling stablecoin issuer without the scale advantages of the largest USD issuers, this materially constrains commercial viability. GDF and CCI will be submitting further data from our member issuers on this specific point, as requested by the Committee during the oral evidence session.
16. Second, distribution costs are a significant and legitimate component of the issuer cost base. Stablecoin issuers do not interact with end users directly in most cases. They rely on exchanges, payment platforms, and other regulated intermediaries, referred to collectively as crypto asset service providers, to distribute the coin, perform KYC and AML checks, and provide the customer-facing interface for accessing, holding, and converting stablecoins. Those intermediaries are compensated through a share of the

² <https://www.circle.com/pressroom/circle-reports-fourth-quarter-and-full-fiscal-year-2025-financial-results>

³ https://www.sec.gov/Archives/edgar/data/1876042/000187604225000045/nolivelinksversion_q32025.htm

⁴ <https://tether.io/news/tether-delivers-10b-profits-in-2025-6-3b-in-excess-reserves-and-record-141-billion-exposure-in-u-s-treasury-holdings/>

reserve income generated on coins held on their platforms. For Circle, distribution costs, primarily payments to Coinbase and other strategic partners, totalled approximately \$1 billion in 2024, representing a significant proportion of gross reserve income⁵. This revenue-sharing structure is commercially analogous to the cost of deposit acquisition for a bank, and it reflects the practical reality that stablecoins reach users through intermediaries rather than through a direct issuer-to-consumer relationship.

17. This architecture has important implications for regulatory design. The regime needs to be calibrated not only for the issuer in isolation, but for the full value chain from the issuer through to the intermediaries that distribute and provide liquidity for the coin. It also means that the commercial viability of a sterling stablecoin issuer depends not only on the reserve asset framework applied at the issuer level by the Bank of England, but on whether the FCA's regime for crypto asset service providers creates a functional and cost-effective distribution environment in the UK. A regime that is well-calibrated at the issuer level but creates disproportionate friction for intermediaries will constrain the development of the sterling stablecoin market just as effectively as poorly calibrated reserve requirements.
18. In summary, the stablecoin business model is structurally sound and market-evidenced, but it is commercially sensitive to the proportion of reserves that must be held in non-yielding assets and to the cost of distribution infrastructure. Regulatory calibration that maintains reserve quality and systemic safeguards, while preserving a commercially viable yield on the earning portion of reserves, is both achievable and essential to the UK's goal of developing a competitive sterling stablecoin market.

How does the relationship between stablecoin issuers and intermediaries work

19. A stablecoin, once issued, can be held in a self-hosted digital wallet and transferred directly to any recipient anywhere in the world at minimal cost and without the involvement of any intermediary. This is a fundamental property of the technology and one that distinguishes stablecoins from traditional payment rails. There are no correspondent banks, no settlement windows, no cutoff times, and no per-transaction fees charged by the issuer. In this respect, a stablecoin functions as a form of digital cash: bearer, transferable, and settlement-final on the ledger.
20. The involvement of intermediaries is therefore a choice, not a structural requirement. Many users will access stablecoins through exchanges or payment platforms, just as many people choose to conduct their financial lives through a retail bank or brokerage

⁵ <https://decrypt.co/312757/coinbase-circles-residual-usdc-reserve-revenue-filing>

rather than holding physical cash directly. Where an intermediary is involved, that intermediary may charge fees for the services it provides, including onboarding, conversion between stablecoins and fiat currency, custody, and transaction execution. Those fees reflect the cost of the intermediary's services, not the cost of the stablecoin itself.

21. This distinction matters for how the cost advantages of stablecoins are properly assessed. The relevant comparison is not between a stablecoin held on an exchange and a domestic bank transfer, where fees on both sides may be modest. The more meaningful comparison is in cross-border and wholesale contexts, where traditional correspondent banking rails involve multiple intermediary legs, each adding cost, delay, and potential failure points. A traditional international wire transfer can take two to five business days to settle, with fees averaging 6% for retail remittances and material costs even for institutional flows. A stablecoin transfer, even where a payment platform facilitates the transaction, can settle in seconds at a fraction of that cost, with full traceability on the ledger throughout.
22. It is also worth noting that the intermediary layer in stablecoin markets is itself becoming more efficient and competitive as the sector matures and regulatory frameworks provide clarity. The number of regulated payment and conversion providers is growing, and competitive pressure on intermediary fees is a natural consequence of an open, accessible infrastructure that does not lock users into proprietary rails.
23. In summary, stablecoins remain materially cheaper and faster than existing banking infrastructure for the use cases where their advantages are most significant, regardless of whether a user accesses them directly or through an intermediary. The existence of fees at the intermediary layer is consistent with how users interact with any financial infrastructure and does not diminish the fundamental cost and efficiency advantages of the underlying technology.

Strategic Choice

24. The UK possesses structural advantages: deep capital markets, a coherent institutional framework, and legislative foundations under FSMA 2023. The policy challenge is therefore one of calibration and coordination.
25. A proportionate, internationally coherent stablecoin regime can support price stability, reinforce financial resilience, enhance market integrity, protect consumers, strengthen competition and advance international competitiveness and growth. An overly fragmented or misaligned approach risks diminishing sterling's role in emerging digital

markets and reducing the UK's supervisory influence over instruments its consumers and institutions nonetheless use.

26. The decisions taken at this stage will shape the UK's position within the next generation of digital financial infrastructure.

Risks and Regulatory Mitigants

27. Sterling-denominated stablecoins, if fully backed by high-quality liquid assets and redeemable at par, operate economically as narrow, fully reserved payment instruments. Where reserves are held in central bank deposits and short-dated UK government securities, they remain directly sensitive to policy rates and monetary conditions.
28. Unlike fractional reserve credit creation, such models do not expand credit independently of the banking system. Instead, they function as a digital wrapper around existing sterling assets. Properly structured, stablecoins can therefore reinforce rather than weaken monetary transmission mechanisms.
29. The greater macroeconomic risk to the UK is not stablecoin growth per se, but currency substitution within digital markets. If sterling instruments fail to scale and market participants default to USD-denominated stablecoins for settlement and collateral, this may gradually entrench foreign currency rails within UK-facing digital financial infrastructure. A competitive domestic framework mitigates this risk.
30. Stablecoins, like other transferable value instruments, can be misused. However, transactions conducted on distributed ledgers are inherently traceable relative to cash and many traditional channels. Regulated issuers can freeze assets in response to law enforcement requests and apply sanctions screening.
31. Bringing stablecoin issuance and distribution clearly within the UK regulatory perimeter enhances supervisory visibility and enforcement leverage. The alternative - driving activity offshore - weakens oversight.

Market Leadership and Innovation

32. Stablecoins have the potential to enhance competition within payments and digital financial services by lowering barriers to new product design and unbundling components of the traditional payments stack.
33. Stablecoins can also deliver consumer-facing benefits: faster settlement, reduced friction in cross-border payments and the ability to embed payments within digital services.

Consumer protection objectives are best advanced by bringing activity onshore within robust rules rather than discouraging domestic issuance.

34. In wholesale contexts, stablecoins may also support more transparent and efficient settlement processes for tokenised securities and digital market infrastructure. By embedding digital money within supervised environments, regulators can strengthen oversight of emerging market structures rather than leaving them to develop offshore.
35. However, regulation can unintentionally reduce competition if calibration results in disproportionately high fixed costs, rigid reserve requirements or cliff-edge transitions that only large incumbent institutions can absorb. A proportionate regime that maintains high standards while allowing viable business models to emerge supports competition consistent with the FCA’s statutory objectives.

International Competitiveness and Growth

36. Stablecoins form part of the infrastructure layer underpinning digital capital markets. Distributed ledger technology is increasingly used to support tokenised securities, digital gilts, programmable derivatives and real-time collateral management. In this environment, stablecoins provide the settlement asset - the “cash leg” - for delivery-versus-payment transactions.
37. Without regulated, reliable digital money available on the same networks as tokenised assets, these markets cannot scale safely. Well-designed GBP stablecoins therefore have strategic relevance to the UK’s broader wholesale markets modernisation agenda.
38. There are also macroeconomic implications. Reserve-backed stablecoins generate demand for high-quality sovereign assets. In the United States, dollar-denominated stablecoins are significant holders of short-dated Treasuries. Anchoring GBP stablecoins in gilts could support liquidity in short-dated UK government debt while reinforcing sterling’s role in digital markets.
39. A clear and internationally interoperable regime would attract responsible issuance onshore, and support associated professional services and technology development and reinforce London’s position as a global financial centre. Conversely, excessive divergence from peer jurisdictions risks pushing issuance offshore while UK users continue to access foreign-issued instruments.

Responses to Consultation questions:

1. How has the global market for, and the issuance of, stablecoins developed since 2014? How does the UK market compare to the US and the EU?

