Bank of England

The Baroness Noakes DBE
Chair, Financial Services Regulation Committee
House of Lords
London
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Sarah Breeden
Deputy Governor, Financial Stability

29 July 2026

Dear Chair,

Please find enclosed the Bank of England's response to the Committee's 3 June 2026 report on growth and proposed regulation of stablecoins in the UK.

We welcome the Committee's work on this important issue – where we are setting the foundations for a future in which stablecoins can be used as trusted money by households, businesses and financial markets, improving competition and choice.

Since the Committee published its report, the Bank has published its policy statement and draft rules for systemic stablecoins, and set out with the Financial Conduct Authority how we will jointly regulate these. Our rules will be finalised by year-end, so systemic stablecoins can operate under our regime from next year — as is also the aim in the US.

Our policy statement addresses a number of the FSRC's recommendations, and many stakeholders, including those who gave evidence to the Committee, have welcomed the practicality and strong protections embedded in the Bank's approach.

We have moved away from individual and business holding limits as the means to manage the risk of a significant drop in credit provision to businesses and households. A temporary issuance guardrail will instead achieve this same, important objective in a way which is easier for industry and authorities to implement, and which does not restrict use cases by individuals and businesses.

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We have also revised the composition of backing assets, increasing the maximum share of interest-bearing short-term UK government debt securities to 70%, with the remainder held in unremunerated central bank deposits to ensure coins can indeed function as money, with redemptions met quickly. As I spoke about in my evidence to the Committee, this adjustment follows a review of historical experience of liquidity stresses and liquidity requirements on other financial institutions, following feedback to our November 2025 consultation. We concluded that this adjusted calibration would still ensure confidence in this new form of money, while supporting business model viability.

These changes adjust the way in which the systemic stablecoin regime achieves its objective, but they do not alter the objective itself – namely to ensure trust in this new form of money and our statutory objective to protect and enhance the stability of the UK financial system. We are thus retaining key elements of the proposals on which we consulted in 2025.

The option for direct and timely redemption from a systemic stablecoin issuer is fundamental for trust in money and therefore financial stability, as it ensures that stablecoins can always be converted at face value into other forms of money. International standards are clear that “for stablecoins that are used for payments and are systemic”, timely redemption means “at a minimum by the end of day and ideally intraday”.[1]

Issuance of retail stablecoins by deposit-takers through non-deposit-taking, insolvency-remote entities with distinct branding is important to ensure that holders of such coins know that the protections to which they are entitled differ to deposits in the event of failure – i.e. coins are safe but not insured.

The Bank remunerates reserves to support monetary policy transmission through banks and other commercial institutions’ deposit and lending activity. Systemic stablecoin issuers do not perform these roles and so their funds held at the Bank will not be remunerated.

Finally, the FSRC proposed to HMT that it consider a secondary competitiveness and growth objective (SCGO) for the FMI Committee. Trust in money is not a constraint on growth; it is the foundation on which sustainable innovation and growth depend. And more broadly, FMIs exist to provide services to, and to manage risk for, participants across the financial system, meaning FMI stress or failure matters for many. An SCGO therefore risks creating pressures to ease requirements in ways that could compromise their core function as the plumbing on which the economy and the financial system rely. I did however want to note that, under the Chancellor’s remit letter for FMIC, in

[1] **High-level Recommendations for the Regulation, Supervision and Oversight of Global Stablecoin Arrangements: Final report - Financial Stability Board**

exercising its FMI functions, it must already have regard to maintaining and enhancing the UK’s position as a global finance hub. And, as already applies to FMIC’s functions for CCPs and CSDs, if HMG and Parliament were to revisit the Bank’s regulatory framework for payments, we think that a secondary innovation objective would be an appropriate mechanism for supporting growth – by promoting innovation (and so international competitiveness) in the services FMIs provide to their users, rather than promoting lower standards for system-wide resilience and risk management.[2] FMIC is already doing a lot to promote innovation in payments, including through its systemic stablecoin regime.

The UK’s world-leading approach to coinholder protections, supported by a comprehensive end-to-end regulatory framework, puts the UK in a strong position to responsibly harness the benefits of this innovation in payments. We look forward to continued engagement with the FSRC on this work.

