HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

The Baroness Noakes DBE
Chair, Financial Services Regulation Committee
House of Lords
London
SW1A 0PW

31 July 2026

Dear Lady Noakes,

Growth and proposed regulation of stablecoins in the UK

I am writing in response to the Lords Financial Services Regulation Committee's (the Committee) report of 3 June examining the growth and proposed regulation of stablecoins in the UK. I was grateful for the opportunity to give evidence to the Committee as part of this inquiry. The Government welcomes the Committee's report which provides a timely and thorough examination of the opportunities and risks presented by stablecoins.

Stablecoins have transformative potential to drive economic growth and introduce efficiencies across financial markets, provided they are appropriately regulated and truly stable.

In retail payments and wholesale settlement, they can offer benefits including faster, lower-cost transactions, more efficient settlement, and innovations such as programmable payments. Harnessing these opportunities is central to the Government's ambition to make the UK a leading destination for digital asset innovation and to maintaining our position as a world-leading financial services hub.

In line with the Government's approach, the report highlights the importance of proportionate regulation that balances innovation with financial stability and consumer protection. Through the Financial Services and Markets Act 2000 (Cryptoassets) Regulations 2026, the Government has laid the foundation for a thriving UK stablecoin market by establishing a new regulated activity for issuing stablecoin in the UK; giving firms the certainty they need to invest and grow. In addition, the Financial Conduct

Authority (FCA) has published its final regulatory rules for cryptoasset activities, including stablecoin, and the Bank of England has published draft rules for consultation, which it expects to finalise before the end of this year.

We are now taking forward work to bring UK-issued stablecoins into regulated payment chains as part of wider reforms to the UK payments framework. As part of this, HM Treasury has published a consultation on our proposed approach to modernising payment services regulation. This includes regulating stablecoin payments; providing clarity on what stablecoin will be brought into regulation for payment services and seeking views on how they will be regulated. This was one of the Committee's recommendations, and further information is set out in the appendix to this letter.

The Bank of England and FCA's regulatory regimes

The Committee raised a number of specific concerns regarding the Bank of England's and FCA's regulatory proposals for systemic and non-systemic stablecoins respectively. Since the Committee published its report, both regulators have published updated proposals which directly speak to several of the report's recommendations.

The Bank of England and the FCA will each be responding separately to the Committee's report, and I would not wish to pre-empt the detail of those responses. However, the Government welcomes their updated regulatory proposals, including the Bank of England's latest proposals for systemic stablecoin backing asset composition, and their alternative to holding limits – these were both areas where the Committee expressed interest. I am encouraged that the direction of travel reflects the importance of ensuring the regulatory regime is proportionate, internationally competitive, and supportive of GBP stablecoin development.

These changes do not detract from the robust standards that are essential to maintaining financial stability, market integrity and consumer protection. Rather, they reflect careful, evidence-based calibration in response to valuable industry feedback, and I would like to put on record my thanks to the sector for its continued, constructive engagement as the regimes have been developed. Core principles remain for ensuring UK consumers and financial stability are protected, including requirements for 1:1 backing, segregation of backing assets in a statutory trust and audit and disclosure requirements. These were proposals which the Committee rightly welcomed.

UK competitiveness

The Committee also expressed concern that the UK is falling behind international competitors on stablecoin. While the Government takes this assessment seriously, we do not agree with it on the basis that the UK compares favourably with a number of jurisdictions developing stablecoin regimes, particularly given the breadth of its regulatory framework and the timetable now set out for implementation. This is not to say that the Government is any way complacent as to our relative position, nor lacks ambition to improve upon the same.

In support of our view, we note that in the United States, for example, recent legislative developments have followed a broadly comparative trajectory to the UK's work to establish a stablecoin framework, with both the UK and the United States working towards operational stablecoin regimes for 2027. We are working closely with the US on stablecoin and, through the Transatlantic Taskforce for Markets of the Future, have set out a shared view on stablecoins. This view is intended to promote convergence between our regimes, where such convergence may be appropriate and serve our shared interests, and to provide market participants with greater confidence and clarity upon which to pursue financial innovation.

