



Financial Services Regulation Committee

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

Wednesday 25 February 2026

10.05 am

Watch the meeting

Members present: Baroness Noakes (The Chair); Lord Davis of Brixton; Baroness Donaghy; Lord Griffiths of Fforestfach; Lord Hollick; Lord Lilley; Lord Sharkey; Lord Turnull; Lord Vaux of Harrowden.

Evidence Session No. 5

Heard in Public

Questions 44 – 55

Witness

[I](#): Elise Soucie Watts, Executive Director, Global Digital Finance.

Examination of witness

Elise Soucie Watts.

Q44 The Chair: Welcome to today's meeting, which is the fifth oral session as part of the committee's inquiry into the growth and proposed regulation of stablecoins. Thank you, Ms Soucie Watts, for coming to give evidence today. You are the executive director of Global Digital Finance, and we are very much looking forward to hearing from you. I understand you will be opening with a few remarks.

Elise Soucie Watts: It is an honour to have the opportunity to share evidence with you today. Thank you for taking the time for this really important inquiry. As industry, we truly believe that this is a critical topic for the evolution of the UK's financial markets. As I am sure you have heard from other witnesses, the UK is at a strategic inflection point when it comes to stablecoins. It is no longer a question of whether stablecoins will be growing globally, but where and under whose supervision. It is very clear that the digital infrastructure that will underpin the next generation of financial markets, and what digital money will be used on that infrastructure, is being determined now.

Again, as I am sure you have heard many times, stablecoins are borderless by design. They find their most powerful use case in being cross-border. However, regulation is a national priority, of course. It is important to think about that calibration and avoid any misalignment of regulatory frameworks, in relation to both the domestic market and what is happening globally, so that we can avoid fragmentation, high costs for both consumers and businesses and the offshore migration of the UK's future digital markets.

We truly believe that the UK has the chance to build a world-leading sterling stablecoin regime, building on its strong foundations of a legal framework and, of course, the regulatory landscape, which is world-respected when it comes to financial services. We know that HMT, the Bank of England and the FCA have made great progress. I anticipate that we will be discussing some nuances of their proposals later on throughout our discussion.

But for these instruments, which are high-quality, liquid-backed assets—fully backed stablecoins, as we see being proposed in most leading regimes around the world—it is really important to think closely about that calibration and what would make the UK's regime competitive. What are some dynamics when it comes to preventing risks, such as run risks, protecting consumers and, of course, making sure that this is still something that can scale in a responsible way?

There are a few things that I hope we will be able to discuss today when it comes to the competitiveness of the UK regime, such as the proposed 40% unremunerated reserves, which may make a structural cost that could potentially drive a lot of this innovation in stablecoin markets offshore. That, combined with a potential cliff-edge risk between the FCA

and Bank of England, as well as holding limits, could create a scaling disincentive. Of course, the risk is that if the UK stablecoin market goes offshore, dollar stablecoins, which already dominate 99% of the market, will then become the default.

As we see other jurisdictions moving, like the UK and the EU, towards comprehensive regimes, it is really critical that we think about global interoperability, as well as how the UK can remain competitive and make sure that sterling still has a role in the digital markets of the future. I really look forward to discussing with you today how we can think about a framework for the UK that allows stablecoins to scale in a way that preserves financial stability, but also remains competitive. At the end of the day, we truly believe that if this technology is global, which it is, but regulation is local, we have to think very carefully about how to calibrate that interoperability and competitiveness and balance appropriate risk mitigations and protections for these markets of the future.

Q45 The Chair: At the moment, in terms of market value, there is almost nothing in terms of GBP stablecoins. Could you give us a sense of how you could see that market developing in value terms?

Elise Soucie Watts: The growth for the UK market is likely to be conditional. If we think about the place that sterling already occupies in FX markets and broader financial markets, for example, the real potential here for growth is for stablecoins to be the cash leg in capital markets: for the delivery versus payment element, for settlement, for tokenised securities. There is certainly a large potential here.

There is also obviously the potential for retail scaling. But if you think about that scalability and what we have already seen in other markets such as the US, what we have not seen and do not anticipate happening in the UK is a mass flight from deposits, where everyone would decide overnight, "I'm going to take everything out of my bank account and put it into stablecoins". That is not something that has rung true in any other market around the world. Instead, we would expect a large uptake in that settlement leg for capital markets, and we would expect a smaller scaling across the retail sector.

Again, I would note that we have actually already seen evidence in the US markets, where stablecoins are most prevalent, that the rise of stablecoin adoption for retail as well as deposit growth has continued in a parallel trajectory. We have not seen deposit growth drop in response to stablecoins. We could expect the same in the UK.

To answer your question, though, in terms of why and where we might see that scaling, it will very much be determined by the regulatory framework here in the UK how quickly that scale is enabled and how stablecoins are able to be used in financial markets. It is still a conditional question. It is not guaranteed that stablecoins will scale quickly here.

The Chair: How important is it to the UK to have a large native stablecoin market, as opposed to using stablecoins in other currencies?

Elise Soucie Watts: Again, if we think about this as almost an evolution and a mirror of our traditional markets today, the aim is certainly not that stablecoins will replace every single aspect and be the only digital money in the future. I know that Sarah Breeden, for example, has mentioned a multi-money ecosystem where we have tokenised deposits, stablecoins, and other forms of tokenised cash: potentially a digital pound in the future. These are all on the table. That is certainly the future that we see. Again, I would not say that it is something where it has to be stablecoins or nothing, but stablecoins will likely form a core component.

