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Dear FCA,

**The Financial Services Consumer Panel[1] welcomes the opportunity to respond to the FCA's Discussion Paper on proposals for regulating stablecoins and cryptoasset custody.**

We commend the FCA's efforts to strengthen consumer protection, market integrity, competition and international alignment in this rapidly evolving sector.

The Panel is encouraged to see the FCA proposing regulation for stablecoins, as such measures would enhance consumer protection while supporting market integrity, competition, and international growth in the sector. These proposals have the potential to impact 12% of the UK adult population (7 million people who currently own cryptoassets[2]), with over a quarter (27%) of cryptoasset users surveyed reporting that they have bought stablecoin, which is certainly noteworthy.

The Panel recognises that stablecoins are designed to address one of the most significant challenges associated with cryptoassets: volatility. This is a key benefit, as stablecoins offer consumers a more predictable means of storing value, reducing the risk of sudden price fluctuations.

In addition, stablecoins have the potential to promote financial inclusion by enabling individuals without access to traditional banking services to engage with digital finance—requiring only a smartphone rather than a conventional bank account. Realising the full potential of stablecoins in advancing financial inclusion requires not only reliable digital connectivity, but also the integration of digital identification systems, coherent

[1] https://www.fca.org.uk/panels/consumer-panel
[2] https://www.fca.org.uk/publications/research/research-note-cryptoassets-consumer-research-2024 and https://www.gov.uk/government/news/new-cryptoasset-rules-to-drive-growth-and-protect-consumers

regulatory frameworks, and enhanced digital literacy to facilitate secure and equitable access to financial services.

In summary, the Panel broadly supports the FCA's proposed regulatory framework and agrees that Consumer Duty alone is insufficient, requiring additional targeted requirements to address the unique risks associated with stablecoins and cryptoasset custody.

In particular, the Panel welcomes the proposals to introduce clear obligations on redemption rights, asset backing, independent custody, segregation and transparency. The Panel also appreciates the FCA's efforts to:

- improve consumer understanding and reduce consumer confusion around stablecoins.
- raise awareness of regulatory protection helping consumers understand better how they are protected in order to make more informed decisions.
- strengthen consumer protection through improved redemption rights and transparency,
- promote competition and safe innovation in crypto services.
- improve market integrity and reduce regulatory uncertainty to firms as well as the risk of financial crime, and
- align UK regulation with international standards (e.g. IOSCO, FSB, FATF).

However, the Panel believes there are several areas where further work is needed:

- Prioritising payment use cases — including remittances — to avoid a regulatory gap, given stablecoins' growing role in retail and cross-border payments.
- Undertaking more direct consumer testing, beyond surveys, to better assess real consumer understanding of redemption rights, asset backing and custodial protections.
- Clarifying the FCA's future supervisory role in relation to Central Bank Digital Currencies (CBDCs), given the likely overlap in consumer protections and operational resilience.
- Ensuring clear disclosure and standardised reporting to enhance comparability across issuers and improve consumer decision-making.
- Addressing the ongoing importance of cash, particularly for communities without reliable internet access, recognising that digital-only solutions may not be fully inclusive.
- When considering the regulation of stablecoins, it is also crucial to address the energy consumption associated with their operations.

Stablecoins have the potential to deliver real benefits — including faster, lower-cost, borderless payments 24/7, including on weekends. This has particular value for individuals sending remittances, as well as for freelancers and SMEs operating internationally.

**Stablecoin used for Payments:** The Panel is disappointed that wholesale and retail payment activities—including remittances—have been excluded from the scope of the current stablecoin regulatory proposals. While we recognise the FCA's and HM Treasury's view that qualifying stablecoins could play an important future role in payments, and their intention to address this as part of broader payments reform, we believe that omitting payments at this stage creates a significant regulatory gap.

The Panel acknowledges the FCA's phased approach—starting with issuance and custody under CP25/14 and deferring payments to later consultations. However, we note that the EU's MiCA framework already permits limited payment use of stablecoins, potentially including remittances.

Given the increasing adoption of stablecoins for payment use cases, the Panel urges that forthcoming regulatory frameworks prioritise payments activities to ensure robust consumer protection and maintain market integrity.

**Consumer engagement and testing:** While the Panel appreciates the FCA's commitment to tracking consumer attitudes, experiences, and behaviours through regular research—including survey data, firm failures, regulatory returns, and information submitted by custodians—we would have liked to see more direct, in-person consumer testing to complement the survey testing, in order to better assess whether individuals:

- Understand the rational for using stablecoins,
- Understand how stablecoins are backed,
- Know how and when they can redeem them,
- Feel reassured by the use of independent custodians to safeguard their assets,
- Are confident that asset segregation and safeguarding are sufficient,
- Trust that their assets are protected when held in trust,
- See stablecoins as offering benefits for payments and remittances,
- Feel discouraged by potential barriers such as fees or redemption limits,
- Need specific disclosures to avoid being misled about redemption rights or asset backing, and

- Would feel more confident using stablecoins under the proposed regulatory framework.

**FCA's Role in the Evolving Central Bank Digital Currencies Landscape:** As consumers increasingly shift toward digital forms of money, the Panel would welcome future clarity on the FCA's role in the evolving landscape of Central Bank Digital Currencies (CBDCs). While we acknowledge that the design, development, and potential issuance of a UK CBDC—often referred to as "Britcoin"—falls primarily under the responsibility of the Bank of England, we believe it would be helpful for the FCA to clarify its likely supervisory functions including authorising and overseeing firms that provide wallets, distribute the digital pound, or offer related CBDC-linked services.