As I set out in my evidence to the Committee, the dominance of USD-denominated stablecoins is currently a structural feature of the global market, but it does not preclude the development of a flourishing GBP stablecoin market. The UK's mature and globally respected financial services sector presents a genuine competitive advantage for digital asset firms looking to invest and grow here, and the Government is delivering against the timetable it set for itself.

<u>Broader digital assets agenda</u>

Recent announcements further reflect the Government's commitment to making the UK a leading destination for digital assets, including the first report from the Wholesale Digital Markets Champion, which establishes a cross-sector process for scaling tokenised wholesale financial markets; identifying practical actions to support implementation over the coming year.

The Government has also announced the intention to issue the first Digital Gilt Instrument (DIGIT) no later than Q1 2027, with the intention to prepare for potential further issuances to better support the market. These announcements build on recent progress through the Digital Securities Sandbox, where the first firm has now been approved to undertake live activity and, on 30 June, the Bank of England and FCA confirmed that certain stablecoins can be used as settlement assets within the Sandbox.

Together, these developments build on the regulatory foundations already laid for stablecoin and evidence the breadth and pace of the Government's digital assets policy agenda.

The Government will continue to work closely with the Bank of England and the FCA to ensure the UK becomes a global success story for digital asset innovation, including in stablecoins.

We welcome the Committee's interest in this work, and I look forward to engaging in future on this vitally important policy agenda.

Full responses to the Committee's recommendations to Government are set out in Appendix A.

Yours sincerely,

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ECONOMIC SECRETARY TO THE TREASURY

Appendix A: Detailed response to recommendations

HM Treasury's role in stablecoin regulation

The Bank, FCA and HM Treasury must recognise that the stablecoin market is nascent and growing, and adapt the regulatory regime as the market develops. The regulatory regime should not seek to pre-emptively address all potential future risks, and should instead be ready to address risks if and when they materialise.

The Government agrees with the importance of ensuring regulation is proportionate for the market as it exists today and keeps pace as the market develops.

The UK stablecoin market remains highly nascent and the regulatory framework must be flexible and responsive enough to accommodate future innovations and novel use cases. That is why the Government has taken the approach it has to the financial services regulation of cryptoassets. Under this approach, Parliament sets the legislative framework – establishing the regulatory perimeter and key requirements in statute – while detailed rulemaking is delegated to the expert independent regulators. As the stablecoin market evolves and new risks and opportunities emerge, the UK regulatory framework can adapt nimbly through amended regulator rules. This contrasts with approaches taken elsewhere, where detailed requirements are set on the face of legislation – an approach that risks being ill equipped to respond to a fast-moving market as lengthy legislative processes may be required to update rules that become outdated.

The Government's approach to cryptoassets, including stablecoins, seeks to strike the right balance between creating an environment where firms can innovate, while ensuring consumers are adequately protected and financial stability is safeguarded. As the Committee's report acknowledges, if regulated effectively, the specific risks of stablecoins can be mitigated, as they are with other forms of money. This principle is reflected in HM Treasury's 'same risk, same regulatory outcome' approach to cryptoasset regulation.

The Government also welcomes the FCA and Bank of England's most recent regulatory proposals which reflect a proportionate, risk-based approach to stablecoin regulation[1].

We are concerned by a perceived lack of ownership of the regulatory regime. HM Treasury, the FCA and the Bank must work together to mitigate the risk of confusion and delay, and to ensure that the UK is not left behind in developing a regime that is fit for purpose.

The Committee raises a specific concern about the perceived lack of ownership of the regulatory regime, and the Government takes this seriously. Responsibility for the overall legislative framework sits with HM Treasury. The FCA is responsible for regulating non-systemic stablecoin issuers and related activities. Where a sterling-denominated stablecoin (or payment system) is designated as systemic by HM Treasury, it will be dual regulated with the Bank of England responsible for prudential regulation and the FCA responsible for conduct regulation. To mitigate the risk of confusion or perceived regulatory 'cliff edges' for firms transitioning between these regimes, the FCA and Bank of England have published a joint paper setting out

[1] On 22 June 2026, the Bank of England published a policy statement setting out updated rules for the regulation of sterling-denominated systemic stablecoins: https://www.bankofengland.co.uk/paper/2026/ps/sterling-denominated-systemic-stablecoin
On 30 June 2026, the FCA published final rules and guidance for the regulatory regime for cryptoassets, including for issuance of qualifying stablecoin in the UK: https://www.fca.org.uk/publications/policy-statements/cryptoasset-regime

coordination arrangements and providing clarity on how dual regulation for systemic stablecoin issuers will work in practice[2].

