10 February 2026

CryptoUK
Formal House
60 St George's Pl
Cheltenham GL50 3PN

Submitted by email: CP-systemicstablecoin@bankofengland.co.uk

Dear Sir or Madam,

Response to Bank of England ("BoE") Consultation Paper - Proposed regulatory regime for sterling-denominated systemic stablecoins (the "Consultation Paper")

CryptoUK (**"we"**) and its members welcome the opportunity to comment on the Consultation Paper regarding the BoE's approach to the proposed regulatory regime for sterling-denominated systemic stablecoins. CryptoUK is the UK's self-regulatory trade association representing the cryptoasset sector. Our members comprise over 100 of the leading companies across the sector and across the UK. Many of our members are also international and engage with regulators and policies on a global basis.

We have provided answers to the relevant questions applicable to our members posed in the Consultation Paper within the Appendix. We seek to offer pragmatic and relevant observations about, and suggestions in response to, the content within the Consultation Paper. We would actively encourage the BoE to approach this work with the priority of ensuring the competitiveness of the UK as a stablecoin market as a core design principle.

We thank you for your consideration of this response, prepared in consultation with our members. We additionally thank CMS for their support and assistance. Finally, we would welcome the opportunity to engage further with the BoE should our response require any further discussion or clarification.

Yours sincerely,

Su Carpenter - Executive Director, CryptoUK

Appendix

Consultation Questions:

Question 1: Do you have views on our proposal to allow systemic stablecoin issuers to hold up to 60% of backing assets in short-term sterling-denominated UK sovereign debt securities alongside unremunerated deposits at the Bank, as an appropriate balance between business model viability and mitigation of financial stability risks?

We welcome the BoE's proposal to allow systemic stablecoin issuers to receive a return on a proportion of their backing assets through holding up to 60% of backing assets in short-term sterling-denominated UK government debt ("**T-bills**"or gilts), which directly addresses feedback provided to the discussion paper. We nonetheless have some concerns that the requirement for at least 40% of backing assets to be held in the form of central bank deposits at the BoE may place the UK (and sterling-denominated stablecoins) in an uncompetitive position on the global stage given the approach taken by other markets. For example, the EU has mandated a requirement for 30% of backing assets to be held in the form of bank deposits; the US has no set limit.

For issuers of stablecoins (and intermediaries in other parts of the stablecoin ecosystem), these concerns relate to the economics of creating, growing and managing a systemic sterling-denominated stablecoin. The economics of the UK stablecoin market would struggle to support a requirement to hold 40% of backing assets in the form of unremunerated central bank deposits, and would, in all likelihood, restrict appetite, stifle promotional efforts and hinder future innovation. Ultimately, this would likely have the effect of further driving businesses and consumers to alternative products, resulting in continuing (and accelerating) dollarisation. According to a recent Bank for International Settlements ("**BIS**") paper[1], approximately 99% of all stablecoins are already dollar-denominated. The current BoE proposals in our view do not sufficiently incentivise use of sterling-denominated stablecoins for many stablecoin issuers and intermediaries.

We also continue to believe that central bank deposits for systemic stablecoins could be treated in the same manner as certain other backing assets held with the BoE - earning interest - as opposed to being held in unremunerated zero interest deposit accounts. We appreciate that the ability to transmit monetary policy is a primary consideration for the BoE. However, we would suggest that:

a) in reality, at least for the foreseeable future, the amount of money deposited into the backing accounts of systemic issuers is likely to be a fraction of the value held by commercial banks, so the cost to be the BoE of remunerating reserves is unlikely to be prohibitive for the BoE and is unlikely to materially distort the BoE's ability to transmit monetary policy;

b) to the extent that the BoE's ability to transmit monetary policy (including maintaining financial stability) underlies the rationale around the remuneration or otherwise of backing asset accounts, if these proposals prevent the emergence of a sterling systemic-stablecoin market and instead incentivise the continuing dollarisation of the stablecoin market, this could have the unintended consequence of actually impeding the BoE's ability to meet its statutory objectives if more of the UK's wealth is denominated in USD; and

[1] Iñaki Aldasoro and others, 'Stablecoin growth – policy challenges and approaches' [2025] 108 BIS Bulletin <https://www.bis.org/publ/bisbull108.pdf> accessed 8 January 2026

c) given that the BoE's policy requires a substantial proportion of a firm's backing assets to be held in the form, it would seem reasonable for issuers to receive remuneration for doing so.