Yours sincerely

Sarah Breeden

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Deputy Governor, Financial Stability

[2] HMT previously consulted on applying a secondary innovation objective to the Bank’s payments responsibilities: **Payments Regulation and the Systemic Perimeter - Consultation Response**

The Bank's response to each recommendation directed to the Bank in the report:

FSRC Recommendation	**The Bank's response**
Regulatory frameworks need to be sufficiently flexible to allow for future use cases for stablecoins. The regulatory response should not constrain use cases or make assumptions about the applicability of particular digital settlement solutions to use cases, but should be agnostic on whether and how the use cases will be adopted. Regulations should accommodate the potential for future innovations and novel uses that may arise from this emerging technology and must remain flexible to adapt to new use cases as they become widespread, while addressing risks appropriately. (Paragraph 65) The financial regulators should seek to encourage safe and responsible innovation in the UK stablecoin market and remain open to new technological developments. (Paragraph 114)	We recognise that this point may have had some relevance in the context of the earlier holding limits proposal. However, following the Bank's updated June 2026 policy positions, which replaced holding limits with temporary issuance guardrails, we no longer consider this concern applicable to the revised regulatory framework. The move to issuance guardrails supports higher-value stablecoin use cases and removes the need for an exceptions-based approach. We consider that the Bank's revised regulatory framework does not preclude any stablecoin use cases ex ante, nor did the FSRC report identify any use cases that would not be possible under this framework. Existing legislation already distinguishes between stablecoins used as money and products used as investments: • The Bank's regulatory framework applies to systemic stablecoins that may be used in payments and function as money • Investment-like products, such as tokenised MMFs, are treated differently under legislation and fall outside the Bank's regulatory framework for systemic stablecoins. This reflects the legislative allocation of responsibilities: the FCA is responsible for cryptoassets and non-systemic stablecoins, while the Bank is responsible for systemic stablecoins that may be used widely for payments. Our regulatory approach does not restrict stablecoins being used as money for different use cases – including person to person, business to business as well as stablecoins being used as a settlement asset in wholesale markets. Wholesale use requires legislative change (in Central

	Securities Depositories Regulation (CSDR)) and this is why we are using the Digital Securities Sandbox (DSS) to experiment with this use case to inform the legislative changes that may be required. On 30 June, an **update to the Digital Securities Sandbox (DSS)** was published alongside the Bank/FCA joint approach to regulating systemic stablecoins, setting out how certain stablecoins could be used as settlement assets for wholesale transactions within the DSS. Finally, work on the UK's next-generation retail payments infrastructure between the Bank of England, FCA, PSR, HMT and industry in the Retail Payments Infrastructure Board will provide increased choice for end users as well as interoperability between different forms of money in order to support different types of use cases.
The regulators should ensure that in regulating stablecoins they are not inadvertently applying more severe limitations than they do for other forms of payment. (Paragraph 97)	The Bank's approach has been designed from the start to ensure that systemic stablecoins, and payment chains using such coins, meet equivalent standards to commercial bank money as well as existing payment systems. This is backed up by the FPC expectations published in 2019. We have consulted twice on our regulatory approach for systemic stablecoins and have ensured it is in line with international standards. The change in the backing asset requirements from 40% to 30% central bank deposits is explicitly aimed at ensuring that the approach is aligned with the liquidity requirements we place on banks – this is a good example of how we have consulted and listened to feedback to ensure we are not inadvertently applying more severe limitations on stablecoins. We have tried to ensure that our regulatory framework is proportionate by including a "step-up" approach where issuers that are recognised as "systemic at launch" will be subject to more proportionate requirements relative to the size of

	their activity, similar to the approach that the Bank takes to other new FMIs.
The PRA's restrictions on deposit-takers issuing stablecoins are unduly restrictive and risk inhibiting innovation unnecessarily. The PRA should alter its requirements for deposit-takers to issue stablecoins under distinct branding and from insolvency remote entities. (Paragraph 133)	The PRA recently reaffirmed and clarified its policy through the May 2026 **"Dear CEO" letter** on innovations in deposits, e-money, and stablecoins. The PRA remains of the view that for banks wanting to issue retail stablecoins, they should do so from non-deposit-taking insolvency-remote entities and under distinct branding to ensure that holders of stablecoins issued by banks know that the protections they are entitled to differ to traditional bank deposits in the event of failure (i.e. coins are safe but not insured). The updated letter provides further clarity on expectations related to distinct branding and also acknowledges the risks of stablecoins for wholesale use are not so prevalent as they are for individual retail customers, advising firms to engage with supervisors at an early stage if they are considering stablecoins exclusively limited to wholesale use. It notes the DSS might be an appropriate place to explore wholesale-only stablecoins further.
The regulators must adhere to current timelines and ensure that the final regulatory regime is not delayed in order to bring certainty and confidence to allow the GBP stablecoin market to develop. (Paragraph 116)	We are adhering to publications and the timelines we have already committed to publicly, including in the cross-authority **Payments Forward Plan**. As committed to in this plan: • The Bank published its **Policy Statement and draft Codes of Practice for systemic stablecoins** on 22 June. • On 30 June, we published a joint statement with the FCA setting out how systemic stablecoins would be regulated, including further detail on the transition and 'step-up' approach, refer to **Bank of England and Financial Conduct Authority's joint approach to the regulation of systemic stablecoin issuers**. • We also provided further detail on 30 June on the use of stablecoins as settlement assets for wholesale payments within the

