



Financial Services Regulation Committee

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

Wednesday 25 March 2026

11.10 am

Watch the meeting

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

Evidence Session No. 14

Heard in Public

Questions 152 - 166

Witness

[I](#): Tom Rhodes, Chief Legal Officer, Agant.

Examination of witness

Tom Rhodes.

Q152 **The Chair:** Welcome to the second part of today's meeting, which is the 14th oral evidence session as part of the committee's inquiry into the growth and proposed regulation of stablecoins. I want to thank you, Mr Rhodes, chief legal officer for Agant—I hope I have pronounced that properly—for attending to give us evidence this morning.

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

Mr Rhodes, I understand you will be making a short opening statement, so I will hand over to you.

Tom Rhodes: Thank you, Chair. Thank you to the committee for having me. I will use my opening statement to talk about how stablecoins work in some detail as quickly as I can.

The Chair: Not too much detail. Keep it brief, because we have a lot of people who want to ask questions.

Tom Rhodes: Okay, understood. I will start with blockchains. You will have heard about blockchains. They are just a ledger, a chain of blocks of information. The information is assets, activity using those assets, transfers of the assets. This chain of information, which is referred to as a ledger, is controlled by consensus among the participants. It is updated through a consensus mechanism. It is publicly accessible and it is global.

An imperfect but helpful analogy is the internet. Stablecoins are created and recorded on the blockchain. They are an asset. They are a token or a piece of information on the blockchain that can be owned and transferred. They have a distribution structure similar to physical cash. They are often referred to as digital cash. That means that they are issued by an issuer, distributed by a small number of distributors who have a direct relationship with the issuer, and then the distributors transfer the stablecoins to end users who use them independently of the issuer, similarly to how the Bank of England creates physical cash and distributes it via a small number of distributors, and it then is used in the economy by people who have no relationship with the Bank of England whatsoever. It is transferable by updating the blockchain. It does not matter who the counterparties are, wherever they are in the world; you just update the blockchain and that is the transfer.

There are ways in and out of stablecoins and back into fiat money, bank money, which would be redemption if you are one of the distributors who has that relationship with the issuer, or conversion using a distributor if you are an end user who does not have that relationship with the issuer.

The simplicity of it—the fact that you are working on this simple ledger that is a bare building block—enables composability and programmability,

rather than having to conform to the multi-layered payment systems and infrastructure that you use today for transferring assets, whether it is payments, bank deposits, stocks and shares, or other financial instruments. That simplicity and those bare building blocks are what give people the ability to innovate.

As the committee will be aware, this is something that financial institutions are adopting, and the UK has a significant opportunity to make use of it and to have its financial institutions make use of it.

Q153 The Chair: I understand that Agant is a start-up. Could you give us a brief overview of Agant, how long it has been going, what it is planning to do, how many people it has, and so on?

Tom Rhodes: Yes. It is a start-up, I suppose, still. It is a couple of years old. It is a stablecoin issuer. The bare business model is to receive payments from users, distributors, and convert that into stablecoins and place the underlying money that we have received into safe assets, gilts or bank deposits, and then distribute the stablecoin out to users who will use it independently of us. That is, essentially, the business model. The source of income is the return on the backing assets, whatever is paid on the short-term government debt or the bank deposits.

We are a couple of years old. We have nine people now. We are registered with the FCA. In the UK, to conduct crypto asset business, you have to be registered with the FCA under the money laundering regulations. As you are well aware, no dedicated crypto asset or stablecoin issuance regulatory regime is in force at the moment. It is coming in October 2027. The regulatory permission that you need is to be on the register of crypto asset businesses under the money laundering regulations. That registration we received about a month ago, after a thorough eight-month assessment process looking at our systems and controls by the FCA. We are now registered and there are no regulatory barriers to launching. We have several customers signed up. We are dotting the Is and crossing the Ts and will be launching shortly.

Q154 The Chair: How do you see the market for UK stablecoins? Within that, how do you see its position?

Tom Rhodes: The market for stablecoins is almost non-existent in the UK. For UK-based GBP stablecoins, there is one other registered issuer, but the amounts in use at the moment do not even register compared to US dollar stablecoins from around the world. US dollar stablecoins are over \$300 billion in issuance. In the UK, it is in the low millions, around £10 million. The market is not there yet, but there is a huge amount of interest.

One privilege of doing what we are doing at this time is that everybody wants to talk to us. The asset managers, the banks, payment services firms, capital markets providers, investment banks—everybody is looking at whether it is all it is cracked up to be and it has the opportunities to save money for them. Everybody is developing their potential business use cases. We are in those conversations about where the GBP stablecoin

could be integrated into, for example, the City's business, capital markets, trading, payment services, banking, and also asset management activity. We see a lot of pent-up demand and a lot of pent-up interest, but a lot of hesitation, primarily due to regulatory barriers at the moment. We expect that as those clear—and the regulators are doing a brilliant job developing the regulatory regimes—the adoption will accelerate.

