Financial Services Regulation Committee

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

Wednesday 11 March 2026

10.05 am

Watch the meeting

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

Evidence Session No. 9 Heard in Public Questions 88 - 100

Witnesses

I: Sarah Breeden, Deputy Governor, Bank of England; Sasha Mills, Executive Director of Financial Market Infrastructure, Bank of England.

Examination of witnesses

Sarah Breeden and Sasha Mills.

Q88 **The Chair:** Welcome to today's meeting, which is the ninth oral session of the committee's inquiry into the growth and proposed regulation of stablecoins. Thank you very much to Ms Breeden and Ms Mills from the Bank of England for attending to give evidence today. The session is open to the public and is broadcast live and subsequently accessible via the parliamentary website. A verbatim transcript will be taken of the evidence and will be put on the parliamentary website. Ms Breeden, I believe you are going to make an opening statement.

Sarah Breeden: Thank you very much, and thanks for inviting Sasha and me today. I want to make three points by way of introduction and then briefly touch on three aspects of our regime to help frame the discussion today.

First, we at the Bank of England want to enable sterling stablecoins to be used as money for real-world payments. Greater competition in payments could mean merchants seeing cheaper fees than they currently have with credit cards. Customisable conditional payments could increase the confidence in shopping online and mean fewer late payments for businesses, as merchants receive funds automatically on delivery of their goods. Those making payments across borders or in financial markets could see lower costs and get access to their funds more quickly through fewer intermediaries.

This distributed ledger technology could be applied by banks through tokenised deposits, and we at the Bank are also exploring retail and wholesale central bank digital currency. We also want to see tokenised money issued by non-banks, i.e. sterling stablecoins, so we can have what I call a multi-moneyverse with greater choice and competition today.

Secondly, I should be clear what our regime is focused on. Currently, stablecoins are mainly used to support crypto asset trading. The Bank's Financial Policy Committee regularly assesses financial stability risks from the crypto market. These are currently limited so, crucially, our stablecoin regime is not for those non-systemic coins. They will be solely regulated by the FCA.

What we are doing is designing the systemic stablecoin regime for a future where coins are widely used as money for real-world payments. They would be jointly regulated by the Bank and the FCA. We are not at that point yet, and we may not ever get there. But we know from other areas of tech that new products can adopt rapidly, so it is on us to make sure that the UK is ready for stablecoins' future use cases as well as current uses.

Thirdly, our work is well advanced. We consulted last year and we are carefully considering the feedback. We will publish draft rules in the middle of this year and finalise them by year end, as is the aim in the US. When I hear some say that the UK is behind, I simply do not recognise that. We will be welcoming applications from stablecoin issuers by the end of this year.

On the substance of our regime, the guiding principle is that a stablecoin used as money in the economy should be as robust as the money we use today issued by banks. To support that, the Bank of England is going further than any other central bank globally to put our balance sheet to work to ensure that systemic stablecoins are truly stable. In contrast to other jurisdictions where coins have to rely on their competitors, the commercial banks, for a bank account, in the UK we as the central bank will provide accounts to systemic stablecoins, where they will hold at least 40% of their backing assets to ensure their value and timely redemption. Issuers can hold the balance up to 60% of their backing assets in short-term UK Government debt. In other words, they will earn a return on the majority of their backing assets. Again, uniquely internationally, we are considering a Bank of England liquidity facility to backstop issuers' ability to monetise those government debt holdings. All that means that these coins will be truly stable.

The second part of our regime, which adds to this point about stability, is about giving people confidence to use stablecoins as money by ensuring they are frictionlessly exchangeable with other forms of money, just like when we exchange different forms of money issued by different banks today. Our regime offers coin holders robust redemption rights, and we expect issuers to access the payment systems that support day-to-day economic activity.

The last area I want to highlight is the critical issue of how we safely manage the transition to a system where stablecoins are widely used as money. Our focus here is not on protecting banks' business models. It is to ensure that if there is a large and rapid take-up of stablecoins for payments, there is not a precipitous drop in credit provision to the real economy. That matters a lot in the UK, where banks currently provide 85% of household credit compared with, for example, 30% or 40% in the US, and where, unlike in the EU, systemic stablecoin backing assets cannot be held at commercial banks.

To achieve that objective, our consultation sought feedback on temporary high limits on individual holdings of a stablecoin, which, to be clear, do not apply to their use in crypto or wholesale financial markets. We also sought feedback on other temporary tools to achieve that same outcome, aggregate limits on a coin's overall size or limits on transaction size. We are reviewing that feedback carefully ahead of finalising our rules. We think this is a powerful example of us leaning in to support innovation and financial stability.

Let me stop there. I am happy to take questions.

The Chair: Thank you. Does the Bank agree with the Bank for International Settlements that stablecoins fall short on the three key tests for money, which are singleness, integrity and elasticity?

Sarah Breeden: On singleness and interoperability, we are designing our regime to deliver on those outcomes. Singleness is about ensuring that a pound of stablecoin can be exchanged frictionlessly and freely into a pound of other forms of money. The combination of the backing assets and the redemption policy that we are creating for the UK systemic stablecoin regimes will ensure that happens. It is on us to fix that singleness of money point, and I believe our regime does that.

On integrity, that is all about the AML and KYC conditions that are applied to use of stablecoins. Across the Bank of England systemic stablecoin regime and the FCA's stablecoin regime we have sought to ensure that the standards of stablecoins are the same as banks. Then, on elasticity, that is a genuine difference between the two forms of money. Banks bundle payments and credit together. That is what gives it the elasticity. All that stablecoins do is payments, so they are not elastic in that way. You have to prefund the money before it can be used as payment. I do not think that necessarily means that the stablecoins are not useful as a means of payment—quite the reverse—but the essence of the difference between a tokenised deposit and a stablecoin is that elasticity point.

