



HOUSE OF LORDS

Financial Services Regulation Committee

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

Wednesday 4 March 2026

11.30 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. 8

Heard in Public

Questions 77 – 87

Witness

[I](#): Adam Jackson, Chief Strategy Officer, Innovate Finance.

Examination of witness

Adam Jackson.

Q77 The Chair: Welcome to the second part of today's meeting, which is the eighth oral session as part of the committee's inquiry into the growth and proposed regulation of stablecoins. I thank Mr Jackson, chief strategy officer of Innovate Finance, for attending today. As I keep forgetting to say, the session will be open to the public, broadcast live and subsequently accessible on the parliamentary website. A verbatim transcript will be taken of the evidence and put on the website. I understand, Mr Jackson, that you will be making a few opening remarks. I ask you to keep it as brief as possible, because we are running a little bit late.

Adam Jackson: Absolutely. Thank you, Baroness Noakes, and members of the committee, for the opportunity to discuss the growth and regulation of stablecoins in the UK. I am the chief strategy officer at Innovate Finance. We are the membership trade association for fintech, the financial technology industry in the UK. We have about 250 member firms, from start-ups to our largest, fastest-growing financial services firms. They are all technology-based and pretty much all of them have started since 2010. We are the industry body for challenger banks, neobanks and many businesses across the payments sector.

Probably more than any other business body, we represent the potential UK stablecoin industry. We work with firms that want to issue a GBP pound sterling stablecoin and firms that want to launch GBP stablecoin services. That includes UK home-grown start-up issuers and firms such as Agant, tGBP and eGBP. It includes mature British fintech digital-first banks and payment firms. In particular, it includes banks that want to issue stablecoins. It also includes international issuers and payments providers looking to expand in the UK.

All these firms will or could develop a strong UK-regulated stablecoin industry and all of them could compete internationally. Many of these are well-established fintech banks or payment providers. They include some of our fintech success stories. Already, unicorn companies such as ClearBank, OpenPayd and Revolut are providing stablecoin services in other jurisdictions—not in the UK, but generally in countries which have already introduced regulation.

Many of our members want to introduce stablecoin services in the UK, which, as we have heard today and previously, will benefit UK businesses and markets. They will ensure that British players are active in the global stablecoin market and that there is a GBP sterling presence in the global stablecoin market. Under current Bank of England and FCA proposals for regulation, this will not happen. The firms we work with would not invest in UK stablecoin services or products if the current proposals were introduced. Regulation is needed to unlock this opportunity, but it has to be proportionate.

I would argue that a regulated stablecoin is the only true stablecoin. We talk quite a lot about stablecoins, but quite often at the moment those are in markets where they are not regulated. A regulated stablecoin is one that is true and provides the stability we have talked about. Regulation provides consumer confidence, clarity for investment in stablecoin businesses and a level playing field for those delivering the services.

Regulators in the UK, particularly the FCA, have made rapid progress in developing a comprehensive regulatory regime for stablecoin. If you look at the timetable, the FCA will introduce authorisations probably before the US. It is acting at speed; even today it is holding a sprint to understand better the business use cases. But, unfortunately, the regulatory proposals, as opposed to the pace, would create a regime that in key areas is more prescriptive and less competitive than the EU MiCA rules. We risk being second movers who are less competitive than the first movers.

The main issues are the Bank of England limits on how much stablecoin a person or business can hold and the requirement of 40% of backing assets to be held on an unremunerated basis at the Bank of England. On the FCA side, the capital requirements for wind-down and operating costs require an ever-increasing allocation which would far exceed actual operating costs. Finally, the Bank of England is maintaining an outright ban on commercial banks issuing a stablecoin. The UK is probably the only country in the world doing that, bar perhaps China. We believe these regulatory proposals are not proportionate to risk. We have talked about the risks they seek to manage to a certain extent today: liquidity, insolvency risk and the knock-on impact on bank lending. Those risks are lower than the regulatory proposals warrant and they can be mitigated using other mechanisms.

Again, we have touched on the main uses. For us, the main initial uses of a regulated stablecoin in the UK will be for British exporters and importers, particularly SMEs, reducing the costs of cross-border trade. They will be in corporate treasury for large corporates, optimising liquidity management in multinational firms. They will be for people sending money overseas, maybe to family in countries with high inflation or currency volatility. They will also be used for settlement of transactions in digital financial markets and for tokenised deposits such as digital securities in the City. We believe that these use cases are not sufficient to create the scale of risks that the Bank of England is currently regulating for, but they are sufficient to create significant growth and competitiveness in our economy.

