



Financial Services Regulation Committee

Corrected oral evidence: Growth and proposed regulation of stablecoins in the UK

Wednesday 11 February 2026

11.10 am

Watch the meeting

Members present: Baroness Noakes (The Chair); Baroness Bowles of Berkhamsted; Lord Davies of Brixton; Lord Eatwell; Lord Griffiths of Fforestfach; Lord Hill of Oareford; Lord Hollick; Lord Lilley; Lord Sharkey; Lord Smith of Kelvin; Lord Turnbull; Lord Vaux of Harrowden.

Evidence Session No. 4

Heard in Public

Questions 32 – 43

Witness

I: Professor Kern Alexander, Chair for International Financial Law and Regulation, University of Zurich, and Director of Studies in Law and Finance, Queens' College, University of Cambridge.

Examination of witness

Professor Kern Alexander.

Q32 The Chair: Welcome to the second part of today's meeting, which is the fourth oral session as part of the committee's inquiry into the growth and proposed regulation of stablecoins. We are very grateful to Professor Alexander for attending this morning to give us evidence and help us with our inquiry. Professor Alexander, I understand that you will be making a few opening remarks before we move into questions.

Professor Kern Alexander: Thank you, Baroness Noakes. It is a pleasure to be back before the committee. Regarding stablecoins, I would first like to say that they are not really revolutionary in my view. They serve a function that is very similar to travellers' cheques and the only difference is that stablecoins can be spent over the internet. They use cryptology or distributed ledger technology that helps to prevent fraud and prevent double-spending, so they are transparent payment networks. They are the newest incarnation of what payments have been taking place in Europe for centuries, so I do not really see it as such a challenging innovation in the financial markets.

I would also like to say that stablecoins create economic benefits but pose regulatory risk, which I am sure you will be discussing with me today, particularly for consumers, investors and financial crime. Finally, the UK is at an important point in its development of a legal regulatory framework for stablecoins and there are some lessons to be learned from the EU with its new MiCA regulation, as well as the US GENIUS Act.

Q33 The Chair: Thank you. The only stablecoins we are really aware of at the moment are US dollar denominated. Neither euro nor sterling exists to any large degree. In the US they are largely used for settlement of crypto transactions and increasingly—though with much lower volumes—for cross-border payments. How do you see euro and sterling-denominated stablecoins developing and for what uses?

Professor Kern Alexander: Their development over time will depend on the regulatory framework that is adopted. At least with respect to stablecoins, the US has focused its regulatory framework on payment stablecoins but not on broader crypto assets. The EU has adopted a framework in which it is trying to steer the market to adopt more euro-denominated stablecoins by having limits on the use of non-EU currencies by stablecoin issuers, for instance. That is going to be a policy challenge for the EU to implement because, as you say, most of the stablecoins that I am aware of are US dollar denominated and that will most likely be the market here in the UK as well.

The Chair: You say that how euro and sterling stablecoins are used will depend on the regulation of them. Given the regulatory proposals that exist from MiCA and the proposals in the UK, do you see there being a significant development of the use of stablecoins?

Professor Kern Alexander: MiCA is a more comprehensive regulatory framework that regulates crypto assets across the board. They are essentially defined as e-money, EMTs, asset reference tokens and e-money tokens. It is trying to cover and regulate a broader scope of stablecoins, whereas the US is simply regulating payment stablecoins. In my view, the EU approach has benefits because it focuses on conduct of business issues and the problems of money laundering and financial crime as well as looking at prudential regulatory concerns, whereas the US is focusing mainly on the prudential regulatory side and the adoption of the regulations for the payment stablecoins will be primarily overseen by the US bank regulators. What the US has not done yet is adopt a regime that addresses conduct of business concerns and investor concerns. If the UK can do that and have a more balanced regulatory regime, that will be better for the development of the market in the UK.

The Chair: Does the US embrace anti-money laundering and counterterrorism financing?

Professor Kern Alexander: Yes, for regulated banks that might be offering—

The Chair: But not other stablecoin issuers?

Professor Kern Alexander: But stablecoin issuers are not subject to KYC.

The Chair: Transaction monitoring?

Professor Kern Alexander: The regulatory requirements are much less onerous and much stricter for regulated banks so it is a lighter-touch regulatory regime for financial crime, terrorism and anti-sanctions.

Q34 Lord Sharkey: Could I ask a little more about some of those issues? For example, the Bank for International Settlements—admittedly two years ago—talked about the dangers of losing the peg and said it was a frequent occurrence. It also talked about liquidity problems if there was a rapid growth in the use of these devices. Then there is the issue of redemption and a version of the tether problem, where unless you read the small print carefully, you will find you cannot redeem your tether token. I wondered whether that system would remain in the United States or whether it would be relaxed in the face of pressure.

