Response to Bank of England Consultation Paper

Proposed Regulatory Regime for Sterling-Denominated Systemic Stablecoins

Submitted by: Wall Street Blockchain Alliance (WSBA)
Date: 10, February 2026

Executive Summary

The Wall Street Blockchain Alliance (WSBA) welcomes the opportunity to respond to the Bank of England's November 2025 consultation paper on the proposed regulatory regime for sterling-denominated systemic stablecoins. The WSBA is a non-profit trade association representing financial market professionals across banking, law, accounting, and technology sectors and is committed to guiding the comprehensive adoption of distributed ledger technology across global financial markets. Our membership includes major financial institutions, professional services firms, and technology innovators actively engaged in developing and deploying blockchain-based solutions and operating across global markets. The WSBA's perspective reflects both the interests of its diverse membership and our broader mission to support blockchain and digital asset innovation that is effective, complies with regulatory safeguards, and could ultimately deliver more efficient and resilient global financial markets.

We commend the Bank for its constructive engagement with industry stakeholders and for the significant policy revisions announced in this consultation, particularly the revised backing asset requirements that now permit up to sixty per cent of reserves to be held in short-term sterling-denominated UK government debt securities. This appears to represent a meaningful departure from the 2023 discussion paper and suggests the Bank's willingness to balance financial stability objectives with commercial viability considerations.

The need to prioritize the development of regulatory frameworks in a manner that facilitates the strength and innovation in both the U.S. and UK capital markets and reduces cross-border transactions is evidenced by the recent establishment of the U.S.-UK Transatlantic Taskforce for Markets of the Future.,[1] Alignment between UK and U.S. regulatory frameworks is essential for the development of cross-border stablecoin infrastructure and the competitiveness of both jurisdictions.

Likewise, given tokenization and innovations in fintech and capital markets were discussed at the 10th UK-Singapore Financial Dialogue[2] and the commitment in the UK-Singapore

[1] Boosting Collaboration Between UK and U.S. Financial Systems to Drive Innovation and Growth in Global Markets, U.S. Department of the Treasury, Sept. 22, 2025.
[2] UK and Singapore mark the 10th UK-Singapore Financial Dialogue with Strengthened Collaboration in Digital Finance & Innovation and Sustainable Finance, London, 3 July 2025

Digital Economy Agreement (UKSDEA)[3], signed in February 2022, to continue to deepen collaboration on emerging technologies like artificial intelligence and blockchain, it is important for the Bank to look East as well as West.

Well-regulated stablecoins represent a substantial opportunity for the United Kingdom to join other jurisdictions leading the development of global digital payments infrastructure. Overly restrictive requirements bear the risk of driving innovation to other jurisdictions without meaningfully reducing systemic risk. The empirical evidence from established stablecoin markets, including data analysed by Goldman Sachs Global Investment Research,[4] suggests that concerns regarding deposit disintermediation and banking sector stability may warrant further examination, as stablecoin growth has historically demonstrated positive correlation with bank deposit growth rather than substitution effects.

Detailed Responses to Consultation Questions

Section 2.2: Policy Revision

Question 1

Do you have views on our proposal to allow systemic stablecoin issuers to hold up to 60% of backing assets in short-term sterling-denominated UK sovereign debt securities alongside unremunerated deposits at the Bank, as an appropriate balance between business model viability and mitigation of financial stability risks?

We welcome the Bank's revised approach to backing assets, which in our view represents a substantial improvement upon the 2023 discussion paper's proposal requiring one hundred per cent unremunerated central bank deposits. The forty to sixty split between Bank of England deposits and short-term UK government securities appears to provide a reasonable foundation for commercial viability whilst maintaining robust liquidity buffers.

However, we would respectfully submit that the forty per cent minimum requirement for unremunerated central bank deposits may still prove unnecessarily restrictive in certain market conditions, and we would encourage the Bank to consider greater flexibility in this ratio over time as the market matures and supervisory experience develops.

The rationale provided by the Bank, namely that forty per cent aligns with estimates of possible short-term redemption requests based on historical outflow rates during stress events, deserves careful scrutiny. The stress scenarios referenced by the Bank are drawn from traditional and cryptoasset markets that operated under fundamentally different regulatory frameworks and backing arrangements. We would suggest that a systemic stablecoin operating under the proposed regime, with mandatory one-to-one backing by high-quality liquid assets and statutory trust protections, would likely present a materially

[3] https://www.gov.uk/government/publications/identifying-new-growth-opportunities-within-the-uk-singapore-dea/identifying-new-uk-growth-opportunities-within-the-uk-singapore-dea-and-future-digital-partnerships

[4] Stablecoin Summer, Top of Mind, Goldman Sachs Research Issue 141, August 19, 2025, at 15.

different risk profile than historical comparators. Consequently, we respectfully submit that lower central bank deposit requirements merit consideration, particularly as supervisory relationships mature and operational track records are established.