The Chair: You said in your opening remarks that you were very open to developing stablecoins positively in the UK. Do you think that your proposed regulatory rules will actually help or hinder the widespread adoption of stablecoins? You also mentioned that you might never need to use your systemic stablecoin, so are you designing it not to be used?

Sarah Breeden: We are absolutely not designing it not to be used. What you saw in the consultation that we put out last November was a regime that had responded to feedback from our initial proposals in 2023 that suggested our regime would not be viable. Our whole approach to designing this regime has been to have financial stability our primary objective and innovation our secondary objective, front and centre, as we design the regime. I think we need both, because stablecoins are money and their responsible adoption, their widespread adoption, will be encouraged if we are delivering singleness of money and trust in money as we just described. Financial stability and innovation go together in the design of our regime.

It also goes the other way, because if our regime does not allow viable business models, and if this technology takes off because it is useful to businesses, households and users of financial markets, it could be that a non-sterling stablecoin is widely used here in the UK or that a sterling stablecoin issued outside the UK takes off, and both of those would create a risk to financial stability.

As we have designed the regime, we have tried to ensure that we are doing three things: creating viable business models for stablecoin issuers, ensuring trust in money to support their sustainable and responsible adoption in their wide use as money, and ensuring that we are proportionate as we do that. That is where considering the UK's stablecoin regime as having the Bank of England's part, which speaks to systemic, wide use for payments, and the FCA's part of the regime, for other uses, has embedded proportionality in it as part of the regime.

Q89 **Lord Sharkey:** Good morning. I want to ask about risk and about scale, both of which you have talked about already. Turning first to scale, how important is stablecoin to the UK at the moment? How important is it likely to be? Why are we bothered about this? Who will make money out of it and who will benefit from it, and where will the risks be located? What happens if we do not do any of this? What risk do we then run?

Talking about the other side of risks, the financial stability risk that there may be, you know that we have heard evidence suggesting that stablecoins are run prone and there are liquidity problems. We have seen evidence of these things in the real world. On 10 October last year, the flash crash was a liquidity problem, essentially, and a very serious one as it turns out.

Finally, I would like to hear you comment on the non-reversibility of blockchain transactions and to what extent that may or may not be a problem.

Sarah Breeden: Brilliant. Thank you very much. There was a lot in there, Lord Sharkey. I will try to answer it and Sasha can help me out if I have missed bits.

Let us start with where we are and where we can be in terms of the use of stablecoins. Right now, as you know, 99% of stablecoins are denominated in US dollars. That reflects their broad current use cases, which is as a means of payment, a settlement asset in the crypto universe, and individuals, often in emerging economies, who want to hold dollars and, rather than holding paper dollars, they are holding stablecoins instead. There is some use for payments, but it is relatively limited right now.

However, this technology has the ability to improve payments. Payments can be made 24/7. They can be made instantly. They can be made at cheaper cost. They can have fewer intermediaries involved. There are new functionalities that might be available. It can be programmed so that the money moves only if an event happens. They can be made for very small amounts. All those are real-world use cases for this technology, which, if we regulate it well, could be adopted by users in the market.

Let me try to make that real to you. We could have just-in-time treasury management for large corporates that, rather than losing money in the payment system, can instantly move money from one place to another. It could lead to reduced credit card fees for small and medium-sized enterprises. Rather than paying 2% or 3% to Visa and Mastercard, they can get the full amount of their money or small pence by using these. For cross-border payments, which often take many days to settle and cost large amounts, these stablecoin payments can be made in seconds and for cents. We can monetise assets in financial markets much more quickly. That is with current technology. Apply AI to it and we can have agentic payments. I do think that the functions that come with stablecoins can be used in the real financial world to drive more and better uses of payments. That is why we have sought to design a regime that delivers that.

On the risks that may come with having created this new form of money that does that, as you say, we need to make sure that the pound of stablecoin is worth a pound of other forms of money. That goes to the backing assets. Partly that will be, as I said, deposits with the Bank of England; partly it will be short-term, high-quality UK Government debt. That means that there is assurance that a pound of stablecoin can be frictionlessly and easily turned into a pound of other forms of money.

There is run risk with it. However, what we are proposing through our regime is to manage that run risk through the access to the central bank balance sheet. So 40% of the backing assets will be money on deposit with us, which can just be transferred to another form of money instantly; 60% is very short-maturity government debt that either can be monetised in financial markets or, as I said, will provide a lender of last resort facility for it. We believe that our regime has managed that run risk through the access to the central bank balance sheet that we are proposing, just as we do with banks.

On the point about non-immutability, I will start and then, Sasha, please do add. It is the case that you cannot reverse a transaction; you cannot undo it. What you can do is send it back the other way, and obviously that would be a different way of dealing with the issue of fails in the system and missed payments. What have I missed, Sasha?

Sasha Mills: To add to that point, you can make another transaction immediately afterwards. One of the advantages of this technology is that all those transactions are transparent and therefore you can see what has happened and you can act. That can be for the counterparties who have access.

Lord Sharkey: As I understand it, what you can do is fork the chain. I hope I am pronouncing that correctly.

Sasha Mills: That is what has happened in the past, but the way we are designing the system here and in terms of the underlying technology, those are exactly the challenges of this technology. The governance, the accountability and things such as settlement finality all have to be proven to us for us to be comfortable that we could accept such a system.

