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Regulatory Regime for Sterling-Denominated Systemic Stablecoins

Consultation on the Bank of England's Draft Code of Practice for
Systemic Stablecoin Issuers

Bank of England

Published 22 June 2026

Response from
The Payments Association

Introduction

The Payments Association (“TPA”) welcomes the opportunity to respond to the Bank of England’s consultation on its draft Code of Practice for systemic stablecoin issuers, published on 22 June 2026 and closing on 22 September 2026. This is one of two related consultations as part of the wider regulatory package for sterling-denominated systemic stablecoins; the Bank and FCA’s joint approach to regulation of systemic stablecoin issuers closes later, on 30 September 2026, and TPA is submitting a separate response to that consultation ahead of its own deadline. Our members consider this package among the most consequential steps yet taken in UK digital money policy and have engaged with urgency and depth.

This response reflects views expressed by TPA members and industry experts who contributed through a dedicated members’ evidence session held on 8 September 2026, together with follow-up written submissions. As TPA’s membership spans the full stablecoin and payments value chain, including prospective issuers, custodians, banks, non-bank PSPs, and their legal and other advisers, and holds a correspondingly diverse range of views, this response cannot and does not claim to represent the position of every member on every question.

We are grateful to the contributors to this response, which has been drafted by Robert Courtneidge on behalf of TPA’s Policy team. We would also like to thank the Bank of England and the FCA for their continuing engagement with industry throughout this process. We hope this response supports the shared goal of ensuring the UK remains the best place in the world for payments and digital asset businesses to establish, invest and grow.

The Bank welcomes responses to any of its questions without expecting each one to be answered. Consistent with that, this response answers the five questions posed alongside the draft Code of Practice, directly, in order and in the Bank’s own wording, drawing on our members’ evidence session. Our answer to the Equality Act 2010 question the Bank has asked (Q5) appears below.

In accordance with the Bank’s request, The Payments Association confirms that it consents to the Bank publishing its name, and the name of The Payments Association, as a respondent to this consultation paper.

Emma Banymandhub
CEO
The Payments Association

Executive summary

The Payments Association's five touchpoints on the systemic stablecoin regime

Before drafting detailed responses to the consultation, The Payments Association (TPA) convened a members' evidence session to test the Bank and FCA's proposals against five touchpoints that our members identified as most consequential. These touchpoints frame our detailed answers below and underpin the recommendations in our conclusion, and they also inform our separate response to the Bank and FCA's joint approach to regulation consultation.

- **Variable business model and commercial sustainability.** Will the reserve, capital and redemption framework leave issuers with a viable business model once backing assets are 70% short-term gilts and 30% unremunerated central bank deposits?
- **The temporary issuance guardrail.** Does a £40 billion aggregate cap per stablecoin product, with no defined sunset date or review trigger, strike the right balance between market testing and long-term competitiveness?
- **The 24-hour redemption standard.** Is a 24-hour redemption window achievable in practice, particularly for coinholders the issuer has not itself onboarded, and does it hold up during a stress event rather than only in business-as-usual conditions?
- **The two-trust safeguarding model.** Does splitting coinholder protection across two separate statutory trusts, one for backing assets and one for wind-down reserves, genuinely improve protection, and how are the two trusts intended to work together?
- **A level playing field across digital asset types.** Are UK-domiciled systemic stablecoin issuers being held to a materially higher standard than non-UK-issued stablecoins already circulating in the UK, and if so, what closes that gap?

These touchpoints inform the three recommendations we ask the Bank and FCA to consider, set out in full in our conclusion: preserve business model viability while protecting stability; clarify how the regime works under stress, not only in business-as-usual conditions; and guarantee a level playing field between UK and non-UK issuers.

General observations

TPA members broadly support the direction of the Bank and FCA's proposals, and in particular the material improvements made since the November 2025 consultation, most notably the move from per-holder limits to a single aggregate issuance guardrail and the increase in the permitted gilts allocation. The evidence session identified several cross-cutting themes that extend beyond any single question or Code part, which we set out here before turning to our detailed answers.

Two related consultations, two responses

The draft Code of Practice and the joint approach to regulation of systemic stablecoin issuers close on 22 September and 30 September 2026 respectively, and each poses its own numbered consultation questions, five under the Code of Practice and ten under the joint approach. Members were clear that the two documents need to be read, and should be considered, together, so TPA is submitting a response to each: this response answers the Code of Practice's five questions directly, in the Bank's own order and wording, and our separate response, to follow ahead of the later deadline, answers the joint approach paper's ten questions on the same basis. Where a point is common to both consultations, we address it here and cross-refer to it in our other response.

