



HOUSE OF LORDS

Financial Services Regulation Committee

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

Wednesday 4 March 2026

10 am

Watch the meeting

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

Evidence Session No. 7

Heard in Public

Questions 67 – 76

Witness

[I](#): Tom Duff Gordon, Vice President for International Policy, Coinbase.

Examination of witness

Tom Duff Gordon.

Q67 **The Chair:** Welcome to today's meeting, which is the seventh oral session of the committee's inquiry into the growth and proposed regulation of stablecoins. Thank you, Mr Duff Gordon, for attending. I believe you are prepared to make an opening statement before taking questions.

Tom Duff Gordon: Yes, I am. Good morning, and thank you for the invitation. I will start by talking about why this is a pivotal time for stablecoins. A lot of other people who have come here to give evidence have also said that, but I think 2026 is going to be vital for the UK. The regulation for crypto assets and stablecoins has been laid by the Government and passed, and we are very grateful for that. But, when we think about whether the UK is going to win, be a leader and deliver on the Government's ambition for the UK to be a hub for digital assets, if we are honest, the detail of the rules that the FCA and the Bank of England promulgate will determine whether the UK is a smart second mover or just a bit of a laggard in this space. I am very grateful for your time and focus on this topic, which we think is incredibly important.

I want to touch on why we think stablecoins are a transformational technology. The first is the area of payments and there are three areas where stablecoins can have a transformational impact on payments. The first—I think others have given evidence to this effect—is in cross-border payments and remittances. We currently know that the existing system, the network of correspondent banking for cross-border payments, is slow, costly and relatively ineffective, and we have not seen any benefits from the very positive moves towards the G20 targets to bring down the cost of cross-border payments and remittances. We have not seen the banks deliver on those targets. With stablecoins, you can move money almost instantaneously and for almost no cost across borders, using Coinbase's layer 2 blockchain. That just means a blockchain that sits on another blockchain. In effect, you can move any amount of the USDC stablecoin anywhere in the world in one second for 1 cent, which we think is transformational.

The second part of payments that we think we should focus on is domestic payments. It feels very efficient when you pay with a card—you tap your card or phone, and it feels good. We have also capped interchange fees for credit cards and debit cards, but there is still a relatively high cost of 200 or 300 basis points, and then card processing fees and other fees all layered on top. It is still expensive and it still takes time for it to settle, because we are using the correspondent settlement rails. Stablecoins can dramatically transform cross-border payments, but there is utility as well for domestic payments.

The thing that is different about stablecoins is that they are peer-to-peer and programmable. I will just give an anecdote. I did a panel with the ex-Deputy Governor of the Bank of England, Jon Cunliffe, where we were

talking about stablecoins, and he reminded the audience—lamenting this—that the most programmable money in the 21st century is a standing order. That is interesting. Stablecoins offer a complete step change and paradigm shift in the programmability of money. Particularly when we put stablecoins into smart contracts, we can have conditional payments and all sorts of interesting things.

The third area of payments that stablecoins will be useful for is agentic payments. Again, I think those were mentioned to the committee in previous hearings. I stress that that is not niche or futuristic. Agentic payments already exist and are coming very fast. We have at Coinbase an ability to give AI agents—your chatbots, whether it is ChatGPT, Claude or whatever you are using—a wallet with stablecoins. That agent can then transact on your behalf on the internet. We have to take this seriously when Stripe, one of the world's largest players in payment processing, said in its annual letter that it thinks the majority of internet transactions will be agentic in the near term. We have to take it really seriously. Stablecoins will be the form factor for agentic payments, because you can do micropayments, which you cannot do with the existing system because it is too expensive, and because they are programmable.

That is the payment side. I will talk very briefly about why stablecoins can also be helpful for settlement. As you know, right now the major use case for stablecoins is to settle crypto transactions. If we look at 2024 figures, about \$27 trillion of transaction volume was settled by stablecoins. But it is not just stablecoin transactions that can be settled; we believe that capital market transactions can and should be settled in stablecoins. It is our conviction at Coinbase that real-world assets—funds, stocks and shares, and bonds—are going to move on to blockchain rails.

It is not just Coinbase saying that. The New York Stock Exchange recently came out and said that it is building a parallel blockchain-based system for all shares on it to trade as tokens. We are about to launch equity trading in a tokenised format in the US. This is a very big deal. If you bring these real-world assets that settle T+2 or T+1, with multiple intermediaries, which is hugely costly, on to a blockchain, which we could and should do, the cash leg also needs to be in a tokenised format. That could be a central bank digital currency, a tokenised deposit or a stablecoin. We think stablecoins can and should play that role. The other thing about bringing real-world assets on to blockchains is that you increase the access, the democratisation and the inclusiveness of this entire system. We will give more people access through fractionalising ownership. That is really important.

We think stablecoins can boost the role of sterling. Right now, most stablecoins, as you know, are, I think, 98% dollar denominated. With sensible regulation in the UK, we can change that and boost the role of sterling. We think that issuers of stablecoins can become important buyers of UK government debt. At a time when we need to issue more debt for infrastructure spending, defence spending, et cetera, we have an opportunity now to introduce a new buyer at the short end. My

understanding is that the UK Government's debt has the longest average outstanding maturity of any G7 country—about 13 or 14 years—and with stablecoins, when they back the issuance with debt, that will be a much shorter-dated and cheaper form of debt. So I think that is a very interesting opportunity for the UK Government to rebalance some of their issuance. Of course, we think it will increase the competitiveness of the City of London. It is key that the City is a modern financial centre.

These are efficiency arguments, but I think they resonate well with users and average citizens. There is a grass-roots advocacy campaign called Stand With Crypto that we are very proud to be affiliated with. Some 83,000 people have signed a Parliament petition for the UK to have a forward-looking and innovative crypto asset and stablecoin strategy. So it is clearly a topic that resonates.

I will finish by saying that there are five things that, in our view, the regulators and Parliament could or should do to make sure that we have a world-beating regulatory system here for stablecoins. The first is that the Bank of England should drop the caps—the holding limits—that it has proposed. It has proposed individual holding limits of £20,000 and corporate holding limits of £10 million. We do not necessarily believe that those should be dropped.

The second idea is that we should have more high-quality liquid assets—more gilts and UK government debt—backing assets of systemic stablecoins and less cash. Currently, we have to have 40% cash. We think that number could be much lower and it could be 20%—so 80/20 rather than 60/40.

The third thing is that we think rewards could and should be allowed to be paid by distributors such as Coinbase. We should be able to pay rewards to the holders and users of stablecoins. That is a hotly contested topic and one I am sure we will pick up in due course.

The fourth thing, as I have mentioned, is that we think that stablecoins should be used in wholesale settlement. There will be other on-chain cash that potentially could be used in that scenario, but we think that as we bring more and more assets on to blockchains, trading them on blockchains, we need to be able to have a settlement asset that is tokenised, and we think that stablecoins can play that role.

Fifthly and finally, because we are talking about global markets—crypto markets are global and one of the big use cases for stablecoins is cross-border—we think that work could and should be done on equivalence to make sure that the rules we determine in this country are compatible with the rules that exist in other jurisdictions, such that you can have that fungibility and that seamless cross-border transfer.

At Coinbase we are not here to say that stablecoins are a panacea—there will be other forms of tokenised cash, deposits and others. We support the Bank of England's money multiverse, as I think it has described it, but I want to end by saying that stablecoins and blockchains are moving

away from experimentation. There are arguments about whether these technologies work or whether they are better than what we currently have—I think we have had those discussions. I think they are fast becoming the infrastructure and the operating system of capital markets and payments. I am fortunate enough and privileged to be able to travel around the world, talking to regulators and policymakers, as well as all financial actors in traditional finance and new, and they are incorporating these new technologies at pace. I am hopeful that with sensible guardrails and regulation here in the UK, the UK can become a leader in this exciting new technology.