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

We broadly welcome the BoE's proposed step-up regime, which recognises that issuers that are systemic at launch need different treatment. That said, we do have some concerns about the appropriateness of this regime, particularly for early stage and smaller stablecoin models recognised as systemic at launch - our members suggest that aligning more closely to the Financial Conduct Authority ("**FCA**") regime would lower barriers to entry and allow the UK market to be competitive to new entrants. As these businesses mature and scale, they could then transition with greater ease to the BoE regime. The existence of a step-up regime also raises more fundamental questions around the rationale for the 60 / 40 split in backing assets in the first instance; and how the BoE envisions the scaling phase of process taking place – for example, it is not clear how long an issuer would be allowed to benefit from the policy permitting scaling firms to hold up to 95% of their backing assets in T-bills. Further detail on the step-up regime is essential for regulatory and market clarity.

Question 3: Do you agree with our approach to mitigating risks to the issuer and coinholders via risk-based capital and reserve requirements? If not, what approach would you see as more appropriate for systemic stablecoin issuers?

Any reserves should be subject to robust, independent and auditable assurance and we agree that a risk-based capital approach is the preferred approach, compared to a more mathematical calculation approach (as currently proposed under the FCA's regime), which would be more difficult to tailor for particular business models. That said, overall we believe that the capital requirements for BoE deposits and short dated UK government bonds should be negligible. We do have some concerns that the operational risk factors could result in a lack of transparency and consistency in application of the capital requirements between issuers.

Whilst stablecoins should be backed by 1:1 reserve assets that are sufficiently liquid (such that they be realised within 24hrs), and denominated in the same currency as the stablecoin, we would propose allowing issuers to meet requirements through a diversified set of liquidity mechanisms, rather than purely via static capital charges. A closer analogy would be ETN redemption buffers, where issuers are required to complete redemptions within 24 hours and can use a range of tools to support this operation (for example, insurance or committed credit lines to fund redemptions above a typical threshold).

Question 4: Do you agree with our proposal that the reserves of liquid assets to mitigate the financial risk of backing assets and cost of insolvency/wind down should be held on trust ring-fenced from the general estate of the issuer? If not, do you have alternative proposals to mitigate risks to coinholders in the event of issuer failure/insolvency and in the absence of a specific set of arrangements to deal with failure?

We recognise that the BoE's objective is to ensure that backing assets and wind-down reserves are robustly protected and fully available to coinholders in the event of issuer failure.

We agree that a statutory trust can be an effective mechanism for achieving this outcome, particularly for issuers operating within wider corporate groups where intra-group exposures and wider commercial activities present additional risks. A trust arrangement provides clarity for insolvency practitioners, reinforces consumer confidence, and facilitates an orderly redemption process. It also mirrors established safeguards in traditional financial regulation, such as client money protections.

However, our view is that a statutory trust should not be the only acceptable mechanism. For monoline issuers whose sole activity is issuing and operating a single stablecoin, the rationale for imposing a statutory trust is materially reduced, as the entirety of the corporate vehicle is already dedicated to safeguarding backing assets and supporting redemptions. In such cases, ring-fencing can be achieved through tight restrictions on permissible activities, governance safeguards, and limits on exposures to affiliates, without requiring a separate trust structure.

The BoE should also consider the prospect of using commercial banks for the backstop. Allowing reserves to be held with commercial banks under appropriately designed segregation arrangements could support market functioning by enabling rehypothecation within the traditional financial system, mitigating concerns around deposit flight and improving the overall liquidity profile of the backing assets. This approach need not diminish the protections afforded to coinholders and may, in practice, strengthen resilience by embedding stablecoin reserves within established supervisory frameworks.

The above points are especially important for global businesses, as English law trust structures may not necessarily always be recognised. The critical outcome is that the backing assets and wind-down reserves should be insolvency-remote and available to holders/insolvency practitioners. If this can be achieved through other means, then there is no inherent reason to mandate a statutory trust.

