

International Regulatory Strategy Group (IRSG)

RESPONSE TO THE BANK OF ENGLAND CONSULTATION PAPER

'PROPOSED REGULATORY REGIME FOR STERLING-DENOMINATED SYSTEMIC STABLECOINS'

Introduction

The International Regulatory Strategy Group (IRSG) is a joint venture between TheCityUK and the City of London Corporation. Its remit is to provide a cross-sectoral voice to shape the development of a globally coherent regulatory framework that will facilitate open and competitive cross-border financial services. It is comprised of practitioners from the UK-based financial and related professional services industry who provide policy expertise and thought leadership across a broad range of regulatory issues. The IRSG welcomes the opportunity to respond to the Bank of England's (the "Bank") [consultation paper](#) 'Proposed regulatory regime for sterling-denominated systemic stablecoins', published on 10 November 2025 ("the Paper").

Key Messages

The IRSG supports the Bank's intention to create a proportionate and globally competitive regime for sterling-denominated systemic stablecoins. Our responses to the individual questions posed in the Paper are set out in the annex. We highlight the following key considerations:

- **Transition between non-systemic and systemic stablecoins:**
A clear, predictable, and operationally workable transition process is essential for the success of this framework and future growth and development of the UK market. Legal uncertainty remains regarding the applicable rules and required actions as stablecoins move from non-systemic to systemic status. Greater clarity on transition timelines, compliance expectations, and the interaction between the Financial Conduct Authority's ("FCA") and the Bank's regulatory regimes will help market participants plan and avoid disruption.
- **Backing assets – 60% short-term sterling-denominated UK government debt:**
While the proposed 60/40 split between government debt and central bank deposits supports financial stability, further detail is needed on liquidity management, especially regarding the use of repo transactions and the treatment of cash proceeds. The regime should remain flexible and avoid imposing requirements that are more burdensome than international standards. We also support the addition of commercial bank deposits within the backing asset mix to mitigate the limitations of the current proposals.
- **Prudential requirements:**
Basing the capital requirements on firms' operating expenses effectively precludes established firms with wider business models from offering stablecoins, which will impede innovation. Regulated financial institutions should be able to leverage existing frameworks to determine their operational risk capital requirements.
- **Holding limits:**
Transitional holding limits may help manage financial stability risks, but significant

operational challenges exist. These include enforcement in decentralised environments, the treatment of custodied assets, and the process for exemptions. Clear guidance on monitoring, breach consequences, and technical implementation is needed to ensure limits are workable and do not unduly restrict legitimate business activity or innovation.

- **Statutory trust:**
While trust structures can be effective for safeguarding backing assets, a one-size-fits-all statutory trust regime may not be appropriate at this stage. An outcomes-based approach allowing for alternative legal mechanisms to reach equivalent effect would provide certainty for market participants but offer flexibility that may be necessary for certain business models, especially for global firms and where non-cash assets are involved. Divergent regimes for systemic and non-systemic stablecoins should be avoided to minimise complexity.
- **Permissionless ledgers:**
We agree that accountability, settlement finality, and operational resilience (including cybersecurity) are key risks for public permissionless ledgers. However, further detail is needed on how such ledgers can meet the Bank's expectations in practice, and what happens if a systemic stablecoin on a permissionless ledger is later found not to meet these standards. Clear criteria and remediation processes are essential. The interaction with data privacy requirements and wider regulatory expectations should also be considered in light of the Information Commissioner's Office ("ICO") recent consultation on draft guidance on Distributed Ledger Technologies.
- **Threshold for systemic status:**
Significant uncertainty arises from the broad discretion afforded to HM Treasury (HMT) in determining systemic status. The introduction of indicative monetary thresholds or objective criteria would provide valuable early warning indicators, enabling advisors and firms to assess regulatory risk and plan accordingly.
- **Multi-issuer models and UK subsidiarisation:**
Clarity is needed on the treatment and fungibility of sterling-denominated systemic stablecoins issued by non-UK entities outside the UK, particularly regarding rights alignment and redemption mechanisms.
- **Inconsistency of approach for banks vs non-banks**
We note the Paper only applies to systemic stablecoins issued by non-banks. It states that the existing regulatory regimes for banking applies to banks that want to issue stablecoins, as well as being subject to the Prudential Regulation Authority's 2023 [Dear CEO Letter](#). This letter sets out requirements for issuance that goes beyond mere guidance.

