

The Association for Financial Markets Europe – Written Evidence (STA0050)

AFME response to the Financial Services Regulation Committee inquiry into the growth and proposed regulation of stablecoins in the UK

1. AFME welcomes the opportunity to provide evidence to the House of Lords Financial Services Regulation Committee's inquiry into the growth and proposed regulation of stablecoins in the UK.
2. 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 for stable, competitive, sustainable European financial markets that support economic growth and benefit society.
3. Given the composition of our membership our evidence will focus on the wholesale uses of stablecoins.

Introduction

4. The UK's proposals to bring stablecoins inside the regulatory perimeter is a welcome step towards providing legal certainty and regulatory clarity. However, the design choices proposed by the UK authorities, particularly in relation to reserve assets, access to central bank facilities, and holding limits, raise fundamental questions about the role of stablecoins within the monetary and financial system and the interaction with bank deposits. This response considers whether the proposed framework appropriately calibrates the quality of money represented by systemic stablecoins, and whether the resulting incentives are consistent with financial stability, competition, and the intended role of stablecoins as a means of payment rather than a store of value.
5. 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 important to growth and innovation in the UK.

6. We support the notion that robust safeguards on backing assets 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.
7. We encourage the Bank of England to consider how other jurisdictions have approached the regulation of stablecoins to facilitate cross-border access.

How the global market has developed

8. As of September 2025, the global stablecoin market cap reached \$286bn, a 47% increase compared to the end of 2024 (\$194bn) and the highest level on record. USD-backed stablecoins currently dominate the market, accounting for 99.5% of total market capitalisation. In contrast, European stablecoins represent less than 0.2% of the market, totalling \$463mn. Euro backed coins represent 99% of European stablecoins, followed by CHF backed tokens (0.1%) and GBP-backed tokens (0.02%).¹

Expected development of the sterling stablecoin market in the UK

Who uses stablecoins and for what purposes?

9. While this response focuses primarily on wholesale financial markets, it is important to note that stablecoins are already widely used as a means of payment, including for cross-border transfers. The Bank of England has indicated that its proposed regime for systemic stablecoins would apply across use cases, including payment and settlement functions. As such, the policy issues discussed in this paper, particularly those relating to reserve assets, holding limits and monetary incentives, are relevant across both payment and wholesale market contexts.
10. Current issuance of DLT-based financial instruments remains limited, and as such so is the use of stablecoins in these markets, due to the initial stages of market development. The growth of DLT-based capital markets is widely expected to depend on the availability of reliable means of settlement and in this context,

¹ AFME: DLT-Based Capital Market Report - [September 2025](#)

stablecoins will play a critical enabling role, particularly in the absence of widely available DLT-based central bank money.

11. As of September 2025, a total of €1.69 billion in DLT based fixed income instruments were issued globally. When annualised, this represents a 44% decrease compared to the 2024 FY issuance of €3.25 billion. Fixed income issuance includes bonds, bills, commercial paper, covered bonds, and structured notes. While we have yet to witness significant DLT-based issuances in the UK, the global growth of DLT-based markets indicates that there is potential in the issuance of DLT-based financial instruments, and to encourage the growth of such issuances it is important that DLT-based cash solutions, including stablecoins, are available,

Existing and proposed rules impacting growth in the UK

12. The UK authorities' approach to systemic and non-systemic stablecoins reflects a number of policy design choices. The following section assesses how these choices are likely to affect market development, financial stability, and competition, before setting out AFME's policy recommendations.
13. The Bank of England's proposals for systemic sterling stablecoins include requirements that issuers hold a significant share of backing assets as unremunerated deposits at the Bank of England and the remainder in short-term UK government debt. The Bank of England has also proposed temporary holding limits, cited in public commentary as £20,000 per individual (per coin) and £10 million per business, to manage financial stability risks during early adoption. Systemic stablecoins would be backed predominantly by central bank reserves and short-term government securities, with there being a consideration that issuers are able to access central bank liquidity. This design gives systemic stablecoins characteristics akin to central bank money and implies an effective full-reserve model for issuers. By contrast, bank deposits would continue to be created through fractional-reserve banking.
14. AFME strongly supports the objective of managing systemic risk but notes that some implementation choices could have an unintentional impact on UK stablecoin issuance. The proposed UK backing asset requirements, particularly the proportion of unremunerated central bank deposits, are more restrictive than

