

FINANCIAL INSTITUTIONS BRIEFING

GETTING READY FOR STABLECOINS

The Governor of the Bank of England, Andrew Bailey, wrote an opinion article in the Financial Times on 1 October 2025 describing the regulation of stablecoins as “a regime that can put the UK at the forefront of exciting innovation” - a signal that UK financial institutions need to get ready for the impact of stablecoins on their businesses.

Some traditional financial institutions (tradfi) are already closely involved in the development of digital assets strategies, while many others have been waiting to see how use cases for these assets emerge. That is now changing quickly. In this briefing, we focus on stablecoins and introduce some of the main legal and regulatory issues which the leadership of these financial institutions will need to consider as stablecoins grow in significance.

Many newer, decentralised financial institutions (defi) are far ahead of their tradfi counterparties in developing structures for issuing stablecoins and promoting their use cases. The considerations for tradfi are, however, quite different: existing bank and payment services institutions have many more points to consider before they become issuers and users of stablecoins, not least the effects of such a move on their existing businesses.

Slaughter and May advise clients in a number of sectors on stablecoins and other digital assets, ranging from international regulatory organisations and banks to cryptoasset issuers and exchanges. It is clear that the widespread tradfi adoption and use of stablecoins will be a very significant development for financial markets as a whole.

Background

Recent developments in stablecoin policy on both sides of the Atlantic make it clear that stablecoins are both a significant strategic challenge and an opportunity for banks and payment services institutions.

The US GENIUS Act, enacted in July 2025, will underpin increasing adoption of US dollar stablecoins both within and outside the United States, by providing a clear framework for the issuance, reserve composition and regulatory oversight of these stablecoins. The UK Government's initial decision to prioritise stablecoins in the development of UK crypto regulation reflects the potential for stablecoins to drive greater efficiency in domestic and cross-border payments. The Transatlantic Taskforce for Markets and the Future, announced by the US and UK authorities on 22 September 2025, may result in some convergence of UK stablecoin regulation with both the content and the timeline of US regulation. In the EU, the MiCA regime for cryptoassets continues to develop and is in most respects ahead of the development of the UK regulatory regime, but many uncertainties remain and EU tradfi interest in stablecoins is currently relatively limited.

Stablecoins as a challenge and an opportunity for banks

Stablecoins have the potential to threaten banks' business models by diverting customer funds from bank deposits and by competing with banks' payment businesses. However, whether this will happen in practice will depend on a number of issues, including:

- **Comparative efficiency and resilience:** Stablecoins are likely to be more competitive as a payment method in jurisdictions with relatively high fees for payments and relatively inefficient or unreliable payment systems. The extent of future competition between stablecoins and other emerging payment mechanisms, such as tokenised deposits and central bank digital currencies, will depend on the extent of adoption of these other mechanisms, and on the ability of financial institutions to scale their stablecoin businesses and achieve high transaction speed and volume.
- **Customer trust:** Customers holding or paying in stablecoins do not enjoy the same regulatory protections as bank depositors and users of other payment systems. In the UK, the Financial Services Compensation Scheme protects retail and some other depositors. Protections for users of payment systems include arrangements for the reimbursement of loss caused by authorised push payment fraud as well as joint and several liability for credit card issuers with suppliers of goods and services for breach of contract or misrepresentation. Andrew Bailey's article states that "*trust in stablecoins requires an insurance scheme (as with bank deposits), and a statutory resolution arrangement that ensures their holders are preferred creditors in any insolvency process*", so UK policy may evolve rapidly in some of these areas. However, for the time being protections are lacking, and if their absence results in low trust (or if scandals involving stablecoins erode trust), stablecoins will be less competitive with established (or other new) payment methods.
- **Payment of yield:** Current proposals for stablecoin regulation would prohibit the payment of yield (interest), reducing the risk that stablecoins compete with interest-bearing bank deposits. Whether significant competition emerges will depend on factors including: the likelihood that customers will wish to use stablecoins as a long-term store of value as opposed to a medium of exchange; long-term interest rates; the extent to which stablecoin regulation can be arbitrated to provide rewards to holders (some stablecoin arrangements already do this); and whether the prohibition on the payment of yield is eventually removed. If it is removed, then stablecoin issuers will have to rethink their business models for a world where they will be expected to pass on a significant proportion of the yield they earn on assets backing the stablecoins that they issue. Some stablecoin issuers have already given this point considerable thought.
- **Digital assets adoption:** The main current use for stablecoins in many economies is as a settlement asset for transactions involving other digital assets. The extent of use of digital assets more generally will therefore continue to influence the adoption of stablecoins.

