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## **BBA's Response to Bank of England's Consultation Paper On Proposed Regulatory Regime for Sterling-Denominated Systemic Stablecoins**

*Consent to publication: The British Blockchain Association (BBA) consents to publication of our name as a respondent. We are responding as an organisation and do not request confidential treatment for this submission.*

### **How this response was developed**

This submission reflects input from BBA members and our wider network, including stablecoin issuers, trading venues, custodians, payment and fintech firms, legal and compliance practitioners, and academic researchers. The BBA routinely contributes to UK and international policy consultations and convenes stakeholders to assess regulatory design, operational feasibility, and likely market impacts. Where relevant, we reference positions taken in our previous UK stablecoin submissions to support consistency across the emerging framework and to avoid avoidable regulatory fragmentation.

### **About the British Blockchain Association:**

The British Blockchain Association (BBA) is the UK's longest established blockchain industry body (est. 2017), advancing evidence-based adoption of Blockchain, digital assets, and Distributed Ledger Technologies (DLT). We work closely with policymakers, regulators, financial institutions, technology providers, academics, and market infrastructure stakeholders to support evidence-led adoption of blockchain and digital assets in the UK. From contributing to the HMT, BoE and FCA's first Cryptoasset Task Force in May 2018, BBA has regularly responded to public consultations on blockchain and digital assets, including our comprehensive response to FCA's Crypto Consultation DP25/1 in 2025:

<https://britishblockchainassociation.org/wp-content/uploads/2025/06/FCA-DP-Cryptoassets-2025-BBA-1-2.pdf>

The BBA has advisors, ambassadors, members, partners, and an editorial board network in 78 countries across six continents. In 2021, we authored the UK's National Blockchain Roadmap. We're home to the world's first peer-reviewed blockchain research journal, The JBBA - Journal of The British Blockchain Association; the world's first Centre for Evidence-Based Blockchain (CEBB); the world's first trans-national collaboration consortium of 53 countries - BAF - The Blockchain Associations Forum, as well as BBA Fellowships (FBBA), Blockchain International Scientific Conferences (ISCs), and many



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other leading blockchain initiatives. BBA also has its headquarters in the Metaverse. In 2022, our president became the first person in the world to receive a UK National Honour (King's Honour, MBE) for services to Blockchain and Digital Asset Technologies. The BBA serves as the Secretariat of the UK's All-Party Parliamentary Group (APPG) on Blockchain Technologies.

## Executive summary

The British Blockchain Association supports the Bank of England's objective of enabling innovation in digital money while maintaining confidence in sterling and protecting financial stability. We welcome the shift toward a diversified backing model, the focus on robust redemption arrangements and operational resilience, and the direction of travel toward an interoperable "multi-money" ecosystem.

Based on feedback from our members, the effectiveness of the regime will depend on clear operational requirements, predictable supervisory expectations, and proportionate reporting that is implementable at scale. Where we recommend exemptions, indicative thresholds, or limited flexibility, this is intended to reduce cliff-edge effects, increase predictability for firms, and avoid unnecessary compliance complexity that could impede adoption without improving outcomes.

Key themes:

**Holding limits:** The proposed per-coin caps may constrain higher-value retail and business payment use cases. We recommend either higher limits for verified business use or a clear, criteria-based exemption pathway with defined decision timelines and auditable compliance conditions.

**Backing assets (40:60 split):** We support the baseline requirement ( $\geq 40\%$  unremunerated central bank deposits; up to 60% short-dated sterling UK government securities). Further guidance is needed on temporary deviations, including permissible triggers, duration, notification/approvals, and reporting. Consider a narrowly defined flexibility range under stress, subject to enhanced liquidity risk management, concentration limits, and redemption stress testing.

**Systemic recognition and predictability:** We recognise the need for supervisory judgement rather than a single quantitative trigger. However, firms require better forward signals. Non-binding "indicator metrics" could support earlier engagement and transition planning without automatically conferring a systemic designation.

**Remuneration prohibition:** We understand the policy intent to maintain stablecoins primarily as a payments instrument. A blanket prohibition on passing through reserve yield may reduce adoption and competition. The Bank could consider narrowly scoped alternatives (e.g., non-reserve-linked incentives) with strong conduct requirements and clear disclosure, subject to prudential safeguards.