We propose that these requirements should be incorporated into the regulatory rulebook rather than remain as guidance in the form of a Dear CEO Letter. For certainty and transparency, it is important that such obligations are codified within the rulebook rather than sitting outside of it and that any inconsistencies between the regimes for banks and non-banks are clear and justifiable. Leaving such structural requirements in guidance risks ambiguity for firms and may undermine the consistency of supervisory expectations.

- **Wider considerations:**

Clarity is still needed on several cross-cutting issues, including: ensuring the parameters of the stablecoin framework fit within/have clear boundaries compared to existing frameworks that may otherwise overlap; explaining how interoperability will work with existing payment services providers and whether regulatory expectations will differ and addressing legislative gaps around settlement finality for distributed ledger technology (DLT) based systems.

In particular, it is crucial that the HMT, FCA and BoE stablecoin frameworks operate effectively together to ensure that stablecoins are not classified as payment services or e-money. This distinction is important for regulatory certainty and to avoid overlap or confusion with existing frameworks.

We wish to thank Clifford Chance LLP for their support in drafting this response.

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Annex: Responses to questions posed

REQUIREMENTS FOR ISSUING QUALIFYING STABLECOIN

#	Question / Response
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?

The revised proposal on backing assets allowing up to 60% of backing assets in short-term sterling denominated debt securities is an improvement and offers much more flexibility to the market than the Bank's original proposal of restricting backing assets to unremunerated central bank deposits only. We agree that issuers should have flexibility to be able to decide the mix of central bank deposits relative to government debt securities, which brings more alignment with international approaches such as under the GENIUS Act in the United States.

The proposal to permit temporary deviations from the 40:60 split for firms to meet large unanticipated redemption requests is helpful in this context but may need to go further to ensure that small deviations due to market fluctuations do not trip issuers up. We note that further guidance on the Bank's expectations with regards to maintaining the 40:60 split is planned in the next phase of the consultation during 2026.

We understand the Bank's concerns about liquidity behind the proposal that 40% of backing assets should remain as unremunerated central bank deposits. However, this must be balanced against business model viability and the need to ensure competitive advantage with international regimes that offer more flexibility to ensure development of the UK market.

It should also be considered against the position for banks who can benefit from remuneration overnight in relation to their deposits. In this context, it is not clear that the commercial outcome is fair as it does not seem to provide a level playing field for bank and non-bank stablecoin issuers.

We believe that including commercial bank deposits as a component of the backing asset mix may help address issues in the current proposals while preserving financial stability and mitigating bank disintermediation risk. Including commercial bank deposits would allow issuers to earn remuneration on a portion of the backing assets and keep those assets within the banking system, where they can support credit creation and broader economic growth. This approach would also help address liquidity challenges that may arise with short-dated government bonds. In addition, the use of commercial bank deposits would align with the Markets in Crypto-Assets Regulation (MiCA) regime and the FCA's regime for non-systemic issuers.

We recognise that the Bank has raised concerns about potential contagion and financial stability risks associated with the use of commercial bank deposits; however, we believe market participants and regulators can address these risks effectively:

- **Risk to banks from large-scale redemptions:** Banks are well versed in managing concentration and funding risks. Many hold significant deposits for large corporates, and have a strong track

record in managing these risks, including exposure to individual counterparties or stablecoin issuers and sector-wide exposure to stablecoin issuers.

- **Risk to stablecoin issuers from bank failure:** Issuers that choose to use commercial bank deposits can manage this risk through utilising multiple banks and managing their own concentration risk. In addition, following lessons from the failure of the US Silicon Valley Bank (SVB), regulators can monitor sectoral concentration in highly focused banks, consistent with their broader supervisory proposals.
- **Aggregate risks:** We also recognise the risk that large redemption events could reduce overall deposit levels in the UK banking system. However, a significant proportion of redeemed funds would likely be deposited within the UK banking system, which would mitigate the aggregate impact.

In addition, we support aligning backing requirements more closely with the GENIUS regime, including allowing money market funds with an investment mandate that does not extend beyond the eligible assets included in the regime. Allowing money market funds as backing assets can streamline reserve management for stablecoin issuers, as issuers can invest their reserves in the fund and rely on the fund manager to manage them. For example, USDC reserves are predominantly held in a dedicated money market fund, and several asset managers have launched stablecoin reserve funds for issuers. This approach could therefore be attractive for the broader UK financial ecosystem. The underlying money market fund assets would need to align with the assets that the UK regime defines as eligible—ideally similar to the GENIUS regime: cash, short-dated government bonds, deposits, and repos.