Professor Kern Alexander: In the United States, the BIS recommendations are exactly as you state and there is a focus on how to maintain the peg and the redemption of assets, which is precisely where the US regulations are weak. In fact, the collapse of Terra—the big stablecoin issuer—in 2022 was a massive collapse in which thousands and thousands of stablecoin holders lost their life savings. That was primarily due to the fact that the definition of the peg was not clear and the legal rights of the stablecoin holders were not defined clearly in the contracts that were part of the issuance of the US dollar Terra stablecoin. There was just basically an absence of regulation and a hodge-podge of state regulation that applied.

As it turned out, the major problem with Terra was not so much a liquidity problem; it was more of a consumer protection problem because customers did not have adequate information and the documentation that Terra provided was inaccurate. It did not provide clear definitions of what the reserve assets were or how to realise them or clear definitions regarding their legal rights and the underlying assets, by which I mean: were they property rights or contractual rights? When Terra went bankrupt, they were just classified as unsecured creditors. That framework is potentially still a problem in the US because we have not yet seen the regulatory proposals of the US bank regulators under the GENIUS Act. I would say the US has a regulatory void in this area of consumer protection and market misconduct regarding the sale of crypto assets and even stablecoins now.

Lord Sharkey: But MiCA is different.

Professor Kern Alexander: MiCA is different. MiCA is more prescriptive and more comprehensive in its application. It addresses consumer protection, investor protection, money laundering and financial crime issues. As I said, it does so in a comprehensive, detailed way, and many have criticised it as being too burdensome and too heavy in regulation. Many market participants in the EU have complained that the costs of complying with MiCA are high and therefore it is going to make the market for stablecoins and other crypto assets less competitive in the EU with respect to other competitors in other jurisdictions.

Lord Sharkey: We have also heard that stablecoins are run prone. Do you agree with that?

Professor Kern Alexander: If you are thinking in terms of bank run issues, stablecoins do not really pose the same systemic risk that a bank run would pose. In Terra, for example, there was a so-called run on stablecoin holdings but it did not create a systemic problem in the US financial system. It certainly was a widespread problem for consumers and investors, but I am not as concerned about the systemic risk impact of a failure of a stablecoin issuer. They are there, but the primary regulatory concern should be more on the consumer protection and customer protection side.

Q35 Baroness Bowles of Berkhamsted: One of the main uses of stablecoins may be in trade. If you look on the financial market side, what is it going to do to clearing and settlement?

Professor Kern Alexander: Stablecoins are cleared through distributed ledger systems, not through the regular bank payment system. It is cheaper to settle transactions between counterparties using the blockchain. The competitive advantage that stablecoin issuers have is that they are not settling payments through the traditional banking system, which is more costly to settle payments in most jurisdictions.

Another advantage is that stablecoin holders can help manage their exposure to inflation in the fiat currency. We see this in developing

countries. In countries such as Nigeria, for example, stablecoins are popular at the retail level because there is less confidence in the fiat currency and there is more confidence in the ability to clear and settle transactions quickly and cheaply and with a coin that is not subject to the same types of inflation risk that the official fiat currency has.

Baroness Bowles of Berkhamsted: I was thinking more about starting to look at things such as central counterparties and settling of the large financial transactions. Is it going to have a place there? I know the CCPs are all looking at blockchain, but is the alternative stablecoin blockchain going to supplant that?

Professor Kern Alexander: That might be an important area where regulation could focus, on having central counterparties for derivative contracts that are based on stablecoins, for example. Right now the stablecoin industry, as I understand, does not have CCPs set up for that purpose. CCPs certainly help manage systemic risk better in the derivatives markets. In the future, as stablecoins take hold and become more popular in both wholesale and retail, there will be a need to have a market infrastructure like CCPs to help manage the trading of these instruments.

Q36 Lord Hollick: A question for this committee is to what extent the government regulators should interfere and impose regulations on this market? Let us assume that there is a useful value for stablecoins. On the one hand, the European Union seems to be somewhat heavy-handed, from what you said, whereas the United States seems to be a little nearer the Wild West. Where should the UK—both from a domestic point of view but also the point of view of an important international financial centre—sit on this spectrum?

Professor Kern Alexander: The UK can occupy a middle road that can take advantage of having a more comprehensive regime in place that takes account of consumer protection and investor protection issues—which I submit that the US system does not now adequately do—yet not have the burdensome, more prescriptive regulations that have been adopted by the EU.

One example is that in the UK there is the Digital Securities Sandbox, which both the PRA and the FCA have been using. That is an example of experimentation and the adoption of standards by working with the industry, experimenting with new products and new issuance and determining what would be the most appropriate types of regulatory standards to adopt. The EU does not really have a sandbox model, and understandably so because it has 27 member states and it is hard to have a sandbox for 27 different countries. It wants to have a level playing field for competitive purposes, and therefore you have a more comprehensive rule-based regime to apply to all 27 countries. The UK can benefit by having a more principles-based regime that is more comprehensive in its application but is not as prescriptive and burdensome as the EU framework.

Lord Hollick: Should the regulators, the Government and the Bank of England have a view about whether stablecoins should pay interest because of the impact it could have on the banking deposit system?