The regulator's proposals create another risk: the risk that we simply will not have any GBP stablecoins or global British stablecoin payments firms. That therefore increases the risk that large US firms, as you touched on earlier, and the dollar will dominate. Parliament might feel that that is an acceptable outcome, but this needs to be done knowingly and deliberately if that is the case.

I appreciate that it is not easy to design regulation, particularly where the product and the business cases are still evolving. As I say, it is great to see that the FCA currently has a number of sprints with industry to better understand business models right now, but this is a really good live example of an issue that you as a committee have looked at more broadly, which is how regulators deliver their objectives across prudential and conduct, as well as growth and competitiveness. Having a wider debate can help inform this, one that is partly about public policy, not just individual regulators. Your inquiry is a really important and timely contribution.

Q78 The Chair: Thank you very much, Mr Jackson. Can you help me with something that has been puzzling me? The stablecoin market has developed in US dollars and not much at all elsewhere, whether in pound sterling or euro. The regulation has followed that in the States. So, in the US, the US dollar stablecoin market developed without regulation and it is getting regulation in arrears via the GENIUS Act. Why did we not follow that development in the UK, with regulation to follow, which is the normal pattern? The normal pattern for business development is not, "Wait until the regulations are defined and then business will decide how it's going to operate". Normally, businesses emerge and then regulators say, "We need to start to control that activity in some way". What is it about the UK that has inhibited the use of stablecoin?

Adam Jackson: It is a chicken and egg question. I appreciate that, in the US, the market is different and, again, you have heard evidence about that. The payments service market is very different in the US. Costs are higher and other methods of payment are only just being adopted: the FedNow programme, which introduces faster payments than we have had for quite some time, has only just come on stream. So there is clearly a sense that, in the UK, we have benefited from some payment methods that are much more innovative, and a lot of our members have played a part there.

The EU is a good example: the market was less developed, but it moved quickly to regulate, and that is where it is starting to see the gains. We have heard already about a consortium of EU banks coming together to issue stablecoins. In the evidence that we submitted, we mentioned a number of stablecoin providers in the EU.

I come back to the point that the only true stablecoin is a regulated stablecoin, because the principle of having a stable set of high-quality liquid assets and one-to-one exchange depends on the asset base. It depends on then having high-quality and clear audit and on clear disclosure. It depends on having, as we saw in some of the US cases a few years ago, strong governance. Therefore, in the UK, this means things like the senior managers' and certification requirements. Without all those there is not the confidence, certainly in the UK, to use stablecoin widely. We come back to how there is latent potential in the SME business market for exporters and importers—already, we are seeing this in internationals—from corporate treasury management. But regulation will enable that market to take off because it provides the assurance.

The other point to make is that, in the UK, innovation has often in part been led by some regulatory interventions. With open banking, which has been a great UK success story, that was prompted by the CMA. It has often been the case that, by providing the confidence for investors and consumers that regulation can put in place, we see the market really take off.

We did a YouGov survey on stablecoin at the beginning of this year, and that showed that about 8% of the population understand stablecoin. Again, this is consistent with some of the FCA surveys: around 6% of the population regularly use crypto assets and use them for payments. But that is predominantly younger people, so there is a generation issue. When we look at the difference in the enthusiasm for stablecoins among challenger banks and fintech firms versus the big six banks, that partly reflects their customer base. The challenger banks generally have younger customers, and therefore they can see there being a demand there from some of those younger users. I am not sure that fully answers your question. The US is a particular case, and I would not criticise the regulator for moving in advance of full development of the market. Actually, it is to be applauded—

The Chair: I was not criticising the regulator; I was criticising the industry for not moving faster.

Adam Jackson: Again, some of the reasons are that challenger banks have not been able to move as fast as they can because they have been told by the Bank of England that, as banks, they cannot issue stablecoins. So there is a ban, and that also applies to our high-street banks. We come back to the people. If we are to have companies who can compete with Circle, Tether and some of the other larger global players, it will probably be our challenger banks because they are tech first. But as things stand they have both hands tied behind their backs by the Bank.