Unlike stablecoins—which are issued by private entities—CBDCs would be state-backed and centrally issued, providing a secure digital counterpart to physical cash. While we recognise that the FCA's current regulatory work (CP25/14 on stablecoin issuance and custody) is separate from the CBDC agenda, there are likely to be areas of overlap over time—particularly in relation to consumer protections and operational resilience.

With the EU targeting potential issuance of a digital euro by 2026 and India actively piloting both retail and wholesale CBDCs, the Panel believes it is timely to understand how the UK's approach to CBDCs will align with, and complement, the FCA's broader regulatory regime for digital assets.

**Cash Relevance:** Finally, while the Panel acknowledges the value of stablecoins in addressing cryptoasset volatility, it is important to recognise their limitations. Stablecoins require internet access and crypto wallets, which may not be universally accessible. Therefore, the Panel urges the FCA to also consider the ongoing importance of cash—particularly in communities with limited or no internet connectivity.

**Stablecoin and Energy consumption**: When considering the regulation of stablecoins, it is crucial to address the energy consumption associated with their operations. Stablecoins, like other cryptocurrencies, often rely on blockchain technology, which can be energy-intensive. The environmental impact of the energy consumption required for mining and transaction processing on these networks should not be overlooked. The FCA should ensure that stablecoin issuers adopt sustainable practices, such as using renewable energy sources and optimising energy efficiency.

In conclusion, the Panel agrees that stablecoins have potential to deliver real benefits —but only if consumers can trust in robust safeguards and clear redemption rights. The Panel also agrees that the proposals presented in this consultation strike a good balance between innovation and protection and would like to thank the FCA for its work to regulate this sector. However, the Panel would in particular like to see continued efforts to:

- Promote awareness of consumer rights in the crypto space.
- Explore the availability of compensation schemes or insurance-like protections for those assets to ensure consumers are appropriately protected in the event of firm failures[3].
- Maintain responsiveness as new risks emerge.

The Panel responses to the questions posed in the Discussion Paper are included at Annex A below. The Panel continues to appreciate the FCA's efforts and looks forward to further engagement on these topics.

Yours sincerely,

Chris Pond

Chair, Financial Services Consumer Panel

[3] For further details on the Panel's views, please see our responses to previous cryptoasset-related consultation and discussion papers, including in particular our response to DP25-1 (Discussion paper on regulating cryptoasset activities).

**Annex A – responses to questions.**

1. **Do you agree that the Consumer Duty alone is not sufficient to achieve our objectives and additional requirements for qualifying stablecoin issuers are necessary?**

Consumer Duty alone is not sufficient. Consumer Duty focuses on firms delivering "good outcomes" (like fair value and clear information) and not how firms should structure their business to guarantee those outcomes—especially in complex areas like stablecoin issuance.

Although Consumer Duty provides important baseline protections for consumers, it does not address the specific risks of stablecoin issuance, such as redemption reliability, asset backing, and custody arrangements.

- Redemption reliability: Stablecoins function as money-like instruments, and consumers often assume protections that are not guaranteed under general Consumer Duty principles. The Consumer Duty says firms should treat customers fairly but doesn't mandate how or when redemptions must occur.
  Also, consumers expect that they can exchange stablecoins for cash (e.g. £1 stablecoin = £1) on demand. If an issuer delays redemptions or refuses to honour them directly (forcing consumers to use a secondary market), people could lose money during de-pegging events.
- Asset Backing: Stablecoins are meant to be fully backed by assets (like cash or short-term government debt) to maintain their value. The Consumer Duty doesn't specify what assets should be used or how backing should be structured and disclosed. Without clear rules, issuers could use risky or illiquid assets leaving consumers to believe their stablecoins are "safe".
- Custody arrangements: Consumer Duty doesn't define operational rules like segregating assets, using independent custodians and doing daily reconciliation. If an issuer or custodian fails, and the assets are not properly held in trust or mixed with company funds, consumers could lose their holdings.

Consumers also often lack the ability to assess the technical design of stablecoins, the quality of reserve assets, or the solvency of an issuer. Without specific rules on transparency and disclosure, there's a high risk of uninformed decision-making—even when firms act "fairly" under the Consumer Duty.

Enforceable rules—such as statutory trusts, independent custody, and strict redemption timelines—are therefore needed to deal with the technical, operational, and financial risks that are unique to stablecoins and ensure safety, transparency, and confidence in the market.

Given that many issuers and custodians might be new to the FCA regime, and the Consumer Duty, it will be important for the FCA to ensure that issuers and custodians properly understand their responsibilities and obligations before entering this market.

2. **Do you agree that issuers of multi-currency qualifying stablecoins should be held to similar standards as issuers of single-currency qualifying stablecoins unless there is a specific reason to deviate from this? Please explain why? In your answer please include:**
    i. **Whether you agree with our assessment of how multi-currency stablecoins may be structured, and whether there are other models.**
    ii. **Whether there are specific rules proposed which do not work for multicurrency qualifying stablecoins and explain why.**
    iii. **Whether there are any additional considerations, including risks and benefits, we should take into account when applying our regulation to multi-currency qualifying stablecoins.**

To ensure consistent consumer protection—regardless of the underlying structure of a multi-currency stablecoin—the Panel supports the FCA's proposal that issuers of multi-currency qualifying stablecoins should be held to similar standards as single-currency issuers.