40. Stablecoins have evolved over the past several years from a niche tool used primarily within cryptoasset trading venues into a globally significant, increasingly institutionalised form of internet-native value transfer, with growing linkages to sovereign debt markets and to mainstream payment and settlement use cases.
41. Since the first large-scale fiat-referenced stablecoins emerged in 2014, market development has broadly occurred in four overlapping phases: (i) early exchange-settlement and liquidity use (2014–2017); (ii) scaling through broader crypto-market adoption and infrastructure build-out (2018–2020); (iii) rapid growth alongside DeFi expansion and episodes of stress that exposed run/peg vulnerabilities (2021–2023); and (iv) renewed growth driven by institutional engagement, expanding payment/cross-border use cases, and regulatory clarification in major jurisdictions (2024–present). This progression has been accompanied by persistent market concentration and strong “dollarisation” dynamics, with USD-referenced stablecoins continuing to dominate issuance by market value.
42. Recent data indicate that the market has scaled materially in both breadth and size. The BIS notes that the number of active stablecoins increased from around 60 in mid-2024 to over 170 by mid-2025, while total stablecoin market capitalisation grew from around \$125bn to around \$255bn over less than two years. The market remains highly concentrated, with around 90% of market capitalisation accounted for by two issuers and is overwhelmingly USD-denominated (almost 99% by market value).⁶
43. By late 2025, the ECB similarly observed that combined stablecoin market capitalisation had reached an all-time high exceeding \$280bn, representing roughly 8% of the total cryptoasset market. The ECB also highlights continued concentration (USDT and USDC together accounting for the vast majority of market value) and the limited scale of euro-denominated stablecoins (around €395m).⁷
44. Alongside growth in outstanding supply, stablecoins have become more embedded in both market infrastructure and real-economy adjacent use cases. Circle reports that, since USDC’s launch in 2018, it has facilitated over \$850bn in “bridged” flows between fiat

⁶ <https://www.bis.org/publ/bisbull108.pdf>

⁷ https://www.ecb.europa.eu/press/financial-stability-publications/fsr/focus/2025/html/ecb.fsrbox202511_05~63636227b4.en.html

and supported blockchains, reflecting the scale of stablecoins' role as on/off-ramp and settlement infrastructure.⁸

45. At the same time, stablecoin expansion has deepened connections with short-dated sovereign debt markets through reserve management practices. The BIS notes that major issuers back tokens primarily with short-term fiat assets (including Treasuries, repos and deposits) and argues that the sector's growing interconnections with traditional finance have reached a stage where potential spillovers can no longer be ruled out.⁹ The US Department of the Treasury has also shared data noting that stablecoins as increasingly relevant to wholesale-market and collateral management use cases and describe market expectations of potentially "exponential" growth under regulatory and market-enabler scenarios (including projections of ~\$2tn market cap by 2028 in some cited forecasts).¹⁰
46. Finally, the development of the stablecoin market has been accompanied by significant advances in regulatory frameworks across major jurisdictions. As set out in GDF's Global Stablecoin Regulatory Playbook¹¹ stablecoins are inherently cross-border instruments with use cases spanning payments, trading, collateral management, settlement, treasury operations and increasingly tokenised financial markets. In response, policymakers have moved decisively to bring stablecoin issuance and related activities within the regulatory perimeter. The EU has implemented a comprehensive regime under MiCA; the United States has advanced federal legislative proposals and supervisory guidance; and the UK is progressing coordinated FCA and Bank of England frameworks for retail and systemic issuance respectively. Rather than remaining a regulatory grey area, stablecoins are now the subject of detailed prudential, conduct and financial stability frameworks in leading financial centres. This shift reflects a broader recognition that stablecoins are not simply a crypto-market instrument, but an emerging component of digital financial infrastructure whose safe development requires clear, proportionate and internationally coherent oversight.
47. With regards to the UK's place in the stablecoin market compared to the US and EU, the UK currently lags materially behind both the United States and the European Union in terms of live issuance, scale and regulatory clarity for fiat-referenced stablecoins.

United States

⁸ <https://www.circle.com/reports/state-of-the-usdc-economy/the-circle-stablecoin-network>

⁹ <https://www.bis.org/publ/bisbull108.pdf>

¹⁰ <https://home.treasury.gov/system/files/221/TBACCharge2Q22025.pdf>

¹¹ https://www.gdf.io/wp-content/uploads/2026/01/GDFGlobalStablecoinWG_Regulatory-Playbook_21.01.26.pdf

48. The US remains the clear global leader in stablecoin issuance and market share. USD-denominated stablecoins account for approximately 99% of global stablecoin market capitalisation, with the two largest issuers representing the overwhelming majority of supply. As reflected in publicly available market data (e.g., CoinMarketCap stablecoin tracker¹²), the largest stablecoins by market capitalisation are USD-referenced and issued by US-based or US-linked entities.

This dominance is reinforced by structural factors:

- a. The global role of the US dollar in trade and finance
 - b. Deep, liquid US Treasury markets underpinning reserve models
 - c. A rapidly advancing federal legislative framework
 - d. Strong institutional adoption in payments, trading and treasury functions
49. US policymakers increasingly frame stablecoins not as a peripheral crypto issue, but as a strategic instrument of dollar competitiveness and digital financial infrastructure. Market participants are therefore able to build at scale with growing regulatory clarity.

European Union

50. The EU has moved ahead of the UK in regulatory implementation through the entry into force of the Markets in Crypto-Assets Regulation (MiCA). While euro-denominated stablecoins remain small relative to USD issuance, MiCA provides:

A passportable authorisation regime for “asset-referenced tokens” and “e-money tokens”

- a. Clear prudential, reserve and redemption rules
 - b. Supervisory certainty for issuers operating across the single market
51. This has created a defined regulatory pathway for EU-based issuance and scaling, even if the underlying currency network effects (and dollar dominance) continue to constrain euro stablecoin growth.

United Kingdom

52. By contrast, the UK has not yet brought into force a fully operational regime for fiat-referenced stablecoins. While HM Treasury has legislated to bring certain activities into scope and both the Financial Conduct Authority and the Bank of England have

¹² <https://coinmarketcap.com/view/stablecoin/>

published consultation papers setting out retail and systemic frameworks respectively, the regime remains incomplete and unimplemented.

As a result:

- a. There are currently no widely used, FCA-authorized sterling stablecoins in the market.
 - b. The UK does not yet have a functioning issuance framework equivalent to MiCA.
 - c. Firms seeking scale and certainty are more likely to issue in jurisdictions with live regimes.
53. This creates two interrelated risks for the United Kingdom. First, in the absence of a live and scalable sterling stablecoin regime, market participants will continue to rely on foreign-issued stablecoins, overwhelmingly USD-denominated, for trading, settlement and increasingly for wholesale and tokenised market use cases. Network effects in digital assets are powerful and once liquidity, collateral usage and settlement rails become anchored in foreign-issued instruments, it becomes significantly harder to displace them with domestic alternatives. The risk is therefore not simply delay, but structural currency substitution within digital market infrastructure.
54. Second, if the UK framework is materially misaligned with emerging global norms, whether through disproportionate prudential calibration, fragmented retail/wholesale treatment, or operational frictions, issuers may choose not to locate issuance in the UK at all. Given that stablecoins are inherently cross-border, firms can scale from jurisdictions offering regulatory clarity and international interoperability. In that scenario, the UK would import stablecoin infrastructure rather than host it.
55. Over time, both dynamics have implications for the UK's position in wholesale finance, capital markets and payments infrastructure. Stablecoins are increasingly being explored as settlement legs for tokenised securities, collateral mobility, cross-border payments and digital treasury operations. If sterling-denominated instruments are not competitive or internationally usable, these emerging market structures may develop around non-sterling rails. The opportunity for the UK remains real, but it is time-sensitive and contingent on delivering a regime that is both robust and globally coherent.
56. Overall, we firmly believe that the UK can build on its strengths of deep sovereign debt markets, a globally significant financial centre, and a sophisticated regulatory architecture. However, until the UK regime is finalised and operationalised, the US will continue to dominate issuance and liquidity, and the EU will retain first-mover advantage

within Europe. Delay increases the risk that stablecoin liquidity, infrastructure and network effects become structurally anchored elsewhere, reducing the likelihood that sterling-denominated stablecoins achieve meaningful global adoption.

57. We therefore encourage the UK authorities to ensure that key design choices are not only robust in principle, but also operationally workable in practice, particularly under stressed conditions (for example, in how liquidity expectations interact with market functioning and the ability to meet redemption demand without disorderly asset sales). We also encourage a commitment to periodic, evidence-based review of key calibrations as live data on adoption, redemption behaviour and market impacts becomes available, to ensure the regime remains aligned with financial stability objectives while supporting the development of competitive sterling-denominated instruments.

2. How is the sterling denominated stablecoin market in the UK expected to develop in the coming years?

58. In our view, the development trajectory of sterling-denominated stablecoins will be determined less by abstract demand forecasts and more by regulatory design, delivery pace and international alignment. There is a credible and strategically important opportunity for the UK. However, that opportunity is time-sensitive and contingent on the UK delivering a coherent, proportionate and internationally interoperable regime.