Sarah Breeden: To add on that, we have been clear in our consultation about the expectations that we have of the robustness of the blockchain, the payments mechanism that is made. That speaks to cyber resilience. It speaks to operational resilience. It speaks to the possibility of forking it. Who is responsible for that? What are the governance mechanisms? We have not said that public permissionless blockchains are either eligible or not. What we have said is that public permissionless blockchains need to demonstrate to us how they can meet these outcomes. The points you raise are right and are a part of our regime to ensure they are delivered. If there is a private permissioned blockchain, obviously there is a whole set of rules and governance that comes with that, which means they are automatically fixed.

Q90 **Lord Vaux of Harrowden:** I just want to probe a little bit on this. You have mentioned that it is much faster and quicker and all the rest of it, which we are always told about these things, but actually the evidence is perhaps the opposite. There is this concept of the blockchain trilemma, where you can achieve only two of decentralisation, security and scalability, and there is limited evidence that these things are really capable of the speed and scalability without sacrificing either security or decentralisation. To what extent has the Bank actually looked into the technology and whether these advantages that we are always told about are really genuine?

Sarah Breeden: The trilemma is something that is recognised and actively debated. The things that we have been doing are experimenting with the technology ourselves. We have a DLT lab where we experiment, and where financial companies can come and experiment, in order to better understand the limits of this technology.

The technology is advancing. What was difficult to do six months ago becomes easier now and in six months' time we may find that the issues are fixed. If you are asking, "Could you, on a decentralised technology, do millions of transactions in millionths of seconds for tiny amounts of cost?", right now that is not possible. What we are trying to do is ensure that we have a regime in place so that as those technological improvements happen we are able to support that. There are innovations in the private permissioned, as opposed to public permissionless, space that mean some of these things are easier to fix through different ways of managing the technology.

Sasha Mills: We are providing a regime that allows these things to be done safely and with a future sustainability. Whether they are successful will be down to the characteristics you describe: the cost, the actual functionality and the overall efficiency as implemented. There is a big difference between the public and the private permissioned at the moment. In the private world, as Sarah is saying, you can particularly see a number of consortia of banks putting in together because you get the economies of scale and those network effects. That then becomes a different viable business model from perhaps more of a solo.

Sarah Breeden: UK payments right now are not terrible. The Faster Payments system in the UK can deliver 24/7 instant payments for free. So how these develop is also relative to what the alternatives are. I note, though, that there are aspects where payments have long settlement legs, particularly cross-border, where there are fees that are perhaps particularly expensive for certain users of payments. We often do not see it as consumers. It is the merchants that are paying the fees. In that context, these may provide some competition.

Q91 **Lord Hollick:** Several of our witnesses raised the point that you touched upon in your opening remarks, which is that to the extent that stablecoins become widely adopted and possibly helped by the payment of interest or other benefits, that would drain money away from deposits, which would in turn reduce the credit available to the real economy, which obviously is a priority for us. Have you modelled that and how do you think it would be possible for the Bank of England and the regulatory framework to address that risk?

Sarah Breeden: It is a great question. It is a very real risk, and it is one that we have been very focussed on as we have been designing the regime. As you well know, banks bundle payments and credit into a single service at the moment. Stablecoins are only about payments, so as deposits move from banks to stablecoins, if that funding is not replaced in banks we are in danger of seeing a precipitous drop in credit for businesses and households. That matters enormously in the UK where, as you discussed in your private credit inquiry, SMEs are very reliant on the banking system. Certainly, with mortgages, 85% of household credit comes from the banking system.

It is a real risk. We are worried about it. We have sought to analyse it. Indeed, we put out a very full paper back in November that set out how we had gone about trying to size this risk. That analysis led to our proposal, on which we are consulting, to limit the holdings of stablecoins on a temporary basis as the financial system adjusts to a world that might have stablecoins playing a big role. What we modelled was how much there might be a flow of money, of deposits, from banks to stablecoin providers. We sought to understand what that would mean for the funding of the banks and whether they were likely to continue to lend. On the back of that, in our paper we have proposed holding limits for individuals of £20,000 in a systemic stablecoin and for businesses £10 million. Obviously, if you are Tesco, you can apply to us for a bigger limit. What we sought to do as we undertook that analysis was balance usability to ensure that the coins could be used for payments with managing this risk of the changing shape of the financial system.

One thing I want to say, and then I will ask Sasha whether she wants to add anything, is that you would expect the financial system to adjust and that as funds flow from banks to payments but there is still a demand to borrow, other forms of funding for banks would step in. You see that, for example, in the US, where much of corporate credit, much of household credit, does actually come from financial markets rather than banks. One would expect the financial system to adjust. The limits are there to support an orderly transition as the shape of the system changes.

Sasha Mills: I have nothing to add to that.

Lord Hollick: Stablecoins have been very successfully introduced into the United States. Is there any evidence from the United States that this problem of disintermediation has arisen?

Sarah Breeden: I take you back to the uses that stablecoins are currently performing versus the ones that they might in future. The uses that stablecoins are being put to in the US now are settling crypto market transactions and being held overseas in other jurisdictions. They are not money that would otherwise have been held in a bank to make everyday payments. We must look at what is happening overseas and try to learn from it, but I think that the use we have seen so far is not the widespread adoption of stablecoins for payments in the real economy that our regime is designed to talk about.

The other thing is that the amounts involved so far in US stablecoins are pretty small as a share of the entire US financial system. That is in part because the US coins are not regulated yet. It is a largely unregulated market. As they become regulated, as their uses become more real-world financial rather than crypto and offshore money, we might be able to learn a little bit more then.

Sasha Mills: I think that is the key point: what you are comparing with is not the regime or environment that we are talking about here. Therefore, that forward data will be very useful, but the data we have at the moment is less of a useful comparison.

