

Consultation Response

BoE CP on the new UK Systemic Stablecoin Regime

February 2026

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on **Bank of England's Proposed Regulatory Regime for Sterling-Denominated Systemic Stablecoins**. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.

We summarise below our high-level response to the consultation, which is followed by answers to the individual questions raised.

The response is supported by White & Case LLP.

Executive Summary

AFME welcomes the Bank of England's consultation paper on its proposed regulatory regime for sterling-denominated systemic stablecoins. We view that enabling the availability of DLT-based cash solutions, including the issuance of stablecoins by regulated financial institutions, is a highly critical pillar of achieving the important benefits offered by tokenisation and DLT applications (in particular the ability to achieve transaction programmability) and broadening settlement choice for investors and real economy actors. In general, we particularly emphasise the importance of maintaining a level playing field between non-banks and banks in relation to stablecoin issuance and risk management, covering requirements on backing assets, capital, and insolvency, *inter alia*.

To deliver on these aims, we encourage the Bank to consider the following priorities in the finalisation of the regulatory regime:

- **Scope:**

- The consultation has not fully considered the possibility of credit institutions undertaking systemic stablecoin issuance activities, and we support the Bank to explicitly permit PRA-regulated credit institutions to provide stablecoin issuance services under their own brand. While we acknowledge that issuance activities may be appropriate to take place in an insolvency-remote entity, we support consideration for the ability of credit institutions to directly issue stablecoins subject to 1) adherence to the same backing asset requirements as non-bank issuers and 2) a clearly delineated treatment between insured deposits and

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uninsured stablecoins. The Bank and PRA's stance (through a combination of Dear CEO Letters, this consultation, and various statements and speeches) is currently open to interpretation and may benefit from some clarity in the ways that PRA-regulated credit institutions may wish to issue stablecoins, with options ranging from use as a permanent or temporary store of value (analogous to a customer's primary account) or as a temporary payment instrument. The PRA may be minded to consult further on its requirements. We do not generally view that credit institutions issuing stablecoins would significantly impact credit creation; in fact, if credit institutions are able to issue stablecoins, they can balance and appropriately manage the proportion of deposit extension (through fractional reserve banking) to non-deposit based credit transformation (e.g. stablecoin issuance).

- Furthermore, PRA-regulated credit institutions are subject to high regulatory standards, and have significant expertise in risk and liquidity management. Therefore, they should be allowed to issue stablecoins and offer stablecoins to their clients. This would broaden investors' and companies' payment and settlement asset choice, and provide technological benefits not readily available in the traditional (non-DLT-based) financial system.
- **Capital requirements for issuers:** related to the above, the proposal to base general business risk capital requirements on operating expenses effectively precludes established financial institutions from offering stablecoins, as operating costs for their entire business are likely to far exceed those associated with stablecoin issuance related activities. This is true under both the Bank and FCA proposed regimes. We support the PRA to maintain flexibility in calibrating the appropriate capital requirements for PRA-regulated credit institutions and investment firms; such requirements should be able to rely on existing operational risk capital requirements to which these firms are subject and proportionately take into account only the incremental operational cost of issuance activities. Where PRA-regulated investment firms decide to act as stablecoin issuers, any additional capital requirements should be proportionate and commensurate to the risks.
- **Operationalisation of holding limits:** while we acknowledge the policy rationale for introducing holding limits for retail customers, the operationalisation of the holding limits requirements could impose significant burdens on participants, without clear delineation of responsibility between issuers, wallet providers, and coinholders. We view that the issuer is likely best placed to monitor coinholders' balances; however, there are a number of considerations that require further guidance and consultation with industry, including monitoring responsibility, controls, and remedies for restoring balances within limits.
- **Wholesale holding limits:** the Bank has communicated to the market that wholesale firms wishing to use stablecoins for new products should use the Digital Securities Sandbox (DSS) to gain early permission for these activities and that the proposed £10m limit for institutional clients would be negotiable for firms within this sandbox. A clear timeline should be provided for the limits' removal to ensure regulatory certainty. Given these observations, and market developments indicating the growth of DLT-based finance outside of the DSS, we support an exemption from limits on financial institutions for wholesale transactions within and outside the DSS.
- **Backing assets:** we observe that the proposed backing asset requirements in terms of the proportion that must be held in unremunerated central bank deposits (>40%) compared to short-term gilts (<60%) are more stringent than comparable requirements in other jurisdictions (under EU MiCAR and the US Genius Act). We recognise the strong protection and support for fungibility/exchange that this policy provides to the UK. However, this may disincentivise issuance in the UK and incentivise the use of non-