The Chair: How big a market will be addressable? Within that, will you specialise in particular areas or do you have target customers?

Tom Rhodes: Yes, we are targeting institutional use cases, so all those City activities that I mentioned. There are a few obvious ones. Asset managers who are tokenising their products, whether it is stocks and shares, trading or investment funds and money market funds, are showing a lot of interest. If they can create a token and people can go in and out of them more easily, you can potentially expand the market for them. The settlement asset for buying into those products would be a stablecoin if you want to take advantage of the benefits. That is where we are positioning ourselves, to work with the institutional investment firms, institutional banks.

There is also the more well-known use cases of cross-border payments. Blockchain is a global network, so you can easily update the network to transfer ownership from A to B, wherever B is in the world. We see a lot of interest as well from more simple payment services providers, whether it is remittance across borders, or corporate treasurers who have international business activities and are looking at paying suppliers or receiving purchase payments from customers anywhere in the world. That is potentially streamlined and costs are cut if they can use stablecoins as well.

The other well-known use case is trading crypto assets. That is not the main focus for us. We want to be positioned for the more institutional financial services, but that is another use case that exists today.

Q155 **Lord Sharkey:** Could I ask you for your views on the Bank of England's proposed regulations, in particular the rules for backing assets, redemption rates and holding limits? Perhaps I can start with holding limits. You say in your written evidence, "Given the limited jurisdiction the Bank has over global blockchain networks and wallet providers, there is no way a holding limit could be effectively enforced. The issuer cannot track ownership or identify when the same person sits behind multiple wallets, because it does not have a direct relationship with all end holders."

Tom Rhodes: Yes. That last point is about enforceability. I can start with that. As I mentioned and I wanted to cover in the opening statement, the blockchain is essentially a ledger. It is globally accessible. To access that, you set up a wallet. The wallet is essentially like an address. It is participation. It is almost like adding your name to the blockchain and being able to participate. It is a string of numbers. It is like the IP

address to participate. That is straightforward to do. You can do it yourself and you can hold all the keys and the control to that yourself, or you can use a wallet provider, which will provide a custodial service and will help you manage the keys and provide custodial control over any assets that are in your wallet. That is how you access the blockchain.

That is done already all over the world, and it is straightforward. The fact that it is straightforward is part of the benefits because you can build your sophisticated financial services. Whether you are a treasurer or an investment firm, you can build programmability and sophisticated conditional services, payment services, trading services, by moving assets between wallets. You can set up wallets as you need to. They are a simple concept that you can build technology on. That is part and parcel of how global public blockchains work.

However, because it is so easy to access and to set up those wallets—and a lot of people are doing a lot of thinking about this—there seems to be no clear way to control what an individual has done in setting up wallets and accessing the assets. If somebody is getting near their £20,000 holding limit, it is hard to see what stops an individual from setting up a new wallet—which with the technology they can do themselves if they are technologically sophisticated enough, or through a provider anywhere in the world—and adding stablecoin into that wallet.

The burden, therefore, potentially falls on the issuer or some other third party that would track the transfers of these stablecoins and try to identify and attribute wallets to the holder and work out which wallets are attributable to which particular holder and how much is in them. I am not aware that anybody has a solution for doing that because setting up the wallet is a relatively anonymous process in the same way that you get an IP address. You do not have to KYC with somebody. It is just technology.

Lord Sharkey: No KYC is involved at this point?

Tom Rhodes: For a self-custody, self-hosted wallet, there would not necessarily be any KYC. Yes, that is right. It is like accessing the internet. That does not mean no KYC at all. When financial institutions onboard a customer to provide the sophisticated services that I am saying people might want to do, at that point there will be KYC.

The pinch points at which KYC would be required might look similar to financial services at the moment. When you interact with certain types of services, you have to do KYC, particularly with cash. There is no KYC for holding cash or buying a wallet, but in the interactions with your bank to deposit or withdraw using your card, KYC processes are built in. There would be pinch points at which you would do it for certain financial services in the UK.

The accessibility of the blockchain, which is its strength, means that wallets and access to it will not be able to be restricted through KYC. Enforceability is a massive challenge.

Lord Sharkey: Are holding limits meaningless?

Tom Rhodes: If you impose a restriction on asset managers, banks or payment services firms in the UK that are providing services to UK customers to only distribute up to the limit, they can at least track what they are doing with their customers, whom they will, like I say, have KYCed in those interactions in regulated financial services in the UK.

Lord Sharkey: What is the underlying rationale for having a holding limit at all, given the circumstances?

Tom Rhodes: The stated rationale is to manage the risk of rapid and precipitous deposit flight.

Lord Sharkey: The blockchain itself facilitates exactly what you have described. I discovered recently that the blockchain is inhabited by whales, and an increasing number of these whales are able to move markets because of their size. There is no limit on what they hold at all.