Q92 **Baroness Bowles of Berkhamsted:** I am trying in my head to work out whether you have leapt ahead in terms of where stablecoin will go to in usage or whether you are being overcautious. The two are perhaps going hand in hand in that you have solved some of the trilemmas by the Bank being more involved. Does the Bank being more involved cause some of the things that people complain about—for example, that the regime is too strict and that is why you are not paying any interest on the deposits? Those are the things that are complained about. Because the Bank is more involved, does that put some operational limits on the number of issuers of stablecoins? Are we expecting there to be lots and lots, or are we expecting it to be a relatively small number that then get bigger?

Sarah Breeden: It is absolutely the case that the systemic stablecoin regime is looking ahead to future use cases, not current use cases. The current uses of stablecoins are very well catered for in the FCA bit of the UK regime. Our regime is looking ahead to, if 24/7 programmable, instant, cheap payments take off, what that might require in terms of ensuring that that money can function as money. That is where, to your point, it needs to be held on deposit with us and a lender of last resort facility to ensure stability of value and singleness of money.

On whether we have been too strict, you will come to your own judgment as part of this inquiry. My strong view is that we have sought to create a regime that is supportive of stablecoins functioning as money widely in the economy. We have sought to create a regime in which there are viable business models; 60% of backing assets can earn an interest. The coins do not pay interest. That means there is a chunk of money there to support viable business models.

On your question of whether there are any limits on how many stablecoins there might be because of our involvement, absolutely not. We are there to support. Sasha will regulate however many coins want to be issuers in the UK. We will provide facilities for however many coins want to issue in sterling, with absolutely no restriction. However, there are natural network effects in payments. We see that in credit cards. There is Visa and Mastercard, Amex a little bit. There is a natural tendency in markets for payments for there to be a small number of issuers, but if there are many we are there to support.

Sasha Mills: How the market responds is what we will then supervise, making sure the standards are appropriate.

Baroness Bowles of Berkhamsted: Has that left a gap in between what the FCA will deal with and the vision that you have? Could we have some interloper coming in from outside that fills a gap for using them rather than—

Sarah Breeden: I will say two things that I have not mentioned yet and that are important. We accept that there may be a need to transition from the FCA regime to the Bank of England regime within the UK's overall approach, and we are working closely with the FCA—I am happy to talk about that if you like—to ensure that there is coherence across the two regimes, so one can move easily from one to the other, and to ensure that there is a transition path as you move from this regime where you can hold 90% in interest-earning assets to this where you can earn 60%.[1] It is not a cliff edge. It is something that can be managed.

The other thing that we put in our consultation was this idea of a step-up regime. When you start and you are a little coin and you do not have the scale but your vision is to be a systemically important, widely used coin in sterling, you start where you are able to hold more interest-earning assets, and then you can step up through time as you scale and the economies of scale enable you to have a viable business as that happens. I do not know whether there is anything you want to add, Sasha.

Sasha Mills: On the other side of that, that is a smooth path as the firm could start small and transition, as Sarah said. As those requirements adjust in terms of the backing assets, we will also step up our supervision in a proportionate fashion. Basically, whatever the scale of the activity of the issuer is, we will match that with both backing asset side and the level of supervision.

[1] Note from the witness: The FCA (CP 25/14) have proposed an On Demand Deposit Requirement of 5% that all stablecoin issuers would have to hold as part of their backing asset pool. Therefore, as currently proposed, a stablecoin issuer recognised as systemic by HM Treasury and having to transition into the Bank of England's regime for systemic sterling stablecoin issuers could transition from holding 95% (rather than 90%) non-cash backing assets to holding 60% of their backing assets in short-term sterling denominated UK sovereign debt.

Baroness Bowles of Berkhamsted: Is that scaling up done under the auspices of the Bank, with the Bank already being there, so that once you start that migration path you become involved rather than it be solo FCA?

Sasha Mills: There are two paths, actually. You can start on the FCA and then move across to ours, but the experience would be the same. Or if the vision, as Sarah was describing earlier, is, "I want to enter the market, I want to be large and I want to be widely used across the economy", whether that is retail, wholesale or cross-border, you can ask to be systemic at launch, in which case we would make that assessment and we would make a recommendation to the Treasury.

Baroness Bowles of Berkhamsted: It would not be 60:40 at that stage.

Sasha Mills: Correct.

Sarah Breeden: That was a really important part of the feedback that we got and why we embedded as part of our regime this idea of being systemic at launch and stepping up through time in order to support coins as they grow.

Q93 **Lord Turnbull:** You have given us an upbeat assessment of all the Bank is doing to not necessarily promote but enable stablecoins. We have also had people sitting where you are now from the embryonic sector saying that on the basis of those conditions, nothing will happen. We were left with a problem of trying to sort out who is right and who is wrong. Are you exaggerating the conditions that need to be applied to have a healthy sector? You have holding limits. You have the unremunerated 40%. You are not allowing banks to be involved in this and there is no payment of interest. There is quite a lot of negatives that they see. Or do you think the embryonic sector is creating the project fear?

Sarah Breeden: Our intent is to support a viable, vibrant sector. We are consulting to learn from the sector about what of the regime might cause problems. I think the fact that in our regime we had originally proposed 100% backing assets unremunerated at the Bank of England and have shifted that to 60:40 shows you that we do listen, try to understand what the challenges are, and try to find creative ways of ensuring that we are able to deliver on our financial stability objective and support viable business models. Sasha can expand on that.