Q68 The Chair: You will probably observe that most of us on this committee learned most of what we know in an analogue world. It would be helpful if you could outline the players in the stablecoin universe, describing what each element does, including what Coinbase does and why organisations such as Coinbase need to exist in that environment.

Tom Duff Gordon: I am happy to do so. It is a good question. Simplistically, I tend to think there are three main groups of different actors in this ecosystem. When you think of stablecoins, you have the issuers of the stablecoins. Coinbase is not an issuer. Let us take for example the USDC—the US dollar coin—which is issued by a company called Circle. It is the issuer. It creates stablecoins. We call the process “minting” of stablecoins. It tends not to have retail customers. It tends just to have institutional-type customers, so market makers, exchanges and distributors will have accounts with it. It is really important that it manages the backing assets, so it also has the legal obligation to do redemption.

So you have the issuers of stablecoins, as I have just described, which mint and create the stablecoins and have the corporate and institutional relationships and that obligation to redeem. You then have the second type of actor in the ecosystem, which is the exchange or the distributors. Coinbase is an exchange. We are a platform. You come to Coinbase if you want to buy bitcoin, Ethereum, Solana or any of those other tokens. If you want to buy crypto, in effect, you have to use a stablecoin in order to buy. So the trading pairs for crypto tend to be the crypto asset also with a stablecoin. We are a distributor. If people want to move out of stablecoins, in practice they tend to do it on an exchange. We do not have the legal obligation to redeem at par because we do not manage the backing assets. Those are managed by the issuer and by the third-party custodians, asset managers and banks that the issuer deals with.

The third part of the ecosystem is of course the users. The users are the individuals, the financial firms or the corporations which will be onboarded by a platform such as Coinbase. They are KYC-ed and AML-ed, all those kinds of checks, and they will then enter into the crypto ecosystem where they can get access and change their fiat—their regular, traditional money—for stablecoins. Then they can start to invest, either in stablecoins or in traditional assets.

The other thing I want to explain on the custody side, which is important, is that we can act as a custodian. We are an exchange but we can also be a custodian. If you download the Coinbase app and you are holding stablecoins or crypto, in effect we are managing that for you. That is a really important relationship. We hold those assets in a segregated way and on trust.

We also produce software for self-hosted wallets. If they want, people can custody their own crypto. My analogy for this is: think of a regular bank—let us take Lloyds in the UK, for example. You can have an account with Lloyds and you can have your cash with Lloyds and, in effect, it is looking after your cash. Imagine if Lloyds also manufactured leather wallets. You could go to the cashpoint and take money out of your account that has been custodied by Lloyds and you can put it into your wallet, which is your self-custody wallet, which you put in your jeans. Lloyds is not responsible for that money, even if it made the wallet, because what you do and who you pay with that cash is up to you. If you lose what we call your keys—that is how you access through custody—to your self-custody wallet, we cannot do anything about it as Coinbase.

It is a really important distinction that in this crypto ecosystem you can have custody which is undertaken by intermediaries, for which, rightly, there is very robust regulation, and then you can have self-custody, where people decide to take ownership of their own crypto assets in exactly the same way that people decide to take cash out of a bank and decide to store it in a safe at home or to put it in their wallet.

The Chair: What proportion of Coinbase's customers are self-custody?

Tom Duff Gordon: We can come back with the precise figures, but the vast proportion of assets are held on-platform with Coinbase. We are one of the world's largest custodians of crypto assets. We have north of \$300 billion of crypto assets under custody. That includes stablecoins but also other crypto assets. That is not just individuals but hedge funds, pension funds and sovereign wealth funds—the panoply of different institutional actors in this space that are beginning to get exposure. The vast majority of actors are still holding their assets in a custodial format on a custodial platform.

The Chair: Do those people holding the custody have no redemption rights?

Tom Duff Gordon: Redemption is a really important part of this entire system. If we are going to be able to trust stablecoins and want people to adopt and use them, people have to know that they can be redeemed at par. I do not think that stablecoin regulation is necessarily very complicated. You need to have one-to-one backing, and we need to know what those backing assets are. We need to have transparency on those backing assets and we need to have redemption at par. Those are the three crucial things.

The Chair: But at the moment do your customers not have redemption

rights?

Tom Duff Gordon: They can swap. We provide liquidity on a daily basis where you can swap in and out of your USDC. I will make this very real for you. I have a cash balance in sterling. I also have dollar stablecoins. If I want to move out of my dollar stablecoins into my cash balance on Coinbase, I can do that instantaneously on my app. We as Coinbase are managing the exchange. There is supply and demand and it is a price which is being set. We do that for millions of transactions per day. If there was a gigantic financial crisis, a run on the issuer or some kind of problem and we were not able to meet that conversion requirement, which 99 times out of 100 we would, then the issuer of that stablecoin—which in this case, if the stablecoin was USDC, would be Circle—would have the legal obligation to redeem. What is interesting about that is that issuers do not tend to have the retail relationship. The friction in the system there—and you are right to focus on this—is that they have the assets to be able to redeem. They have the cash. If the Bank of England's regime enters into effect, they will have 40% cash. They have got the liquidity, so they can provide the user with the cash. That is totally fine.

There is also—this is a good feature of the Bank of England's proposals—an ability to monetise the gilts. If Circle also has 60% gilts but for some reason it has run out of cash and the gilt market is in trouble, it can just repo the gilts—it can monetise the gilts, it can get the cash. The thing that takes a bit longer, where there is friction, is that they have to do the KYC check. Coinbase will have done the KYC checks and the AML checks—the sanctions screening, the PEP screening, all that stuff. The issuer will not have done that, so it may need some time. It may need a few hours. It may need a day. What we have seen in the European Union, and what we are seeing, I think, under the GENIUS Act in the States, is that there is a period of time—an allowance of 24 hours, 12 hours, something like that—for the issuer to be able to conduct those checks and make sure that, when it does that redemption at par, it is not paying a holder who is on a sanctions list, for example.

That is the way that the process works, but you are right to point out that there can be a friction. The friction is associated with the KYC and AML checks because the issuer has the institutional relationship but they do not tend to have the retail relationship. On most occasions, that redemption happens on a crypto exchange platform, where, in effect, you can swap in and out of these currencies, with very little friction, instantaneously.

Q69 **Lord Vaux of Harrowden:** I would like to clarify that. My understanding of, for example, Tether is that the only person who has redemption rights is the person whom the coin was initially issued to, not someone who subsequently bought the coin. When someone is swapping out of a stablecoin on your platform, in effect, you are buying it from them—you are not redeeming it. Is that right?

Tom Duff Gordon: Yes, that is right. Under its current format, Tether is not regulated. Even under the incoming regulation in the States, I believe

it is issuing a new type of coin, which is going to be GENIUS-compliant. It is different, and I am not totally familiar with how that is organised. But stablecoins are bearer assets and it is the bearer who has the right of redemption, or that is how the system could and should work.

Lord Vaux of Harrowden: That is how it should be, but it is not for Tether.

Tom Duff Gordon: For Tether, it may not be at the moment, but you are right to say that is how it should be. This is different from a deposit; we might get on to tokenised deposits with banks later. The challenge is that, in effect, that tokenised deposit is tied to an account and a person, which is different from stablecoins, which are more interoperable because they are bearer assets. If I was to give you a stablecoin, you own that and you can then deploy that in a DeFi lending pool, you can redeem it, et cetera. It is not tied to the person who was originally given the stablecoin.

Lord Vaux of Harrowden: That is how you are intending it to be, as opposed to how it might be at the moment. That is how it is with Circle, is it?