sterling denominated stablecoins. To mitigate this, the Bank should consider allowing the use of commercial bank deposits and money market funds as eligible backing assets, subject to further market study and analysis. Finally, the Bank should consider a cap on the proportion of central bank deposits, to avoid stablecoins becoming a privatised on-chain central bank money, with the associated financial stability risks of a potential flight to safety during a crisis. It is important for the Bank to take a leading role in promoting proportionate and comparable international standards to better support the international use of stablecoins.

Questions

Q1: 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 generally note that the proposed backing asset requirements are still more stringent than in other jurisdictions (e.g. US and EU). We recognise the strong protection and support for fungibility/exchange that this policy provides to the UK, although it may disincentivise issuance in the UK and incentivise the use of non-sterling denominated stablecoins.

We overall welcome the proposed expansion of backing asset eligibility beyond central bank deposits to also include short-term sterling denominated UK sovereign debt securities. However, subject to further detailed economic and market impact analysis, we would also support the inclusion of commercial bank money and money market funds as eligible assets, for the following reasons:

- Commercial bank deposits: these are safe, liquid assets allowing for maximum fungibility, liquidity management, and servicing of stablecoins (e.g. redemption) for clients; allowing a proportion of commercial bank money as eligible assets would allow for greater flexibility in issuance without detracting from the principles of a ‘multi-money’ system. Leveraging commercial bank deposits as a portion of the banking asset pool could also help address many of the issues with the current backing asset proposals. Depending on the model followed, these deposits could be remunerated and would not be impacted by the liquidity of the short-dated gilts markets. Additionally, allowing a bank deposit approach would alleviate some of the perceived concerns around deposit outflows associated with stablecoins. While we understand the Bank’s concerns around contagion risk associated with commercial bank deposits, our view is that these risks are manageable. The risk of a large redemption destabilising banks is an area well understood – and managed – by banks: banks have robust funding and liquidity risk management, as well as concentration risk management. Banks have significant experience of holding large deposits on behalf of corporates, and in managing the risks associated with those deposits. Similarly, the risk of a bank’s failure impacting the stablecoin issuer could be readily managed through rules as to the diversification and management of concentration risk by stablecoin issuers themselves. Finally, impacts on bank deposits in the aggregate are likely to be mitigated by the depositing of funds received through redemption back within the UK banking sector.
- Money market funds (MMF): allowing MMFs as backing assets can streamline reserve management for stablecoin issuers, which can invest their reserves in the MMF and let the fund manager take responsibility for management. For example, USDC reserves are predominantly held in a dedicated BlackRock MMF, and other asset managers have launched similar stablecoin reserves funds for issuers. Enabling this offering could

therefore be attractive to the broader UK financial ecosystem. The underlying MMF assets need to align with what the UK regime sets out as eligible – ideally similar to the Genius Act: cash, short-dated government bonds, deposits, repos.

As an additional point, we also query whether it would be sensible for the Bank to set a limit on the proportion of remunerated central bank deposits as part the backing asset composition. Without broadening the backing asset mix to a wider range of assets and limiting the total percentage of central bank deposits as backing assets, stablecoins may risk becoming de facto private forms of on-chain central bank money and/or being perceived as store of value pegged to UK government and central bank guarantees; this could lead to adverse outcomes particularly in times of stress.

In general, we view the UK should lead on and pursue reasonable regulatory alignment in relation to backing asset requirements with the US, EU and other international regimes, such as to facilitate the establishment of a mutual recognition regime based on regulatory comparability. As noted above, the US Genius Act allows - as backing assets to stablecoins - commercial bank deposits and MMFs with an investment mandate that is not broader than the eligible assets included in the regime. Subject to further economic and market impact analysis, this framework should also permit sufficient flexibility to ensure that stablecoins can be used on a cross-border basis and for multiple purposes.

Q2: Do you have comments on the step-up regime as a way of supporting innovation while mitigating financial stability risks?

Broadly the step-up regime is proportionate, although we exhort the flexibility of the Bank in working with an issuer migrating from sole FCA to dual FCA and Bank regulation. Balancing flexibility with regulatory certainty in the approach towards designation will be critical to issuers.