There are two issues in particular that I have heard the industry challenge us on. One is the 60:40 balance in terms of how much is interest earning and how much is not interest earning. The second is holding limits. On 60:40, it is important for us all to remember that these coins might be called stablecoins but the ones we are talking about are being used as money. We need to ensure that they are able to function as money, which means that if liquidity runs crystallise they are able to be met. The 40% that we have proposed for the money on deposit at the Bank of England has been sized with regard to actual experience of liquidity and same-day liquidity risks that the coins may face. We think it is grounded in the liquidity risks that they face and it is the right thing to do, given that their business is to be money and it is on us to ensure that their value is stable. We will go back and check and see whether we have been overly conservative in those assessments.

This focus on liquidity risk is one that you see with other regimes as well. The European regime requires 60% to be held on deposit. In that case, it is held on deposit with commercial banks, which are, of course, who the stablecoins are trying to disrupt—so you do not get very much in the way of interest there. Similarly, the proposed rules that the US regulators put out last week have 10% daily liquidity and 30% weekly liquidity. Our numbers are not a million miles away from where other regulators are.

I guess the final thing I would say on 60:40 is that you would expect there to be a tension between what you hear from us and what you hear from the industry, because every change that is made is a change that matters for their bottom line. That is a natural tension. We are mindful of viability and, in identifying a severe but plausible amount of money needed on deposit at your bank, we will look to whether it might be appropriate to change.

On holding limits, we are genuinely open to other ways of achieving the objective. I think you have heard from other people as part of your inquiry that this risk to the provision of credit is real. We proposed holding limits as a way of managing that risk. We are open to feedback on other ways of achieving it, but I think that you would expect us, as the financial stability authority, to ensure that there is not a precipitous drop of credit to the businesses and households in the UK.

Sasha Mills: Of course, it is also a bit of a selling point, which is that you are highly liquid behind the stablecoin. Going back to some of the concerns you have expressed about 10/10[2] and these other things, being able to say, "We have 40% in the Bank of England ready to go today, and then all these other backing assets", I think that is an enhancement.

Lord Turnbull: Please remind me of the timetable and where we are in it. Representations have been made.

Sarah Breeden: That is right.

Lord Turnbull: You are working on those now.

Sarah Breeden: Reflecting. That is right.

Lord Turnbull: You have not reached a position where you decide what you will actually do. When will that be?

Sarah Breeden: The timetable for that is the middle of this year. June is what we are scheduled for. We would put out draft rules for consultation at that point, with a view to finalising the regime and accepting

[2] Note from the witness: This is referring to the 10 October 2025 'flash crash'.

applications by the end of this year. So your inquiry is very timely, and we would love to hear your thoughts on it ahead of us coming out with our draft rules in June.

Q94 **Lord Davies of Brixton:** You are doing this because you think this is an important new development in the financial system. I can also see that there is an attraction to the Bank that you get these interest-free deposits. What I do not know and ought to know is what you do with that money.

Sarah Breeden: I can assure you that our objectives here are wholly driven by our primary objective for financial stability and our secondary objective for innovation. What happens in terms of any money that we make on the back of it is the same as any other money that the Bank of England makes. Half of it goes to the Treasury as a dividend. Half of it is usually accreted as capital. We have a financial arrangement with the Treasury that means that can be adapted if necessary.

Lord Davies of Brixton: The money disappears from the financial system in some way. Is it dead capital?

Sarah Breeden: The important thing is to remember the Bank of England's assets and liabilities and the coin issuer's assets and liabilities. The Bank of England will have some deposits on which it is not paying interest and will have assets on the other side of the balance sheet that go to the public sector. For the coin issuer, it will have assets on which it is earning interest and coin holders to whom it is not paying interest, so it too earns some money.

Lord Davies of Brixton: You used a phrase quite early in your introduction. I failed to make a note of it, but it was something like "multicurrency".

Sarah Breeden: Multi-moneyverse. What do I mean by that? You are right to challenge me, Lord Davies. I want to ensure that different forms of money can all succeed on how the Bank of England sets up its rule, the hard and the soft infrastructures, the hard infrastructure in terms of the payment rails and access to our balance sheet, the soft infrastructure in terms of the regulatory regime that we are designing. It can be central bank money. As you know, for many wholesale financial market transactions, settlement of gilts, you want the Bank of England's money to be the settlement asset. For others, it is fine to have private money. We want to ensure that traditional forms of money, tokenised commercial bank deposits and tokenised non-bank money in the form of stablecoins are able to coexist and be frictionlessly interoperable and interchangeable across those different forms.

Q95 **Lord Eatwell:** I have been trying to think about the role of stablecoins. It seems to me that they are equivalent to cash except they are digital cash. Is that right?

Sarah Breeden: That is right. They are money on the internet.

Lord Eatwell: We all know that one of the roles of cash is to pay your jobbing builder who wishes to remain anonymous to HMRC. One striking thing about the holders of stablecoins is that if I pay someone a stablecoin, they will be similarly anonymous. You said that we have full KYC and AML. That is wrong, is it not? How can you do that when the people are anonymous?

Sarah Breeden: That is what the FCA will do as part of its regime.

Lord Eatwell: If I pay somebody in Nigeria with stablecoins and he or she is sitting there with stablecoins, which is cash, how does the FCA do KYC and AML on that Nigerian citizen outwith our jurisdiction?

Sasha Mills: In sterling, these are stablecoins issued by the FCA. To be clear, all stablecoins that will be issued in the UK in sterling will be subject to all the usual—the same as the banks and everything—KYC provisions and protections that the FCA—

Lord Eatwell: It is not an account. I am just holding—

Sarah Breeden: It is held in a wallet.

Sasha Mills: It is in a wallet and then bites at that point.

Sarah Breeden: That is right.