The Government is aware that the pace of developing a domestic regulatory regime is important for UK competitiveness. The Government's priority has been to ensure the UK regime is delivered without delay, but is not rushed either. Our goal has been a regime that is durable, proportionate and internationally credible. The regulators have now published their rules and the FCA's authorisation gateway is expected to open in September this year. This timetable will give firms sufficient time to come into compliance and be authorised ahead of the cryptoassets regulatory regime coming fully into force in October 2027.

HM Treasury retains ownership of the overall regulatory regime as set out in legislation and will continue to work closely with the Bank and FCA to provide strategic direction and ensure the regulatory framework is delivered to the timelines that have been set out. Underpinning this accountability is a statutory review clause in the Financial Services and Markets Act 2000 (Cryptoassets) Regulations 2026 in respect of the FCA's regime, requiring the Treasury to report periodically on whether the objectives of the regulatory provisions in legislation are being met, whether those objectives remain appropriate and whether they could be achieved through less onerous regulatory provision. This provides a formal mechanism through which the regime can be assessed and recalibrated as the stablecoin market develops.

The Government remains committed to facilitating the responsible growth of the UK's stablecoin market and to ensuring the UK is not left behind as the market develops globally.

Regulatory clarity

It is important that regulations are sufficiently flexible to allow for the development of the UK stablecoin market. Bringing stablecoins within the payments regulatory perimeter is an important part of this. HM Treasury need to provide clarity on their plans to do so, in particular which stablecoins will be brought into the regime.

The Government agrees with the importance of providing clarity to firms on the regulation of tokenised payments, such as stablecoin. That is why HM Treasury has published a consultation on modernising payment services regulation, which sets out how the payment services regulatory framework should adapt to support innovation in new forms of payment while maintaining strong protections for consumers and businesses[3]. The Government's objective is to establish a clear, predictable and proportionate regulatory framework that supports a trusted, world-leading payments ecosystem, delivered on next generation technology.

For stablecoins specifically, the consultation sets out the Government's proposed approach to bringing certain stablecoins into the payments services regulatory perimeter. The Government considers that only stablecoins issued in the UK and subject to robust regulation for issuance should be treated as sufficiently "money-like" for payment purposes, with the possibility of extending this approach in future to stablecoins issued from jurisdictions recognised by HM Treasury as delivering similar regulatory outcomes. Other overseas-issued stablecoins would continue to be regulated as qualifying cryptoassets rather than as regulated payment instruments.

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[2] On 30 June 2026, the Bank of England and the FCA published details about the approach to joint regulation of systemic stablecoin issuers: https://www.bankofengland.co.uk/paper/2026/boe-and-fcas-approach-to-joint-regulation-of-systemic-stablecoin-issuers

[3] On 14 July 2026, HM Treasury published a consultation on the approach to modernising payment services regulation: https://www.gov.uk/government/consultations/modernising-payment-services-regulation

This approach is intended to provide clarity on which stablecoins will be brought into the payments services regime, avoid regulatory gaps, and support responsible innovation in stablecoin payments while ensuring appropriate consumer protection and financial stability safeguards.

HM Treasury must clarify whether falling back on general insolvency law is appropriate or whether there should be stablecoin-specific legislation.

The Bank of England clarified in its latest proposals for systemic stablecoins its intention to use the existing special administration regime designed for financial market infrastructure (known as the FMI SAR) to manage the failure of a systemic issuer. The Bank has also outlined that it expects to further consult on the detail of these requirements, including whether additional requirements are needed to support operational and contractual continuity of the services of an issuer when in the FMI SAR. HM Treasury will continue to engage closely with the Bank on this work.

Non-systemic stablecoin issuers are covered by the FCA under its regulatory proposals. The FCA intends to consult in H1 2027 on its proposed approach to managing cryptoasset firm failure, including for stablecoin issuers. HM Treasury is engaging closely with the FCA on this work and notes the importance of ensuring there is a clear and effective process for managing relevant firm failures.

