



HOUSE OF LORDS

Financial Services Regulation Committee

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

Wednesday 18 March 2026

10 am

Watch the meeting

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

Evidence Session No. 11

Heard in Public

Questions 113 - 124

Witness

I: Dante Disparte, Chief Strategy Officer and Head of Global Policy & International Operations, Circle.

Examination of witness

Dante Disparte.

Q113 **Chair:** Welcome to today's meeting, which is the 11th oral session as part of the committee's inquiry into the growth and regulation of stablecoins, and thank you to Mr Disparte, the chief strategy officer and head of Global Policy and International Operations at Circle, for attending.

The session is open to the public and is being broadcast live and will subsequently be accessible via the parliamentary website. A verbatim transcript will be taken of the evidence and will be put on the parliamentary website.

Mr Disparte, I believe you will be starting with a short opening statement. Can I hand over to you?

Dante Disparte: That is correct. Thank you so much. Chair, members of the committee, thank you for inviting me to give evidence before you today. The UK stands at a familiar crossroads: whether to lead with clear principles and shape the digital economy according to British standards, or to follow, importing the rules later at greater cost to sovereignty and competitiveness. You cannot have the economy of the future without the money of the future, and you cannot put new money on old rails.

Stablecoins are moving from the fringe of finance to the core. They are already used for trillions in settlement, cross-border payments, treasury operations, and as the digital tender of an emerging AI-powered economy. The question is not whether they will exist, but where they will be supervised, which currencies they will reference, and which rulebook will prevail.

The UK has an opportunity to design a regime that is both more principled than Europe's MiCA and more aligned with the emerging direction of the United States, without copying either. The model is clear. Take the best of both and make it distinctly British. From Europe, take clarity, definitions, licensing, governance, and strong consumer protection. From the US and the landmark GENIUS Act, take the core stablecoin doctrine, fully reserved, redeemable at par, and subject to robust supervision. Then add the UK's strength: technology-neutral, outcomes-based regulation designed for international harmonisation. That is the prize: a regime that attracts responsible stablecoin issuers, supports banks, strengthens economic ties, and reinforces London's role as a major financial centre in a digitising global economy.

Let me address the concerns raised thus far in these hearings, because they are not reasons to avoid regulation but to do it well. First, the UK payment system already works. Why change it? Because the UK economy is not just domestic retail payments. It is a global market, trade, cross-border commerce, where systems remain slow, costly and fragmented. Stablecoins can reduce friction, where it still exists, cross-border

settlement, 24/7 money movement, and programmable payments where compliance and delivery become built-in features. This is not about replacing Faster payments. It is about ensuring the UK remains competitive in a world where value must move as seamlessly as information.

Second, stablecoins will drain deposits and reduce credit. The future is not banks versus stablecoins. It is a multi-money system, as Sarah Breeden at the Bank of England has called for, where each serves a role under clear rules. A well-designed UK framework can manage risks without stifling innovation, strong reserve and liquidity standards, and a structure that encourages bank participation as custodians, distributors, and critical links to the real economy. As the digital economy grows, so too will regulated financial intermediation. Our growth across currencies and jurisdictions is proof that trusted stablecoins expand markets; they do not shrink them.

Third, stablecoins are a run risk. Any form of money can face a run or loss of confidence if poorly designed. The answer is not avoidance, but discipline. Four principles should anchor the UK approach: one-to-one backing, high-quality liquid reserves, fast and enforceable redemption at par, and strong transparency under supervision. These are simply core tenets of issuing trusted, widely used, and regulated stablecoin.

Fourth, stablecoins enable illicit finance. Effective deterrence of illicit finance is a feature of every payment system. The question is whether the system is supervisable, auditable, and enforceable. Done properly, stablecoins can increase visibility. Public blockchains combined with regulated on- and off- ramps, screening, monitoring, and clear obligations can provide continuous data-driven oversight, giving bad actors few places to hide. The answer is not to lose the principle of technology neutrality. It is to promote controls, accountability and cyber security, from the issuer, the blockchain networks, to the retail wallet providers, all in line with global law enforcement and financial privacy norms.

Finally, why does Circle's experience matter? We are not asking the UK to take a leap of faith. We are describing what already operates around the world under stringent regulatory standards. Circle is a world leader in tokenised digital money and the open infrastructure that makes it move at internet scale with more than \$70 trillion in cumulative transactions. This is what responsible innovation looks like: resilience, transparency, and compliance by design. The UK now faces a choice: create a clear and credible framework that attracts responsible actors or allow activity to remain offshore, potentially importing risk without oversight or economic benefit.

My Lords and Ladies, the UK has led before by setting standards others choose to follow, not because they were the easiest but because they were the most credible. This is another such moment. A principled UK framework can strengthen financial stability, enhance competitiveness, support banks, and safeguard monetary sovereignty, while enabling

much needed rules-based competition. That opportunity is within reach, and I look forward to the committee's questions.

Q114 The Chair: Thank you very much for that. The UK has very little in terms of sterling stablecoin at the moment. Why do you think that is and how do you see the market developing in sterling stablecoins, both in terms of the size of the market and speed of development of the market?

Dante Disparte: It is an excellent question. One of the considerations for seeing the sterling represented in this new digital economy is clear rules. Clear rules have been absent in the United Kingdom, and particularly the City of London. London has in it, and with its financial centre and financial participants, all the wherewithal possible to see the pound sterling represented in this novel activity, but for the better part of the last seven or so years the policy environment has been in a bit of a standstill.

In this case, the United States and the United Kingdom may be strange regulatory bedfellows, in that in the United States we have regulated payments at the state level, and up until this new law was passed—the GENIUS Act—we have not had a framework for regulating this activity at a whole-of-country level. In some ways, the United Kingdom is not dissimilar. Although you do not have the banking being regulated at the county level in the country, you nonetheless have had nothing short of a regulatory Game of Thrones of the many entities in the UK, is the regulator of record of stablecoin activities between the FCA, HMT and the Bank of England. Therefore, creating that regulatory clarity is an important precondition for seeing the pound sterling represented in these novel markets.