Q79 **Lord Hollick:** The purpose of this inquiry is to understand more clearly the risks of digital currency and to consider what is the appropriate level of regulation. The contrasting evidence that we have seen, from the enthusiasts to the sceptics, is proving to be quite a challenge. I invite you to put your regulatory hat on and take us through what you think are the two or three major risks that we should be focused on. What is the appropriate regulatory response to those risks? I am thinking in particular of the risk to the retail customer, the risk of systemic risk and the impact that digital currency will have on the functioning of the banking system.

Adam Jackson: Running through the risks, one of the risks that we seek to manage in terms of stability is insolvency. Are the stablecoin issuers solvent? Do they have the assets that can be translated back to the customer? You had evidence from Professor Gleeson, who said that stablecoins are solvent; the question is whether there would be liquidity in a run. So the solvency question is there, not least because, in an orderly rundown, the Bank of England requires six months of operating costs.

The question is: what happens if there is a run on stablecoin? What does that mean for liquidity risk? Can customers get their cash quickly, and what does that do for the asset base? Again, it is really important to remember that, for regulated stablecoins, the backing asset is high-quality liquid assets. If we go with the Bank of England regime—I would identify problems with it—that includes 40% of cash held at the bank, albeit unremunerated. But, even if we go for a model that I think industry would prefer, which would be a much higher proportion of high-quality liquid assets—the FCA regime allows 95% and then 5% in bank deposits—as you heard earlier from a witness, the requirements, which are pretty consistent across every jurisdiction that is regulated on stablecoin, are short-term government T-bills.

The liquidity question is not, “Is the money there?” but, “How quickly can it be redeemed by the customer?” It is short-term debt, not long-term debt. So the money is there. If there were demand for 100% of all stablecoins to be redeemed on the same day, that would create a liquidity problem. It would not be available. But, again, if we look at both the Bank of England proposals and what we have in places like money market funds, repos and reverse repos can manage quite a lot of that significantly, in terms of lending against the asset base. The Bank of England has said that it would offer a lending stopgap. To fill the period it would take to liquidate those short-term T-bills and pay out to customers, the Bank of England has said that it is looking at providing a temporary stopgap for that.

If you take those components, it has much lower liquidity risk than bank deposits. We have heard the debate about bank deposits, and it has much lower liquidity risk because they are liquid assets—plus what is really good in the Bank of England regime, which is the backstop lending. The liquidity risk is very low. Also, we have to look at the impact and the likely uptake. This all comes back to the question of how much it will inform the retail market or how much it will be focused on small business and corporate customers, certainly in the first instance.

It is worth thinking about credit risk. Stablecoins have zero credit risk, as opposed to bank deposits, due to the fractional reserve lending model. When we think about business customers—you asked about systemic risk—that means that, if there were a broader financial crisis that might see both banks and stablecoins under stress, corporate businesses’ and SMEs’ bank accounts do not have FSCS deposit insurance, which is for the retail customers, so stablecoin provides more stability and holds value. But in general businesses are not going to use it as a hold for value, precisely because it does not pay interest. Therefore, if you are a business using stablecoin, you will use it for the transaction and you will maintain what you need for managing FX risk, but clearly you will put it somewhere that earns you some money or some interest when you are not using it. So there are some liquidity questions, but they are far lower than with other forms of financial instrument.

I come back to the question of whether there is a systemic risk of an outflow of credit from the commercial bank deposit model to stablecoin. Will we see everyone moving their money out of commercial banks? Particularly if you are a business, why would you move all your money into something that does not pay interest? You would just be keeping it in a cardboard box under the bed.

Lord Hollick: Does it follow from that comment and your previous one that you would be opposed to interest being paid on stablecoin?

Adam Jackson: Our members are probably divided on that. Some would like the opportunity to pay interest to the direct holder on stablecoin, but not all of them. Certainly at the outset, the Bank of England's and the regulator's proposals of not allowing interest on the individual holder of the stablecoin stand. But there is a question of—

Lord Hollick: Would that inhibit the growth of stablecoin in the UK?

Adam Jackson: No—sometimes you have to think about this as payments infrastructure. The obvious benefit is cross-border payments and transactions. You do not need to hold money: the point is that it is not a deposit account but a form of payment. It is a payment instrument. Therefore, interest is not valid. The point that has been made that there may be some rewards—in the same way that, if you use your credit card, you get points, rewards or encouragement to use it as a payment method—is different. There should be flexibility for innovation around that, but that is different to paying interest. Once you start paying interest, it starts to look a bit more like a bank account. Clearly the next move would be lending to the wider economy, but that is definitely not a stablecoin, because a stablecoin is not fractional-reserve lending.