We observe that the step-up regime requires a significant change in the composition of backing asset requirements (e.g. from up to 95% sterling-denominated UK government debt securities under the FCA regime to down to 60% under the Bank's regime; the FCA regime also permits other “non-core” assets as backing assets). This may cause uncertain implications for issuers’ business model.

Linked with our comments above, the use of commercial bank deposits and also units in a Public Debt CNAV MMFs as part of the backing asset mix, in line with the proposed FCA framework, would allow for a smoother transition between the regimes.

Q3: Do you agree with our approach to mitigating risks to the issuer and coinholders via risk-based capital and reserve requirements? If not, what approach would you see as more appropriate for systemic stablecoin issuers?

We generally support the proposed risk-based capital and reserve requirements for stablecoin issuers. However, for existing financial institutions subject to capital requirements, it is important that any re-calibration of capital requirements should recognise existing operational risk capital requirements to which these firms are subject and proportionately take into account the risks of additional stablecoin issuance activities.

If the PRA decides to permit direct stablecoin issuance by credit institutions (as, we note, is permitted under EU MiCAR), we support the PRA to maintain flexibility in calibrating the appropriate capital requirements for PRA-regulated credit institutions. Furthermore, the Bank should clearly set out how capital should be aggregated for existing credit institutions subject to capital requirements. If the Bank were to proceed with the current approach, existing firms

would likely need to set up separate legal entities to issue stablecoin. In such a case it is not clear what the capital impact on the parent entity would be.

For designated investment firms, the PRA should also take a flexible approach to assessing whether issuance activities would be appropriately covered by existing capital requirements, and avoid any disproportionate increase in capital requirements (e.g. to cover the operating costs of the whole entity, including non-stablecoin activities) that would disincentivise such entities from undertaking issuance activities. Concretely, basing capital requirements on operating costs of the entity does not accurately reflect the additional operational risk for large institutions (e.g. non-deposit taking dual-regulated investment firms) which seek to offer stablecoins. As currently proposed, a large firm could issue stablecoins which represent a small proportion of their overall activities, but capital would be based on their full operating costs. This would make stablecoin issuance commercially non-viable. Furthermore, large firms already have operation risk management frameworks, and hold capital against operational risk. We would propose that such firms should be able to leverage their operational risk frameworks and capital requirements, rather than the proposed operating cost basis.

Finally, the regulators have not yet set out how prudential regulation and supervision would work for a dual-regulated non-bank (i.e. a designated investment firm) issuing stablecoins on a non-systemic basis. This would lead to the highly unusual situation in which a dual-regulated entity is subject to solo FCA prudential regulation for a single business activity. The FCA's proposed prudential rules are intended to work for a MIFIDPRU firm, rather than a CRR firm, and many of the requirements are incompatible with a CRR firm's prudential approach. At the very least, this would require such a firm to develop and implement an entire parallel prudential assessment framework specifically for those activities, which would be unduly burdensome, and also lead to the issues discussed above around basing operational risk on operating expenses.

Q4: 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 agree that reserve assets should be ring-fenced. The proposed application of requirements following the PFMI insolvency requirements for FMIs appears to be appropriate. However, we note that for PRA-regulated banks and investment firms acting as issuers, they should be able to rely on existing recovery and resolution plans to mitigate failure/insolvency risks.

Q5: Do you have views on our proposal for calibrating capital for general business risk?

We are supportive of the proposal for calibrating capital for general business risk. We reiterate, however, that for PRA-regulated banks and investment firms planning to issue stablecoins, they should be able to rely on existing capital requirements for general business risk.

In addition, the Bank should take care to specify the requirements for capital against general business risk to apply solely to activities associated with the issuance or service provision of a stablecoin. For firms offering multiple types of service, or products under different capital requirements to stablecoin issuance, it will be important to ensure that the costs associated with these wider business activities are differentiated from and not captured by capital requirements for general business risk associated with stablecoin issuance activities.

Q6: Do you have views on calibrating the reserve requirements for insolvency/wind down?

As stated above, PRA-regulated banks and investment firms acting as issuers should be able to rely on existing recovery and resolution plans to mitigate failure/insolvency risks.

Q7: Do you have any other comments or suggestions on the proposals on the major policy revisions set out in Section 2.2?