A realistic near-term outlook

59. In the near term (1–3 years), we would expect sterling stablecoin issuance to begin at modest scale, with growth concentrated in clearly sterling-linked use cases. Unlike USD stablecoins, which have already benefited from powerful global network effects and deep embedded liquidity, sterling tokens will likely start from a smaller base and will need to build credibility and distribution over time.
60. Initial growth is most likely to occur in three areas:
- a. *Payments and treasury use cases*
Sterling stablecoins could support programmable payments, merchant settlement, and corporate treasury operations where 24/7 settlement and automation deliver efficiency gains. As we have previously noted in our responses to the FCA¹³ and

¹³ <https://www.gdf.io/resources/gdf-x-cci-response-to-fca-cp25-14-stablecoin-issuance-and-cryptoasset-custody>

the Bank of England,¹⁴ we believe it is important that the regulatory framework reflects business-as-usual market functioning: conversion through secondary markets is typically the dominant liquidity mechanism, with redemption acting as a prudential anchor rather than the primary day-to-day exit channel. We consider it important that the regulatory framework reflects business-as-usual market functioning: in practice, most day-to-day liquidity is provided through regulated intermediaries and secondary markets, with direct redemption operating primarily as a prudential anchor for confidence.

b. Wholesale and tokenised markets

The more material medium-term opportunity lies in wholesale finance. As set out in our work on tokenised collateral and stablecoins as settlement infrastructure, sterling tokens could serve as the on-chain “cash leg” for delivery-versus-payment settlement, margining, and collateral mobility in tokenised securities and derivatives markets. If integrated into regulated market infrastructure environments, sterling stablecoins could support the UK’s broader digital wholesale market ambitions.

c. Regulated market infrastructure and public-sector initiatives

Where stablecoins are permitted to operate within supervised frameworks (for example, digital securities or settlement sandboxes), adoption may accelerate because the token becomes embedded within a regulated ecosystem rather than positioned solely as a retail cryptoasset product. This is consistent with the Global Stablecoin Regulatory Playbook’s¹⁵ emphasis on credible, prudentially sound regimes that enable stablecoins to operate across multiple financial services use cases.

The upside scenario: a competitive sterling rail

61. In our assessment, the UK retains significant structural advantages: deep sovereign debt markets, a globally significant wholesale financial centre, and experienced regulators. If the UK regime:

- a. Is delivered on a clear and predictable timeline;
- b. Avoids material misalignment with global norms; and

¹⁴<https://www.gdf.io/resources/gdf-cci-response-to-bank-of-england-on-the-proposed-regulatory-regime-for-sterling-denominated-systemic-stablecoins/>

¹⁵https://www.gdf.io/wp-content/uploads/2026/01/GDFGlobalStablecoinWG_Regulatory-Playbook_21.01.26.pdf

- c. Recognises the practical reality that the same stablecoin may move between retail, trading and wholesale contexts;

Then sterling stablecoins could reasonably develop into a meaningful component of UK digital financial infrastructure.

62. Under this scenario, sterling tokens could support not only domestic payments innovation, but also wholesale settlement use cases aligned with the UK's Wholesale Markets Digital Strategy and broader capital markets reform agenda.

The downside scenario: imported infrastructure

63. If the UK regime is not implemented in a timely manner, or if it evolves in a way that differs significantly from emerging international approaches, a plausible outcome is not that stablecoins disappear from UK markets, but that usage increasingly shifts toward foreign-issued tokens.
64. Market participants will default to instruments that are liquid, widely accepted and operationally usable. Given current global dynamics, that overwhelmingly means USD stablecoins. Once liquidity, collateral usage and settlement rails are anchored in non-sterling instruments, network effects become self-reinforcing.

In that scenario:

- a. Sterling-denominated tokens may struggle to achieve meaningful scale.
- b. Issuers may choose to locate and scale in jurisdictions with implemented regimes, serving UK users cross-border where permissible.
- c. Emerging tokenised market infrastructure may develop around non-sterling settlement assets, reducing the likelihood that sterling becomes the default digital settlement rail.

Overall assessment

65. We therefore anticipate a “conditional growth” path for the UK. Modest initial development is likely. More material scaling, particularly in wholesale and capital markets use cases, is achievable but not necessarily automatic.
66. The policy choices made now will determine whether sterling stablecoins become a competitive, internationally usable digital extension of the UK's financial infrastructure, or whether the UK markets could increasingly rely on foreign-issued stablecoins and associated infrastructure. This outcome can be mitigated through timely implementation,

international interoperability, and regulatory clarity that enables sterling-denominated instruments to be used confidently across retail and wholesale contexts.

2a. Who uses stablecoins and for what purposes?

67. Stablecoin usage has broadened materially over the past five years. What began primarily as a tool for crypto-asset market participants has evolved into a multi-segment ecosystem spanning trading, payments, treasury operations, cross-border settlement and, increasingly, institutional finance. From a UK perspective, the clearest near-term user segments are likely to be regulated intermediaries and professional market participants (for trading and liquidity), alongside payment and treasury users where 24/7 settlement and automation provide practical efficiency gains.

68. Drawing on industry, multilateral and financial institution analysis, stablecoin users can broadly be grouped into six overlapping categories. For clarity, we use ‘stablecoin’ to mean a fiat-referenced token intended to maintain a stable value, and ‘DeFi’ to refer to blockchain-based financial applications that enable trading, lending, and settlement through software protocols.

Crypto-Native Traders and Market Infrastructure Participants

69. One of the earliest, and still significant users of stablecoins includes:

- a. Retail crypto traders;
- b. Professional trading firms;
- c. Exchanges and brokers; and
- d. Market makers and liquidity providers.

70. Stablecoins function as:

- a. A settlement instrument on trading venues;
- b. A common unit for quoting and settling trades;
- c. Collateral within derivatives and lending activity; and
- d. A way to transfer value across platforms outside standard banking hours.

71. International and industry analyses have noted that stablecoins play a central role in crypto market intermediation, serving as the payment and settlement instrument used to

move value when cryptoassets are traded or used as collateral.¹⁶ Similarly, blockchain analytics research also highlights their role in facilitating on-chain liquidity and exchange settlement.¹⁷ This remains a foundational use case.

DeFi Protocol Users

72. In decentralised finance ecosystems, stablecoins are widely used as:

- a. Collateral in lending protocols;
- b. Units of account for decentralised exchanges;
- c. Yield-generating instruments; and
- d. Liquidity pool assets.

73. The IMF¹⁸ and BIS have observed that stablecoins underpin much of the DeFi ecosystem's activity, acting as a digital representation of fiat liquidity within programmable financial environments.

Cross-Border Payments Users (Individuals and SMEs)

74. Stablecoins are increasingly used for:

- a. Remittances;
- b. Cross-border B2B payments;
- c. Settlement in markets with restricted or costly correspondent banking access; and
- d. Treasury transfers between global subsidiaries.

75. JPMorgan's private banking analysis highlights that stablecoins can reduce friction in cross-border payments by offering near-instant settlement and 24/7 availability.¹⁹ Citi similarly identifies cross-border use as one of the clearest growth vectors for stablecoins, particularly in emerging markets where dollar access is constrained.²⁰

¹⁶<https://www.imf.org/en/publications/departmental-papers/issues/2025/12/02/understanding-stablecoins-570602>

¹⁷ <https://www.elliptic.co/blockchain-basics/stablecoin-use-cases-explained>

¹⁸<https://www.imf.org/en/publications/departmental-papers/issues/2025/12/02/understanding-stablecoins-570602>

¹⁹ <https://privatebank.jpmorgan.com/apac/en/insights/markets-and-investing/demystifying-stablecoins>

²⁰ https://www.citigroup.com/rcs/citigpa/storage/public/GPS_Report_Stablecoins_2030.pdf

76. Circle reports significant volumes of fiat-to-blockchain “bridging” activity, illustrating their use as digital payment rails.²¹ Tether’s market reports also point to growing usage in emerging markets for dollar access and payments.²²

Institutional Treasury and Corporate Users

77. An emerging category of users includes:

- a. Fintech platforms;
- b. Payment companies;
- c. Corporate treasuries; and
- d. Financial institutions exploring tokenised asset settlement.

78. Stablecoins are being used for:

- a. On-chain settlement of tokenised securities;
- b. Digital collateral mobility;
- c. Treasury management and programmable payments; and
- d. Real-time liquidity management.

79. Citi’s 2030 outlook frames stablecoins as a potential foundational layer for tokenised financial markets.²³ EY’s institutional survey data similarly suggests that financial institutions are actively exploring stablecoin use in settlement, treasury and digital asset integration.²⁴

Emerging Market Users Seeking Dollar Access

80. In some jurisdictions, stablecoins function as:

- a. A digital proxy for US dollars;
- b. A hedge against local currency volatility; and
- c. An alternative to restricted banking access.

²¹ <https://www.circle.com/reports/state-of-the-usdc-economy/the-circle-stablecoin-network>

²² <https://tether.io/news/usdt-q4-2025-market-report/>

²³ https://www.citigroup.com/rcs/citigpa/storage/public/GPS_Report_Stablecoins_2030.pdf

²⁴ <https://www.ey.com/content/dam/ey-unified-site/ey-com/en-us/insights/financial-services/documents/cs-ey-p-stablecoin-survey.pdf>

81. The IMF highlights that stablecoins are increasingly used in jurisdictions with macroeconomic instability or capital controls²⁵, raising both financial inclusion opportunities and policy considerations around currency substitution.

Illicit Finance Actors (a Minority but Policy-Relevant Segment)

82. While legitimate uses dominate transaction volume, policymakers remain concerned about:

- a. Sanctions evasion;
- b. Fraud; and
- c. Illicit flows.

83. However, blockchain analytics firms such as Elliptic consistently note that illicit activity represents a small share of overall stablecoin transaction volume, and that traceability can support law enforcement when appropriate compliance frameworks are in place.²⁶

Overall Trends

84. Three structural trends are evident:

- a. **Dollar dominance:** The vast majority of stablecoin usage is USD-denominated, reinforcing the dollar's digital role.
- b. **Shift toward institutional engagement:** Increasing exploration by banks and regulated financial institutions.
Expansion beyond trading: Growing use in payments, treasury and tokenised asset settlement.

