



Financial Services Regulation Committee

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

Wednesday 25 February 2026

11.15 am

Watch the meeting

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

Evidence Session No. 6

Heard in Public

Questions 56 – 66

Witness

I: Jana Mackintosh, Managing Director for Payments and Innovation, UK Finance.

Examination of witness

Jana Mackintosh.

Q56 **The Chair:** Good morning. Welcome to the second part of today's meeting, which is the sixth oral session as part of the committee's inquiry into the growth of stablecoins and their regulation. Thank you to Ms Mackintosh, the managing director for payments and innovation at UK Finance, for coming along to give evidence to us this morning. I understand you will be commencing with a few opening remarks, so I would like to hand over to you.

Jana Mackintosh: Good morning. Thank you very much, Chair and members of the committee. I appreciate you allowing me the opportunity to give evidence today. I am a managing director at UK Finance, which is the UK's trade association for financial services and banking. We represent a very diverse view of members across banks, non-banks, new entrants coming into the market, payment systems and FMIs of various sorts, so that diversity of views is really important to us, and hopefully I can give you a bit of a sense of that today.

We welcome the committee's focus on this agenda. The global ecosystem is going through some rapid change, in part driven by the tokenisation of money and assets, and it is broader than just stablecoins. It is really important for us to think about that wider ecosystem in terms of how different forms of money will work alongside each other in the future. It is early stages in the adoption of some types of money but in the longer term, how that becomes part of everyday life—in particular how that gets into a retail environment—can be quite challenging. Again, I am happy to talk about some work that we do around how we introduce new forms of money, especially in the UK context and the retail environment.

There are a couple of other observations that I would like to make upfront. Tokenised forms of money—whether that is tokenised deposits or stablecoins—can deliver significant opportunities across the ecosystem. The technology and application thereof will allow us to do things in the future that our current payment systems do not enable us to. We think that these will be complementary and will function in what we have termed a multi-moneyverse, in which there would be different forms of money for different purposes.

At UK Finance, we do a lot of work on tokenised deposits and think that that provides a safer backbone for financial services innovation, especially in the UK context. Again, I would be happy to talk about that in a bit more detail and answer any questions that you might have.

When you think about the introduction of a new payment method, the other important observation is that context is really important, looking at how you work within a regulatory framework and the infrastructure that you have in a particular ecosystem and country to enable those payments, and thinking about how consumers ultimately would want to use and benefit from those different payment methods.

In the UK, we are quite fortunate in that we have an incredibly strong foundation when it comes to infrastructure and payment systems. We were one of the first in the world to adopt and implement a faster payments system that allows real-time transactions and we are now embarking on reinvesting in that infrastructure to make sure that it is fit for purpose for the next generation of transactions. That means that any new payment method that you introduce into the UK market—again, especially in a retail context—needs to provide that incremental value and benefit to those who want to use it. In other jurisdictions where you see the fast adoption of new forms of money, that may well be because there are gaps or deficiencies in the ecosystem that those new technologies and payment methods overcome a lot more easily in terms of value creation.

That said, there are risks, and we agree with the Bank of England about the different risks that this agenda will bring into the UK financial services sector. In particular, making sure that a regime exists in which we can manage those risks but also allow the ecosystem to evolve and transition into a world in which some risks will change the dynamics—not only in consumer payments but in the way that our banking sector is structured—is essential. Rushing into it is not necessarily the right thing to do, because when it comes to payments, confidence from consumers and businesses and what we provide in terms of transmitting the ability to act in the economy is really important.

Lastly and linked to that point, we think acting with purpose is more important than acting at pace. We need to make sure that we can move and adapt with technology and the changes that we see globally. That does not mean you always have to be a first mover in innovation. There is a lot that we learn from what we have in our ecosystem and a lot that we can learn from what others have already implemented across the globe. That coherence, collaboration and trust across different innovations and the globe, and how we think about things, especially in international jurisdictions—for example, cross-border market transactions—are all important.

I look forward to supporting the conversation today, as well as any questions that you may have on this. In particular, if I can talk more about tokenised deposits and the work that we do in the wider retail infrastructure, I am happy to bring that to life.

Q57 The Chair: Thank you very much. We have seen UK Finance's submission to the Bank of England's consultation on systemic stablecoins, where I think it is fair to say you cannot detect a single voice coming out of UK finance. Could you just outline how comprehensively you think UK Finance represents the views of those who are interested in issuing stablecoins?

Jana Mackintosh: That is something that we spend a lot of time with existing members on across that broad spectrum of firms—all the way from banks to stablecoin issuers within our ecosystem—so we get a really good view in terms of those different opinions.

One thing I will say on this topic is that most people think that the agenda is a bank versus a non-bank argument. We have the privilege of working with different types of banks: retail banks, international banks, investment banks, neobanks, new banks, and digital banks coming in. It very much depends on their business model, how active they are on credit creation, and what their customer base looks like in terms of which sectors they are focused on: business, SMEs or retail customers. We do not necessarily get a uniform view from all the banks on the topics and to varying degrees will support some positions that we have. That is really important when we think about this because this is not necessarily a space in which we do not see banks showing an interest in providing some solutions to their customers; they are actively engaged in that.