Tom Duff Gordon: Yes. That is how it is under MiCA—the markets in crypto assets regulation—and all the other regulations that we are familiar with. It is the holder of the stablecoin who has the redemption right.

Lord Vaux of Harrowden: We are in a slightly odd position of the single biggest one not, arguably, being a stablecoin.

Tom Duff Gordon: We are an American firm, so we are proximate to some of these discussions. As I understand it, part of the purpose of GENIUS was to onshore dollar stablecoins and to grow that market, which is why we have been very engaged in this debate in the US on the ability to pay rewards. We want to incentivise the adoption of regulated US dollar stablecoins, where it is very clear where the redemption right sits. The backing asset rules are very clear. The transparency and everything around it is fully regulated.

Lord Vaux of Harrowden: On the point of reward, my larger question is just trying to understand the business model for the various elements. You have explained who the various parties are. The one party you did not mention actually is the blockchain operator. As I understand it, Tether, for example, operates on a number of them—Ethereum, et cetera. You did not explain how they fit into that ecosystem and who pays for what, but I am trying to understand the business model. For the issuer, it is relatively straightforward. It takes the interest and the income from the backing assets and does not pay it on to the holder at the moment if it is not allowed to pay interest. But what is the business model of the exchange and the other elements within that? If the exchange is going to pay rewards but not the issuer, what is the relationship between the issuer and the exchange? Presumably some of

the income from the backing assets is being used to pay the rewards. I would just like to understand how this works.

Then, related to that, you have said it is incredibly cheap—almost free—to make these international transfers. Others have told us there are actually expenses in the process. I would quite like to understand that. If I have sterling in my bank account and I want to pay someone in Vietnamese dong in Vietnam, what are the costs through the process? It is not just the point to point of the stablecoin on that particular chain that is the cost; there are also the currency transaction fees. Maybe I have gone from sterling, into a sterling stablecoin, into a dollar stablecoin, into dollars held in Vietnam and into Vietnamese dong, in my example. How does that work and what are the costs in that?

Tom Duff Gordon: Those are two very good questions. I shall start with the business model question. As you rightly say, for the issuers, their business model is, in effect, that they are earning revenues on the backing assets. In the US you could imagine a system where 90% of the backing assets can be in treasuries—for example, in T-bills or in their form of gilts. They may be earning 3.75%, 4% or something on that. That is how they make their money. How does an exchange make its money? In effect, an exchange will charge in spreads. People will come and there will be trading pairs. They will be trading the stablecoin against bitcoin or Ethereum. We have a central limit order book and, in effect, we are taking a commission from people who are coming and buying. There is a very small commission every time you move in and out of these different assets. That is how we make money.

There can be a linkage, which I think is where we are going, between the issuer and the distributor of a stablecoin. I am happy to talk about that because we do have a commercial relationship, which is public and has been disclosed, with Circle—again, it is the issuer of USDC. We have an equity stake in Circle. On top of that, we want to promote usage, and it would like to see the usage of USDC being promoted on our platform, so our interests are aligned. For example, we quote crypto assets in trading pairs in USDC rather than in Tether or something else. We have a commercial arrangement where it will pay us some money that we receive, and we will then promote the usage of USDC on our platform, and that can involve us paying rewards.

Just to be crystal clear on this, there is no direct pass-through of the interest income that the issuer is earning and then what we decide to pay as a reward. Actually, we fund the reward; Coinbase funds the rewards on USDC. Right now if I go into my app and I look at it, I am being paid 3.75%, which I think is fantastic, on my cash. But we fund that through our marketing budget and through our operating budget. If tomorrow interest rates were to change or something was to happen on the Circle side and there were differences commercially, there would not necessarily be a follow-through.

We have decided that we want to promote USDC on our platform. We are funding those. So the business model of the issuer is to keep back some

of its income in order to fund its staff, to pay for marketing, to do all of those things, and then to pay certain distributors in exactly the same way that in traditional finance you would have an asset manager who has a product and they want to distribute the product—a money market fund or ETF—and they have a broker, and the broker takes a fee for being able to distribute that product. Our interests are fully aligned.

As an exchange, it is not our job to pick winners and losers. There is no way we would have a commercial relationship with an asset. It is a bit like the New York Stock Exchange saying it wanted to favour a particular share, fund or bond. We do not do that. This is the cash that is pegged at a par value. We are promoting the usage of that. That is how that works.

I want to come to your question about cross-border transfers and friction, because you are right to pick up on that. Base is the layer 2 blockchain that sits above Ethereum. Ethereum is a very fast, smart contract platform. A lot of USDC moves on Base. When I said that we can move transactions in one second and for 1 cent, in effect, that is using the Base platform. We pay the gas fees. You are right to say that there are some costs associated with that. Every transaction on a public blockchain has to be validated. The validation happens not through these centralised points of failure in the current system but through a decentralised system of computers. There are thousands of computers out there that are validating transactions on the Ethereum network. That is what makes it so incredibly safe and resilient. But they need to be compensated for the work that they do.

Their compensation comes in Ether. The way that ecosystem works is that when you ask for a transaction to happen, you have to pay a gas fee. In effect, the gas fee is the price you pay for your transaction. So if I was to send you a token of any sort, whether the token represented the deeds to my house or it was a tokenised equity, a security, a stablecoin or whatever it happened to be, and we were using an ERC token—a token that moves on Ethereum—we would have to pay a gas fee for that. But the gas fees are tiny, and the technology is getting cheaper and faster, and throughput is getting bigger. So there are operators and there are gas fees. We sometimes just pay the gas fees, so it is kind of zero.

The point you made, which is a very good one that I want to come back to, is about the on-ramps and off-ramps. It is easy for me to sit here and say: I could have a friend in Canberra and I could literally send them \$50 now in one second and for 1 cent, but they have received US dollars in Australia and so what do they do with them? That is the fascinating part of the debate, where we have to start thinking about the on-ramps and off-ramps, and there can be friction associated with then converting that and putting it back into an Australian dollar-based account, as it were.

However, we hope to see—and we are starting to see this now—multiple regulated, different currency-denominated stablecoins in all sorts of countries. I spoke to the Vietnamese earlier this year. They are very excited about this, tokenising the dong stablecoins; I think they are going to come. When we look at the FX—the institutional price that a massive

trader in the City of London would pay one of those investment banks—we are almost able to replicate that. So if you have a dong stablecoin and a dollar stablecoin on our platform, you can swap one for the other for the lowest possible price.

So then you have the dong stablecoin and think, “Well, what do I do with that?” That comes into, “How quickly are we going to bring merchants on-chain and how easy is it to connect to the banking system?” This is why regulation is so important. We could operate globally, potentially, with people finding us as a technology platform. We want to be regulated because, if you are regulated, you can then get a banking partner and a relationship with a bank that then enables you to have users that can bring fiat into the system, but they can also redeem their stablecoins for fiat. So it can go backwards and forwards.

Lord Vaux of Harrowden: Just on the gas fees—the fee that Ethereum or whatever charges you for the transaction—logically, if you have a distributed process, as you said, it is expensive. You have all these computers doing all this stuff and they need to be remunerated. Is the cost of that being hidden in this process at the moment? In effect, you do not charge that; you charge a cent. What are you paying? Is it much more expensive? Is it less expensive? Are you making a profit on that? The only difference is that you are taking out a number of intermediaries who are taking their cut in the process, but actually the underlying technology is not of itself more efficient. In fact, it is less efficient because you are only as efficient as the slowest computer in the network, the slowest node in the network. So I still do not really understand why it is inherently so much more efficient, other than because you are taking out the intermediaries.