85. Overall, stablecoins are increasingly used beyond trading, including in payments, treasury, and emerging tokenised market infrastructure contexts.

86. In summary, stablecoin usage now spans trading and liquidity management, DeFi applications, cross-border payments, corporate treasury activity, and emerging tokenised market settlement. While crypto-market use cases remain significant, the trajectory points toward broader integration with regulated financial services and cross-border payment workflows.

The Cost Advantage of Stablecoins: Further Data as Follow up from Oral Evidence

²⁵<https://www.imf.org/en/publications/departmental-papers/issues/2025/12/02/understanding-stablecoins-570602>

²⁶ <https://www.elliptic.co/blockchain-basics/stablecoin-use-cases-explained>

87. The efficiency case for stablecoins in cross-border and international payments is well supported by publicly available data. The below section details this as discussed in the Oral Evidence Session.
88. The baseline cost of traditional payment infrastructure remains high. According to the World Bank's Remittance Prices Worldwide report for Q1 2025, the global average cost of sending remittances was 6.49%, and banks were the costliest provider type, averaging 14.55% per transaction.²⁷ This is a figure that has barely moved in over a decade, despite repeated international commitments, including under the UN's Sustainable Development Goal 10.c,- to bring costs below 3%. As of Q1 2025, fewer than 7% of the corridors tracked by the World Bank had reached that target, and costs exceeded 5% in more than 65% of corridors.²⁸
89. Stablecoin rails offer a materially different cost structure. Stablecoin transfers typically cost a few cents in network fees, depending on the blockchain, a sharp contrast to traditional cross-border payments where remittance fees average nearly 6.5% per transaction.²⁹ Specific corridor data reinforces this at scale: Mizuho research reports that remittance fees via stablecoin rails in the US-Mexico corridor are now under 1%, against a traditional channel average of 5-7% for the same route.³⁰ In that corridor, Bitso processed \$6.5 billion in US-Mexico crypto remittances in 2024, approximately 10% of the entire corridor, with same-day settlement.³¹
90. The cost savings are not confined to retail remittances. For businesses making regular international payments, blockchain and decentralised finance can reduce cross-border payment costs by up to 80%, according to PYMNTS Intelligence research, with traditional bank wires incurring fees of 2-7% including FX spreads and intermediary charges, compared to stablecoin payments typically costing 0.5-2%.³² Across B2B implementations more broadly, BVNK's Stablecoin Utility Report 2026, surveying 4,600 users across 15 countries, found stablecoin transfers cost an average 40% less than traditional remittance channels, with the savings derived primarily from eliminating

²⁷ https://remittanceprices.worldbank.org/sites/default/files/rpw_main_report_and_annex_q125_1_0.pdf

²⁸ https://remittanceprices.worldbank.org/sites/default/files/rpw_main_report_and_annex_q125_1_0.pdf

²⁹ <https://stripe.com/gb/resources/more/stablecoin-cross-border-payments>

³⁰ <https://polygon.technology/blog/latam-corridor-economics-why-enterprises-are-betting-on-stablecoins-for-cross-border-payments>

³¹ <https://polygon.technology/blog/latam-corridor-economics-why-enterprises-are-betting-on-stablecoins-for-cross-border-payments>

³² <https://www.cobo.com/post/crypto-cross-border-payments-how-enterprises-can-send-money-globally-with-speed-savings-and-security>

intermediary deductions, reducing float costs, and removing prefunding capital requirements.³³

91. Speed is the second dimension of this advantage. According to a study carried out by BVNK in October 2025, payment transactions on the blockchain take less than three minutes to finalise, while wire transfers take three to five business days.³⁴ For treasury operations and business-to-business settlement, this is not merely a convenience: funds tied up in correspondent banking chains represent real working capital costs. At a 5% cost of capital, a company with \$1.5-2.5 million in transit at any one time faces \$75,000-125,000 in annual idle money costs, before accounting for FX spreads or wire fees.³⁵
92. The scale at which stablecoins are already operating as payment infrastructure also merits attention, albeit with appropriate caveats. Stablecoin transfers reached \$27.6 trillion in 2024, with this figure surpassing the combined transaction volumes of Visa and Mastercard by approximately 7.7%.³⁶ The Committee should note that a significant proportion of this volume reflects automated and trading activity rather than direct payment flows, and the comparison with card networks, which operate at a different layer of the payment stack, is imperfect. The more relevant indicator for payments purposes is the growth in real-economy usage: BVNK's YouGov survey of stablecoin holders found that 39% receive income in stablecoins, and those paid in stablecoins reported average fee savings of 40% compared with traditional remittance methods.³⁷
93. The evidence therefore supports a clear conclusion: stablecoins offer material cost and speed advantages over existing banking and wire transfer infrastructure for cross-border and international payment flows, and these advantages are being realised at scale in live corridors today. The case for a UK regulatory framework that enables regulated GBP and sterling-linked stablecoins to compete on this infrastructure is not theoretical. The infrastructure is operational. What is missing is the regulatory clarity that would allow UK-regulated issuers to participate in it.

³³<https://polygon.technology/blog/latam-corridor-economics-why-enterprises-are-betting-on-stablecoins-for-cross-border-payments>

³⁴ <https://fintechmagazine.com/articles/best-stablecoin-solutions-for-cross-border-and-real-time-pay>

³⁵

<https://polygon.technology/blog/latam-corridor-economics-why-enterprises-are-betting-on-stablecoins-for-cross-border-payments>

³⁶<https://cryptoslate.com/stablecoins-surpass-visa-and-mastercard-with-27-6-trillion-transfer-volume-in-2024/>

³⁷ <https://businessjournaldaily.com/survey-stablecoins-are-becoming-everyday-money/>

2b. Are there any existing regulatory rules impacting the growth of stablecoins in the UK?

94. At present, a key constraint on the development of sterling-denominated stablecoins in the UK is the absence of a fully implemented, end-to-end framework that supports live issuance and scaling with supervisory certainty.
95. While HM Treasury has legislated to bring certain stablecoin activities within the regulatory perimeter, and both the Financial Conduct Authority and the Bank of England have published detailed consultation papers, the UK does not yet have a live, end-to-end regime under which a firm can confidently issue and scale a regulated sterling stablecoin. In contrast to jurisdictions such as the EU, where MiCA is now in force, or the US, where legislative and supervisory clarity is advancing, UK firms remain in a transitional phase.
96. This transitional position creates practical consequences:
 - a. Firms are unable to launch at scale within a settled supervisory framework;
 - b. Investment and infrastructure build-out are delayed pending final rules; and
 - c. Liquidity formation and distribution networks gravitate toward jurisdictions with operational regimes.
97. In that sense, the current hindrance to UK growth is primarily structural uncertainty and timing.
98. However, it is also important to note that certain elements of the proposed regimes, particularly where there is divergence between the FCA and Bank frameworks, could, depending on final calibration, introduce additional frictions for growth or reduce incentives to issue and scale in the UK.
99. In our previous joint responses, we have highlighted concerns regarding:
 - a. Potential “cliff-edge” effects between FCA authorisation and Bank systemic designation.
 - b. Divergence in backing-asset frameworks, which could require material redesign of reserve models at the point of scaling.
100. Calibration choices that assume large-scale, immediate redemption as a business-as-usual condition, rather than recognising conversion through secondary markets as the primary liquidity mechanism in mature ecosystems.

101. In addition to the absence of final rules, there is a specific boundary question that has been raised with HM Treasury and regulators in light of the Bank’s latest systemic stablecoin consultation and parallel FCA proposals.
102. Several global firms have expressed concern regarding the interaction between the proposed stablecoin regime and the UK’s existing payments legislation, particularly given that updated payments legislation is still pending. In the absence of statutory clarification, there is uncertainty as to whether firms using stablecoins for payments or treasury management purposes could inadvertently fall into regulatory uncertainty or supervisory ambiguity.
103. We therefore strongly recommend that the FCA (and, where relevant, the PRA) consider issuing a short, interim “Dear CEO” communication confirming that firms may use regulated stablecoins for payments and treasury management purposes without risk of enforcement action, pending completion of the legislative update.
104. Such interim clarity would:
 - a. Ensure that stablecoins authorised under the new regime can actually be used in practice, rather than remaining technically permitted but operationally constrained; and
105. Help address international concerns, stakeholder concerns that the UK payments framework may be perceived as uncertain during the transition period, particularly for payment and treasury use cases. Providing this type of supervisory reassurance would reinforce the message that the UK remains open, predictable and aligned with global partners while the statutory framework is finalised.
106. Additionally, for global issuers assessing where to locate issuance, material misalignment with emerging international norms, particularly on reserve composition, liquidity design, and operational requirements, may influence jurisdictional choices. For emerging domestic players, abrupt step changes in regulatory treatment at scale may deter investment or encourage firms to artificially cap issuance to avoid transition thresholds.
107. We expand in greater detail on these issues in response to Question 5. However, at this stage, the key point is that the UK’s growth constraint is twofold:
 - a. The absence of a fully implemented regime capable of supporting live issuance and scaling; and

- b. The risk that aspects of the proposed calibration, if not carefully aligned and proportionately designed, could reduce the attractiveness of the UK as a jurisdiction for stablecoin issuance relative to global alternatives.
108. A clear, coherent and internationally aligned framework would remove uncertainty, support responsible innovation within the regulatory perimeter, and materially improve the prospects for a competitive sterling-denominated stablecoin market.