To come back to that currency question, it does not have to be GBP stablecoins for everything. However, there is a strategic risk from a sovereignty perspective for the UK if we do not have a form of sterling money, because that would mean the default for capital market settlement—potentially even for retail payments—would be that the digital money used in the future would be denominated in other currencies. That is a strategic risk for the UK, particularly if you think about the advent of things such as agentic payments, which will likely need some form of digital money to settle. If those are settling in US dollars or euros, for example, instead of sterling, that is a strategic loss.

Q46 **Lord Sharkey:** Can I go back to the beginning of all this, in a way, and ask you to outline for us as simply as you possibly can the business model of coin issuers, and to say how it is that they make money, what kind of money it is they are making, and where it comes from?

Elise Soucie Watts: Yes, I am happy to. I would caveat this by saying that I will also go through how a stablecoin would function and make money, as per some proposed regulation that is out in the UK. There are many things that claim to be stablecoins, which may in fact not be. When we think about the overarching landscape of regulation and where it is trending, that is the model I will be describing.

You have a coin that is issued, a digital coin, and it is backed by high-quality liquid assets, as I said in the very beginning. This might be short-term government debt: gilts, for example. In the case of the US, many are backed by treasuries. It might be money market funds. But it is fully backed, 100% backed. The business model of the coin issuer is that whatever interest is paid upon those, in essence, is how they make money. It is not done through transaction fees, or any fees on the holders of the coins, or fees for using those stablecoins.

This is why I mentioned in my opening remarks that the 40% unremunerated reserves that have been proposed by the Bank of England could be an issue for the stablecoin issuers, and a threat to their business model. That 40% is, in effect, money that is just sitting there with no remuneration, and so that would then be a threat to their business model. It is also not consistent with what we have seen in other jurisdictions.

Lord Sharkey: Are they dependent on the balance between the 40% and the 60% for their business model?

Elise Soucie Watts: Yes, correct.

Lord Sharkey: Let us suppose for the moment that a lot of these assets are treasury bonds and they earn interest, and the interest you are talking about is paid back to the issuers of the stablecoins. I do not understand why they are doing it. You get the interest anyway on the treasury bonds, so sticking them in as assets is a bit of a complicated way to get the same amount of money as just holding them.

Elise Soucie Watts: The difference would be that you currently could not use a treasury bond for a payment, but the coin, once issued as a stablecoin, can then be used for cross-border payments. Now we are getting into the use cases of stablecoins themselves. They are beneficial for people to have because again, rather than being something that is purely a domestic instrument, which you might hold as an investment, it is important to note that stablecoins are payment instruments. The assets they are backed by are not traditionally payment instruments. Once the coin is issued on the digital ledger, it can be used for cross-border purposes.

Lord Sharkey: Typically, what is the status of the assets? Is there a lien over the assets? Is there any kind of guarantee attached? Is there any kind of insurance, typically?

Elise Soucie Watts: Typically, the assets will be held under custody. This is part of the proposed Bank of England and FCA regime. There are very strict requirements being put in place for those assets held under custody. That is what is being done with them: the assets are being custodied, but they are not being used for anything else.

Back to your question about insurance, that is actually a really important one. I am sure you will hear later today from my great colleagues at UK Finance, and we will talk more about tokenised deposits, but there is a difference between a tokenised deposit and a stablecoin, which is that a stablecoin is fully backed. Again, all the assets are held under custody. It is a one-to-one backing, whereas—as I am sure you all know—deposits are fractionally reserved backed, hence the need for deposit insurance for the rest of it, which is unbacked.

For stablecoins, there would not be the same need for deposit insurance in that sense, because they are fully backed instead of being fractionally reserved backed. Even in a worst-case scenario, the customer and the consumer would be able to get all their assets back; you would just need to wait for those backing assets to mature.

Lord Sharkey: I take it that the assets cannot be pledged elsewhere.

Elise Soucie Watts: No.

Lord Sharkey: Could you give us some sense of the margins that these companies make?

Elise Soucie Watts: I would need to check and gather some data, but we can certainly submit that in our written evidence. I will speak with our stablecoin issuers, and we could provide that data in the written evidence. I would not want to give you my best guesstimate.

Q47 **Lord Hollick:** I am still at the starting grid on this particular journey. I do not quite understand why I would want to buy and own a stablecoin. Could you tell us, from your personal experience, why you own a stablecoin and what the benefit is of doing it?

Elise Soucie Watts: For me personally, I own stablecoins, and I purchase them via my account, via an exchange. I do not use them frequently because I do not need them at the moment for cross-border transfers. I have bought them because they could be useful for that purpose in the future, but we do not yet have the broader infrastructure at large to be able to pay with stablecoins everywhere we go. For example, if you go to a shop, in most places you cannot yet pay in stablecoins. In some cases, you might be able to.

From what we discussed with industry—again, this is not necessarily large companies, this is SMEs as well—if you are someone who operates a business on a cross-border basis, and say you have suppliers in different jurisdictions, stablecoins would enable you to pay your suppliers more effectively and quickly, rather than waiting for the current system. As you know, for trade finance, at times those payments can get delayed or be lost, which can obviously create massive delays in supply chains.

For anywhere from small to large businesses, the benefits for stablecoins are in that fast, secure, cross-border payment mechanism. For individuals, this can be the same in the future. In terms of why people might want to hold stablecoins right now, in the UK—if I am being very frank with you—there might not be a huge reason to hold them at present because again, it is not a payment instrument that we can use widely yet. I anticipate that changing in the future, especially as the infrastructure to be able to receive stablecoin payment scales both in the UK and other jurisdictions.