**Interoperability and cross-border coordination:** The Bank should prioritise interoperable standards and international supervisory coordination to reduce regulatory arbitrage and cross-border stability risks.



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## Responses to Consultation Questions

**Q1. 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?**

BBA position: Supportive, subject to clearer parameters for temporary deviations and stress-period flexibility.

The baseline composition ( $\geq 40\%$  unremunerated deposits at the Bank; up to 60% short-dated sterling UK government securities) strikes a reasonable balance between redemption certainty and business model viability.

We recommend that the Bank set out explicit expectations for temporary deviations from the baseline, including: (i) permissible triggers (e.g., elevated redemptions, market dysfunction), (ii) maximum duration and escalation pathways, (iii) reporting/notification requirements, and (iv) supervisory expectations for remediation.

The Bank could also consider a tightly bounded “flexibility range” allowing a higher share of high-quality sovereign debt during stress, conditional on enhanced liquidity risk management, concentration controls, and redemption stress testing (including idiosyncratic and market-wide scenarios).

**Q2. Do you have comments on the step-up regime as a way of supporting innovation while mitigating financial stability risks?**

BBA position: Supportive, provided transition expectations are clearly defined and operationally workable. The step-up regime can support innovation by allowing firms to scale while progressively meeting systemic requirements, reducing the risk of abrupt adjustments.

To strengthen the model, we recommend: (i) a defined transition period (e.g., 6–12 months, calibrated to scale/complexity) with clear supervisory expectations; (ii) publication of non-binding indicator metrics (e.g., user base, transaction volumes/value, interconnectedness with payment systems and critical service providers) to support earlier engagement and transition planning; and (iii) a clear statement of the minimum “day-one” controls required under step-up (e.g., safeguarding, redemption governance, operational resilience, incident reporting).

**Q3. 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?**

BBA position: Agreed.

We support a risk-based approach aligned with international standards. We recommend mandatory annual stress testing covering severe redemption shocks, operational disruption, and cyber incidents, using a supervisory template to enable comparability across issuers.



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**Q4. 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's failure/insolvency and in the absence of a comprehensive arrangements to deal with failure?**

BBA position: Supportive, subject to implementation clarity and enforceable assurance.

We support the proposal to hold backing assets and wind-down reserves on trust, ring-fenced from the issuer's general estate. This is foundational to achieving coinholder protection and credible redemption outcomes in stress and insolvency scenarios.

Recommendations: (i) provide model trust deed clauses and minimum legal features to reduce divergence in implementation; (ii) clarify treatment of multi-asset backing (including eligibility, valuation, haircuts and substitution rules); (iii) require independent custodian controls, periodic assurance, and clear reporting obligations (including audit rights and event-driven notifications) so supervisors and coinholders have timely evidence of segregation and asset integrity.

**Q5. Do you have views on our proposal for calibrating capital for general business risk?**

BBA position: Broadly supportive; proportionality and worked examples are essential.

Calibrating capital to general business risks is appropriate to cover operational and other non-financial exposures without creating unnecessary barriers to entry.

We recommend a proportional approach that reflects firm size, complexity, and risk profile (including reliance on critical third parties), supported by published worked examples illustrating how capital would be calculated in practice. This will improve consistency, reduce interpretive divergence, and support orderly scaling.

**Q6. Do you have views on calibrating the reserve requirements for insolvency/wind down?**

BBA position: Supportive, provided calibration reflects realistic cost drivers and is reviewed periodically. We support reserve requirements for insolvency/wind-down, but calibration should reflect the real costs of maintaining service continuity and executing an orderly wind-down without forced asset sales. Cost drivers typically include legal and advisory costs, retained staffing and operational support, technology and data retention, customer communications and remediation, third-party termination fees, and continued compliance and audit obligations during the wind-down period.

Recommendations: (i) publish supervisory guidance and illustrative worked examples by size/complexity; (ii) require periodic recalibration (e.g., annually or on material change) to remain proportionate; and (iii) align wind-down reserves to the issuer's operating model, outsourcing dependencies, and expected duration to execute redemption and closure.