3. What opportunities and risks does the growth of stablecoins (both denominated in sterling and in USD) pose for the UK's economy and its financial services sector and retail customers? What evidence is there to suggest that this growth could disrupt the conduct of monetary policy and traditional financial intermediaries? Are there any additional financial crime considerations involved?

109. In our view, stablecoins should be assessed as an emerging form of digital financial infrastructure. Their growth creates meaningful opportunities for the UK economy and financial services sector but also introduces risks that differ depending on whether the market consolidates around sterling-denominated instruments or foreign-issued (predominantly USD) stablecoins.

Opportunities for the UK economy and financial services sector

110. Payments efficiency, programmability and 24/7 settlement

- a. Stablecoins can enable near-instant, always-on settlement and programmable payments (including automated treasury and reconciliation workflows). Demand is likely to increasingly be driven by non-trading use cases where legal and regulatory frameworks enable adoption in payments and financial services.

111. Wholesale finance and tokenised market infrastructure

- a. The medium-term opportunity is most significant in wholesale markets, where stablecoins can provide the payment instrument for delivery-versus-payment settlement in tokenised securities (i.e., the cash side of a securities trade), improve collateral mobility and reduce operational frictions in collateral and settlement workflows. This is particularly relevant to the UK's comparative advantages in capital markets and market infrastructure.

112. Support for innovation, competition and onshore financial activity

- a. A credible, internationally interoperable UK regime can support onshore issuance, regulated innovation and competition in payments and digital asset infrastructure, rather than pushing activity offshore. The Bank of England has explicitly framed its approach as seeking to support innovation in payments while preserving the integrity and stability of the UK monetary system.

113. Potential demand for short-dated sovereign debt

- a. Where stablecoins are fully backed by high-quality liquid assets, reserve models can create demand for short-dated sovereign debt and repo markets. The Bank's proposals explicitly contemplate allowing systemic issuers to hold a portion of backing assets in short-term UK government debt alongside access to central bank facilities.

114. Retail outcomes: faster, cheaper transfers and improved user experience

- a. For retail customers, the potential benefits are primarily around faster payments, lower frictions (including in cross-border transfers), and the ability to embed payments into digital services. The IMF similarly recognises potential efficiency gains in payments and cross-border transfers, while emphasising the need for appropriate safeguards.³⁸

115. Risks for the UK economy, financial system and retail customers and how they should be mitigated

- a. The growth of stablecoins presents identifiable risks. However, these risks are not binary and are not unique to the UK. In our view, the relevant policy question is not whether stablecoins present risks, but whether those risks are best managed within a clear, proportionate and internationally aligned regulatory framework, or left to develop offshore and beyond UK supervisory influence.
- b. We highlight below the principal areas of risk, alongside mitigations that we believe are both achievable and consistent with the UK's strategic objectives.
 - i. **Currency substitution and reliance on foreign issued stablecoins**
 - 1. The most immediate strategic risk for the UK is not the existence of stablecoins, but the dominance of foreign-issued (primarily USD-denominated) instruments within UK-facing digital markets.

³⁸ <https://www.imf.org/-/media/files/publications/dp/2025/english/usea.pdf>

2. If sterling-denominated stablecoins do not scale, UK users, including trading venues, fintech firms and potentially wholesale market participants, will default to the most liquid and widely accepted alternatives. Over time, this may entrench non-sterling settlement rails in areas of digital market infrastructure.
3. *Mitigation:* The appropriate response is not restriction, but competitiveness. The UK should enable a credible, prudentially sound sterling stablecoin regime that is usable in practice and interoperable internationally. Ensuring that sterling tokens can operate across payments, trading and wholesale contexts without artificial fragmentation is key to preserving sterling's role in digital finance.

ii. **Financial stability and liquidity dynamics**

1. Concerns are often raised regarding redemption pressure, reserve liquidity and potential spillovers to traditional markets. In our prior responses to the BoE and FCA, we have emphasised the importance of conceptual clarity in this area.
2. In established stablecoin markets, most users exit via secondary market conversion rather than direct redemption with the issuer. Redemption operates primarily as a legal and prudential backstop anchoring confidence and pricing, rather than as a routine liquidity mechanism. Designing regimes around assumptions of constant mass redemption may not reflect typical market functioning and could lead to less accurate liquidity calibration.
3. *Mitigation:* A well-calibrated regime should:
 - a. Focus on high-quality, liquid backing assets;
 - b. Require robust liquidity risk management and credible access to liquidity facilities;
 - c. Distinguish clearly between business-as-usual conditions and stress or resolution scenarios; and
Avoid forcing pro-cyclical asset sales through overly rigid intraday redemption assumptions.

This approach strengthens resilience without introducing unnecessary structural distortions.

iii. **Bank funding and disintermediation concerns**

1. As stablecoins grow, questions arise regarding potential deposit substitution effects. However, scale and usage patterns matter significantly. Stablecoins are currently used primarily for transactional, settlement and trading purposes rather than as yield-bearing savings products.
2. Moreover, the UK's proposed framework, particularly if systemic issuers are required to hold reserves in central bank money and short-dated sovereign debt, differs materially from unregulated models.
3. *Mitigation:* A proportionate approach includes:
 - a. Monitoring deposit flows and substitution dynamics;
 - b. Calibrating reserve requirements to ensure stability; and
 - c. Introducing step-up supervisory intensity as scale increases, rather than imposing front-loaded structural constraints that may deter onshore issuance.

iv. **Consumer protection and conduct risk**

1. For retail users, risks relate to misunderstandings regarding redemption rights, asset backing, and operational resilience. These are primarily conduct and disclosure issues rather than inherent structural flaws and are much more prevalent where stablecoins are unregulated.
2. *Mitigation:* The FCA's proposed conduct, disclosure and safeguarding frameworks, if clearly implemented and consistently supervised, can materially reduce retail harm. Clear disclosure of reserve composition, redemption terms, and the distinction between issuer redemption and intermediary conversion is critical.
3. Bringing stablecoin activity within the regulatory perimeter is itself a core consumer protection measure.

v. **Operational and governance risk**

1. Stablecoins depend on digital infrastructure, custodians, technology providers and governance frameworks. At scale, operational resilience becomes systemically relevant.
2. *Mitigation:* Applying existing operational resilience frameworks, including the UK’s established supervisory tools, is more effective than creating novel, parallel regimes. A step-up model, under which systemic issuers face enhanced resilience, recovery and resolution planning requirements as scale increases, provides continuity while strengthening safeguards.

vi. **Macro-Risk for the UK**

1. In our assessment, the greater macro-risk for the UK is not that stablecoins grow under a clear regulatory framework, but that they grow elsewhere and are imported into the UK market.
2. A regime that is overly restrictive, fragmented between retail and systemic layers, or misaligned with international norms may inadvertently:
 - a. Encourage offshore issuance;
 - b. Entrench foreign-denominated rails in UK-facing digital markets; and
 - c. Reduce the UK’s supervisory visibility and policy influence over instruments that UK consumers and institutions nonetheless use.

116. Conversely, a coherent and proportionate regime allows the UK to capture the economic benefits of innovation while managing financial stability and consumer protection risks within its own perimeter. In our view, the key UK macro issue is ensuring governance, competitiveness and supervisory visibility, not risk containment in isolation.

117. With regards to the second aspect of Q3 which asks, “What evidence is there to suggest that this growth could disrupt the conduct of monetary policy and traditional financial intermediaries?” we note that concerns are often raised that large-scale stablecoin adoption could impair monetary policy transmission or destabilise traditional

financial intermediaries, particularly commercial banks. In our view, these concerns require careful qualification.

118. However, available evidence to date suggests that stablecoin growth has not materially disrupted the conduct of monetary policy in major jurisdictions, though continued monitoring is appropriate as adoption scales and regulated models mature. Stablecoins remain a relatively small proportion of broad money aggregates, and usage patterns are primarily transactional, settlement-focused or trading-related rather than savings-oriented.
119. More fundamentally, stablecoins, particularly those fully backed by high-quality liquid assets such as central bank reserves or short-dated sovereign debt, are categorically not the same functionally, as privately created credit. While they are also a new form of money, they are closer in economic character to narrow, fully reserved payment instruments. See the Global Stablecoin Regulatory Playbook³⁹ for more details on how regulated stablecoins are commonly defined across jurisdictions.

Monetary Policy Transmission

120. Where stablecoins are backed by central bank deposits and short-dated sovereign debt, their expansion can in fact reinforce, rather than weaken, the monetary policy transmission mechanism:
121. Reserves held at the central bank remain within the monetary system and are directly sensitive to policy rates.
122. Holdings of short-dated government securities transmit policy rate changes through yield adjustments.
123. Fully backed models do not create additional credit in the way fractional-reserve banking does.
124. In other words, stablecoins structured under a prudentially sound framework operate as a digital wrapper around existing monetary instruments, not as an independent monetary system.
125. In our joint response to the Bank of England's systemic stablecoin consultation (see attached PDF Annex for our full response), we emphasised that a well-calibrated regime can support sterling's role in global financial markets and create stable demand for

³⁹https://www.gdf.io/wp-content/uploads/2026/01/GDFGlobalStablecoinWG_Regulatory-Playbook_21.01.26.pdf

high-quality sterling assets. The relevant question is therefore not whether stablecoins exist, but how their reserve models are designed and supervised.