Professor Kern Alexander: That is a concern both in the US and in Europe. Europe will prohibit stablecoin issuers paying interest on stablecoin issuance. It also prohibits the crypto asset service provider—the third party that allows stablecoins to be traded in that network—from providing benefits or interest, whereas the US does not. The third-party intermediary in the US, the so-called crypto asset service provider, would be able to provide benefits to investors or customers, but the issuer of the stablecoin would not.

I do not think that paying interest on stablecoin accounts is going to cause a bank run. At the end of the day, the money will end up coming back into the banking system. Stablecoin issuers have business bank accounts. The money will get converted back into sterling at the end of the day and go back into their account, in my view. If you want to limit interest on payment for these accounts, I just do not think that the reason for doing it—to say that it is going to prevent a bank run or prevent large amounts of deposits shifting over from the regulated sector—is going to happen. The money will indirectly find its way back into the banking system.

Lord Hollick: Could token deposits upset the apple cart?

Professor Kern Alexander: As I understand it, tokenised deposits are just the digitisation of bank accounts and so they would be eligible for deposit insurance, which would be fine. Token deposits that are stablecoins are not eligible for deposit insurance and I would say that they should not be because, by having deposit insurance, it is an added cost and regulatory burden for the sector. It might be better because we have the potential for tokenised bank deposits, which are subject to deposit insurance. You can have a parallel market for stablecoin issuance that is not subject to deposit insurance.

The Chair: What is your view on whether payments by associated companies—the exchanges—should be allowed? It is not allowed in Europe but is allowed in the US. At the moment, our proposed regulatory rules do not deal with the issue. What is the right way?

Professor Kern Alexander: They should allow the payment of benefits. It is a service and it is helping to reduce transaction costs for the parties that are involved. I think Europe has gone a bit too far in that regard.

Q37 Lord Turnbull: I am going to follow up on this question about the UK regime. You have described the proposals for the US and the EU. In what respects do you think we should be going further compared with those proposals? In what respects are there things that we should not be doing?

Professor Kern Alexander: The proposals should be developed more in the area of consumer protection, market abuse and financial crime. In my

view, those are where the real regulatory risks are. There is some financial stability risk, but in my view it is more at the margins. As I said, the regulated banks are not going to lose huge amounts of deposits to stablecoin issuers. In fact, most stablecoin issuers have bank accounts with regulated banks. Stablecoin issuers provide a source of competition, which the regulated banking sector needs.

The focus of the regulators ought to be on three areas. The first area is that most stablecoin issuers across the board have very different terms and conditions in their contracts. In order to access your reserve asset, if you are a stablecoin holder, for instance, how you do that is very different under the contracts of different stablecoin issuers.

Another weakness is that stablecoin issuers have very different definitions for what type of legal rights the account holders have. Do they have a contractual right to that reserve asset or do they have a property right? If they have a property right, they actually have a proprietary right—a stronger right.

Thirdly—this is a case problem as well—in the US, for bankruptcy and insolvency, there is no clear priority place to put the account holders of stablecoins if the issuer goes bankrupt, as with Terra. I submit that the UK should be mainly focusing on those three areas in regulation. The FCA would probably be in the lead on that, but the Bank of England could also play a supporting role.

Lord Turnbull: You downplayed systemic risk. Is it simply a question of scale or because there is something inherent that means that it is not such a big risk?

Professor Kern Alexander: The banks say there is a systemic risk problem because, quite frankly, I think they are worried about the competition, but there is no coin provider that is at a systemic level, and therefore I am not so concerned about systemic risk in this category. I know the Bank of England has a consultation paper in December about systemic stablecoin and how to define that, and it has a cap for individuals who have £20,000 in stablecoins. The concern is legitimate, but what they are proposing to do—having caps on account holders, for example of £20,000 in stablecoin—is disproportionate. The systemic risk issues are very important but the market has not yet reached a scale to bring that into play.

Lord Turnbull: Our previous witness was rather critical of these limits, basically saying that for most people, they never need it. Occasionally, when they are selling a house, they really do. What is the answer to that?

Professor Kern Alexander: I am suspicious of all limits or caps on anything because they are often evaded and you can create different accounts through different business entities. Enforcing caps becomes costly and distracts the regulator from looking at other areas where the risks really are.

Q38 Lord Davies of Brixton: You made the comparison with travellers' cheques. I realise that it is probably decades since I used travellers' cheques and my understanding is that they have virtually disappeared, but they have disappeared because of credit cards and electronic transactions more generally. In terms of that comparison, what are stablecoins actually contributing? It is not stablecoins that have removed travellers' cheques; it is existing banking structures. What does the stablecoin bring to the party? What is unique about it?

Professor Kern Alexander: Stablecoins are a parallel financial payment system that allow retail and wholesale participants to settle payments between one another and even invest, hold instruments and have exposure to certain fiat currencies, and to do so with lower transaction costs. They do not have to settle the payments through the formal banking system, which is very inefficient. That is one reason why stablecoins are so popular in the United States.