**Q7. Do you have any other comments or suggestions on the proposals on the major policy revisions set out in Section 2.2?**

BBA position: Supportive; recommend stronger linkage between buffers, stress outcomes, and cross-regime consistency.



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We welcome the direction of travel in Section 2.2, including the move toward a more operationally credible backing model and clearer redemption expectations. To strengthen effectiveness, we recommend tighter linkage between capital/reserve requirements and stress testing outcomes, so firms can evidence resilience through comparable, outcome-based tests rather than relying solely on static buffers.

We also encourage the Bank to clarify how systemic requirements interact with the FCA's regime for non-systemic stablecoins, particularly to support predictable step-up/transition pathways and reduce avoidable regulatory fragmentation.

## **Q8. 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?**

BBA position: Implementable but requires standardised technical interfaces and a proportionate exemption process.

Key operational challenges include: (i) real-time monitoring and enforcement across multiple wallets and intermediaries; (ii) preventing circumvention via wallet fragmentation; (iii) reliable identification/KYC–KYB linkage for entity-level limits; and (iv) exemption administration for legitimate business and intermediary use cases. Cross-border access patterns and use via multiple service providers increase complexity.

Recommendations: (i) define standardised APIs and control expectations for limit checks; (ii) provide a clear, criteria-based exemption framework (with decision timelines, documentation requirements, and revocation triggers); (iii) phase implementation with supervisory testing/sandboxes to validate operational readiness; and (iv) allow automated KYB-based higher thresholds for verified business categories, subject to enhanced monitoring and auditability.

## **Q9. 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?**

BBA position: Holding limits can be a proportionate and effective macro-prudential tool during early market development to reduce run dynamics, limit rapid systemic capture, and protect consumers from over-exposure to a novel payment instrument. However, the usability impact is highly non-linear: limits that are workable for day-to-day retail payments can materially impair legitimate business use, settlement flows, and treasury operations. The Bank should therefore implement holding limits through a tiered, use-case-sensitive approach that distinguishes (i) consumer spending balances, (ii) operational balances for SMEs, and (iii) treasury/settlement balances for larger corporates and payment intermediaries—supported by clear exemption criteria, strong monitoring, and enforceable controls.

Key views on usability (individuals vs businesses)

1) Individuals (retail users)



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For most retail use cases, holding limits are compatible with usability provided the limits are calibrated to typical household payment behaviour and allow frictionless top-ups and redemptions. Retail users generally need stablecoins for payments, not long-term wealth storage. Limits can reinforce that role by encouraging “spend/transfer” use rather than speculative hoarding. Usability risks arise if limits are set too low relative to real-world needs (e.g., travel, rent deposits, or high-value purchases), or if enforcement introduces repeated declines, complicated workflows, or delays that undermine consumer confidence.

## 2) Businesses (SMEs, merchants, corporates)

Businesses use payment instruments differently: they may need larger balances to manage payroll cycles, supplier payments, refunds/chargebacks, merchant settlement, and working capital. Uniform holding limits applied to businesses can create operational inefficiency (constant top-ups), increase reliance on intermediaries, and reduce adoption—particularly for merchant acquirers, payment processors, and marketplace platforms that must temporarily hold funds for reconciliation and settlement. For larger firms, holding limits can obstruct legitimate treasury use cases (e.g., high-volume pay-outs, intra-group transfers, just-in-time liquidity management), even if the stablecoin is intended primarily as a payment instrument.

Conclusion: holding limits are workable for retail; for businesses they must be higher, conditional, and tied to purpose.

Recommendations: design features that preserve usability while mitigating risk

### R1 — Tiered limits by user type and risk profile

Adopt differentiated limit bands for:

- Retail individuals (default limit aligned to typical monthly spending needs);
- SMEs/merchants (higher operational limits tied to turnover/transaction history);
- Regulated payment intermediaries (limits primarily managed through prudential requirements and safeguarding rather than blunt caps).