Lord Hollick: Do you get any income for the stablecoins that you hold?

Elise Soucie Watts: No, not under most regulatory frameworks.

Lord Hollick: If I put my money in a money market fund or I deposit with the bank, I have a regulated organisation that is holding the money, I can get it at a moment's notice, and I can make transfers in currency at a relatively low cost. We have heard from other witnesses that, in the United States, the transfer costs are much higher than they are in the UK; in the UK, they are at a very modest cost. I can get the benefit of a regulated institution holding my money, I can transfer it at relatively low cost and I get interest in the meantime. Why would I switch into stablecoins?

Elise Soucie Watts: You have hit on a really crucial point here, which is that stablecoins are not at all intended to be a substitute for money

market funds or any other investment products: they are meant to be payment instruments as currently set out and designed. They also could be used for internal treasury management, as I mentioned in the capital markets case, settling tokenised collateral.

Again, this is a payment instrument and cash leg, not an investment product. I actually completely agree with you: I do not think that people in the UK will be taking their money out of investment products or deposits and putting it into stablecoins, because they will fulfil a different functionality in the infrastructure of the future for faster payments, cross-border payments or agentic payments.

Lord Hollick: Do you think that stablecoins will have to provide some sort of income—pay interest, if you like—in order to make them competitive?

Elise Soucie Watts: That is not something that is currently on the table in the UK. The FCA and Bank of England have both been pretty clear that stablecoins will not be paying interest in the UK. Again, we have discussed it with industry and, as a payment instrument, that is not necessarily a bad thing. The debates that you often hear about interest at this stage—indeed the ones that are quite hotly being debated in the US right now—are actually interest for crypto asset service providers, or rewards. Not interest, but rewards instead: rewards on transactions, much like you might have credit card rewards, for example, rather than interest being paid on a stablecoin wherever it goes.

For example, if you have a physical pound, if that pound is in your wallet, it is not paying you any interest. If you have a pound that is in an account, then it is the account that is paying you interest. If you have a credit card, you might get credit card rewards for certain high-value transactions. You might get cash back, or there was a time at which people were getting toasters and things such as that as rewards. Now, a lot of the debate has shifted to this rewards conversation rather than direct interest on stablecoins.

To answer your first question, no, I do not see stablecoins in the UK paying interest to compete. We will need to have a broader conversation about when rewards are allowed and by whom, and whether crypto asset service providers can pay rewards to customers. That is likely the future trajectory of that conversation.

Lord Hollick: What might be attractive is to invest in digital deposits, tokenised deposits from a regulated bank, which would give me an income and would enable the bank itself to possibly run its asset base rather more efficiently. Is that right?

Elise Soucie Watts: Yes. As I mentioned before, tokenised deposits absolutely have a place in the financial markets infrastructure of the future. Tokenised deposits are a natural evolution of deposits that already exist. However, they have some constraints that stablecoins do not have. As with a regular deposit, a tokenised deposit at this stage cannot be

used anywhere for payments, as a stablecoin can. A tokenised deposit would still need to go bank to bank.

For example, if you have deposits in Lloyd's TSB, you can send it to NatWest. You cannot just send it into the ether of nowhere. That is still a constraint when it comes to tokenised deposits; they are not able to be used quite as widely as stablecoins for payments.

Baroness Donaghy: In answer to a question by Lord Sharkey, you said the assets were backed in stablecoins. How do we know that they are backed?

Elise Soucie Watts: That is one of the critical—if not the most critical— aspects of the regulatory framework. This is something that both the FCA and the Bank of England have set out quite stringent proposals on, which is that the backing assets have to be custodied in a certain way. There have to be regular attestations and disclosures about those backing assets. Indeed, for a lot of stablecoins that exist in the market today from your largest issuers, you can go online and look up their reserve assets, and you can see it. Again, it is visible because it is on the blockchain.

That is something that is very transparent when it comes to stablecoin backing assets, but especially more so under a positive regulatory regime. The UK has done a really good job of building out those proposals to make sure that it is clear what is backed and how it is backed, and that both consumers and businesses have access to that information.

Lord Vaux of Harrowden: I just wanted to follow up on Lord Hollick's question about the business model. You mentioned rewards being paid by the exchange, in effect.

Elise Soucie Watts: Yes.

Lord Vaux of Harrowden: You made the comparison with rewards on debit and credit cards or whatever. The reason that debit or credit card issuers pay rewards is that they are sharing some very large transaction fees that are paid in the system with you, as the customer, to encourage you to do more with their product. I thought the whole point of these stablecoins was that there are no transaction fees. Where do those rewards arise from? Is it because in fact, there is a relationship between the issuer of the stablecoin and the exchange that is slightly hidden, and that is where the exchange is making its money that it is sharing?

Elise Soucie Watts: No. The reward would actually be taken from a portion of whatever yield is coming from those backing assets.

Lord Vaux of Harrowden: That means there is a relationship between the issuer of the stablecoin and the service provider that is giving you the reward, because somehow they have to pay that.

Elise Soucie Watts: The relationship would be from when the stablecoins are being held at the exchange. Obviously, it is not just that exchanges are able to pay rewards on any stablecoins. Those stablecoins

would have to be used as part of the transaction, and there are often transaction fees on exchanges. It is part of those transaction fees where rewards can be paid back. Indeed, that is actually the direction of travel in which we see a lot of the conversation going in the US: rather than rewards being paid on holdings—those backing assets—the rewards will come from the transaction aspect.