The US has a very costly bank payment system, with different Federal Reserve banks being involved in settling payments between banks. You wait days to have your cheques cleared. Stablecoin gets you around all that. You can have 24/7 payment settlement between counterparties and the only intermediary you are using is a stablecoin provider. You do not have to have a bank to conduct a transaction, which is more costly. There are a lot of consumer benefits to the use of stablecoin.

In developing countries and places in the world where the fiat currency does not have strong confidence, they also allow the ability to manage inflation and foreign exchange risk by holding them better. In different jurisdictions there will be different benefits for stablecoins. But in the US particularly, settlement of payments is generally very costly and stablecoins have reduced it quite a bit.

Lord Davies of Brixton: I am not really hearing anything that a bank could not do. Why are they not doing it anyway? We heard in some discussion that some banks are already addressing the issue with their own tokenised payments.

Professor Kern Alexander: The banks should be more competitive and do it. An example is a small bank called Custodia Bank, which has issued its own public stablecoin called Avit. It has a network of banks in which depositors at Custodia Bank can settle payments with other customers of banks in that network. As you have probably heard, J.P.Morgan has the wholesale stablecoin that it uses—JPM Coin—which is reported to be successful for institutional and wholesale clients. It is on a private blockchain, whereas Custodia Bank's stablecoin is issued on a public blockchain.

These are all things that banks could be doing, and they need to become more efficient and competitive. The stablecoin issuers are competitive, innovative and beating them at their own game now, and that is why they are gaining market share. The benefits of that are good for the

financial markets, but there are these regulatory risks that I have pointed out.

Q39 Lord Griffiths of Fforestfach: If you divided the potential for growth in the business between consumer and business, international—as you mentioned—developing countries and so on, where do you see the money being made and where do you see real economising and productivity increases in those sectors?

Professor Kern Alexander: I see that stablecoin provides different benefits for different countries depending on their economic and social structure. In the US, as I pointed out, there is a long history of inefficient bank payment systems and it is very costly to settle and clear payments. Stablecoin has developed that market and attracted many. Thousands and thousands of Americans are getting retail stablecoin accounts now, even though there are these risks, such as the Terra collapse, which reflects the inadequate regulation that was in place in the US.

There are definitely economic benefits in having stablecoins, and this innovation means different things economically to different countries. It should be encouraged but with an adequate regulatory framework in place to guide it. In some developing countries especially, you will have more problems with financial crime and money laundering.

In the US, there are reporting requirements for the big stablecoin issuers such as Circle and Tether, but the types of reporting requirements are different from those for a regular bank. But in many developing countries, there are none. It is also a way to evade sanctions. Stablecoins are issued in Ukraine right now and in Russia to get around Russian sanctions. It is known. There are these economic incentives to use it. It will continue, and regulation has to be calibrated properly to address the risks.

Lord Griffiths of Fforestfach: Can I just follow up on that? If you look at the present regulators, particularly in the UK, do you feel that they recognise the potential growth in this country that there is in America? Or do you feel that they are so risk-averse that it is just not going to take off here in the way it has in America? It certainly has at present and they are channelling everything to take tokenised deposits.

Professor Kern Alexander: In the UK?

Lord Griffiths of Fforestfach: Yes.

Professor Kern Alexander: There is an understandable reaction in the UK to want to keep it under the supervisory oversight of the Bank of England for macro-prudential reasons because the scale of these businesses may grow over time. We saw with the financial crisis in 2008 how we never thought asset-backed securities would become a source of systemic risk. That could potentially happen with stablecoins in the future, especially if you have derivative transactions written based on them, similar to what credit default swaps were 25 years ago.

The UK has an understandable concern with the financial stability issue. There is also probably not as much natural retail demand for stablecoins in the UK, in part because the banking system for payments is more efficient in the UK than in the US. You make your payments much more quickly than you do if you are trying to make payments in the United States. The cost of making payments is still higher than in stablecoins but the benefits are not as great. The UK has a macro-prudential framework in place and should watch the scale and scope of these stablecoin issuers and how they grow over time.

What we see in the US—the clear and present danger of stablecoins—has been massive consumer losses when these businesses go out of business, and the lack of legal redress they have because their contracts actually did not provide them with the reference asset or reserve asset that they thought they had access to and that the promotional material said they had. That is why the regulation in the financial promotions regime in this country ought to be very carefully focused on the design of financial promotion material by stablecoin issuers. You had huge losses in the US and the promotional literature was contrary to what the legal documentation actually said. There was no regulatory baseline for any of this. It was really just the Wild West.

That is a near-term big problem that the UK wants to try to avoid. I am not saying the systemic risk issues are not going to be a problem in the future; there needs to be careful macro-prudential oversight for that, and we have a framework for that in place here. But in the US we have seen immediate large-scale losses across retail and wholesale holders of stablecoins because of collapses where legal rights, property and their contractual rights were not clearly defined.