We note that demand from systemic stablecoin issuers may affect the size, structure, and liquidity of the short-term UK sovereign debt market. These implications are recognised by the consultation, and covered by HMT's ongoing consultation on the UK Treasury bill markets.

In addition, we view that any circumstances in which central bank liquidity support arrangements are extended to non-bank stablecoin issuers would need to be subject to further study and consultation on their clear and strict constraints, in particular to ensure that financial risks are sufficiently mitigated for stablecoin issuers accessing central bank lending facilities. We would welcome further consultation and details on the exact proposals, including which lending facilities the Bank is considering providing to non-bank stablecoin issuers (i.e. as part of the Bank's Market Operations). We remain of the view that only banks and broker-dealers should be provided access to the Discount Window Facility and other key market operations. As an alternative to provide a tailored solution for non-bank stablecoin issuers whilst limiting risks to monetary financial stability, we view that a "skinny account/special-purpose payment account" can be contemplated, such as that currently under consideration in the U.S.

Q8: 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 agree that holding limits are necessary to mitigate any risks arising from the uncontrolled adoption of stablecoins and the migration of commercial bank deposits, particularly from retail users. However, the proposed holding limits may cause significant operational challenges for participants in terms of monitoring, accountability, and enforcement. The enforcement of limits for secondary transactions, in particular, will be complicated and operationally extensive, especially if a breach on aggregate limits is detected on coinholdings across multiple wallets.

Enforcing limits on a real-time basis will be prohibitively expensive for market participants and introduce significant difficulties in communicating to clients when legitimate transactions and transfers cannot be completed. We consider that, at a minimum, a lighter touch regime where limits are monitored and tracked on a weekly or monthly basis may be just as effective at achieving the Bank's policy objective, at least in transition to steady state, while allowing firms to assess and minimise operational implementation cost and provide a clearer explanation to clients that exceed any limit on a long-term basis. We would support, however, a mechanism to escalate monitoring to a daily basis, particularly to mitigate risks in a stress environment.

We therefore welcome a further consultation on the operationalisation of limits to ensure its proper implementation. At a minimum, the Bank should set out details for:

- **Monitoring responsibility** – The issuer is likely best placed to monitor coinholders' balances. However, we would note the challenges around consistent monitoring across offline or unhosted wallets. The Bank should be clear on the expectation for these, including whether only whitelisted wallets can be used. This would have knock-on effects

for use of stablecoins in secondary markets, where individual coinholders may be unable to confirm whether a recipient of a payment is using a whitelisted wallet prior to initiating a transfer or payment. This could introduce settlement risk.

- **Preventative vs. corrective controls** – The Bank should set out clearly what its expectation for the control of balances are. As a starting point, the Bank should define whether the aggregate holding limits should be enforced preventatively (e.g. if a transaction would lead to a limit breach, that transaction would be blocked) or correctively (e.g. if a coinholder was found to be above the limit, action would need to be taken to bring them below the limit). If a preventative control approach was taken, the Bank would need to consider the impact on settlement risk and finality.
- **Control responsibility** – The Bank would also need to be clear about which entity would be responsible for enforcing those controls. For example:
 - **Preventative control** - the firm responsible for monitoring holdings would need to be able to provide confirmation of whether a transaction could proceed to a payment intermediary / bank / wallet provider / other members of the ecosystem on a real-time basis. This is likely to introduce significant friction into the system, which could impact the 24/7 instantaneous settlement benefits of stablecoins.
 - **Corrective control** - the Bank would need to clearly set out which entities in the ecosystem would be responsible for bringing balances back within limits, and the associated impacts if this was not achieved. Given that coinholders are likely to have multiple wallets from multiple providers, such an approach would need to be designed to ensure fairness, so that individual wallet providers or other intermediaries weren't unduly disadvantaged. If it was the coinholder's responsibility to resolve limit excesses, the Bank would need to be clear on what the enforcement approach would be should the excess not be addressed.

Q9: 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 generally recognise the benefits of the proposed holding limits for mitigating financial stability risks and increasing authorities' and markets' understanding of the impact of stablecoins on credit intermediation to retail customers.

On business limits, we welcome confirmation from the Bank that 1) the limits for businesses would not apply to transactions taking place within the proposed DSS, and that 2) any holding limits on systemic stablecoins outside the DSS are temporary. We support a clear timeline providing for phasing out to a permanent regime without limits to ensure commercial incentives and regulatory certainty.