Tom Duff Gordon: My contention would be that when you take out the intermediaries that is more efficient because intermediaries are all taking a little nibble, in effect, and all taking fees—

Lord Vaux of Harrowden: I get that.

Tom Duff Gordon: We are taking those out. The cost of using blockchains is being dramatically reduced, almost to zero, as we increase the throughput capacity on these blockchains.

A few years ago, if you wanted to move in and out of bitcoin, it might take 10 minutes and it might be very expensive to do that, so I totally understand where your question is coming from. Even on Ethereum before the advent of layer 2, which happened four or five years ago, it was actually pretty costly and it took quite a lot of time. There were frictions, but the technology has really significantly upgraded since then. So we have reduced the number of intermediaries but we have also dramatically reduced the cost. So even if we have capped interchange fees here at 200 basis points or 300 basis points, when you stack all the current costs up, you are still getting anything between 1% and 3%.

We are seeing a lot of interest from corporates, which recognise the dramatic reduction in costs. Gigantic US multinationals are starting to use stablecoins to manage their internal treasury, particularly when that is cross-border, because they see that this is going to save them so much money. We are seeing Visa and Mastercard beginning to incorporate stablecoins into all their processes. PayPal has its own stablecoin. Every single bank is looking at stablecoins. Central banks are looking at the technology. So wherever you are in this ecosystem, whether you are a central bank, a commercial bank or a payments provider, and whether you are crypto native or not, everybody recognises that this new technology is an upgrade on the existing network of correspondent banks that process in batches and take time.

We sometimes forget merchants in this process. The merchants are not only paying 3% but waiting three days for settlement. So for SMEs, particularly low-margin SME businesses, here is suddenly an opportunity for your e-commerce platform and website: accept stablecoins and you can charge a lower cost. You are right to say that there should be transparency about where the costs sit. We should not obfuscate them. I think those costs are going to be much smaller than the existing costs, and technology will continue to compress that as we get better.

Q70 Lord Hill of Oareford: At the beginning you painted the picture of the speed with which things are moving in the United States, and then you said there is a question as to whether the UK turns out to be the second mover or is a laggard. If you project forward on the current trajectory approaches in America, contrasting with approaches in the UK, and go out, say, three years, where do you think we are going to be? You talked about some specific regulatory asks but is there also just a speed point? You put it as an interesting exam question as to whether we are going to be a laggard or the second mover. What do you think it looks like at the moment? If we stay on the current trajectory in the UK, where do you think we are going to be?

Tom Duff Gordon: Thank you for the question. The US itself was behind on this topic, particularly under the last Administration and the approach that was taken by the previous Securities and Exchange Commission. But it has now pivoted under the new Administration and is now in a leadership role. There are other jurisdictions, particularly in Asia, the UAE and others, that have done a lot. But I think the US is now moving ahead the fastest, so it is the right benchmark for this comparison.

Since the GENIUS Act, the US's stablecoin legislation, was passed—and that has been only four or five months—we have counted up the number of stablecoin projects that have been announced. We have got to 200; 200 stablecoin projects have been announced by the biggest banks in America—Bank of America, Citi, JP Morgan, Goldman Sachs, et cetera. They are all looking at this, as are the independent players. Last time I checked in the UK, we have about four players in the FCA regime—versus 200. The US regime has not even gone live yet. But what you see is the power of the regulatory clarity in the sense of, "This is more or less what the landing zone is".

I will not pretend to you that in the US we know precisely what the rules are, because under the legislation the Fed and others have to write in some specific rules. But there is an extraordinary power in knowing that this is going to be law, it is about to enter into effect, and we know roughly where that is. There has been an explosion of activity, investment and innovation, which we are not seeing in the UK because the rules are not in effect in the UK, but neither have we given a clear sense of what the landing zone is—outside of stablecoins broadly into capital markets. I think your question was broader.

We are pretty sure that in the next weeks or months the SEC in the US will provide, in effect, exemptive relief for multiple actors to bring tokenised equity trading projects to market—not in a sandbox or in an experiment. This is going to be real. We are going to see the world's largest listed household names—Tesla, Nvidia, Meta and Alphabet—start to be traded 24/7 in a tokenised format. This is genuinely going to happen. The New York Stock Exchange has said that it will tokenise all its securities. BlackRock, the world's second-largest asset manager, said it wants to tokenise all its funds.

I want to be as clear as I can that, in the US and multiple other jurisdictions, we are not debating whether this is the future, whether it works or whether it is the right thing; we are talking about how to incorporate this technology into the infrastructure of financial markets. That is the debate that we could and should be having here in the UK. I think it will happen if we get that regulatory clarity.

Looking ahead two or three years, or even 12 months, I think we will see an explosion of agentic payments. That is clearly going to happen. I think we will see potentially significant single-digit percentages of some of the world's largest stocks trading in a tokenised format within 12 months, settling in stablecoins or tokenised deposits. I think you will see every single one of America's largest global banks with either a tokenised deposit or a stablecoin. This is happening. That is why it is so important that we move ahead, take the second mover advantage and become a smart follower rather than just a late adopter.

Lord Hill of Oareford: What are you seeing in Europe?

Tom Duff Gordon: Europe has the markets in crypto assets regulation. You are very familiar with the way Europe works, and it moved impressively quickly to galvanise and co-ordinate 27 member states on this topic. We have to be honest that it moved faster than we have here, but we do not necessarily think that the rules will lead to the flourishing in Europe of a euro-denominated stablecoin market. It is scaling, interestingly, from one or two projects to 20. There are about 20 euro stablecoins. Société Générale, the big French bank, has issued a stablecoin. Things are happening, but there are elements of the MiCA regime that could be revisited, and I think will be, to stimulate more uptake in Europe.

Lord Hill of Oareford: Flipping it around the other way for a moment,

from a public policy point of view, clearly what is going on in the United States is people racing to try to get into position ahead of everybody else, and then the benefits you get from scale become very dominant. How do you stop the recreation of the current analogue model where we have massive concentration in a small number of banks, clearing houses and exchanges? How does one use this moment of transformation to try to get a more competitive landscape afterwards where risk can be more spread and we do not end up with what we currently have, which is a model where risk is very concentrated in a small number of dominant players?

Tom Duff Gordon: I am happy to address that. Where I thought you were going was to our reliance on dollars and dollarisation, so maybe I will start there and move into the concentration of the players. Some 98% of stablecoins are dollar denominated and there are network effects associated with that as more and more merchants start to accept them. Shopify, one of the world's largest e-commerce platforms that you can use to buy things in the UK, is now accepting stablecoins, dollar stablecoins, et cetera, so we need to move to get a sterling stablecoin in place so that we can start to rebalance that. We are hopeful that that will happen. We are a US company; we are very proud of USDC, but our ultimate mission is to bring people into the crypto economy, so we would clearly support having regulated sterling stablecoins.

You raise a really good point about concentration and competition. We are desperate to see more competition in payments. We do not think that we have seen enough. We think it is too concentrated. The G20 asked banks to be able to process cross-border transactions for 3.5% or less—that is still extraordinarily expensive—and to get them to settle in an hour, two hours or something like that. Banks have not made any headway. The Financial Stability Board has rebuked them for that. It is clear that it is suggesting that banks should adopt some of these new types of technology.

These new types of technology will introduce more competition. It is precisely because of that that we disagree with some elements of what the FCA and the Bank of England are proposing, because you want to lower the barriers to entry. We want to see small British entrepreneurial platforms that want to issue stablecoins enter the market. It will be hard for them to do that if the capital requirements are sky high, higher than what the US or the Europeans are going to demand. Our sense is that the capital requirements are gold-plated in both regimes here. On the caps, how do you scale and compete if you have to put the caps and holding limits in place? There are some elements that we should look at very carefully to ensure that we reduce the barriers to entry and get competition.

