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Consultation Paper 25/14
Stablecoin Issuance and Cryptoasset Custody

Financial Conduct Authority
May 2025

Response from
The Payments Association
July 2025

Introduction

The Payments Association welcomes the opportunity to contribute to the FCA DP 25/14 “Stablecoin Issuance and Cryptoasset custody”.

The community’s response contained in this paper reflects views expressed by our members and industry experts recommended by them who have been interviewed and who are referenced below. As The Payment Association’s membership includes a wide range of companies from across the payments value chain, and diverse viewpoints across all job roles, this response cannot and does not claim to fully represent the views of all members.

We are grateful to the contributors to this response, which has been drafted by Riccardo Tordera, our Director of Policy & Government Relations with assistance from law firm and member Travers Smith. We would also like to express our thanks to the FCA for their continuing openness in these discussions. We hope it advances our collective efforts to ensure that the UK’s payments industry continues to be progressive, world-leading, and secure, and effective at serving the needs of everyone who pays and gets paid.

Tony Craddock
Director General
The Payments Association

Our members views:

Overview

Our members support the FCA's goal of creating a safe and effective stablecoin regime, and appreciate the scale and complexity of the task facing the FCA. Our focus is particularly on stablecoins given the exciting potential they offer to the payments ecosystem.

Most members believe that material changes are needed to ensure the proposed framework is fit for purpose. As currently drafted, the regime is overly complex and significantly less supportive of innovation and growth than comparable international models, particularly the newly adopted U.S. regime. Nonetheless, our members from the banking community are broadly supportive of the FCA's proposals, noting that a new regime treating stablecoins as a 'money-like' instrument, with near real-time redemption and straightforward backing requirements, will enhance market confidence by providing clear, transparent standards for backing assets.

There is a real risk that the totality of these proposals (combined with a complex and capital-intensive prudential regime laid out in CP25/15) means that no UK-based stablecoin issuers launch at all. Nonetheless, we recognise that this competitive dynamic is challenged in that some of our members, namely retail banks, will face additional hurdles in providing stablecoin services.

Given that the UK is also going to be open to the circulation of stablecoins issued overseas (an ecosystem-friendly proposal with which we agree in principle as it will allow UK users to benefit from a wide and diverse range of stablecoins), this will leave the UK at a serious competitive disadvantage. There is already anecdotal evidence that potential investors are delaying or even abandoning investing in UK-based firms because of the view that it is far more economically rational to access the UK market from offshore. The FCA needs to clarify the extent of its geographical regulatory perimeter. It is imperative that UK Plc takes advantage of the revenue and growth opportunities that allowing non-UK based stablecoins offer whilst ensuring that there is a level playing field for the provision of stablecoin (whether qualified or un-qualified) services to UK consumers.

While (as set out below), we agree that the Consumer Duty alone cannot deliver the certainty and trust that the market requires to thrive, we do consider that the rules have been set at too prescriptive a level. This appears to have been driven by an implicit approach of determining the worst possible outcomes and then drafting rules aiming to eliminate all risk associated with the activities covered in CP25/14. Most of our members believe this will inhibit growth. Albeit banks remain of the view that significant migration of retail deposits to stablecoins would have a detrimental impact on the availability and cost of credit, including mortgages and personal loans.

We also do not see enough evidence that the FCA has properly taken account of approaches in other jurisdictions. Although criticism of the complexity and granularity of MiCA is now widespread, there are still lessons that can be learned (including what does not work). The recent US developments have obviously been high-profile and jurisdictions (including in the Gulf and the Far East) are also worth close comparison. This is important because the cryptoasset sector is inherently global, and many jurisdictions are openly competing to welcome crypto firms.

Also, while it is understood that a further consultation will consider conduct rules, our banking community members would like to highlight that an essential part of the overall FCA

regime will be to ensure appropriate controls are in place to prevent fraud and financial crime.

Overall, we note a disconnect between the Chancellor's Mansion House speech, where she committed to "driving forward developments in blockchain technology, including tokenised securities and stablecoins [...] so that UK financial services can be at the forefront of digital asset innovation", and the potential regulatory regime that may emerge if regulators adopt an overly restrictive approach and fail to recognise the significant opportunities and implications for the UK arising from the delta between our approach and that of the GENIUS Act.

Response to questions

Question 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?

We agree that the Consumer Duty alone is not sufficient – for example, certainty and consistency means that there will obviously have to be some restrictions on the types of backing assets that can be used.

However, the consultation paper (CP) presents this as a binary choice: the Consumer Duty alone OR prescriptive rules. It is, of course, a spectrum. Most of our members view this as a missed opportunity to use the Consumer Duty as a foundation for a much more outcomes and principles-based set of rules for the cryptoasset sector. In other areas, the FCA is using the Consumer Duty as a guiding star allowing for a mindset shift to less prescriptive and duplicative rules; in this field, the opposite has been true.