The Chair: How big do you think the market would be?

Dante Disparte: If you think about what stablecoins represent or the broader technological innovation that is now being labelled tokenisation, it is merely a digital rendition of the activities that a bank or a payment systems operator might already conduct. In that sense, think of a pound sterling stablecoin construct as potentially representing a digital twin of the existing circulation of pound sterling, particularly in an institutional setting. What is also true, though, is that this innovation expands the addressable market.

Years ago, I gave parliamentary evidence on the question that was before the UK Parliament at the time: to issue a central bank digital currency or not to issue a central bank digital currency. One of the constraints of seeing stablecoin development in the United Kingdom has been ongoing public debate in the country about whether the central banking construct would also participate in this economy. Our view historically—and certainly the view that we have seen as the most successful and durable model around the world with central banking—is a rules-based competitive model. That is one in which, for example, the Bank of England can play an important role as an anchor of the economy, an anchor of money in the economy, which allows rules-based competition

among private sector actors to support not only the pound sterling but how the pound sterling might interact with other currencies and innovations in these novel markets.

In short, the opportunity is very big, but the opportunity will not be addressable nor within reach unless the United Kingdom becomes a place where actors, innovators and others can anchor to the pound sterling as well in these new markets.

The Chair: Does Circle intend to get into the market in the UK?

Dante Disparte: Well, Circle right now is the world's leader in tokenised money. We have the largest regulated dollar-based stablecoin in the world, the largest euro-denominated payment stablecoin in the world under the markets and crypto-assets framework out of France, and the largest tokenised money market fund in the world. As it happens, we are also the largest tokenised stock trading on the planet as well, so when it comes to tokenisation the company is a world leader.

We also have a very long history and long pedigree in the United Kingdom. Years ago, we obtained an FCA licence for using blockchains for payment systems activity. Sadly, that licence has largely gone dormant, in no small measure because of the lack of regulatory clarity and/or political or policy clarity that the United Kingdom is a centre for this activity. When those conditions are met, we would be the very first firm in line to not only onshore a lot of what we have been doing internationally with banks, asset managers and other critical partners, but potentially to collaborate in public-private models around the role the pound sterling can also play in this new economy.

Q115 Lord Smith of Kelvin: You have talked about the opportunity we have in the UK to develop stablecoins. Can you explain just why USD stablecoins have developed so quickly across the world? Would there be any advantage in using a GBP stablecoin against the US one?

Dante Disparte: Yes. Thank you, my Lord. It is a great question. One of the reasons the US dollar has been the currency of reference—and I must say, albeit to varying degrees in these markets—is because of first-mover advantage. When stablecoins first emerged, the innovation was really designed to address volatility in crypto markets generally. You may recall that innovations like bitcoin ended up becoming more of an investment asset or a speculative asset, in no small measure because its use as a payment system was laboured under the volatility of bitcoin pricing in general.

As the term suggests, stablecoins are meant to hold price parity to an underlying reference currency. In order to do that well, and at the scale that internet-based financial services require, the US dollar was the natural currency of choice: internationalisation, depth of liquidity, banking access and beyond. To do a stablecoin well, irrespective of the currency—whether dollars, pound, yen, euro or otherwise—really implies deep connectivity to financial centres and deep connectivity to banking.

One of the fallacies that I know this committee has heard about is the notion that if stablecoins grow it somehow comes to the detriment of a bank's balance sheet or to the detriment of an underlying economy. The exact opposite happens to be true. Our experience at Circle since the first of our stablecoins, USDC, was issued, all the way through to today, is that, as we grow, the banks and the banking systems grow in lockstep. When I joined this company more than five years ago, we were a 100-person company, and the stablecoin in circulation was largely a rounding error. Today, we have more than 1,000 people across more than 15 countries, and 35 US states. The banking partners that have banked with us have all grown their balance sheet in lockstep with the circulation of the stablecoin.

Against that backdrop, I do think that one of the competitiveness gaps in the United Kingdom over that same seven-year horizon has been the inability to turn to the UK for anything other than insurance at the wholesale institutional level to bank this sector. I think that is a big gap that we can address.

Q116 Baroness Donaghy: Good morning. I am interested in your reference to the Game of Thrones. I just want to check who is getting the advantage if we stay the same, if the UK carries on with discussions, lack of clarity, no movement in policy. Does the UK lose out as a global finance centre or does Circle lose out because of opportunities that it cannot promote in the UK?

Dante Disparte: It is a good question. As I tried to address in my opening statement, here today I speak as a witness who has built businesses in and/or around the UK financial centre over many years. I speak, frankly, in my capacity wearing a UK competitiveness hat and much less a hat related to Circle. None the less, the Circle experience is emblematic of both the risks and the opportunities.

I think that the UK stands to lose. There is such a thing in this industry as a second-mover advantage, but "hurry up and wait" is not a national competitiveness strategy when it comes to such fast-moving innovations and technologies. Therefore, many of the biggest banking platforms in the world have not used their UK platforms to bank the billions of dollars that Circle brings into the financial system and the banking system, in part because of the lack of rules and the lack of clarity.

Those banks have used their branches and franchises elsewhere on the planet, from Singapore, to Hong Kong, to Japan, to continental Europe, to the United States, to the Middle East and beyond. To think that the City of London, again a financial centre that has underwritten centuries behind us and ought to also underwrite innovation for centuries in front of us, has not been able to participate in what is increasingly—according to leaders at BlackRock and many others—an innovation that will modernise all finance, not just payments and banking, in my view is a real competitiveness challenge.

All is not yet lost. The Game of Thrones reference is, of course, that like any novel technology, there is lots of interest, lots of equities in the private sector, and lots of regulatory interests that need to be addressed, all of which at some level require a political inclination that the United Kingdom will be a destination not only for investment, promotion and development in the sector.