	Digital Securities Sandbox (DSS), refer to **update to the Digital Securities Sandbox (DSS).** As set out in the June 2026 publication, the Bank intends to finalise the Code of Practice for systemic stablecoins by end-2026.
The Bank should consider the impact that requiring a proportion of unremunerated assets could have on the development of a GBP stablecoin market, and should set out details of the basis on which it has calculated the required proportions of unremunerated backing assets. (Paragraph 161)	No UK-issued stablecoin will be subject to the requirement to hold 30% of their backing assets in unremunerated central bank deposits from Day 1. Non-systemic stablecoins will be in the FCA regulatory framework where they can earn a return on up to 100% of their backing assets or they could be recognised as “systemic at launch” by HMT in which case they could earn a return on up to 95% of their backing assets in our “step-up” approach. Only when a stablecoin reaches systemic levels where there could be an impact on UK financial stability, will our full 30% requirement for the issuer’s central bank deposits apply. The June 2026 policy statement reduced the unremunerated fraction of backing assets to be held as central bank deposits to 30% (from the 40% proposed in November 2025). The 30% central bank deposit requirement is intended to ensure that systemic stablecoin issuers are subject to liquidity standards equivalent to those for banks. We have set out how we arrived at this calibration in ‘Box A: Calibration of backing asset composition requirement’ within the 22 June publication. Allowing less than 30% of backing assets in central bank deposits could mean that issuers would not have enough instantly available funds to manage sudden large redemption requests which poses potential financial stability risks. Having a 30% liquidity pool to meet redemption requests is in line with our estimates of possible short-term redemption requests during stress.

	There is limited history of stress in stablecoins, but there are factors to suggest that withdrawals from stablecoins could happen quickly. These factors include their programmability, where users could instruct automatic withdrawals conditional on events, and their potentially public nature dependent on the network that the stablecoin operates on. This may mean that runs are easier to observe compared to banks. We undertook some sensitivity analysis to ensure that issuers with 30% of their backing assets not being remunerated can have a viable business model. That analysis suggests that viable business models are possible for issuers of a reasonable size even assuming considerably lower interest rates and high operating costs. We believe that when our approach is looked at holistically – including the provision of a central bank deposit account and the liquidity backstop facility – the Bank's approach for systemic stablecoins is competitive internationally.
The Bank should reconsider whether it would be appropriate to remunerate at base rate the backing assets which are held as deposits at the Bank. (Paragraph 163)	We have considered and remain clear that it is inappropriate to remunerate backing assets held in a deposit account at the Bank. The reasons why have been reiterated in the letter above and in the 22 June publication. The Bank's policy around paying interest on reserves is tied to monetary policy transmission. Since stablecoins are not involved in monetary policy transmission – as payment instruments, they are not permitted to pay interest to coinholders and they will not extend credit – deposits will not be remunerated.
The Bank should be open to a principles-based, less prescriptive approach to the composition of backing assets, and to adjusting the requirements as the stablecoin market develops and behaviour and risks are better understood. (Paragraph 162) The Bank, FCA and HM Treasury must recognise that the stablecoin market is	This has always been a forward-looking regulatory approach, designed for a world in which stablecoins could be widely used as a new form of money. In that context, users must be able to have trust and confidence in systemic stablecoins, which requires backing assets that are safe and readily realisable as cash to support redemption on demand. It is important that these requirements are clear from the outset, so that

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. (Paragraph 244)	firms understand the standards they will need to meet if they become systemic. The importance of certainty in the regulatory framework is a recurring theme in our industry engagement, and many issuers have welcomed this forward-looking approach. Parliament sets the legislative framework for cryptoassets – establishing the regulatory perimeter and key requirements in statute – while detailed rulemaking is delegated to the independent regulators. Given that the Bank's rules will be set out in Codes of Practice rather than primary legislation, we will have flexibility to make changes should we deem them necessary in future. The Bank also has Powers of Direction (PoD) which we could use to waive or modify the way a rule applies to an individual institution on a temporary basis if needed - e.g. for issuers that are 'systemic at launch' and those transitioning from the FCA regulatory framework. In this way, the UK's regime has the necessary ability to adapt to the risks posed by firms at different stages of operation. We do not expect issuers recognised as systemic to meet all of the Bank's requirements from day one. In the joint publication issued on 30 June, we set out that issuers transitioning from solo FCA regulation to joint Bank and FCA regulation, as well as those recognised as systemic at launch, would typically have 12 to 36 months to transition to the Bank's regulatory framework. This will allow issuers recognised as systemic at launch, and issuers transitioning into being jointly regulated by the Bank and FCA, a more gradual pathway to meet the full requirements. Under this approach, issuers may hold up to 95% of their backing assets in interest-bearing UK government securities. The percentage would be reduced to 70% once the stablecoin reaches a scale where this is appropriate to mitigate the risks posed by the stablecoin's systemic importance without impeding the firm's viability. This will be