Core safeguards—such as redemption at par, high-quality asset backing, robust custodian arrangements, and transparent disclosures—are essential to maintain user confidence and minimise systemic risk.

**(i)** The Panel agrees with the FCA's assessment of how multi-currency stablecoins may be structured, including:

- Referencing a basket of currencies (e.g. fixed weightings), an approach originally proposed by Facebook's failed Libra project. While Libra never launched, it remains a notable case study highlighting both the promise and regulatory complexity of basket-backed models.
- Referencing a pair of currencies (e.g. EUR/USD), which ties the stablecoin's value to a specific exchange rate. This structure may be more straightforward for users familiar with FX markets but still introduces volatility risk.
- Valuation via summed values or multilateral exchange rates, which uses aggregate or blended exchange rates across several currencies. This model may offer balance but can be complex for consumers to understand.

In addition to these models, the Panel highlights alternative structures observed internationally that may emerge in the UK market:

- Commodity-currency hybrid stablecoins, which combine fiat currency reserves with backing from commodities such as gold or oil. While this may appeal to consumers seeking inflation hedges, it introduces volatility risk from non-currency assets and may blur the line between a stablecoin and an investment product. (e.g. Venezuela's controversial Petro cryptocurrency[4] that consisted of oil or gold and is no longer in circulation)
- Regional or trade-zone stablecoins and/or central bank digital currency, which are pegged to a group of currencies from a specific economic bloc (e.g. BRICS Composite Coin or ASEAN Trade Token) could enable regional trade without US dollar dependency. These could facilitate trade and remittance within regions but are vulnerable to currency instability within the bloc and may lack a clear redemption currency.
- Central bank-issued multi-currency tokens, such as those tested in BIS-led project[5] (e.g. Project Dunbar). While not intended for retail use, such pilot models may influence private sector innovation. They benefit from public sector trust but currently remain restricted to institutions.

While these models vary in technical design and volatility exposure, they all present potential to increase consumer choice, particularly for consumers engaging in cross-border payments, international trade, or global remittances. Despite the benefits they also introduce additional complexity, such as foreign exchange risk, valuation uncertainty, and potential difficulty for consumers to understand what they are holding.

**(ii)** The Panel believes that certain proposals designed around a single reference currency may require adaptation for multi-currency stablecoins:

- Redemption at par requires clarification. Consumers must clearly understand which currency they will receive upon redemption and the exchange rate that will be applied.
- Requiring backing assets to be in the same currency as the stablecoin may not work for multi-currency models, since these coins are backed by several different currencies by design. If the rules don't allow for some flexibility, they could accidentally block

[4] Global Capital, (2018) Venezuela's Petro cryptocurrency meets cold reception, Date: 22 Feb 2028

[5] Project Dunbar: international settlements using multi-CBDCs

these types of stablecoins—even when they’re legitimate and well-designed.

- Disclosure obligations may need to include exchange rate methodology, currency composition changes, and volatility risks, which are less relevant to single-currency issuers.

(**iii**) Multi-currency stablecoins offer several potential benefits for consumers. They can help reduce currency conversion costs, making them particularly useful in areas such as international trade, tourism, and remittances. It can also serve as a hedge against single-currency risk and over-dependence on a single regulatory framework that can be exposed to geopolitical tensions, sanctions and changes that can disrupt liquidity. Additionally, for frequent travellers and cross-border freelancers, a single digital asset with exposure to multiple currencies can offer real convenience and efficiency.

However, these benefits come with important risks.

- Foreign exchange volatility and liquidity risks can lead to fluctuating redemption values when consumers convert the stablecoin into a local currency. This may cause redemption confusion, as consumers may not clearly understand what currency they will receive or at what rate.
- The complexity of these models also raises concerns around consumer understanding, particularly where valuation mechanisms exceed the average consumer’s financial literacy.
- Finally, there is a risk of regulatory arbitrage, where issuers may take advantage of differences in rules between countries to avoid stricter regulations. In the case of multi-currency stablecoins, an issuer could base parts of their operation—like reserve management or consumer protection—in countries with weaker rules, while offering the coin globally. This means that even if the UK has strong safeguards, those protections could be undermined if the issuer operates under less strict rules elsewhere. As a result, consumers might assume they're protected when, in reality, the stablecoin is governed by lower standards from another country.

Considering both the opportunities and risks of multi-currency stablecoins, the Panel urges the FCA to ensure that consumer protection remains central to any regulatory approach. While these assets can reduce currency conversion costs and offer practical benefits for cross-border users, they also raise challenges around redemption clarity, exchange rate volatility, and regulatory arbitrage. The Panel encourages the FCA to adapt rules to reflect the complexity of multi-currency models—ensuring clear disclosures, flexible reserve requirements, and safeguards against weaker overseas protections—so innovation can proceed without compromising consumer trust or safety.

3. **Do you agree with our proposals for requirements around the composition of backing assets? If not, why not?**

The Panel overall agrees with the FCA's proposals regarding the composition of backing assets for qualifying stablecoins. From a consumer perspective, these rules are essential to ensure that stablecoins remain genuinely stable, redeemable at face value, and underpinned by assets that can be relied upon in all market conditions.