approaches adopted in other major jurisdictions. The UK proposals therefore risk positioning stablecoins as a form of privatised on-chain central bank money, which may; discourage issuance in the UK, undermine the international interoperability of sterling-denominated stablecoins, whilst also misrepresenting the quality of money associated with stablecoins.

15. This represents a departure from the intended role of stablecoins as a means of payment rather than a store of value and may incentivise the holding of stablecoins over bank deposits due to their being no upper limit on the use of central bank deposits.
16. There are also several design choices that will impact the likelihood of adoption amongst UK wholesale participants. These are outlined below and explored in further detail in our examination of the regulatory framework proposed by authorities in their recent consultation paper².
17. When developing final rules, regulators should not unintentionally deter the UK issuance of stablecoins by ensuring that backing asset and capital rules are proportionate and internationally comparable. Regulators should avoid wholesale holding limits and avoid policy choices that create settlement frictions. Regulators should also ensure custody and anti-money laundering (AML) risks are addressed clearly by focusing on who may provide custody and intermediation and how compliance is enforced, particularly at the entry and exit points between unhosted wallets and regulated finance.

Implications of the proposed BoE and FCA regimes (systemic and non-systemic)

18. AFME welcomes the Bank of England's consultation paper³ on the proposed regulatory regime for sterling-denominated systemic stablecoins and the FCA consultation on stablecoin issuance and cryptoasset custody⁴.
19. We view that enabling the availability of DLT-based cash solutions, including the issuance of stablecoins by regulated financial

² Proposed regulatory regime for sterling-denominated systemic stablecoins – [November 2025](#)

³ Proposed regulatory regime for sterling-denominated systemic stablecoins – [November 2025](#)

⁴ CP25/14: Stablecoin issuance and cryptoasset custody – [May 2025](#)

institutions, is a key step to achieving the important benefits offered by tokenisation and DLT technology. This would also have the desired effect of broadening settlement choice for investors and institutions.

20. To deliver on these aims, we encourage the Bank of England and FCA to consider the following priorities in the finalisation of the regulatory regimes.

Direct issuance by regulated banks

21. AFME and our members believe that regulators, in particular the Bank of England 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.

22. While we acknowledge that issuance activities may be appropriate to take place in an insolvency-remote entity, we support the ability of credit institutions to directly issue stable-coins subject to both; the same backing asset requirements as non-bank issuers; and clearly delineated treatment between insured deposits and uninsured stablecoins.

23. The Bank of England and PRA's stance (through a combination of Dear CEO Letters, the consultation, and through various statements and speeches) is currently open to interpretation and would benefit from clarity in the ways that PRA-regulated credit institutions may wish to issue stablecoins, with potential options ranging from use as a permanent or temporary store of value or as a temporary payment instrument. The PRA may be minded to consulting further on requirements in this space.

24. We do not believe that credit institutions issuing stablecoins would have a major impact on credit creation. In fact, if credit institutions are permitted to issue stablecoins, they could better manage the balance between deposit expansion (via fractional reserve banking) and providing credit through non-deposit channels like stablecoin issuance.

25. Additionally, PRA-regulated credit institutions are held to high regulatory standards and are experienced at risk and liquidity management. As a result, they should be allowed to issue and offer stablecoins to clients. This would give investors and businesses more options for payments and settlement assets, while also delivering technological advantages that the traditional, non-DLT-based financial solutions cannot easily provide.
26. AFME has consistently highlighted that regulated credit institutions should not be excluded from stablecoin issuance. Allowing banks to issue stablecoins directly would support a level playing field between banks and non-banks and ensure that issuance takes place within the perimeter of established prudential, conduct and supervisory frameworks. Bank issuance would also ensure closer alignment with the fractional reserve banking model and preserve the link between payments activity and credit creation.
27. Furthermore, bank-led issuance would enhance regulatory visibility and market monitoring, as supervisors would retain direct oversight of balance sheets, liquidity management, and risk controls. Existing supervisory relationships and reporting frameworks would enable regulators to monitor issuance volumes, backing assets and interconnectedness more effectively than in models relying on newly created, non-bank entities. This would support financial stability objectives while enabling innovation in digital settlement.