Lord Vaux of Harrowden: This is where I get very confused with the business model, because we are told that stablecoin transactions are cost free, and yet clearly they cannot be if what you have just said is right. Perhaps it would be helpful if you could talk us through what the costs are of taking my money from my bank account, buying a stablecoin, and transferring it across from one place to another on an exchange at the end. It does not feel as if there is such a huge advantage. The main costs in the banking system are the intermediaries along the way. This takes out some of those, but you otherwise still have the same transaction fees.

Elise Soucie Watts: I am happy to clarify that. Let us say you have a stablecoin in your self-hosted wallet, and you go to make a payment anywhere, out in a shop, say. Of course, the cross-border transaction fees there are non-existent. However, there are many other reasons why there might be transaction fees on an exchange when interacting with crypto assets, when using other unbacked crypto assets. For example, if you are trading then yes, there may be transaction fees. But if we are talking about a pure payment mechanism, then that is different, and there is no transaction fee charged by the issuer. Transaction fees are not a part of issuers' business models.

What I would try to separate here is the regulation of stablecoin issuers and the regulation on crypto asset service providers. Of course, to your point, which is correct, they may be intermediaries in this situation and there may be transaction fees. But using a stablecoin on an exchange is not the only way to use a stablecoin.

Lord Vaux of Harrowden: I am still confused, but let us move on.

Q48 **Lord Turnbull:** Can I come back to this question of the comparison between a stablecoin—perhaps we should call it self-styled stablecoin—and tokenised deposits? I am faced with a choice; I could either do one or the other. What are the pluses and minuses of each? You mentioned the difference that one of them is fully backed and the other is backed fractionally, but also the tokenised deposit is offered by a bank. There is the Bank of England behind that. Where do the advantages lie? Why should people go for stablecoin rather than tokenised deposits?

Elise Soucie Watts: That is a good question. First, we do not see it as being an either/or. In our view and in the view of a lot of industry, it is not a choice of let us have tokenised deposits or let us have stablecoins. As I mentioned, tokenised deposits are an evolution of deposits as they exist today, whereas stablecoins can be conceptualised as an evolution of digital cash.

A deposit is fractionally reserved backed, and that of course comes with deposit insurance protections, and you already have the existing relationship with the bank. All these are positives, but it cannot be used quite as widely for cross-border purposes as a stablecoin. Stablecoins are fully reserved backed, and they can also be used on public blockchains, for example, whereas we have seen some experimentation with tokenised deposits being used on public blockchains, but not quite as widely as stablecoins.

There are different use cases that will make sense for both. People will not be holding stablecoins as investment products. They will likely be using them as payment instruments, as will businesses. You could also use tokenised deposits for something such as the settlement on the cash leg, similar to how you could use a stablecoin. It is absolutely possible to use both. But again, I would not position it as let us either have tokenised deposits or let us have stablecoins. It is important that there are both in the market. The main difference comes down to stablecoins can be used more widely for cross-border purposes, whereas tokenised deposits will still be constrained to the existing bank-to-bank and intermediary relationship.

Lord Turnbull: That is not how I understood them, which is that you have these tokenised deposits and you can use them to pay someone—a supplier—anywhere around the world.

Elise Soucie Watts: You could, absolutely. You absolutely could, but there would still—

Lord Turnbull: What I cannot get is, given there are additional risks in a stablecoin because it is not regulated to the same degree and it does not have the lender of last resort behind it, why would anyone choose that rather than a tokenised deposit?

Elise Soucie Watts: To answer your first question first, yes, you can use a tokenised deposit to pay around the world, but there would still need to be a bank-to-bank relationship there. Whoever your supplier is using would still need to have a partner bank receiving that tokenised deposit, whereas stablecoins can be used more widely. There does not have to be an existing bank relationship.

When it comes to the regulatory landscape, the evolving regulation—the proposals being set out by the Bank of England and FCA—would actually provide appropriate regulatory protections for stablecoins. That distinction would then fall away as stablecoins are brought into the regulatory perimeter. This is absolutely critical to the point that was made earlier, so that you know that stablecoins are backed, that you have those appropriate protections, and how the assets are being custodied. That would actually make it another attractive option for consumers when brought within the regulatory perimeter. Of course, unregulated stablecoins are not the future.

Lord Turnbull: Coming to the question of anonymity, do stablecoins give

someone holding them greater anonymity than if they had tokenised deposits? If that is the case, is this not an invitation for people who want to be anonymous for not very good reasons, who will be attracted towards a stablecoin because the tokenised deposit will be further down the know-your-customer path than the stablecoin?

Elise Soucie Watts: Yes. In some senses, tokenised deposits will have more KYC than stablecoins. We will make sure to submit a lot of this data in our written evidence, but if you look at the volume in terms of how stablecoins are being used for illicit activity, it is relatively small compared with broader unbacked crypto assets. The reason for that is that issuers work very closely with analytics providers to monitor stablecoin activity. A lot of issuers have inbuilt mechanisms where they can freeze stablecoins anywhere they are in the world and anywhere they are being used if illicit activity is detected.

There is in fact greater traceability with stablecoins than you might have with, say, existing physical cash. Of course, tokenised deposits have that KYC element, but then it comes back to what I was saying earlier: why do you have that KYC element? It is because of the bank-to-bank relationship, which makes them less widely usable than stablecoins. Of course, there are trade-offs, but that is not to say that stablecoins are fully anonymous and completely untraceable. They actually are quite traceable, and there is a lot of great work that has been done in industry to try to combat illicit activity done using stablecoins.