The Panel supports the FCA's approach to permit low-risk, highly liquid assets—such as short-term deposits, short-term government debt instruments —as backing. These instruments are secure, have low price volatility, and suitable for preserving consumer confidence in the redeemability of the stablecoin.

We would urge the FCA to remain consistent in its approach and not be persuaded to accommodate additional asset classes—such as those listed in this consultation paper (longer-term government debt instruments that mature in over one year, units in a Public Debt CNAV Money Market Fund, and assets, rights or money held under repurchase or reverse repurchase agreements).

While expanding the scope of backing assets may provide greater operational flexibility and improved yield for issuers, especially in low-interest environments, it also introduces significant risks:

- Longer-term government debt instruments carry interest rate risk, as their value is more sensitive to rate fluctuations. Rising rates can reduce the market value of these assets, potentially impairing the issuer's ability to redeem stablecoins at par. They also present liquidity risk, as longer-dated securities may be harder to liquidate quickly without incurring losses during periods of market stress.
- Units in Public Debt CNAV Money Market Funds (PDCNAV MMFs) offer diversification but come with fund-level liquidity risks. In turbulent markets, these funds may impose redemption gates or fees, limiting the issuer's access to capital. Additionally, issuers are indirectly exposed to the operational and counterparty risks of the fund itself, over which they have limited control.
- Assets held through repurchase or reverse repurchase agreements introduce counterparty risk, as stablecoin issuers depend on the financial health of the other party in the agreement. If the counterparty defaults, there's a risk that the collateral cannot be recovered at full value. Furthermore, there is collateral risk

depending on the quality and volatility of the underlying assets, and the operational and legal complexity, especially during times of market disruption.

For consumers, FCA expanding the scope of assets means more complexity and potentially greater redemption risk during stress events, especially if the issuer faces challenges unwinding these assets quickly.

If the FCA decides to proceed to allow for broader asset classes, it must impose proportionate safeguards, including enhanced transparency, liquidity stress testing, and clear consumer disclosures. Without these protections, consumer confidence and financial stability could be at risk. We therefore strongly encourage the FCA to prioritise stability and simplicity in the definition of core backing assets and to resist pressure to widen the scope.

We are pleased to see that the FCA is proposing that issuers wishing to include these 'expanded backing assets' must notify the regulator of their intention before doing so. This is a sensible safeguard that promotes transparency and oversight. We also welcome the requirement for firms to demonstrate that they have the appropriate skills, expertise, and governance in place to manage the increased complexity and risks associated with these asset types. This approach helps ensure that only well-prepared and competent issuers are permitted to hold a broader range of backing assets, thereby protecting consumers and maintaining market integrity.

The Panel also encourages the FCA to consider requiring independent verification of backing assets and clear, accessible disclosures so consumers can understand what supports the value of the stablecoins they use.

4. **Do you have any views on our overall proposed approach to managing qualifying stablecoin backing assets? Particularly: i) the length of the forward time horizon; ii) the look-back period iii) the threshold for a qualifying error.**

FCA's approach is sensible and welcomed, as long as the data is supportive of the periods and metrics.

- **Forward-looking estimate (14-day horizon)**: Consumers will benefit from the stability this creates. Knowing that issuers are planning for two weeks' worth of redemptions reassures stablecoin consumers that their funds are protected from surprises—such as large numbers of people suddenly wanting to cash out their coins. This rule also ensures that issuers must plan ahead and make sure they have enough money set aside to handle redemptions for the next two weeks.

- **180-day look-back** period of how people have used or redeemed their stablecoin is long enough to
    - detect patterns and anomalies such as whether redemptions spike at certain times,
    - ensure issuers can respond to unusual demand without needing to hold too much money sitting idle.
- **Qualifying error threshold**: The 110% threshold provides a fair tolerance for forecasting inaccuracies without over-penalising issuers. So, if redemptions go 10% over what the issuer expected in a single day, that's a red flag. The more times this happens, the more liquid assets the issuing firm must keep on hand in future. This encourages stablecoin issuers to predict the future more accurately.

This three-part system—planning ahead, learning from past behaviour, and adjusting when mistakes happen—will make the whole stablecoin setup stronger. For consumers, this means better protection, more reliable access to their money, and less risk if something goes wrong in the market.

5. **What alternative ways would you suggest for managing redemption risk, which allow for firms to adopt a dynamic approach to holding backing assets?**

The management of redemption is key to ensuring market stability and the integrity of stablecoins. It is vital that any redemption policies are clearly communicated to consumers.

The Panel supports the FCA's proposals as a dynamic and consumer-conscious approach that maintains flexibility for firms while ensuring consumers can always access their money when needed.

From a consumer standpoint, the FCA's proposals provide a balanced framework for managing redemption risk dynamically. Consumers care most about one thing: being able to redeem their stablecoins quickly and reliably, even during volatile or uncertain market conditions.

We welcome the use of a Backing Asset Composition Ratio (BACR) as a flexible tool that adjusts the required level of liquid assets based on both projected redemption demands and how accurate those projections have been in the past. This ensures that firms with more predictable activity are not overburdened, while firms with higher uncertainty must hold more liquid reserves to protect consumers.