Sasha Mills: This is important and reflecting your concern. The regime we are talking about in the UK for sterling stablecoins will include KYC and AML for all, whether they are non-systemic or systemic. The systemic ones, which we have been focusing on rather more today, are dual regulated. They will have all the protections of KYC—

Lord Eatwell: Maybe this is the restriction that Lord Turnbull was talking about, in the sense that one of the attractions of crypto assets is that you are anonymous, but you are not allowing people to be anonymous.

Sasha Mills: There are crypto assets, and we are talking about the payment leg of that, which is under the FCA regime because that is the one we are talking about in terms of non-systemic stablecoins. A lot of the evidence this committee has already heard is very much in the space you are talking about, which is crypto assets, where anonymity is a benefit, and then the anonymity on the other side is also a benefit. You would not be able to use the type of stablecoin we are talking about for that type of activity.

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[3] Note from witness: Sarah Breeden has clarified that, as set out in the Bank's November 2025 consultation paper, coinholders may choose to access their stablecoins via unhosted wallets. However, such arrangements will have to meet the relevant regulatory standards, which may be challenging due to their pseudonymous nature. The Bank has undertaken to write to the Committee to explain this further.

Sarah Breeden: There is this concept of an unhosted wallet where you do not have a wallet provider, a regulated entity that ensures that AML and KYC criteria are complied with. Unhosted wallets will not be permissible in the UK. They are permissible in the US regime.[3]

Lord Eatwell: Yes, quite. Indeed, one person who gave evidence to us said that the main role of stablecoins in the United States was to give access to the American banking system to people who otherwise did not have access. Will the main role of British stablecoins be to give access to the British banking system to people who otherwise would not have access?

Sarah Breeden: As I said, our focus on the systemic regime is on these future use cases, real-world payments, which include cross-border payments. It could include a small trading entity here in the UK dealing with a supplier in China; the supplier in China will be able to hold sterling stablecoins in a wallet, but it will be part of the AML/KYC regime.

Lord Eatwell: The UK AML/KYC structure?

Sarah Breeden: That is right.

Q96 **Lord Hill of Oareford:** You have used the word "temporary" a couple of times, and you have stressed in your remarks that you are open to listening and having discussions and so on. If it were to turn out that you have overcooked things and erred on the side of caution, how flexible is the system? How quickly can you course-correct? Often, with regulation, we all put something in place with our best endeavours and then it turns out maybe that it is not working quite as we had hoped, but it takes quite a long time to be able to change it in something as fast moving as this. How flexible can we be if we discover that we have we have erred a bit on the side of caution rather than enabling?

Sarah Breeden: That is a great question, and it applies most sharply in respect of the temporary limits that we are proposing to put in place to manage the risk as we transition from a world where banks provide payment services as well as credit to one where payments are provided by stablecoins.

That goes to the structure of the holding limits we put in place. We had suggested in our approach that we apply it at the level of the holding of the coin and that I could hold £20,000, if you were a business you could hold up to £10 million, and if you were a Tesco you could apply for more. You could move those numbers pretty easily but, if we then decide that is the wrong way to have gone about trying to limit this risk, is too complicated and has a whole lot of hassle associated with it, ripping that regime up and doing it differently would be more complicated.

For me, the grade one question as we look ahead to coming up with our draft proposals in the summer is whether that is the right way to address this risk, or are some of the other ways of addressing it that we set out in our consultation paper the right way to go? It is like moving from VHS to

Betamax or something. That would be more complicated. Sasha, I do not know whether you have anything to add.

Sasha Mills: That is spot on. We are making rules here and so, if it is the wrong one, we can change that. The structural point that Sarah makes is important, which is why we have asked the industry.

Sarah Breeden: We are open.

Sasha Mills: We are open. Is there a better way of doing this? Our aim, as this committee has already discussed, is clear about the credit disintermediation. That is the issue. What is the best way to solve it?

Lord Hill of Oareford: Could I ask a connected question about how you thought about it philosophically? Have you set out to try to construct a comprehensive system that will answer all possible developments and create, therefore, a predictable and stable market into which we hope people might come? Or have you thought about it from the point of view of the least we need to do now to get this market up and running, and then we can learn from what comes and maybe add things later? How did you conceptualise it?

Sarah Breeden: Our approach for stablecoins was aligned with our approach for central bank digital currency. As the Economic Affairs Committee knows from when it took its evidence on the central bank digital currency, the idea of holding limits seemed to make sense in that context. The Europeans are consulting right now on a digital euro and having holding limits there. We tried to think about it in a system-wide context and tried to address it in exactly the same way as we were thinking about CBDC.

Your challenge is whether there are simpler ways to managing the risk. What is the smallest-footprint intervention you can do here?

Lord Hill of Oareford: Yes, given that it is evolving so fast.

Sarah Breeden: It is a good one and it is front of mind as we reflect on this consultation.

Sasha Mills: Yes, while maintaining those core principles of making sure the money is safe and people who use it do not have to worry about which one they have.

Sarah Breeden: The paper that we published on the same day as we put our proposals out in November has all the analysis in it. It has some assumptions in there because we do not know what will happen, but we have shown our workings to try to engage the industry broadly. Do you recognise these things? Are we being too conservative? Are there other things we can do?

I cannot underline enough how open we are to doing this in different ways. You asking what is the least we can do to manage this risk is a good challenge.

Lord Hill of Oareford: I am scarred by the European experience. When we create a perfect market, no one wants to go in it.

Sarah Breeden: Yes, it is a good challenge and, if I might emphasise—you will have heard it through the evidence that you have had from others here—people do not, in general, understand the risk that we are trying to manage and can understand why we want to have some limits, but the pressure from the industry to do it in a different way is very real.