	accompanied by proportionate capital requirements**.** The UK regime will thus ensure that this new form of money and payments meets equivalent standards to existing money and payment systems – on the basis of 'same risk, same regulatory outcome'.
On the backstop lending facility, the Bank should set out clear requirements for the circumstances in which issuers could use this. (Paragraph 175)	We provided further information on the Bank's backstop liquidity facility in the 22 June publication and a separate publication on the design of the facility will also be published in due course. The June publication provides further detail on the circumstances where the facility could be used by issuers – the approach has been designed in a way to ensure that our facility is not the front-stop for issuers' liquidity.
Rather than pre-emptively imposing holding limits, the Bank should consider monitoring the growth of the market and imposing holding limits only if the financial stability risks clearly warrant it. If the Bank did consider imposing holding limits in the future, it should consult appropriately to ensure that any requirements are practical and can be implemented in a way that would enable the Bank to achieve its objectives. (Paragraph 199) The Bank should conduct more granular modelling of the impact of imposing stablecoin holding limits on consumers, particularly with regard to potential high value use cases such as house purchases. (Paragraph 198)	The need for a mitigant to ensure that the introduction of new forms of digital money does not materially reduce credit provision remains. This risk has not gone away. We do not think imposing limits retrospectively is credible after stablecoin issuance has commenced. This would interfere with issuers' business models and intended use cases, and would be operationally complex to implement at short notice. The Bank has therefore chosen a different tool in the form of a temporary issuance guardrail. Set at the £40bn level, we believe that the temporary issuance guardrail will allow adoption and innovation to develop without restrictions on the size, frequency or type of transactions, while the wider system adjusts in an orderly way. A single systemic stablecoin of £40 billion could: • Support a similar volume of payments as existing retail payment systems in the UK; • Support around 10% of daily payments volumes in CHAPS;

	• Support each activity in the Digital Securities Sandbox. This will allow for viable business models and a wide range of potential use cases in the UK.
The Bank should pay particular attention to the requirements for systemic issuers to hold unremunerated backing assets, the holding limits for systemic stablecoins, and restrictions on commercial banks issuing stablecoins when considering international comparisons and the competitiveness of the UK's regime. (Paragraph 240) While it is important that the UK develops its own appropriate stablecoin regulatory regime, the regulators should take into account international comparisons to make sure that it is competitive and does not deter entrants. In doing so, the regulators should bear in mind the strengths for which the UK financial regulatory regime has traditionally been admired: principles-based, technologically neutral regulation which balances financial stability with innovation and competitiveness. (Paragraph 236) The regulators must balance the viability of stablecoin issuers with the mitigation of risks. They should in particular consider their statutory objectives in relation to innovation and international competitiveness and growth. A consideration of international competitiveness must include and go beyond comparisons with regimes in other jurisdictions. This is particularly important when determining whether to permit the payment of rewards, whether to impose holding limits, what the composition of backing assets should be for systemic stablecoins, and what restrictions there should be for	We have explicitly considered the competitiveness of the overall UK regime for stablecoins in order to manage the financial stability risk of sterling-denominated coins being issued from outside the UK and non-sterling denominated stablecoins issued overseas being used here – and thus the UK importing risks from other regimes. Ultimately, we think that the Bank's overall approach for systemic stablecoins – when viewed holistically – is an attractive package for UK stablecoin issuers when the provision of central bank deposit account and backstop liquidity facility for systemic stablecoin issuers is taken into account. No other international jurisdiction's approaches provide the same degree of balance sheet access at the central bank and we think this will be an important factor in encouraging issuance in the UK. Overall, we think this has been reflected in the overall feedback we have received since the June 2026 publication, which has supported the direction and constructive changes we have made to the proposals, and recognised the safeguards that the regime provides to coinholders. The Bank works very closely with other jurisdictions and we have played a key role in CPMI-IOSCO and FSB work on stablecoins to date. The Bank's approach for systemic stablecoins does not have to be a carbon copy of other regimes to be competitive or to deliver equivalent outcomes. International comparisons need to take into account whether regimes as a whole deliver equivalent outcomes rather than being compared on a line-by-line basis.