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

We agree with the approach taken to remove the operational risk buffer from the shortfall reserve held on trust, increasing the resources available to mitigate general business risks.

The use of PFMI 15, with tailoring, as a basis for the capital and reserve requirements, is also sensible assuming that treating systemic issuers and their service providers are regarded as akin to FMIs (which appears to be the BoE's intention in this regard). However, we note the transition from the FCA capital regime will need to be managed carefully - the two regimes are based on different calculation methodologies and factors, and we would request that this detail is addressed in the promised joint FCA-BoE consultation.

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

We agree that a clearly defined wind-down reserve enables the orderly failure of a systemic stablecoin issuer without disrupting markets or placing coinholders at risk. We note that the BoE itself has recognised that the requirement for reserves to be held for insolvency/wind-down (to cover the costs of continuing critical services, appointing an insolvency practitioner and returning funds to coinholders in the event of failure) will vary between issuers – we believe it is important that the calibration of this reserve must be clear, proportionate, and aligned with the operational reality of different business models. In this regard, we question whether the capital and reserve regimes are properly aligned in the current proposal. For example, if an issuer is both capitalised sufficiently that failure is unlikely, and the issued stablecoins are fully backed (such that coinholders are not exposed), it is not clear that in such circumstances an additional reserve designed to cover the costs of a wind-down would be necessary.

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

We would highly recommend that the BoE reviews and understand the requirements in other jurisdictions and ensure that the UK is favourably positioned in a global stablecoin marketplace. The impact on issuers of the BoE regime should be considered – where too many onerous requirements are imposed, the business case for establishing sterling-denominated stablecoins in the UK may be undermined. Ensuring the competitiveness of the UK as a stablecoin market must be a core design principle.

Question 8: What are the operational challenges to implementing holding limits or other tools we are exploring? How might those challenges be addressed, including for individual and business limits?

We note that applying holding limits would be unique to the UK regulatory model, and would place the UK in an uncompetitive position on the global stage given the approach taken by other markets. The draft proposal to apply holding limits has already led to some members reconsidering their operations in the UK market, and may be perceived as a signal that operating in the UK will be complex and restrictive. This could drive UK consumers and businesses to use stablecoins backed by other currencies, contributing to the accelerating dollarisation concern referenced above.

The main concerns surround the ability of issuers to operate on an economically viable basis. For example, the scenario of real-time merchant settlement involves financial institutions using stablecoin firms to on-ramp to a stablecoin and draw down funds in real-time. Stablecoin firms would find it challenging – as a result of the holding limits - to be able to hold sufficient capital in the form of sterling-denominated stablecoins to fulfil the ongoing redemption demand. Operating these use cases within the holding limit framework would place a sizable additional operational overhead on organisations, requiring more frequent on-ramping, raising the cost of doing business. As a result, many organisations may simply avoid using sterling-denominated stablecoins, further reinforcing the dollarisation issue.

Further detail on how the proposed exemptions might apply, and how the BoE would exercise its discretion would be hugely beneficial in this context. We believe that scope, clarity and availability of the exemptions will be critical.

Question 9: What are your views on the usability of stablecoins in the presence of holding limits, both for individuals and businesses? What use cases do you envisage would require exemptions from the proposed limits? What uses would not be possible given the proposed limits?

We think the greatest impact on the usability of stablecoins will arise in the presence of holding limits for businesses. It is likely that every retail business will need to seek an exemption to hold stablecoin amounts in excess of prescribed holding limits, as well as any stablecoin trading business. Any regime for exempting entities from the stablecoin holding limits would result in significant discretion on the part of the BoE. The reporting and monitoring involved in benefiting from any such exemption would itself likely be onerous for firms, introduce substantial inventory-management overheads, possibly impairing the ability of firms to reliably meet customer demands.

Furthermore, restricting the balances that liquidity providers and market makers are permitted to hold would fragment market depth and limit their capacity to support larger flows. This would increase the likelihood of price dislocations, wider spreads and reduced execution quality. In turn, this would undermine the stable functioning of a sterling-denominated settlement asset, the attractiveness of such a product to the market, and lead to reduced adoption of sterling-denominated stablecoins and continued dollarisation.