We have been a bit disappointed, it is fair to say, that nobody said, "Why not do it this way?" We have not yet had the constructive engagement on a different way to solve the problem that I might have hoped for. Instead, we have had, "Don't do this", and, "I understand why you want to do something", as opposed to filling the gap.

Q97 **Lord Griffiths of Fforestfach:** Good morning. The Bank always has a tension between financial stability and innovation. In the past, from the First World War until 1971, competition in banking was restricted. Then we had competition in credit control, and then we had the corset and so on. If you look at what happened out of the financial crisis, the brakes were slammed on and the banks were highly regulated again. What did we have? We had the growth of private credit and the challenge of private credit.

As a lay person to central banking, this is not an easy problem to solve. But the impression I have, increasingly, is that in a way you were taking an approach almost of learning by doing. The question I originally wanted to ask was why you have a 60:40 rule. Why not 50:50 or 30:70? It seems to me at least—I cannot speak for the committee—that one area where digital currency may well take off is transactions in the commercial sector rather than in the household sector. If that is so, could we see two different numbers for the commercial sector and for the household sector?

I suppose I am looking for a real commitment within the Bank to saying, "The next X years will be years internationally of development of technology and payments and we are committed as the UK to being part of that", as opposed to hedging because of financial stability concerns and, in a way, being laggards internationally.

Sarah Breeden: Look, it is a great question. You will come to your own judgment, but I honestly think that on this issue we have leaned in to support innovation while delivering financial stability. We are the only central bank in the world that has proposed to be the banker to these coins. We have said, "You don't need to go and try to get a bank account with somebody whose business you're trying to disrupt. You can hold your funds with us". We have said, "We will give you a lender of last resort facility so that if you can't monetise your securities in the market, just like banks can monetise assets with us, so can you". That is us going way beyond any other central bank to support this innovation.

In addition, in our work on the wholesale infrastructure, RTGS and the wholesale payments system, and in our work on the next generation retail rails where we are working with industry, we are making sure that it speaks to these new forms of money and payment, not just transferring static balances in bank accounts.

I honestly and genuinely think that we have been creative and supportive of innovation in this market. There has been quite a lot of interest from other central banks in understanding why we have behaved like this, because other regimes are not thinking ahead to how this new form of money can be used. They are looking at current use cases, not the future ones that we talk about. I would describe our regime as trying to think forward and think holistically and trying to work out what we need to do as regulator and as overseer of the financial system and central bank to support this.

Will we learn as we go? Of course we can. In a way, that comes back to Lord Hill's question. No doubt we will be under pressure from the industry, as we are indeed in our banking interactions, as you have heard. We will be under pressure to make sure we are getting in the way the least we possibly can, supporting the viable business models, and ensuring that they are competitive. I expect us to continue to be under pressure, and no doubt we will have another inquiry on how it is going in a couple of years.

I start from the premise that we have worked hard to make this work and we are unique internationally in doing so. That is a good story for the UK.

Lord Griffiths of Fforestfach: Have you involved potential new entrants into this field in the business models you have created in coming to the 60:40?

Sasha Mills: We spent a large amount of time, certainly in the last couple of years. As you know, they are not shy in coming forward with their views, and so we engage heavily. This path that Sarah has described from our original discussion paper and how our views have evolved through that is very much the result of direct and repeated interaction with the industry. When we publish the consultation papers, we do a huge amount of outreach. My colleagues back at the Bank are out there now talking to different parts of the sector, which want to focus on different parts. We also work closely with the FCA and some of those events are joint.

Sarah Breeden: Some of the feedback we get is that people like our regime. They would like to make tweaks where we are getting in the way, whether on holding limits or on 60:40 and they would like us to move. The Bank of England is putting its balance sheet to work to ensure that these coins are stable and, therefore, they can be a part of the payment system and can be widely adopted securely by businesses and households in the UK. The issuers understand that that helps their business.

Q98 **Lord Vaux of Harrowden:** I want to explore a little bit more about the holding limit. You have explained why it is there. Where did the £20,000 come from? How did you arrive at that?

I also want to get into the practicalities of it. How does it work in practice? Typically, people will hold stablecoins in wallets at exchanges, which are myriad all over the world. As you mentioned before, they can have their own wallet. Indeed, some of the exchanges, such as Coinbase, facilitate that by providing software. How in practice can you enforce and monitor someone holding £20,000 when they could have holdings in—I do not know—30 or 40 different exchanges. Are the exchanges supposed to talk to each other? I can see how you might do it and might restrict it on a private blockchain, but I cannot see how you can do it on a public chain. I will let you answer that, and then I have a couple other related questions.

Sarah Breeden: I will talk about the £20,000 and Sasha can come in on the practicalities.

The £20,000 limit that we proposed was a balance between usability and managing this risk of a disorderly transition to a system with stablecoins being widely used as payments. We did lots of modelling. As I said, it is completely in the public domain, including all the assumptions that we have made. We looked at what payment flows happen. If we have a limit of £20,000, what percentage of real-world economic activity can be handled within that limit? If I remember correctly, 94% of people can have the entirety of their salaries paid in and manage their money through stablecoins. We balanced that against the impact of take-up on the loss of deposits to banks. How close would they come to their LCR if they lost this funding? How would that impact on credit? The analysis that we have put out shows what happens if it is at £5,000, at £10,000, at £20,000, at £50,000, and if there is no limit. You can see the impact on banks and so credit provision.

Of course, it is a judgment in the end. When we discussed it internally, there was a desire around the table to go as high as we possibly could. I was a bit surprised that we ended up at £20,000. If you look at the equivalent in a digital euro context, they are talking about €3,000. You can see how the same issue has led to very different risk appetites. It is a balance between usability and the impact on lending. All that analysis is out in the public domain.