Furthermore, the international competitive landscape merits consideration, including the permissible reserve assets recognized in the EU through MiCA and Singapore under the Monetary Authority of Singapore, and the United States through its recent passage of the GENIUS Act. In the United States, the GENIUS Act allows backing through a combination of cash, short-term Treasury securities, bank deposits, money market fund holdings and overnight and reverse repurchase agreements backed by US Treasuries. A recent review conducted by the Federal Reserve of the current composition of reserves backing the three dominant USD-denominated stablecoins, Tether (USDT), Circle (USDC) and Gemini (GUSD), demonstrates that flexibility in how stablecoin issuers' allocate their reserves may provide increased resilience and flexibility in balance sheet management, which can moderate impacts to bank deposits and stability during both stress and nonstress periods.[5]

We also note that the restriction to short-term maturities, whilst prudent from a market risk perspective, could potentially create concentration risks in specific segments of the UK government debt market. The Bank acknowledges that secondary market activity in UK Treasury Bills is currently limited, and we would encourage ongoing dialogue with HM Treasury and the Debt Management Office to help ensure that the supply of eligible securities can accommodate projected stablecoin growth without creating market distortions or liquidity challenges.

Question 2

Do you have comments on the step-up regime as a way of supporting innovation while mitigating financial stability risks?

The proposed step-up regime for stablecoins recognised as systemic at launch appears to represent a thoughtful and pragmatic approach to balancing innovation support with prudential supervision. We support this proposal, as it acknowledges the commercial reality that nascent issuers may require time and operational scale to establish the infrastructure, relationships, and revenue streams necessary to comply with more stringent requirements.

Permitting issuers recognised as systemic at launch to hold up to ninety-five per cent of backing assets in sterling-denominated UK government securities during their initial growth

[5] Banks in the Age of Stablecoins: Some Possible Implications for Deposits, Credit, and Financial Intermediation, FEDS Notes, Federal Reserve Board of Governors, December 17, 2025.

phase could significantly improve commercial viability during the critical early stages of market development.

We would offer several recommendations to enhance the effectiveness of the step-up regime:

First, the Bank may wish to consider providing clear, objective criteria for determining when an issuer must reduce its government securities allocation from ninety-five per cent to sixty per cent. The current indication that this determination will be made on a case-by-case basis could create uncertainty that may discourage market entry. We would suggest that establishing quantitative thresholds (such as total coins in circulation, transaction volumes, or coinholder numbers) that trigger transition requirements, supplemented by qualitative supervisory assessment where appropriate, could help address this concern.

Second, transition periods may need to be sufficiently long to permit orderly adjustment without market disruption. A minimum transition period of twelve to eighteen months, with the possibility of extension in exceptional circumstances, could allow issuers to establish the necessary commercial relationships and operational infrastructure to comply with the more restrictive steady-state requirements.

Third, the Bank may wish to consider whether the step-up regime should incorporate intermediate stages rather than a binary transition from ninety-five per cent to sixty per cent government securities. A graduated approach (for example, moving to eighty per cent, then seventy per cent, then sixty per cent at defined intervals) could potentially smooth the transition and reduce operational and market risks.

Fourth, clear coordination between the Bank and FCA regarding transition from the non-systemic to systemic regime appears essential. The current proposal notes that the Bank is working with the FCA to manage this transition, and we would strongly encourage the publication of joint guidance that provides a unified roadmap for issuers approaching systemic scale.

Question 3

Do you agree with our approach to mitigating risks to the issuer and coinholders via risk-based capital and reserve requirements? If not, what approach would you see as more appropriate for systemic stablecoin issuers?

We broadly support the Bank's proposed risk-based approach to capital and reserve requirements, which we believe appropriately recognises that different issuers may present different risk profiles depending on their business models, operational complexity, and governance arrangements. The decision to remove the operational risk buffer from the statutory trust and instead require such risks to be addressed through general business capital appears to represent a sensible simplification that could reduce operational complexity whilst maintaining appropriate protection.

The proposed capital requirement, being the higher of six months' current operating expenses or the cost of recovery from the largest plausible loss event, appears to align with established international standards for financial market infrastructures and could provide a reasonable baseline for systemic stablecoin issuers. We support the proposal that capital should comprise paid-up capital, share premium, retained earnings, and disclosed reserves, consistent with Common Equity Tier 1 capital standards, as this would help ensure genuine loss-absorbing capacity.