The important thing on the interest point is that rewards and interest can be passed to the intermediary level—those that provide the infrastructure, the payments firms and exchanges—because that is part of the business model. But for individual holders and users, it is far less critical; it is not at the top of our list of issues.

I will just come back to the point about whether there is going to be a flow of money out of commercial bank deposits into stablecoin. First, that assumes that people will not be swayed by the ability to earn interest on bank deposits. As an individual, I can still get interest on a bank deposit and, because of the higher credit risk, I have deposit insurance.

However, a case that we started to unpack earlier is that there may be a gradual evolution in the market. Look at lending to businesses and to households: again I point out that the biggest banks have reduced lending to small businesses over the last 10 years. Those that have increased the lending—they have filled the gap and more—have been the neobanks, the challenger banks and the alternative finance providers.

I have spoken to a couple of our challenger bank members and those that provide lending to small businesses about this very question: is a

bank that is not planning to do stablecoin and that lends to small businesses worried that there will be a flow out of their deposits into stablecoin? Their answer was that it may be a long-term risk, but stablecoin is part of the future infrastructure of financial services. It is really critical that the UK leans into that, adopts it and has it as part of its infrastructure.

They did not want holding limits, which is the Bank's solution to this problem—the stifling of stablecoin. The answer was that we need the Bank to look at the development of alternative markets to finance lending in the longer term. I just want to draw attention to this: in 2021, the Bank of England published a discussion paper on digital money. It set out this very concern then. Five years ago, the Bank said that, if we have a central bank digital currency, we might see a flow of money out of commercial bank deposits into that CBDC. It looked at it then and it concluded, "in aggregate, given existing liquidity resources, the banking system should be able to withstand sudden deposit outflows ... Banks could use current liquidity holdings and liquidity available from the Bank to cover their uninsured deposits". So, in the event of a sudden crisis outflow, the Bank said that the system will cope.

It then looked at the longer-term structural impact on lending in the UK economy, and it said that continued lending to the economy could be achieved through "increased issuance of wholesale debt" by commercial banks and a shift to non-bank "market-based lending". I quote: "In theory, there could be significant benefits to be gained from" this. "First, it offers an alternative source of credit for some borrowers ... Second, some academic literature ... suggests that bank-based systems can stifle lending to the most innovative enterprises ... It is further suggested that the non-bank financial system is better able to provide credit to higher-risk, potentially more productive investment opportunities".

So, five years ago, the Bank said that this might be a risk but, actually, there are huge benefits if we start planning for a shift to be able to manage this if it occurs. The big question is: what has happened in the last five years to develop that thinking on market-based financing and wholesale funding by commercial banks? But the Bank has identified that there are solutions.

Q80 Baroness Bowles of Berkhamsted: On the point about interest, you moved from interest to making it more like a bank—straight into lending. That would seem to imply that the regulations, at least from the Bank of England, are entirely based on protecting banks and their lending and therefore the amount of deposits in banks, because it restricts the holdings that you can put into stablecoins. Is that how you see it? This keeps it small scale so that it does not interfere with banking in any way and would not remove its customers.

Adam Jackson: There are a number of aspects of the Bank's proposals that would have that effect; whether deliberate or not, I would not like to speculate. The Bank has specifically said that holding limits—so you could only have £20,000 of stablecoin and a business could only hold £10

million—which no other country has introduced, are to address the risk that we just have described, which is the outflow of money. People would shift all their money out of a possibly interest-paying deposit account into a stablecoin. That is the risk that it identified, which this is designed to manage.

Again, I come back to that holding limit being a very clunky solution to what could be a more systemic and long-term adjustment in the market anyway. It is actually really difficult to do because, if you are a stablecoin issuer or wallet provider, you have to know not only how much stablecoin you have sold to someone but how much everyone else has. It needs to be tracked across the market and you have to build in a lot of complex, interoperable systems to track that, and only for the UK market. That is a really significant cost and it has been described as temporary, so you would be building all this just for the UK market and maybe for five years. That is for a risk that, as I have said, is unlikely to happen immediately, if at all, and that could be best managed by market monitoring, in the first instance, and just seeing whether there is an outflow—we have not heard that from banks in the US—alongside a programme to develop alternative lending models in the UK economy. You can also build in some controls around redemption, if you really need to and are worried that there will be a sudden big outflow. So it feels like the Bank is unduly protecting commercial banks in a very disproportionate way.