This is about the end user. Ultimately, for us stablecoins are about democratising access to a fair return. Right now, British people do not get a fair return on their retail deposits, and the banks do not have to pay. Stablecoins offer an extraordinary, important opportunity for British

voters and citizens to get a fair return on the money that banks are deploying. Rather than the intermediary keeping all the money, we want it to go to the end user. The public policy question here is: do we want intermediaries to capture all of the upside, or do we want competition and to see business models emerge where the end user can capture some of the benefits and some of the money that is made from their money? We are very keen to see more competition.

Q71 Lord Lilley: A number of our witnesses have suggested that stablecoins are useful principally for trading in crypto assets, for cross-border trade and for financing criminal and shady activities. Possibly, in terms of more domestic activity, it will be useful in the States, where the cost of banking transactions is much higher than here. You seem to suggest that they could be used to finance ordinary transactions, including credit card transactions. How would that work? Would I have to have a stablecoin deposit somewhere and use it when I pay for stuff at Waitrose, Sainsbury's or Tesco—other supermarkets are available—and would they then have to have some sort of parallel system of payments? I am quite keen on it, but I am not sure how it would work.

Tom Duff Gordon: That is a very good set of questions. You are right to say that, historically and to some extent still, there is a strong correlation between the usage of stablecoins and crypto trading volumes, because mostly they are used as the settlement asset for crypto trading. That is the \$27 trillion number I talked about. What is very interesting—I can follow up with the charts on this—is that we are seeing that correlation beginning to break down. Trading volumes are beginning to move down with the market; crypto goes up and down and trading volumes go down, but the adoption and usage of stablecoins are continuing to grow. That tells us that people are finding use cases for stablecoins outside of using them just to buy and sell other bits of crypto. That is starting to happen, but it is a very marked breakdown of that correlation, which I am happy to follow up on and share with you.

You talked about illicit finance. That is a really important topic and we should take it extraordinarily seriously. The statistics that we look at from independent third parties, whether that is TRM Labs or Chainalysis, suggest that less than 1% of all crypto transactions are illicit, but, within that 1%—I think this is the evidence given to you in previous hearings—84% is stablecoins, because they are the most used liquid asset and value transfer mechanism. But that is 84% within the less than 1%, which is markedly smaller than the 2% to 5% of GDP in the traditional economy used for illicit finance. I just wanted to touch on those things.

Yes, it is my contention and hope that merchants will adopt this technology. At Coinbase we have a new business line, Coinbase Business; it used to be called Coinbase Commerce. All it does is go round, whether it is to a supermarket or an online e-commerce platform, and get them to adopt technology such that they can receive stablecoin payments. Yes, in your example, that would have to be the case: you would go on to the Waitrose website and at the checkout, rather than checking out by putting your card number in or whatever you do right now, you would

press the sterling stablecoin button. On Coinbase, for example, as I said, I have cash; I also have stablecoins, crypto and all sorts of assets. I can just choose from my wallet what I am going to pay with. We do need that to happen.

I want to touch on agentic payments. Again, players such as Stripe believe, as we do, that the vast majority of internet payments may move to agentic payments.

Lord Lilley: Could you explain agentic payments?

Tom Duff Gordon: Yes. There is a new protocol that we at Coinbase are delighted to be associated with called x402. I do not know whether you have seen it but sometimes when you are using the internet you get error codes that pop up. There is a 404 error code that you might have seen, which comes up the whole time. There is actually inbuilt in the internet, from the 1990s, when Marc Andreessen and Tim Berners-Lee were coding the internet, a value transfer protocol. So when there is an API or a value transfer request from one computer that is talking to another computer on the internet, an error code will sometimes come up saying "402 error". So rather than the 404 error, which is "information is not found", it is the 402 error, which is "money is not found". This is a protocol native to the internet. It is extraordinarily exciting.

We have reanimated that into something called x402, which is becoming the agentic payment protocol for the internet. So I can say to my AI agent, "Can you start a wallet?" and that agent will set up a wallet. I have done this. You can put stablecoins in the wallet and then you can ask the agent to execute something for you, such as, "Pay for my train ticket"—high-intent purposes. We are not browsing. Say you want to take the 10.15 train from Worcester to London. You know it is the 10.15 and you know it goes from Worcester to London—you are not browsing the internet. The agent will do all of that. All, or many, high-intent purchases could in due course be done by AI agents. In effect, the agent will be negotiating with the website, the ticketing platform, the restaurant or the holiday booking—whatever it happens to be—and the x402 value will then trigger a demand for a payment in a stablecoin. We think you could do this in fiat but, for micro-transactions, stablecoins, being more programmable, will be the form factor.

In effect, your wallet, which is pre-funded by you, will negotiate with Waitrose and that transfer will then happen. Waitrose will have a wallet—not just individuals but corporations will have wallets—with stablecoins in and it will not have to wait for settlement or to pay interchange or processing fees, et cetera. It will be a much cheaper form, and you could envisage there being lower prices as we start to take out that cost that is baked into the price of your Waitrose shop.

Lord Lilley: So this could be the end of credit cards.

Tom Duff Gordon: I think credit cards will continue. I do not think we are going to see a huge transition overnight, which is why, again, we are

sceptical about some of the contention from the Bank of England that retailer deposits are going to disappear overnight, et cetera. Behaviour will not necessarily change overnight, but we think there is going to be more competition here. When you look at the Visas, the Mastercards, the Amexes, they are all beginning to use stablecoins for settlement. Their business model may be more the front end, where they are managing the client relationship, the rewards schemes, and those types of things, but I am absolutely sure that they will start increasingly to use stablecoins for settlement. There have been announcements from Visa and Mastercard. PayPal has its own stablecoin. They are all realising that the back-end settlement can be done faster and cheaper using stablecoins.

Right now I have a debit card linked to my stablecoins on Coinbase. So I can go to any merchant in London that accepts Visa or Mastercard and can pay—already, today. I am linking that debit card that I have in my pocket to my stablecoin account. Obviously, that is not the endgame from our perspective because we would like it to be more seamless—just tap your Coinbase app and pay in stablecoins—which, by the way, we are doing. We made an announcement with the Premier of Bermuda, the British Overseas Territory, at Davos. He has a strong conviction about trying to bring Bermuda on-chain and into the on-chain economy. We are helping Bermuda to bring all the merchants on the island on-chain such that they can accept stablecoin payments.

Lord Lilley: You have mentioned the Bank's concern that people will move out of bank deposits into stablecoins to the extent that stablecoins are equivalent to bank deposits, except they have 100% asset backing instead of fractional reserve banking. So, but for the guarantee that the Bank of England provides, they are safer. First, why should the Bank of England not provide them with a guarantee? Secondly, if they have 100% assets and those assets are earning money, why does anyone want to stop the owners of those crypto coins getting paid some of that interest?

Tom Duff Gordon: You raise really excellent questions, Lord Lilley, so thank you.

Lord Lilley: I will give you my bank account later.

Tom Duff Gordon: It gives me an opportunity to remind the committee that stablecoins are fully reserved, not fractionally reserved. They are safer than uninsured bank deposits. Honestly, they really are. They are backed by cash and, particularly if that cash is held at a central bank, backed by gilts, and if they are backed by emergency liquidity assistance so you can monetise those gilts—which is a positive thing for the Bank of England—these are safer than uninsured bank deposits. I do not think we need a deposit guarantee for stablecoins because, if we are clear to users that you can redeem these things at par and we have transparency on the backing assets—and if those backing assets are managed by a third-party custodian and we get the regulation right—they are safer.