However, we would offer several observations and recommendations:

First, stablecoin issuers operate fundamentally different business models than traditional banks and institutions operating within infrastructure based on fractional reserves. Stablecoin issuers do not engage in maturity transformation or credit intermediation, and their assets, under the proposed regime, would consist almost entirely of central bank deposits and short-term government securities and by definition be fully reserved. This risk profile is significantly different than that of banks or investment funds, and capital requirements should reflect this reality. Overly conservative capital calibration could impose costs that may ultimately be passed to coinholders or discourage market participation without commensurate risk reduction. Historically, deposit flight is often driven by the risks presented by fractional reserve-based systems and uninsured deposits, coupled with times of economic strain and uncertainty. In a fully reserved system, the risks presented are materially different.

Second, the requirement to model a range of severe but plausible loss scenarios in order to identify a "largest plausible loss" may introduce significant modelling complexity and the potential for supervisory inconsistency. Different issuers could adopt divergent methodological approaches, leading to uneven capital outcomes for broadly similar risk profiles. At the same time, anchoring capital requirements to a centrally defined worst-case construct may reduce issuers' ability to apply informed, risk-based judgment tailored to their specific business models, asset compositions, and risk management frameworks. We would therefore encourage the Bank to provide high-level principles or scenario parameters to promote consistency, while preserving issuer discretion to determine, based on their own governance and risk assessments, the loss levels most appropriate to their individual risk profiles.

Third, the interaction between capital requirements and the reserve requirements held on statutory trust may require careful calibration to avoid duplicative or excessive aggregate requirements. The consultation paper indicates that the reserves held on trust will address financial risk of backing assets and insolvency/wind-down costs, whilst general business capital addresses operational and other business risks. Clear definitional boundaries between these categories would appear essential to help prevent regulatory overlap and excessive capitalisation requirements that could potentially undermine commercial viability.

Finally, we would encourage the Bank to consider the competitive implications of its capital requirements relative to other jurisdictions. Capital requirements that substantially exceed

those in the European Union, Singapore, or United States could potentially drive issuers to establish operations in those markets, potentially reducing the UK's ability to supervise and shape the development of stablecoin infrastructure.

Question 4

Do you agree with our proposal that the reserves of liquid assets to mitigate the financial risk of backing assets and cost of insolvency/wind down should be held on trust ring-fenced from the general estate of the issuer? If not, do you have alternative proposals to mitigate risks to coinholders in the event of issuer failure/insolvency and in the absence of comprehensive arrangements to deal with failure?

We support the proposal to hold reserves on statutory trust for the benefit of coinholders, as this structure appears to provide meaningful protection in the absence of a comprehensive resolution regime equivalent to that applicable to banks. The trust structure could help ensure that reserves remain segregated from the issuer's general estate and available to satisfy coinholder claims in priority to other creditors, which may be essential for maintaining confidence in stablecoin value.

Question 5

Do you have views on our proposal for calibrating capital for general business risk?

The proposed calibration of capital for general business risk, being the higher of six months' current operating expenses or the cost of recovery from the largest plausible loss event, appears reasonable and broadly consistent with international standards for financial market infrastructures as articulated in the PFMI.

However, the requirement to model the largest plausible loss event may introduce significant complexity and potential inconsistency. We would offer the following observations and recommendations:

The Bank may wish to consider developing illustrative scenarios or standardised stress testing methodologies that issuers can apply, whilst permitting deviation where issuer-specific circumstances warrant. Without such guidance, different issuers could potentially adopt materially different approaches to scenario design and loss estimation, which might lead to inconsistent capital requirements for similar risk profiles.

Clarification may be needed regarding which risks should be included in the largest plausible loss event calculation. The consultation paper references operational, technology, and infrastructure risks, but the boundaries of these categories could benefit from further definition. For example, should regulatory or legal risks be included? Should reputational risks that might trigger mass redemptions be considered as causing direct losses, or should such risks be addressed only indirectly through higher operating expense assumptions?

The interaction between the largest plausible loss event requirement and insurance coverage may also warrant consideration. Where issuers maintain comprehensive insurance coverage for operational risks, the capital requirement could potentially reflect the net exposure after insurance recovery, subject to appropriate haircuts for counterparty risk or policy limitations.

Finally, the requirement that assets funded by capital be high quality and sufficiently liquid for their intended uses appears appropriate, but further guidance on eligible asset classes could be helpful. Consistency between the assets eligible for backing reserves and those eligible for capital could simplify operational and liquidity management.

Question 6

Do you have views on calibrating the reserve requirements for insolvency/wind down?

The proposal to require reserves for insolvency and wind-down costs, held on statutory trust, appears to represent a prudent interim measure pending the development of comprehensive failure arrangements. However, the calibration of such reserves may require careful consideration to avoid either under-protection of coinholders or excessive cost burdens on issuers.

The consultation paper acknowledges that wind-down costs could vary significantly depending on the issuer's operational setup, including blockchain choices and outsourcing arrangements. This variation suggests that a standardised reserve requirement may not be appropriate for all issuers, and that individual assessment based on validated wind-down plans could be the preferred approach.