However, banks remain supportive of the FCA's proposals.

Question 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.**

We agree that multi-currency stablecoin issuers should generally meet the same standards as single-currency issuers, unless structural or operational differences justify divergence.

- i. We agree with the FCA's assessment of possible structures.
- ii. There were no specific rules identified as wholly incompatible, though broad concerns were raised regarding over-complexity and unintended FX risk implications.
- iii. Multi-currency models introduce additional complexity, particularly FX risk and implications for redemption and asset matching. A robust regulatory approach should discourage FX mismatch and ensure currency alignment between stablecoins and their backing assets.

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

We welcome the FCA's addition of the expanded backing assets concept, but also consider that the FCA has made the management and classification of the backing assets more complex than it needs to be. Issuers should be permitted to include short, medium and long term government bonds or equivalent as backing assets.

Banks are supportive of the complexity of the FCA's management approach being proportionate to the risks associated with expanded backing asset proposals. To support the safety of UK customers, some firms consider that higher risk backing assets necessitate controls that are more complex in order to manage that risk.

Taking an evidence-based approach, in the case of the world's largest issuer of stablecoins, their redemptions based on tokens 'burned' (which would include reasons other than redemption), are below 0.09%¹ daily whilst new stablecoins being issued are ten times this. There should therefore be no need to have more than the 5% "ODDR", held in bank deposits, available for redemptions.

Question 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.**

Most members consider the proposed mechanisms around forward time horizon, look-back period, and qualifying error thresholds are overly granular, whilst banks are of the view that this complexity is proportionate to the risk level of proposed backing assets. One suggested solution would be a simple requirement to hold a reasonable buffer, combined with appropriate liquidity management, which would render these rules unnecessary.

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

Most of our members would propose a tiered and dynamic redemption buffer, balancing real-time liquidity needs with revenue generation:

- **Liquidity tranching:** Maintain a minimum buffer (5%) in bank deposits for instant redemptions, while allowing the remaining to be tiers based on experience of actual redemptions in short, medium and long term assets.
- **Stress-tested thresholds:** Redemption buffers should be sized dynamically based on historical redemption patterns and stress simulations.
- **Redemption delay thresholds:** A credible commitment to redeem (not instant redemption per se) maintains singleness of money whilst understanding that mass redemptions will undermine backing asset integrity and hence phased redemption for higher amount makes sense.

¹ [Tether Statistics 2025: In-Depth Analysis of USDT's Performance • CoinLaw](#)

Question 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?

We do not support backing assets being held in a currency other than that which the stablecoin references. Multi-currency backing introduces unnecessary FX and liquidity risk, at least at this early stage.

Question 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 majority of our members argue that issuers should have the flexibility to use structures as long as they achieve – and can be seen to do so, including being transparent about the holders' rights – the real objectives of insolvency-remoteness and segregation from the issuer's own assets. Banks consider that holding backing assets in statutory trust aligns to existing FCA policy for e-money funds.

Question 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.

Most of our members do not agree with the requirement that issuers must back stablecoins they own themselves, and consider this an example of the FCA seeking to mitigate a worst-case scenario (e.g. a hacking theft of minted but unissued stablecoins). In practice, the issuer receives the funds which they then add to the backing assets pool at the point the stablecoin is sold to another party. That is the logical trigger for the backing asset requirement. We would add that there seems little point in the issuer having a proprietary interest in backing assets after it becomes insolvent, as opposed to being able to use those assets to prevent the insolvency in the first place.

Banks are cognisant of the risks associated with retaining assets on a ledger that are not backed appropriately.

Question 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?

Most members agreed with requiring third-party custodians to be independent of the issuer's group, although we would ask the FCA to continue to bear in mind that some firms may be able to demonstrate the requisite asset management expertise within their groups.

Question 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 acknowledgement letters are burdensome, especially if they are negotiated. While some verification is important, the FCA should consider a standardised industry-wide

template to reduce legal and administrative friction, particularly in multi-jurisdictional contexts.

Question 11: Do you agree with our proposals for record keeping and reconciliations?

Many of our members consider daily reconciliation requirements as excessive and out of step with standard custody practices. Less frequent reconciliation or a principles-based requirement aligned with the liquidity profile of backing assets would reduce operational burden without undermining safety.

Banks consider daily reconciliation to be hygiene factors of the provision of financial services and are concerned about the overall safety of a customer's financial lives if significant derogations are made to the FCA's current requirements.

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

We partially agree. The approach to resolving discrepancies should account for practical realities, such as minor shortfalls due to settlement timing. The regime must allow flexibility for small, temporary mismatches where risk is low and resolution is prompt. Combined with daily reconciliation, this could mean that issuers were essentially "tweaking" the backing asset pool every day.