I know you had quite a lot of discussion about tokenised deposits last week. The Bank of England, in various speeches, has made it clear that it wants commercial banks in the UK to develop and implement tokenised deposits. That goes hand in hand with it saying that it does not want banks to issue stablecoins. Indeed, there is a “Dear CEO” letter of November 2023, which tells banks that they are not allowed to develop a stablecoin, at least not as their own entities. They would need to set up a whole separate entity and brand it totally differently, as well. So there is a sense that the Bank is really keen that tokenised deposits are introduced. Previous statements by the governor have also said that the Bank wants banks to introduce tokenised deposits; if they do not, it might have to introduce a central bank digital currency.

So there is a play here, in which banks have been encouraged to go down a different route. I am not sure whether that protects the current commercial bank deposit model. It feels slightly like taking comfort in the banking model that we know, but that model did not serve us so well in 2008.

Q81 Lord Sharkey: The market in stablecoins in the United States has suffered crashes. I am not really talking about Terra, which is not the right kind of stablecoin, as I am sure you would say. But, on 10 October last year, there was a flash crash in the stablecoin market, which resulted in a huge drop in valuations and in one of the exchanges being fined—or at least paying compensation—for some of the damage done to its customers. Given that these things can happen and did happen, what did

we learn from all that to prevent similar collapses in the United Kingdom?

Adam Jackson: The biggest message, which I took from Terra and would take from the same crashes, is that we need regulation. Across the piece, industry agrees that we need regulated stablecoins that therefore ensure minimum standards on the backing assets. We need an audit of those assets, governance and to ensure that funds are not co-mingled but that there is segregation. All of those come from regulation and the US does not currently have regulated stablecoins, so the crashes we have seen have been to unregulated stablecoins.

I come back to that allowing for the various failures you might see that lead up to a crash. It might be a lack of confidence in the backing assets. The fact that unregulated stablecoins do not always publish what the backing assets are, in detail and regularly, can either lead consumers to have undue confidence in them, which might be misplaced, or to concerns that are not misplaced, but customers do not have that information. The key message is that we need regulation that covers all those essential areas.

Lord Sharkey: You have not mentioned size. The flash crash in the United States in October was largely caused by Binance being the dominant player and its liquidity being insufficient. Binance has something like 65% of all the assets involved in all this by itself, which magnified the problem when people were effectively locked out for a while. I was wondering whether you think there should be some extra or different regulation once stablecoin operators have passed a certain size.

Adam Jackson: Again, we do not dispute the grounds of the UK regime, which is to have an entry-level stablecoin regulatory regime that is the FCA's, then a systemic regime that the Bank applies. Crucially, what that does – and we do not tend to talk about that, because it is not prescriptive or written down, – is it provides Bank supervision. We probably do not talk enough about the role of supervisors, which would absolutely come into play if we were to have large issuers and players that are regulated under a systemic regime. You would have a supervisor crawling over all the business, if necessary, which we have not had in the US.

Q82 Lord Vaux of Harrowden: I want to explore a little further why we need a sterling stablecoin. The main benefit or use case for stablecoins, other than just crypto trading and illicit activities, which you and others have raised, is for international or cross-border payments. Sterling is not the currency for that; the dollar is more likely to be the currency you want. So that does not seem to be a driver for needing a sterling stablecoin. We have faster payments within the UK and we are looking at open banking, with direct, account-to-account payments that are effectively instantaneous and very close to being free, so there does not seem to be a massively convincing business case for sterling stablecoins within the UK payment system. So why do we need sterling stablecoins? What is the demand for them?

At the very outset, you talked about your members wanting to get into stablecoin services, but that is not the same thing as stablecoin issuance, so why are they not doing that anyway? They could do that for dollar stablecoins anyway. So why do we need these and what is going to drive them?

Adam Jackson: It is worth bearing in mind that sterling is still the fourth largest and fourth most traded currency in the world, so we should not do ourselves down. It is significant. So there is a general point: as currencies, particularly in global trade terms, shift to stablecoins, do we want to try to preserve that position or are we happy for it to be reduced? If you think about the UK's position in FX markets, where the City really leads, that is trading in all currencies, but you need a strong sterling to be part of that trade, and indeed then ultimately to off-ramp it.