To provide greater certainty to stablecoin issuers, HM Treasury should set out further details about how it will determine whether stablecoins are systemic, and should consider whether indicative quantitative thresholds would be appropriate.

The Government recognises that the sector would like greater clarity on the triggers for a firm being recognised as systemic. However, the Treasury does not consider universal thresholds for systemic recognition to be appropriate at this time.

The Financial Services and Markets Act 2023 enables HM Treasury to recognise the operators of systemic payment systems and systemic service providers using digital settlement assets (DSA) (which includes stablecoin issuers) for regulation by the Bank of England. Once recognised, the Bank has the power to regulate and supervise those entities to mitigate financial stability risk.

HM Treasury will assess whether a payment system or service provider using DSAs meets the threshold for systemic recognition on a case-by-case basis, informed by engagement with the Bank of England and the FCA and consultation requirements as set out in Part 5 of the Banking Act 2009. This is in line with the established process for systemic recognition of traditional payments systems.

A DSA payment system or service provider can be brought into regulation if its failure could either undermine stability or trust in the UK's financial system as a whole, or cause serious knock-on effects for businesses and other interests across the UK. When deciding whether to regulate a DSA service provider HM Treasury must also weigh four practical further criteria:

- Scale – how much of the payments market the provider currently handles, or is likely to handle in future.
- Nature of services – what type of payment systems services it provides.
- Substitutability – whether other firms could realistically step in and provide the same services if needed.

- Interconnectedness – how closely linked the provider is to the payment systems that rely on it, and to other DSA service providers.

As evidence to the Committee demonstrates, industry calls for indicative quantitative thresholds for systemic recognition were primarily driven by two concerns: the commercial impacts of entering the systemic regime, and uncertainty over the practical arrangements for transitioning from FCA regulation to dual regulation, including the risk of a perceived "cliff-edge transition".

The Government considers both concerns have been substantially mitigated through the Bank's revised proposals for systemic regulation, which have been broadly welcomed by the sector, and the FCA and Bank of England's recently published joint paper on dual regulation arrangements.

The Government therefore considers that the current approach to designating operators of payment systems and service providers as systemic as set out above, and whereby the Treasury and regulators engage proactively with firms and provide clarity through ongoing dialogue, is the most appropriate approach for designating stablecoin firms as systemic.

International competitiveness and growth objective

HM Treasury should consider whether the lack of an international competitiveness and growth objective continues to be appropriate for the Bank's Financial Market Infrastructure Committee given that the largest stablecoin issuers are likely to be subject to dual regulation by both the Bank and FCA.

The Government recognises the underlying concern behind this recommendation. The Bank of England's primary objective, when supervising certain financial market infrastructures in the UK, is to protect and enhance financial stability. Although the Government recognises the importance of promoting a dynamic and competitive UK payments ecosystem, it considers that introducing a secondary international competitiveness and growth objective for the Bank in this area could risk diluting that focus.

The Financial Services and Markets Act 2023 introduced a new secondary innovation objective for the Bank in respect of its regulation of central counterparties (CCPs) and central securities depositories (CSDs). Given that these firms exist principally to manage risk across the financial system, an innovation objective was considered better suited for the regime than a competitiveness and growth objective, as it supports improvements in market functioning while remaining closely aligned with the Bank's financial stability mandate. This was recognised by Parliament during the passage of that Act.

The Bank is not subject to any secondary objectives beyond its primary financial stability objective in its role as supervisor of systemic payment systems and systemic service providers using digital settlement assets, including stablecoins.

Where a stablecoin issuer is deemed to be systemic and dual-regulated by both the Bank of England and the FCA, it is important that the overall regulatory framework operates in a coherent and consistent manner. The Government will further consider extending a secondary innovation objective to the Bank's systemic payments supervision remit, consistent with the approach taken to CCPs and CSDs.

Illicit Finance

The FCA and HM Treasury should review the existing anti-money laundering and 'know your customer' rules to assess whether they remain robust in light of the challenges and opportunities that the development of the stablecoin market brings. This must take into account the developments in other jurisdictions such as the USA and EU, and international standards, in particular the Financial Action Task Force recommendations.