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

We welcome the Bank's recognition of the need to balance innovation with financial stability, and agree that a proportionate, phased approach to backing asset requirements can help support the viability of new systemic stablecoin issuers as they scale. The proposed step-up regime, which allows issuers recognised as systemic at launch to temporarily hold up to 95% of backing assets in sterling-denominated UK government debt securities, is helpful and may facilitate market entry and encourage innovation in the UK.

We note that the Bank is also working with the FCA to manage the transition for issuers that grow to be systemic post-launch including the arrangement for how they would meet requirements on backing assets without impeding the issuer's viability, and that the Bank expects them to follow a similar path over an "appropriate time horizon".

However, we note that the step-up regime represents a significant uplift from the FCA's requirements for non-systemic stablecoin issuers, and from the limited requirements that apply today. Much greater clarity is still needed around how the step-up regime and any transition regime will apply, particularly to ensure a smooth and predictable transition between FCA and Bank regimes. For example, there is legal uncertainty regarding the applicable rules during and after transition—will FCA rules switch off as the Bank rules switch on, and how will any overlapping or sequential requirements be applied (or

gaps be managed) in practice? This uncertainty may create operational and compliance challenges for issuers and could deter new entrants or stifle innovation if not addressed.

We therefore encourage the Bank and FCA to provide detailed guidance on the step-up regime and transition process as soon as possible to support effective implementation and minimise operational uncertainty for issuers, including clear timelines, required actions, and how firms should manage compliance during the transition period. It would also be helpful to clarify the criteria and process for reducing the proportion of government securities from 95% to 60%, and how this will be assessed on a case-by-case basis.

The Bank needs to be well aligned with the FCA to ensure that the frameworks for systemic and non-systemic stablecoins complement one another; this is particularly important for issuers of non-systemic stablecoins that are designated as systemic by HMT, at a later date. To the extent systemic stablecoin issuers were to be jointly regulated under both the Bank and FCA's regimes at any point, duplicative effort and unnecessary operational burden would need to be avoided.

Overall, while we support the step-up regime as a means of supporting innovation and market development, we believe that greater legal and operational clarity is essential to ensure that the regime is workable in practice and does not inadvertently undermine the UK's competitiveness as a centre for digital assets.

Question / Response

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?

In general, we agree with the approach to mitigating risks to the issuer and coinholders via risk-based capital and reserve requirements, including the Bank's proposal to apply the CPMI-IOSCO Principles for Financial Market Infrastructures ("PFMI") as a baseline for capital requirements for issuers calculating general business risk. Requirements under PFMI are broadly aligned with those under the Capital Requirements Regulation ("CRR") and Capital Requirements Directive ("CRD"), and therefore this would currently result in bank issuers and non-bank stablecoin issuers being subject to broadly equivalent requirements. This is helpful to ensure a fair playing field.

As the PFMI principles have been implemented through local legislation across the EU and US through EMIR and the Dodd-Frank Act respectively, this also reduces the risk of regulatory arbitrage.

In our view, embedding these principles into the rulebook would complement the Bank's capital and reserve proposals by ensuring that organisational safeguards, such as insolvency-remote structures and branding separation, are clearly enforceable and aligned with prudential objectives.

However, while we understand the Bank's position that UK deposit takers should not issue stablecoins, the Bank should give greater consideration to existing non-deposit takers. The proposal to base capital requirements on operating costs means that, for large institutions such as designated investment firms—where stablecoin issuance may represent only a small proportion of overall business activity—the capital requirement would scale to the firm's total size, making stablecoin issuance financially

unviable. This outcome could severely inhibit innovation by established firms. We also note that the FCA has proposed a similar approach, which would prevent existing firms from issuing stablecoins, whether systemic or non.

We propose that regulated financial institutions should leverage existing frameworks to determine the appropriate level of operational risk capital, rather than operate under a stand-alone regime for these activities.