Also, once you start looking at cross-border trade, while a lot might be in dollar stablecoin there is also a point at which there will be a desire in some cases to shift it to sterling. Some transactions will be in sterling and that will be easier to effect if it is also digital money and digital stablecoins. GBP works in those respects. If we think about the small businesses, there will be markets they export to where there are customers willing to pay in sterling stablecoin, particularly if that might lead to a cheaper contract. So I think there will be trades there. Yes, there will be trade in dollar stablecoin, but you would see some trades where the sender and the seller would both be up for the incentive.

I appreciate that in a global market we will see a dominance of dollar. The argument will be: this is essentially digitisation of markets we currently have and the ideal is retaining the UK's position in those and retaining UK models and, hopefully, increasing the size of the UK. Therefore, where there is currently use of GBP—sterling—there should be use cases for GBP stablecoin. I appreciate that the retail side is the obvious area and I am probably underplaying the retail side. It definitely is the one that will be slower. As you say, particularly with open banking and open banking payments taking off, that is the most immediate area of innovation and reducing costs domestically.

There is an argument that some of the open banking firms are looking at the concept. Open banking payments is basically an exchange of data to provide the basis for the transaction, but then you have to use rails. At the moment, that still uses the Faster Payment System rails, but there is a model where you use the overlay of open banking for the account-to-account signalling but then you could use the stablecoin as the rail and that might be a cheaper rail than using faster payment. One way of looking at it is that the stablecoin provides some of the infrastructure and therefore you could move to, for example, combinations of some of the open banking techniques with stablecoin.

I do not want to confuse things too much because that is certainly not in the next two years. You asked: why have some of the providers in the UK not offered stablecoin? We have firms which would like to issue.

OpenPayd provides stablecoin payment solutions in the EU and I think also in Canada. Such firms tend to partner with an issuer and an exchange. There, the link to the payment systems and the merchants' interface—

Lord Vaux of Harrowden: Sorry to interrupt. Does that mean we have the regulation of this the wrong way round—that actually it is not so much the regulation of stablecoins that matters at the moment, it is the regulation of the service providers and making that easier that could be more important?

Adam Jackson: I think it is best to start with the issuer. The reason why some of those service providers are rolling out the payment layer of stablecoin overseas and not in the UK is if you are in the EU, you have a regulated stablecoin issuer, you have a regulated exchange, and then you are already, under PSD2, a regulated payment provider. That means you can align and therefore you can offer the customer, the business, the confidence that at all levels of the chain that business is regulated, with all the safeguards and assurances that provides—the point being that that is not the case in the UK. The payment provider would be regulated but then it would be relying on an issuer and, until the full crypto assets rules are introduced by the FCA, the exchange is not fully regulated, so there is a weak link in the chain.

It comes back to the fact that it is much more productive. Such firms have the demand from customers where they can demonstrate that there is assurance across the piece. You asked whether we should be focusing on the payments firms. No, because it is providing the same function that they provide to customers or to businesses but using a different payment rail and therefore the payments rules apply. Exchanges are being regulated and the rules are under way so that is being captured, and that includes rules on custody.

Again, there is a longer-term question which ties up with the point about whether you ultimately start linking this to open banking. The Government recognised last week with their *Payments Forward Plan* that the UK regulation of payments providers—the payments piece—does need to be updated; in particular, the way in which stablecoins are being regulated in the UK allows them to be used for payments but it does not expressly ask whether there is anything specific about the use of stablecoin in the payments environment that needs to be looked at. That piece is about digital payments as a whole and about updating the payments regulations.

The Chair: Can we stick with stablecoins rather than other matters? I think we need shorter questions and answers, if you do not mind; otherwise, we will not manage to get through it all.

Q83 **Lord Hill of Oareford:** I just want to check what you said at the beginning. I think you said that if the proposals from the FCA and the Bank are not changed, we will not have an industry in the UK. That is correct? Right. So are you confident that the proposals from the FCA and

the Bank of England are going to be changed?

Adam Jackson: Am I confident? No. It is probably 50:50. Industry is making the point. The rules have not been finalised yet, but they are consultation papers. You do not usually expect to see a huge amount of change between a consultation and a final policy statement. The FCA is doing a lot more work to understand business models so I would probably be more confident there. I think the Bank has further to go and there is more concern about risk—which, as I said, I think is undue—but something else would need to change to change the Bank's rules. Therefore, your work and possibly the approach of the Treasury will be critical. I would not be confident of change if there were not possibly some additional discussions at a high level.

Lord Hill of Oareford: Do you think that, broadly speaking, the FCA and the Bank of England are joined up in their approach to this regulation, or does it feel like you are being hit by two separate tracks of regulation?