Again, whether that is in the development of programmable money through tokenised deposits or issuing stablecoins in the future, they are exploring all those options. What we try to do in providing you and the authorities a view on the future is to give you that diversity of the view as opposed to trying to create one uniform opinion that comes from everyone, because that is really hard, especially on this emerging topic.

The Chair: Do you know how many of your members plan to issue stablecoins and what are the reasons for your members choosing not to issue them if we are going into a multi-moneyverse?

Jana Mackintosh: It is hard to put a number to it in terms of how many members. However, what I can say is that there would be a significant number of them actively exploring it and a number of them that have actively issued that within their own environment where they use a tokenised form of money—whether that is tokenised deposits or stablecoins—to enable their customers to transact internally, whether that is cash management, treasury management, foreign exchange services or cross-border transactions that they enable across different types of tokens. That is already happening.

When you get into the next evolution of that adoption, you start thinking about how that money flows between different organisations, so how the money would flow out of one bank ecosystem into another. There are differences in the types of money—again, tokenised deposits versus stablecoins—that will fulfil a particular use case or enable that to happen sufficiently without causing disruption and risk. A number of them are looking at that. As we move down the path, you will probably find that a few more will think about how they can enable that where they have a particular use case for their customer base.

Q58 **Lord Sharkey:** Could I ask what the benefits are, or will be, for retail businesses and consumers and the real economy in general? Are there any comparative advantages of stablecoin? My first question was about tokenised deposits.

Jana Mackintosh: If I take a step back to look at tokenised deposits in comparison to stablecoins, tokenised deposits are, in effect, just a tokenised version of existing commercial bank money. It is taking the

deposits that we all use as customers and businesses in our bank accounts and it puts a technology wrapper around it. It allows that technology to then be used to programme payments, give it conditionality and allow automation, speed of transactions and simplicity in how to engage.

For example, for retail customers, we have been exploring tokenised deposits for about three or four years with a number of retail banks through UK Finance. One use case that we focused on is a person-to-person transaction. In today's world in the UK market, most of those transfers would either happen from a bank account to a bank account or as a cash transaction after someone has bought something on a digital marketplace. We know that some transactions are exposed to fraud and how consumers are protected in terms of receiving the right goods and so forth.

We have explored using tokenised deposits as a means to provide greater customer control and greater controls from a financial services system point of view to reduce that fraud to customers and give them greater certainty in terms of the delivery of goods. You will hear a lot of the documentation talking about atomic delivery versus payment, so the ability for you to bring the payment transaction and delivery of the goods closer together so that you have a single transaction that enables the asset or the goods to be transferred with the transfer of the money.

In a retail environment, we think person-to-person payments can give customers that certainty, benefit and fraud reduction. In wider-use cases for customers, it can also help with automation; for example, with recurring transactions such as insurance-type payments where there is a lot of conditionality associated with it. Transactions that inevitably contain a lot of complexity are very well suited to having smart contracts engaged and helping to manage different players in that supply chain.

When it comes to thinking about how that transfers through to businesses and corporates, on the work that we are doing on tokenised deposits, this is more of a retail use case again, but we have looked at the remortgage use case and the mortgage use case, where you have a lot of different parties involved in executing that transaction. The use of tokenised deposits, programmability and smart contracts simplifies that chain and allows for efficiencies, management of the money flows and liquidity a lot better.

Another use case that we have explored on tokenised deposits is around a wholesale use case on digital assets and bonds. For example, the digital gilt that the Government are looking at is a good example, but you can apply the same use case to any other digital assets in which you can tokenise the asset and then use tokenised deposits as a safe on-chain settlement asset to support those use cases.

Greater efficiency and automation, new customer journeys, greater interoperability from a system point of view so that you can manage between different systems using the technology, and some atomic

delivery versus payment benefits to customers and businesses help speed up transactions and allow greater control and security.

Lord Sharkey: Who do you see as the chief beneficiaries of what sounds like an improvement to the payment systems? Will consumers notice?

Jana Mackintosh: The thing about retail transactions is, again, if you think about adoption in the retail environment, you want many efficiencies and benefits that you introduce to be as seamless as possible to customers. You do not want it to be a disruption or to create friction. So we can introduce innovation and change in payments to enable customers to just have a better journey, a faster payment and lower costs in the transaction without necessarily needing to understand the technology being used. The payment system underneath that is the best way to introduce—

Lord Sharkey: It would be a limiting factor, yes.

Jana Mackintosh: That is why we think tokenised deposits in particular are a really useful form of money for us to consider, because it does not change the way that customers engage with their existing deposits and money in their bank accounts or the nature of the regulations that apply to those deposits. There are still all the safeguards associated with it; all the protections that are built into banking would be transferred on to tokenised deposits. It just ultimately gives customers a much better experience without them needing to know that it runs on a DLT.

Q59 **Lord Vaux of Harrowden:** Can you give us some examples of the much better experience? You said, for example, the consumer is going to see a much faster payment, but payments are pretty much instant now, so they are not going to see very much difference there. Can you give me a couple of tangible examples of the better experience that a consumer is going to see?