Furthermore, the regulators have not yet set out how prudential regulation and supervision would operate for a dual-regulated non-bank (for example, a designated investment firm) issuing a stablecoin on a non-systemic basis. This gap would create the highly unusual situation in which a dual-regulated entity falls under solo FCA prudential regulation for a single business activity. The FCA designed its proposed prudential rules to apply to a MiFIDPRU firm rather than a CRR firm, and many of those requirements conflict with a CRR firm's prudential approach. At a minimum, this approach would require such a firm to develop and implement a parallel prudential assessment framework solely for these activities, which would impose an undue burden and raise the same concerns discussed above about basing operational risk on operating expenses.

We are also concerned that section 2.2.2, which states that the issuers must identify general business risk, may pose a risk of a mismatch between business incentive and policy requirements.

#	Question / Response
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 do not support the mandatory use of a trust for reserves of liquid assets.

While we recognise that trust structures are often used in practice for safeguarding assets, a "one-size-fits-all" statutory trust regime is not appropriate – it would be impractical to impose as well as restrict market developments and competition. For example, given that not all jurisdictions recognise trusts, this could cause challenges where the issuer holds the backing assets through a custodian in a jurisdiction where trusts are not recognised. In this case, in the event of the custodian's insolvency, third parties may claim the backing assets, preventing the issuer from preserving them for holders as intended. In addition, given that backing assets will comprise both cash and non-cash assets, it would also be impractical to create terms for the statutory trust which are effective for the different types of non-cash assets, as well as the different internal requirements for different firms.

Therefore, the Bank should remove the requirement for a trust, statutory or otherwise, and implement more practical and outcomes-focused rules that outline the resulting protections from the arrangements for holding backing assets. For example, the issuer holds backing assets separately from its own assets and, to the extent achievable under applicable law, no party treats them as part of the

issuer's estate or makes them available to its creditors. The Bank could achieve this by more general wording on segregation arrangements, for example, "legally segregated from property held for the issuers' own account", could better address the potential for variation across jurisdictions and give issuers more flexibility, whilst still maintaining appropriate levels of segregation.

This would better align with comparable rules in existing frameworks under the FCA's rulebook. For example, the FCA does not mandate the use of a statutory trust for funds held under the Electronic Money Regulations or in the rules under the CASS for holding client assets (Art. 6.2), which have similar policy goals. Safe and effective market practices have developed around these different approaches that the Bank and the FCA could draw on for the systemic and non-systemic stablecoins regimes. While in practice custodians typically hold assets on trust when considering custody of client assets, subject to CASS 6, the outcomes-focused approach there offers flexibility. This is important, for example, to address scenarios where issuers may be holding backing assets through firms in other jurisdictions that do not recognise trusts. In those cases, different structures could be used to achieve the same outcome, for example by establishing special purpose vehicle (SPV) companies to hold assets, to mitigate these concerns. It is important that any backing asset regime for stablecoins offers the same flexibility by not mandating the use of trusts.

Should the Bank proceed with this proposal despite our concerns, we would request that it consult industry on the trust's terms, including the detailed requirements for how an issuer can satisfy the obligations it will have as trustee to holders, similar to those set out by the FCA in detail for client money, for example, in CASS 7.11.33A and related provisions.

This is consistent with the feedback we provided to the FCA [in our response](#) to its consultation paper CP25/14 'Stablecoin Issuance and Cryptoasset Custody' dated 28 May 2025. Divergent regimes for systemic and non-systemic stablecoins should be avoided to minimise complexity.

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

The Paper proposes that capital is set as the higher of:

- The cost of recovery from the largest plausible loss event; or
- Six months of current operating expenses.

It also proposes that capital should be in paid up capital, share premium, retained earnings and disclosed reserves (largely in line with Common Equity Tier 1 (CET1) capital), and assets funded by capital must be high quality and sufficiently liquid for the risks they intend to mitigate.

Although the removal of the operational risk buffer from the shortfall reserve held on trust is helpful, we believe this proposal remains more burdensome than equivalent requirements under international frameworks such as the EU's MiCA, which tend not to have capital requirements in addition to liquidity requirements.

Question / Response

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

The Paper proposes that issuers will be required to maintain reserves in the form of high quality, liquid assets, specifically to mitigate the financial risks associated with backing assets and to meet the costs of an insolvency or a wind down. These reserves must be held on trust for coinholders and insolvency practitioners.