The minimum 5% on-demand deposit requirement (ODDR) adds another essential layer of consumer protection by ensuring that some funds are always instantly accessible, regardless of market conditions. This is especially important in cases where a sudden need to redeem arises due to loss of trust, market panic, or technical issues. We would encourage the FCA to collect data and monitor this to ensure that the 5% requirement is appropriate.

We also strongly support the requirement for a liquidity contingency plan and stress testing, which show that the issuer is thinking ahead and has strategies in place if redemptions spike or markets seize up. From a consumer's perspective, this is the equivalent of knowing that there's an emergency exit and the lights are on in the hallway.

Finally, the FCA's emphasis on strong governance and oversight helps build trust in the system. Consumers are more confident when they know that senior management is directly accountable for ensuring that redemptions can be met and that risks are not being hidden or ignored.

6. **Do you think that a qualifying stablecoin issuer should be able to hold backing assets in currencies other than the one the qualifying stablecoin is referenced to? What are the benefits of multi-currency backing, and what risks are there in both business-as-usual and firm failure scenarios? How might those risks be effectively managed?**

The Panel recognises that allowing qualifying stablecoin issuers to hold backing assets in currencies other than the reference currency could reduce concentration risks and diversify liquidity sources, may support innovation, increase issuer flexibility, and enhance the commercial viability of certain business models — particularly in the context of cross-border payments and liquidity management.

However, the Panel also identifies significant risks to consumers that must be addressed before such an approach could be supported:

- Foreign exchange risk: Backing assets in different currencies could lead to volatility in the value of the stablecoin, especially in stressed market conditions, undermining its stability and consumers' ability to redeem at par.
- Redemption uncertainty making it harder to maintain a stable par value: If an issuer fails or experiences liquidity stress, the need to

liquidate foreign-currency assets could introduce delay, slippage, or shortfalls in redemption payments.
- Transparency and complexity: Consumers may struggle to understand the backing composition and its implications for risk, reducing confidence in the product.
- Operational and hedging risks: Effective FX risk management requires sophisticated systems and governance, which not all firms may have.

Given these concerns, the Panel would only support the inclusion of foreign currency backing if robust risk mitigations are put in place, including:

- Strict FX exposure controls: Limit the proportion of backing assets held in foreign currencies relative to the reference currency and require active FX risk management or hedging.
- Capital and liquidity buffers: Require issuers to hold additional capital or highly liquid reserves to absorb FX-related shocks and meet redemptions at par under stress.
- Transparent, frequent disclosures: Mandate clear public reporting of asset composition, FX exposure, and hedging strategies — ideally updated monthly or more frequently for consumers.
- Statutory trust and custody safeguards: Backing assets — including foreign-currency holdings — must be held under a statutory trust by an independent custodian, separate from the issuer’s balance sheet.
- Redemption guarantees: Require that redemption at par is always honoured in the reference currency, regardless of the actual composition or FX performance of the backing assets.

Consumer confidence in stablecoins’ stability must not be compromised. The Panel’s support is therefore conditional on the FCA implementing clear, enforceable rules that ensure strong protections are in place for stablecoin holders under both business-as-usual and failure scenarios.

7. **Do you agree that qualifying stablecoin issuers should hold backing assets for the benefit of qualifying stablecoin holders in a statutory trust? If not, please give details of why not.**

The Panel agrees with the FCA’s proposal that qualifying stablecoin issuers should hold backing assets in a statutory trust for the benefit of stablecoin holders. This is a necessary safeguard to ensure consumer protection in both normal operations and failure scenarios.

The Panel is particularly supportive of this as it provides important benefits to consumers such as:

- Legal separation of the backing assets from the issuer's own assets with the assets being clearly ring-fenced.
- Clear ownership rights for stablecoin holders.
- Better protection in insolvency, reducing the risk that consumers lose access to redeemed funds or are treated as unsecured creditors. Even when issuers go bankrupt, the assets in the trust won't get pulled into the insolvency process.

The Panel also recognises that implementing a statutory trust structure will require the FCA to put in place safeguard measures to ensure meaningful protection for consumers. This includes.

- clearly defining and enforcing the issuer's fiduciary duty to act in the best interests of stablecoin holders, with appropriate consequences for any breach.
- Backing assets must be held by an independent third-party custodian, outside the issuer's corporate group, and subject to its own regulatory oversight (such as under the FCA's Client Assets Sourcebook – CASS).
- Issuers should be required to conduct daily reconciliations to ensure the value of backing assets always matches the number of stablecoins in circulation, with prompt correction of any shortfalls or surpluses.
- Robust and transparent governance arrangements must be in place, covering how trust assets are managed, how redemptions are processed, and how disputes and failures are handled. Regular reporting — at least quarterly — should be mandated, with independent audits to verify the composition and safekeeping of trust assets.
- Finally, the FCA must ensure that if an issuer fails, consumers have a clear and efficient path to access their funds held in trust, without needing to go through lengthy or costly legal proceedings. The FCA should carefully consider whether consumers should have recourse to the FSCS in such circumstances.

**8. Do you agree with our proposal that qualifying stablecoin issuers are required to back any stablecoins they own themselves? If not, please provide details of why not.**

The Panel supports the FCA's proposal that qualifying stablecoin issuers should be required to fully back any stablecoins they hold themselves, including those minted but not yet in public circulation.

The Panel also agrees with FCA's proposal not to ban the pre-minting practice where issuers mint stablecoins before a customer has actually paid for them or requested them, in anticipation of future demand or operational and liquidity needs.