Jana Mackintosh: I will use the person-to-person use case as an example again. If you shop online today and you buy something out of a marketplace or an online store, you would find what you want to buy, put your card details or your choice of payment method into it, and then your money would be transmitted to pay for those goods, at which point in time the merchant would start fulfilling your order. Your money would leave your bank account, but you would still not have received the goods. There is a period in which you would wait for the goods to arrive at your home, at which point you may well discover that it has been fraudulent or it may well not be what you expected to come in the post—or it may not arrive at all. Then you have to embark on a whole journey of trying to get your money back, going through good customer protections that we have on card payments—for example, chargebacks and so forth—but it is an extra customer journey and friction that is placed into the system.

The way that a tokenised deposit journey would work is that at the point at which you choose to purchase something, those funds would be allocated in your account for that good that you have committed to

purchasing, but it is only when the good arrives at your door that you would then be able to allow that transaction to complete. As I said before, you bring that payment and delivery together so that there is greater certainty for the customer in controlling the journey but also controlling fraud. The customer journeys are really important when you think about adoption, especially in a retail environment. Those are some benefits in terms of customer journeys, fraud protection and consumer protection control, which are things that we always build into retail transactions to ensure that trust from retail customers.

When it comes to speed of transactions, absolutely, we have really good systems at the moment that allow near real-time transactions in the cross-border space or in a space where you have multiple parties involved in a chain. That is where we speed up the transaction, because you can have simultaneous execution of multiple stages within the transaction that you are going to bring forward. That is why we have also explored the mortgage transaction, for example, to make sure that you can speed up the transaction. It is not about a real-time transaction; it is about making sure that all the different steps or journeys that are involved in complicated transactions can be automated or dealt with in a more efficient manner.

The Chair: Lord Griffiths cannot be with us for the whole of this session, so I am going to go slightly out of sequence and invite him to come in first.

Q60 Lord Griffiths of Fforestfach: I wonder if you can help us understand on a granular level where we are at present with tokenised deposits and, really, with the whole of the retail and corporate side of transactions. If you look, for example, at the big four, systemically important banks in London or neobanks—you talk to these people all the time—what is happening on the ground in those different institutions when executives are discussing, “Should we be assuming tokenised deposits?” or “What is our approach to stablecoins?” Can you tell us something about the nature of that debate going on and what people are actually doing on the ground?

Jana Mackintosh: I am happy to provide a bit more detail on that. Introducing tokenised deposits is something that you need to think about in terms of the different roles and capabilities that you need in various places, again across the sector. Over the last three years, we have been working with the banks predominantly in terms of what we have termed our sterling tokenised deposits project, which is called GBTD.

Lord Griffiths of Fforestfach: Can I just stop you? When you say, “We have been working with the banks”, who are the banks?

Jana Mackintosh: It is the big six domestic banks in the UK market that we are working with: HSBC, Barclays, Lloyds—

Lord Griffiths of Fforestfach: Would you work with American banks in London as well?

Jana Mackintosh: Yes, indeed. In the earlier stages of the work that we have done, we had a number of international investment banks involved in the work, so they join the conversations as well. The reason we are focused on the banks that are currently participating in the work that we are doing is that the nature of the use cases that we have explored and the transactions that we will introduce first are better suited to their business models. When you start looking at the application of tokenised deposits in a cross-border context—or more so as we evolve the application of tokenised deposits to support developments in the wholesale markets—you will see a lot of the interest of those banks coming back to the table.

That said, the way that it is evolving is twofold and there are two things to think about. Banks themselves need to invest in their own technology and in their systems that are in-house, and they will do so to build what we have termed their own tokenisation engines. It is their ability to generate those tokenised deposits of the customer money that they have. They need to use different forms of technology and can choose any type of those protocols that they would want to build those tokenisation engines on. Many banks—especially larger international investment banks—have developed their own tokenised deposit capability in-house. They use that just in their own environment to enable treasury management, cash management services or cross-border transactions. It is in a closed ecosystem and that exists quite prominently. With the banks that we are working with in the UK context, they are all now looking at developing their own tokenisation engines in-house so that is one thing that is currently, actively happening.

The second thing that you then need to think about is that there are benefits to deploying that within those closed environments. However, there are greater benefits, if you want to scale and introduce greater customer and business benefits, by ensuring that those tokenised deposits can be exchanged between banks, because a lot of the use cases require a transaction to flow from an HSBC to a Barclays as opposed to just being within one Barclays context, for example. That is where we have started doing the work in terms of what that system looks like to make sure that you have fungibility and interoperability between different tokenised deposits that are being generated within the banks.

That system acts like a financial market infrastructure. It, in effect, clears and settles those transactions and provides support in terms of the programmability that needs to happen but crucially ensures that fungibility between different tokens. We have been supporting them in building what that infrastructure might look like. Towards the end of this year, we plan to run a number of live transactions on the three use cases that we have identified: the person-to-person transaction, the remortgage transaction and the bond use cases, so there will be live transactions that can run over that platform. How we then scale that beyond 2026-27 is something that we will work with them on as that demand and adoption grow.

Lord Griffiths of Fforestfach: I have one follow-up question. Is there a difference in what banks are doing between, say, the large British banks and particularly US investment banks? Are US investment banks ahead of the game in this?