While these requirements are logical from a risk mitigation perspective, effectively mandating a 'living will' for issuers, ensuring there are adequate means to resolve outstanding liabilities in an orderly manner, it is important to consider their impact when combined with other proposed measures. For example, for an issuer transitioning from being non-systemic to systemic, this would apply alongside the additional capital and backing asset requirements. There is a concern that taken together such requirements may discourage issuers from scaling up to systemic status, as the increased obligations could undermine the viability of their business models.

Question / Response

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

We broadly support the Bank's proposals to strengthen the regulatory framework for systemic stablecoins and recognise the importance of robust liquidity management and risk mitigation. The ability for issuers to monetise short-term government securities via repurchase agreements (repo) is a welcome feature, as it provides flexibility to meet redemption requests and manage liquidity under stress.

However, we note that the consultation references the use of repo transactions for liquidity management but does not provide detail on where the resulting cash is to be held/used. Greater clarity is needed on whether repo cash may be retained in commercial bank accounts, central bank accounts, or other approved locations, whether it is subject to the trust requirement (if this is maintained in spite of our feedback) and how this interacts with the prescribed 40:60 split between central bank deposits and government securities. Clear guidance on this point will be essential for issuers to operationalise liquidity management strategies and ensure compliance with the regime.

We encourage the Bank to provide further detail on this in future guidance and draft Codes of Practice, to support effective implementation and minimise operational uncertainty for issuers.

#	Question / Response
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 recognise the rationale for transitional holding limits as a means to safeguard financial stability during the adoption of systemic stablecoins. However, there are significant operational challenges that would need to be addressed to ensure these limits are workable in practice.

Responsibility for enforcement:

The consultation proposes that holding limits would be implemented “through” issuers, but it is not clear how issuers would be able to enforce these limits in practice, particularly given the nature of stablecoins as bearer instruments that can be freely transferred and traded in secondary markets. There is legal uncertainty as to which participants in the payment chain would be responsible for monitoring and enforcing compliance, especially where stablecoins are held in unhosted wallets or exchanged peer-to-peer outside the issuer’s direct oversight.

Consequences of breaches:

Further clarity is needed on the consequences of breaches of holding limits, both for individuals and businesses. It is not clear whether breaches would result in transaction reversals, account freezes, or other remedial actions, and again how these would work in practice. For example, how would such measures be implemented in a decentralised distributed ledger environment? It is important that market participants have an opportunity to review and provide feedback on much clearer guidance around enforcement mechanisms and the rights and obligations of all parties involved.

Scope of business limits:

In addition to concerns about the level of the limits outlined in response to question 9 below, there is also uncertainty as to the calculation of the proposed £10 million business limit. For example, would this include assets held in custody on behalf of clients, or does it apply solely to proprietary holdings? This distinction is particularly relevant for intermediaries and custodians, and further clarification would help ensure consistent application across the market. Additionally, it is also not clear at what level the business holding limits should be calculated, whether financial institution level or client level. There is also uncertainty on how this would be operationalised or enforced, as transactions take place continuously throughout the day across different venues.

Exemptions regime:

While the consultation references the possibility of exemptions from business limits, it is not clear whether these will be established for certain types of transactions or business models or determined on a case-by-case basis. Greater detail on the criteria, process, and transparency of the exemptions regime would be helpful for market participants planning for operational compliance.

Technical implementation:

From a technical perspective, implementing holding limits may require fundamental changes to stablecoin smart contracts and wallet infrastructure, as well as the development of new monitoring and reporting tools to track aggregate holdings across multiple wallets and platforms. This is a material change from the FCA regime and could present significant challenges for issuers,

particularly for existing coins and decentralised arrangements. This would represent a significant disincentive for firms to grow and risk becoming subject to the Bank's systemic regime.

To address these challenges, we propose that the Bank explores transaction-size limits as an alternative mechanism to meet the policy outcome. Transaction caps target the type and scale of usage, rather than the size of an entity's end-of-day balance, and therefore encourage users to actively manage their holdings. As the stablecoins will be non-interest bearing, it is unlikely that users will treat them as long-term stores of value in the same way as bank deposits – instead, they will be used primarily for payments and transactional purposes.

Generally, we also encourage the Bank to provide further guidance on enforcement responsibilities, breach consequences, and the scope of business limits. We also recommend early engagement with industry on the technical feasibility of proposed solutions, and the development of clear, transparent processes for exemptions. Where possible, alignment with international standards and practices would help to minimise fragmentation and support the UK's position as a leading centre for digital assets.