Tom Rhodes: Yes, you are probably thinking of Bitcoin holders. There is not intended to be any limits in the same way as there are no limits on how much cash and assets other businesses can hold.

It leads to the point that we have been trying to make, which is that introducing limits on stablecoins is counterproductive in that it would increase financial stability risk. The reason for that is that the distribution structure, which I covered briefly in the opening remarks, has a secondary market through which the stablecoin is distributed. The issuer issues to a small number. It could be asset managers, exchanges or brokers. Increasingly, people like Revolut would then offer conversion or access to their customers. Revolut is doing that in Europe already.

That secondary market needs to be fluid. If the asset manager or Revolut is seeing more demand for the stablecoin from its customers—say there is a big increase in demand as the asset manager releases a new tokenised fund—the asset manager needs to be able to bulk buy the stablecoin from the issuer and then distribute it so that people can make use of the on-chain trading that they are looking to do. If they cannot do that because either they have hit a holding limit or the distributor or their customer has hit a holding limit, the ability to access that stablecoin, to be able to make the market, to be able to buy into these products or sell these products in exchange for the stablecoin breaks down. It gets in the way of it.

For example, if a buyer of a tokenised money market fund wants to invest another £10 million in BP or Shell, or a corporate treasurer who sits on a lot of money wants to invest a lot of cash into a money market fund for a short period of time and needs to use a stablecoin to be able to do that, with the efficiencies in using stablecoins, they will need to get access to that stablecoin. If they have hit a limit or if the asset manager who would provide it has hit a limit, either they will source that stablecoin from a different provider and potentially, depending on how important

and urgent the business is, they are potentially going to bid up the price slightly on a secondary market, which can happen, which pushes the peg above one for one. Alternatively, they will say, "The stablecoin is hitting limits. We need to find an alternative. We will use USDC or we will use Circle's GBP stablecoin that it issues from offshore and we will not have these problems."

Q156 **Lord Sharkey:** Quickly, about redemption rights, I was asking your views about the proposed rules.

Tom Rhodes: Both the FCA and the Bank of England have stated that redemption rights need to be universal to all holders. Every holder should have the right to go to the issuer to redeem the stablecoin. I have a lot to say about that.

The first point is that that is not how any of the well-established stablecoins work. I know you have had evidence from Circle. Tether is the other big stablecoin issuer. The percentage of holders of USDT and USDC that have that direct redemption right is a fraction of 1%. Tether released a regulatory publication in February, where it said it has just over 800 direct customers. USDT, Tether's stablecoin, is issued in the hundreds of billions. It is up at about \$190 billion. It estimates that it has 300 million or 400 million individual users, but only 800 have direct redemption rights. Yet the stablecoin remains extremely stable on secondary markets because the distribution structure and the ecosystem works, and they ensure it does.

The proposals from the regulators are that the end users, whoever they are, wherever they are in the world, should have the right to go straight to the issuer and redeem that stablecoin, whether it is for just £1 or not. Clearly, it is a different product to how it works, but it means that the issuer is potentially subject to an enormous onboarding and customer due diligence process. It would have to receive the request for as little as £1, go through the process of onboarding, doing customer due diligence, checking the documents from wherever that person is in the world, and then set up a payment chain. It would then have to set up bank details and bank payments to get the £1 back to them in fiat, in bank money.

The details are not decided yet, but that is all to be done, in theory, on demand once KYC has been done. That means that, again, if you take the stats from Tether—and Circle is similar—it could face hundreds of millions, in theory, of KYC processes in a relatively short space of time.

The fact is, as we see it, that giving users that right or the belief that they have that ability to get out by going back to the issuer is likely to increase risk because the issuer then has the potential for a bank run-like redemption period of high-stress redemptions. In reality, there will be a KYC process, but they may have to then redeem for everybody in a short space of time.

That risk is mitigated by the existing structure that stablecoins operate under at the moment, because those end users have to go to their

conversion providers or the distributors in the secondary market, so it is spread. The risk is diversified across multiple parties in the distribution chain rather than being entirely placed on the issuer.

The consequence is that if you are going to use stablecoins for any significant business, whether you are a retail user or asset manager or corporate treasurer, you need to make sure that you have an arrangement with Revolut or with the asset manager or the distributor that allows you that one-for-one access. That is where you go. That is how people are using it already. These one-for-one arrangements are in place. They are emerging slowly and they need time to emerge. I will stop.

Lord Eatwell: Essentially, they are illiquid.

Tom Rhodes: How do you mean?

Lord Eatwell: If you cannot change it into cash straight away, it is illiquid.

Tom Rhodes: If you have not set up that arrangement. The ideal model or an obvious model is that a business like Revolut—and others are doing it, but you had Revolut in here—offers a wallet bolted on to its bank account and will do that conversion for you one for one. It knows that it has the redemption arrangement with the issuer, so they can always go back to the issuer to redeem it one for one. They have no issue in offering that service.