Jana Mackintosh: I would not say that they are necessarily ahead. Some may very well have had their own tokenisation platforms in existence for a period; for example, HSBC has had Orion in place for a number of years. Actually, when it comes to tokenised deposits, we are the country leading on thinking about how to make sure that tokenised deposits have the ability to scale and that it becomes part of the ecosystem. In other jurisdictions where banks have invested in it, it is still siloed and very much within their own closed ecosystems. In the UK, we are the first jurisdiction to think about how to make those deposits fungible.

Q61 **Lord Hollick:** Could you explain to us the benefits of stablecoins to business customers?

Jana Mackintosh: There are certain use cases and applications in business-to-business cash management and treasury management. For larger corporates, their payment requirements very much sit in how they ensure the management of any foreign exchange transactions, liquidity that they have and that treasury service that is embedded in what a large corporate or business may need from a bank. Many banks looking at providing some of those services—whether through tokenised deposits or stablecoins in-house—are very much focused on thinking about how that can scale across their business customers.

Lord Hollick: Are there cost benefits?

Jana Mackintosh: There would be. One thing that is really important to think about in terms of any of these developments is what the commercial underpinning is, how to make sure that it is sustainable, and especially when it scales, that there are benefits to both the organisations investing in that innovation but also the businesses participating in that. Again, you would need to think about achieving the efficiencies that you can within the financial services institutions providing those services so that those can filter through in terms of reduced prices to their customers.

Lord Hollick: It would seem to me that the banks are not rushing to introduce stablecoins. In fact, they are much more interested in digital deposits, and I take away from that that they do not see a significant benefit to customers and therefore no great demand for it. Is that a correct reading of your members?

Jana Mackintosh: In the UK context, as I said, we certainly favour tokenised deposits as the foundation for innovation on this technology for some of the benefits that I have outlined. You can get the innovation and benefits from the technology without introducing the risk because you are doing it in an existing regulated environment. For that reason, it is quite

appealing in terms of realising those innovations, so I would say we favour that at the moment.

That said, that does not mean that they are not interested in stablecoins. We truly think that tokenised deposits and stablecoins will exist alongside each other. There will be different use cases that they can potentially serve. The work that we have done on tokenised deposits is very much focused on the UK context and thinking about how we can serve the UK economy better through our existing banking products, offerings and regulatory frameworks. When you start thinking about the application of that in a cross-border or international context, there certainly would be a use for stablecoins that may very well be better suited than a tokenised deposit in that context. They may very well play alongside each other in that space.

Lord Hollick: Particularly in dollar stablecoins.

Jana Mackintosh: Particularly in dollar, where you need a strong settlement asset to facilitate some transactions. You may very well have a choice of which types and forms of money you want to use to facilitate some transactions, which is also good in terms of both resilience and competitive dynamics. If you think about stablecoins, we have not seen actual real adoption in a retail environment. Introducing new forms of payment in a retail environment is challenging. Even if you have a good product, you need to think about consumer preferences, the acceptance environment, and how you engage merchants and incentivise them to introduce different forms of money in that ecosystem.

You also need to think about the infrastructure. For example, if you want to introduce the new stablecoins at a point of sale, you will need to think about the point-of-sale networks, environments and terminal estates that those run on. Introducing a stablecoin into a retail environment requires a lot more than just the product and the ability to facilitate a retail transaction. With tokenised deposits, again, given that we already have domestic money being used in retail environments, that is a much easier, seamless transition to potentially introducing the technology.

Lord Hollick: Coming on to tokenised deposits, it would seem to me that that would offer a bank a more efficient way of managing this balance sheet, so that would have potential benefit. Have you explored that? Could you explain to us what the benefits are to the banking system and the banks themselves of having a tokenised deposit system?

Jana Mackintosh: That is absolutely right. The ability to ensure that we can still support credit creation in the UK market is essential. In the UK, about 80% of our credit creation¹ comes from banks compared to the US, for example, where that is much lower—somewhere between 30% and 40%. Where you introduce a payment method that acts as a drain on deposits, you risk some ability to support wider growth through credit creation and potentially introduce risks to financial stability and monetary

¹ Note from the witness: they were referring to “credit creation for retail consumers”.

policy. We have looked at all those activities and risks. Again, some have been explored by the Bank of England in its consultation paper, and we very much support making sure not that we prevent stablecoins emerging but that we understand the risks and can think about how to mitigate those and ensure an orderly transition to the introduction of some.

For tokenised deposit, again, that allows you to use the existing deposits and to ensure that continuation of credit creation, and it allows you the innovation without necessarily introducing the risk of a stablecoin into the ecosystem. The degree and magnitude of that very much depend on the adoption of those. We actively work with members and explore that and will continue to do work with them as this development continues to evolve, because that is a really important aspect of this debate when it comes to the UK market in particular.

Lord Hollick: Do you think then that the introduction of tokenised deposits and therefore the more efficient use of a bank's balance sheet would actually increase the supply of credit to the UK economy?

Jana Mackintosh: I do not know whether it would increase this supply, but what it certainly will do is ensure the continued credit creation within the UK economy. There could very well be benefits that tokenised deposits can introduce in terms of speed of payments; we know that immediacy or the timeliness of payments for businesses is really important, so the introduction of tokenised deposits could introduce some benefits. But our focus has been on making sure that we can manage the risks and maintain the ability to support credit creation through the financial services sector and the banks.