### R2 — “Purpose-based” wallets or sub-accounts

Allow ring-fenced sub-accounts for specific payment purposes (e.g., payroll wallet, refunds wallet, settlement wallet), enabling the Bank to maintain a conservative default retail holding limit while permitting higher operational balances where justified.

### R3 — Dynamic limits using objective metrics

For businesses, set limits based on verifiable indicators such as:

- average monthly payment volume, merchant turnover, payroll size;
- settlement/clearing cycle length;
- historical net redemption patterns;
- robust KYB/AML controls and governance maturity.



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- This reduces incentives to fragment activity across multiple wallets/providers.

R4 — Exemptions must be conditional, auditable, and revocable

Where exemptions are granted, require:

- clear documented rationale (use case category);
- enhanced monitoring and reporting;
- controls to prevent circumvention;
- periodic review and automatic step-down if usage declines or risk indicators worsen.

R5 — Ensure limits do not create poor outcomes through workarounds

Limits set too low can push users toward:

- unregulated offshore stablecoins;
- complex “wallet splitting”;
- reliance on unregulated intermediaries.
- A proportionate regime should minimise incentives for these outcomes.

Use cases likely to require exemptions (or materially higher limits)

A) Business operational flows

- Payroll and contractor pay-outs (especially for high headcount firms or weekly payroll cycles).
- Supplier payments and B2B settlement (high-value invoices, batch payments).
- Merchant settlement and reconciliation for platforms, marketplaces, and PSPs that hold funds temporarily before onward distribution.
- Refunds, returns, chargeback buffers where merchants must maintain liquidity for customer remediation.

B) Regulated payment ecosystem functions

Liquidity management by regulated PSPs, including prefunding for settlement cycles and intraday liquidity needs.

Escrow-like arrangements (e.g., travel, ticketing, marketplaces) where funds are held pending delivery/performance—provided these are subject to strong safeguarding and governance.

C) One-off legitimate high-value retail transactions (targeted exemptions)

Property-related deposits, vehicle purchase, high-value travel or medical expenses—provided robust source-of-funds checks and consumer protections apply. These exemptions should be narrow and transaction-linked, not broad increases to general retail holding limits.

Uses that would not be possible (or would be materially impaired) under strict holding limits



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If holding limits are set at low retail-style levels and applied uniformly, the following would be impractical or impossible:

- Large-scale merchant acquiring / marketplace settlement where platforms must temporarily hold substantial balances for reconciliation and onward distribution.
- High-volume B2B payment rails (trade payments, large invoice settlement) where working balances exceed typical consumer caps.
- Treasury functions for corporates (e.g., liquidity concentration, just-in-time cash management) where stablecoin balances could exceed caps even if the intent is purely payments-related.
- Emergency high-volume disbursements (e.g., insurance payouts, disaster relief programmes, mass refunds) where temporary holding peaks are operationally necessary.
- Cross-border payroll/remittance corridors at scale if limits constrain pre-funding and payout batching.

These constraints are not necessarily undesirable if the policy objective is to prevent stablecoins evolving into large-scale deposit substitutes; however, the Bank should be explicit about which activities it intends to enable and which it intends to constrain.

Suggested exemption criteria:

The Bank could grant exemptions or higher limits where all the following apply:

- Clearly defined payment purpose (not general savings/investment).
- Strong KYB/KYC and AML controls, with ongoing monitoring.
- Demonstrable operational need (turnover/payment volume evidence).
- Safeguarding and segregation appropriate to the activity (especially for intermediaries holding client funds).
- Robust governance and auditability, including recordkeeping, controls testing, and incident reporting.
- Concentration and run-risk controls, including limits on single-client exposures where relevant.
- Revocability and periodic reassessment.

BBA's overall position:

We support holding limits as an early-stage systemic risk mitigant, but recommend the Bank implements them through a tiered, purpose-based framework with conditional, auditable exemptions for legitimate business settlement and operational use cases. Poorly calibrated or uniform limits risk undermining usability, encouraging circumvention, and shifting activity toward less supervised alternatives - reducing, rather than improving, financial stability and consumer protection outcomes.

## **Q10. Other than holding limits, what do you consider are the tools best suited to mitigating the risks we have identified?**

BBA position: A layered toolkit would be preferable to relying primarily on static holding limits.