However, you are absolutely right. It's like if you convert into physical cash. If you turn your bank deposit into physical cash, you cannot immediately turn it back. You do not put all your salary into physical cash. You take out just what you need. Initially, stablecoins will work that way as well. It is the same with international businesses that convert into other currencies. They potentially even take on an FX risk when they do that, and so they will manage that. People manage multiple currencies and cash movements perfectly well at the moment. Initially, stablecoins will operate in the same way.

Q157 **Lord Hollick:** You mentioned in your opening remarks that you were in discussions with fund managers to promote, no doubt, their interest in stablecoins. To the extent that they have any uninvested cash, they usually go to money market funds, which are now well set up and provide interest. Stablecoins do not provide a state of interest. Will that be a barrier to their growth?

Tom Rhodes: The money market fund is one of the primary partners for a stablecoin in a sense because of the reason you have given. As money market funds are tokenised, if a token represents ownership rather than just a unit on a separate ledger or a custodian, on the blockchain you can swap the stablecoin for the money market fund unit. That would pay interest. It would be the same as holding the money market fund. That would be the idea. The stablecoin would—

Lord Hollick: Does the Bank of England permit that?

Tom Rhodes: You have swapped out of your stablecoin at that point, and it does not even have to be a tokenised money market fund. We are working with asset managers who are seeing interest from corporate treasurers who are saying, "We have international payments. It would be helpful to avoid correspondent banking and FX risk as it is today. We may be interested in using stablecoins but, if we are holding stablecoins, where will we earn some return? At the moment, we send it to you, the asset manager, and you invest it for a relatively short period of time into a safe money market fund".

They are looking at ways that that stablecoin can be received as a medium of exchange to buy into the money market fund. If they can tokenise the money market fund and create a token representing ownership, that would be even more straightforward.

We are working closely with asset managers on streamlining it in advance of these products being fully tokenised. For example, we will hold money market funds as our backing assets, which is permitted because it would be a safe, short-term public debt money market fund. We will hold that as our backing assets. The corporate treasurer can go to the asset manager. If they are holding our stablecoin, GBPA, they can exchange GBPA for the money market fund by a process where the asset manager will reregister ownership of the money market fund from us because we do not need it any more to—

Lord Hollick: That seems to circumvent the current rule, which is that they should not be able to pay interest on your stablecoin.

Tom Rhodes: It is how to make it more attractive for holders because you are because you are effectively investing it into the money market fund instead.

Lord Hollick: I can see that because you are not competitive if you are not paying interest, but that seems to be a bit of a loophole.

Lord Lilley: You are not holding the stablecoin once you have invested it. Someone else is.

Q158 **Baroness Bowles of Berkhamsted:** I was struck when in your introduction you said you are an organisation of nine people. Compare that to the Bank of England, which is another issuer of money.

How many issuers can there be? How will that sort itself out? Potentially, you could have a large number of issuers. I somehow fear it will be confusing, trying to work out where your stablecoins have come from. What is the limiting factor on your growth and for these other potential competitors, I suppose, that you have, and how do you see that sorting itself out? Will we have thousands of issuers, which potentially you could have, or will the leading people get in and thrive and then come to dominate? What is the big picture here?

Tom Rhodes: In the UK, if you just take one economy, it has obvious network effects. If you have built that distribution network where multiple banks are plugged into the issuer, Agant, and if they have that relationship with Agant where they are happy to issue and redeem directly with us, they are then happy to offer the stablecoin as a bolt-on to their accounts. More banks and payment services firms doing that has network effects. You can then pay it to more people and it becomes more useful. It is definitely an argument that there would be a few, winner-take-all providers rather than lots.

However, the technology is not that hard to create once there is a regulatory regime. That is a barrier to entry, but at least people know where they stand and they can enter the market. There could well be more. Some could have certain purposes that are used in the back office at some big organisations for a specific purpose.

The predictions on the market vary. I know that the Bank of England gave evidence and, from reading that, they suggested that the number would probably be relatively small, at least at the systemic scale. That is the expectation. That makes sense.

Globally, there will be a lot of different jurisdictions with different purposes. Even now, the different purposes and the different target audiences matter. USDC is the big US-dollar one from Circle. As I understand it, it serves more institutional users. Tether's USDT is more cross-border and used throughout the world, including in developing countries that want access to a stable currency. They have different target markets and they build their networks accordingly.

I do not feel like we have a strong view on that. We are trying to build many relationships where there is demand at the moment but, once the regulatory landscape is clear, we probably expect a lot of entry into the market and competition.

Baroness Bowles of Berkhamsted: Will there be a limit for the banks and the people that you are networking with? Will they want to have hundreds of issuers? It strikes me as a bit complicated if that is the case. There will have to be a thinning out if lots spring up. What happens to the ones that try and do not get anywhere?