Lord Vaux of Harrowden: Does that not somewhat limit use cases? One quite compelling use case, one could imagine, given the programmability et cetera, is a house purchase chain, which this would preclude. Did you look at that?

Sarah Breeden: Totally. We did. You will be able to do that in central bank money. We have even done an experiment with the Land Registry as part of our work on central bank digital currency that can tokenise all the Land Registry record and all the payment flows that are associated with buying a house, including paying a solicitor, a conveyancer and all that. You would be able to do it, but it would be in central bank money, which—let us be clear—is how house purchases are settled today. We all remember waiting for confirmation that the CHAPS payment has gone through.

Lord Vaux of Harrowden: Does that not give a bit of an unfair competitive advantage, if you like, to the central bank digital currency versus stablecoins? You are in direct competition.

Sarah Breeden: Look, there is always a choice here. What activities does society want to happen in the ultimate risk-free asset of central bank money versus what is in private money? Not everything has to be done in central bank money. I accept that.

It goes back to the question that Lord Hill had. Are there different ways of trying to solve this problem? Sasha, did you want to talk about the practicalities?

Sasha Mills: On the practicalities, you are absolutely right that that is one of the objections raised by the industry, and it is for the exchanges to make that happen. We should also draw parallels with ISAs. We can solve that in the traditional banking system. It strikes me that smart technology can solve it in the future technology.

Sarah Breeden: One thing that has been weighing on my mind is that we will need to build systems. There will have to be standards, some infrastructure and some way of deciding, if it goes above the limit, who will do something about it. We will have to build something for a limit that is intended to be temporary. How do the costs and benefits of that stack up?

I have heard that through the process. It is, to Sasha's point, part of what we are reflecting on. It can be done, whether or not it is the right way.

Lord Vaux of Harrowden: Few of these exchanges are based in the UK, so you could be holding them in an exchange in El Salvador or wherever it might be. Are you expecting them all to talk to each other and to police this for you, even though they are not based here?

Sasha Mills: It is a fair point, which is why we are also asking the industry. It is saying that some of these complexities are there. What is the alternative? It goes back to the point about the structure of the limit. We are talking about sterling here, but also we are talking about the fact that other exchanges might grow up and want to take in this space. It is looking at the outcome we need to achieve and the best way, and then reflecting on Sarah's point about the cost-benefit structures of those.

The Chair: We have gone beyond time. We have two more questions, so could we please have two quick questions and answers?

Sarah Breeden: Quick answers. Thank you.

Q99 **Lord Lilley:** One issue we have not discussed is why, in your CEO letter, you effectively told the banks they cannot get into this business unless they do it through some separate entity that is differently branded, apparently because you fear that people would switch from their ordinary deposits into these stablecoins, not realising the stablecoins are not the beneficiaries of the Bank of England or the government guarantee. That seems odd, given that the banks are the people who know most about issuing money and so on. It suggests that you think that people would switch out of deposits into these things if it were made simple for them.

Sarah Breeden: It is important to be clear that we are not saying that banks cannot issue stablecoins. Banks can issue stablecoins, but how they do it needs to recognise that the protections for the holders are different if it is a deposit versus if it is a coin. If it is a coin, a set of assets are held on trust for you and you own your share of them, and there is no FSCS insurance for them. For deposits, you are a general creditor of the bank and you are insured up to a certain amount. Because the protections are different, they need to come from different legal entities with different branding to show the consumer that they are buying different products.

I should emphasise that that is the same policy all around the world. The US and the Europeans are insisting on that policy.[4]

Lord Lilley: American banks are not allowed to issue it under their own brand.

Sarah Breeden: They are allowed to issue it in a separate subsidiary. I am not sure about the different branding, but it is a separate entity because it is a different set of protections.

Sasha Mills: Also, this crucial point about no co-mingling of those backing assets is an important part of the regimes across the world, because the coin holder is the beneficial owner of those and that needs to be legally separate.

Lord Lilley: Why do you not just put on people's stablecoin bank accounts, "This stablecoin is not subject to the Bank of England guarantee"?

Sarah Breeden: It is the case that the branding is important for the general consumer.

Lord Lilley: On the other half of it, why are they not subject to the guarantee? They are intrinsically safer than a fractional reserve banking bank account.

Sarah Breeden: This goes to the maturity of the market. We talked earlier about how there will probably be only a couple of coins because of

[4] Note from the witness: Under European proposals, it is not required that banks issue stablecoins via separate legal entities, although some banks are choosing to do so.

the economies of scale and network effects in payments. That means it is hard for one to insure another. If you look at banking insurance, you end up with it spread over a mature industry with many participants in it. FSCS insurance for this industry at this early stage would be practically difficult to achieve. Again, that is a common theme internationally, not a UK point.

Q100 **Lord Smith of Kelvin:** You have spoken at length about the advantages of stablecoin speed and cost. You have spoken about the safeguarding. I have a simple question. You are in touch with the market in detail. Do you think these things will take off in the UK?

Sarah Breeden: I honestly do not know. That is the answer. I can see the benefits to this technology. Whether you can deliver it at scale, whether customers will adopt it, whether stablecoins or tokenised deposits are the right way forward—the world is an uncertain place, but it is not my job to predict the future. It is my job to ensure that, in a range of plausible future scenarios, if these things take off, we can be confident that UK consumers, businesses and users of financial markets are making safe and secure choices in how they do their payments.

The Chair: Ms Breeden, as usual, you have been clear, informative and frank, everything we expect from the Bank of England. Thank you. Thank you also, Ms Mills, for coming to give evidence today. Thank you. We will take a short pause before getting our next witness.