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In addition to holding limits, the Bank could consider measures that better target the specific risks identified (e.g., substitution into savings-like behaviour) while preserving payment usability. Options include transaction-flow controls (such as net inflow/outflow constraints over defined windows), enhanced monitoring of concentration and velocity, and conduct-based restrictions on remuneration-like features where appropriate. We also encourage the Bank to consider how technical controls (including programmable compliance features) can be deployed in a transparent and auditable manner, with clear governance and accountability.

**Q11. Do you have views on our proposal that systemic stablecoins should access payments systems that support interoperability across different forms of money, rather than through a sponsoring participant?**

BBA position: Strongly supportive, subject to clearly defined eligibility criteria and proportionate safeguards.

Direct access (where appropriate) can reduce dependency on sponsoring participants, improve resilience, and support interoperability across forms of money.

We recommend that the Bank set out: (i) clear eligibility and governance requirements; (ii) phased onboarding with initial constraints calibrated to risk; (iii) minimum technical and operational standards to ensure interoperability; and (iv) clear expectations for incident management, settlement finality, and operational resilience.

**Q12. Do you agree with our proposed approach to safeguard backing assets? If not, what alternative measures do you propose?**

BBA position: Supportive, subject to strengthened oversight and measurable assurance.

We support the Bank's safeguarding approach, including segregation and assurance expectations, as necessary to protect coinholders and maintain confidence in redemption.

Recommendations: (i) require minimum custodian independence and clearly defined custodian duties; (ii) mandate periodic independent assurance over segregation, asset eligibility, valuation and reconciliations; and (iii) consider proportionate use of verifiable, machine-readable reporting (including near-real-time disclosures to supervisors) where it improves transparency without creating operational risk or misleading "proof" claims.

**Q13. 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.**

BBA position: Support flexibility on structure, but require clarity, comparability, and enforceability.



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We consider both a single-trust and a multi-trust structure workable, provided the legal outcomes are unambiguous and supervisable. Separate trusts can strengthen ring-fencing between backing assets and wind-down reserves; a single trust may reduce complexity where governance, reporting, and assurance remain robust.

Recommendation: the Bank should permit either structure subject to supervisory approval against minimum criteria (segregation, claim priority, permitted asset features, valuation and substitution rules, custodian duties, audit/assurance, and event-driven notification). Publishing model clauses or template provisions would materially reduce legal uncertainty and implementation variance.

**Q14. 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?**

Accountability, settlement finality and operational resilience (including cybersecurity) are the principal risk clusters for public permissionless ledgers.

Public permissionless ledgers can deliver transparency, composability and innovation, but the risk profile differs materially from permissioned infrastructures because governance and control are distributed and can be opaque in practice. We agree the Bank has correctly prioritised:

Accountability (who is responsible, and who can be supervised):

In permissionless environments, critical functions (protocol development, node operations, validators/miners, key infrastructure providers such as RPC endpoints, bridges, and sequencers where relevant) may be performed by multiple parties across jurisdictions. This can create gaps in clear responsibility for controls, incident management, and remediation. For a systemic payment instrument, the regime should require the issuer and key service providers to evidence an accountability map (roles, control ownership, escalation paths, and contractual enforceability), including how risks are managed where dependencies are offshore or decentralised in form but concentrated in practice.

Settlement finality (legal and technical certainty of completion):

Permissionless ledgers may be subject to probabilistic finality, reorganisations, forks, validator failures, congestion, and bridging risks between networks. Even where finality is robust in normal conditions, stress conditions can change confirmation times, fee dynamics, and the likelihood of reversals. For systemic stablecoins, we recommend the Bank articulate minimum expectations for finality assurance, including: (i) the definition of "final" for the relevant network(s); (ii) controls for chain reorg/fork events; (iii) clear operational rules for reversals, disputes, and customer outcomes; and (iv) contingency arrangements to pause or route transactions if finality assurances degrade.