Tom Rhodes: You are right. There will be a limit on how many you want to see. The solution in the market that is starting to emerge is that a third-party provider can step in and receive the stablecoins on your behalf, whether you are a bank or a payment services provider, and it has gone and built the networks with all the issuers. If you did have thousands of issuers, these third-party redemption clearing networks would set up those networks and those connections with the issuers themselves, and would receive on behalf of banks or would at least provide the technology to enable banks and payment services firms to receive multiple stablecoins and, essentially, treat them as one if the stablecoins are all compliant with the same basic standards—for example, the FCA rules.

Some solutions to that problem are emerging, but you are right. It is hard to predict, but it seems that you would not want to have too many. It would be confusing.

Baroness Bowles of Berkhamsted: If I suddenly decided I was interested in having stablecoins, how will I choose from all these different providers and where will I open my wallet for preference? Will some kind of accumulation and front end go on that?

Tom Rhodes: Realistically, most retail users and businesses will probably enter the market through a provider that they already work with, whether it is a bank or an asset manager, which says, "You can now make instant cross-border payments. You have access to this global network of tokenised fund products, but you have to use one of the following stablecoins. We will receive all those three stablecoins from you and instantly swap them into the product or the deposit that you already have." In that way, you will be given access. Then it depends on what they offer and what connections they have built with issuers.

Q159 **Lord Vaux of Harrowden:** I am now slightly confused by this. The main advantage of stablecoins, as I understood it, is that it takes out an awful lot of intermediaries in the chain of the process. You have just put a whole load back in again. Is the advantage as clear cut as it is meant to be?

Tom Rhodes: In the model I was trying to describe, you might have a bank account where the bank says, "You can have a wallet. We will bolt on a wallet to your account. We will help you set it up or, if you have already got one, you can set up access. Then you can convert your deposit that you already hold with us into stablecoins." That is your on-ramp, as they call it. That is how you buy the stablecoin. You swap your deposit into the stablecoin. At that point, all the removal of intermediaries still applies—

Lord Vaux of Harrowden: If the scenario that Baroness Bowles has come up with has thousands of these things, presumably it will have to change multiple times to end up at the end user and, therefore, it will go through lots of stages of transactions. Presumably, at each point, someone is taking a cut out of it because that is the nature of these things.

Tom Rhodes: Yes, if there are thousands of stablecoins and many that need to be in a transaction. The idea would be that you would get hold of the stablecoin that you need to make the transfer from A to B and that is the end of it, whether it is to buy a tokenised money market fund or to make a payment.

Lord Vaux of Harrowden: That does push you back towards a very small number as where this is likely to end up, in reality.

Tom Rhodes: Domestically, I would have thought so. I have not given a huge amount of thought to it.

Q160 Lord Lilley: Could I follow the same train of logic? If I have a wallet and I decide I want to fill it with your stablecoins and pay someone, can the person I am paying programme their wallet so that they will receive only your coins and will not receive any Trump coins or Robert Maxwell coins or other things they might not feel so comfortable with? Is that how it will work?

Tom Rhodes: Yes. This is the beauty of it. You can build the technology as you want. The wallet is a simple building block. It is an address on the network. Providers will provide that service for you. You can also build that technology into the stablecoin.

The coin itself can be restricted from certain wallets—for example, wallets on sanctions lists—and there are several sanctions lists of illicit wallets at the moment. They are built into our stablecoin, for example, so that it will not go into those wallets. All that technology can be built.

Lord Lilley: From the point of view of the recipient, if the recipient can specify the coins they are prepared to accept, that will rapidly thin out the market. If 1,000 people start them but after a while only two or three have any widespread acceptability, they will be all that people will use.

Tom Rhodes: The risk of receiving unsolicited coins is not necessarily that high. It is a challenge. If you are—

Lord Lilley: If I am expecting someone to pay me for selling my house or even something much smaller, I do not specify which bank it has to come from. I will accept it from any bank. Here, I am not sure I want to accept any kind of stablecoin. If I can specify that I accept only certain types, that is fine with me. But I am not sure if that is how it works.

Tom Rhodes: You could build the controls so that if somebody sends you a certain stablecoin that you do not want to receive, it bounces, but you would also agree on the payment method in advance and you would choose one.

Q161 Lord Eatwell: I would like to investigate your business model a little bit more. The first is this whole issue of interjurisdictional transfers. Everybody says this is the great advantage. You mentioned that this would avoid FX risk, but of course it does not because dollar stablecoins transfer dollars from one jurisdiction to another. If you do not want dollars but want some other currency, you still have to go through the FX transaction.

That raises the question of why people in other jurisdictions would want pounds sterling when relatively few—certainly compared to the dollar—international transactions are priced in sterling. That is the first point. Why? We do not need stablecoins domestically because bank transfers are free in the UK anyhow and efficient compared to the United States.

