

Crypto Policy Team  
Financial Conduct Authority  
12 Endeavour Square  
London E20 1JN

By email

28 July 2025

Dear Sir/Madam,

### **CP25/14 Stablecoin issuance and cryptoasset custody**

The Panel supports the aim of increasing confidence in the qualifying stablecoins markets, enhancing trust and supporting effective competition, and agrees that new rules are needed to support the issuing of stablecoins and safeguarding of qualifying cryptoassets. It will be vital that the regulatory framework put in place not only provides firms with certainty and encourages firm entry in the market but also ensures the safety and soundness of the existing financial system.

We have not addressed the detail of the proposals in the consultation particularly noting other publications to follow on cross cutting and firm standards, but have set out some high level observations below.

- Commercial banks should be empowered to play a full role in the stablecoin ecosystem, if they choose to do so, and a level playing field set between banks and non-banks.
- To upgrade the capability of existing commercial bank money, banks will need to tokenise deposits. To enable banks to compete and extend commercial bank money coverage, tokenised deposits should be allowed to move into permissionless blockchains given they will behave like stablecoins albeit backed by an even higher quality reserve.
- Establishing and maintaining a clear framework will ensure that banks and non-banks can align their competitive actions with set standards, thereby maximising market confidence and take-up and minimising the risk of costly future wholesale changes.
- We agree that stablecoins are technically not “investments” but rather “money-like” instruments, backed by hard reserves. Having said that, this technical designation has potentially far-reaching implications for how the overall system enabling stablecoin issuance and management is set up.
- For instance, if the intention is that these “money-like” instruments will emulate “cash deposits” within the UK payment system, and through that provide further efficiencies on payments processing, significant further thought is needed on the overall system design required to enable that. We would highlight and emphasise the following:
  - Subject to how “high quality asset reserves” are defined, we would expect those reserves to earn some form of interest themselves. That interest will be held between the reserve custodian and the stablecoin issuer (which could be the same firm). If that interest is not shared with the provider of the reserves, that could either restrict growth in this emerging sector (and with it, the influence of this sector on the UK payments system) and / or limit the impact of what reserves are held on the overall economy.
  - One of the fundamental benefits of stablecoins is their ability to create instant settlement with more precise confidence of “payment versus payment” or “delivery versus payment”. If redemptions are not instant, that could both undermine the competitiveness of this emerging sector and / or increase the chances of market stress given any issuer that does not redeem instantly could be regarded as suffering challenges that may jeopardise its viability.

- With respect to safeguarding, further work is required to build confidence in the provision of the required reserves to enable effective stablecoin issuance. It may be that a new / different form of FSCS compensation should be considered and / or that some form of explicit ring-fencing is required for custodians to minimise the risk that reserves are unavailable in the event of a firm failure (whether that be the issuer or the custodian if these are different entities). Again, any perceived gap in protection here will limit the uptake of this emerging capability versus existing fiat “cash deposit”.
- Given the nature of how issuance and redemption work for cryptoassets, we understand why the FCA is contemplating allowing fees for redemption. But there are significant costs incurred with the instant provision of ‘redemption’ for traditional fiat “cash deposits” without any provision for fees associated with that market-wide activity. Either rules need to be aligned on a “same rule for same activity” basis, or these rules need to acknowledge that – having technically declared stablecoins to be “money-like” rather than an “investment”, this determination treats them more like an investment.
- If, however, the FCA does not intend for these “money-like” instruments to emulate “cash deposits” within the UK payment system, then it needs to be clearer that, while these instruments are “money-like”, it is going to treat them like investments nonetheless.
- As with the existing system for traditional “cash deposits”, one-to-one backing with high quality assets as reserves, and complete segregation of those reserves, are the backbone of a healthy system. Given custodians (whether segregated or wholly-owned by issuers) will be responsible for the safeguarding of the required reserves, their operational resilience, cyber-security and overall financial health will be paramount. The FCA and PRA should consider (a) how high the “bar” needs to be for assessment for initial licensing, as well as ongoing monitoring arrangements (e.g., to avoid the situation where a small entity could put the one-to-one backed assets in another small entity, which might be more susceptible to bankruptcy and to manage the risk of cyber-attack and fraud); and (b) how much of the existing bank-related safety and soundness stipulations will apply to these custodians. As above, the determination of the breadth and depth of the role of these “money-like” instruments in the UK payment system will be a critical variable in driving the latter consideration.
- In the case of a bankruptcy or wind-down related to a segregated custodian, legal consideration should be given to ensure that there is a “living will” for the relevant entity, and relevant funds can be returned to customers without having to rely on court proceedings. Again, subject to the depth and breadth of role for these “money-like” instruments in the UK payment system, a pre-agreement on how this will occur in the legislative arena should be in place.
- On the approach to new rules / interactions with existing rules and guidance:
  - The FCA and PRA should seek to build on some of the CASS principles, to avoid imposing a “new” burden on issuers and custodians. Given the complexity of CASS, it will also be important to ensure that smaller firms can cope with the level of activities required while making sure customers are protected and funds are properly segregated.
  - Deposit holding firms are subject to tight capital, liquidity and risk rules on how to handle and create yield from these deposits. That system could be leveraged extensively given it is designed to protect customers and avoid systemic collapse of the banking system, with tailoring only for aspects of the stablecoin ecosystem that appear materially / uniquely different.
  - Consideration is needed on how stablecoins would be compliant with the Consumer Duty, consistent with the role that the FCA expects these “money-like” instruments to play within the UK payment system (e.g., how could deposit holding institutions be able to “recommend or offer” stablecoins as an alternative payment mechanism if that could drive worse customer outcomes than cash holdings given lack of interest on “deposit”)?
- Interoperability with non-GBP currencies will be a critical design feature of the system – e.g., what currencies should or should not be allowed to be issued within the UK payment system (versus converted to GBP before entering that system)? How will the

reserves for any additional currencies be controlled (that is out of the Bank of England's domain)?

Finally, the transition to the new regulatory framework will need careful consideration, particularly for current incumbents / exchanges that already provide end-to-end services related to stablecoins. While new rules are necessary, they could have material implications for the commercial model that many of the existing firms that operate in this space have established. Any competitiveness implications will need upfront consideration, especially given UK consumers have "invested" in different forms of cryptoassets without regulation for a significant period of time.

Yours faithfully,

[signed]

Matt Hammerstein  
Chair, FCA Practitioner Panel