Banks are responding to potential future demand for safe digital assets by developing tokenised deposit offerings. To be successful, these will need to operate within a payment system where payments can be efficiently settled by converting one bank's token into the token of another bank or into another asset settlement asset acceptable to the recipient of the payment. It will be important for governments and regulators to ensure settlement finality of transactions in such deposits so that their users have confidence in the integrity of transactions in which these deposits are used to make payments. This is also the case for stablecoins.

Banks may also develop their own stablecoins, not only as a defensive measure but also to grow their payments businesses, and to seek to gain a share of the revenues that are currently enjoyed by card companies. This will be a particularly important proposition in cross-border payments. Banks may also derive revenues from services to stablecoin issuers and to customers holding stablecoins, such as custody and exchange services. It will of course be important for banks to assess what range and combination of these services will drive both maximum customer engagement and their own synergies.

Questions for senior leadership on stablecoins

The senior leadership of financial institutions should ask themselves the following preliminary questions as they consider the legal and regulatory aspects of their organisation's strategic response to the development of stablecoins:

- **Business impact:** How might stablecoins affect our business? What are the threats to our existing products and the opportunities to develop new ones? What are our customers telling us they want? In which markets will stablecoins be adopted most quickly? Understanding these questions will require good co-ordination across a number of business areas.
- **Resources:** Do our risk, legal, regulatory and public affairs teams have the information and skills we need? Staying close to - and shaping - the development of policy in this fast-changing area may require additional resources in the key jurisdictions involved, including the use of external advisers.
- **Supporting retail customers:** Will retail customers who want to use stablecoins understand the implications and is it our responsibility to help them understand? There are a number of reasons, including the FCA consumer duty in the UK, why banks should consider what to say to retail customers who wish to use stablecoins. Advising customers in this area is complex, given the lack of many protections by comparison with mainstream bank deposits and payment options, and the differing approaches of different stablecoin issuers to the transparency and stability of their reserves. It will be important to understand the differences and relative merits of traditional deposits, e-money, tokenised deposits and stablecoins.
- **Supporting wholesale customers:** Different challenges arise for wholesale uses of stablecoins. Issues of customer understanding also arise for wholesale customers, but we can expect a potentially wider range of use cases to contend with. The list of points to consider is long and continues to grow. For example, what new funding products for corporate treasurers will we prioritise involving stablecoins? Have we thought through how stablecoins may be used as collateral in derivative transactions? What new FX products might clients require to enable them to buy and sell stablecoins linked to different currencies, and how will we hedge our own risks if we make these products available? How will we enforce security interests over stablecoins?
- **Risks:** Are our risk management frameworks, and is our risk function, adequate to manage the risks associated with stablecoins? These issues go beyond questions of financial crime and sanctions, which have often been the main focus of crypto risk management to date. For example, how resilient are the systems that we will use to transact in stablecoins? Are there any threats, viral or otherwise, to the integrity of any private blockchain that is used for a stablecoin? If we provide stablecoin custody services or rely on third parties provide these services, do we understand, and have we tested, the security and resilience of these arrangements? How do we ensure robust interoperability between our systems and those of other service providers? If a bank provides services to a stablecoin issuer, could the bank find itself in the firing line if that issuer gets into difficulty? In addition, are there any geopolitical concerns to consider? For example, US dollar stablecoins may pose a threat to the economic governance of less developed jurisdictions and banks associated with stablecoin “dollarisation” may be targeted by aggrieved governments.
- **Treasury and asset management:** What are the implications of becoming an issuer of stablecoins for our treasury operations? If we encourage our customers to adopt stablecoins, how will we model the potential for consequent outflows of liquidity as customers withdraw traditional deposits? Would the development of tokenised deposits, which would not necessarily have an adverse liquidity impact on banks, be a safer alternative to stablecoins or an evolutionary dead end of little interest to our customers? If we become a stablecoin issuer, do we have the skills to manage the asset pool associated with the stablecoin? Do we have the relationships with dependable third-party service providers (e.g. asset custodians and IT suppliers) that we will need to proceed with confidence?
- **Group structure and governance:** What are the implications for our group structure and governance? If we become a stablecoin issuer or holder, there are potentially significant prudential implications of the structures that we used to carry on these activities. If we become a stablecoin issuer, will we establish a dedicated group company to carry on this activity and, if we do, how will this entity interact with the existing operating companies in the group? What new governance arrangements do we need to put in place, both at senior management level and in our second line functions such as risk and compliance? Where will ultimate accountability for stablecoins lie in the group? How will group and operating company boards gain sufficient knowledge and assurance to take strategic decisions about the adoption of stablecoins and to monitor the growth of activities in this area?