The other point is this point on wallets that we have been talking about. When Sarah Breeden was here and we were asking her about KYC issues, she said that they would allow British stablecoins to be associated only

with wallets that they have approved or are equivalent to their approval. Will that kill your model?

The Chair: Could I intervene on that? We have had a correction from the Bank of England to say that that was incorrect, and that will be recorded in due course. We will be given that in writing and—

Lord Eatwell: Oh, right, your model survives. Still, going back to the basic question—

The Chair: Sorry about that.

Lord Eatwell: No, that is great. Thank you, Chair. On the issue of cross-jurisdiction transfers in sterling, the Bank of England's helpful correction means that KYC is blown out of the water, is it not, as you point out in your—

Tom Rhodes: Yes. I do not know about blown out of the water, but yes.

Lord Eatwell: KYC is—

Tom Rhodes: Not necessarily there.

Lord Eatwell: Not necessarily there and very difficult?

Tom Rhodes: Yes, in some uses. I will address all those points. The international demand for GBP is there. We have Africa-focused and Asia-focused remittance businesses that are looking to have a GBP stablecoin. International businesses do business across multiple jurisdictions.

The FX point is that they can swap the stablecoin instantaneously, which, again, cuts out some of the intermediaries and some of the services that you pay for.

Lord Eatwell: They swap across currencies? That is an FX transaction.

Tom Rhodes: It is an FX transaction.

Lord Eatwell: Somebody will take a little margin there.

Tom Rhodes: Yes, realistically, that is true, but the point is to be shaving off margins and cutting out settlement systems and networks when you can.

Lord Eatwell: There are efficient fintech FX specialists now.

Tom Rhodes: Correct, although, in our experience—and this comes on to the next point about domestic payments—a lot of these services are cheap or free at retail user level, but a lot of corporate users pay quite significant fees for large transfers and transactions. We are told that the interest is in streamlining some of these services, whether it is FX or just payments.

Again, it is the same in domestic payments. CHAPS payments, which are the large value payment system, are still not instant in the same way

Faster Payments are, and a lot of infrastructure sits behind a CHAPS payment. Sometimes it can take a couple of days to settle. The asset managers have this concern with their corporate treasurer customers who place funds into money market funds, for example. You are not using your funds efficiently for a period because they are in transit. That has cost savings, and a lot of infrastructure can be bypassed, even domestically.

However, the broader point is that cost savings and time savings are only one aspect. The other aspect is the ability to build on the technology, to build sophisticated programmable payments or composable payments. That means, if you have complex M&A transactions or complex investment services that you are providing, you can build in conditionality to automate payments and transfers and settlement in a way that is much harder today when you have to go through multiple payment systems and settlement systems, whether it is in stocks and shares, trading, clearing or just payments.

Lord Eatwell: That is an interesting point. Thank you.

Q162 **Lord Davies of Brixton:** You started by talking about the blockchain technology. Is there a physical constraint or a quantity constraint on what the blockchain system can handle? At the moment, there are a lot of transactions but, compared to the overall financial transactions going on in the world as a whole, it is still pretty limited. If it grows, is the blockchain system up to handling it? All these computers around the world will have to be updated. I can see a problem there. Is this issue discussed?

Tom Rhodes: Yes, this issue is discussed. I am not necessarily an expert on it, but different blockchain networks have different features. Some of them prioritise processing transactions quickly and others have different functionality. There will be some competition and some innovation. All these chains have developed in the last five years that I have been working in this space. Various developments in Ethereum and the other large blockchain networks have incrementally improved some of these points.

However, you are right. Compared to, for example, Faster Payments in the UK, technically the number of transactions per second that can be processed is a long way behind, but it is still quick. It is certainly quick compared to a Faster Payments transaction, which then has to go through a whole correspondent banking network to get to the Fed network in the US and then end up in a US bank account. The fact that it is seconds slower than a Faster Payment domestically is not a major downside if it is days quicker than when it is moving cross-border.

Q163 **Lord Griffiths of Fforestfach:** We have taken evidence that the regulatory authorities in this country are rather more conservative—indeed, some would say, and you in evidence said, that they were unduly restrictive—compared to regulatory authorities in Europe or in the US. The question I come back to my own mind is what our vision should be

going forward, say, five, 10 or 15 years as to the potential of stablecoins, fintech, tokenised deposits and so on. Is the sweep of technology such that in the world as a whole, this is happening and the UK seemingly will be dragged along, or is the UK correct that we should be cautious about it, make sure KYC is right, and all of that? I would like to get how you see, in a way, the balance or the choice.

Tom Rhodes: Our view is that the right balance at this stage of the market would have been to take a less prescriptive and less comprehensive approach to developing regulation so that the innovation, experimentation and early-stage adoption can happen and the business models can be tested and tried while they are still developing. Nobody knows still at this stage how stablecoins can be integrated usefully into capital markets and complex financial services.

