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The Baroness Noakes DBE
Chairman, Financial Services Regulation Committee
House of Lords
London
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22 July 2026

Dear Lady Noakes,

We welcome the publication of the Committee's report into the growth and proposed regulation of stablecoins in the UK. As you will be aware, we recently published our package of policy statements setting out our final rules and guidance for the new UK cryptoasset regulatory regime.[1] This marks the completion of our crypto roadmap.

We considered the issues raised both in our evidence session and in your report before finalising our policy. For example, our Stablecoin Issuance Policy Statement confirms we require backing assets to be held in statutory trust for the benefit of coinholders and our joint regulation of systemic issuers approach document includes the timelines over which the transition would be expected to occur.

Our Policy Statements set out our final rules for non-systemic UK-issued qualifying stablecoins, covering amongst other things, issuance, backing assets, redemption, safeguarding and disclosures. These rules are outcomes based and designed to support stability, consumer confidence and market integrity.

In light of the feedback received in your report as well as from industry and other stakeholders, we have made targeted refinements to improve clarity, operability and proportionality. These changes include:

- Reducing the K-factor (which determines how much capital should be held for operational risk) prudential metric from 2% to 1% of stablecoins issued
- Permitting intragroup custody up to 20% of backing assets subject to safeguards
- Adjusting redemption timelines so they start after Know Your Customer (KYC) checks are completed and the issuer is in receipt of the stablecoin
- Simplifying redemption modelling by removing the need to estimate redemption forecasts
- Allowing a 5% excess in the backing asset pool

[1] https://www.fca.org.uk/publications/policy-statements/cryptoasset-regime

We have set out a more detailed response to the recommendations made by the Committee to the FCA in the attached paper. We appreciate your continued engagement with our work in this area more broadly.

Yours sincerely,

David Geale
Executive Director – Consumers, Payments and Competition
Managing Director – Payment Systems Regulator

Response of the Financial Conduct Authority (FCA) to the House of Lords Financial Services Regulation Committee 'Stablecoins: waiting for regulation' report

We welcome the Committee's inquiry into growth and the regulation of stablecoins in the UK.

We recognise the emergence of UK-issued qualifying stablecoins as a new form of digital money. Whilst the market is currently limited, they could bring cheaper and faster transactions as well as enhanced competition with existing forms of payments and settlement. They could result in better outcomes for consumers, businesses and wholesale markets, and support economic growth.

Our Approach

We have set out our final rules for issuers of UK-issued qualifying stablecoins, covering, amongst other things, backing assets, redemption, safeguarding, disclosures and prudential requirements. These rules are intended to establish an appropriate baseline of standards for stablecoin issuance. They aim to support stability, consumer confidence and trust and market integrity.

We consulted on the proposals in May 2025. Consultation feedback was broadly supportive of the policy objective, with respondents recognising the case for robust standards on backing, redemption and safeguarding. Some respondents raised concerns regarding proportionality, operational complexity and international competitiveness. This was particularly in relation to redemption timelines, prudential requirements and the requirement for custodians of backing assets to be independent from the issuers group.

We considered the feedback carefully and, whist maintaining the proposed framework, made some changes to the final policy. These include:

- Reducing the K-factor prudential metric (which determines how much capital should be held for operational risk) from 2% to 1% of stablecoins issued to better reflect the risk profile.
- Permitting intragroup custody of up to 20% of backing assets subject to safeguards.
- Adjusting redemption timelines so they start after Know Your Customer (KYC) checks are completed and the issuer is in receipt of the stablecoin being redeemed.
- Simplifying redemption modelling by removing the need to estimate future redemptions.
- Allowing a 5% operational excess in the backing asset pool.

These changes improve the clarity, operability and proportionality of our regime.

We still need to determine the right kind of regulation for the various stablecoin use cases and will continue to develop policy that supports and enables this. This includes considering stablecoin payments through the Modernising Payments Regulation initiative with HM Treasury, and exploring the use of stablecoins as a wholesale settlement asset through the lessons learned from the Digital Securities Sandbox, alongside any subsequent revisions to the Central Securities Depositories Regulation (CSDR) developed with HM Treasury and the Bank of England.

We have set out below our response to each of the Committee's recommendations addressed to the FCA.

Recommendations for the FCA

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.

We recognise there are financial crime risks, including money laundering with cryptoassets, including stablecoins.

