

FINANCIAL INSTITUTIONS BRIEFING

UNPACKING THE BANK OF ENGLAND'S PROPOSED REGIME FOR STERLING-DENOMINATED SYSTEMIC STABLECOINS

The Bank of England's proposals for sterling-denominated systemic stablecoins are an important step in the development of UK policy towards this promising innovation. However, the proposals do not yet cover a number of details which need to be resolved in order to provide a practical and robust regime. These include issuer-failure arrangements and the acceptability of public permissionless ledgers. As the Bank races to finalise its position in 2026, it will have to keep up with the pace of development in the stablecoin space, particularly in the United States.

Background

On 10 November 2025 the Bank of England [published](#) its (much anticipated) proposed regime for sterling-denominated systemic stablecoins. While the last substantial output on this subject from the Bank was [published](#) in November 2023, its views on stablecoins have been hitting the headlines since the enactment of the US Genius Act in July 2025. The noises from the Bank have been broadly positive, [championing](#) a 'multi money' mixed system where different forms of money (including stablecoins) are freely exchanged, although Andrew Bailey, Governor of the Bank of England, has [emphasised](#) the need for a careful transition.

In this briefing we draw on both this broader context, and the consultation paper itself, to identify the key factors shaping the Bank's approach to sterling-denominated systemic stablecoins. We then outline the Bank's proposals before considering where the pressure points might lie ahead. This builds on our recent briefing on the challenges and opportunities that stablecoins present for banks, available [here](#).

Drivers for the Bank of England

The consultation paper reiterates the Bank's support for a multi-money system, underpinned by the continued role of central bank money at its heart. This aligns with the UK government's commitment to supporting different digital payment innovations, including stablecoins, made in its Wholesale Financial Markets Digital Strategy [published](#) in July 2025. While there is little reference in the consultation paper to the Bank's growth mandate, it looms large in the broader conversation about the role of stablecoins and other cryptoassets in the UK economy.

An important question that the Bank wrestles with in this paper is a fundamental one: what are stablecoins for? Are they a means of payment, investment, or settlement? Primarily, as to be expected, the Bank channels stablecoins down the payments route. As we highlight below, the consultation paper curtails their use as an investment asset, maintaining the Bank's policy that systemic stablecoin issuers should not pay interest to coinholders. On settlement, the Bank makes it clear that it has a low-risk appetite for a significant shift away from settlement in central bank money towards settlement in privately issued money. It is, however, open to stablecoins having a role in supporting innovation within the wholesale financial markets, and is exploring how regulated stablecoins could enable on-chain settlement in the Digital Securities Sandbox ("DSS").

Having accepted that stablecoins may be part of the multi-money system and may become systemic, the Bank sees its role as mitigating financial stability risks which might be caused by unexpected levels of redemptions, so it raises the possibility of providing a liquidity facility to systemic stablecoin issuers. In this regard, the Bank's proposals are more forward-looking than a number of other regimes around the world.

Finally, the Bank underscores its expectation that systemic stablecoin issuers will play a very limited role in the transmission of monetary policy, and provides extended commentary on the disintermediation risk that they pose (where a disorderly transition to widespread adoption of systemic stablecoins could pose risks to provision of credit to the UK economy). This understanding of the part that systemic stablecoin issuers will play in the UK economy—and how this is separable from the commercial banking model—informs policy decisions on holding limits and the remuneration of central bank deposits.

Key proposals

The Bank's key proposals for a regulatory regime for sterling-denominated systemic stablecoins are as follows:

- **Backing assets:** Systemic stablecoin issuers will be permitted to hold up to 60% of their backing assets in short-term sterling-denominated UK government debt. At least 40% must be held as unremunerated deposits at the Bank. Issuers that are considered systemic at launch, or that transition from the FCA's regime for stablecoin issuers as they become systemic, could initially be able to hold up to 95% of backing assets in short-term sterling-denominated UK government debt, to support their viability as they grow. In a new proposal, the Bank is also considering central bank liquidity arrangements to support systemic stablecoin issuers in times of stress.
- **Safeguarding of backing assets and reserves:** Backing assets should be held in the UK on statutory trust for the benefit of coinholders. Issuers must appoint qualified third parties for the safeguarding of backing assets, other than for those held with the Bank. The Bank will consult further on the detailed design of the safeguarding regime in 2026.
- **Transitional holding limits:** In order to guard against the risk of large and rapid outflows of deposits from the banking sector, temporary holding limits are proposed of £20,000 per coin for individuals, and £10 million for businesses (with an exemptions regime to allow the largest businesses to hold more if required). The Bank expects to loosen, and ultimately remove, these limits as the market for credit adjusts to the new ecosystem. This is framed as a particular issue for the UK, where households and businesses continue to rely heavily on the banking sector for credit provision.
- **Capital and reserve requirements:** Issuers would be required to hold capital against general business risk, and hold on statutory trust two reserves of liquid assets to: (1) top up shortfalls in backing assets due to financial risk, and (2) meet the cost of continuing critical services and distributing or transferring coinholders assets in the event of an issuer's failure. These reserves reflect the proposed change in backing asset requirements and are aimed at mitigating the absence of a comprehensive regime to manage stablecoin failure. The Bank will continue to work with HM Treasury and the FCA on what comprehensive issuer-failure arrangements for systemic stablecoins may be, and subject to that work, it expects to revisit the reserve requirement.
- **Legal claim and redemption:** As expected, coinholders would have a robust legal claim for the value of the funds they hold against the issuer on demand, without undue constraint or cost (fees should not be used as a mechanism to disincentivise the redemption of coins). Issuers must also honour redemption requests at par by the end of the business day on which a valid request is made. Intermediaries may be used to facilitate redemptions, but the use of intermediaries does not discharge issuers from their obligations.
- **Remuneration for coinholders:** Interest will not be paid to coinholders, in line with the Bank's view that systemic stablecoins should primarily be used for payment and not as a means of investment. Whether systemic stablecoin issuers could offer other incentives provided by existing payments providers (such as points or rewards linked to transactions volumes) is under consideration.
- **Location:** Non-UK based, sterling denominated systemic stablecoin issuers must set up a subsidiary in the UK to carry out business and issuance activities in the UK and with UK-based consumers, both directly and through intermediaries. The Bank is starting to explore how it can mitigate the risks posed by non-sterling-denominated stablecoins that could become systemic in the UK. The first step will be to engage with the stablecoin issuer's home authority, and the Bank will then consider deferring to that authority's regulatory and supervisory framework.
- **Permissionless ledgers:** The Bank clarifies that it is open to the use of public permissionless ledgers by systemic stablecoin issuers, provided they can meet its expectations and ensure confidence and trust in money. The Bank emphasises areas where public permissionless ledgers may make this challenging, including in relation to accountability, settlement finality and operational resilience.

Ongoing pressure points

By pushing questions regarding issuer-failure arrangements for systemic stablecoins into 2026, the Bank is leaving out a crucial piece of the puzzle. Earlier thinking on this point by Andrew Bailey, where he suggested 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*”, appears to have been put off for now - presumably, because HM Treasury cannot yet commit to obtaining a slot for the necessary legislation. As we have flagged [previously](#), the ability of systemic stablecoins to compete with other means of payment is intrinsically linked to customer trust. We expect, therefore, that the authorities will return to the questions of a bespoke resolution regime and insurance before very long.

This connects to whether, in a global market, systemic stablecoin issuers can earn enough of a return on backing assets to make UK issuance worthwhile. While the Bank states that its backing asset proposals are consistent with emerging regulatory regimes internationally, some market commentary suggests that the 40:60 split undermines the UK’s competitiveness. Important here too will be the Bank’s conclusion on whether stablecoin issuers can offer incentives to coinholders, and how transition from the FCA’s non-systemic regime for stablecoins to the Bank’s regime for systemic stablecoins is managed from the perspective of the customer.

The Bank’s (thinly veiled) concerns about the ability of issuers using public permissionless ledgers to meet their regulatory obligations may compound this issue of commercial viability. Again, by pushing conversation about public permissionless ledgers into 2026, it feels like the Bank is delaying a reckoning with whether systemic stablecoin issuance is viable in the UK.

Location requirements present a further pressure point. There are currently no clear regulatory mechanisms (such as Part VII of the Financial Services and Markets Act 2000 transfer) for a non-UK stablecoin issuer to scale up to systemic status, with the accompanying UK subsidiarisation requirement. It is likely that this step up will be managed contractually.

Meanwhile, the Bank’s loose proposals for mitigating the risks posed by non-sterling denominated systemic stablecoins leave much room for uncertainty. In particular, it is unclear whether, based on the Bank’s high-level criteria articulated in the consultation paper, the UK would defer to US and EU stablecoin frameworks, where important differences are already emerging. These points of difference include backing asset composition, the availability of central bank liquidity, and requirements for non-domestic stablecoin issuers (including the EU’s daily transaction volume cap for non-euro stablecoins).

A final, and applied, pressure point is articulated by the Bank itself in the consultation paper, where it suggests that the UK sovereign debt market and private markets may not be able to support large demand and activity by systemic stablecoin issuers. Taking all of these points together, the Bank of England’s proposals for sterling-denominated systemic stablecoins are an important step in the development of UK policy towards this promising innovation. However, the proposals do not yet cover a number of details which need to be resolved in order to provide a practical and robust regime.

Conclusion

The consultation paper closes for comments on 10 February 2026. This will lay the groundwork for the Bank to consult on and finalise the draft Codes of Practice setting out specific rules and expectations for systemic stablecoins in 2026 (where final rules are expected in H2 2026). When meeting this timeline, the Bank will have to keep up with the pace of development in the stablecoin space, particularly in the United States. Important too will be the outcome of exploration into the use of stablecoins in wholesale settlement via the DSS, and whether Big Tech providers decide to enter this space in the UK.

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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