Q40 Lord Hill of Oareford: We were hearing earlier that the greatest upside of stablecoin would potentially be in financial market settlement and cross-border settlement between big commercial entities because of scale, saving, reduction in capital requirements and so on. But in terms of how the market is developing, the preponderance of development so far is on the retail side for the reasons you have explained. What do you think are the reasons why, given that the potential savings for commercial clients are so great, that has not developed? Is that a regulatory obstacle? Is it a lack of confidence in the stablecoin? What is your take on that?

Professor Kern Alexander: Many large companies have long-standing relationships with regulated financial institutions and they rely on them for their corporate broking and banking services. The banks have not been so efficient in providing stablecoin alternatives, which they could do. They could have hybrid bank accounts for their customer accounts—both stablecoin as well as fiat currency accounts—and tokenised deposits, as I mentioned. It is really taking the banking industry a while to respond to their customers' need to lower their transaction costs for cross-border payments, domestic payments and foreign exchange risk type of issues.

They are worried about doing it, in part because it is not a well-regulated area. There are no real safeguards in place. Once a regulatory regime can be adopted, it can provide some legal clarity and some regulatory certainty that will allow large commercial institutions to want to have more exposure to stablecoins.

Lord Hill of Oareford: So your answer is that having that regulatory framework will increase the competition and incentivise the banks because, as incumbents, their position might be that they want to try to provide a more efficient service but not so efficient that they start pricing themselves out or affecting their bottom line.

On your earlier point, what do you think are the elements of the regulatory regime that are needed to provide clarity for the corporates to feel comfortable that it is done in a way that does not give you the EU problem of overcomplexity so that no one ever wants to go into the market or to provide it? What is the minimum regulatory framework you have to have that would give the corporates the certainty of thinking, "I want to do this"?

Professor Kern Alexander: The minimum is having a disclosure framework. If you have stablecoins with 1:1 reserve asset ratio, you need to have a very transparent framework for corporates to understand what the property is that they have and whether they have a property interest in it. To date it has not been clear whether they would simply have a contractual claim to that reserve asset or a property claim to it, for example. That would increase legal certainty for their own risk management purposes. It involves transparency but also having a more precise definition of what one's rights are in these underlying assets, which has not been provided, at least in regulation or even in contract law, to date.

Lord Griffiths of Fforestfach: I take the argument you make, and intellectually it is terrific, but we have four large banks here and they have always had a tradition of competing a little but not too much. If you look at, say, the mortgage market, they really dominate that. I just wonder how, in a way, you throw a bit of a grenade into the system to blow it open a bit. What you have just said was okay as a legal statement or an economic statement, but we are in Parliament and asking what we could really do to get it started in the way it has in the US. What would be the key element to inject into it?

Professor Kern Alexander: In that sense you could look at the US model. The GENIUS Act has created a legal framework where the regulatory oversight is mainly the bank regulators that will be implementing it, and the bank regulators will write rules that policymakers, at least in the US, have said will create incentives for the big incumbent banks to issue stablecoins for their customers—not just stablecoin issuers such as Circle or Tether but J.P.Morgan, Wells Fargo, Truist; all these big US banks. They have not moved into this space to date because there has not been an adequate regulatory framework to guide them. The new framework is primarily focused on the banking side

and on the bank regulators adopting the regulatory rules to provide guidance for these US incumbent institutions to provide these stablecoins.

Now, will that work? It might work in the US because there is a strong policy push behind it. The White House wants to do it. It is a White House policy objective to begin with. But also you have the bank regulators now directed in legislation to write a regulatory framework to guide the banks in adopting stablecoin services. You could have a similar framework set up in the UK. It does not have to be the bank regulators. The FCA and the PRA work together; they can both co-ordinate it and do it bilaterally. They need to adopt a regulatory framework with guidelines and guidance for banks so that they can develop and have the incentives to develop these stablecoin products. That is how you would maybe get some more efficiency into the UK sector because, I agree, you have these four dominant retail banks and they are like an oligopoly. How do you spur them on to be more competitive? That is one of the big problems in the UK. You have a much more efficient payment system than the US, but you have a lot of other inefficiencies in retail banking. So by having more stablecoin issuance introduced into the system, you can inject more competition.

Q41 Lord Vaux of Harrowden: I want to explore a little further this question of whether the costs within stablecoin are cheaper and more efficient. The technology itself is not inherently more efficient; it is a distributed ledger, which means that any transaction has to update on multiple ledgers at the same time. Therefore, the system is only as fast, if you like, as the slowest node in the system. That is fine when you have relatively small quantities of transactions going over the system as we do at the moment; even with Tether, it is still relatively small. But when this takes off and becomes very big, is that scalable? The cost advantages seem to come from the disintermediation, the fact that you are removing out of the system the various banks in the chain.