The Government is committed to tackling economic crime and keeping the UK's anti-money laundering framework under review as cryptoasset markets evolve. HM Treasury works closely with the FCA and international partners including the Financial Action Task Force (FATF), to ensure our approach remains effective, proportionate and aligned with international standards.

Stablecoin firms carrying out activities within scope of the Money Laundering Regulations are already subject to robust anti-money laundering requirements, including customer due diligence and know-your-customer checks. The UK has continued to strengthen this framework through the implementation of the FATF Travel Rule, which requires cryptoasset businesses to collect, transmit, and store information on cryptoasset transfers, to enable the detection and prevention of money laundering.

More recently, our further updates to the Money Laundering Regulations have introduced counterparty due diligence requirements for cross-border cryptoasset transactions in line with FATF standards, and reduced the threshold for change in control notifications, ensuring those acquiring control within a crypto asset firm are "fit and proper" with regard to the risk of money laundering or terrorist financing. These changes bring the cryptoasset sector more closely into line with the standards expected of traditional financial services firms

Alongside this, the Government has established a new regulatory regime for stablecoins and other cryptoasset activities under the Financial Services and Markets Act framework which includes a comprehensive market abuse regime. This will provide a comprehensive and future-facing framework that supports innovation while maintaining high standards of consumer protection, market integrity, and financial crime prevention.

The Government will continue to work closely with the FATF and international partners to support the development of global standards and promote consistent approaches to managing financial crime risks in cryptoasset markets.

HM Treasury and the FCA should ensure that there is legal clarity about the roles and responsibilities of stablecoin issuers, exchanges and custodians in freezing stablecoins or blocking transactions so that, wherever possible, the requirements are the same as for other forms of payments and bank accounts that are subject to financial crime requirements.

The Government recognises the importance of ensuring there is clarity regarding the responsibilities of firms operating within the stablecoin ecosystem in relation to financial crime and sanctions compliance.

Financial sanctions requirements, including the requirement to block or freeze assets already apply irrespective of whether assets are held or transferred using cryptoassets or other forms of traditional finance. Firms within scope of the Money Laundering Regulations are also required to maintain appropriate systems and controls to mitigate financial crime risks and comply with relevant reporting obligations, including suspicious activity reporting requirements to the National Crime Agency.

Where firms know, or have reasonable cause to suspect, that they hold or control the funds or economic resources of a designated person, they must comply with their obligations under UK financial sanctions legislation, including freezing those assets, preventing them from being made available to designated persons and reporting them to the Office of Financial Sanctions Implementation (OFSI). The FCA, PRA and OFSI have made clear that cryptoasset firms are expected to play their part in ensuring compliance with UK sanctions requirements.

Alongside these current requirements, the Government will go further, legislating within the Financial Services and Markets Bill to seize a wider range of cryptoassets which currently fall outside of the UK nexus. The Government will also look to further boost capability, technology, and public-private and international coordination to track and seize cryptoassets through our Anti-Money Laundering & Asset Recovery (AMLAR) Strategy, supported by new funding from Economic Crime Levy (ECL) allocations.

The Government will continue to work closely with domestic and international partners, including the Financial Action Task Force (FATF), to ensure the UK framework remains effective in tackling financial crime.

HM Treasury should consider with the Bank and FCA whether the existing legal frameworks are sufficient to detect and deter illicit activity using private unhosted and unregulated wallets, and should be prepared to legislate to restrict their use if necessary.

The Government has taken robust but proportionate action to mitigate the risk of cryptoassets being used by illicit actors. We continue to work closely with the FCA, law enforcement and international partners to ensure the UK's framework remains effective and keeps pace with emerging risks.

While private or unhosted wallets are not currently within the scope of regulated activities, cryptoassets commonly interact with regulated firms when users convert them into fiat currency or access wider financial services. Those firms, including banks and cryptoasset service providers, are subject to anti-money laundering requirements, including customer due diligence obligations and suspicious activity reporting to the National Crime Agency.

The Government will continue to monitor developments in this area, including emerging typologies involving unhosted wallets, and will keep the regulatory framework as set out in legislation under review to ensure it remains proportionate, targeted and responsive to evolving illicit finance risks.