Impact on Commercial banks and Financial Intermediaries

126. The second limb of the question concerns potential disruption to traditional intermediaries.
127. It is correct that new forms of payment and settlement infrastructure can alter the competitive landscape. However, competitive pressure on incumbent intermediaries is not, in itself, a financial stability failure. The history of payments infrastructure, from card networks to e-money to fintech platforms, demonstrates that innovation often changes intermediation structures over time.
128. If deposit substitution risks were to emerge at scale, these should be addressed through:
 - a. Prudential supervision of banks, including liquidity and funding requirements;
 - b. Ongoing monitoring of deposit flows; and
 - c. Calibration of systemic thresholds and liquidity expectations as scale increases.
129. It would be conceptually inconsistent with existing regulatory precedent, as well as the Government's stated ambitions to support and foster digital innovation in the UK, to constrain a new payment instrument primarily in order to shield incumbent funding models from competitive pressure. Financial stability frameworks are designed to ensure that institutions remain resilient in the face of structural change, not to prevent structural change itself.
130. Moreover, stablecoins are currently used primarily as transactional instruments rather than as interest-bearing savings products. Without yield, which is currently not something that would be enabled under the FCA or BoE's proposals, their role as long-term deposit substitutes is naturally limited. Any assessment of deposit impact must therefore be evidence-based and proportionate to observed behavioural shifts. In major markets to date, broad deposit trends have not shown a clear, stablecoin-driven displacement effect; deposits have continued to grow alongside increased stablecoin usage. Continued monitoring is nonetheless appropriate, particularly if regulated sterling instruments reach larger scale.

131. Rather than viewing stablecoins principally as a threat to monetary policy or banking intermediation, we would instead encourage the House of Lords, as well as the broader UK Public Sector to consider how regulated stablecoins can:
132. Modernise payments infrastructure;
- a. Increase efficiency in wholesale settlement and collateral mobility;
 - b. Strengthen demand for high-quality sterling assets; and
 - c. Operate within, rather than outside, the supervisory perimeter.
133. If stablecoins remain outside robust regulatory oversight, risks to monetary policy transmission and financial intermediation are harder to monitor and manage. Bringing them within a clear prudential and conduct framework improves transparency and policy control.
134. In summary, there is currently limited empirical evidence that stablecoin growth has disrupted monetary policy implementation. Potential risks should be managed through calibrated supervision of both issuers and banks, rather than through restrictive measures designed to limit the development of a new payments technology.
135. Finally, we note that the third aspect of Q3 asks, “Are there any additional financial crime considerations involved?” With respect to this question, we would note that stablecoins, like other digital financial instruments, can be misused for illicit purposes. However, the financial crime considerations associated with stablecoins must be assessed in context and with reference to empirical evidence.
136. Two points are particularly relevant:
- a. Stablecoins are generally more traceable relative to cash and many traditional financial crime channels.
 - b. Illicit activity represents a small proportion of overall stablecoin transaction volume.

Traceability and Law Enforcement Utility

137. Unlike cash, stablecoin transactions occur on public or permissioned distributed ledgers. Blockchain analytics firms such as Elliptic and TRM Labs have demonstrated that transaction flows can be traced, clustered and analysed at scale using forensic tools.

138. Elliptic notes that stablecoins, because of their liquidity and interoperability, can be used in both legitimate and illicit activity.⁴⁰ However, they also emphasise that blockchain transparency allows investigators to follow funds across addresses and platforms, often in real time. This has enabled:
- a. Asset freezing by issuers in response to law enforcement requests;
 - b. Identification of sanctioned entities and fraud networks;
 - c. Disruption of ransomware and cybercrime proceeds; and
 - d. Improved cross-border cooperation among enforcement agencies.
139. Similarly, the 2026 TRM Labs Crypto Crime Report⁴¹ highlights that blockchain analytics capabilities have matured significantly and that compliance screening tools are increasingly embedded within exchanges, custodians and stablecoin issuers. In practice, regulated stablecoin issuers often maintain the technical capability to freeze or block sanctioned addresses, a feature that does not exist in cash-based systems.
140. In this sense, properly regulated stablecoins can enhance, rather than undermine, financial crime controls.

Scale of Illicit Activity in Context

141. While stablecoins are sometimes cited in high-profile enforcement cases, available data consistently indicate that illicit transactions represent a small percentage of overall cryptoasset activity.
142. Blockchain analytics reporting shows that the majority of stablecoin transaction volume relates to trading, payments, treasury operations and decentralised finance activity. Illicit activity, while non-trivial and requiring continued vigilance, accounts for a relatively small share of total transaction flows when measured by value.
143. It is also important to distinguish between:
- a. Criminal use of stablecoins as a settlement rail; and
 - b. Criminal proceeds generated from non-crypto crimes that are later moved through digital assets.

⁴⁰ <https://www.elliptic.co/blockchain-basics/stablecoin-use-cases-explained>

⁴¹ <https://www.trmlabs.com/reports-and-whitepapers/2026-crypto-crime-report>

144. In many cases, stablecoins function as a transfer mechanism rather than the origin of criminal activity. As with bank transfers, the technology itself is neutral; risk arises from misuse.

Cross-border, Sanctions, and Regulatory Perimeter Considerations

145. Stablecoins are inherently cross-border instruments which by nature can create compliance challenges, particularly in relation to sanctions evasion, jurisdictional arbitrage and coordination between national authorities.
146. However, these risks are not unique to stablecoins and are, in many cases, more visible on blockchain infrastructure than in opaque offshore banking channels. The key policy priority should therefore be:
147. Ensuring stablecoin issuers and intermediaries are subject to clear AML/CFT obligations;
148. Strengthening travel rule implementation and sanctions screening;
Supporting information-sharing between public authorities and regulated firms; and
149. Encouraging international alignment to reduce regulatory gaps.
150. Notable as well is that financial crime risk is materially higher where stablecoin activity takes place outside the regulatory perimeter or through lightly supervised intermediaries.
151. A clear UK regime that brings issuance, custody, distribution and redemption within established AML/CFT frameworks improves supervisory visibility and enforcement leverage. In contrast, overly restrictive regimes that push activity offshore may reduce UK authorities' practical ability to monitor and intervene.

Overall Financial Crime Assessment

152. Stablecoins do present financial crime considerations, as do all transferable value instruments. However:
- a. They are inherently more traceable than cash;
 - b. They enable rapid freezing and intervention when operated by regulated issuers;
 - c. Illicit activity represents a small proportion of overall transaction volume; and
 - d. Bringing stablecoins within a coherent regulatory framework strengthens, rather than weakens, the UK's ability to combat financial crime.

153. The policy objective should therefore be to ensure robust compliance standards and supervisory coordination, not to treat stablecoins as uniquely problematic from a financial crime perspective.
-

4. How will the growth of stablecoins impact the Bank of England, PRA and FCA's statutory objectives: price stability, financial stability, market integrity, consumer protection, competition and international competitiveness and growth?

154. In the interest of clarity, we have interpreted this question to cover regulated stablecoins specifically.
155. The growth of stablecoins should support the statutory objectives of all financial regulators, but how that impact manifests itself will depend heavily on market structure (who the issuers are, where reserves sit, how redemptions work, how users 'cash out') as well as how well regulators can align their regimes so as to not inadvertently push activity offshore or to create a chilling effect on market innovation.
156. If stablecoins scale mainly as a more efficient payments and settlement layer, this will allow the UK to unlock significant benefits - faster and cheaper transactions (including cross-border), greater competition in payments, and a clearer route for domestic GBP-denominated issuance and related activity. If they scale in a way that replicates "deposit-like" behaviour without equivalent resilience tools (e.g., central bank liquidity access, established resolution playbooks, deep secondary markets for reserves), the downside risks concentrate around runs, fire-sale dynamics, operational outages, and weaker consumer outcomes.

Price stability and Monetary Policy Transmission

157. Widespread use of GBP stablecoins could support monetary policy transmission through two distinct channels, neither of which operates via interest payments to holders.
158. The primary means through which monetary policy transmission will happen is via the reserves. Because GBP stablecoins are backed 1:1 by short-term UK government debt and, under the BoE's proposed framework, unremunerated central bank deposits, every pound of stablecoin in circulation represents demand for short-dated gilts and central bank money. Changes in Bank Rate flow through to the yield on those backing assets, and issuers must continuously reinvest maturing reserves at prevailing rates. GBP stablecoin issuance therefore creates a structural, ongoing demand for short-dated UK sovereign instruments that responds to the rate environment, a transmission channel that

operates at the reserve level rather than through any return passed to the holder. The analogy with US dollar stablecoins is instructive: Tether and Circle together hold over \$140 billion in US Treasury securities, making them among the largest holders of short-dated US government debt in the world. US policymakers have explicitly recognised that this creates a durable transmission channel for US monetary policy and a structural prop for T-bill demand. A thriving GBP stablecoin market would create a comparable dynamic for sterling.

159. In stress, the risk of rapid shifts between deposits and stablecoins could create short-term volatility, particularly if redemption expectations are poorly calibrated. This is a legitimate concern and one that supports the case for robust liquidity requirements and clear redemption frameworks, not for restricting GBP stablecoin issuance altogether. A well-regulated GBP stablecoin market, with credible par backing and orderly redemption arrangements, is more likely to reinforce monetary stability than to threaten it.