#	Question / Response
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 recognise the Bank's intention to balance financial stability with innovation by introducing holding limits for systemic stablecoins. However, in addition to the operational challenges mentioned above, we do not agree with the calibration of the £10 million limit for businesses and believe this would negatively impact the growth and development of the UK stablecoin and broader digital finance markets.

A £10 million business limit would be unduly restrictive for large corporates, financial institutions, and businesses with high transaction volumes (e.g., supermarkets, payment processors, or treasury operations). In particular, businesses that act as custodians or intermediaries are likely to need to hold balances of a systemic stablecoin on behalf of multiple clients, and it is unclear whether such custodied assets would count towards the business limit. This uncertainty could impact the ability of these firms to offer stablecoin-based services at scale.

We support the proposal to allow exemptions from the business holding limit which may alleviate some concerns if these are drafted widely enough, but further detail is needed on how these exemptions will be determined and applied. For example, exemptions may be necessary for:

- Payment service providers and custodians holding client funds.
- Large corporates with legitimate operational needs exceeding the limit.
- Settlement of high-value transactions, such as property or wholesale market trades, including cross-border transactions.
- Treasury operations and liquidity management for financial institutions.

It would be helpful for the Bank to clarify whether exemptions will be established for specific transaction types or business models, or whether they will be assessed on a case-by-case basis. Predictability and transparency in the exemptions regime will be important for business planning and operational certainty.

We note that the Bank states that exemptions may apply where businesses require greater balances through the course of “normal business”, however, we would be inclined to avoid unnecessary requirements / operational burden where possible.

While the proposed limits may be workable for many retail and SME use cases, further clarity and flexibility will be needed to ensure that stablecoins can support the full range of legitimate business activities and innovative use cases.

If caps are maintained, we encourage the Bank to provide detailed guidance on the scope of limits, treatment of custodied assets, and the process for obtaining exemptions for review by industry.

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

As outlined in response to question 8 above, we propose that the Bank instead explores transaction-size limits as an alternative mechanism to mitigate the risks identified.

#	Question / Response
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 note the Bank’s proposal that systemic stablecoins should access payment systems supporting interoperability across different forms of money directly should facilitate the use of stablecoins across the wider ecosystem. In principle, we agree this is possible assuming they are required to meet broadly the same criteria as current participants.

However, the ability to assess the impact of a failed systemic stablecoin issuer has never been tested. Direct access to payment systems could amplify contagion risk, but the scale of that risk is currently uncertain. We are unlikely to fully understand the real-world implications until such a stress event occurs and so it may be difficult to fully factor in necessary considerations.

Additionally, it remains unclear why indirect membership would not be sufficient to fulfil the needs of stablecoin issuers and the Bank. Many financial institutions already access payment systems

indirectly, and this approach may provide greater resilience for stablecoin issuers by allowing them to access payment systems through multiple direct members. This model would allow stablecoin issuers to focus on their core business activities and leverage the expertise of established payment service providers (PSPs).

Furthermore, interoperability in money and payments raises questions about how this approach will interact with existing frameworks for entities already authorised as payment services providers. Specifically, will regulatory expectations differ for systemic stablecoin issuers compared to those currently operating under the Payment Services Regulations? Clarity on this point will be essential to ensure consistency and avoid creating uncertainty or duplicative obligations for market participants.

We encourage the Bank to provide further guidance on how interoperability requirements will align with existing authorisation regimes and supervisory expectations for payment service providers.

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

We broadly agree with the proposals, with the exception of holding in statutory trust in line with our comments set out in our responses to question 4 above and question 13 below.

#	Question / Response
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.

In line with our response to question 4 above, we do not agree that a prescriptive trust structure is necessary or appropriate for safeguarding backing assets and reserves at this early stage of market development. The relative nascentcy of the sector suggests that a more flexible, outcomes-focused approach would be preferable, allowing for innovation and adaptation as the market evolves.

The core policy objective should be to ensure that the backing asset pool is segregated from the issuer's proprietary assets and protected from falling into the insolvent estate, so that coinholders' interests are prioritised in the event of insolvency. This requires that issuers are obliged, at all times, to keep backing assets separate from their own assets, preventing them from being attached by creditors or used for the issuer's own account.