As a last quick word on this topic, Sir Jon Cunliffe of the Bank of England once said the companies that survive a so-called crypto winter, which is a persistent downturn in these markets, would be the Amazons of the future. Obviously, many of those potential future companies ought to also be British at birth and global in scope. That, again, is not possible unless clear rules are in place.

Baroness Donaghy: Could I just follow up with the protection of the consumer? We know of colleagues who have had their fingers burnt, but it has to be said mainly on crypto assets and not the stablecoin. They see the introduction of regulation as a good way of protecting the consumer. Would you see that or would you just see this as a front entrance for business to come back to the UK's global finance centre?

Dante Disparte: The protection of consumers after the fact—and, of course, the crypto industry, like finance itself, is no stranger to risks and losses, many of which could be very systemic or cross-border by nature—is a little bit like an airline pilot putting on the seatbelt sign after a crash. Therefore, I think the best thing to do in most jurisdictions—and we have some examples around the world—is to regulate the activity onshore and create clear principled rules that include and encompass consumer protection.

A good example of this is Japan. You may recall there was a crypto exchange that was dodgy, to say the least, known as FTX. The platform that that company had in Japan—because the Japanese regulator, the JFSA, brought it onshore—subjected it to the same risks, same rules and standards that they would of other exchanges operating in Japan. The FTX Japanese franchise was able to return its funds to customers, whereas the rest of the house of cards fell apart. If nothing else, that speaks to the benefits of onshoring this activity.

The other thing I would strongly recommend is, again, that principles will fare better in these fast-moving novel markets versus prescriptions. All too often, a lot of the rules that have been developed prescriptively in different jurisdictions, particularly in Europe, tend to be time-stamped. As a result, they have not really aged well.

Then the last and best consumer protection choice that we could create in these markets is choice, optionality. Oftentimes, consumers tend to get locked into crypto products or stablecoin products or other products because of the lack of regulated onshore options. I think that is one of the other principal benefits consumers would have in the United Kingdom.

Q117 **Lord Lilley:** Could you give us your views on the particular principal

regulations the Bank of England has proposed for a stablecoin issue? We have been told by at least one person that if they insist on 40% unremunerated cash assets and preclude banks from issuing stablecoins, among other things, it simply will not go ahead. What is your view?

Dante Disparte: Well, first, as you may have seen by me paying homage to not just Deputy Governor Sarah Breeden but also Sir Jon Cunliffe before, the UK and the Bank of England benefit from some of the most thoughtful leaders in central banking anywhere. Those leaders understand that the closer proximity this digital money innovation gets to the central bank, the more you could be assured of the trust anchor and the trust role that money plays in a free economy. The Bank of England is also one of the most thoughtful central banks in the world vis-à-vis the notion that the breakthrough innovation with digital money is less the money layer and, frankly, more the rails. Hence, my message that you cannot put new money on old rails.

Having said that, there are some elements of the proposal that ignore the economic model of stablecoins. What stablecoins are designed to do—again, provided they meet the standards I set out in my opening commentary—is to ensure that the buyer’s and spender’s remorse that plagued crypto historically no longer exists, and that a form of money is now available in an internet-based, device-centric way that is fully interoperable with the real economy, exchangeable at banks, used as a medium of exchange on the internet and for fast payments and beyond.

In order to do that well, the reserve assets, or the principal economic driver for a stablecoin issuer, also need to be remunerated because even under the strictures of holding reserves at the central bank—which I think is the right pathway for stablecoins to scale—that should also generate revenue for the stablecoin issuer.

The reason is simply that when you consider a stablecoin issuer compared to a traditional payments company, payments companies give you and I the semblance of fast payments, but they do so at a fee. They charge us what I call the “death by 1,000 cuts” fees, and most of the world’s payment systems are not interoperable. By contrast, stablecoin issuers, such as Circle, build on open rails and open infrastructure. Part of how we do that is that we are cross-subsidising, where the payments companies charge fees, with revenues derived from reserves. Those reserves must be conservative. They must be held in a bankruptcy remote manner. We cannot take risks with those reserves nor create credit or lending. That is really one of the hindrances of the proposal that up to 40% of the reserves held at the Bank of England are not remunerated.

Lord Lilley: Do you think that it is a hindrance or a block?

Dante Disparte: Right now—and I have a piece about this notion—my view, frankly, is that a lot of the work taking place in the United Kingdom at the moment is the right work. However, it is too experimental. Sandboxes are the place where good ideas and good fintech innovations

may go to die. In my humble opinion, it is time for the United Kingdom to innovate with real money and with responsible actors. So I think that many of these proposals reflect neither the policy and regulatory direction of travel, nor do they reflect the institutional adoption and institutional use cases for stablecoins.

I get the premise of the recommendation from the Bank of England, but I think that there are better, more principled ways that that premise can be met and how it can meet the institutional moment.

Lord Lilley: Is that a long way of saying it is a block?

Dante Disparte: The ability to hold cash at a central bank is a critical long-range feature for stablecoins. In that sense, the Bank of England got that piece right. But if the cash is held in an unremunerated manner, it will force the stablecoin issuer to seek revenue and fees in the same way that the oligopolies of the payments world do today. It ignores the breakthrough innovation of better, faster, cheaper payments that stablecoins support through remunerated reserves. If we limit that up to 40% with the Bank of England, I think that it will limit the speed with which we can see real competition to payment systems today.

Q118 **Lord Vaux of Harrowden:** One of the regulation points is whether stablecoin issuers should be able to pay interest to the holders of the stablecoins, or whether the service providers, the exchanges and so on, should be able to pay interest or rewards. Could you comment on that and whether it is a good idea, and why? Could you also explain a little bit about the business model? I understand that at the moment the issuer—Circle—does not pay interest. However, the exchanges, the Coin-bases or whatever, do pay interest for rewards, some at least of which does derive from the underlying assets of the coin issuer. Could you perhaps explain how that works as well?