Financial stability

160. If stablecoins become heavily relied upon in critical payment chains, there is the risk that this could create bank-run-like dynamics without the same stabilisers.
161. The key stability risks are (i) liquidity mismatch and forced asset sales when confidence drops, (ii) concentration of service providers (custodians, CATPs, market makers,), and (iii) operational fragility in a 24/7 market.
162. A regime that recognises how most users exit via conversion through intermediaries (with direct redemption as a backstop) can reduce the probability that liquidity stress is forced onto issuers all at once.
163. From a PRA perspective, monitoring and managing bank exposures to stablecoin ecosystems (including custody, settlement banking, and operational dependencies) can help ensure that any deposit or funding effects remain within prudential tolerances as the market scales.

Market integrity

164. Stablecoin growth can improve integrity if it brings more activity into regulated onshore venues with better disclosures, governance, safeguarding, and surveillance.
165. Integrity risks cluster around opaque reserve quality, misleading claims about “cash-like” backing, conflicts in issuance/redemption arrangements, and operational resilience failures that cause sharp dislocations.

166. Clear disclosure, audit/assurance expectations, and realistic redemption mechanics are central here, because they shape confidence and secondary-market price formation.

Consumer Protection

167. Consumer protection outcomes will depend on clear disclosures and consistent conduct standards, particularly around redemption rights, reserve composition, complaints handling, and the role of intermediaries in conversion versus issuer redemption.
168. Risks include misunderstandings about eligibility for redemption, misleading marketing around ‘cash-like’ backing, and disruptions arising from outages or delayed processing.
169. A clear FCA conduct framework, supported by consistent supervision and operational resilience expectations, should materially reduce these risks while enabling consumers to benefit from faster and more efficient payment functionality.

Competition

170. Stablecoins can increase competition by lowering barriers to launching new payment products and by unbundling parts of the traditional payments stack (wallets, acquiring, FX, settlement).
171. However, regulation can unintentionally drive the opposite outcome if compliance costs and rigid design assumptions mean only a small number of large incumbents can issue at scale.
172. Competition can also be harmed by concentration in key dependencies (a small set of reserve banks, custodians, or technology providers) or by rules that lock in one business model early, before market structure has matured.

International competitiveness and growth

173. A credible UK regime could attract GBP stablecoin issuance and related high-value activity (payments innovation, treasury management, tokenised finance, compliance and assurance services).
174. However, if UK requirements are materially more rigid than peer regimes without clear risk justification, issuers can base issuance offshore and still reach UK users, leaving the UK with less oversight over GBP-referenced stablecoins and fewer domestic economic benefits.

175. The most “pro-growth” outcome is typically not “light touch”; it is a clear, workable framework that achieves resilience and consumer outcomes without embedding operational assumptions that make viable models uneconomic or technically infeasible at scale.
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5. What implications do the Bank of England and the FCA’s proposed regulatory regimes pose for the adoption and growth of systemic and non-systemic stablecoins in the UK, and internationally?

176. The proposed regimes of the Bank and the FCA, taken together, represent one of the most comprehensive attempts globally to bring stablecoins within an integrated financial regulatory perimeter. In principle, this should support adoption by providing legal and market certainty, consumer trust, and a defined pathway from FCA authorisation to systemic supervision by the Bank. The emphasis on full backing, insolvency remoteness, operational resilience and wind-down planning is capable of enhancing user confidence and institutional participation, particularly for sterling-denominated stablecoins operating at scale. Furthermore, the proposed development of liquidity facilities and recognition of high-quality liquid assets within reserve portfolios provide a constructive foundation for a credible systemic regime.
177. However, as currently calibrated, there is a material risk that the cumulative effect of reserve immobilisation, strict redemption timing expectations, holding limits, and potential cliff-edge transitions between the FCA and Bank regimes could dampen growth. The consultation response highlights that designing the systemic framework around assumptions of large-scale, near-instantaneous redemption in business-as-usual conditions risks mischaracterising how stablecoins function in practice, where conversion through intermediaries is typically the dominant exit mechanism. Overly restrictive reserve requirements such as high levels of unremunerated central bank deposit may also undermine commercial viability, deter onshore issuance, and incentivise firms to cap growth or locate activity in more proportionately calibrated jurisdictions.
178. A balanced approach could preserve the Bank’s stability objectives while improving operability, for example, by clarifying business-as-usual versus stress assumptions, ensuring step-up transitions are predictable, and committing to evidence-based review of key calibrations as adoption data emerges.
179. Internationally, this has competitiveness implications. While a well-designed UK regime could strengthen sterling’s role in digital markets and create structural demand for

short-dated UK government debt, overly conservative calibration may increase the likelihood that issuance and supporting infrastructure develop outside the UK perimeter, reducing the UK's ability to shape emerging international approaches and standards.

5a. Are there any aspects of the Bank of England and FCA's proposed stablecoin regulatory regimes that present challenges or require further consideration?

A single, coherent UK stablecoins regime

180. The Bank's and FCA's proposed regimes could make the UK a credible and internationally influential home for regulated sterling stablecoins, but only if the two regimes work together cleanly and are calibrated in a way that reflects how stablecoins actually operate in practice. If the systemic regime is set too conservatively, or if the transition from the FCA to the Bank framework creates sharp "cliff edges", there is a risk that some issuers choose to scale outside the UK perimeter, reducing the UK's ability to capture economic benefits and shape emerging standards over the design of stablecoin-based payments.
181. 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. 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.
182. GDF and CCI are concerned about the following areas of policy which, as they currently stand, create such a "cliff edge":

183. There is a current divergence between the FCA and Bank backing-asset regimes, which 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.
184. 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.
185. 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.

The Bank of England stablecoin proposals - areas of challenge

186. As highlighted in our recent joint response to the Bank’s consultation on systemic stablecoins, we believe there a number 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.
187. We believe there is a need to draw a clearer distinction between:
- a. Liquidity and solvency;

- b. Business-as-usual conditions and stress or resolution scenarios and
 - c. Redemption and conversion as distinct economic mechanisms.
188. The Bank’s proposals, in their current form, seem to assume that large numbers of users will regularly redeem stablecoins directly with the issuer as part of normal activity, and that those redemptions need to be met immediately. That assumption then drives key policy choices on reserve composition, intraday redemption expectations, and holding limits. But in established stablecoin markets, this is not generally how users exit. Most users “cash out” by selling or swapping stablecoins through intermediaries such as exchanges, market makers, or payment providers (intermediaries that will in due course be regulated by the FCA). That activity is best described as conversion: it relies on market liquidity and intermediary balance sheets, rather than requiring the issuer to sell reserve assets each time a user wants to move back into bank money.
189. Redemption, in contrast, operates as a legal and prudential backstop to anchor confidence and secondary market pricing. In practice, redemption tends to be used far less often than conversion, especially as a stablecoin becomes widely distributed.
190. If the systemic regime is designed around the idea that mass, immediate redemption is a normal outcome, it risks concentrating liquidity pressure at the issuer, forcing excessive amounts of cash to be held at the central bank on an ongoing basis, and encouraging pro-cyclical behaviour in periods of stress (for example, creating incentives for rapid asset sales rather than orderly liquidity management). It can also lead to treating a timing issue (how quickly assets can be turned into cash), as if it were a solvency issue, even where the stablecoin is fully backed by high-quality assets.
191. We therefore encourage the Bank to consider recalibrations that:
- a. Focus reserve requirements on asset quality, resilience, and credible access to liquidity facilities, rather than assuming mass redemption in business-as-usual conditions;
 - b. Explicitly distinguish business-as-usual liquidity management from stress and resolution scenarios, with different supervisory expectations applying to each;
 - c. Recognise conversion as the primary exit mechanism under normal conditions, with redemption preserved as a credible, clearly disclosed backstop; and
 - d. Aligns more closely with established financial stability principles that prioritise orderly asset disposal over forced liquidation.

192. 40% Unremunerated Reserves

- a. It is important to note that 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.

The Commercial Impact of the 40% Unremunerated Reserve Requirement

193. The Bank of England's proposal to require systemic stablecoin issuers to hold at least 40% of backing assets as unremunerated deposits at the Bank, with the remaining 60% in short-term UK government debt, represents a material improvement on the original Discussion Paper position, which proposed 100% unremunerated central bank deposits. As Travers Smith noted⁴², that original model would have made all extant stablecoin business models essentially unviable, given that Tether and Circle derive the majority of their income from yield on backing assets. The revised 60/40 split acknowledges that commercial viability matters. GDF and CCI welcome that acknowledgement. However, we respectfully submit that the 40% unremunerated threshold remains commercially constraining in ways that warrant scrutiny, particularly for nascent GBP issuers attempting to establish themselves in a competitive international market.
194. The arithmetic is straightforward. As set out in our response to Question 1, Circle reported a reserve return rate of approximately 4.2% in Q3 2025. A 40% unremunerated requirement means that 40% of a sterling issuer's backing assets earn zero return. The effective yield available to a UK systemic stablecoin issuer on its total reserve portfolio is therefore approximately 60% of the prevailing short-term gilt rate, currently around 4.5%, producing an effective blended return in the region of 2.7%. Against that, the issuer must cover authorisation costs, compliance infrastructure, custody and safeguarding arrangements, capital requirements, and distribution costs. Circle's experience in the US market, where it paid approximately \$1 billion to distribution partners in 2024, illustrates how significant those costs can be even in a mature market. For a GBP issuer launching into a new market without an established user base, the margin between effective reserve yield and operating costs is narrow.
195. This matters not just for individual issuers but for the UK's broader strategic objectives. A regime that is commercially unworkable for GBP-denominated stablecoin issuers does not eliminate stablecoin use in the UK, it simply cedes that market to

⁴²<https://www.traverssmith.com/knowledge/knowledge-container/out-on-a-limit-the-bank-of-englands-systemic-stablecoins-consultation-provokes-and-pleases-in-equal-measure/>

USD-denominated issuers operating under different, and in some respects less restrictive, regulatory frameworks.