Q49 **Lord Lilley:** You mentioned that the greatest benefit from using stablecoins comes in cross-border trade. As far as sterling stablecoins are concerned, they will be in sterling. If they go into another country, the chances are that other country will not use sterling, so there will have to be a foreign exchange transaction. How does that take place without bringing in a bank, which it was the purpose of stablecoins to cut out?

Elise Soucie Watts: It is important here to consider how stablecoins are typically being used within the market. You are right, the future of FX is absolutely a question here. There is a conversation to be had separate from stablecoins, which will include tokenised deposits, about the future of FX and how that will work in digital infrastructure that has not been completely worked out.

That being said, in terms of the cross-border transactions that happen at the moment at the point of sale, there are already a lot of solutions that exist in the market for making sure that the receivers of stablecoins will receive what they want to receive. This comes back to something really important, which is conversion versus redemption. Stablecoins are very easily convertible. Someone might pay in a stablecoin that they have set up with their receptor provider—there are some great companies working on this—where they might say, “I want to receive US dollar-backed stablecoins when I’m paid in a sterling stablecoin”. That conversion can occur at the point of sale.

In a sense, these FX transactions are already taking place quite widely today. A lot of firms or jurisdictions that use stablecoins will also already have accounted for this internally, for when receiving the stablecoin. It is usually either managed internally or by a third-party provider at this stage.

Lord Lilley: What institution is actually doing this foreign exchange conversion?

Elise Soucie Watts: This will be an intermediary. There are some in the US, there are some that have been working on some of this conversion from the UK perspective. It would be a form of an intermediary that is doing the conversion. One thing to note is that often those intermediaries for payments would be the ones that would have a direct relationship with the issuer as well. They could then go back to the issuer to redeem as needed in large-scale batches, rather than an individual having to go to the issuer to redeem when they are making a payment.

Lord Lilley: These intermediaries would not themselves be banks.

Elise Soucie Watts: No, not necessarily, but they could be.

Q50 **Lord Davies of Brixton:** Following on from that, you have emphasised the importance of stablecoins in terms of the means of exchange, in essence. It could be a black box: I put some money into a black box, and someone overseas takes some money out of their black box, and the mechanism within that black box could be ordinary banking or it could be stablecoins. It would make no difference to me. Does this not suggest that, if we ignore the hype, what we have here is just a natural evolution of banking?

Elise Soucie Watts: Yes, I would completely agree with that statement. For most retail customers—in the UK especially—having an intimate knowledge of tokenised deposits or stablecoins is likely not going to be that critical in the future. As you say, if we think about how the banking system has evolved over time, for example, when we started doing online payments or when people started using credit cards versus cheques, that was a natural evolution. People did not think, what is the difference here? Am I now using e-money? What does that mean? Most people were not really digging down into the details of that when they wanted to make their day-to-day payments. They just wanted to know that they could pay, it was secure, it worked and it was protected from a regulatory perspective.

From a retail perspective, especially in a lot of developed economies, it is likely to be very similar when it comes to digital money. If you think about the future of agentic payments, if your AI agent needs to use some form of digital money to pay for something online, be it tokenised deposits or stablecoins, people will just think, “Well, I’ll just have some of those in my wallet then as well,” or whatever the next evolution is being offered either by their bank or by a partner issuer, for example. They will

make sure that they have that capability so that they can do those payments online.

I completely agree with you, and that was something I tried to make clear in my opening statement: this is very much an evolution of the banking system. As long as the right and appropriate regulatory protections are in place, it will not necessarily be critical for the retail customer to understand every single in and out. Much like if you went to someone off the street and asked them to explain fractional reserve banking to you, they might find it a challenge to do so.

Lord Davies of Brixton: In this context, you have these different sorts of money flowing in the system, which raises Gresham's law in my mind: bad money drives out good. Is there a danger here?

Elise Soucie Watts: I am happy to share this with you guys afterwards, but interestingly, I read an article just the other day about the evolution of Gresham's law in the context of digital money. The question there was whether the way we view money is changing, so that it is no longer that the good money is necessarily driving how we use the money, but that it is the "how" that is driving what money evolves.

That is probably the direction of travel that we see: it is the how. What type of activity is being conducted? Where? Using what type of technology? Is it tokenised collateral that needs to be settled? Is it cross-border payments? That will then drive the functionality of the form of money we see being used by both businesses and consumers. I am happy to share the article with you. I found it very fun, and it is an interesting evolution of Gresham's law.

The Chair: I look forward to receiving that.

Q51 **Lord Vaux of Harrowden:** I have two questions, if I may. One is fairly short and slightly conceptual. Given the definition that you have given us of stablecoins, do any actually exist at the moment? If I take Tether, which is the biggest so-called stablecoin, it is not backed fully by the assets you have talked about. Some 15% of it is crypto. It is not really regulated, it is based in El Salvador, and it jumped ship from the US when the GENIUS Act was passed. Under its terms and conditions, it is not immediately redeemable in most holders, only for very substantial ones. It is primarily used for crypto trading. That does not meet the definition of stablecoin that you have given us. Is there such a thing as a stablecoin at the moment under the definition that you have been using?

Elise Soucie Watts: Yes, there absolutely is. When it comes to the case of Tether, it is interesting to note that, now that the GENIUS Act has come into force, it has also issued USAT, which is different from Tether that was already in circulation and aims to be compliant with what was proposed under the GENIUS Act in the US. We also see a number of other global coins that have been issued, including Circle, which has been issued in the EU and is also circulating in the US under the New York DFS regulation, for example. Those all meet the definitions and are compliant

with a lot of the requirements that we have set out, and indeed, with those that have been proposed by the Bank of England. I would purport that yes, there are true stablecoins that certainly exist.