Since January 2020, cryptoasset businesses operating in the UK have been subject to anti-money laundering (AML) rules set out in the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations (MLRs). This includes stablecoin issuers, and cryptoasset firms handling stablecoins e.g. exchanging or providing custody services. These rules align with the international standards set by the Financial Action Task Force (FATF).

The MLRs require firms to ensure their systems and controls are appropriate to the risks they identify, informed by documents such as the UK National Risk Assessment of money laundering and terrorist financing or publications from FATF. A key part of mitigating risks is applying risk-based customer due diligence (CDD) to identify and verify their customer. In higher risk situations firms must by apply more scrutiny by applying enhanced due diligence (EDD). They must also monitor those relationships and report suspicions to the National Crime Agency (NCA).

Any firm undertaking these activities by way of business in the UK must be registered with the FCA so we can oversee compliance with these requirements. Since January 2020 we have taken steps to ensure firms have appropriate controls before being registered and have continued to supervise these firms closely to ensure they maintain high standards of compliance.

Since 2022 these standards have evolved, adding additional requirements to ensure alignment with FATF standards. Since September 2023, this has included compliance with the "Travel Rule" which requires information on the sender and recipient of cryptoasset transfers to be sent and received for each transaction including those from overseas and from self-hosted wallets. From 1 February 2027, there will be requirements to apply counter party due diligence on correspondent relationships with non-UK cryptoasset firms.

On 30 June 2026 PS26/13, we confirmed our application of financial crime rules for authorised cryptoasset firms including stablecoin issuers.[1] These rules require firms to assess all financial crime risks they might be exposed to including fraud and financial sanctions and develop effective systems and controls to mitigate them. We have extensive material in our Financial Crime Guide that will assist firms in this task.[2]

We continue to work with the Government, including HM Treasury and law enforcement agencies such as NCA, the National Economic Crime Centre (NECC), and the private sector to consider innovative approaches to mitigating financial crime risks in this sector. One example is working with the Home Office on potential revisions to the Proceeds of Crime Act (POCA).

The current legislative framework does not impose a general statutory requirement on stablecoin issuers to maintain technical capabilities to freeze cryptoassets or otherwise support asset recovery in the secondary market. Though we note some prospective UK stablecoin issuers we are working with in our Regulatory Sandbox are already building this capability into their product design.

We have also contributed to international discussions, including the Financial Action Taskforce (FATF) Targeted Report on Stablecoins and Unhosted Wallets.[3]

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[1] https://www.fca.org.uk/publication/policy/ps26-13.pdf
[2] https://handbook.fca.org.uk/handbook?entityId=fcg
[3] https://www.fatf-gafi.org/content/dam/fatf-gafi/publications/targeted-report-on-stablecoins-and-unhosted-wallets.pdf.coredownload.inline.pdf

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.

Legislative mandate for cryptoasset freezing sits with the Home Office and HM Treasury as part of the POCA.[4] We will continue to engage with the Home Office and HM Treasury on supporting any changes in this area in line with developing international standards.

The FCA should reconsider whether a k-factor requirement for the issuers of stablecoin that increases with the volume of stablecoins issued is an appropriate way to determine that element of the capital requirements.

The K-factor requirement for the issuers of UK stablecoins has been reconsidered in light of consultation feedback. Recognising other requirements in our rules for stablecoin issuers provide some risk mitigation, we have reduced the K-factor from 2% to 1% of stablecoins issued as outlined in our final rules in PS26/12.[5]

The linear relationship between the metric and the scale of the issuer's activity accounts for potential increased complexity as firms scale. It is also consistent with other operational risk K-Factors for other cryptoasset activities and investment firms. We consider that when viewed holistically the regime for stablecoins is competitive with other major jurisdictions, notably the EU. We will assess the effectiveness of our rules, including the linear calibration approach, post implementation and will consider changes if necessary and appropriate.

The Bank and FCA should consider whether direct redemption by issuers should act as a backstop rather than be expected as a core requirement, particularly when considering the role of secondary markets in fulfilling conversion requests.

We have considered the feedback from CP25/14 and decided to keep a universal right of redemption for all tokenholders with the issuer.[6] We believe this is a core requirement to ensure stablecoins are treated as a money like instrument. We note feedback from accounting bodies, market and legal firms that universal redemption rights is potentially an

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[4] https://www.legislation.gov.uk/ukpga/2002/29/contents
[5] https://www.fca.org.uk/publication/policy/ps26-12.pdf
[6] https://www.fca.org.uk/publication/consultation/cp25-14.pdf

important factor in stablecoins being considered as cash equivalent for accounting purposes.