You said earlier that if this takes off, you are going to need to put that back in again with CCPs, custodians, central clearing, et cetera. So the intermediation seems to come back into the system if it takes off and it becomes higher volumes. Does that cost advantage start to disappear again? One of the reasons why it is so expensive is that it goes through the banks; the banks are heavily regulated and therefore their costs are higher. So is this really about regulatory arbitrage?

Professor Kern Alexander: It is certainly about sidestepping costly regulation and performing similar transactions in a parallel financial system where you do not have the same extent of regulation. The point about financial market infrastructure is important because when stablecoin issuance reaches a certain scale, there is going to be a concern for the Bank of England and payment system regulators to want to have closer notice of what is going on, and that is why I mentioned CCPs. When these transactions reach a certain scale, there is no reason why financial market infrastructure frameworks should not apply; they probably will apply at some point when they are viewed to be systemic. I

mentioned CCPs because they have been used mainly with derivatives and I am not familiar with the extent of derivative use for stablecoins right now. But this could grow in the future and, if it did, it would be a problem. Having CCPs would reduce systemic risk and it would be important to have that. That is different, though, from the bank being regulated individually. Financial market infrastructure needs to be supervised, in a way, to make sure that scale and scope do not undermine stability, and that is what we might have with stablecoin issuance at some point in the future. But we do not have it now.

As I mentioned earlier, my more immediate concerns are the consumer protection, market abuse and financial crime issues, which are more clear, as we have obviously seen in the US. Over time, as stablecoin issuers become systemic in their operations, maybe it will be a more competitive balance between many different issuers. But generally we have seen that the biggest issuers in the US are Tether and Circle; they will dominate the market and they will become systemically important institutions that may need to be supervised like a systemically important bank.

Lord Vaux of Harrowden: Does that undermine the cost advantage?

Professor Kern Alexander: That remains to be seen at the point when they reach a scale. That is why the regulatory framework should be in place as a safeguard to monitor the growth of this industry and of these providers. Once scale and scope reach a certain level, the macro-prudential authorities need to play a role. They need to be able to monitor it and to take measures if necessary. At this time that does not seem to be the case. The real risk is that the stablecoin issuers are taking more and more business from traditional regulated banks, and regulated banks complain, naturally. They say, "Look, we have higher costs because we are regulated". The stablecoin issuers do not present the same types of risk now as those four large banks that Lord Griffiths mentioned, but when they do they should be subject to the same type of macro-prudential oversight.

Lord Vaux of Harrowden: How do you do that on a global basis? If you look at Tether, for example, it took one look at the GENIUS Act and moved itself to El Salvador. How does that work?

Professor Kern Alexander: The Financial Stability Board published recommendations in summer 2025, and in 2023 it did a big consultation and surveyed the members of the Financial Stability Board and the G20 on how they were regulating stablecoin. There were a variety of practices: some, such as China, have no regulatory framework for it. China simply just bans it outright because it has not fully come to grips with how to deal with it. Some jurisdictions fully allow it to take place and small jurisdictions will try to market themselves as a place to set up your holding company. That is one of the problems. We have regulatory arbitrage issues, and this market can move quickly overseas; that is why we should have more of a principles-based framework in the UK.

Q42 **Lord Eatwell:** I want to raise two points. Focusing back on this cost issue, an earlier witness characterised the role of stablecoins as giving access to the US banking system to those who otherwise would not have such access. I suppose one should add to that those who already have access to the US banking system but find a cheaper way of making transactions.

The first point is about those getting access to the US banking system who otherwise would not. What is the reason they do not have access? Sometimes it is because they are in a jurisdiction with underdeveloped banking systems and they are making use of the US banking system via this way, and sometimes it is because they are criminals and would not readily have access to the banking system. So I would like you to reflect a little on the AML significance of the development of stablecoins and what should be done. I have another point to follow, but let us deal with the AML significance first.

Professor Kern Alexander: They should have know your customer and suspicious transaction reporting, just like any other regulated financial service provider has.

Lord Eatwell: You cannot have know your customer because the stablecoin is like cash. You hand over cash to someone for coming in and building a little hut in your garden or something; the tradesman requires to be paid in cash—we know why—and there is no KYC there. The stablecoin is like cash in that respect, is it not?

Professor Kern Alexander: The stablecoin issuer would issue stablecoins to customers who have to go online, complete all this information and submit it, then the stablecoin issuer would have to approve them to be a customer for their accounts. Part of that would be having them fulfil some background about their source of income.

Lord Eatwell: So my local builder effectively has to be paid with a cheque, not with cash.

Professor Kern Alexander: With that builder you probably would have the same problem with fiat currencies as well. They want to get paid cash: stablecoin or bitcoin or sterling notes.

Lord Eatwell: Yes, of course.

Professor Kern Alexander: With stablecoins you have the same reporting problems that you have in the current fiat regulatory system; it is not that they introduce any new type of risk. You can have proportionate, similar disclosure requirements apply for stablecoin issuers so that when customers go online, open their accounts and complete all the forms, the documentation involves all types of personal information about the source—

Lord Eatwell: Let us just focus on the payments issue in the US. You are quite right that transfers between US banks are slow and expensive, although they are starting to develop internal systems: Citibank has Zelle

and all these systems developing. In the UK we have BACS, which is free and pretty quick, so I do not quite see the role of a sterling stablecoin. Are we developing a policy for something that will not exist?