Operational resilience and cybersecurity (including third-party concentration):

The most material operational risks often sit above the base layer: wallet infrastructure, key management, smart contract security, node/RPC availability, oracle dependencies, bridging/interop components, and DDoS or supply-chain attacks on software and cloud providers. Because systemic stablecoin services will operate continuously, resilience expectations should cover end-to-end service delivery, not only the blockchain protocol. We recommend aligning requirements to measurable resilience outcomes: incident response readiness, recovery objectives, penetration testing, smart



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contract audit standards, key compromise scenarios, and stress testing that includes degraded network conditions (e.g., congestion, validator outages, MEV-related disruption where applicable).

Additional risk the Bank should explicitly recognise governance and control concentration.

While permissionless systems are “open” by design, effective control can become concentrated (e.g., a small set of validators/mining pools, core developers, governance token holders, sequencer operators, or dominant infrastructure providers). Concentration can amplify operational and accountability risks and can change the system’s risk profile rapidly. We recommend the Bank treats material concentration indicators as part of its assessment (e.g., validator concentration, reliance on a small number of critical infrastructure providers, admin key structures, upgrade governance, and the ability to intervene in emergencies).

Practical recommendation:

For systemic stablecoins operating on public permissionless ledgers, the Bank should consider a clear, evidence-based “ledger risk assessment framework” that issuers must maintain and update, covering: governance/control analysis; finality characteristics and triggers; critical dependency mapping; security and audit artefacts; and tested contingency plans (including transaction routing/pausing conditions). This would give supervisors consistent, comparable evidence across issuers and networks, and reduce uncertainty for firms designing compliant architectures.

**Q15. 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?**

BBA position: The most crucial risks are accountability and operational resilience, with settlement finality as a gating requirement.

In the context of permissionless ledgers, the Bank’s focus should prioritise (i) accountability mapping across critical functions and dependencies (including offshore components and concentrated infrastructure providers), and (ii) end-to-end operational resilience above the base layer (wallet/key management, smart contract security, RPC and node availability, cloud and third-party concentration, incident response). Settlement finality should be treated as a gating requirement with explicit definitions and contingency triggers. We encourage the Bank to develop collaborative, standards-led approaches with industry (e.g., minimum assurance artefacts, resilience benchmarks, and shared incident learnings) to increase comparability across issuers and networks.

**Q16. Can you identify other risks which you believe that will have a material impact on these technologies in the future?**

BBA position: Yes — scalability/congestion, governance concentration, and cryptographic transition risk are material.

Material forward risks include network congestion and fee volatility under high-volume scenarios; governance/control concentration that can shift rapidly; interoperability/bridge risks; and cryptographic transition risks (including post-quantum migration planning for long-lived systems). The Bank should



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encourage forward-looking standards, clearer disclosure of concentration indicators, and scenario testing that includes degraded network conditions and dependency failures.

**Q17. 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.**

BBA position: Supportive; recommend more worked examples to reduce interpretive divergence.

We welcome clarifications that reduce ambiguity from the 2023 paper. To improve implementability, we recommend the Bank publish additional worked examples illustrating application to common architectures (e.g., hybrid models, multi-chain deployment, and dependency outsourcing), including how evidence and assurance should be presented to supervisors.

**Q18. 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.**

Policy continuity supports planning and investment. Where unchanged policies materially affect adoption and competition (e.g., restrictions on remuneration-like features), we recommend periodic evidence-based review using observable market outcomes (e.g., consumer understanding, complaint trends, concentration, and redemption behaviour) to ensure the regime remains proportionate.

**Q19. 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 exploration of emerging areas, including wholesale innovation and interoperability. We recommend structured engagement (roundtables and technical working groups) focused on developing interoperable standards, assurance artefacts, and data/reporting conventions that reduce fragmentation and support safe scaling.

**Q20. How should the Bank seek to mitigate risks from non-sterling-denominated systemic stablecoins?**

The Bank should mitigate risks from non-sterling-denominated systemic stablecoins by anchoring supervision to sterling outcomes, not issuer claims. If a stablecoin becomes systemic in UK payments, the Bank must be able to ensure: (i) predictable convertibility into sterling at par (or via clearly bounded FX mechanics), (ii) credible sterling liquidity under stress, and (iii) enforceable control over the end-to-end UK value chain. Non-sterling denomination materially increases risks that are difficult to neutralise solely through reserve quality requirements—particularly FX basis/liquidity stress, monetary sovereignty risk, legal enforceability across borders, and concentration risk in market-making and on/off-ramps. The supervisory regime should therefore be stricter, more conditional, and more data-intensive than for sterling-denominated systemic stablecoins.