Lord Vaux of Harrowden: Is Tether one?

Elise Soucie Watts: Tether is working hard to meet the requirements in regulatory jurisdictions. It is a stablecoin, but I have noted that it has issued USAT to meet GENIUS requirements within the framework of what is being set out.

Lord Vaux of Harrowden: That was the quick one. More importantly, you have talked about some benefits you see from stablecoins. What are the risks, both systemic and to consumers and users?

Elise Soucie Watts: This is a really important question in terms of where we see the risk existing. First, there is definitely a risk in terms of consumer confidence and liquidity and, as you have all mentioned here, even in terms of understanding, is a stablecoin backed? Why would I use it when I have these other investments? That is definitely a risk. I know that something the committee is likely worried about as well is run risk, of course, especially given the various runs that we have seen in the banking system over the years.

It is important to think about what redemption rights that holders actually hold, but also, when we think about risks, what are the actual market dynamics here? I mentioned conversion versus direct redemption. In our existing markets, in BAU stablecoin activity that we see for those regulated stablecoins that I have mentioned, we do not often see that users will want to go directly to the stablecoin holder to redeem. Even if you look at what the requirements are in the EU, the reason for that is it is important, if you are doing redemption, that you are KYC'd, and that there are AML requirements in place.

If you look at the EU framework, for example, if you wanted to redeem your coin under EU law, the issuer would need to KYC you first and make sure that you were not redeeming for purposes of illicit activity. That can obviously create a slight delay in redemption, which is also why there are very strict terms and conditions around who can go and redeem.

What we often see in terms of market dynamics is that, if you have a stablecoin that you are using on an exchange, you will just convert from the stablecoin either back into fiat currency or indeed into cryptocurrency. There is a difference here between conversion and redemption. In conversion you have a user selling the stablecoin, in effect, back to an exchange or market maker to get whatever they want instead, versus redemption, which is the direct claim on issuer reserves.

When it comes to risk, it is very important that people understand the differences between those and that regulatory frameworks are clear, in terms of what rights the holder of a stablecoin actually has. That significantly mitigates run risk because, in that instance, most holders

would simply convert. They would not be going to the issuer to redeem. Even in a worst-case scenario of run risk, because these are fully backed and often in short-term dated debt, holders would be made whole again, especially if they were in a well-regulated regime where there would be other requirements on operational resilience to make sure that you had reserve cash in case of a worst-case scenario. Users would be able to be made whole again; they would just have to wait for the debt to mature.

Lord Vaux of Harrowden: I thought the whole point of stablecoin was that you actually had to be able to redeem on demand, pretty much.

Elise Soucie Watts: You can redeem on demand, subject to being KYC'd and AML'd by the issuer, which is why most redemption in fact occurs through some large market makers who will have the direct relationship with the issuer. If you as a holder do not have a direct relationship with the issuer, it will still need to KYC and AML you. We do not see a huge amount of demand in the market for people to be able to redeem on demand with the issuer.

Lord Vaux of Harrowden: What about systemic risks? Among the things that are often talked about is, first, whether stablecoins are in fact less risky than a bank account. For example, because there is not the cap on the guarantee, if you have a lot of people move from bank accounts to stablecoins, the bank's model is that it borrows short and lends long to the real economy. Stablecoin does not do that; it simply puts money into short-term treasury bonds. Are you at risk of sucking money out of the real economy? Who is going to be doing the lending?

Secondly, if you have a situation where people lose confidence, if these things are as big as people tell us they are going to be, suddenly you have a massive number of treasury bonds being sold, and there are the impacts of that. Are those systemic risks real? Are there others?

Elise Soucie Watts: I would say yes, some systemic risks are real. Taking the first one first, I do not believe that we are going to see a mass flow from deposits and other forms to stablecoins. Again, as noted in the US—we are very happy to provide some data in the written evidence—we have seen the growth of stablecoins and the growth of deposits happening in parallel. We have not seen a mass—

Lord Vaux of Harrowden: That is presumably because stablecoins at the moment are in their infancy and are really used only for crypto trading.

Elise Soucie Watts: They are being used for broader-use cases as well. I am very happy to submit some data on that point in terms of where we also see them being used, to use your words, in the real economy. Even if we see the long-term trajectory and growth of stablecoins, they are not intended to fully replace deposits. As mentioned in some discussions previously, they are a payment instrument, not an investment product. We should not expect to see a mass flow from other types of investment products or deposits to purely stablecoins.

That systemic risk is likely slightly overplayed. This is something we have said to the Bank of England in our response to its consultation as well; it is important to look at what the actual market data shows in terms of flight to stablecoins per se, rather than assuming that everything is going to end up stablecoins. It is likely that people will have multiple forms of digital money in the future.

Lord Sharkey: I just wanted to follow up by asking about the crash that we know about: Terra, which collapsed three and a half years ago. As I understand it, everybody was wiped out. Was this a stablecoin?

Elise Soucie Watts: In my view, that was not a stablecoin. That was described as an algorithmic stablecoin, so it was not fully reserved backed.

Lord Sharkey: Perhaps when you write to us you can explain what an algorithmic stablecoin actually is.

Elise Soucie Watts: We probably need a whole other session to discuss algorithmic stablecoins, to be honest. The idea behind an algorithmic stablecoin is that it had, in essence, a very clever trading algorithm—probably cleverer than I could explain—that would trade the backing assets behind the stablecoin. But again, it was fractional. It was not fully reserved backed. In my view, it was absolutely not a stablecoin, not in the sense of any regulatory framework that we see existing today. Yes, it was extremely unfortunate that that happened, but it is not the same as the stablecoins that we currently see being issued or those that exist under well-regulated markets.