International Comparators

196. The international context is instructive. Under MiCA, there is an absolute prohibition on granting interest to stablecoin holders, but issuers are not required to hold any proportion of reserves in unremunerated central bank accounts -- they must maintain full 1:1 liquid asset backing, with capital requirements set at 2% of average reserve assets for standard issuers and 3% for those classified as significant.⁴³ The reserve assets themselves can be fully deployed in yield-generating instruments within the permitted HQLA categories. Under the US GENIUS Act, issuers are similarly prohibited from paying interest or yield to holders, but the framework does not impose a central bank deposit requirement, treating stablecoins as payment instruments backed by high-quality liquid assets with reserve composition governed by prudential standards rather than a fixed central bank allocation.⁴⁴

197. The UK's 40% unremunerated requirement therefore has no direct equivalent in either the EU or US frameworks. Both peer jurisdictions allow issuers to earn a return across their entire reserve portfolio, subject to asset quality and liquidity constraints. The BoE's own consultation paper acknowledges this divergence, noting that some respondents expressed concern that divergence between the UK regime and those in other jurisdictions could pose challenges for cross-border operations and establishing operations in the UK.⁴⁵

The Holding Limits Compound the Problem

198. The commercial viability question is further complicated by the BoE's proposed holding limits of £20,000 for individuals and £10 million for businesses. The BoE expects to loosen and ultimately remove these limits as it gains comfort that the financial stability risks have been understood and mitigated.⁴⁶ That expectation is reasonable in principle. In practice, however, limits that constrain the scale at which a GBP stablecoin can circulate directly constrain the issuer's revenue base, since reserve yield is a function of total stablecoin supply in issue. A nascent GBP issuer subject to both a 40%

⁴³<https://www.whitecase.com/insight-alert/mica-regulation-new-regulatory-framework-crypto-assets-issuers-and-crypto-asset>

⁴⁴<https://blogs.law.ox.ac.uk/oblb/blog-post/2026/03/stablecoin-interest-crossroads-micas-prohibition-and-us-regulatory-maze>

⁴⁵<https://www.bankofengland.co.uk/paper/2025/cp/proposed-regulatory-regime-for-sterling-denominated-systemic-stablecoins>

⁴⁶ <https://www.paulhastings.com/insights/client-alerts/bank-of-england-consults-on-systemic-stablecoins>

unremunerated reserve requirement and binding holding limits is therefore doubly constrained: compressed yield on the reserve side, and a capped supply on the revenue side.

199. GDF and CCI do not suggest that financial stability considerations should be subordinated to commercial interests. The BoE's rationale for the 40% requirement, that unremunerated central bank deposits provide immediate liquidity to meet rapid redemption requests, is legitimate and we support the principle of robust liquidity backstops. Our submission is that the specific calibration of 40% should be revisited, and that the BoE's step-up regime, which permits issuers designated as systemic at launch to hold up to 95% of backing assets in UK government debt initially, should be made available to a broader class of new entrants, not only to those already designated systemic, in order to give nascent GBP issuers a realistic path to commercial viability before they face the full 60/40 constraint.

200. FCA stablecoin proposals - areas for further consideration and recalibration

201. We are broadly supportive of the FCA's proposed regime for stablecoin issuance and custody. We welcome the FCA's decision to bring stablecoins within the UK's established regulatory architecture, and we agree with the overall objective of ensuring that consumers are protected, reserves are robustly safeguarded, and firms operate within clear prudential and conduct standards. In our view, this approach provides a strong foundation for a safe and credible UK market. However, there are a small number of specific areas where we believe targeted amendments would improve clarity, proportionality and long-term viability, without weakening consumer protection or financial stability safeguards.

202. *Redemption vs Conversion – Assumptions About How Stablecoins Operate*

- a. The FCA's framework appears to treat redemption at par, on demand and within one business day (T+1) as a normal, everyday feature of stablecoin use. As outlined in our response to the Bank's proposals, this in practice is not how mature stablecoin markets function.
- b. If the regime is interpreted as assuming that 100% of users may redeem directly with the issuer within T+1 as a routine scenario, it concentrates liquidity pressure at the issuer level and may introduce instability rather than reduce it. The framework should preserve the right to redeem at par, but recognise that large-scale redemptions are stress events, not business-as-usual activity. Redemption timelines and liquidity expectations should reflect that reality.

203. *Backing Assets – Tension Between Diversification and Immediate Liquidity*

- a. The FCA allows stablecoins to be backed by a diversified pool of high-quality liquid assets. However, requiring that 100% of redemptions must be met within T+1 undermines the practical benefit of diversification.
- b. If issuers must assume that all assets may need to be liquidated immediately, this effectively pushes them toward holding near-cash only, which reduces the commercial sustainability of the model. Even in traditional finance, not all high-quality assets can be monetised instantly in extreme volumes without friction. A more flexible redemption timeline, or a tiered liquidity approach that distinguishes between normal flows and stress scenarios, would protect consumers while allowing reserves to remain robust and viable.

204. *Custody and Operational Practicality – Making the Regime Work at Scale*

- a. The FCA sets high standards for safeguarding, record-keeping and reconciliation. Those objectives are appropriate. However, the detailed application of these requirements to crypto-native operating models needs careful calibration. Common industry practices such as omnibus wallet structures and real-time blockchain settlement do not always map neatly onto traditional client-asset models. Requiring real-time reconciliation in all circumstances, or complete attribution data where technical standards are still evolving, may prove difficult in practice.
- b. The regime should focus on outcomes, i.e. protecting client assets and ensuring transparency. A principles-based approach that accommodates both omnibus and segregated models, allows proportionate reconciliation processes, and makes appropriate use of blockchain transparency would better achieve consumer protection without creating unnecessary operational barriers.

6. What can the UK learn from the way other jurisdictions have approached the regulation of stablecoins, such as the US and the EU?

205. What the UK can learn from other jurisdictions is less about copying specific rule sets and more about understanding how institutional design, regulatory philosophy and market positioning shape outcomes.

206. Firstly, the UK should recognise that it starts from a position of structural advantage. Unlike the United States, where stablecoin oversight is divided between different federal and state authorities, with overlapping claims from banking regulators, securities regulators and state-level supervisors, the UK operates within a far more streamlined institutional framework. The Bank of England, the PRA and the FCA together cover the full spectrum of prudential supervision, conduct, financial stability and systemic risk. Similarly, while the EU has introduced a harmonised framework under MiCA, it must still manage supervisory coordination across multiple member states with differing legal systems (resulting in mixed case law on implementation) and supervisory cultures.
207. In contrast, in the UK it should be significantly easier to agree and implement a coherent, end-to-end stablecoin regime. There is less risk of jurisdictional fragmentation, duplicative licensing, or regulatory arbitrage within the domestic market. The lesson from the US and EU experience is that complexity and institutional overlap can slow authorisations, create uncertainty for firms, and fragment supervisory expectations. The UK should lean into its relative simplicity by ensuring clear delineation of responsibilities between the Bank and the FCA, consistent messaging, and a genuinely joined-up authorisation and supervision process.
208. A further lesson from international approaches and standard-setting work is the importance of being clear on the core outcomes a stablecoin regime is seeking to achieve, regardless of legal form. These outcomes typically include: reliable redemption at par; high-quality, liquid reserves that are clearly segregated and protected in insolvency; strong governance and accountability; robust operational resilience and cyber security; and effective AML/CFT controls proportional to how the stablecoin is distributed and used. Embedding these outcomes explicitly in UK rules and supervisory guidance would support international alignment while allowing flexibility in how firms meet the standards in practice.
209. Second, other jurisdictions illustrate the importance of regulatory clarity delivered early. In the US, even in the absence of a fully unified federal statute, state-level regimes (such as those in New York) and evolving federal proposals have provided sufficient clarity for large issuers to scale. In the EU, MiCA has created legal certainty across the bloc, even if implementation will vary in practice. The broader lesson is that markets respond strongly to clarity and predictability. The UK should aim to provide a regime that is stable, comprehensible and operationally workable from day one, supported by clear guidance and implementation planning. While periodic review is appropriate, firms benefit most when core expectations are sufficiently clear at launch to support confident investment and adoption.

210. Third, the UK should remain anchored in its long-standing support for responsible innovation. Historically, the UK has been willing to experiment through regulatory sandboxes, proportionate authorisation pathways and principles-based supervision, which has ensured it remains an attractive location for global firms. That tradition should continue in the context of stablecoins. International experience shows that overly rigid, highly prescriptive rules can push issuance offshore, particularly in a market that is inherently global and highly mobile. If the UK wishes to be the home of GBP-denominated stablecoins, it must combine high standards with flexibility, recognising that business models and market structures are still evolving.
211. Finally, in both the US and EU, stablecoin regimes are closely linked to broader ambitions around payments modernisation, digital capital markets and international currency competitiveness. The UK should similarly view stablecoins not as a niche crypto issue, but as part of its wider digital finance strategy. A clear, proportionate and innovation-friendly regime can support financial stability while also strengthening London's role in global markets.