Question 7

Do you have any other comments or suggestions on the proposals on the major policy revisions set out in Section 2.2?

We welcome the substantial policy revisions in Section 2.2, which reflect constructive engagement with industry feedback and a recognition that the 2023 proposals required adjustment to support viable business models whilst maintaining financial stability. The following additional comments are offered:

Backstop Lending Facility

The Bank's indication that it is considering providing access to a backstop lending facility for eligible, solvent, and viable systemic stablecoin issuers is particularly welcome. Such a facility could substantially enhance financial stability by helping to ensure that issuers can monetise government securities holdings promptly during periods of market stress, potentially reducing the risk that liquidity constraints force fire sales or redemption delays that could undermine confidence.

Coordination with FCA Regime

The transition between the FCA's non-systemic regime and the Bank's systemic regime remains an area of concern for market participants. Issuers that grow to systemic scale would face material changes in backing asset requirements, capital requirements, and operational expectations. Clear guidance on transition timelines, interim arrangements, and supervisory expectations during the transition period appears essential.

We would encourage the publication of joint Bank-FCA guidance that provides a comprehensive roadmap for issuers approaching systemic scale, including early warning indicators, preparatory steps, and potential phasing arrangements to smooth the transition.

Remuneration of Central Bank Deposits

The Bank's rationale for not remunerating central bank deposits held by systemic stablecoin issuers, namely that such issuers should play a limited role in monetary policy transmission, is understandable but may warrant reconsideration as the market evolves. Commercial banks receive remuneration on their reserve balances precisely because monetary policy operates through the interest rate paid on reserves. If stablecoin issuers hold substantial balances that do not receive remuneration, this could potentially create arbitrage opportunities or distort competitive dynamics in ways that might ultimately affect financial stability.

We would encourage the Bank to monitor the effects of unremunerated deposits on issuer viability and competitive dynamics, and to remain open to adjusting this policy if evidence suggests that it may be creating unintended consequences.

Section 2.3: Policy Clarification

Question 8

What are the operational challenges to implementing holding limits or other tools we are exploring? How might those challenges be addressed, including for individual and business limits?

The proposed holding limits likely are not effectively implementable given the nature of blockchain technology. The operational challenges identified in the consultation are substantial and reflect fundamental incompatibilities between holding limits and the underlying technology, including the following:

Enforcement challenges on public blockchains. Blockchain networks do not natively support holding limits. There is no protocol-level mechanism to prevent an individual from holding stablecoins across multiple wallets. Users could create additional wallet addresses without permission or cost, leaving no auditable trail linking wallets to a single individual. This

creates a significant gap between the requirement and the technical means available to enforce it.

Surveillance implications. Linking multiple wallets to individuals would require surveillance systems tracking wallet activity and correlating it with identity data. This could conflict with data protection principles, impose significant compliance costs, and still not capture non-custodial holdings where no KYC relationship exists.

Market Fragmentation Risks. Implementing limits could require modifications to stablecoin smart contracts that may affect composability with decentralised finance protocols and interoperability with global markets. Divergent requirements across jurisdictions could contribute to fragmentation of liquidity and cross-border usage. Users and liquidity could migrate to competing stablecoins without such restrictions, or to non-UK issuers, raising broader international competitiveness considerations.

Business exemption complexity. The proposed exemption framework assumes issuers can determine which businesses legitimately require higher holdings and monitor ongoing compliance. Issuers may have limited visibility into coin holder business operations, making exemption administration challenging.

Effectiveness concerns. Even if limits could be enforced, per-coin limits allow individuals to hold the full limit across multiple stablecoins, which may limit effectiveness in preventing the deposit migration the Bank seeks to address.

The consultation acknowledges that industry has identified these challenges. We would encourage the Bank to consider whether alternative approaches outlined in our response to Question 10 might better address the underlying financial stability concerns.

Question 9

What are your views on the usability of stablecoins in the presence of holding limits, both for individuals and businesses? What use cases do you envisage would require exemptions from the proposed limits? What uses would not be possible given the proposed limits?

As highlighted above, the proposed holding limits, particularly for businesses, could substantially constrain the utility of stablecoins and may prevent the realisation of their potential benefits for UK payments.

Individual Limits. The proposed twenty thousand pound individual holding limit would likely accommodate most retail payment use cases, as the Bank's analysis indicates. However, several legitimate individual use cases could potentially be constrained:

- House purchases and other high-value transactions could require conversion to and from stablecoins for amounts exceeding the limit, potentially reducing the efficiency benefits that blockchain settlement could provide.

- Salary payments for higher earners could exceed the limit, potentially preventing stablecoins from serving as a comprehensive payroll solution for employers.