While we welcome confirmation on that the limit does not apply to the DSS, this would likely introduce DSS membership as a bottleneck for industry innovation, and establish an unlevel playing field between authorised firms and non-authorised firms with the intention of authorisation.

Furthermore, given the fast development of DLT-based capital markets (in which primary issuances are reaching benchmark sizes well beyond the proposed 10mn per business client cap), an exemption from the imposition of holding limits should be granted to financial institutions for all wholesale transactions. This exemption would also mitigate the risk noted

above of applications and entry to the DSS becoming barriers to the broader development of on-chain capital markets. It is also crucial to highlight that banks operating without a UK entity structure are not allowed to participate in the DSS, which will limit development on this front.

Q10: Other than holding limits, what do respondents consider are the tools best suited to mitigating the risks we have identified?

We view that the frequent disclosure of reserve assets, as well as audits and zero-knowledge proof-of-reserves (ZKP PoR), may provide useful tools for mitigating identified risks.

Q11: 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?

Payment systems provide a vital component of the UK's infrastructure, which relies on a complex network of collaborative relationships. Inevitably, direct participation brings with it certain expectations and responsibilities, which are necessary to mitigate risks of failure and to maintain mutual trust and financial stability. There should continue to be recognition that for some stablecoin issuers, direct participation may not be the ideal solution.

There remains significant concern across the industry about the potential additional risk to the system through opening participation in payment systems to less highly regulated institutions. Existing participants tend to be PSPs, and as such are subject to a host of regulatory requirements beyond the specific requirements for scheme membership. We would like to avoid an outcome where systemic stablecoin issuers are subject to a lighter regulatory framework overall, and which would introduce additional risk to critical UK payments systems. All PSPs should be robustly regulated in relation to operational resilience, cyber security, and third-party risk requirements, so that they do not create weak links for payment systems. In this context, if stablecoin issuers are allowed to become participants of payment systems, we emphasise that they should be regulated to the same standards as other existing participants of payment systems across operational requirements.

Within this context, therefore, we note the need to clarify a number of proposals and address perceived concerns:

- The CP refers to a stablecoin issuer being “recognised as either a payment system or service provider (where relevant)” but it is unclear whether differentiated access criteria would apply to either category of recognised entity, or how the proposals would integrate with the Bank’s April 2025 “Response to the discussion paper on reviewing access to RTGS accounts for settlement”.
- If a systemic stablecoin issuer were to become a direct participant of a payment system, we query whether it should be regulated as a payment service provider (PSP) to ensure a level playing field with tradition PSPs. If so, we also query how this regulatory treatment should be reconciled with the provision in the statutory instrument that stablecoin issuers are not in scope of the payments regulations. Or, alternatively, would such issuers be treated as FMIs and subject to the revised RTGS access policy and mobilisation stages?

In addition, we note that the focus of the Bank’s consideration of the impacts of new forms of digital money on credit creation has been on bank deposit outflows. However, the authorities should also consider the likely impact on credit creation stemming from the payments space. Most banks also provide payments services, and a reduction of fees revenues on this side will also be likely to reduce credit creation as well.

Q12: Do you agree with our proposed approach to safeguard backing assets? If not, what alternative measures do you propose?

We support the proposed segregation of proprietary and backing assets. However, for PRA-regulated bank and investment firm issuers, the requirement for asset segregation should not be imposed at the legal entity level, such that these issuers would be required to appoint third parties for the safeguarding of backing assets. We contend that existing client asset rules fully manage insolvency remoteness and associated risks, and banks should be allowed to custody the backing assets of stablecoins they issue within the same banking group, in line with existing rules on client assets.

Q13: 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 view that the Bank should pursue a flexible and outcomes-based approach towards ensuring coinholder protection, rather than mandating a specific legal structure, i.e. that coinholders have clear and robust claims to backing assets at all times.

Should the Bank proceed with statutory trust requirements, mandating a single statutory trust per stablecoin (by currency/asset) may present a solution to help maintain fungibility and operational simplicity, but it remains challenging to opine on the suitability of the trust arrangements without details on the terms of those arrangements.