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## Recommendations

### R1 — Adopt a “sterling outcomes” supervisory standard for UK systemic

Where a stablecoin is systemic for UK payments, the Bank should require demonstrable capability to deliver sterling certainty for UK users and merchants (including under stress). This should include explicit expectations on redemption, settlement pathways, and liquidity sources for GBP conversion.

### R2 — Strong preference for sterling denomination for core domestic systemic use cases

For critical UK domestic payment flows (e.g., everyday retail payments, salary-like flows, bill payments, and other essential payment functions), the Bank should strongly prefer GBP-denominated stablecoins. If a non-sterling coin is used at systemic scale, the Bank should apply a higher “non-sterling systemic” standard and retain powers to require remediation, caps, or migration where risks cannot be credibly controlled.

### R3 — Mandate enforceable UK redemption and par-like convertibility into GBP

Require non-sterling systemic stablecoins to provide:

UK-accessible, UK-supervisable redemption channels (clear timelines such as T+0/T+1; no opaque discretionary gating).

Transparent FX conversion rules for GBP users (fees/spreads, cut-off times, and stress provisions).  
Clearly defined and tested arrangements that ensure sterling conversion capacity when redemption demand surges.

### R4 — Impose ring-fenced sterling liquidity buffers and FX stress capability

Reserve composition is necessary but not sufficient. The Bank should require:

A ring-fenced GBP liquidity buffer sized to UK systemic usage and settlement needs (and calibrated as usage grows).

Contractual and testable access to GBP liquidity under stress (e.g., committed repo/FX swap arrangements or equivalent), with clear governance, triggers, and operational playbooks.

### R5 — Require robust FX + liquidity stress testing with operationally credible execution

Mandate periodic stress tests that explicitly model:

- FX basis widening and reduced market depth;
- correlated redemption spikes and market liquidity shocks;
- disruption in correspondent banking/settlement rails;
- failure or withdrawal of key liquidity providers/market makers.
- Stress tests should be assessed on operational deliverability (who executes, in what timeframes, through which rails), not only ratios.

### R6 — Apply graduated constraints until resilience is proven at scale



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To prevent rapid “systemic capture” before controls mature, the Bank should use scalable measures, including:

- transaction/holding limits or concentration controls in early phases;
- higher liquidity/capital add-ons as UK usage crosses thresholds;
- restrictions on use in critical domestic payment flows unless sterling outcome certainty is demonstrably robust.

R7 — Supervise the end-to-end UK value chain and concentration risks

Require a UK-authorized accountable entity with senior management responsibility for UK outcomes, and full supervisory visibility of:

- reserve custody, segregation, and audit/assurance;
- mint/burn governance and control framework;
- key third parties (wallets, exchanges, custodians, market makers, FX providers);
- operational resilience and outsourcing dependencies.
- Where issuer/venue/market-maker roles are vertically integrated, require enhanced conflicts controls and demonstrably effective separation.

R8 — Strengthen legal enforceability and require resolution/continuity planning for UK systemic use

Non-sterling systemic coins should be subject to enhanced legal and resolution requirements, including:

- UK-recognisable enforceability of redemption rights and asset segregation;
- a credible “living will” addressing run dynamics, continuity of UK payment services, and orderly wind-down without disorderly FX spill overs.

R9 — Implement real-time reporting on UK systemic indicators

Require near-real-time reporting (or high-frequency reporting where real-time is not proportionate) on:

- UK transaction volumes and merchant acceptance;
- wallet/holder and intermediary concentration;
- redemption and conversion flows;
- FX spreads, liquidity depth, and market-maker concentration;
- operational incidents affecting redemption/settlement.

R10 — Formalise cross-border supervisory cooperation with operational crisis playbooks

Because key functions/assets may sit offshore, the Bank should require:

- effective information-sharing arrangements with home authorities;
- pre-agreed crisis coordination procedures;
- rights to obtain independent assurance on reserves, controls, and resilience for UK systemic outcomes.