The Chair: Can I just question this issue about credit creation? If we look at the history of corporate lending, we see that the banks have basically not increased their corporate lending for the last, I cannot remember, how many years. How important is this credit creation issue? Because banks are not participating in the increase in lending to the real economy.

Jana Mackintosh: There are different factors to consider. One factor would be what would incentivise an increase in credit creation, in which we facilitate an increase in lending, versus making sure that the lending that occurs and that we have in the market is not further impacted by the introduction of new forms of payment. That comes into play when we think about stablecoins and, for example, a digital pound that acts as a drain on that.

There is a debate that we need to have in the UK, which Sarah Breeden talks about as well, on how we make sure that the economy can transition to a new balance or new dynamics where new players—non-bank financial institutions—would come in and provide or fulfil some opportunities. We need to keep exploring that alongside this debate. Like all things, none of these technologies is a silver bullet to solve all the problems.

Q62 Lord Turnbull: Although the formal title of this inquiry is about the growth and proposed regulation of stablecoins, I would say you have mentioned tokenised deposits about 100 times more than you have mentioned stablecoins. Indeed, you have actually made rather a good case for tokenised deposits. So let us say that is a given and that is the next thing that is going to happen. What then is the value added of developing stablecoins in addition to that? What extra benefits and risks do you bring into the system?

Jana Mackintosh: That form of analysis is really important. One of my opening messages was around the fact that we have a really good banking sector and payment systems. Where we continue to invest in those, that allows us to continue to provide better customer services, but also do the value creation. Anything incrementally that you introduce into an ecosystem that already has that level of value creation needs to meet a really high bar. That is where we look at where tokenised deposits and stablecoins can function alongside each other in this multi-moneyverse. We think stablecoins will bring some benefits, but for us and the way that we think about it, most benefits sit on the cross-border and international markets. Where tokenised deposits can serve the UK economy really well, stablecoins may very well be able to provide some value creation through international transactions.

Lord Turnbull: Do you think stablecoins bring additional risks to the system? They are not in there with the development of tokenised deposits.

Jana Mackintosh: Absolutely. With tokenised deposits, we work closely with the regulators to make sure we understand where we need to align and refine some regulations. For the most part, the current framework that we have is fit for purpose for introducing and managing those risks. When you introduce a stablecoin, you are introducing new regulations and risks that we need to work through. That is why it is really important that we continue to work with the banks and authorities to make sure that those regulatory frameworks are fit for purpose for the use cases that those forms of money will support.

We always think about these in terms of same risk, same regulation, same opportunity, same value creation. If you make sure that you think about these things in comparable terms—tokenised deposits, where it facilitates payment activity and stablecoins, where it should provide a comparable offering to customers and businesses, otherwise act in a payment activity form—you need to make sure that those risks can be managed. For example, some include consumer protections, particularly in a retail environment. It could be greater KYC and AML-like frameworks that need to be considered in that space to make sure, again, that those types of transactions and the risks that we see can be managed as they emerge in the same way that we manage existing money today within the banking sector.

Lord Turnbull: The question is, is it worth the candle, getting this extra step into stablecoins, if you really have developed tokenised deposits?

Jana Mackintosh: I think it is. Like with all innovation, you need to work through some risks. There will be risks, but we believe that the stablecoins can bring that incremental value in some applications.

Q63 **Lord Lilley:** I get the impression that the development of a sterling stablecoin cannot go ahead until we have agreed a regulatory framework for it, and then it can. But it would appear that tokenised deposits can go ahead and it depends simply on developing the infrastructure and arrangements between banks to make it work. Is that correct?

Jana Mackintosh: Yes.

Lord Lilley: That is encouraging. Moving to the point that Lord Turnbull was making, if you are going to move ahead with tokenised deposits, fine, one can see the benefits of that. I personally do not see why stablecoins are inherently any riskier than fractional reserve bank deposits. I am not worried about that kind of risk, but it would appear that stablecoins can be used to facilitate crime. Indeed, one of our colleagues suggests we should go into the kidnapping business once they are up and running. I do not think that is quite how it was phrased, but anyway, it would facilitate kidnapping. Is that also true of tokenised deposits? Will that facilitate crime in any way?

Jana Mackintosh: As you know, we spend a lot of time in banking to make sure that we can manage those risks. Where you engage in financial transactions, you engage in those risks. So yes, we spend time on that. Will the introduction of a tokenised deposit amplify those risks? Within the existing banking framework, I would argue that the technology allows you to manage those risks better. Again, there would be work that we would need to do to make sure that stablecoins meet that same bar. Unless they do, those forms of money might introduce those risks. But the technology itself carries the potential for us to introduce new tools and capabilities that we do not have in our existing systems to better programme, put conditionality on payments, and understand how to manage fraud and AML. Those capabilities are absolutely incremental with the introduction of the technology around existing commercial bank money.

Lord Davies of Brixton: I carefully assembled a question in my mind and Lord Lilley just asked it.

Lord Lilley: It was telepathy. I am your voice.