Lord Sharkey: Under the GENIUS Act, presumably that kind of thing could not happen again.

Elise Soucie Watts: No, that would not be considered to be a stablecoin under GENIUS Act regulation.

Q52 **Baroness Donaghy:** A customer wanting a bit of excitement—high risk, high reward, Wild West—would go for cryptocurrency, presumably. Would they regard stablecoins as strictly for wusses?

Elise Soucie Watts: In some senses, probably, yes. Stablecoins are much less risky than crypto assets, though I would also say that a lot of people who are looking for a bit of fun and high-risk investments would probably also be day trading regular stocks. This is not something that is necessarily limited to the unbacked crypto market. But, yes, things such as meme coins and things that have quite wild fluctuations would be what they would look for in terms of high risk. A stablecoin would be quite boring in comparison.

Baroness Donaghy: What regulation would you personally accept, and what regulation would you advise against?

Elise Soucie Watts: That is a very good question.

Baroness Donaghy: On stablecoin.

Elise Soucie Watts: Yes, otherwise it is quite a broad question. Yes, it is a very good question and one on which we have been actively engaging across industry with both the Bank of England and the FCA. They have done a really good job in terms of thinking about what robust stablecoin regulation should look like to ensure all the things that we have talked about: consumer protection, reserve backing, making sure that redemption rights are very clear, transparency and disclosure. Those are all things that the industry and I, personally, very much advocate to be part of a good regulatory framework.

Some specifics from what we have seen from the Bank of England and the FCA are where it becomes a little more concerning. The 40% unremunerated backing assets, which we have discussed, should probably be a little closer to 25%. We understand the Bank of England's need and concern when coming to systemic risks around this topic. However, as discussed previously, if that number is too high, the business model for stablecoin issuers becomes unviable. That would just likely mean that they would not want to scale to be part of the Bank of England's systemic regime.

When it comes to the FCA regime, broadly we are very supportive of the work that the FCA has done and very positive about those proposals. The one area that we are a little concerned might be miscalibrated when it comes to global norms is when it comes to the prudential regime. The FCA has set out a number of factors for its prudential regime called K-factors. The K-factor for stablecoins is quite high comparatively and does not really take into account some risk mitigations that come from having appropriate calibration of reserve assets—the requirements for those assets that are under custody—which we feel would mitigate some of the risks. In general, I am very supportive of the direction of travel in the UK. I also just underscore that it is absolutely essential that there is a robust regulatory regime for stablecoins, but it is some of these more distinct calibrations that we are worried about.

To add just a couple of more things, there is another point with regard to the cliff edge currently, which I am sure you have heard about, between the Bank of England and the FCA. This also comes to that 40%, which is that the reserve asset requirements between the Bank of England and the FCA are quite different. While we understand and fully appreciate the need for there to be additional requirements when there is prudential supervision and something becomes systemic, those additional requirements should not be such that an issuer would have to completely restructure its business model. Currently, we are worried that that would be the case between the Bank of England and the FCA regimes, due to the difference in what would be required for backing assets, rather than a top-up capitalisation for systemic risk.

I know that you guys have also heard about the limits that have been proposed by the Bank of England. I am happy to talk about those a bit further, but we feel that those would also be challenging from both an

operational perspective and a usability perspective, and that they would likely cap innovation and scaling of the industry in the UK. I hope that is a bit comprehensive, but I am happy to speak a bit more about any of those specifics.

Lord Vaux of Harrowden: I would like just a couple of clarifications on that. On the 40% versus 25%, what is the science behind that? Presumably what matters here, given that these instruments are not paying interest, is the interest rate they can earn. At a time of high interest rates, they are coining it in; at a time of relatively low interest rates, they are not. Where does that 40% to 25% come from? How do you work out what is sustainable and what is not? Secondly, you mentioned custody of the assets. Who should do custody?

Elise Soucie Watts: Those are great questions. I will answer your second one first because that is very short. Custody should be done by regulated custodians. That is something that is quite clear in the FCA's proposals, as well as the Bank of England's. Those regulated custodians might be existing custodians like we see in the traditional market, such as BNY. It already has its digital asset custody licence; it has been doing that in the US for a while now. They may also be new custodians, such as Fireblocks, which also can get regulated custody licences.

To take your other question on the 40% and 25%, if there is 40% unremunerated, that other proportion has to still be viable in terms of what the issuer is earning for it to be commercially viable. I take your point about the interest rates but, basically, that number has come from when we have discussions with the issuers. They say that 40% is simply too large a proportion to be unremunerated in comparison with the other high-quality liquid assets.

Lord Vaux of Harrowden: Is that based on current interest rates, or based on what?

Elise Soucie Watts: That is based on their experiences in other jurisdictions of what would work in terms of the backing assets. Again, we can share the data with you as part of our written evidence.

Q53 **Lord Griffiths of Fforestfach:** In your opening statement, you left me with the impression that stablecoins are happening worldwide, and the UK really needs to get in on this business because it is going to be there. On the other hand, you hinted in your opening statement—you have expanded on it since—that the regulatory framework here will be more cautious and will put something of a brake on the UK's development. The first question that comes to my mind is, how do you see these two forces working out? Is there enough cost to be reduced for people transacting multinationally, to get a real benefit from it in order for the market to grow?