Our final rules set out in PS26/10 also allow for issuers to contractually outsource redemption at par to third parties, which reduces the operational burden of tokenholders all coming directly to the issuer.[7] For example, a third party could be an exchange or custodian that already has a contractual relationship with the customer and has already undertaken KYC on them.

We note that in the EU, third parties in the secondary market have provided the conversion of stablecoins at par value of their own accord. For example, where they are not a contractual outsourcer for the issuer and the risk sits on their balance sheet. We believe this market development has come about from the fact the EU also has a universal redemption right for all tokenholders. This has given trust and assurance to third parties that they can offer par value conversion to end customers, because they know the issuer has to fulfil obligations to redeem their stablecoins in bulk at par value.

In addition to this, we have also made changes to the redemption timelines in our final rules to put the process for compliance fully within the stablecoin issuers control. This was in light of CP25/14 feedback and the lessons learned from the Stablecoins Sandbox cohort in our Regulatory Sandbox. The transaction plus one day (T+1) redemption timeline will commence when UK stablecoin issuers receive the UK-issued qualifying stablecoin being redeemed in their wallet and ends when a payment order to transfer the funds to, or to the order of, the customer has been placed.

This means AML/KYC-related obligations are completed before the T+1 timeline commences, which put compliance with T+1 solely in the UK stablecoin issuers' control. However, we expect firms to fully comply with AML requirements, as well as the Consumer Duty (the Duty) and other regulations that ensure good customer outcomes.

Although our revised redemption timeline will not include AML/KYC-related obligations, we expect UK stablecoin issuers to adequately invest in the operational effectiveness of their AML/KYC processes. Firms should ensure processes are automated and digitalised wherever possible, to reduce their ongoing operational costs and any potential fees charged to token holders.

[7] https://www.fca.org.uk/publication/policy/ps26-10.pdf

While UK stablecoin issuers must comply with AML obligations as part of the redemption process, we expect them not to create unreasonable barriers or put sludge practices in customer journeys. This would not comply with the Duty. In addition, the Duty applies in relation to any redemption fees charged to tokenholders of UK-issued qualifying stablecoins. If UK stablecoin issuers charge redemption fees, we expect the issuer to assess whether its fees align with the Duty's price and value outcome.

The Bank and FCA should conduct a cost-benefit analysis of the impact that redemption requirements would have on stablecoin issuers' operational viability, particularly considering the timelines for completing 'know your customer' checks.

In CP25/14,[8] we published our proposals on Stablecoin Issuance and Custody, which included a cost benefit analysis (CBA). On 30 June we published our final policy statements with an aggregated cost-benefit analysis for the whole cryptoasset regime including stablecoins. We have revised our requirements for redemption timelines as outlined above, based on feedback and testing with stablecoin issuers in the stablecoins cohort of our Regulatory Sandbox. Our assessment is that our revised redemption requirements will result in lower costs to firms relative to the cost estimates provided in our CBA in CP25/14.

There is relatively little demand for the Bank and FCA to permit the payment of interest on stablecoins. However, whether the payment of rewards, whether by issuers or by exchanges or service providers, will be permitted could have a significant impact on the creation of GBP stablecoin market, and for the competitiveness of the UK stablecoin market internationally. The Bank and the FCA should set out their approach to whether the payment of rewards will be permitted as soon as possible.

In the light of the reward mechanisms available for traditional card payments, the Bank and FCA must give sufficient risk-based justifications if they decide to prohibit the payment of rewards for stablecoins. If the prohibition of rewards seeks to address the risk of disintermediation and the corresponding reduction in available credit, they should provide further analysis of the disintermediation risk in a steady state, as well as in stress scenarios.

[8] https://www.fca.org.uk/publication/consultation/cp25-14.pdf

Our final rules permit firms to pay rewards to their own customers from their own account. This includes transaction-based rewards and reward points.

However, any reward based on the length of time a token holder has held a UK-issued qualifying stablecoin, is prohibited and in breach of our rules. This is primarily because time-based rewards look and act like interest and may encourage stablecoins to be used as a store of value.

We want to ensure UK-issued qualifying stablecoins are trusted as a money-like instrument suitable for payments. Passing on interest and other benefits originating from the backing assets pool could result in them being seen as an investment.