Q64 **Lord Davies of Brixton:** I have a follow-up question. I went to a meeting in the Commons yesterday where the City of London Police—that is of course responsible for dealing with fraud nationally—gave a presentation that was very interesting. A point it made was that faster and easier transactions make it harder to combat fraud. In your answer, you suggested the opposite, but the view of the police is that faster transactions are more of a problem. Are you working with the City of London Police on these issues to combat fraud here specifically?

Jana Mackintosh: Absolutely. At UK Finance, we have a dedicated fraud unit that we run together with the City of London Police to look at how fraud evolves and work with it to prevent those financial and economic crimes. So yes is the short answer to that. We are absolutely working closely with it.

When we think about the existing systems that we have—I mentioned faster payments earlier—we were one of the first to introduce faster payments to ensure that we can have that near-immediate transfer of money. When we built the system, we did not think per se about applying that in a retail environment. The world has moved on in 20 years, and now, with the introduction of open banking and the benefits that we see in account-to-account transfers, those systems are used in facilitating those types of retail transactions, but we have not necessarily had the opportunity to build the right tools to help us manage those types of fraud as they emerge.

We are actively engaging in a number of different debates on how we can improve the existing systems that we have while we evolve the future systems. Some are around whether those are regulatory or system operational changes we have made to manage scams that emerge within these systems. Back to my original point, in the existing systems, if you want to purchase something, commit to pay for something or settle with another party for goods or services, you part with your money upfront before you know whether those goods are truly what you want. That creates a risk and there is a great opportunity for that fraud to be amplified as we build further adoption of those retail use cases on the existing systems. So it is absolutely right that the introduction of real-time transactions has given us a new fraud challenge that we are continuously working on.

Over the last few years, inside the banks' own organisations, they have deployed very sophisticated fraud tools to help them manage those risks, thinking about customer behaviours, keystrokes, and all sorts of other methods and tools that help them mitigate those risks. Within the central systems, equally, we have started thinking about what tools we can use and what rules we need to introduce to make sure that those systems are safe for consumers to use in those contexts. So there is a truth to that, but it is also why we are actively exploring the introduction of those tokenised deposits and the technology within the system. That allows us greater tools, whether that is programmability or thinking about conditionality or smart contracts that help us manage those risks better so that we can start focusing on fraud prevention upfront within the customer journeys and not necessarily on reimbursement and making the customer whole after fraud has occurred in the platforms, which is what we are dealing with today.

Q65 Lord Vaux of Harrowden: I have two questions, if I may. The first is just a clarification question. You talked about the tokenised deposits, that each bank is producing its own tokenised engine, and then you need the infrastructure to allow those to be fungible, in effect, across the system.

Who owns that platform? Who is developing it? Who owns the APIs, protocols and intellectual property behind it?

Jana Mackintosh: We are in the early stages of that. I have not yet mentioned the work that we are doing with the Government on their National Payments Vision. That is work that we have had under way for the last three years. Last year, the Bank of England announced that we would continue to invest in renewing existing systems to allow us to cater for and serve the UK economy.

Alongside that, we have had the conversation with it around the role of industry and the companies and how we can make sure that the companies that ultimately provide, manage, operate and run those systems in the longer term have the right ability—balance sheet-wise, financial-wise, risk management-wise—to make sure that those systems remain operationally safe, secure and stable to run in the future.

We are developing what those new companies would look like alongside the new systems that will sit inside that. We believe that having industry closely involved and leading, setting up those companies, having incentives involved from the industry and owning those companies is really important in making sure that they have the legal structure and the right support and incentives across the industry to support their evolution, growth and the services that they provide.

For the tokenisation work, we are thinking about the application of the same guidelines and principles that we are agreeing with the Bank of England around what a good company looks like to make sure that these systems can evolve, have the resources and support from industry, and be owned and governed in the right way. That work is under way alongside the development of the systems.

Lord Vaux of Harrowden: So it might be something like a SWIFT, which is member-owned, or it might be an external third party that owns and manages it?

Jana Mackintosh: Again, different parties would be involved in that. We have existing company structures such as SWIFT and Pay.UK, whose benefits and drawbacks we know in terms of their ability to run these systems. When we design the future systems, we will make sure that we take those learnings and improve on those. It may very well be that you see greater funding support from the industry, greater shareholding across industry stakeholders to make sure those are better managed and greater governance in how those decisions are made around how the systems evolve. The nature of the companies that we will have will build on those examples that you have mentioned such as SWIFT, but we want to make sure that they have a really strong foundation so they may very well have slightly different characteristics going forward.

Lord Vaux of Harrowden: Just to understand what is driving the tokenised deposit work, is this really a reaction to the fact that stablecoins are emerging and this has actually been an incentive for the

banks to stop sitting on their rather comfortable systems at the moment, out of which they make quite a lot of money, and just introducing competition into the system, or is it something that is genuinely being driven by the banks because they see it as a better thing to do? I suppose, related to that, you said at the outset that you think it is more important that this is done with purpose than at pace. We are told quite often by people who are very keen on stablecoin that we are going to miss the boat and it is going to run past us. Is that a problem, or is this something we can slot in later, get right and learn from other people's mistakes? There is one and a half questions on that, I suppose.