The Panel supports FCA's position that when coins are redeemed and returned to the issuer unbacked, the issuer must either re-back them within 24 hours or burn them to prevent risk of circulation. The Panel believes that there should be public disclosure of the number of issuer-held coins, how they are used, and confirmation that they are fully backed — verified by independent auditors.

9. **Do you agree with our proposal to require third parties appointed to safeguard the backing asset pool to be unconnected to the issuer's group?**

The Panel supports the FCA's proposal that third-party custodians safeguarding the backing asset pool must be independent of the issuer's corporate group. This is an essential measure to ensure consumer protection, promote transparency, and reduce systemic risk in the event of firm or group-level failure. The Panel agrees that this is an essential measure to prevent conflicts of interest, reduce contagion risk in the event of firm failure, and ensure that the issuer does not have undue control or access to the backing asset pool. This helps ensure that the assets backing stablecoins are genuinely ring-fenced and accessible in times of stress.

However, it should be noted that this may create a situation where there is concentration risk among a limited number of custodians. Firms must regularly assess this risk, but the FCA must also collect and monitor data relating to these custodians and their assets under custody and take action if there is any potential for systemic risk.

10. **Do you consider signed acknowledgement letters received by the issuer with reference to the trust arrangement to be appropriate? If not, why not? Would you consider it necessary to have signed acknowledgement letters per asset type held with each unconnected custodian?**

Signed acknowledgements are a key part of client asset protections to reduce disputes and clarify fiduciary obligations. The Panel therefore supports the use of signed acknowledgement letters from custodians that reference the statutory trust arrangement. These letters are a crucial part of ensuring transparency, legal certainty, and accountability in the custody of backing assets — all of which are vital to protecting consumers.

These letters confirm that the custodian understands it holds the assets for the benefit of stablecoin holders. In the event of issuer failure, such letters strengthen the legal position of consumers and reduce the chance of assets being wrongly claimed. Signed letters also create a formal, traceable record that each custodian is bound by the safeguarding rules, making oversight and enforcement easier.

The Panel believes that each custodian should provide a letter acknowledging the trust arrangement and that each distinct asset type should be covered by a tailored or clearly referenced agreement, to avoid gaps in understanding and/or responsibility.

**11. Do you agree with our proposals for record keeping and reconciliations?**

The Panel fully supports the FCA's proposals for strong record keeping and daily reconciliations. These controls are essential to ensure the stablecoin is always backed by real, accessible assets, and to protect consumers from loss in the event of errors or firm failure.

The Panel would like to see reconciliation reports periodically being audited by an independent third party to verify compliance. The Panel also believes that summarised reconciliation data should be published quarterly so consumers and markets can assess whether the issuer is maintaining proper backing.

**12. Do you agree with our proposals for addressing discrepancies in the backing asset pool? If not, why not?**

The Panel supports the FCA's proposals for how discrepancies in the backing asset pool should be managed. Requiring issuers to act promptly to correct any mismatch between backing assets and the number of stablecoins in circulation is vital for maintaining consumer trust and the operational integrity of the stablecoin.

In particular the Panel supports FCA's proposals for stablecoin issues to conduct daily reconciliation of the value of backing assets against the total supply of stablecoins in circulation and to immediately correct any discrepancies either from a shortfall or excess.

Additionally, the panel would like to recommend that firms should be required to have automated systems that flag and escalate any deviations from the required backing in real-time. Issuers should also be required to publish regular summaries of reconciliations and any actions taken to address discrepancies. Finally, the FCA should establish a threshold for the frequency or severity of discrepancies that would trigger supervisory review or enforcement action.

**13. Do you agree with our proposed rules and guidance on redemption, such as the requirement for a payment order of redeemed funds to be placed by the end of the business day following a valid redemption request? If not, why not?**

The Panel strongly supports the FCA's proposed rules on redemption, particularly the requirement that:

- All stablecoin holders (including retail consumers) must be able to redeem their qualifying stablecoins directly with the issuer.
- The issuer must place a payment order (i.e. initiate the transfer of funds to the holder) by the end of the business day following a valid redemption request.
- Redemption must occur at par value — meaning £1 of stablecoin = £1 of fiat returned, regardless of market conditions or the value of backing assets.
- There must be no minimum redemption amounts, and any redemption fees charged must be proportionate and must not offset the par value.

The Panel recommends that consumers receive clear confirmation when their requests are received and processed. We also urge the FCA to mandate transparent complaint routes for delayed redemptions. Finally, issuers should report redemption performance data, including missed deadlines or partial payments, to the FCA regularly.

**14. Do you believe qualifying stablecoin issuers would be able to meet requirements to ensure that a contract is in place between the issuer and holders, and that contractual obligations between the issuer and the holder are transferred with the qualifying stablecoin? Why/why not?**

The Panel supports the FCA's objective that contractual rights and obligations between issuers and stablecoin holders must be clearly established and transferable. The Panel believes that most qualifying stablecoin issuers should be able to meet this requirement, provided the FCA:

- provides clear guidance on the structuring of contractual relationships, such as whether terms must be embedded within the token or disclosed through the interface.
- adopts a standardised set of terms that automatically attach to each stablecoin unit.
- requires upfront disclosure of the applicable contract terms to all holders, including those acquiring tokens through secondary markets or platforms.