Secondly, if you looked at, for example, the Federal Reserve, the ECB, or the Bank of England, to what extent could you isolate what you might call good stablecoins from bad stablecoins? To what extent could you have

offshore financial centres setting up some sort of stablecoins that become competitive and may attract business? After all, the Eurodollar market developed because the Fed put a restriction on the payment of interest. These are very powerful forces, and I just wonder how you saw those coming out. That is one whole question.

The third question is, are stablecoins part of the money supply?

Elise Soucie Watts: To your first question, yes, we see the stablecoin market growing globally. As I have noted before, it is a competitive risk if the UK is not to have some form of sterling digital money. I appreciate that can be tokenised deposits, or stablecoins, or more likely both. There is absolutely a market for them. To your point on whether there is enough demand for this, when we think about things such as global trade, international trade, finance, and supply chains, there absolutely is. Again, we can include some more data on that in our written submission about the demand. I am very happy to do so. To answer that first question, yes, absolutely. Would you mind repeating your second question?

Lord Griffiths of Fforestfach: The second question is, are stablecoins part of the money supply? If I am a bank regulator, I am really interested in this issue.

Elise Soucie Watts: Yes. Stablecoins would be a new form of digital cash, in the way that we see them being proposed under regulation today, and in the way that they would be used as a payment instrument. That is why it is obviously very important that they come under Bank of England and FCA supervision.

Sorry, I just remembered that there was another component to your question about the offshore element, which I am happy to come back to. There is definitely a danger that offshore stablecoins are developed as such and then are used in GBP markets. The FCA and Bank of England have also put out some proposals about how foreign-issued stablecoins could be used in UK markets. They are not proposing to ban them, but they are proposing to make sure that there are appropriate protections in place and that people understand when they are using foreign-issued stablecoins versus domestic stablecoins.

That is also a really important piece of the conversation, much like the way foreign currencies are used in UK financial markets today. That being said, it is very important that customers are aware of the differences between foreign-issued and domestic stablecoins. There will also likely still be both in the future financial markets infrastructure. Again, those need to be appropriately safeguarded and usable in ways that still make sense for businesses and consumers.

Lord Griffiths of Fforestfach: I have one final question. Has there been much debate in the US about the conduct of monetary policy in the context of the growth of stablecoins?

Elise Soucie Watts: Yes. If you consider it from the US perspective, it clearly believes stablecoins to be a strategic opportunity for it to conduct monetary policy both domestically and globally. That is why we have seen it be an active supporter of the dollar-based stablecoin market. It sees it as a good opportunity for it and an opportunity to drive up demand of T-bills. So, yes, it has seen that. Coming back to what we talked about regarding how stablecoins are backed with sovereign debt and high-quality liquid assets, they can then also be an effective transmitter of monetary policy that way.

Lord Griffiths of Fforestfach: If there was any evidence, it would be very interesting to—

The Chair: We would be interested in evidence of that.

Lord Griffiths of Fforestfach: If you had any evidence on that, it would be interesting to read it.

Elise Soucie Watts: Yes.

Q54 **Lord Vaux of Harrowden:** I just wanted to probe this business case for sterling stablecoin. Sterling is not one of the major trading currencies: the US dollar is, basically. If the main business case for stablecoin is actually international payments, why do we need a sterling-based stablecoin? Surely, if I were wanting to make an international payment, I would simply buy some US dollar stablecoin and make the transfer, and similarly, when I received the US dollar, I would turn it back into a sterling in my bank account. There is no real financial requirement for it for transfers within the UK because bank-to-bank transfers within the UK are virtually free. The transaction cost benefit does not exist within that. Where is the driver and the real business case for this?

Elise Soucie Watts: This comes back to something I mentioned at the very beginning, which is that we do not see that sterling stablecoins are going to fully replace dollar stablecoins. That ship has very much sailed and, as you say, sterling does not occupy the same role as the dollar. That is absolutely true.

However, first, there are still many reasons why small businesses, SMEs in the UK, might wish to use stablecoins for their business if they conduct it on a cross-border basis. I take the point about the dollar, but they still may wish to use sterling stablecoin for things such as internal treasury management. Also, there is a huge opportunity here for sterling stablecoin use in UK capital markets for the settlement of the cash leg for tokenised securities, tokenised collateral, et cetera. There is still a domestic market and an opportunity for sterling stablecoins in the UK. Indeed, we have discussed this with not only digital native firms, but banks. They want to use stablecoins and sterling stablecoins for payments and internal collateral management.

Secondly, coming back to the agentic point, there may also be a future where either sterling stablecoins or tokenised deposits—some form of digital money that exists on a blockchain—is needed for that agentic

future of payments. It is future-proofing ourselves as well. It is not necessarily about where we are right now in the banking system, but it is a question of what that banking system will look like in the future and how we can make sure that we are prepared with sterling digital money to be used as needed.

- Q55 **Lord Hollick:** Just staying on that same point, it would be very helpful if you could provide us with any data that shows what the real current usage of stablecoins is by SMEs, larger companies and individuals, and what the expected growth is based on what those companies are saying. I presume that, in your role, you are in touch with the other side as well, which is the user side. It would be useful if you can provide any data at all about that. I presume, in the United States, which is different because of the higher cost of payments there, there is also quite a lot of information about the level of usage of stablecoins in the United States, which may be helpful to know about. If you could provide that, that would be very helpful.

Elise Soucie Watts: I am very happy to provide that in our written evidence.

The Chair: We have come to the end of our question session. This has been a very informative session. I would like to thank you, Ms Soucie Watts, for your extremely clear answers. We certainly look forward to your written evidence. You have a sense of some areas that we would like you to explore in that, and indeed we are looking forward to the article on Gresham's law. Thank you very much.