Capital requirements for issuers

28. 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.
29. The PRA should maintain flexibility in calibrating the appropriate capital requirements for PRA-regulated credit institutions and investment firms which rely on existing operational risk capital requirements to which these firms are subject to. The PRA should only consider 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 not place punitive requirements on the entity issuing the stablecoin.

Holding Limits

30. AFME and our members make a clear distinction between retail holding limits and limits for wholesale market participants. We outline our view on this issue below.
31. The operationalisation of the holding limits requirements for wholesale market participants could impose significant burdens, without clear delineation of responsibility between issuers, wallet providers, and holders of stablecoins.
32. We view that the issuer is likely best placed to monitor holders' balances; however, there are several considerations that require further guidance and consultation with industry, including monitoring responsibility, controls, and remedies for restoring balances within limits.
33. Bank of England 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.
34. AFME strongly feels that 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

35. 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).
36. To mitigate this, the Bank of England should consider allowing the use of commercial bank deposits and money market funds as

eligible backing assets, subject to further market study and analysis.

37. The Bank should strongly consider a cap on the proportion of central bank deposits. This would have the effect of preventing stablecoins becoming privatised on-chain central bank money, with the associated financial stability risks of a potential flight to safety during a crisis.
38. In this space it is also important for the Bank of England to take a leading role in promoting proportionate and comparable international standards to better support the international use of stablecoins. 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.
39. As noted above, the US Genius Act allows as backing assets to stablecoins; commercial bank deposits and Money market Funds (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.

Approach to insolvency

40. We 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.”
41. We remain cautious about the possible (and significant) implications of introducing an insolvency 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.

42. In particular, we note that importance of ensuring that the full backing of stablecoins and issuer requirements can mitigate redemption risks to the greatest extent possible, and any changes to deposit insurance scheme and relevant contributions would be subject to further in-depth consultation with the industry and existing scheme members.

Remuneration

43. 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 workarounds, and potential regulatory arbitrage, such as remuneration via service providers and connect third parties. This would be in line with EU MiCAR. If this was not the case, remuneration would (among other things) impact deposit outflows and credit intermediation.

Direct membership of payment systems

44. The Bank of England propose that issuers of systemic sterling stablecoin should be directly members of payment systems. This could introduce additional risk to those payment systems, including operational and cyber risks. AFME's view is that stablecoin issuers should have the flexibility to access payment systems indirectly, as many financial institutions already do. 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.

Conclusion and Recommendations

45. While the UK's regulatory ambition is welcome, several current proposals particularly in relation to capital requirements, backing assets and holding limits, risk discouraging stablecoin issuance and use in wholesale markets. The design of the requirements should appropriately differentiate stablecoins from privatised forms of DLT-based central bank money and preserve credit extension through a fractional reserve banking model.

46. Given the inherently global nature of stablecoin markets, restrictions on cross border use or on non-sterling stablecoins would undermine the competitiveness of UK markets.

47. AFME and our members call for a regulatory framework that explicitly supports wholesale market use cases, permits direct stablecoin issuance by PRA regulated banks, and applies proportionate, activity-based capital requirements. Policymakers should clearly differentiate between retail and wholesale holding limits, recalibrate backing asset rules to remain internationally competitive, and avoid creating a de facto on-chain substitute for central bank money.

48. We also recommend caution on insolvency and insurance arrangements to preserve a clear distinction between stablecoins and bank deposits, while maintaining the prohibition on remuneration of stablecoin holdings to protect deposit stability and financial intermediation.

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