**15. Do you agree with our proposed requirements for the use of third parties to carry out elements of the issuance activity on behalf of a qualifying stablecoin issuer? Why/ why not?**

The Panel agrees with the FCA’s proposed requirements for the use of third parties in stablecoin issuance. The Panel believes that consumers need clarity on who is accountable if something goes wrong — and that must always be the issuer. Regardless of whether an issuer or a delegated third party carry out elements of the issuance activity, consumers should expect the same standards of safety, clarity, and redress.

The Panel believes that issuers should be required to disclose who they rely on, what roles they perform, and how consumers are affected. Issuers should also be required to assess and document the risks of using third parties and share high-level summaries with the FCA. There should also be clear policies for what happens if a third party fails, to prevent disruption in consumer access or redemption.

**16. Do you agree with our proposals on the level of qualifications an individual needs to verify the public disclosures for backing assets? If not, why not?**

The Panel supports the FCA’s proposal that only appropriately qualified individuals or firms should be allowed to verify public disclosures relating to backing assets. The Panel recommends the FCA should define what constitutes an “appropriately qualified” verifier — e.g. a regulated auditor, chartered accountant, or risk professional with experience in financial instruments. The Panel also recommends that issuers should be required to rotate their verification providers periodically to avoid complacency or influence. Also, verifiers must have no financial or governance ties to the issuer, and this independence should be disclosed in the report. The FCA should maintain a public register or approval mechanism for verifiers, or at minimum have the power to disqualify those who breach professional or ethical standards.

**17. Do you agree with our proposals for disclosure requirements for qualifying stablecoin issuers? If not, why not?**

The Panel agrees with the FCA’s proposed disclosure requirements for qualifying stablecoin issuers and sees them as an important component of a stablecoin regime focused on integrity and consumer protection. The Panel suggests that the FCA mandate a standardized reporting template to facilitate comparisons across issuers and make disclosures easier for consumers to interpret. Additionally, the Panel recommends including plain language in reports for non-expert holders to understand essential information (e.g., asset breakdown, redemptions, any breaches). The Panel also advises that issuers who do not meet disclosure requirements or publish misleading information should face appropriate penalties, including public censure.

**18. Do you agree with our view that the Consumer Duty alone is not sufficient to achieve our objectives and additional requirements for qualifying cryptoasset custodians are necessary?**

As per our answer on question one, the Panel agrees with the FCA that while the Consumer Duty is a critical foundation, it is not sufficient on its own to achieve the necessary standards of conduct, resilience, and protection for qualifying cryptoasset custodians.

Crypto custody carries technical, legal, and operational risks that require specific, enforceable rules beyond the high-level principles of Consumer Duty. The FCA should define minimum standards for key management, cybersecurity, and access controls tailored to crypto custody. Custodians should be required to undergo regular independent audits of custody systems and controls. Firms must explain clearly to consumers how their assets are stored, who has access, and what happens if the firm fails. There should be explicit disclosure about whether custodied cryptoassets are covered by any compensation scheme (e.g. FSCS). At a minimum, FSCS protection should be mandatory for stablecoin issuers and stablecoin custodians, as a failure of either, without such protection may well cause serious systemic problems.

**19. Do you agree with our proposed approach towards the segregation of client assets? In particular:**

- **i. Do you agree that client qualifying cryptoassets should be held in non-statutory trust(s) created by the custodian? Do you foresee any practical challenges with this approach?**
- **ii. Do you have any views on whether there should be individual trusts for each client, or one trust for all clients? Or whether an alternative trust structure should be permitted.**
- **iii. Do you foresee any challenges with firms complying with trust rules where clients' qualifying cryptoassets are held in an omnibus wallet?**
- **iv. Do you foresee any challenges with these rules with regards to wallet innovation (eg the use of digital IDs) to manage financial crime risk?**

The Panel supports the FCA's proposed approach to segregation of client cryptoassets, recognising it as a vital safeguard to protect consumer holdings in both normal operations and failure scenarios.

i- The Panel does not support this proposal. Consumers may not understand what a non-statutory trust is or how it protects them. Without FCA mandated terms, there is a risk of variability in how these trusts could be structured, creating confusion and uneven protection for consumers.

ii- While pooled trusts are operationally simpler and cost-effective, the Panel prefers individual trusts for greater legal clarity.

iii- The Panel is not supportive of omnibus trusts – where multiple users' cryptoassets are pooled into a single wallet having the same on-chain address. Although the Panel understands that omnibus wallets are common and exist to create operational efficiency and help for liquidity management, they have some serious trade-offs that should be considered. For example, when wallets are compromised with hackers, all omnibus trust assets will be at risks since they are commingled in one wallet.

If the FCA still decides to proceed with having omnibus wallets, the Panel recommends that firms must maintain clear off-chain records of individual ownership. The records should be regularly audited and comply with all the KYC, AML rules even if individual addresses are not visible on-chain.

iv- The Panel is supportive of the creation of Digital IDs to support innovation and does not see this being an obstacle to innovation. Platforms must ensure their readiness to support real-time system verifications. While users may encounter a learning curve during the onboarding process that initially seems less user-friendly than previous experiences, there are significant benefits to consider, particularly in terms of enhanced security and crime prevention.

**20. Do you agree with our proposed approach towards record-keeping? If not, why not? In particular, do you foresee any operational challenges in meeting the requirements set out above? If so, what are they and how can they be mitigated?**

The Panel agrees with the proposed approach towards record-keeping which is essential for maintaining transparency, trust, and consumer protection. Accurate and accessible records are vital especially in the event of a dispute, insolvency, or cyber incident.