Dante Disparte: Sure. The good news is that, in some respects, it is settled law on the opposite side of the English Channel and on the opposite side of the Atlantic.

You may recall that under the markets and crypto-assets framework in Europe, Circle is the largest euro-denominated stablecoin issuer in the world, and the rules there are clear, which is that a stablecoin in Europe is effectively an upgrade on electronic money. That is a payment and regulatory framework we all know and understand really well.

In that construct, paying yield or interest directly to the coin holders from the issuer is prohibited. We agree with that, by the way, in no small measure, because it should meet the moment of the qualities of money and the features of money with the ability to transmit money at scale on the internet.

On this side of the Atlantic, the new law that was just passed late last year—the GENIUS Act—similarly imports the notion that a stablecoin issuer cannot pay interest directly to the holder. That assures that a couple of things happen. First, there is a path for regulatory

harmonisation between the European regime and the US regime, for which I think that the UK can borrow the best of both worlds. However, it also ensures that there is rules-based competition and that stablecoins do not compete with the deposit base and end up becoming products that look more like securities or commodities and beyond. We were one of the firms that worked heavily to ensure that that common set of standards existed across major financial centres around the world.

Like a dollar, a pound sterling or a euro itself, how that payment innovation or money innovation develops both lending and credit products in secondary markets, yield in secondary markets, is an important part of the technological features of stablecoins that make them distinct from any other form of money or payment system in the world, which is programmability and composability. A lot of what has proliferated on exchanges, and in other digital asset markets around the world, are lending and credit and other enhancements that may be supported by exchanges such as Coinbase and others.

Our view is that that activity should be guarded, and it should be subject to a second set of rules—which I presume this committee would debate at some stage—which is: what to do with crypto market structure? Here in the United States we have a new set of Bills advancing through Congress and in the Senate, known as the CLARITY Act, which would address crypto market structure rules. Of course, the Europeans have a broader set of rules, including crypto market structure, under MiCA. Nonetheless, the position that the issuer should not pay interest from a stablecoin directly to the holder is a line we have held for many years and one that also now has regulatory clarity.

I did not want to ignore the question about the business model. I had hinted at many aspects of it in my earlier response, but, the business model of a stablecoin issuer is heavily prudentially guarded. Under both GENIUS and MiCA, the issuer can hold only very strict, high-quality liquid assets of short maturity. Today our dollar stablecoin, USDC, is comprised of cash and short-dated US treasuries of 90 days or less. One hundred percent of those reserves are held in the interest of the holder.

A critical feature of stablecoins is the ability to redeem at par, even in the issuer's bankruptcy. In short, it is a consumer protection advantage vis-à-vis payments in banking. As a result of that, a principal revenue driver is reserve interest income. By that measure, not a lot of the world's currencies would be great candidates to become stablecoins according to those rules, because the currencies themselves may not be worth the paper they are printed on or they are negative interest currencies. That is one pillar of monetisation for a stablecoin issuer.

Other pillars—Circle is a heavy actor in this new world as well—are the technologies themselves. The blockchain rails, payment systems rails and beyond support de minimis fees and other types of software as service models for revenue generation. However, the lion's share of the value and the revenue comes from circulating stablecoin supply and the prudential activity of guarding those reserves.

Lord Vaux of Harrowden: My question about the business model, though, was more about the exchange. How does Coinbase—which does pay interest, as I understand it, on holdings of Circle—pay that interest when it does not have the interest coming from Treasury bonds and so on? Presumably, there must be some relationship between yourselves and Coinbase that allows that money to flow through. So in a sense, you have a backdoor way of paying interest on the coin. Is that right, or how does it work?

Dante Disparte: I understand that Coinbase provided evidence as well in these hearings, so it may have also shone a light on that very question. A company like Circle faces only institutional counterparties. We do not face the retail market and that is an important general point. One way to think of a regulated stablecoin issuer is as wholesale financial markets infrastructure. We then face companies like Coinbase, banks, neobanks, asset managers, start-ups and beyond as institutional counterparties to the company.

The circulation, growth and redemption of a stablecoin, of course, corresponds to real consumers and real market participants asking for stablecoin growth or asking for stablecoin returns—by “return”, I mean the redemption of the stablecoin at par. Then Circle may or may not have commercial relationships with those counterparties. Coinbase is a long-standing strategic partner to us so we have a commercial relationship with it, but the line stops there.

How Coinbase, through its rewards programmes, its lending and other programmes, helps its customers and its markets generate returns on stablecoin circulation is not subject to the relationship that we have with it, even if in some cases it may be offset by that revenue that it derives from Circle.

Another way to think of it is that a company like ours works with crypto exchanges in part because our business model depends on shelf space, of circulation on those exchanges—candidly, no different than you or I are neither the customer of a Visa nor a Mastercard directly; we are the customer of the bank that issues the card. In that same spirit, the stablecoin you may have in your Coinbase wallet is provided to you by Coinbase. What rewards that generates is similarly provided to you by Coinbase, analogous to not being Visa’s customer directly either.

Q119 Lord Griffiths of Fforestfach: Good morning. In your opening and subsequent remarks you have depicted the UK over the last seven years as rather hesitant, almost dragging its feet, afraid of what you described as, “in the economy of the future we need money of the future”. We have taken evidence from some people who have also talked about innovation in this area regarding things such as the programmability of money. The CEO of the FCA—not in evidence to us but elsewhere—has talked about the seismic shift in the way payments are made and has said that he also expects to see considerable innovation in digital wallets.

Because the last thing we want is financial instability resulting from what

you have been saying, the question I have in my mind is, if you look down the road five years or 10 years and we proceed in the way we are proceeding, and the world proceeds in the way you envisage, what difference will there be?