Question 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?

Most members do not agree with the proposals on redemption. Current market practice is that redemption per se is comparatively infrequent, and that, in practice, most holders (including retail holders) other than large institutions exchange their stablecoins for fiat (or other cryptoassets) via an intermediated model, using trading platforms or intermediaries. The FCA has not made a compelling case as to why this business model is not acceptable. Moreover, as stablecoins more widely used as payment instruments, they will become more akin to electronic money, in the sense that holders will be increasingly able to extract the value of their stablecoins by using them to purchase goods and services. Indeed, if we look to the UK's EMR 2011, it gives no guidance as to when redemption should occur. Considering e-money is primarily redeemed when spent and not kept in circulation like a stablecoin it would seem absurd to put any timeframe on the redemption of a stablecoin.

The requirement is operationally unfeasible, especially when backing assets include instruments that are not immediately liquid. This impracticality is compounded by highly unrealistic assumptions about compliance costs in the CBA. Any restrictions on redemption should instead be permitted, provided they are transparently disclosed

Separately, banks have pointed out that UK consumers tend to demand near real-time services from financial services. A service that deviates significantly from this may have wider detrimental impact on the reputation of stablecoin issuers in the UK market. It may be appropriate, in this light, for the FCA to set out a minimum standard of redemption.

Separately, banks have pointed out that UK consumers tend to demand near real-time services from financial services. A service that deviates significantly from this may have wider detrimental impact on the reputation of stablecoin issuers in the UK market. It is also possible that the appetite for third parties to provide redemption may be increased if there are clear redemption obligations from issuing firms.

Question 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?

We think that this is legally possible, in a variety of ways. However (and more importantly), many members challenge the basic premise that a transfer of the stablecoin from one holder to another should also result in a contract then being in place between the stablecoin issuer and the purchaser or recipient, the aim of which is (presumably) to ensure that the FCA's proposed redemption rights are acquired by the buyer or recipient.

If this is taken forward, it is essential that it is implemented in a way that does close off any legally workable options.

Question 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?

We would recommend that the FCA looks carefully at the rationale for having any specific rules relating to the use of third parties in the stablecoin context. The starting point should be that existing sector-agnostic rules should only be supplemented when completely necessary.

Question 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?

We agree with the proposed qualification levels for individuals verifying public disclosures. Professional auditing standards provide a sound basis for market confidence and consumer protection.

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

Broad agreement exists on the need for transparent disclosures. However, the thresholds that would trigger mandatory updates need clearer definition to avoid uncertainty or over-disclosure.

Question 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?

Our answer to Q1 applies to this question too.

Question 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 (e.g. the use of digital IDs) to manage financial crime risk?**

Most of our members believe that:

- i. As discussed above (and even more appropriate in the case of custody), the key point is to ensure segregation, insolvency-remoteness, and control over the use of clients' cryptoassets. As set out in the existing CASS 6, this does not inherently require a trust .
- ii. Should the trust proposal be adopted, a single trust with appropriate internal accounting is preferred to individual trusts, which are administratively inefficient.
- iii. It is possible that firms using omnibus wallets may struggle to reconcile assets to individual clients.
- iv. Innovation (e.g., digital IDs) must be supported rather than constrained. Regulatory flexibility is needed to accommodate secure wallet innovations that mitigate financial crime risk, but at present members have not identified specific problems.

Question 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?

Record-keeping proposals are broadly reasonable, but we would add that proportionality should be applied based on firm size, systemic importance, and asset risk.

Question 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.**

Most of our members believe that:

- i. Operational difficulties are expected, especially in reconciling real-time data across multiple jurisdictions and platforms.
- ii. The handling of shortfalls must be risk-based, recognising the materiality of the shortfall and the liquidity characteristics of the assets involved.

There should be similar timing and materiality provisions around notification as set out in CASS 6. The requirement to notify the FCA or clients immediately and similarly the requirement to notify without consideration of materiality would seem unduly onerous (and impracticable). Circumstances may also arise for shortfalls where establishing the legal or

operational responsibility for said shortfall is challenging, particularly across jurisdictional divides. The FCA should have consideration for this in its requirements.

Whereas the ongoing CASS regime allows firms to use firm money to cover shortfalls under CASS 6.6.54R(2)(b), there is no similar provision for this under the proposed CASS 17 rules. Consideration should be given to allowing shortfalls to be managed through the allocation of firm money (that would then fall under the CASS 7 client money rules) as an alternative to qualifying cryptoassets given the potential challenges of securing the specific assets required under the proposals; for example, due to liquidity or scarcity issues.

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

We broadly agree with the approach but stress the importance of scalability and proportionality, particularly for smaller firms or those not offering retail-facing services.