There is a lot of potential, but weekly we have meetings with senior executive teams at well-known financial institutions, and they seem to always end up with an agreement to do a proof of concept. People are not necessarily ready yet. Everybody is still working this out, but there is a lot of hesitation to adopt it or even do serious testing and experimentation because of regulatory barriers, which I can come on to.

The broader point is that it would make sense at this stage to have a principles-based regulatory environment that focuses on the critical aspects of making these products safe—backing assets, the distribution structure, the redemption access, disclosure and public information about how these products work. But let people develop the business models, whether it's who exactly has redemption rights, what the fees are, the capital structure potentially.

I can make lots of specific, detailed points about the regulatory regime but, as the product is developing, we are finding hesitations and challenges with a lot of the regulatory proposals that are definitely holding back adoption and development of the products in the UK. It stems, basically, from a regulatory approach that is to comprehensively and prescriptively regulate these products and services before they are in use and before they are developed, which we think is slightly backwards. I always say that the sophisticated financial services that are conducted in the UK were not regulated in advance before people were doing them. Regulation is responsive and reactive to some extent.

At this early stage, while adoption is not high and will not happen rapidly, it is hard enough to get people to think seriously about doing this. The UK already has a lot of successful and efficient financial services, for example. There will not be a rapid, precipitous deposit flight into stablecoins any time soon. This is the right time to take a principles-based approach and let people develop these products and services and work them out.

Lord Griffiths of Fforestfach: Would that be your advice as a conclusion for us as a committee?

Tom Rhodes: Yes.

Lord Griffiths of Fforestfach: We want to avoid at all costs having a financial crash because of it. What one thing would you need to put in to prevent that happening and let the experimentation carry on at the same time?

Tom Rhodes: The most important aspect of the issuer's business model is the backing asset arrangement and the integrity of the backing assets. They need to be high-quality, highly liquid assets. These will be low-return but stable assets.

The regulators have broadly got that right. We have no concerns with the FCA's proposals on the composition of the backing assets. We will back our stablecoin with short-term government debt of no longer than a three-month maturity, and then bank deposits and money market funds that hold that type of asset. That is crucial for the redemption, which has to go to distributors to ensure that the ecosystem works and that the stablecoin can be converted when it needs to be.

Q164 **Lord Griffiths of Fforestfach:** As a final question, you are entering the market and others are entering the market. You are in a market where your potential clients have a reduction in cost. That is why they are interested in being in dialogue with you and so on. The problem is that, if then a lot of people like you in competition in this market are restricted in what you can invest in, in a competitive structure you would expect to see other forms of competition emerging, which would effectively reduce price or give you an advantage over others. Do you see that developing? If so, what could you do about it? Would the regulators put in some particular regulation or series of regulations that would make it impossible to compete against each other, even though the returns were limited on the backing assets?

Tom Rhodes: Maybe I can just speak broadly about competition. Do you mean competition between stablecoin issuers?

Lord Griffiths of Fforestfach: Yes.

Tom Rhodes: You would compete as a stablecoin issuer by developing those networks and developing use cases. For example, I mentioned earlier people who are looking to get into money market funds. If you can re-register the backing asset, which is a money market fund from us when we do not need the stablecoin any longer and we do not need the backing asset any longer because somebody has redeemed it with us, that backing asset can be immediately reregistered to a customer. If you can streamline those types of activities, if you have better technology, and if you have better disclosure and a better reputation, you compete there.

There is another area that is probably worth mentioning. To ensure the functioning of the ecosystem through distribution, you need to incentivise your distributors. As I say, if it is Revolut and you are saying you need to make a one-for-one conversion service for customers so that they can

buy and sell our stablecoin, we will issue the stablecoin to you and redeem to you but we will also give you rebates or we will share revenue with you to incentivise the distributors to make those markets to provide that distribution service. You also compete there. But the fundamental business model is extremely simple.

Q165 **Lord Lilley:** Excuse me; I will disappear as soon as you have answered this question, so please do not take that as an insult to your answer. Indeed, I thought your written evidence was of exemplary lucidity, and for quite a long time I thought I understood the whole issue, which will be an astonishment to most of my colleagues here.

One area where I had some uncertainty—possibly because I had consumed too much caffeine at that stage—was where you were talking about what could happen in the event of a run and the extent to which the distributors would act as a buffer. Will they have stocks of assets as well that they can redeem coins in, or is it that they will have done the KYC with their customers and will then shunt the coins back to the issuer? Do they somehow act as a distributor or as a buffer?