Dante Disparte: It is a great question. As you could probably tell from my commentary, there are very few countries other than my home country, the United States, where I have had either the most direct work or the most long-range interest in success as the UK. That is not for historical reasons, but I used to work heavily in the insurance markets, so I have grown Lloyd's-backed insurance businesses here in the US. I was once upon a time the managing director for Land Rover in sub-Saharan Africa. I know the strengths of the UK and I know the strengths of your financial centres and how critical they are to be able to participate in innovation.

However, what has transpired with the advent of blockchain-based financial services over the last seven years, in my mind, is an indictment of the ability to innovate on a rules-based set of standards in the United Kingdom that, in the long run, hurts the country. It may not have hurt the country today, and I think many of the central bank governors and others that I have spoken of would be right in hindsight, and would have been completely vindicated in hindsight. Jon Cunliffe, again, hinted that stablecoins were like black ships on the horizon. He might have been right over those past few years to keep this activity at bay and offshore, but he is no longer correct today.

Today, there is the ability for any big financial institution to use its UK platform for wholesale activity facing these markets; if it cannot do that it is not able to participate in this novel economy. All the fintech innovations that we have been describing thus far start locally and end locally. For the better part of the last seven years, the United Kingdom has largely been a flyover state, and people are flying to other destinations. At stake over a 10-year horizon, a 30, 40, 50-year horizon, is the gradual waning of the United Kingdom's prevalence in major financial centres, in no small measure because the market is already moving.

All of crypto is a several trillion-dollar market. The growth of stablecoins has surpassed \$300 billion. As I mentioned in my opening statement, USDC, Circle's dollar stablecoin, has alone processed more than \$70 trillion of open cumulative payments across these networks in the span of merely five to seven years. That is a powerful breakthrough, one in which I think the UK, the diaspora populations of the UK, small business in the UK and industry in the UK could benefit from. "Hurry up and wait" is not a great strategy, and without this technological innovation at the core of banking, payments and finance, "Hurry up and wait" is exactly the technological capacity UK financial institutions will be able to deliver to their customers.

The last word I would say is the regulatory model these innovations will benefit the most from are hallmarks of the United Kingdom: principled,

rules-based, technology-neutral, outcomes-based. These are the hallmarks of the UK, but it is high past time the UK shows that it is a serious financial centre in these markets as well.

Q120 Lord Turnbull: There has been a progress of this idea in the UK. We hinted at it three or four years ago, and there was pretty much hostility, then it may have been indifference, and then a feeling, "Well, if it is going to happen, let it happen". Last week we heard the Bank of England is actually working quite hard to find a regime that works, but it struck a lot of people as still quite timid. Is the Bank of England erecting a series of fears, bogeymen, things that might happen but probably will not, and coming up with a regime that is still too timid to elicit any takers?

You have used this phrase: will it drain deposits and reduce credit? I am not sure whether you were saying that was a thing that would happen or a danger that we have to deal with. Maybe you could answer that.

Finally, on the question of not paying interest, Lord Vaux used the phrase that there is some seigniorage being created here—some value. It has to go somewhere. Why would the people who are creating it not want to give it back to their customers in some form or another, either through the back door or under the counter?

Dante Disparte: Both are excellent questions. The question that I responded to in my opening statement—in some respects, trying to deliver closing arguments for this committee and this hearing—was the question that if stablecoin grows, it will by default come at the expense of the deposit base.

I was trying to comment on the actual operating experience Circle has had in seeing not one stablecoin but two—a euro and, of course, a dollar—grow to some scale over time. It is a precondition of this innovation that it is deeply connected to the banking system and therefore deeply expansive of the deposit base. Often times committees like this one will hear many of the risks and not hear many of the opportunities. So that was really a response in the spirit of addressing what I think is a largely mythical risk that somehow the banks will lose if these innovations grow. In fact, the exact opposite has proven to be true.

Many of the banks that bank Circle are globally systemic financial institutions. Again, for every dollar of circulation of USDC, its best feature is that it is fully connected to the banking system. This is critical because without connectivity to the real economy and the banking system a stablecoin might look like what I like to call a monetary airline mile, usable but on closed networks. The link to the real economy is the banking system and, fundamentally, that is where stablecoins have on and off ramps.

The next question, of course, is about interest. We did not really discuss it much, but if you also look at the future of this innovation, there will be deep connectivity to forms of money that work for you as opposed to the form of money that we have to work for. Not to speak in too many abstractions on the topic, but because of the features of programmability

and composability of stablecoins, we are already starting to see quite a lot of innovation take place in the AI-powered economy.

Agents, again, have to be a part of the regulated financial services perimeter, but regulated stablecoins having connectivity for machine-to-machine payments, micropayments and beyond, create some new opportunities for how they can be executed and how they could work on behalf of people that is novel. In that category, too, the ability to be assured that the internet layer of money is fully reserved and fully redeemable at par into the real banking system is a pillar of this modern economy. There, too, the rewards question, the yield questions, are in our view a secondary market question and for crypto market structure rules to address fully, not necessarily the stablecoin rule set.

Stablecoins are supposed to be the easy part of this innovation to regulate, as opposed to the broader set of crypto market structure rules, which are under way in the US, in place in Europe and in other jurisdictions around the world.

Lord Turnbull: Do you think it makes sense to tell banks that they cannot go into this market?

Dante Disparte: It is a great question. This is where I really do think the UK can get it right vis-à-vis both the European rule set, the markets in crypto-assets framework, and what has developed in the United States. I have a paper that I wrote comparing these two rules. In the United States, if a very large bank such as JPMorgan wanted to launch a stablecoin, according to the new law, the GENIUS Act, JPMorgan would have to do so from a separate entity and a separate balance sheet that looks more like Circle's and less like JPMorgan's. The reason is simple. The reserves held under a stablecoin construct cannot take risk—they cannot provide lending, credit or re-hypothecation of any kind. That proves, again, that this is a heavily prudentially regulated payment innovation.