We have maintained the position in our final rules that UK stablecoin issuers are not permitted to pass interest or income from the backing assets pool to token holders.

We will be conducting additional work to explore the competition and economic implications of offering interest. This does not mean our position on prohibiting interest is due to change.

The Bank and the FCA should finalise the details of the transition measures and the timelines over which the transition would be expected to occur as soon as possible.

Our joint policy statement with the Bank of England on 30 June 2026,[9] sets out how a transition from being solely regulated by the FCA to jointly regulated with the Bank will work in practice. This includes the timescales for transition and a Bank consultation on how their proposed rules would be applied during a transitional period. We have also outlined how rules will be split between authorities as part of joint regulation and our approach to supervision.

The FCA must consider how its proposed regulatory regime for stablecoin aligns with its secondary international competitiveness and growth objective, and what steps it should take to promote this beyond comparisons with regulatory regimes in other jurisdictions.

We are delivering a new cryptoasset regulatory regime which will see increased regulatory expectations. We want the UK cryptoasset market to be competitive on the global stage and for a stable and proportionate

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[9] https://www.bankofengland.co.uk/paper/2026/boe-and-fcas-approach-to-joint-regulation-of-systemic-stablecoin-issuers

regulatory framework to play a role in fostering an innovative cryptoasset sector in the UK. We considered the requirements of various other jurisdictions, to ensure that the UK regime was competitive and that we had considered different approaches to regulation.
As part of this, we have engaged with international standard setting bodies, such as through leading the development of International Organisation of Securities Commissions (IOSCO) Crypto and Digital Asset Recommendations and contributing to the FATF Stablecoins and Unhosted Wallet Report,[10] to ensure that there is an international consistent baseline of regulation in which UK firms may operate appropriately.

We also created a stablecoins cohort in our Regulatory Sandbox, enabling firms to test our policy in safe environments, and for both ourselves and the firms to learn from the testing. The clear and credible UK framework that we have published is designed to support innovation, attract investment and reinforce the UK's position as a global financial centre.

Throughout our policy development process, we have considered our proposals against our secondary international competitiveness and growth objective (SICGO). We consider our regime to be both compatible with these standards and our SICGO objective. As the regime is implemented, we will continue to monitor its compatibility against this objective.

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 preemptively address all potential future risks, and should instead be ready to address risks if and when they materialise.

We have taken an outcomes-based approach to our final rules for stablecoin issuance where appropriate to allow them to be used for different use cases e.g. payments, wholesale settlement. This supports innovation in the market while use cases are still developing, while ensuring UK stablecoins are robust and can be trusted.

We will continue to consider whether other regulation is needed for the use cases to develop safely and effectively in the UK. For example, the permitted use of stablecoins in the Digital Securities Sandbox for securities settlement and our work with HM Treasury on Modernising

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[10] https://www.fatf-gafi.org/content/dam/fatf-gafi/publications/targeted-report-on-stablecoins-and-unhosted-wallets.pdf.coredownload.inline.pdf

Payment Regulations will both consider any changes to regulation to support payments and wholesale settlement use cases.

On an ongoing basis we will monitor risks in the market and if needed in the future we will review if any of our rules for stablecoin issuance and their use cases need revising.

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.

Throughout the development of the UK cryptoasset regime, we have worked closely with HM Treasury and the Bank of England to ensure a coherent and proportionate approach, with clear responsibilities reflecting each authority’s statutory remit.

Where there has been feedback indicating confusion, we have worked with other Authorities to clarify, for example in our publication with the Bank of England on our approach to joint regulation of systemic stablecoin issuers.[11] The publication of our final policy statements on 30 June 2026 marks a significant milestone in that process, completing our crypto roadmap and providing firms with clarity on the regulatory framework for stablecoin issuance and wider regulated cryptoasset activities.

We will continue to work closely with the Bank of England to monitor how joint regulation of any systemic stablecoin issuers recognised by HM Treasury has worked in practice and consider whether future changes or clarification is necessary.

Where there are market developments that highlight risks sitting outside our perimeter that need to be brought into scope to mitigate them, we will work with HM Treasury on any prospective legislative changes they would take forward.

July 2026

[11] https://www.bankofengland.co.uk/paper/2026/boe-and-fcas-approach-to-joint-regulation-of-systemic-stablecoin-issuers