Jana Mackintosh: I will start with the latter question around pace. Building payment systems brings to the forefront of a change programme confidence, trust, and making sure that what you build has a future and will be sustainable. On numerous occasions, we have thought about the introduction of new forms of payment without having that at the forefront, so you build something that does not ultimately achieve either the adoption, the scale or the change that you envisage. This is still an emerging industry and development—we understand it better now than we did five years ago—but what we build needs to be fit for the future; it needs to be sustainable and needs to last. Rushing into having just a defensive approach to the introduction of what is critical national infrastructure might not be what is front of mind. What you want to do is make sure that you design it in the right way and that the benefits that you deliver will have that longevity. Of course, you cannot move slowly or in isolation, because international developments are emerging.

That comes back to your first question regarding tokenised deposits and the work that we have been doing. We have been exploring this for four years. When we started the work four years ago, the idea of a stablecoin² did not quite yet exist, but the idea that the technology could deliver benefits and financial services did. That is where you saw the early exploration of this and the thought leadership that came out of Libra, Diem, some crypto markets, and the bitcoin developments, where the realisation was that there is an application of the technology that can deliver benefits. Those then emerged in terms of reactions from authorities and different jurisdictions and thinking about how we make sure that our current systems and frameworks have the ability to compete or the right technology built into them. That was the emergence of central bank digital currency debate and the digital pound.

The important part in this is not to forget and recognise the importance of commercial banks in this equation. For the same reasons that non-banks were exploring it for stablecoin or crypto asset reasons and central banks will explore it for their own reasons, commercial banks have an important role to play and need to have the ability to facilitate that same functionality for their customers into the ecosystem, if not to only be interoperable and able to facilitate and enable those developments to

² Note from the witness: they were referring to "a stablecoin being used for everyday retail payments".

happen, but in the same vein compete, because in some way they should equip themselves with the ability to do so.

That is where we started having the conversations three years ago with the Bank of England around functional equivalence and singleness of money, what that means for us, what the role of commercial banks is and how we make sure that commercial banks take that role seriously and invest in their capability to make sure that they can engage in this future of multi-money.

In the beginning there are risk factors that drive banks to consider, "If these things are introduced, it will affect my balance sheet, it might affect my ability to compete, it may very well affect my international competitiveness, so I need to respond", and that is fair. But as we progress through the journey of thinking about tokenised deposits, the opportunities and how we introduce the use cases become more front of mind, because you need to build something that is fit for purpose, that consumers want and that is commercially sustainable. Those opportunities have emerged in the programme, which is now driving a greater conversation around how we get to adoption as opposed to just being a defensive play per se.

Lord Vaux of Harrowden: You do not think there is a risk of us missing the boat and the stablecoin world overtaking us, in effect?

Jana Mackintosh: There are always market dynamics. It depends on how stablecoins evolve, what they are used for and the impact it is going to have on our capital markets, which we did not talk about; a lot of the conversation today was on retail types of transactions and our stablecoins play into that space.

On the global stage, if we think about this from an international perspective, how the UK economy makes sure that it can still be competitive and that our capital markets can engage in what is an evolution of the way that money will flow internationally, and how that affects our foreign exchange markets if a lot of our transactional flows become dollarized, those are conversations we still need to have. For all those reasons, it is really important that we not lose sight of where these other stablecoins are developed internationally.

Q66 **Baroness Donaghy:** Do you have any key lessons from the work that you have been doing with the banks or is it too early days?

Jana Mackintosh: I suppose there are loads of learnings that we have managed to extract over the last three years, going back to my point around you need to move fast, but pace is not the most important aspect of this; getting it right for consumers really is. We have taken our time and explored quite a bit. We experimented on tokenised deposits in our earlier work in 2024, looking at all sorts of different permutations of the technology, different settlement assets and different ways of thinking about the architecture that will work best.

From that work, we have learned quite a lot in terms of what we think is best for the UK market and how that architecture should evolve. One of those learnings was for us to make sure that banks still have the ability to invest in their own platform so you do not build all those shared ledgers centrally but allow them to remain within the banks. That was one key learning for us. We have evolved our architecture quite substantially and are thinking about how we make sure we embed the right incentives so that players in that ecosystem still play the role that we need them to play.

We have had a lot of learnings in terms of the regulatory and legal application of tokenised deposits. We spend quite a bit of time making sure that everything that we introduce can fit within the existing regulatory framework and those conversations with the authorities—whether that is the Bank of England or the FCA—remain really important. Our finding and learning that we can evolve tokenised deposits without the introduction of new regulation is really important, because that allows us to move at pace in some way without needing to wait for that.

Lastly, what was a really key learning, which we are still working on—again, this is very much embedded in the work that we are doing with the Government on the National Payments Vision more broadly—is to think about how we make sure that innovations carry a commercial foundation that allows these solutions to be sustainable; how we establish firms to have the incentives to have the foundations to grow; and how we make sure that we have commercial models embedded in the way that we introduce payment systems and payment methods to customers and businesses.

The work that we learned from that is really important and ongoing. For example, we have learned a lot from open banking. That has taken a very long time to adopt and drive volume and growth in the UK in part because it was lacking a commercial model. At UK Finance, we work with the authorities and the companies that exist in that space to develop a commercial model that we think will help open banking scale. We want to make sure that in doing this we do that right from the beginning so that we can scale faster on good commercial foundations.