- Emergency savings or short-term liquidity holdings could be constrained for individuals who prefer to maintain larger balances in digital form.

The behavioural buffer effect noted by the Bank, where users maintain balances below the limit to avoid inadvertently exceeding it, may further reduce effective usability below the headline limit.

Business Limits. The proposed ten million pound business limit may be more concerning, as many legitimate business use cases could require substantially higher holdings:

- Large retailers processing stablecoin payments could potentially accumulate balances exceeding ten million pounds within hours during peak trading periods. The Bank acknowledges this in its discussion of supermarket holdings, but the proposed exemptions regime may add compliance complexity.

- Treasury management applications, where businesses use stablecoins for working capital or short-term liquidity, could potentially be constrained by the limit.

- Settlement of wholesale transactions, supply chain payments, and business-to-business commerce could require holdings substantially exceeding the limit.

- Financial institutions acting as intermediaries, market makers, or service providers to retail users would likely require exemptions, potentially creating a two-tier system with different rules for different participants.

Exemption Requirements. We would anticipate that the following categories of business users may require exemptions from the ten million pound limit:

- Large retailers and e-commerce platforms
- Payment service providers and money service businesses
- Cryptoasset trading platforms and exchanges
- Corporate treasury departments of larger enterprises
- Financial institutions providing stablecoin-related services
- Settlement agents and clearing organisations

The breadth of potential exemptions suggests that the ten million pound limit may not be appropriately calibrated for business users, and a higher threshold or different approach may warrant consideration.

Use Cases Potentially Precluded by Limits. The proposed limits could potentially preclude or substantially impair the following use cases:

- Wholesale settlement applications, which the Bank intends to explore through the Digital Securities Sandbox, may be difficult to reconcile with holding limits at the proposed levels. Large-value cross-border payments, which represent a significant potential use case for stablecoins, could potentially be constrained by the individual limit. Programmable payments involving escrow, conditional release, or complex payment flows could potentially be impaired if holding limits prevent the accumulation of necessary balances.

Question 10

Other than holding limits, what do you consider are the tools best suited to mitigating the risks we have identified?

We would suggest that the risks of deposit disintermediation identified by the Bank may warrant further examination, and that alternative tools could potentially address legitimate financial stability concerns more effectively than holding limits whilst preserving the innovation potential of stablecoins.

Empirical Evidence on Disintermediation Risk

Research conducted by Goldman Sachs Global Investment Research, published in August 2025, examined the relationship between stablecoin growth and bank deposits and found that bank deposits and major stablecoin market capitalisation have been positively correlated historically.[6] This suggests that stablecoin adoption has not, to date, appeared to result in substitution away from bank deposits. Rather, stablecoins appear to have served complementary functions, including providing dollar access to non-US users, facilitating cryptoasset trading, and enabling specific payment use cases, rather than displacing traditional banking relationships.

This finding is consistent with analysis published by Coinbase in September 2025, which similarly concluded that stablecoins have expanded financial access and utility rather than cannibalising existing deposit bases or eroding banks' lending capacity.[7] The conditions necessary for significant deposit migration to stablecoins identified in the Goldman Sachs analysis, specifically that stablecoins would need to offer better economics than traditional deposits or lower payment frictions, appear unlikely to be met under the proposed regime. The prohibition on interest payments to coinholders, combined with the absence of deposit insurance equivalent to FSCS coverage, suggests that rational depositors would generally prefer bank deposits for savings and liquidity purposes.

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[6] Goldman Sachs Research, "*Top of Mind: Stablecoin Summer*", A. Nathan, J. Grimberg, A. Rhodes, 19 August 2025 - https://www.goldmansachs.com/pdfs/insights/goldman-sachs-research/stablecoin-summer/TopOfMind.pdf

[7] Coinbase Institute, "*Beyond The Deposit Debate: Why Stablecoins Complement Banks and Strengthen the Dollar*", S. Baugess, C. Harper, and JW Verret, September 2025 - https://assets.ctfassets.net/o10es7wu5gm1/6lmVsg8Tswx65NHCcsJr1R/5ccb67c46e5c97a25ebfcf3cbb801f6f/Coinbase_StablecoinPaper_091525_VersionB.pdf

Alternative Tools

We would recommend consideration of the following alternative approaches:

Enhanced Monitoring and Early Warning Systems. The Bank could consider establishing monitoring frameworks that track stablecoin adoption, deposit flows, and banking sector liquidity on an ongoing basis. This could permit supervisory intervention if concerning trends emerge, without imposing ex ante restrictions that may prove unnecessary and counterproductive.

Banking Sector Preparedness Requirements. Coordination with the Prudential Regulation Authority to help ensure that banks maintain adequate liquidity buffers and have pre-positioned collateral at the central bank could address concerns about banking sector resilience to deposit outflows, regardless of whether such outflows are to stablecoins, money market funds, or other alternatives.