Professor Kern Alexander: In the UK, the demand might be not so much on domestic payments but on cross-border payments—payments into and out of the euro area, for example.

Lord Eatwell: Then you have forex risk anyhow.

Professor Kern Alexander: You have extremely high transaction costs. If you have stablecoin making a payment in US dollar Tether between a counterparty in Germany and the UK, you have very minimal transaction costs to that—whereas if I try to make that payment to that counterparty in Germany between sterling and euro, I am going to have a higher transaction cost. For businesses it will be higher: cross-border payment costs are higher.

Lord Eatwell: But come on, stablecoin is denominated in a given currency, right? It is in dollars predominantly. If I have a sterling stablecoin and I am paying somebody in Germany, I am paying them in sterling and the person I am paying has forex risk if he or she wishes to transfer it into euros.

Professor Kern Alexander: Often, when they receive payment in sterling stablecoin, the stablecoin provider in Germany will allow them to convert that to euros, to euro fiat currency, if they want to redeem it into euro currency. It is not that they just keep it in sterling in Germany; you have a few steps in the transaction. The cross-border payment can be done and the counterparty might ultimately want to keep stablecoin, but they might want to convert into fiat currency and the stablecoin provider allows them to do that.

Lord Eatwell: I see; okay. My other point was to follow up your discussion with Lord Griffiths about the monopolies of the banks and what should be done. It strikes me that in looking at the development of digital instruments, whether it is stablecoin, tokenised securities or whatever it might be, you have conduct of business, you have fundamental systemic issues, and you have basic monetary policy issues. So the FCA, the PRA and the Treasury are all involved. Should we develop a sort of separate regulatory division specifically for digital activity, do you think, instead of having it spread between three players, which we have at the moment?

Professor Kern Alexander: Digital finance is something that regulated institutions perform, and there is not a need to create a financial digital regulator because the function that the digital financial service provider is providing is a very similar function to what a non-digital bank would be. The functional approach to regulation is what we should keep. The function of digital finance is very similar to non-digital finance; it is just that you can make these payments over the internet.

But it is true that digitalisation is complex and that regulators traditionally have not been dealing with the technological innovations in finance as they have been happening. Stablecoin presents a real challenge. Should there be an affiliated supervisory body created that has expertise in this area of crypto assets? Stablecoin is just one part of crypto assets. Right now the UK is debating stablecoin, but the EU has taken on the bigger task of regulating broader crypto assets. When that happens, that is going to really test the regulator's resources and expertise. That is why some consideration could be given to a more specialised regulatory body that deals with crypto assets more broadly defined.

Lord Lilley: Could you just clarify this for me: are UK banks forbidden from providing, first, tokenised deposits and, secondly, stablecoins? If they are allowed, why do they not?

Professor Kern Alexander: I do not think they are prohibited from providing that, but they are regulated. As part of the risk management oversight, the bank would have to justify what the risks are, so banks have kind of shied away from this business. That is understandable, because it has not been within the regulatory perimeter; it is not part of the regulatory discussions with the bank.

We see some banks adopting stablecoin account services for wholesale customers, as I pointed out with J.P.Morgan. There are probably some UK banks that do this internally for what they call private stablecoin for their own institutional clients, not public stablecoin. It is a new area. I do not think there is a prohibition on them doing it, but it would be part of the regulatory supervisory dialogue with the regulator about how they are managing the risk and whether they are holding capital. The potential liability might attract regulatory capital, and that is why it might not be economically efficient now for the bank to do that. In the future, getting a grip on how you would apply regulatory capital to stablecoin exposure would be something that needs to come up in the regulatory dialogue, because now the regulatory obstacles might make it too costly for the bank to do this a lot.

Lord Lilley: Lord Eatwell asked about transferring money abroad, which I do to my bank account in France to pay for my bills in France. I do it through TransferWise because that is cheaper than the banks. I assume the main cost within that is changing from pounds to euros, but I still do not understand why stablecoin makes a transaction from pounds to euros any cheaper than it is at present.

Professor Kern Alexander: It is probably not if your ultimate goal is to transfer the payment into euros from receiving UK sterling stablecoin. The reports that have come out show that those who hold stablecoin are cross-border, and when you make cross-border payments in US dollar stablecoin, the counterparty who receives that payment does not often translate it into the local fiat currency; they keep it as an account to be used for future investment, future hedging and risk management.

Q43 Lord Smith of Kelvin: The vast majority of stablecoin activity is around

the trading of unbacked crypto assets. I have been reading ahead a little in the paper you gave us, and you are very clear that there is going to be substantial growth both in the UK and in the US in retail and wholesale real-world payments. Could you say something on that, please?