By contrast, in Europe, the European regulators took a more prescriptive and protectionist view of the banking balance sheet. Under MiCA, the banks can participate alongside the non-banks. Today there are more than 17 regulated stablecoin issuers across the EU. We rarely look to the EU for an example of economic competitiveness that has worked, but I think MiCA is an example of an innovation in Europe that would pass the Mario Draghi competitiveness test.

However, there are some critical flaws in the European framework that I would not import into the United Kingdom, not least of which is the concept that the stablecoin issuer must hold reserves at commercial banks, which in turn introduces the risk of the bank's balance sheet to the fully reserved stablecoin issuer. You see two flavours of this on either side of the Channel and the Atlantic. In my view, banks can and should participate in these markets, but all participants should have a common floor, as we have seen emerging here in the United States.

Q121 **Lord Eatwell:** Good morning, Mr Disparte. I want to pick up on two issues that you raised yourself. In your introduction, you referenced the fact that the UK has a very efficient, very cheap internal financial transfer system and therefore said that the UK stablecoin benefits would mostly derive from cross-border commerce. You also said, just now, that the best consumer protection is to regulate activity onshore. Are these two things not contradictory? In other words, the UK is supposed to benefit offshore, but the only efficient consumer protection is onshore.

Dante Disparte: It is a very good question. The onshore versus offshore trade-off is, in one view, an acknowledgement of the UK as a major global financial centre for which not being able to be a participant in novel global payment networks that provide instant settlement, not being able to see that UK banks, asset managers and beyond can expose their balance sheet to these assets, notwithstanding the capacity to do so on a risk-adjusted manner, is in one way the first wave of economic competitiveness issues that show up over the long run.

Lord Eatwell: The UK is exposed to risks offshore, which we are not regulating?

Dante Disparte: Correct, and that is the problem. By the way, when I say risks, I mean of every flavour. For example, from a national security vantage point, you may recall in 2016 the WannaCry ransomware attack. That was a precursor to today's flavour of cyber security risks that might exploit these novel technologies. It nearly crippled the UK health system. That ransomware attack went from zero to 160 countries over the span of a weekend. It took international law enforcement collaboration to not only track, trace and detect the sources of funds that were payable in bitcoin to a single wallet, but also to respond to that event.

The UK Financial Intelligence Unit is similarly only having a very narrow view of what might take place in these markets by not having your financial counterparties and your regulated entities participate in these markets as well. The risk is not just about long-range competitiveness; it is also about national security and other issues.

Lord Eatwell: Of course. I am sorry to interrupt. Now, a key way of managing risk in financial instruments is the KYC/CFT rules. Sarah Breeden told us that the British stablecoin would only be held in wallets anywhere in the world that are subject to British KYC/CFT. I was rather puzzled about how we would do that, but I was wondering whether you can say today that the US stablecoins issued by Circle are all held only in wallets subject to some central bank KYC/CFT.

Dante Disparte: It is a great question. Deputy Governor Breeden fundamentally understands the implied market structure of a stablecoin regime, analogous in the financial services world today only to credit card and debit card structures, where you are not the customer of Visa or Mastercard, you are the customer directly of the banking institution that issues you the card. That institution has an obligation to clear KYC, AML,

CFT, sanctions and other obligations, while observing the privacy norms in the jurisdiction in which they have made it available.

Similarly, a stablecoin regime, like the one Circle has built, builds that same what I would like to call defence in depth, a term from the cyber security world, but one in which the obligations from the issuer to the blockchains, to the exchanges, to the retail fintech wallets, which make the product available to you as a retail consumer, all have those obligations flow through them.

One of the other ways in which UK competitiveness gets hurt is, of course, that a lot of the international financial bodies, from the Financial Action Task Force to the Financial Stability Board, which is now chaired by Andrew Bailey, to the Bank for International Settlements and many other global bodies, are all busy building not just rules at the general level, but rules that should be harmonised across financial centres around the world.

What we have seen, for example, with financial integrity rules is that the Financial Action Task Force has set the first set of standards since 2016, that the travel rule ought to apply to stablecoin in broader crypto transactions, irrespective of the jurisdiction where they emanate. Therein lies this strategic opportunity to ensure that financial innovation, financial inclusion and financial integrity are not trade-offs. The GENIUS Act, for example, in the US is uncompromising on national security issues and financial integrity issues, as are the European frameworks. The absence of the UK I think is an enormous gap when it comes to financial security.

The last comment I would make is that you do not weaponise a currency. You weaponise the rails on which a currency rides. This is acutely evident in Russia's war of aggression with Ukraine. But for the fact that SWIFT takes western phone calls, the efficacy of sanctions, for example, would be entirely blunted. Having neither the pound sterling represented in these markets nor large parts of the UK financial system represented in these markets is another one of the insidious ways UK competitiveness gets hurt.

Lord Eatwell: Yes, but just to come back, can you say today that all stablecoins issued by Circle are held in wallets with full KYC CFT, proper AML coverage?

Dante Disparte: Yes. Circle, as I have mentioned before, only faces institutions. We do KYB—know your business—screening on all the institutions that we face, many of which are household name banks and household name payment networks and other fintechs around the planet. Those institutions in turn will be the obligated parties towards KYCing and knowing the identity and other risk patterns of their final retail customers. Again, subject to—

Lord Eatwell: So it is not your responsibility, it is somebody else's responsibility?

Dante Disparte: Not dissimilar to, again, the structure that is prevalent with credit cards. Having said that, as a company that has cared for years about combating illicit finance as a feature of our activity and not a bug, we are a money services business with FinCEN in the United States. That implies that we are following all the conduct that you would see of peer payment systems and payment institutions, from suspicious activity to sanctions and beyond.