Q14: 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 are highly supportive of the Bank's openness to the use of public permissionless ledgers by systemic stablecoin issuers. As permissioned versus permissionless blockchain is not a binary distinction, blockchain network assessment should be case-by-case and risk-based. It is critical that stablecoin regulation should not be differentiated between infrastructure choices, e.g. between private, public, permissioned, and permissionless blockchains, but instead by their suitability.

We strongly view that the regulatory framework for stablecoins and banking prudential rules (i.e. UK implementation of relevant BCBS standards) should not penalise the use of public blockchains, including stablecoins issued on public blockchains. The use of public blockchains can enhance interoperability and collaboration between banks, and facilitate interbank transfers. We consider that most of the risks associated with the use of public permissioned and permissionless blockchains can be mitigated by built-in controls and other technical solutions, in line with the findings of key policymakers (including the European Commission report on "Enhancing financial services with permissionless blockchains" (2024)). Indeed, the resilience of public permissionless blockchains has also been increasing with technological maturity and evolution.

Q15: 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?

We remain highly supportive of the Bank's efforts to monitor developments in ledger technology and assess their implications on financial stability, operational resilience, accountability, and settlement finality. One area where further clarity may be immediately needed is in relation to the settlement of transactions between on- and off-chain assets, and associated complications around settlement finality. We note that legislative developments in other jurisdictions (e.g. EU) to ensure the technological-neutrality of settlement finality arrangements usefully supports industry adoption and innovation.

We agree with the Bank's observation that "*risk mitigants have evolved to address concerns around accountability and settlement finality with solutions around asset controls, fallback mechanisms, as well as broader business continuity and operational resilience approaches*". As regulated market participants have gained experience with DLT, they have developed increasingly robust approaches to mitigating governance, technology, and operational risks, including cyber, third-party risk management, legal, and other non-financial risks and implemented risk mitigants and solutions that are effective in mitigating and reducing risks associated with permissionless blockchains. We note that many of these are already implemented by financial institutions (see below):

- Governance risk: risk mitigants include permissioning a subset of nodes, monitoring of blockchain's governance, blockchain ecosystem participation, and on-chain and off-chain disclosures of governance processes.
- Operational risks: existing operational risk and third-party risk management frameworks, as well as business continuity planning practices and back-up systems, can address help risks like hard forks or validator failures. In addition, enhanced monitoring of firms, including vendors nodes used for connection, can help reduce concentration risks. Other mitigants include running a blockchain node and creating internal private EVM networks.
- Legal and compliance risk: smart contract audits as well as the whitelisting of counterparties (through permissioning of Layer 2 with access restricted to certain financial institutions, and the permissioning of tokens) are useful tools. Private/encrypted mempools can also help with vendor selection and reduction / removal of gas fee risks. Blockchain analytics and identity attestation can provide further support to firms to fulfil their AML/CFT compliance, even in pseudonymous environments.

To the extent that further risks are identified, we would support the Bank in providing principles for the assessment of DLT ledgers, recognising the differentiation between base infrastructures and Layer 2 / EVM compatible blockchains.

We stand ready to further engage with the Bank as necessary on the development of solutions and risk mitigants.

Q16: Can you identify other risks which you believe that will have a material impact on these technologies in the future?

While we understand that the Information Commissioner's Office is currently working on elements around data privacy / protection, this is an area where greater clarity would support industry.

Furthermore, the neutrality of blockchains and the fair treatment of customers will be important foundations on which to build credibility and growth. Ultimately, DLTs will need to become equivalent to established FMIs in their equal treatment / non-discrimination of users.

Q17: 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.

No response.

Q18: 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 framework must avoid introducing a two-tier regulatory system whereby stablecoin issuance and related customer services face materially lighter requirements than established firms. Ensuring regulatory consistency is vital to uphold consumer protection, operational resilience, and competitive neutrality for all financial institutions. To support this, clear articulation of liability for issuer failings, together with coordinated oversight and aligned expectations across the Bank and FCA, is essential to prevent regulatory gaps and ensure consistent, effective standards. We strongly support extending the regime to systemic cryptoasset trading platforms (CATPs). Under the FCA's regulations, these platforms can perform functions analogous traditional financial services, facilitating transfer, settlement and conversion of value at scale, yet without equivalent prudential, operational and conduct safeguards.