Sometimes I think of two different towers. You have a tower that is a bank deposit, but it is inherently weak because banks take risks because

they create money—money creation and maturity transformation—so you have to buttress that tower with things such as bank regulation and deposit guarantee schemes to keep it standing up. It will not stand up by itself and it is very vulnerable. We know that from seeing banking crises episodically over the centuries. A stablecoin is inherently and intrinsically a safer instrument because it is fully reserved. Again, there is no counterparty credit risk if the cash is held at the central bank. We have had situations where the cash on some of these things is held in a commercial bank; the commercial bank fails and you get spillover risk, like we saw with SVB, into the stablecoin. I do not necessarily think we need a guarantee if we get the regulation right and we are clear about it.

In terms of paying rewards, we honestly do not see a good, strong argument that says you cannot pay rewards, apart from the Bank of England's contention that this is going to be a transition that will occur too quickly. We are very grateful that the Governor of the Bank of England recognises that banks do not need to take retail deposits to fund lending—they just do not. He said you could see a system where banks fund themselves on the capital markets and through securitisation and other things and do not need retail deposits. It just happens to be a really cheap form of funding for them, so it is a net interest margin story for the banks. It is about profitability; it is not about credit disintermediation, in our view. We totally agree. We think if we want to scale sterling stablecoins, want the City to be competitive and want a better outcome for consumers with more competition, then we should be allowed to pay rewards on stablecoins as a distributor.

Q72 Lord Sharkey: So far you have not mentioned risk, and systemic risk in particular. We have heard conflicting opinions on whether or not stablecoins are prone to runs. What is your view on that and how do you explain the flash crash of last October?

Tom Duff Gordon: We think that runs on stablecoins are possible, but we do not necessarily think that they are going to be as prevalent as runs on banks. Why not? Again, the issuers of stablecoins are not engaged in the creation of money. We all know that when you put a deposit in the bank, it will credit you with the deposit and it will also create a loan on the asset side of the balance sheet, so it is creating money, and it will take a sight deposit, which is redeemable on demand, at the cashpoint, immediately, and turn that into a five-year or 10-year loan to a corporation or a 25-year or 30-year home mortgage. That is why we have to regulate banks. They need net stable funding, they need short-term funding and they have capital requirements—all those sorts of things—because they engage in a risky business.

We need risk. I worked at a bank for 15 years. Risk is healthy. It is what the financial system runs on. I am not saying risk is bad but if we have risk we have to have regulation. Stablecoins do not take those types of risks: they do not create money and there is no maturity transformation because the gilts are basically short term.

There could be a run on the issuer if there was, let us say, a hack of a smart contract. I am not pretending that there are no risks with stablecoins; it is really important that we address the risks, but they are operational risks. Banks have to deal with market risk, credit risk and operational risk. With stablecoins, the biggest risk is the operational risk—a hack, some form of IT incident or some reputational issue. If there was a run on the stablecoin, the Bank of England would put in place mechanisms to help deal with that.

First of all, you would effectively redeem at par using cash, which is very liquid. The 40% that you would be holding—we think it could be less—you could automatically pay out. Then you have the 60% in high-quality liquid assets. The Bank of England has raised, so we should address it, what happens if there is a run on multiple issuers and it becomes a systemic event. Hypothetically, you could foresee a fire sale of gilts, which would be negative in the funding market of the UK Government, because there would be a lot of issuers dumping and fire-selling gilts into the market. That could have an effect and drop the price, which could prevent people from redeeming at par.

The Bank of England has recognised that risk. This has not been done anywhere else and, credit where credit is due, it is doing something more innovative, different from and better than what we have seen in other jurisdictions. It is basically saying that there will be a lending facility like the banks have. The banks are able to repo high-quality liquid assets for cash. Effectively, rather than dropping those gilts and fire-selling them to the market, you would basically be able to borrow against them. The way that works is very well understood. You repo, and there is a price for that, but you would be able very quickly to monetise all those assets. We think that a run can be contained and is less likely. I remember that, in banks, it was always about the probability of default and loss given default; that is how you think about fixed income and crashing. The probability of a run is lower and the loss given run is lower under a stablecoin.

Lord Sharkey: Notwithstanding that, why was there was a crash on 10 October 2025?

Tom Duff Gordon: There was a flash crash. The reasons for it are still debated. We think that some platforms were using Tether and other types of stablecoin and were engaged in an upgrade of some of their systems, and that led to a depegging through a software update on that system and platform. But, because people were using that asset in DeFi protocols, that had a cascading effect through other protocols and people were concerned about the peg, the value and the price of Tether. That created a propagation through the system. Your questions have all been about systemic risk and impact. If we had regulated stablecoins—we are promoting the use of regulated stablecoins—we could be clearer that they would be pegged one to one and will not lose their value.

The Terra-LUNA crash in May 2022 has also come up in this committee. Again, that was an algorithmic stablecoin, so it was not regulated and did

not have one-to-one reserves that were managed and held on trust. The market is still looking into the precise reasons for that, but a lot of it had to do with the pricing mechanism of one particular stablecoin that is not regulated on one particular platform, which then had a propagation effect through DeFi lending protocols.

Q73 Lord Davies of Brixton: I appreciate your enthusiasm; it is quite seductive. But your initial pitch was that this is transformational, and you gave a series of examples. My reaction is yes and no. The only one which I have personal experience of is cross-border exchanges. You say it will provide instant exchange. I already have instant exchange across borders, so I am not really sure about that. There is this famous statistic, which I do not have to hand, that in general people get divorced more often than they change their bank. Is it not just the case that the banks will catch up with all this and adopt the new technology? Blockchain will come and affect title to deeds, but really this is just an update of the banking system and the banks are ultimately best placed. I cannot see what you bring to the party that I could not get from my existing banking arrangements.

Tom Duff Gordon: I had to do a cross-border transfer recently, so I am interested to hear how you are managing it. I had to do a wire transfer from the UK to the US, and I think it cost me £18. I needed the SWIFT code, the BIC code, the postal address of the branch, the account number, the sort code and the precise details. It took three days to settle. There is a lot of friction in cross-border payments that stablecoins can completely eliminate and change.

You make a really good point about the stickiness of deposits in your analogy about people opening a bank account when relatively young and then sticking with it throughout their life. I think we all know that and it resonates very clearly. But, if that is the case, we should exercise more caution with the Bank of England saying that, overnight, people will move out of retail deposits and into stablecoins, for precisely the reasons you outline. All its modelling—which is the justification for the caps, which we think are ill conceived and unnecessary—totally disregards precisely what you have talked about: that people feel an affinity with their bank. The bank does provide a number of services; it provides a cashpoint and a branch, if you are lucky enough to live in a place where there is one. I think people are happy to have a portion of their money which is unremunerated because those other services are bundled in.

Precisely because of what you are saying, we have to really squint at these hypothetical models which suggest that, as we regulate stablecoins, there will be a dramatic and precipitous outflow of deposits from the retail banking system into stablecoins. We have had stablecoins for 10 years in America—since 2016, when CRCL was issued—and we have seen a constant uptake in their adoption at the same time as an increase in retail deposits. It is not cannibalising. None of the evidence backs that up. There are \$18 trillion worth of deposits in the US right now, and only 2% of them have moved to stablecoins.

People do have an affinity and relationship with their bank. Where I would beg to differ is on whether we have anything to provide here. Banks are catching up. What is really interesting and we should be paying attention to is that they are not doing tokenised deposits. They are doing stablecoins. They will do some tokenised deposits—JP Morgan has a tokenised deposit that sits on one of our public permissionless blockchains—but the banks are adopting this new technology, as they should, as they try to provide a better service to their customers. But obviously they are incumbents and they have legacy systems, so they are catching up. That is great and they are moving forward, but with innovation you always need faster movers, innovative actors and new people coming in.