Arguably, the constructs of blockchain-based financial services—due to the traceability and the digital breadcrumbs that they leave behind—are increasingly leaving bad actors few places to hide. We have seen in this industry with a range of companies—I know Chainalysis also presented to this committee—breakthroughs in financial integrity and combating illicit finance, including, at the stablecoin issuer level, the ability to intercede should a sanctions order come in for a wallet. This is one of the many techniques and capabilities that are available to respond to illicit finance activity.

Lord Eatwell: Thank you very much. I must say that, with few places to hide, bad actors seem to be doing very well. Thank you very much.

Q122 **Lord Hollick:** Good morning. I wonder if you could help us by explaining how the benefits that the introduction of, say, Circle here in a GBP stablecoin would help innovation and competition in the UK, and would help the financial system in the UK and our interaction with the rest of the world by providing more competitive products to the real economy. You made an interesting point just now about the difference between JP Morgan and your company, and one under the GENIUS Act. There are various no-go areas.

It would seem to me from my understanding and grasp of the technology—which is somewhat slight, I would say—that the ability of the technology to provide other services, for instance, custodial services and exchange, naturally takes it into competing with existing and important activities of the banks. So, putting your strategy hat on, if we look over the next five years, how will you compete in this market? How will you innovate, and what services will you provide that will actually help the provision of financial services to the whole economy?

Dante Disparte: It is an extraordinarily important question and, candidly, one of the ones that is often dismissed in hearings like this. I am so glad you have asked it.

There is a reason that blockchain-based financial services have attracted so much technology, developer and institutional interest, even if at first stablecoins were dismissed as merely poker chips in a crypto casino. Fast forward to today and you are finding fintech unicorns. A couple of examples: BVNK was just acquired by Mastercard, or at least Mastercard announced its intent to acquire BVNK for \$1.8 billion. Stripe acquired a company called Bridge not long ago for about \$1.2 billion, and many other examples exist around the world.

When you look under the hood of what has created this new wave of fintech unicorn high-value start-ups, a lot of the technology burden these companies have to build on is not legacy technology. If you and I were going to compete with PayPal by today's standards, or by PayPal standards, we would have hundreds of millions of dollars of technological debt to address before we could even create a viable company.

What you are finding today—courtesy of the open-source nature of blockchains and the developer bottoms-up nature and accessibility of this technology for start-ups, entrepreneurs and small businesses and beyond—is one of the strategic ways that the UK can be a beneficiary, and your Government's mandate of job creation and economic competitiveness can also be met with this novel technology. That is the open-source nature, from the digital wallet all the way through to building on public blockchain infrastructure.

Think of it like financial services shareware. The individual entity does not have to incur the costs, the compliance technology and other costs, that are incurred with financial services. They can skip the line and jump right into the innovation. That is an extraordinarily powerful breakthrough that, at our scale, has not sacrificed any of the rules of the modern economy but is going places money could not if the money remained analogue. I think that is one real critical pillar of job creation and competitiveness that would really matter.

The technology does not solve the world's problems, but it shows us where the world is often falling short. I think the blockchain-based financial service has proven that. It cannot really grow, nor can it thrive and nor can you see investor and strategic capital accrue in the United Kingdom unless you also have rules. When the investment firm Andreessen Horowitz left London I was upset because, again, you have so many natural talents, so much financial depth, and so many principled approaches to rules-based innovation and risk-taking, but the lack of clear rules on the books is one of the things that I think is most hurting the job creation agenda as well.

Lord Hollick: You mentioned in your remarks that you partnered over the last five to seven years with a number of banks in the United States. Working with those banks, making your technology available to them, how have they been able to grow? What areas have they been able to go in? In particular, what particular services, using your technology, can they improve the services to the consumer?

Dante Disparte: Absolutely. Well, "Hurry up and wait" for so many of the world's payment systems is the model. One of the reasons stablecoins are such a breakthrough in payments—I failed to mention this in the opening, and I cannot believe I got this far without saying it—is if you look at the totality of the world's mature payment systems, Visa, Mastercard, SWIFT and beyond, those are really messaging platforms that do the payment and the settlement activities as a secondary matter. We can create the semblance of speed and settlement finality and

instantaneity with those platforms but, in reality, the settlement and the messaging instruction are two separate activities run on those networks.

What the stablecoin does in payments—and it is a breakthrough in the history of all payments—is marry the messaging instruction with the settlement asset and one innovation. Of course, the banks want to participate in this activity and, of course, as I mentioned before, the banks are critical counterparties to this activity. For a lot of reasons, the regulatory rules, the Basel Committee on Banking Supervision, the punitive balance sheet treatment of crypto assets, including dollars, sterling, yen and euro, on banks' balance sheets have made it nearly impossible for the banks to participate in this economy other than doing what they do best, which is banking.

The banks that have banked companies like Circle and Coinbase and many of the other leaders in this industry have grown with us. As a result, the banks have also outsourced to us the risks that were often too great for them to take on on their own, either because of their rule set or their lack of technological capacity. That is one of the ways the banks become critical beneficiaries.

The banks also have to answer critical questions: build, buy or partner? Do they build and launch their own stablecoins, which may cater to the walled garden that we have in payments? Or do they partner with existing stablecoins and provide banking, custodial, treasury management and other services? I think that free market debate of competition and boundaries is being waged right now, but that is one of the ways that companies like ours have worked strategically with banking institutions.

Lord Hollick: Have you written on this subject?

Dante Disparte: Extensively, yes.

Lord Hollick: Could you let us know so we can reference them, please?

Dante Disparte: Happily. We will share material with the committee that may be relevant to today's conversation.

Lord Hollick: Thank you.

The Chair: The last question is from Lord Sharkey.

Q123 **Lord Sharkey:** Could I go back to illicit transactions and the blockchain itself? Can you elaborate on the difference between technical irreversibility and economic reversibility when it comes to the blockchain, and how the retail consumer stands with regard to both of those things?