While a trust, statutory or non-statutory, is an entirely appropriate solution in the UK, we recommend that firms be given flexibility in how they achieve these safeguarding outcomes. This would allow firms to take account of relevant requirements under applicable insolvency or other laws, including the

location of the backing assets and the law governing those assets. Such flexibility is particularly important for global firms, which may use sub-custodians in jurisdictions where recognition of an English law trust is less certain, and where backing assets may include debt instruments governed by non-UK law.

It is also important to note that eligible backing assets may extend beyond cash deposits and include rights or other economic incidents not shared by simple cash deposits. This may affect the terms or effectiveness of any trust or corresponding legal safeguarding arrangement with respect to non-cash assets.

Again, this is consistent with the feedback we provided to the FCA [in our response](#) to its consultation paper CP25/14 'Stablecoin Issuance and Cryptoasset Custody'. Given the strict proposed requirements for systemic stablecoin backing assets, the effectiveness of the trust should be less of an issue than in the FCA regime. However, if this results in one regime for non-systemic arrangements and a statutory trust regime for systemic arrangements, such divergent regimes would be unhelpful and could create unnecessary complexity for market participants.

#	Question / Response
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 that accountability, settlement finality, and operational resilience, including cybersecurity, are prominent risks associated with public permissionless ledgers. These risks are particularly acute given the decentralised nature of such networks and the absence of a central operator with clear responsibility for governance and risk management.

We welcome the Bank's openness to the use of public permissionless ledgers by systemic stablecoin issuers, provided that confidence and trust in money can be maintained. However, further detail would be helpful on how a permissionless ledger could meet the Bank's expectations in practice. For example, it is unclear what specific standards or controls would be required to demonstrate robust accountability and settlement finality, or how operational resilience would be assessed and monitored in a decentralised environment.

A key concern is what would happen if a stablecoin issued on a permissionless ledger becomes systemic, but the Bank subsequently determines that the ledger does not meet its expectations. Clarity on the process, potential consequences, and remediation options in such scenarios would be valuable for market participants planning their technology and compliance strategies.

An alternative approach would involve the Bank establishing principles that firms can use to assess the appropriateness of blockchains, covering both base blockchains and layer 1 blockchains. This approach would allow the Bank to define the criteria for blockchain assessment while enabling firms to determine appropriateness and identify the required controls or other mitigants for a given use case.

Question / Response

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?

On the basis of our concerns raised in Question 14, accountability is the most crucial risk in the context of public permissionless ledgers. Without a clear locus of responsibility, it is challenging to ensure compliance with regulatory requirements, manage incidents, and maintain trust in the system. Settlement finality and operational resilience are also critical, but both ultimately depend on having accountable parties who can implement and enforce appropriate controls.

In relation to risks posed from the settlement finality gaps for DLT, the Paper states that "industry efforts have been focused on achieving technical settlement finality and the Bank is also aware that there are gaps in the legislation to translate technical settlement finality to legal finality for DLT-based systems. HMT and the Bank are considering the legislation around settlement finality (Settlement Finality Regulations) to account for DLT, which may help to address some of these gaps." Further clarity and progress in this area will be important to provide certainty for market participants relying on DLT-based settlement infrastructure.

Question / Response

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

The interaction with data privacy requirements and wider regulatory expectations should also be considered in light of the ICO's [recent consultation on draft guidance on Distributed Ledger Technologies](#).

In addition, the neutrality and fair treatment of customers will be become increasingly important as distributed ledger technologies become more prevalent in the provision of UK financial services.

Question / Response

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?

We appreciate the clarifications provided in Section 2.3, particularly regarding the Bank's approach to systemic importance and the criteria for recognition. However, we remain concerned about the significant uncertainty that arises from the broad discretion afforded to HMT in determining when a

payment system or service provider may be considered systemic. This uncertainty makes it challenging for firms to assess their regulatory risk, plan for compliance, and make informed business decisions.

In practice, the absence of indicative monetary thresholds or objective criteria means that market participants and their advisors are left without clear guidance as to when their activities may trigger HMT review or recognition as systemic. This lack of transparency could result in inadvertent breaches, regulatory surprises, or unnecessary caution that may stifle innovation and growth in the sector.