We talked with Lord Hill about the need for competition. I really worry that we say in this country that the risk of moving from the old product to the new product is such that we are never going to be able to do it. Honestly, if we take that approach, we will never have innovation.

Lord Davies of Brixton: I do not want to trample on other members' time, but the one function of money that you did not mention is as a store of value. Do you see stablecoins having that function?

Tom Duff Gordon: This is a geographical question as well, to some extent. You can see huge uptake in adoption of stablecoins in markets which, frankly, have a lot of inflation. Whether it is Venezuela or, historically, Argentina or parts of sub-Saharan Africa, there is an insatiable demand for a dollar stablecoin because they see that as a store of value for the end of each month. I had the great privilege and fortune to go to Buenos Aires and meet the Finance Minister there. He explained that the use case for stablecoins is very clear. He does not need me to tell him what the important thing is. People above a certain age, he was saying, go and buy canned goods from a supermarket when they get paid, because those will hold their value and they will not perish—so non-perishable items. Young people take their earnings for the month and immediately switch them into a dollar stablecoin of some sort. Depending on where you sit and where you are in the world, there is a very powerful use case for store value.

Q74 **Lord Turnbull:** A number of people have given evidence. In one camp early on, there was someone who basically thought stablecoin was the work of the devil—no demand for it, it brought all sorts of risks, and we should not go anywhere near it. There was a middle camp, which was saying, "It is going to happen and the question is: with what enthusiasm do we address it?" Then the third camp is yours—not only is it going to happen, but it should happen and the UK is potentially No. 2 in the convoy and not a laggard.

There are still some things that I have not quite got to the bottom of. One is this whole question: what does this do for the traditional role of banks in credit creation? If there is movement out of bank deposits, does this mean that mortgage businesses are less effective? Another is the concerns about the actual control of monetary policy. Is there a problem

for the authorities which, at the moment, have a way to put interest rates, up if they want, by adjusting the terms on which they deal with banks? That may become less effective. The third thing is this: if you look at previous generations of banking reform, they follow a course of “We want to bring in a lot of small players”—and then, 10 years later, you find that most of the small players have been eaten up. Are the banks going to adopt this and swallow it up and kill off the competition?

Tom Duff Gordon: Those are three good questions. The first one was on credit creation and the role of banks in the system if we move more into stablecoins. We looked at the numbers here, partly because you took evidence from some people earlier who suggested that the adoption of stablecoins would have a negative impact on banks’ ability to provide credit to the economy. If you look at figures from the Bank of England and their market-based finance report from 2024—this was a surprise to me—what you see is that, actually, banks only account for 45%, so less than half of the lending to corporations. So 55% of lending to the UK economy comes from non-banks. These are statistics from the Bank of England; we can follow up this report; these are genuinely the right statistics.

From 2008—from the great financial crash—all growth in lending to the UK economy has come from the non-bank financial sector. This committee has done some very good and interesting work on the role of regulation of banks after the financial crisis, and there are lots of different elements to that. But why are banks not lending, and why has there been no growth in bank lending? It is nothing to do with stablecoins; I think it has to do with an assortment of things, including bank regulation, capital requirements, et cetera.

My point, Lord Turnbull, is that we have been sensibly and safely diversifying credit provision in this country for a very long time. That is a good thing, and it is a safe thing not to rely on four or five players in this country to finance corporations. It is great that we have more diversification in the funding base. We have strong conviction that those non-bank finance players will be able to provide more credit, and I think in due course you will see credit being provided through stablecoins. There is an assumption right now that, just because money moves into stablecoins, you lend it to the Government. That has stopped. There is no net systemic benefit, but you are lending to the Government; you are reducing their borrowing costs, and it is a circular thing. Honestly, the points about credit intermediation are wildly exaggerated by the banks, which I think want to retain a very cheap source of funding.

The Bank of England Governor, in an op-ed in the *Financial Times* in September or October, said that banks do not need to take retail deposits to finance the economy because—guess what?—they can just pay their retail deposits more and keep the retail funding if it does not prove sticky. They can just raise equity or they can raise debt. Stablecoins have had 10 years in the US and have only taken 2% of the deposit base

rate—only 2%. We have to be really careful when we think about what the impact is.

If the Bank of England perceives that there is a transition that is happening too fast, they have ample tools to put in place. Our problem with the caps is: why are we putting caps in place from a precautionary perspective? Why do we not allow the Bank of England to apply its macroprudential powers if and when it starts to see a diminution in the provision of credit for the economy, which would be a really serious thing? We all sit in this House and the next-door one, and growth is the No. 1 thing. We have had stagnation for too long. We have a cost of living crisis; we all want to see growth. No one wants to see corporations not being able to get financed. But if we do start to see those types of things, then there are all sorts of things that Bank of England can do.

The Bank of England is very well experienced in its ability to apply unpopular medicine, either through interest rates or through capital requirements—different capital buffers. It knows precisely how to do that. I do not think there is a problem from a political economy perspective; I think that it can apply these types of measures if it sees those types of problems.

I will try to be briefer on monetary policy. I actually think that if we allow interest and rewards—the issuer to receive interest—then that would be better for monetary policy because then you would have direct transmission. What we are creating by this strange thing of saying we are not going to remunerate the deposits is a completely unlevel playing field with the banks. The banks stick money, so there is £2 trillion or whatever the number is of sterling retail deposits in this country, and £700 billion of those are just parked in the Bank of England—in central bank reserves—and they are remunerated, so the bank earns money. That is profitable for the banks—their net interest margin, and they do not necessarily have to deploy that, but a stablecoin is not allowed to. A stablecoin will also put money in the Bank of England in cash, and it is not remunerated, which we think is negative; we think it is an unlevel playing field. It also reduces that transmission mechanism of central bank monetary policy. Actually, the most responsive and reflective monetary policy transmission would be if I am holding a stablecoin in my pocket and, instantaneously, depending on what happens to the bank's funding rate, it changes. You can do that because you are not going through that system of intermediation.

I do not think that there is going to be a problem with the transmission of monetary policy. This is not an issue that has been raised by the Fed, the European Central Bank, the Bank of Japan, the bank of the UAE, or any of these other banks—which, by the way, are not talking about caps either. None of these other central banks—they have studied this topic intensively—has decided that these things are necessary or raised concerns about the transmission of monetary policy.

Then your final point was: will banks eat up the competition? I believe in free markets. If banks are able to provide competitive products in this

space, if there is demand for those products and if they are able to buy and acquire their competition on the open market, then that will happen.

Lord Turnbull: That is why we have a CMA—because we do not believe that.

Tom Duff Gordon: Well, you do not want too much concentration. That is clear. We want more competition but, subject to the CMA and others, if private corporations seek to acquire other corporations, that will occur.

The Chair: The final question will be from Lord Eatwell, unless my other colleagues have a burning question to ask on this. We will take Lord Eatwell first, then a very small question from Lady Bowles.

Q75 **Lord Eatwell:** I have a number of questions, I am afraid. First of all, could you tell me the proportion of stablecoins which are redeemed every year?

Tom Duff Gordon: I do not have the precise figure off the top of my head. I think it is very low.

Lord Eatwell: In other words, there is a strong incentive, if I am putting an asset base behind stablecoins, not to hold cash. But as you requested on your second regulatory thing, there is a strong incentive to move into high-quality assets—perhaps the sort of assets that were held by Silicon Valley Bank. Nobody is coming to ask for the cash, so why not put it into nice, high-risk earning assets?

Tom Duff Gordon: It is a great question, and there are unregulated stablecoins that actually do invest in gold.

Lord Eatwell: No, but you asked specifically for the regulation to be removed so that more high-quality assets, you could say, and less cash could be held. Was that your statement?