The only challenges that the Panel foresees are costs and integrity across systems on chain and off-chain systems. Firms must invest in reliable infrastructure and testing environments via FCA's Digital Sandbox to assess interoperability and resilience. Although costly these investments are justified to protect consumers.

**21. Do you agree with our proposed approach for reconciliations? If not, why not? In particular:**

**i. Do you foresee operational challenges in applying our requirements? If so, please explain.**

**ii. Do you foresee challenges in applying our proposed requirements regarding addressing shortfalls? If so, please explain.**

Timely and accurate reconciliations are fundamental to building trust in cryptoassets custody and ensuring consumers are not left vulnerable in cases of mismanagement or technical failure.

i. Yes, operational challenges are likely to arise when maintaining real-time reconciliations across on-chain and off-chain systems, especially for small firms, but the benefits outweigh the challenges. The FCA Sandbox with a focus on reconciliation could help firms pilot their solutions in a safe environment.
ii. The Panel supports the proposed requirements for addressing shortfalls. Firms should maintain capital buffers and insurance mechanisms to cover potential deficits. In the event of a shortfall, a detailed incident report should be submitted to both the FCA and affected clients.

**22. Do you agree with our proposed approach regarding organisational arrangements? If not, why not?**

Consumers benefit from well-governed organisations, as effective controls reduce the risk of failure or misconduct. The Panel is therefore supportive of the FCA's proposals for sound governance, including clear organisational structures, senior management accountability, documented roles and responsibilities related to custody and safeguarding, strong operational resilience and internal controls, regular training and oversight, robust business continuity planning, and clear identification and mitigation of conflicts of interest.

**23. Do you agree with our proposed approach regarding key management and means of access security?**

Yes, the Panel supports the FCA's proposed approach to key management and access security. Consumers must be confident that firms safeguarding their assets are equipped to do so securely. Mismanagement of private keys or inadequate access controls can result in permanent loss. Robust rules are therefore essential—particularly where third-party wallet providers are involved. The FCA may wish to consider mandating contractual service-level standards, including explicit recovery controls in the event of a failure. The Panel also recommends that the FCA require firms to conduct regular testing of key compromise scenarios, including recovery mechanisms, and ensure clients are notified promptly when their assets may be at risk.

The collapse of Signature Bank, a major U.S. commercial bank and crypto services provider shut down by regulators in March 2024, illustrates how insufficient operational and key access controls can lead to abrupt loss of service. This case reinforces the FCA's proposal that custodians must remain fully liable for third-party risks, with robust exit strategies and contractual safeguards firmly in place.

**24. Do you agree with our proposed approach to liability for loss of qualifying cryptoassets? In particular, do you agree with our proposal to require authorised custodians to make clients' rights clear in their contracts?**

Yes. The Panel supports the FCA's proposed approach to liability for loss of qualifying cryptoassets. Custodians must accept clear liability, and contracts must spell out what happens if things go wrong. The Panel particularly welcomes the requirement for authorised custodians to clearly define client's rights in contracts. Consumers often assume protections that may not exist. We would encourage the FCA to consider mandating plain language disclosures summarising key liability terms for consumers including worked examples of how restitution would be handled under different failure scenarios.

Signature Bank was the operator of Signet (a blockchain-based real time payments network that allowed institutional clients to transfer US dollars using tokenised representation of fiat currency) a key banking partner for many stablecoin issuers and exchanges. The failure of this institution also highlights complex dependencies between crypto and custody and the operational and custody risks when stablecoin systems are dependent on a single institution without a clear regulatory oversight, emphasising the need for segregation and liability in third-party arrangements.

**25. Do you agree with the requirements proposed for a custodian appointing a third party? If not, why not? Do you consider any other requirements would be appropriate? If not, why not?**

Yes. The Panel supports the FCA's proposed requirements for custodians appointing third parties. Consumers need clarity about where and how their assets are held and who is responsible.

**26. Do you agree with our assumptions and findings as set out in this CBA on the relative costs and benefits of the proposals contained in this consultation paper? Please give your reasons.**

From a consumer point of view, costs seem proportionate to the benefits of market safety and transparency. Consumers are likely to absorb some of these costs indirectly, so it's important they translate to visible protections. The Panel strongly agrees that firms must undertake rigorous initial and ongoing due diligence on third-party providers. Custodians should retain full responsibility for safeguarding the assets and ensuring compliance with FCA rules. An exit and contingency plan must be in place to manage disruptions or termination of relationship.

**27. Do you have any views on the cost benefit analysis, including our analysis of costs and benefits to consumers, firms, and the market?**

The Panel welcomes the FCA's transparent approach to the cost benefit analysis. We particularly support the assessment that consumer benefits—such as enhanced protections and increased market trust—are essential to reducing the risk of financial harm. While the proposed safeguards may lead to initial compliance costs for firms, they are a necessary foundation for building a credible and resilient market. The Panel encourages the FCA to further enhance its analysis by incorporating more granular data on distributional impacts—for example, how costs may vary between small and large firms, or affect vulnerable consumer groups differently. Such analysis is necessary to ensure competition and avoid unintentionally favouring larger incumbents—which ultimately affects consumer choice and innovation.