commercial banks issuing stablecoins. (Paragraph 241)	
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. (Paragraph 219)	We have already said publicly that we plan to keep under review the appropriateness of unhosted wallets for systemic stablecoins and therefore very much support this recommendation. To support unhosted wallets, issuers of both non-systemic and systemic stablecoins must satisfy themselves that they can meet the relevant regulatory standards, including those for anti-money laundering and terrorist financing. We remain open to different models of how stablecoin payment chains are designed. However, consistent with the **follow up letter that the Bank sent to the Committee on 26 March 2026**, we are aware that, in practice, it is likely to be challenging for arrangements involving unhosted wallets to meet these requirements, given their pseudonymous nature. The Bank will continue to monitor the risks associated with unhosted wallets, including their potential suitability for use at systemic scale within the UK payments landscape.
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. (Paragraph 245)	We recognise the importance of clear accountability across the regime and believe responsibilities are clearly allocated. HM Treasury is responsible for the overall legislative framework. The FCA is responsible for regulating non-systemic stablecoin issuers and related activities. Where HM Treasury designates a sterling-denominated stablecoin as systemic, it becomes subject to regulation by both the Bank and FCA. The Bank is responsible for addressing the financial stability risks from systemic stablecoins, while the FCA retains responsibility for the relevant non-prudential aspects of the regime. The UK authorities have worked closely together on developing the stablecoin regime as a whole – including through the FCA sitting on FMIC as an

	observer. In particular, we have worked very closely with the FCA to ensure that any differences between our regulatory approaches are justified by the greater potential risks to financial stability of the use of systemic stablecoins for payments, and to develop a joint regulatory approach that was published on 30 June. On a broader level, there are already cross-authority groups in place to coordinate payments and innovation initiatives across the authorities, including the Payments Vision Delivery Committee (PVDC).
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. (Paragraph 188) 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. (Paragraph 189)	It is a fundamental protection for coinholders and financial stability that there is an option for direct redemption from issuers. This is important to support confidence that stablecoins can be redeemed at face value, at any time and converted smoothly into other forms of money. It also reduces the risk that coinholders would need to rely on secondary market sales in order to access funds, which could undermine par value in stress. We also allow issuers to discharge this obligation via third parties as long as they are able to continue to meet our standards. Secondary market trading is also permitted under our approach. However, systemic stablecoin issuers should also have the necessary resources and processes to enable prompt, direct redemption for coinholders. We considered feedback to our previous proposal where the redemption request was dependent on the issuer receiving AML/KYC documentation and being able to process the request within the proposed redemption timeframe. We have also considered the operational complexity of interacting payment systems, traditional payment systems' cut-off times and the operational processing of redemption requests. Thus, we have slightly modified our policy proposal and

	moved the start of the timeframe for the completion of redemption requests to after AML/KYC checks are completed. We think this approach is best to account for the operational complexity of completing AML/KYC checks in a time that is reasonable and does not imply rushing such checks. We still expect AML/KYC checks to be completed on a prompt and timely basis in accordance with applicable legal requirements, without prejudice to any type of holder.
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. (Paragraph 208)	As set out in the June 2026 publication, we have maintained our position to prohibit the payment of interest and income paid by the issuer to the coinholder in connection with the holding or retention of a stablecoin. This includes any returns provided in cash, tokens, fee rebates or other forms of consideration that are calculated by reference to the period for which the stablecoin is held. This prohibition on interest-based rewards for stablecoin holdings is also aligned with the FCA position. We clarify in our June 2026 publication that we will permit benefits, incentives, rebates, discounts and other activity-based rewards that are consistent with the use of a stablecoin as a means of payment, such as rewards conditional on using a stablecoin to make or facilitate a payment. We do not agree that further analysis of disintermediation risk in steady state and stress scenarios is required in relation to the remuneration policy positions. The Bank's justification for a restriction on direct remuneration for coinholders relates to ensuring that stablecoins are used for their intended purpose as a payments instrument. The temporary issuance guardrail is intended as the tool to mitigate against risks to credit provision.
The Bank and the FCA should finalise the details of the transition measures	On 30 June 2026, the Bank and FCA published a joint document on the regulation of systemic

and the timelines over which the transition would be expected to occur as soon as possible. (Paragraph 224)	stablecoin issuers, alongside the FCA's final rules. The publication covers the transitional arrangements, including proposed timescales. The consultation is open until 30 September 2026 for feedback.