To address this, we would strongly support the introduction of indicative monetary thresholds or other objective markers that could serve as early warning indicators for firms. Even if these thresholds are not binding, their publication would enable advisors to provide clearer, risk-based guidance to clients and allow firms to monitor their own activities with greater confidence. This would enhance transparency, predictability, and operational certainty for all stakeholders, while still preserving HMT's flexibility to exercise judgement in exceptional or unforeseen circumstances.

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

We note the Bank's proposal that non-UK based issuers of sterling-denominated systemic stablecoins should establish a subsidiary in the UK to carry out business and issuance activities with UK-based consumers is unchanged from 2023, and that this subsidiary should hold its backing assets and assets funded by capital in the UK.

However, further clarity is needed regarding the treatment of sterling-denominated systemic stablecoins issued by non-UK based issuers outside of the UK. Specifically, it is unclear whether such coins would be considered fungible with those issued by the UK subsidiary, given that they may not meet the same regulatory standards or confer the same rights, particularly in relation to redemption mechanisms and the transfer of rights between regulatory regimes or jurisdictions.

This raises important questions for market participants and consumers regarding the consistency of rights and protections attached to sterling-denominated stablecoins across different jurisdictions. For example, differences in redemption rights or mechanisms could impact the usability and trust in these coins and may create operational or legal complexities for cross-border transactions.

We would welcome further guidance from the Bank on how these issues will be addressed, including whether coins issued outside the UK will be subject to equivalent standards, and how fungibility and rights alignment will be ensured across different regulatory regimes.

We note that the Bank does not currently propose rules on reasonable transaction fees, including whether firms may flex fees during periods of stress. This issue could prove important in ensuring that fees do not impede redemption during stress events, and it represents an area where the FCA and the Bank should align closely.

Finally, the Bank states that it may consider recognising a wallet provider as a service provider. The Bank has not made clear which regulatory framework it proposes to apply to these wallet providers; however, any such regime should be clearly communicated and carefully designed to avoid creating an uneven playing field and discouraging established custodians from offering these services.

#	Question / Response
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.

The Bank notes in the Paper that the use of stablecoins as a settlement asset in high-value wholesale financial markets requires a separate set of considerations that it intends to explore via the Digital Securities Sandbox ("DSS"), where holding limits do not apply. The DSS is due to run until 8 January 2029 but may be extended by HMT through legislation if more time is necessary to transition to a new regulatory regime. In section 2.5.2, the Bank outlines this approach to innovation in wholesale markets in more detail.

However, the absence of more detailed consideration of the use of stablecoins as a settlement asset within core financial markets at this stage is a significant omission. As noted above, there is potential for systemic stablecoins to introduce systemic or financial risk when they have direct access to payment systems (i.e., the potential for contagion effect resulting from the failure of an issuer) and this becomes particularly acute when stablecoins are employed for wholesale settlement purposes.

The role of stablecoins in the wholesale environment is of critical importance, especially for Financial Market Infrastructures ("FMIs") and the wider promotion of stablecoins as a recognised asset class. However, there remains a lack of clarity around the processes involved in this context. The Bank notes that:

"If usage in the DSS proves successful, the Bank would expect to recommend to HMT that the issuer of stablecoins used for settlement in core wholesale financial markets is recognised as either a payment system or service provider (where relevant). If HMT agrees, it would be jointly regulated by the Bank (under this regime) and the FCA (under its authorisation regime for qualifying stablecoin issuers)."

While it is helpful to use the DSS to explore the implication of stablecoins as a settlement asset within wholesale financial markets and this may help to assess and mitigate the risk outlined above, this mechanism and the criteria for such a determination appear somewhat opaque, leaving significant questions for industry unanswered. It also means that entities not involved in the DSS have a limited ability to engage with this wholesale payments exploration. It is imperative that consideration is given to ensure the broader impact on the wider market can be assessed and to give more firms the ability to be involved.

Question / Response

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

N/A

Question / Response

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?

Cross-border arrangements and multi-issuance are key areas of focus for members of the IRSG. We generally agree with the proposed approach to defer to the stablecoin's home authority provided that UK stability is not put at risk but require greater clarity on the Bank's plans.

We would encourage the Bank to establish an equivalence and reciprocity regime for third-country issuers focussed on parity, with enforceable safeguards for reserve mobility and supervisory cooperation. This should be shared with industry for feedback along with detailed guidance on how it is expected to work in practice.

We would also welcome further information to understand how cross-border models will be tested in the DSS.

Question / Response

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

N/A

Question / Response

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.

N/A