For individuals, whilst the impact of a holding limit may be limited in the context of day-to-day usage, the holding limit would restrict the usability of stablecoins in the context of higher value and time sensitive payments such property transactions or other large consumer transactions.

In relation to the BoE's contemplated disintermediation scenarios (of large and rapid deposit outflows), we think it is important to distinguish between hypothetical systemic-scale adoption and the empirical evidence from existing regulated stablecoins to date, the latter of which shows no material impact on bank deposits in either GBP or EUR markets. For example, sterling-denominated stablecoins, such as Poundtoken (regulated in the Isle of Man), have been available for several years without any observable impact on UK deposit funding. While we recognise that these have not yet reached systemic scale, the absence of measurable effects to date suggests that calibrated growth of regulated sterling-denominated stablecoins does not automatically lead to disruptive deposit outflows. Similarly, MiCA-regulated euro-denominated stablecoins have been live for some time. The European Central Bank ("**ECB**") has noted that stablecoin use is still relatively small in scale and has not yet caused significant retail deposit outflows.[2] This experience suggests that the mere availability of regulated fiat-backed stablecoins does not, by itself, trigger large shifts out of bank deposits.

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

The BoE's concerns around potential reductions in commercial bank deposit funding should be considered in light of how other major jurisdictions have approached reserve structuring. Under MiCA, euro-denominated stablecoin issuers are required to hold deposits with authorised commercial banks and in high-quality liquid assets, rather than directly with the ECB. As a result, the reserves that back MiCA-regulated EUR-denominated stablecoins remain within the commercial banking system, where they continue to support lending capacity through normal balance-sheet recycling. This design choice has not led to observable deposit outflows or destabilisation in eurozone funding markets. This could be a proportionate alternative to holding limits. If regulated credit institutions were permitted to offer custodial and treasury services for sterling-denominated stablecoin issuers, including the ability to intermediate stablecoin holdings through short-term secured lending and liquidity programmes, this would enable the recycling of stablecoin reserve assets back into the real economy.

[2] Senne Aerts and others, 'Stablecoins on the rise: still small in the euro area, but spillover risks loom' [2025] Financial Stability Review <https://www.ecb.europa.eu/press/financial-stability-publications/fsr/focus/2025/html/ecb.fsrbox202511_05~63636227b4.en.html> accessed 13 January 2026

Such an approach preserves the safety of the backing assets - through high-quality collateral and strict maturity matching - while mitigating deposit flight risks by maintaining the flow of funding into the commercial banking sector. This mirrors the economic function of existing money-market funds and reduces the need for restrictive holding caps that may impair adoption and market functioning.

Question 11: Do you have views on our proposal that systemic stablecoins should access payments systems that support interoperability across different forms of money directly rather than through a sponsoring participant?

We agree that systemic stablecoins should access payment systems directly.

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

We believe that the assets should be held on behalf of the coin holders but do not consider it necessary for the mechanism to be specified. Rather than prescription, the approach should be that the issuer be required to demonstrate how the safeguarding is legally effective and would support in a prompt payout of proceeds of backing assets to stablecoin holders.

Question 13: Do you have views on the proposed legal structure of the trust arrangements for backing assets and reserves to deliver the desired outcomes set out in this consultation paper? This includes feedback on the overall structure of the trust arrangements and whether these should be structured as a single trust covering both backing assets and reserve requirements or as two or more separate trusts.

We believe that a single trust arrangement would be sufficient to deliver the desired outcomes. This should not be a prescribed structure. The focus of the BoE regime should be on the desired outcome of effectively safeguarded assets - how this is implemented, provided it can be fully explained and verified by firms, should not be mandated to take the form of any specific structure.

Question 14: Do you agree with the Bank's view that the prominent risks around public permissionless ledgers are accountability, settlement finality, and operational resilience, including cybersecurity?

We agree with the BoE's view that there are complexities around public permissionless blockchain ledgers. We also recognise that their continued use in the stablecoin market is contingent on ledgers meeting certain expectations around accountability, settlement finality and operational resilience. However, we think it is important for the BoE to recognise that the technology and infrastructure behind the ledgers is mature and the actual associated risks are often overstated. To appropriately calibrate the regulatory approach, a more proportionate and technologically neutral view of the ledgers should be considered.