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

Key management and access control are fundamental to cryptoasset security and must meet high standards. Industry best practices such as multi-signature wallets and hardware security modules should be encouraged.

We continue to believe that the draft statutory instrument (on which we will hopefully soon have certainty) deals inadequately with the difference between "holding" control (when the custodian actually has the cryptoasset) and "non-holding" control (when the custodian in fact has custody of the means of access) – the latter has no real analogue in traditional custody. Whether or not HMT amend the statutory instrument to recognise this distinction, we consider it important that FCA rules do properly distinguish, because some of the rules make little sense in the context of non-holding control. We are aware that there are other responses being prepared that will deal with this in greater detail.

The outcome of the FCA's guidance and market practice needs to remain that keys are managed in such a way as those which claim legal title to the cryptoasset in question (whether as custodian for another legal person) should ensure that they have full and ultimate control of any movement of these assets.

Question 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?

Most of our members strongly agree that allocation of this liability should be left to the parties to negotiate and agree, and on that basis, it is reasonable to require contractual clarity. Liability standards must also reflect differences in custody models (e.g., hot vs. cold storage).

Question 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?

While we agree in this particular scenario with what is proposed, we do consider this to be an example of the general approach of making the rules unnecessarily prescriptive. In our

view, it would be sufficient for the rules to set out the outcome sought (that the appointment of a third party should not introduce any new risks to clients' cryptoassets, or the ability for these to be recovered), and mandate that firms act so as to achieve that outcome, as opposed to the very detailed and prescriptive rules set out in draft CASS 17.6. These elements (as also reflected in paragraph 4.66) could easily be set out in non-Handbook guidance as examples of best practice.

Question 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.

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

We have answered these questions together.

Most members have serious reservations regarding the CBA's assumptions and analysis. Besides the obvious underestimate in "familiarisation" costs, in a number of areas, the CBA does not appear fully to grasp how the cryptoasset market operates; redemptions being a particular example.

In addition, it is extremely disappointing that the CBA mentions, but essentially disregards, the broader economic benefits of the use of stablecoins as a settlement asset in wholesale markets (paragraphs 149-151). It is also unfortunate (although we recognise both that this is the remit of HMT and that the Financial Services Growth & Competitiveness Strategy signals some movement on this topic) that paragraphs 143-146 play down the possible benefits from the use in retail payments.

We also consider the premise that, because there were no UK-based stablecoin issuers at the time of preparing the CBA, costs imposed on issuers should be seen as "elective" (i.e. voluntarily incurred and therefore of less weight), to be completely flawed. In reality, the net effect of the proposals could very feasibly be entry into the market by very few or even no issuers in the UK, leaving this market open to overseas issuers. This would also mean that the economic benefits that flow to issuers were received by overseas firms.

We recommend further analysis on cumulative compliance burdens and impact on the UK's competitiveness. Some proposed rules may drive firms offshore or discourage participation in the UK market. A staged or tiered implementation may mitigate this.

Banks have pointed out that the FCA has not assessed the impact of stablecoin adoption on commercial bank deposit balances and, therefore, the availability and cost of credit for UK consumers and businesses. The CBA also currently fails to assess the long-term systemic risks associated with an on-aggregate systemic amount of stablecoin issuance by non-systemic parties and sufficient details on how this risk will be managed by the Bank of England in collaboration with the FCA and the market.

About The Payments Association

The Payments Association is for payments institutions, big & small. We help our members navigate a complex regulatory environment and facilitate profitable business partnerships.

Our purpose is to empower the most influential community in payments, where the connections, collaboration and learning shape an industry that works for all.

We operate as an independent representative for the industry and its interests, and drive collaboration within the payments sector in order to bring about meaningful change and innovation. We work closely with industry stakeholders such as the Bank of England, the FCA, HM Treasury, the Payment Systems Regulator, Pay.UK, UK Finance and Innovate Finance.

Through our comprehensive programme of activities for members and with guidance from an independent Advisory Board of leading payments CEOs, we facilitate the connections and build the bridges that join the ecosystem together and make it stronger.

These activities include a programme of monthly digital and face-to-face events including our annual conference PAY360 and PAY360 Awards dinner, CEO round tables and training activities.

We run seven stakeholder working Project groups: Inclusion, Regulator, Financial Crime, Cross-Border, Digital Currencies, ESG and Open Banking. The volunteers within these groups represent the collective view of The Payments Association members at industry-critical moments and work together to drive innovation in these areas.

We also conduct exclusive industry research which is made available to our members through our Insights knowledge base. These include monthly whitepapers, insightful interviews and tips from the industry's most successful CEOs. We also undertake policy development and government relations activities aiming at informing and influencing important stakeholders to enable a prosperous, impactful and secure payments ecosystem.

See www.thepaymentsassociation.org for more information.

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