- **Prudential and resolution implications:** Do we understand fully the capital and liquidity issues arising from stablecoin related business? The prudential approach to stablecoins is still developing, both on a solo (individual firm) and consolidated basis, so it will be important to plan for both the current regime and likely future developments. As noted above, the prudential implications for a bank of issuing its own stablecoin raise significant group structuring questions. It will also be important to consider the implications for stablecoin activities of our recovery and resolution plans and, as those activities grow, how they might affect these plans.
- **Cross-border issues:** Have we thought through all of the cross-border issues that becoming an issuer or other user of stablecoins raise? Strong convergence in the regulation of stablecoins between different jurisdictions around the world looks unlikely in the short- to medium-term, so if our business is, or becomes, multi-jurisdictional, how are we going to navigate the multiple different regulatory regimes that will apply to us? Even if we are a wholly domestic institution, what are the implications of our customers wishing to use stablecoins to make or receive payments to and from overseas counterparties, including counterparties in jurisdictions with less well developed legal and regulatory regimes, or regimes which are unfriendly to these assets (e.g. China)? What confidence can we have in settlement finality in transactions in these assets between our institution and overseas counterparties? Will we avoid or prohibit transactions in stablecoins backed by assets denominated in non-reserve currencies?
- **Regulatory relationships:** Are we managing our regulatory relationships well in this area? In particular, do our regulators know what we are planning? In the UK, the requirement to inform the FCA of new or expanded products or services is one example of the more general principle that the FCA must be told about anything of which it would reasonably expect to know.
- **Competition implications of defensive strategies:** Major stablecoins benefit from the bearer nature of the coin; its transfer may be the only step required to complete the payment process. By contrast, defensive payment products developed by banks, such as tokenised deposits or the issue of their own stablecoin, may be usable only if they operate within a multi-party settlement system akin to existing payment systems and card networks. Developing those systems therefore involves coordination with others, including competitors, which may raise competition law issues in some jurisdictions.
- **M&A:** How can we upskill quickly in this area? Would M&A or joint venture transactions be effective ways of acquiring the capacity to develop and issue stablecoins? If we have a very strong market position in traditional payments, have we understood the potential competition law implications of combining with a major defi competitor?
- **Tax:** Do relevant business units understand the tax treatment of stablecoins and transactions in stablecoins for issuers and holders? Do we need to support our customers in understanding their tax treatment?

Conclusion

This fast-developing area of digital asset policy will continue to attract increasing attention from the boards of banks and payment services institutions, as well as regulators, central banks and bank resolution authorities. This will require the legal, compliance and risk functions of financial institutions to build capacity to understand and advise on the points we raise above. It is unlikely that stablecoins will pose a serious threat to banks' advantages in traditional deposit funding and payments in the near future, but innovation in stablecoin structures may begin to challenge those advantages in the medium term.

We will continue to engage with these developments. If you want to know more about them or to discuss their implications for your business, please contact either your relationship partner or one of the other members of our Financial Institutions Group listed below.

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