Phased Implementation with Review Points. Rather than implementing holding limits from the outset, the Bank could consider permitting the market to develop with enhanced monitoring, committing to review the need for limits if adoption exceeds defined thresholds or if evidence of problematic deposit migration emerges.

Market-Based Mechanisms. Permitting stablecoin issuers to adjust their fee structures could potentially moderate rapid adoption if market conditions warrant. Issuers facing operational constraints could implement queuing mechanisms for redemptions during stress periods, subject to regulatory approval.

Coordination with International Authorities. Given the global nature of stablecoin markets, unilateral UK limits may simply redirect activity to other jurisdictions without reducing systemic risk. International coordination on monitoring and potential intervention triggers could potentially be more effective than domestic limits that can be circumvented through cross-border structures.

Question 11

Do you have views on our proposal that systemic stablecoins should access payments systems that support interoperability across different forms of money directly rather than through a sponsoring participant?

We strongly support the proposal that systemic stablecoin issuers should have direct access to payment systems, including the Real-Time Gross Settlement system. Direct access appears essential for achieving the interoperability objectives articulated in the consultation paper and for helping to ensure that stablecoins can function effectively as a component of the UK's multi-money payment ecosystem.

Question 12

Do you agree with our proposed approach to safeguard backing assets? If not, what alternative measures do you propose?

We broadly agree with the proposed approach to safeguarding backing assets through statutory trust arrangements and qualified third-party custody. The statutory trust model appears to provide robust protection for coinholders by helping to ensure that backing assets are segregated from the issuer's general estate and available to satisfy coinholder claims in priority to other creditors.

Question 13

Do you have views on the proposed legal structure of the trust arrangements for backing assets and reserves to deliver the desired outcomes set out in this consultation paper? This includes feedback on the overall structure of the trust arrangements and whether these should be structured as a single trust covering both backing assets and reserve requirements or as two or more separate trusts.

The question of whether backing assets and reserves should be held in a single trust or multiple trusts involves trade-offs between operational simplicity and clarity of purpose.

Recommendation

We would suggest consideration of a structure involving at least two separate trusts:

1. A **Backing Asset Trust** held solely for the benefit of coinholders, containing the required central bank deposits and government securities backing issued stablecoins.
2. A **Reserve Trust** held for the benefit of both coinholders and insolvency stakeholders, containing the financial risk reserve and wind-down reserve.

This structure could help ensure that backing assets remain unambiguously available to satisfy coinholder redemption claims, whilst providing appropriate access to reserve assets for administrative purposes in a wind-down scenario.

Question 14

Do you agree with the Bank's view that the prominent risks around public permissionless ledgers are accountability, settlement finality, and operational resilience, including cybersecurity?

We agree that accountability, settlement finality, and operational resilience are important considerations for public permissionless ledgers, but we would respectfully suggest that the risks associated with these factors may be more manageable than the consultation paper implies, and that the potential benefits of public permissionless ledgers far outweigh any perceived risks.

Accountability. The consultation paper notes that public permissionless ledgers do not have a clear locus of accountability, which is inconsistent with regulatory regimes built around regulated intermediaries. However, the proposed regulatory framework appears to address this concern by holding stablecoin issuers, rather than underlying ledger infrastructure, accountable for meeting regulatory standards.

This outcomes-based approach appears appropriate. Stablecoin issuers can be held responsible for their technology choices, including the selection of ledgers on which to issue coins, without requiring the Bank to regulate the underlying blockchain infrastructure. Many successful financial services operate on shared infrastructure, such as the internet, telecommunications networks, or cloud computing platforms, without requiring regulation of that infrastructure. A similar principle should apply to public blockchains.

Settlement Finality. The question of when transactions become legally final on public permissionless ledgers is an important one, and we acknowledge that current legislation may not adequately address this issue for distributed ledger systems. However, this appears to be a legislative gap that could be addressed through amendments to the Settlement Finality Regulations, rather than a fundamental obstacle to using public permissionless ledgers.

In practice, major public blockchains achieve probabilistic finality through consensus mechanisms that make transaction reversal economically impractical after a modest number of block confirmations. For most practical purposes, this may provide equivalent assurance to the settlement finality achieved in traditional systems, though legislative clarity would be welcome.

Operational Resilience. Public permissionless ledgers may offer certain operational resilience advantages over centralised systems. The distributed nature of these networks means that there is no single point of failure, and the networks can continue operating even if significant numbers of nodes become unavailable. The major public blockchains, including Ethereum, which hosts substantial stablecoin activity, have demonstrated remarkable uptime and resilience over extended periods.

Cybersecurity risks exist for all digital systems, and the Bank is right to focus on this area. However, the cryptographic foundations of public blockchains may provide strong security properties, and the transparent, auditable nature of blockchain transactions could facilitate monitoring and detection of anomalous activity.