Baroness Donaghy: Your organisation is a trade group with basically members who are rivals, so commercial confidentiality comes into all this. Some of your members will see all this as a threat; some will see it as a golden opportunity. Is it difficult for you to say what regulation would be acceptable and what you would advise against as an organisation?

Jana Mackintosh: We generally do not give our members advice in terms of compliance with existing regulations. Where we operate is in that space where there are challenges to existing regulatory frameworks, where we would look at where there are gaps or where we think frameworks would either help us evolve some innovations or where we think they may need to be refined or adjusted. You are absolutely right. A lot in the innovation space—whether this is tokenised deposits, open

banking, the development of AI—is very commercially driven change programmes.

We very much respect that and that is why it is really important that we enable competition between banks. We do not dictate which tokenisation engines or which types of technologies they need to use. We do not tell them which use cases they need to pursue, which prices they need to apply to those or which incentives they need to embed in their business models. Where we engage on the change programmes, we make sure that we always have compliance with competition law and trust guidance in what we do, but in the same vein we allow the banks to compete on the parameters that are good for healthy market dynamics and customers.

Baroness Donaghy: If it went pear-shaped in the United States tomorrow, let us say, what impact would that have on your members?

Jana Mackintosh: In terms of stablecoins?

Baroness Donaghy: Yes.

Jana Mackintosh: Various banks will have exposures to stablecoins to varying degrees. They will not all be impacted in the same way, so it is really hard to answer that question. Also, to the extent that stablecoins have been adopted and used by either retail customers, institutional business or corporate customers, those risks would be managed by the banks that have engaged in those. So it is really hard to tell exactly what the impact of that would be, but in the UK market it is probably to a lesser extent, because we have not seen that wide adoption that we have seen in the US market.

Lord Vaux of Harrowden: Just a clarification: listening to what you were just saying, there seems to me to be a difference between tokenised deposits, where you are saying that the banks retain control of their individual ledgers, and stablecoin, which is on a public blockchain. For tokenised deposits, you are still going to need the central clearing processes and an intermediary, whereas stablecoin is inherently self-clearing and self-reconciling. That presumably makes tokenised deposits a less efficient way of transacting. Is that right?

Jana Mackintosh: I do not know if it is less efficient. By that, do you mean either more expensive or slower?

Lord Vaux of Harrowden: Anywhere where you have an intermediary, that puts friction in the process, so it must be more expensive because that intermediary has to take its cut from something, and that process in itself is slower than something that is inherently self-reconciling and self-clearing.

Jana Mackintosh: It is hard to say whether one carries to a greater or less extent the efficiencies that you were referring to, because again the aim of tokenised deposits is to simplify some of those journeys and

remove some of those supply chain issues and intermediaries. The hope is that it would simplify some journeys to make sure that you can achieve those—

Lord Vaux of Harrowden: Am I right that you still need the central clearing operation?

Jana Mackintosh: You do. In the same way, with stablecoins, you may well have the ability to move between them. Whether you do that through some crypto exchanges that exist or facilitate some form of central clearing of some transactions, there are firms emerging looking to actively participate in that space. The evolution of stablecoins may well introduce functionalities similar to those you describe, in terms of central clearing and settlement. The central system requirements may well exist. The benefit of tokenised deposits versus stablecoins is the existing capability within the banks to manage those risks and make sure that their teams can actively engage in those conversations. There are a lot of synergies that you can achieve because those already exist for what we do. There are no incremental costs per se associated with being able to facilitate tokenised deposits. You could argue either way for the fungibility of money for us to ensure the singleness of money to make sure that what we do is anchored in central bank money. No doubt at some point in time, it requires central infrastructure development to occur.

Lord Hollick: Lord Vaux talked about missing a boat and Baroness Donaghy talked about threats. It would seem to me that the GENIUS Act has turbocharged digital currency development in the United States, allied to quite an aggressive deregulation that is taking place in the financial sector in the United States and an ambition to introduce 24-hour trading in the US. Are your members actively concerned about the competitive position of the City of London, and is their interest in pursuing digital innovation something that we should support on the basis of maintaining our competitive position?

Jana Mackintosh: The short answer has to be yes on both accounts.

Lord Hollick: Are you worried?

Jana Mackintosh: If you analyse the impact of some developments—not on retail, but on capital and wholesale markets—you need to think about the competitiveness of the City of London compared to developments elsewhere. Some intentions and ambitions embedded in the US-UK taskforce speak to that. We need to make sure in part that these jurisdictions can evolve competitively but in the same vein ensure alignment and interoperability in the way that we develop standards and think about facilitating it across borders.

There will always be a competitiveness element to this. Digital innovation and change drive some efficiencies. We always need to make sure that we keep an eye on it, actively engage, and think about how that digital innovation best suits our UK market and allows us to engage with key

trading partners in a way that makes us equivalent and capable of engaging in that debate in the future as opposed to not developing the technology to be able to do so.

The Chair: Ms Mackintosh, thank you very much for coming to give evidence to us today. You have been a model of clarity and have provided very great information to assist us with our inquiry. That concludes the session for today.