Tom Duff Gordon: Correct, and I am very happy to explain the position. Right now there is a 40:60 split, so 40% in cash and 60% in high-quality liquid assets. The regulation will determine what those high-quality liquid assets are and can be, and it should be very prescriptive.

The direction that the FCA and the Bank of England are going in is that these will be short-dated UK government instruments. They will not be long-dated. To get to your point about Silicon Valley Bank, if I may, because you raised it, Silicon Valley Bank was, as I understand it, a classic mismanagement of balance sheet, where, in effect, the bankers running that bank had invested in very long-dated US debt and then the yield curve changed—

Lord Eatwell: Was it US Treasury debt?

Tom Duff Gordon: It was US Treasury debt, correct, but it was very long-dated, and then the yield curve steepened and they found themselves in a situation where they could not get out of that. So it was a mismanagement of their balance sheet. That was a banking issue, not a

stablecoin issue.

Lord Eatwell: By the way, you referred to the cash that was held by the issuer as cash at the central bank. That is why it is safe. On that cash the central bank pays interest; in other words, your profits are paid by the public sector. Is that right?

Tom Duff Gordon: Under the Bank of England regime the systemic stablecoins, so the larger stablecoins, will have to hold 40% of cash, so 40% of cash will be at the central bank.

Lord Eatwell: The interest rate on that will also be there. You would not have any in Switzerland, where the central bank interest rate is negative.

Tom Duff Gordon: No, currently it is unremunerated, so I am arguing for the opposite.

Lord Eatwell: Unremunerated?

Tom Duff Gordon: That is correct. The Bank of England's regime currently says, "You are going to hold 100% one-to-one backing. Of that 100% one-to-one backing, you will hold 40% with me, at the central bank, and I will pay you nothing for it, and 60% will be in one-year gilts".

Lord Eatwell: Okay, that helps me. Thank you very much. The other thing I was struck by was when you were discussing the use of stablecoins between domestic traders. How much cheaper will it be than BACS? BACS is free.

Tom Duff Gordon: If you are paying a person an instant payment that can be very cheap but if you are using a card—

Lord Eatwell: BACS is free. Why should companies or small traders go into your stablecoin market when they already have a very effective system—BACS—in the UK, which is free?

Tom Duff Gordon: Most of the time when I walk into a shop that is a small merchant, I pay with a card—a debit or credit card.

Lord Eatwell: That is a retail transaction.

Tom Duff Gordon: Yes, I am talking about retail transactions. In those retail transactions, the fees can be between 1% and 3% and the settlement can take three days.

Lord Eatwell: We are aware of that.

Tom Duff Gordon: With a stablecoin, we can probably take 40% off the cost of those transactions—that is what we have seen—and have instantaneous settlement. That is a better outcome for SMEs up and down this country than the current system, where they are all having to pay fees that are layered on top of each other.

Lord Eatwell: A previous witness said that the great value of stablecoins

was to give access to the US banking system to people who otherwise would not have access. If we have this in the UK, people with stablecoins will have access to the UK banking system through their UK stablecoins but there is no KYC. KYC has been the absolute cornerstone of risk analysis in the financial system in the UK. You are seeking to evade KYC; is that correct?

Tom Duff Gordon: That is not correct. Every single person who opens a custodial account with Coinbase is fully KYC-ed on our platform. Having been a banker previously before coming into this role, I can tell you that we carry out regulated VASPs in this country—AML and KYC checks to the same level—

Lord Eatwell: That is very helpful—

Tom Duff Gordon: Please may I go one step further? I think this is really important. Banks can see only their own ledger. Again, I know this. If you sent me money, Lord Eatwell, and I sent it to Lord Hill, the bank would see just the transaction coming in and the transaction going to Lord Hill. On a blockchain, every single transaction is immediate, irrevocable and immutable, which means that I can then see exactly what Lord Hill has done with that money, and if he has sent it on. So you can see this extraordinary network of payments. It is totally and utterly transparent.

We are able to deploy much more sophisticated AML tools than the banks can. That is a statement of genuine fact. You have Chainalysis and TRM Labs; these extraordinary companies are developing blockchain analytics to follow money through. So not only are regulated players doing the same level of AML checks but they can go much, much further.

I would characterise your point about access to the US banking system slightly differently, if I may, as access to the dollar. As I said before, in multiple countries around the world—and this is for billions of people around the world, where the currency is hyperinflated and the Governments and central banks mismanage it—there is an insatiable demand, rightly, for them to get hold of a stored value asset. If we give them the ability, or a digital sterling, that is good. Do we want people to have sterling? Do we want sterling to continue to be a G7 currency? Do we want to project the value of sterling? The Chinese have a central bank digital currency, which they are using for the belt and road initiative outside China, as well as inside China. I think there is a national security element here as well. We want sterling to continue to be an important, strategic and used G7 currency. Ensuring that sterling can be manifested in new tokenised formats is going to be part of that.

The Chair: We have a very quick question from Lady Bowles.

Q76 **Baroness Bowles of Berkhamsted:** I am fascinated by the end case, where it is all established everywhere, you have one-to-one reserves of an awful lot of money and banks are left not doing anything in the payments area; all they are doing is creating new money with loans. Why

then do I need a bank account, other than to load up into my stablecoin?

Tom Duff Gordon: That is a great question. That is quite a few years down the line, I think, as we have talked about before. We do not necessarily think there will be a rapid transfer out of banks, so they will stay relevant. You will keep your bank account because you want to use the cashpoint or you might have your salary paid into it. But, again, banks do not need to take your money to be able to lend money. They just do not need to do that. It is only relatively recently in the long history of banking that banks have taken retail deposits. Again, the Governor of the Bank of England was really clear about this: we do not have to associate taking retail deposits with the provision of credit. They can just raise money on the capital markets. They can securitise their balance sheets. That is how they raise money to then make those loans.

Stablecoins are sometimes seen as narrow banks because, in effect, you are just lending to the Government, as it were. That is good for the Government. It should reduce the Government's borrowing costs if we get this right. But you are right: we are talking about a shift in how we currently think about banking systems, one that we think is going to introduce more competition and better outcomes for consumers.

Lord Eatwell: Can I come in on that? What you are saying is that the banking system raises money on the capital markets, essentially, so what you are looking forward to is a much more market-sensitive, unstable banking system.

Lord Lilley: Or more stable.

Tom Duff Gordon: After the banking crisis, there was a sense that stable funding—banks have a thing called the net stable funding ratio, which encourages banks to elongate their funding, in effect—

Lord Eatwell: It is not market-based.

Tom Duff Gordon: Correct. I am sure you know much more about this than I do. Within the net stable funding ratio retail deposits were historically considered sticky and as totally free money and great for the banks because—guess what? It costs money to borrow money from the capital markets, whether it is debt or equity. They would much prefer the free stuff. Now with new technology—not necessarily stablecoins but with new fintechs that will allow you, in effect, to sweep out your retail deposits on a nightly basis to get the best return on an insured basis, on a deposit-protected basis in the UK—we have to start to revisit the notion that retail deposits are necessarily always going to be that long-term funding that we need for the banking system. By the way, banks can raise long-term debt; they do not have to raise debt on a three-month basis but can issue corporate bonds that are five or 10 years. They can elongate those. They can issue equity or securitise their balance sheet. They can do all these other things.

It is good that we are getting into this because this is the nub of the debate. It is not about disintermediating credit. This is about the

profitability and funding costs of banks. That is the debate we are having in the US right now. It is great that we are being really honest about that. Currently banks like taking retail deposits, because it reduces their funding costs because they often do not remunerate those current accounts.

The Chair: Thank you very much for your evidence this morning. You have answered all our questions very fully and frankly and we are grateful for that. I certainly found it extremely interesting. Thank you very much for coming.