Adam Jackson: People talk about the cliff edge. To go from the FCA regime to the Bank of England regime would require a firm to completely change its business model. The proposals do not fit. I know, and the teams assure me and I have seen it in action, that at team level the Bank of England and the FCA are talking to each other and regularly engaging; they are trying to work it out. It is most definitely happening at official level. But there is still quite a gap to bridge and I think there are different views of risk and of the secondary competitiveness and growth objective, which probably is the mismatch.

Q84 **Lord Lilley:** In response to the Lord Chairman's opening question as to why a market had not spontaneously developed here ahead of regulation, you said that the Bank of England had told the challenger banks—maybe all banks—that they could not introduce stablecoins. Do you know whether the Bank of England had the legal power to tell them that they could not, or was it saying, in effect, "If you do, we will somehow acquire the legal power to stop you doing this"?

Adam Jackson: I do not know for sure what the legal basis is. It was a "Dear CEO" letter of November 2023.

Lord Lilley: The CEO being—

Adam Jackson: It was the director of banking writing to the CEOs of the Bank's regulated entities. So it was a way of the Bank transmitting its requirements of firms that come under its supervisory remit.

Lord Lilley: "Don't do it, or else."

Adam Jackson: It very clearly said, "Don't do it and if you are already doing it, stop it". At the same time, it also banned banks from setting up e-money payment systems.

Lord Lilley: There is a second, related question. If a business in this country, ahead of any regulation, wants to acquire digital coins—

stablecoins, in dollars, say—from somewhere else, can they do so and use them, or is that against the law?

Adam Jackson: No, you could. Your previous witness would sell you some. If you are a business I recommend you go to the FCA website and find out which exchanges are currently regulated for anti-money laundering and counterterrorism funding. Because they are already regulated for those purposes, you could go to one of those exchanges and you would have KYC, you could buy a US dollar stablecoin, or possibly a euro one, and then you could use it with anyone who might accept it.

Lord Lilley: Could I, as a non-bank, set up my own stablecoin and issue it through one of these regulated exchanges?

Adam Jackson: Again, if you are a UK bank—

Lord Lilley: No, a non-bank.

Adam Jackson: Could you issue it? In principle, yes. We do already have a couple of GBP stablecoin issuers. At the moment they are at start-up level. A couple of them have just got their FCA anti-money laundering licences. So, yes, you could set one up, you could issue stablecoin; you could even get a GBP stablecoin.

Q85 **Lord Davies of Brixton:** I do not really know what a challenger bank is. Is it a state of mind rather than a legal definition?

Adam Jackson: Well, there is a state of mind, I think.

Lord Lilley: It is an oxymoron.

Adam Jackson: They have all come up since 2010. The state of mind is: "The current banking system has not served customers or businesses terribly well and we want to do that better". The big difference is that they are technology-first. Because they are, at most, 15 years old, they have been built on the latest tech stacks and therefore they are able to do things more cheaply and better.

Lord Davies of Brixton: Okay, so the Bank of England sent this letter to whoever they happen to define as an established bank.

Adam Jackson: They have sent a letter to all of those whom they regulate, who have banking licences with the Bank of England.

Lord Davies of Brixton: Oh, right. So the challenger banks do not have a banking licence?

Adam Jackson: Challenger banks do have banking licences.

Lord Davies of Brixton: Sorry, I am confused now.

Adam Jackson: The "Dear CEO" letter saying "you cannot issue a stablecoin" went to HSBC, Lloyds and NatWest but it also went to—

challenger bank examples would be—Monzo, Starling, OakNorth and Allica.

Lord Davies of Brixton: There is nothing in the technology, it strikes me, that is stablecoin-specific. There is the whole blockchain tokenisation stuff, there is what is programmable—the agentic stuff. Then somewhere there is a custodian, and that is all stuff that any bank would really need to be on top of. Is that right—and if it is not, it is because it is stodgy and old, basically?

Adam Jackson: There is a difference between a custodian of stablecoin and a custodian of a bank deposit because—again, under a regulatory regime but it is the right regulatory principle—your stablecoin is segregated from the company's funds. In a commercial banking model, there is less segregation once you put your money in as a deposit, the point being—

Lord Davies of Brixton: Being a custodian is a very mature technology. I do not know enough about it.

Adam Jackson: Exactly. There are a lot of custodian firms. They are used to providing digital wallets custody and digital assets custody. That is the established model.