Other comments on the section:

- Remuneration: AFME members fully support the prohibition on the remuneration of coinholders, and are of the view that this prohibition should be extended to cover obvious work-arounds such as remuneration via service providers and connect third parties, in line with EU MiCAR. Otherwise, remuneration would (among other things) impact deposit outflows and credit intermediation.
- Custody: we refer the Bank to our [suggestions](#) on the FCA's proposed rules on safe-guarding and custody of cryptoassets, in particular to align rules between traditional and cryptoasset custody rules. On the proposal to create a recognition regime for custodial wallets by HMT, we request additional clarifications to be provided on the possible framework, as it could have significant implications for firms.
- Location policy: we note the Bank's approach to localise assets for sterling-denominated stablecoin as a critical point of negotiation between jurisdictions as independent stablecoins regimes are developed. International standards and the creation of a cross-border framework should help to mitigate risks associated with non-localisation going forward and facilitate access.

In addition, we note the continued risk posed by anonymous wallets in contributing to heightened Financial Crime exposure across the ecosystem. Entry points from unmanaged wallets into regulated finance remain a material vulnerability, creating opportunities for illicit funds to enter into legitimate circulation. While these risks may sit outside the Bank's direct supervisory remit, they have systemic implications for policy outcomes and consumer protection.

Finally, we also observe that the Bank does not propose any requirements regarding reasonable transaction fees. This could be of particular importance in times of stress, where it is important

that transaction fees do not act as an impediment to redemption. Members would support alignment between the Bank and FCA regimes.

Q19: 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.

As general comments, we note:

- Settlement assets: in the absence of an operational DLT-based central bank money solution, the eligibility of stablecoins as settlement assets is key in broadening settlement choice for investors and corporates and in enabling the use of DLT for asset transactions in a seamless, end-to-end manner. We welcome, as a first step, for the DSS to test the use of authorised stablecoins as settlement assets, and support the flexibility to settle in stablecoins beyond the DSS. Settlement finality and protection should be provided for such transactions.
- Related to the above, we also note that there are existing transactions leveraging the availability of DLT-based omnibus accounts (e.g. Fnality) in the UK. In the future, we view that systemic stablecoins might interact with omnibus accounts and interbank settlement through such solutions.
- Multi-issuance models: the UK framework should clarify how multi-issuance should be enabled for global stablecoins. International cooperation between jurisdictions with high standards and robust frameworks in place on backing assets, redemption, and issuer requirements should set the parameters for multi-issuance to be permitted.
- Eligibility as collateral: the UK authorities should consider a phased approach to allowing well-backed, high-quality stablecoins to be used as collateral.

Whilst not covered by proposals within the consultation, we also note recent comments from the Bank of England considering the possibility of introducing “some form of insurance scheme analogous to that which applies to bank deposits and a statutory resolution arrangement that ensures coinholders are preferred creditors in any insolvency process”.¹ We remain highly cautious about the possible (and significant) implications of introducing such a scheme for creditor hierarchy and maintaining an appropriately differentiated regulatory treatment of deposit-taking institutions and stablecoin issuers, and believe that the points raised within the PRA’s 2023 Dear CEO letter justify a more detailed consideration of this position with the industry. In particular, we note that importance of ensuring that 1) the full backing of stablecoins and issuer requirements can mitigate redemption risks to the greatest extent possible, and 2) any changes to deposit insurance scheme and relevant contributions would be subject to further in-depth consultation with the industry and existing scheme members.

Q20: How should the Bank seek to mitigate risks from non-sterling-denominated systemic stablecoins?

AFME is highly supportive of a global issuance model for stablecoins. We view that permitting the cross-border circulation and fungibility of well-regulated stablecoins – regardless of currency denomination - is critically important to sustaining both the business models of global issuers as well as their capacity to continue innovating in the UK. We support that robust

¹ <https://www.bankofengland.co.uk/speech/2026/january/dave-ramsden-speech-at-kings-college-london-the-evolution-of-resolution>

safeguards on backing asset and redemption requirements can sufficiently mitigate perceived risks associated with non-sterling denominated systemic stablecoins. Prohibiting the transaction flows of non-sterling-denominated systemic stablecoins would be an adverse outcome for global and UK capital markets. If the Bank requires further assurance, we encourage the Bank to explore solutions such as limits, redemption safeguards, and disclosure requirements, which other jurisdictions have adopted in relation to stablecoins denominated in other currencies (e.g. EU MiCAR).