Question 15

From the above risks, in your opinion, which ones are most crucial, specifically in the context of public permissionless ledgers, that necessitate Bank's focus and collaborative solutions?

Of the risks identified, we would suggest that **settlement finality** may be the most pressing area requiring collaborative attention, as it involves legal and legislative questions that likely cannot be addressed by issuers or technology providers alone.

The current Settlement Finality Regulations were designed for traditional payment and settlement systems and may not accommodate the technical characteristics of distributed ledger systems. Collaborative work between the Bank, HM Treasury, and industry participants to develop appropriate legal frameworks for settlement finality on distributed ledgers could provide essential clarity for market participants and help reduce legal uncertainty.

Operational resilience, including cybersecurity, is important but may be appropriately addressed through the Bank's existing approach of holding issuers accountable for the resilience of their operations, regardless of the underlying technology. The Bank's experience supervising financial market infrastructures that rely on complex technology systems could provide a foundation for supervising stablecoin issuers, and the specific characteristics of public permissionless ledgers may be accommodated within existing supervisory frameworks.

Accountability appears to be addressed by the proposed regulatory framework itself, which establishes clear accountability for issuers and service providers regardless of the underlying ledger technology. We do not believe that additional collaborative work is likely necessary in this area beyond the implementation of the proposed regime.

Question 16

Can you identify other risks which you believe that will have a material impact on these technologies in the future?

We would identify the following additional risks that may merit monitoring and potential collaborative attention:

Interoperability and Fragmentation. As the stablecoin market develops, the proliferation of different coins on different blockchains could potentially create fragmentation that reduces liquidity and complicates the user experience. The development of interoperability solutions, including cross-chain bridges and universal interoperability layers, appears to be progressing rapidly, but coordination on standards and security requirements may be beneficial.

Smart Contract Risk. Stablecoins rely on smart contracts that govern minting, redemption, and transfer functionality. Bugs or vulnerabilities in smart contract code could potentially result in loss of funds or operational disruption. Whilst issuers are responsible for the quality and security of their smart contracts, collaborative work on audit standards, formal verification methodologies, and industry best practices could potentially enhance overall market resilience.

Quantum Computing. In the longer term, the development of quantum computing capabilities could potentially compromise the cryptographic foundations of current blockchain systems. Whilst this risk does not appear imminent, it may merit monitoring and forward planning. The Bank may wish to engage with relevant bodies on the development of quantum-resistant cryptographic standards for digital assets.

Question 17

Section 2.3 above outlines minor policy refinements and clarifies the details of policy positions set out in the 2023 discussion paper. As such, specific questions for feedback are not asked for each sub-section. Respondents are invited to provide general comments or suggestions on the proposals set out in this section.

We offer the following comments on the policy clarifications in Section 2.3:

Systemic Importance Assessment. The illustrative examples provided in Boxes B, C, and D are helpful in understanding how the Bank intends to assess systemic importance. We support the outcomes-based approach that considers multiple factors rather than relying solely on quantitative thresholds. However, we would encourage the publication of more detailed guidance on how the various factors may be weighted in practice, as this could assist issuers and potential market entrants in understanding when they might approach systemic status.

The decision not to publish hard quantitative thresholds is understandable but may create some uncertainty for market participants. We would suggest that indicative thresholds, clearly labelled as non-binding, could potentially provide useful guidance without creating the problematic cliff effects that the Bank seeks to avoid.

Redemption Requirements. The clarification that issuers should initiate transfers by end of day on which a redemption request is made, subject to completion of necessary AML/KYC documentation, is helpful. We would encourage further guidance on acceptable timeframes for completing verification procedures once documentation is submitted, to help ensure that the end-of-day requirement is not circumvented through extended verification processes.

The proposal that fees should be proportionate to costs incurred and should not be used to disincentivise redemptions appears appropriate. Guidance on what constitutes proportionate fees, potentially including safe harbours or benchmark rates, could provide useful clarity.

Direct Payment System Access. The expectation that systemic stablecoin issuers should access payment systems directly is strongly supported, as discussed in our response to Question 11. This represents what we view as an important clarification that could enhance the operational resilience and efficiency of systemic stablecoin infrastructure.

Section 2.4: Policy Unchanged

Question 18

Section 2.4 above outlines unchanged policies from the 2023 discussion paper. As such, specific questions for feedback are not asked for each sub-section. Respondents are invited to provide general comments or suggestions on the proposals set out in this section.

We offer the following comments on the unchanged policies:

Location Policy

The requirement for non-UK based issuers of sterling-denominated systemic stablecoins to establish UK subsidiaries is understandable from a supervisory perspective but may create barriers for international issuers seeking to serve UK users. We would encourage the Bank to develop its thinking on equivalence arrangements for non-sterling stablecoins, and to consider whether any form of regulatory recognition might be appropriate for sterling stablecoins issued by entities subject to equivalent regulatory regimes elsewhere.