Question 15: From the above risks, in your opinion, which ones are most crucial, specifically in the context of public permissionless ledgers, that necessitate Bank's focus and collaborative solutions?

Please see our response to question 14.

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

We do not have a view on this question.

Question 17: Section 2.3 above outlines minor policy refinements and clarifies the details of policy positions set out in the 2023 discussion paper. As such, specific questions for feedback are not asked for each sub-section. Respondents are invited to provide general comments or suggestions on the proposals set out in this section.

The BoE has set out certain transitional challenges in relation to a migration from the FCA to the BoE stablecoin regime. The CP indicates that issuers would be required to modify smart contracts to permit this transition. This would suggest that all firms would be using smart contracts for the management of their stablecoin activities. We would query whether this is a technology neutral assumption.

The nature of the transition between non-systemic and systemic remains unclear in other respects, including, for example, how the BoE will determine that a stablecoin is systemic, whether stablecoin issuers will have a right to make submissions or challenge a determination that a stablecoin will be classified as systemic.

Additionally, we note that issuers are expected to be able to meet all redemption requests on an end-of-day basis at a minimum (and in real-time where possible), and the issuer will be legally responsible to coinholders for such redemption. This will present significant operational and practical challenges, including from the perspective of AML/KYC compliance, where redemption requests may be made later in the business day and in relation to extended client on-boarding chains (where coins are not issued to the end coinholder directly).

Finally, in relation to redemption fees, if a firm is limited in its ability to earn a return on backing assets (that is, as a result of deposit accounts at the BoE being unremunerated), it seems onerous to expect a redemption service to be without cost.

Question 18: Section 2.4 above outlines unchanged policies from the 2023 discussion paper. As such, specific questions for feedback are not asked for each sub-section. Respondents are invited to provide general comments or suggestions on the proposals set out in this section.

The paper notes that the BoE will consider the issue of rewards in the future. We would request that the BoE provide further clarity on this matter as soon as possible to avoid further impacting the underlying business case for issuing and holding sterling-denominated systemic stablecoins.

We note the proposal that overseas issuers of systemic sterling-denominated stablecoins will be required to establish a separate UK-based subsidiary. It does not seem clear whether the BoE intends to also apply this to non-sterling-denominated systemic stablecoins.

Question 19: Section 2.5 below introduces emerging policy areas that are intended to prompt further engagement with stakeholders. These areas are presented to support ongoing dialogue and to help shape the Bank's future approach. Respondents are invited to provide general comments or suggestions on the thoughts set out in this section. Specific questions for feedback are not asked except in sub-section 2.5.3.

We do not have a view on this question.

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

The primary risk from non-sterling systemic stablecoins is likely driven by yield-seeking rather than the immediate displacement of domestic payments.

The digital asset ecosystem is currently heavily dollarised, often offering deeper liquidity and easier access to yield-generating opportunities compared to sterling equivalents. If sterling-denominated options remain uncompetitive or scarce, UK participants may increasingly hold liquidity in non-sterling assets to access these returns, leading to asset substitution.

To mitigate this, the BoE should prioritise fostering a competitive sterling proposition. The most effective defence is a regulatory framework that encourages the issuance of high-quality, useful sterling stablecoins. By enabling a market where sterling stablecoins can compete on utility and liquidity, the BoE can ensure that users remain in their domestic currency without sacrificing functionality. This leverages the natural market preference to avoid FX risk, reducing the incentive to hold non-sterling assets.

We also believe that a critical aspect of this is close coordination with equivalent regulators, as well as appropriate capital treatment for firms involved in issuance, holding and distribution of non-sterling-denominated systemic stablecoins.

Question 21: For non-sterling-denominated systemic stablecoins issued from a non-UK entity, do you think the Bank should consider deferring to the stablecoin's home authority?

We believe that there should be a clear MoU established between the relevant regulators, as, to the extent this is challenging to implement, we expect that the bulk of the regulatory and compliance burden would fall on regulated firms and FMIs in this space. We would actively encourage the BoE to accelerate discussions with global regulators in relation to comparable policy and regimes such as MiCA in Europe and the GENIUS act in the US.

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

We do not have a view on this question.

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

We do not have a view on this question.

About CMS

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