We recognise that protecting jurisdictional monetary sovereignty is important for governments and central banks to manage local economic factors vis-à-vis global events. Traditional finance markets have arrived at structures that both protect national sovereignty while preserving the ability of financial institutions to provide services in, or transferrable with, non-domestic currencies. It is incumbent upon DLT-based markets to similarly reach these outcomes.

We believe that the policy of the UK government and the Bank should be to achieve an outcome where stablecoins are issued in the domestic currency, under the local regulation and from a body incorporated under the legal requirements of a single nation. As a possible solution, access to non-domestically denominated stablecoins could be achieved through partnerships with suitably compliant firms suitably domiciled in the jurisdiction of the currency in question. Similarly, any stablecoin that is issued in contravention of these principles should not be admitted for trading in the UK, or in any similarly principled territory. The Bank should work with HMT to consider how extra-territorial pound sterling denominated stablecoins and any stablecoin issued outside of the jurisdiction of the responsible authorities of the currency in which it is denominated can be appropriately controlled.

Q21: 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?

Deferring to a stablecoin's home authority is the preferred long-term solution to the management of UK access to non-sterling-denominated stablecoins. In the short term, the lack of alignment between different jurisdictions presents a challenging policy environment for the Bank. In light of this, we recommend that the Bank continues to pursue – and lead on – international coordination and cooperation on stablecoins.

In the UK, the Bank may wish to consider in detail the policy differences that may have an impact on the applicability of a stablecoin's home authority to provide equivalent requirements to those expected within the UK:

- Backing assets requirements: the type of asset that is backing the stablecoin issuance should be set by a local authority and that local authority should have consideration as to the viability of the asset to be liquidated in sufficient timeframes to meet redemption requirements. The Bank may consider a degree of discretion on the type of asset used within another authority's regime based on local liquidity or economic considerations and should be cautious about the commercial and market impact of deviating significantly from its own standards.
- Redemption rights: the vast majority of redemption requests may be covered by third parties or a liquid market of the stablecoin in question; as a necessary backstop from the issuer, there should continue to be robust redemption requirements from regulators.
- Localisation and safeguarding: ideally, we believe that the domestic supervisor of, and/or any insolvency administrator appointed to, a stablecoin issuer should have a sufficient and quick legal authority over the disposition of an underlying asset in case of any insolvency, ensuring that creditors / coinholders can be reimbursed at the full amount.

- Failure arrangements that align with UK standards: in order for a stablecoin to be treated as equivalent under the Bank's regime, the issuer should have failure arrangements that are at least comparable with those of the UK regime.
- Legal enforceability of liability to retail customers (FCA requirement): the FCA proposes that stablecoins issuers that submit a qualifying cryptoasset disclosure document (QCDD) to support their inclusion in the UK market should be legally liable for any misrepresentation within their QCDD that results in retail customer loss. The Bank should ensure that this liability is tested to a similar level as that provided by UK issued qualified stablecoins when a non-GBP stablecoin becomes systemic in the UK. The stablecoin regime should respect any other rights UK law provides to token holders.
- Ongoing information sharing and crisis-management protocols: in order to ensure effective supervision between the Bank and the home authority, regular co-ordination meetings between the Bank and the local supervisory authority of the non-GBP stablecoin are recommended. The Bank should consider undertaking crisis management exercises with the local authority of any domestically systemic non-GBP stablecoin.
- GDPR: the Bank should ensure that any data protection protocols in place for the stablecoin issuer are comparable to those of the UK and that the stablecoin issuer complies with all relevant GDPR requirements.
- Prudential requirements: the Bank should ensure that the requirements of the local authority on the stablecoin issuer are to ensure similar capital requirements in order to support long term financial resilience and ensure that any customer redemption requests from UK customers can be acted on with appropriate alacrity, even in times of market stress. The Bank should be assured that the local authority has similar oversight and supervision as the Bank would expect to have over a UK domestic stablecoin.
- Crisis control: the Bank should ensure that it has sufficient authority to halt trading of a non-GBP stablecoin in the event of a crisis or restrict use cases as deemed necessary due to other policy reasons.

Q22: If so, do you agree with the factors the Bank intends to consider? Are there additional factors the Bank should consider?

No response.

Q23: Please indicate in your response if you believe any of the proposals in this paper are likely to impact persons who share protected characteristics under the Equality Act 2010 and, if so, please explain which groups and what the impact on such groups might be.

No response.