Joint Regulation

The commitment to provide clarity on how the Bank and FCA's respective remits will apply in practice appears essential and is eagerly anticipated. The current uncertainty regarding regulatory boundaries and potential for duplicative requirements may create compliance challenges for issuers. We would encourage the earliest possible publication of the joint regulatory framework guidance.

Custodianship

The decision to rely on the FCA's rules for custodial wallet providers appears appropriate, given the FCA's expertise in client asset protection and the overlap with its broader cryptoasset regulatory remit. However, coordination between the Bank and FCA on supervisory expectations for custodians servicing systemic stablecoin issuers may be important to help ensure consistency.

Section 2.5: New Areas to Highlight

Question 19

Section 2.5 below introduces emerging policy areas that are intended to prompt further engagement with stakeholders. These areas are presented to support ongoing dialogue and to help shape the Bank's future approach. Respondents are invited to provide general comments or suggestions on the thoughts set out in this section. Specific questions for feedback are not asked except in sub-section 2.5.3.

We welcome the Bank's forward-looking discussion of interoperability, wholesale market applications, and cross-border arrangements. These areas appear to represent significant opportunities for stablecoins to contribute to the efficiency and competitiveness of UK financial infrastructure.

Question 20

How should the Bank seek to mitigate risks from non-sterling-denominated systemic stablecoins?

Non-sterling-denominated stablecoins that achieve systemic scale in UK payments may present distinct risks and considerations from sterling-denominated coins. The Bank's approach could reflect the different nature of these instruments whilst ensuring appropriate safeguards. The primary risks from non-sterling systemic stablecoins may include:

Currency Risk. Coinholders using non-sterling stablecoins for UK payments would bear currency risk, as the value of their holdings in sterling terms would fluctuate with exchange rates. This risk is inherent in holding foreign currency and may not require specific regulatory intervention beyond appropriate disclosure.

Regulatory Arbitrage. If non-sterling stablecoins are subject to less stringent requirements than sterling coins, or if differences in currency characteristics or market perceptions influence relative risk assessments, issuers might choose to denominate their coins in foreign currencies to avoid UK regulatory requirements whilst still serving UK users. This risk could potentially be mitigated by ensuring that the Bank's regime applies to all stablecoins that achieve systemic importance in UK payments, regardless of denomination.

Monetary Policy Implications. Widespread use of non-sterling stablecoins for UK payments could potentially reduce the transmission of UK monetary policy and create exposure to foreign central bank actions. However, the significance of this risk would likely depend on the scale of adoption, and the holding limits (if implemented) could constrain the aggregate impact.

Recommended Approach. We would suggest that the Bank consider:

1. Applying consistent standards to all systemically important stablecoins used in UK payments, regardless of denomination, with respect to operational resilience, governance, and coinholder protection.
2. Engaging with home authorities of non-sterling stablecoins to understand their regulatory frameworks and establish cooperation arrangements.
3. Considering deference to home authority supervision where that authority's framework delivers equivalent outcomes, as discussed in the consultation paper.
4. Monitoring the adoption of non-sterling stablecoins for UK payments and adjusting supervisory intensity accordingly.

Question 21

For non-sterling-denominated systemic stablecoins issued from a non-UK entity, do you think the Bank should consider deferring to the stablecoin's home authority?

Yes, we support the Bank's consideration of deference to home authority supervision for non-sterling-denominated systemic stablecoins issued from non-UK entities, subject to appropriate conditions.

Deference could be conditional on:

1. Clear recognition or deference to specified home jurisdictions whose regulatory frameworks have been formally assessed and determined to provide comparable outcomes to the Bank's regime, particularly with respect to backing asset standards, capital and reserve requirements, operational resilience, and coinholder protection.
2. Adequate cooperation and information-sharing arrangements between the Bank and the home authority.
3. Confidence that the home authority has the capacity and willingness to supervise the stablecoin effectively.
4. Appropriate arrangements for addressing UK-specific risks that may not be within the scope of home authority supervision.

Question 22

If so, do you agree with the factors the Bank intends to consider? Are there additional factors the Bank should consider?

We agree with the factors identified by the Bank for assessing whether deference to a home authority is appropriate.

We appreciate the opportunity to provide input and look forward to continued engagement with the Bank as the regulatory framework progresses toward the finalisation of the Codes of Practice in 2026.

Respectfully submitted on behalf of contributing members of the Wall Street Blockchain Alliance (WSBA).

Wall Street Blockchain Alliance (WSBA)
New York, New York 10017
United States

www.wsba.co
info@wsba.co