Lord Davies of Brixton: Okay. Again, as I asked the previous witness, I am not really sure what is specific about what is proposed here. All the technology is there.

Adam Jackson: So what is different about stablecoin?

Lord Davies of Brixton: I am really saying: is stablecoin just a bit of hype?

Adam Jackson: Oh! No. There is not another thing which tokenises highly liquid assets, provides them on a one-to-one par with a fiat currency, and operates off a blockchain—which is a public blockchain and therefore a much simpler and more direct route for a transaction than going through correspondent banking.

Lord Davies of Brixton: My point is: that is the direction that everyone is going anyway. That is just standard banking. That is what banks need to do. The fact that some are not is commercial or whatever.

Adam Jackson: Probably it is the direction that payments are going, as part of banking. I guess I should agree: yes, because that is what our challenger banks—the digital-first banks—want to do. That is absolutely part of their model. But they are not allowed to at the moment.

The Chair: We are going to have to speed up, I am afraid, as I have three more colleagues wanting to ask questions. Lord Turnbull?

Q86 **Lord Turnbull:** You mentioned four areas where you think the Bank's proposals are probably too strict: limits, 40:60 split, capital

requirements, and the ban on banks. The thing that you have not mentioned is: are the provisions for KYC keeping pace with the possible developments of stablecoin if it takes off?

Adam Jackson: In terms of illicit financing and KYC, the rules are there already. They apply to any payment firm. They apply to any crypto asset firm: the requirements for KYC, strict application of the FATF rules on anti-money laundering and all the controls that are required around that. There is the travel rule, which means that banks are required to report on and track who the money is coming from and who it has gone to for any cross-border transactions over \$1,000. All of those rules are in place. We also have things such as the strong customer authentication.

The point you make is: are they sufficient? Any anti-fraud or anti-money laundering systems have to be constantly updated because the bad actors are constantly finding new ways of applying technology or new workarounds. That applies to the whole of financial services—the whole of payments. I would say absolutely, that always has to be updated and there are always better ways of doing it. Sometimes, if you look at strong customer authentication, the prescriptive nature of the requirements can get in the way of delivering possibly better outcomes, but that is something the Government are reviewing at the moment—how do we ensure continued evolution? But I do not think that is a stablecoin question. It is right across the piece but, equally, I emphasise that KYC in particular and all the anti-money laundering rules bite already on exchanges, they bite on payment firms, and they would bite on stablecoin issuers.

Q87 **Lord Eatwell:** I have two puzzles. One is on international payments. It is always floated as the great virtue of stablecoin, but it seems to me that if somebody in the United States is paying me, the stablecoin will transfer dollars to me—but I do not want dollars, I want pounds sterling, so I still have the whole foreign exchange cost. It does not really solve any international payment issue. Then, domestically, I do not understand at all in the sense that I do not see how stablecoins are superior to BACS, as I asked the previous person. His argument was that you do not use BACS for buying a packet of sweets in a sweet shop. Well, that is true, but you do not use stablecoins either. In what way are stablecoins superior to BACS?

Adam Jackson: On the point about “Is it superior to BACS?”, for B2B in the UK—from a UK business to a UK business—it does not necessarily make sense to use stablecoins, certainly at the moment. There may be innovations that that work off the back of that.

Lord Eatwell: That is very helpful.

Adam Jackson: On the international question, something is just worth bearing in mind. One of the payments firms—Stripe—has introduced US dollar stablecoin for businesses. It is in the US, but those retailers, merchants and small businesses offering a payment method through stablecoin have seen the number of countries in which they have

customers expand enormously, and they have seen the value of their sales expand. That would be people—

Lord Eatwell: As dollar transactions.

Adam Jackson: Yes, but if you are a UK business, it is not so much about the currency, albeit you could quite easily be charging in sterling from the UK, but the ability to pay by stablecoin increases the number of markets you can tap into.

Lord Eatwell: You have to pay your workers in sterling, so you need sterling.

Adam Jackson: Again, in the US, PayPal works closely with Deliveroo and Uber in providing all of their payments, including a stablecoin method, so there are instances of people—certainly Deliveroo and Uber employees—being paid in stablecoin. That might well be quite a minority request in the UK, but again, if you think maybe of younger people—maybe people who do not have access to established financial services—you could see some of that starting to take off. I do not think it will be any time soon.

The Chair: Thank you very much for coming along this morning. This has been a very interesting session and I am grateful to you for spending time with the committee.