Professor Kern Alexander: The growth of the retail market is going to happen in the UK. In the US we see increased growth in retail customer demand for stablecoin. That is why some banks—the two banks in New York I pointed out—have Avit, this public stablecoin that they make available. This is not a large market yet, but it is going to grow in the future and the UK should be prepared for it to take off once you allow wholesale businesses to begin transacting in stablecoin. There is going to be a natural call for retail demand for this type of product.

Banks should enter the arena here, compete and try to provide, because you do not want the US companies to dominate this market here in the UK. British banks are perfectly able to offer retail stablecoin services to their customers. Regulators have not really incorporated this into the overall prudential strategy and that might be the obstacle to doing it now, but once that is done, UK banks would be able to offer hybrid accounts for both stablecoin and fiat currency, and then tokenised deposits, which are also fiat currency. That is the way the market will evolve and that is where the banks have to be prepared to be more competitive; the competitive part of this is hugely important. That is part of the US policy because after Terra—the big stablecoin issuer—collapsed into bankruptcy with huge losses across the board all over the country, it adopted the GENIUS Act. It wanted to create a regulatory framework that creates an incentive for the banks to move into this area and to offer stablecoin products as well in a clear regulatory framework, so that you do not just have companies such as Terra offering these services.

Lord Vaux of Harrowden: I am just slightly confused by the retail use, particularly here in the UK. The current retail use is to buy crypto and trade in crypto, which probably explains why they leave it there. But why would anyone want to use it in the retail market here? At the moment, I can take my card, bash it on a thing and it is free as far as I am concerned. It is quick, it is instant, it pops up on my phone and I have made the payment instantaneously. Why is this going to explode? I do not understand what the point of it is from a retail user.

Professor Kern Alexander: We see this in other countries. In some countries where there is higher inflation, they want to leverage their exposure to the domestic fiat currency. It is more or less under control in the UK, of course.

Lord Vaux of Harrowden: But that is the same as holding dollars, gold or whatever.

Professor Kern Alexander: But it also creates an account that you can do more things with: you can buy and sell other crypto assets.

Lord Vaux of Harrowden: So it is that existing crypto trading use that

you are looking at—not me going down to Sainsbury’s and using it.

Professor Kern Alexander: No, it is not buying retail products. It is essentially a gateway to a broader alternative financial market for retail customers. You have not had that before. This is something that wholesale financial market participants have had; they can have alternative finance, but retail customers have generally been stuck with the same type of current account. This opens up your door to have exposure to other assets and instruments that might help you save for a personal invested pension, for example. You might diversify your exposure away from UK sterling fiat currency. There will be a lot of innovation in the market and the types of products that will be offered, and the UK should make sure that, in the future, the design of financial products is not constrained by the regulators. In the EU, MiCA constrains the types of financial products that can be designed based on stablecoins, so certain types of products are approved and a broader array are not. In the UK, you might have more flexibility in the types of stablecoin products that can be offered to customers.

Lord Vaux of Harrowden: Are you talking about sort of tokenised shares and that sort of thing?

Professor Kern Alexander: Yes.

Lord Eatwell: I was intrigued by the comment you made about the development of the UK stablecoins: maybe the UK should do this because otherwise it will be dominated by US providers. Reflecting on the financial crisis of 2008 to 2009, one of the major beneficiaries of Federal Reserve support was Barclays through swap arrangements with the Bank of England. I am sure that UK taxpayers were very grateful to the Fed for supporting Barclays in that way. As you know, there has since been a lot of controversy in the US as to whether the Federal Reserve should do that. So the issue is, should we be so dependent on US financial institutions? We already are with Visa and Mastercard. Was your comment about developing UK structures a reflection of your view of excessive dependence on the financial system of another jurisdiction?

Professor Kern Alexander: Yes, that is a very good point. Right now, the stablecoin market in the UK is overwhelmingly dependent on the US. One of the reasons has been that adequate incentives have not been set up here in the UK for financial institutions to develop competing products that might be sterling-denominated stablecoin, for example. Right now, it is almost all US dollar stablecoin, and we saw in the financial crisis how the US made a mess of things in the regulatory side. We do not want to be dependent on the US. The US has sort of proved to be an unsteady partner in some ways, right?

The UK has lending as an international market, so you have the financial capacity here to develop this market and have market leaders competing in it. London as an international financial centre can innovate and come up with stablecoin products and even crypto asset products that are competitive so that you do not have to rely on the US providers to come

in, but the regulatory framework now does not allow that to happen. The new regime that comes into place needs to have a competitive element set up so that the sterling area can rise up and be a source of competition. At the moment you simply have these large US providers and the regulatory framework for them is not certain yet: we do not know when the next Terra is going to happen, or when the next big collapse is going to happen.

The Chair: This has been a very interesting session, in particular your focus on the competitive aspects of stablecoin introduction and the need for them to offer competition to the existing financial services providers. As usual, you have given very clear answers and we are very grateful to you for the time you have given us this morning. Thank you very much.