Dante Disparte: Yes, it is an extraordinarily important question. Circle has the widest experience of any firm on the planet in terms of the blockchain ecosystem. Today, dollar stablecoins are available on more than 30 blockchains. One way to think of the blockchains is constantly upgradable financial markets infrastructure. Not all blockchains are

created equal, but open public blockchains often have similar features. Nonetheless, they are constantly upgrading, eventually achieving Visa-scale transaction throughput with the computational intensity of basic internet search. This is a profound breakthrough, not just for payments and banking—because in some respects that is the bottom rung of economic mobility—but across not just financial services but more generally.

Circle is also developing a blockchain known as Arc, which will address some of the privacy and institutional counterparty concerns that this committee has looked into, while also onboarding many, if not all, the world's major financial institutions in a privacy-preserving, institutional, trusted way. That comes online later this year.

The question of both settlement finality and reversibility of transactions is like the internet itself in many respects. Public blockchains are raw infrastructure. If you settle on a certain blockchain, it may be permanent and irrevocable. Hence, the development of fintechs, wallets, exchanges, financial institutions, banks and others providing the retail customer with a service level that is indistinguishable from what you and I might experience in our e-banking or our mobile banking. Most people do not want to remember all the seed phrases, for example, of holding their own digital assets. Most people do not want to have one-way money that they cannot recall if they make a mistake.

That service level is being enhanced on the edges of the infrastructure without the start-ups having to incur the cost of holding and protecting the entirety of the infrastructure. It analogises, again, to telephony and basic connectivity. If every company and every person in the world had to also be the owner of the fixed infrastructure that makes telephony possible, there would still be billions of people who do not have access to phone calls and video streaming and sessions like this one. Because we have managed to decouple connectivity from owning the infrastructure in communications and the internet, we have had this proliferation of activity around the world, lowering the bar to access. Blockchains are doing the same thing for financial services, decoupling ownership of the infrastructure by having public blockchain service, financial services shareware, while encouraging like for like services on the edges of this infrastructure. This is where the UK development agenda, national security agenda, competitiveness agenda and job creation agenda could be advanced, by ensuring that those edges can also be built in the United Kingdom and plugged into the financial system in the United Kingdom.

Lord Sharkey: If I am a consumer and a transaction has a difficulty of some kind, I understand it can be reversed.

Dante Disparte: That is true.

Lord Sharkey: How easy is it to do that compared with dealing with your bank about a traditional transaction?

Dante Disparte: That is an extraordinarily important question. There are two types of wallets, generally speaking, that are circulating in the digital assets economy. This is an important point. Digital assets are not monolithic. Crypto is not monolithic any more than banks are monolithic. If consumers want very clear consumer protection standards, they would typically prefer what is known as a custodial wallet, a wallet held by a company like Coinbase or a bank or a fintech or other operator, subject to common standards, because that wallet infrastructure would give the final consumer recourse, consumer protections, or a hotline that they can call if they lose their password and are locked out of their account.

If, by contrast, the consumer wanted to have their own digital wallet that they themselves own, known as a self-hosted wallet or a self-custodial wallet, they would not necessarily have the recourse afforded by an institution that is regulated and subject to rules and standards. That wallet would behave very much the same way that their physical wallet or their purse might, which is that whatever is in it that you may have lost or that was stolen on the Tube or the transit system on your way into the city is gone, perhaps for ever. That choice is being made, of course, by people given their own individual agency and determinations. What that final set of rules looks like is one thing that encourages very clear wallet infrastructure and very clear rules for the wallet. Because crypto and stablecoins and all this financial services revolution does not exist in a vacuum, the last mile is, in fact, a basic internet-connected wallet.

Q124 **Lord Vaux of Harrowden:** You have mentioned a few times the importance that stablecoins are redeemable at par. How often does Circle actually process a redemption request? In practice, does it ever happen, and who is able to redeem? Is it only the people with whom you have a direct relationship or is it somebody who has subsequently bought the coins?

Dante Disparte: Yes, it is an extraordinarily important question. We try to think of issuance as a privilege and redemption as a right. As I said before, the market structure that Circle has built is a market structure that is open and pro-competition. We face institutions that create a global market for the issuance and the redemption of dollar-based stablecoins, euro-based stablecoins, and our tokenised money market product known as USYC, which is the largest in the world. All that infrastructure that surrounds Circle, if you will, is designed to ensure that orderly market conduct and orderly participation of this market work at all times.

In an extraordinary period of stress a few years ago, when not one but three US banks failed, we put this whole system to the test. Three banks failed in the United States, each named with the letter S: Silvergate, Signature and Silicon Valley Bank. Word to the wise, do not name your bank with the letter S. That was an example of the banking system importing risk to a fully reserved payment system innovation. In the course of that systemic banking failure in the US, a company like ours redeemed at that time nearly 50% of the total circulation within the span of a week, in part because the underlying assets are cash and short-dated US treasuries. That holds true to today. So the GENIUS Act

effectively makes Circle's way of doing business the legal basis for stablecoins.

The other critical piece of the puzzle is that stablecoins have to pass what I call the "Jerry Maguire show me the money" test. It is not enough to say that the reserves are held in a conservative bankruptcy-remote manner. It is also critical that an assurance layer is provided above the stablecoin circulation so that trust, transparency, accountability, third-party audits and attestations of the reserves are also a part of a robust stablecoin regime. I would not encourage the UK to move into this market without that. In the United States under the GENIUS Act, the CEO and the CFO of a stablecoin issuer could face imprisonment and fines if they misreport the underlying reserves versus circulation.

So, redemption is a critical feature. I think over the lifetime of USDC in circulation we have probably redeemed more than \$800 billion of circulation, because at all times it is a dynamic market. Some people want the stablecoin in its native form for dollar store value. Some may want it for payments. Some may want it for digital asset trading. However, all want it to be redeemable at all times, even in our bankruptcy.

The Chair: Thank you very much, Mr Disparte. That has been a fascinating evidence session, and thank you for the clarity of your answers. It has been good to have you with us. Thank you.

Dante Disparte: Thank you.