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## Evidence / Rationale

Non-sterling systemic stablecoins introduce risk channels that are qualitatively different from sterling-denominated arrangements:

FX liquidity and basis risk: During stress, even high-quality foreign reserves may not translate into timely GBP liquidity, leading to widening spreads, delayed convertibility, and confidence spirals.

Monetary sovereignty and transmission risk: Systemic domestic payments denominated in a foreign unit of account can amplify currency substitution and complicate monetary and financial stability objectives.

Cross-border enforceability risk: Reserve location, insolvency regimes, and operational control offshore can undermine the Bank's ability to enforce UK outcomes rapidly in a crisis.

Intermediary concentration risk: UK users often access stablecoins through a small set of exchanges, wallet providers, market makers, and banking/settlement rails; these dependencies can fail even if the issuer is "fully reserved".

Run dynamics: The critical failure mode is not "1:1 backing in principle", but convertibility and settlement in practice under stress.

## Example:

If a USD-denominated stablecoin approaches systemic usage in UK retail payments, the Bank could require:

- A UK-authorized operating entity accountable for UK outcomes;
- Guaranteed redemption access for UK users through UK-supervisable rails (T+0/T+1);
- A defined GBP conversion mechanism with bounded spreads and published cut-offs;
- A ring-fenced GBP liquidity buffer calibrated to peak redemption scenarios;
- Contractual FX/GBP liquidity arrangements that are tested (table-top + live operational testing);
- Real-time/high-frequency reporting of UK redemption flows and FX liquidity conditions;
- A resolution plan showing continuity of UK payment functionality during a run.

If these cannot be met, the Bank should cap systemic usage pathways (e.g., restrict use in critical domestic flows) and/or require structural remediation.

## Alternative / Proportionate options

Where the Bank wishes to allow innovation while preventing systemic risk, it could adopt a tiered framework:

Tier 1 (non-systemic): baseline prudential + disclosure expectations.

Tier 2 (material but not systemic): enhanced reporting, tighter liquidity expectations, and stress testing.



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Tier 3 (systemic): sterling outcomes standard + GBP liquidity buffer + enforceable UK redemption + end-to-end UK accountability + resolution planning.

For Tier 3, the Bank should retain discretion to require GBP denomination for core domestic systemic payment use if risk remains non-mitigable.

**Q21. 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?**

BBA position: Yes, if equivalent.

Defer if home rules match UK standards on stability and consumer protection, to avoid duplication.

**Q22. If so, do you agree with the factors the Bank intends to consider? Are there additional factors the Bank should consider?**

BBA position: Agree, add interoperability.

Factors like transparency are solid; add cross-border data sharing and joint supervision mechanisms.

**Q23. Please indicate in your response if you believe any of the proposals in this paper are likely to impact persons who share protected characteristics under the Equality Act 2010 and, if so, please explain which groups and what the impact on such groups might be.**

BBA position: We do not anticipate disproportionate adverse impacts; however, monitoring for digital exclusion and accessibility barriers is recommended.

On the basis of the information provided, the proposals appear neutral with respect to protected characteristics. That said, implementation choices (including holding limits, onboarding requirements, and access channels) may interact with broader issues of digital inclusion. We recommend that the Bank monitors outcomes and coordinates with relevant stakeholders to ensure accessibility and appropriate consumer communications.

## Conclusion

The BBA supports the Bank's direction of travel and welcomes the opportunity to contribute to the design of a regime that is operationally workable, protects coinholders, and supports the UK's competitiveness in digital assets. In our view, effectiveness will depend on day-to-day implementation: clear supervisory expectations, proportionate phased transition arrangements, and measurable standards that can be tested and evidenced in practice.

We encourage the Bank to prioritise outcome-based monitoring post-implementation (e.g., redemption performance under stress, operational incident metrics, consumer complaint trends, and observable stability indicators) so that calibration can be refined on an evidence-led basis as the market develops. The BBA would welcome continued engagement as the Bank finalises these proposals and develops related consultations.



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Yours faithfully,

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