Tom Rhodes: Yes. If you take the bank or the payment services firm model and if we are talking about a run here where a lot of people want to redeem, if they go to Revolut or another bank to convert rather than coming to the issuer, the bank at that point says, "You can send us your 100 stablecoin and we will credit your account with £100 of normal money that sits in your account." The balance sheet then of the bank is the liability of the deposit that it has just credited £100 to, and it holds the corresponding asset of the stablecoin. It knows, trusting the backing assets that we hold, which are live and published, that it can, in bulk, in due course, redeem those stablecoins with us. The run or the mass redemption is via multiple conversion providers in the market rather than just on us.

That spreads the operational pressure but, also, and the regulation, again, is sometimes slightly counterproductive here, it means that they can take their time and we can take our time to liquidate the backing assets and then distribute them out to the distribution structure, rather than everybody coming to the issuer and—we would have the KYC process, but if you set aside the KYC process—us being forced to redeem on demand by liquidating all of our backing assets in one go. It works like this with the bigger issuers.

Lord Lilley: The only other thing I wanted to know is what "composability" means.

Tom Rhodes: That is a really good question. I do not know exactly, but it is the word that people use. The idea is that these are such simple building blocks, back down to the basics, like a domain on the internet or something like that. Then on top of that, you can compose lots of different technology. I used "compose" in the definition, sorry. You can build—

The Chair: We will research this offline.

Lord Hollick: Is it like my composting?

The Chair: Let us not go down this rabbit hole. We are running short of time. I have two more colleagues left to ask short questions, so short answers, please. Lord Vaux?

Q166 **Lord Vaux of Harrowden:** Thank you. I reiterate what Lord Lilley said about the paper you gave us. It was exemplary and unusually understandable. Thank you for that, or whoever wrote it, if you would pass our thanks on.

You were quite scathing in that about the barriers to entry and particularly the AML process. I wonder if you could comment a little bit more about that, and I will come on to the second part of my question in a moment.

You also refer to examples of people who have, based on that, gone off and done it offshore. I wonder if you have specific examples. It would be quite interesting to hear who they might be and who has been pushed offshore by the barriers to entry.

Secondly, and related to that, clearly, stablecoins have become the main route for illicit activities. It has moved away from Bitcoin and things precisely because they are stable. I am interested to understand, particularly given the point about the AML and the points we have heard about KYC. Where does the stablecoin issuer sit in that and how does the stablecoin issuer satisfy itself that its coins are not being used to bust sanctions or other illicit activities?

Tom Rhodes: The AML barrier that I was referring to is the registration requirement with the FCA. Our experience of it was that it was professionally done and we would not fault the process. It took about eight months for us, which is quite a long time, to be given the green light to start doing business. However, we have no complaint about our interactions with the regulator.

The point that I have tried to make is that it is supposed to be a registration process. The regulatory regime, by which the regulator authorises a firm to conduct these activities and has a huge amount of rules and regulations then to comply with, is not in place yet. It is not regulated, but you have effectively still an authorisation regime or an approval regime before you can get going.

The alternative way of doing that would be to have a registration requirement where you notify the regulator that you are doing this because it is seen as a high-risk activity and, in doing that, you confirm that you will comply with the rules as they are set out in the money laundering regulations, which require you to have certain standards and controls. The regulator then knows that you are doing it and can monitor you and ask for information and you have that dialogue, but you can get going.

The registration process with the regulator for registration under this money laundering regime had, on the latest stats I have seen, an 85% rejection rate for applicants over the last five years. The scope of it is just anti-money laundering controls. The process normally takes 12 months or so. As a barrier to entry, it is significant.

Lord Vaux of Harrowden: Why would the regulator reject 85% of them? Is it because it simply does not have the controls?

The Chair: We should ask the regulator that question. Can we move on?

Lord Vaux of Harrowden: Good point. What about the use of illicit payments?

Tom Rhodes: The role of the issuer is a point of debate at the moment. They have a lot of control. They can freeze stablecoins. They can track the movement. We do not necessarily have that technology, but it already exists through service providers. You had Chainalysis give evidence. There is a lot of information in terms of tracking movement of assets, that you do not have with other types of money. We talked earlier about tools like freezing the stablecoin or blocking wallets.

The question is who should be responsible for that. The issuer is the one who can build it into the technology, into the coin, and we built this functionality into the coin, but the question is when we would pull the trigger on doing that. The distribution nature of stablecoins is that they are used by third parties who may have had no interaction with us. We may have no contract with them. They are not our customer. We would be freezing a third party's property, not under a contractual right, potentially. We would want a governmental authority to do that, and that process needs to be developed.

Lord Vaux of Harrowden: If not you, who else would do it?

Tom Rhodes: The issuer is a natural person. There are wallet providers, potentially, but we need controls and clear guidance on when we would do that. Otherwise, the legal risks are significant.

The Chair: Lord Smith?

Lord Smith of Kelvin: The written evidence is comprehensive. I have no questions.

The Chair: Thank you very much for coming along this morning. It has been an interesting session. I also underline my colleagues' remarks that your written evidence was exemplary. That completes the public session.