A runway before the rules bite

Members noted that, in practice, an issuer scaling from a standing start towards systemic scale is likely to have a substantial runway before these rules apply to it in full, since no UK stablecoin issuer is currently within sight of the £40 billion threshold. We would welcome the Bank's confirmation of the circumstances, if any, in which core calibrations, including the 70:30 backing asset split and the exclusion of commercial bank deposits from backing assets, might be revisited as the market develops, rather than only once the rules are in force and binding on a firm that has already reached scale.

Level playing field and equivalence

A recurring theme in our members' discussion was whether the regime, taken as a whole, risks penalising the success of a UK-domiciled, sterling-denominated stablecoin relative to non-UK-issued stablecoins already circulating and used in the UK. Members were concerned that the combination of a large capital step change, a materially reduced return on backing assets, and close supervisory scrutiny at the point an issuer becomes systemic could discourage firms from growing a GBP stablecoin business in the UK, even as the Bank prepares to take on a secondary competitiveness objective. We ask the Bank and FCA to set out explicitly how non-UK-issued systemic stablecoins used in the UK will be supervised to a comparable standard, whether through a formal equivalence regime or otherwise, so that UK issuers are not competitively disadvantaged for being regulated at home.

International comparison

Several members asked for a clearer sense of how the UK's proposed reserve composition, redemption timing and capital requirements compare with regimes accepted or implemented elsewhere, particularly the United States. We understand the Bank and FCA have already published a helpful comparison table between the FCA's and the Bank's own regimes, and we

would welcome an equivalent comparison against major international regimes. TPA intends to develop its own comparative analysis as this work continues and would welcome the opportunity to share it with the Bank and FCA in due course.

Consistent terminology across regimes

Members who advise or operate across both the FCA's existing payments and e-money regime and the Bank's systemic stablecoin regime flagged that the two use different redemption terminology: the Bank's draft Code of Practice specifies 24 hours, while the FCA's regime elsewhere refers to the next business day, which in practice can extend to close to 48 hours. Since a firm transitioning from FCA solo regulation to joint regulation will typically be operating the same underlying infrastructure under two different descriptions, we ask the Bank and FCA to reconcile this terminology, or explain clearly why a different standard applies at each stage.

Failure and wind-down arrangements

As discussed further under safeguarding below, the Bank has indicated that further provisions on failure, resolution and wind-down arrangements will follow in due course, but has not yet specified when or in what form. Firms are meanwhile expected to plan for these scenarios now, including as part of any application for recognition. We ask the Bank to publish an indicative timetable for this work alongside the finalised Code of Practice.

Engagement

Engagement with this consultation has been strong: more than 20 members registered for our evidence session, with around a dozen participating directly in discussion, and further written submissions were received ahead of this draft. We would welcome continued close dialogue with the Bank and FCA as this work progresses, including through TPA's Digital Currencies working group.

Response to the Code of Practice consultation questions

Section 3.2 of the Bank's publication, "Consultation questions for new policy proposals and the draft code of practice", poses five questions, reproduced below in full and answered in order. Our answers draw on the discussion at our members' evidence session on 8 September 2026, and cross-reference the Code's own Parts (as confirmed in the published text) where useful for navigation.

Q1: Do you have any feedback on whether the proposed rules in the draft Code of Practice appropriately reflect and give effect to the policy set out in this paper?

In broad terms, yes. Members see the move to a 70:30 backing asset split and the replacement of per-holder limits with a single aggregate issuance guardrail as rules that genuinely reflect the improvements signalled in the policy statement, and as a material improvement on the November 2025 proposals. Our more detailed comments below identify specific areas, mainly around business model viability under stress and the operational mechanics of redemption and safeguarding, where we think the drafting would benefit from further clarification to ensure the rules deliver the policy's intended effect in practice, not only in the ordinary course of business.

Q2: Do you have any comments on how the way the proposed rules give effect to the policy set out in this paper impact financial stability and commercial considerations (including business model viability)?

Our members' comments on financial stability and commercial considerations centre on five areas of the Code, set out below.

Part 2: Backing assets

Members broadly welcome the increase to a 70:30 split (up to 70% short-term UK gilts, at least 30% unremunerated Bank of England deposits), viewing it as a genuine improvement on the original proposal and broadly well received across the market. Viability is, however, sensitive to the interest rate environment: at current rates the position looks workable, but if rates fall materially, the economics become considerably more challenging. We ask the Bank to consider how the framework would need to adapt in a lower rate environment.

Members were less clear on how the capital and reserve charge interacts with the backing asset split, since the overall commercial picture depends as much on how reserves are calibrated as on the split itself. We would welcome worked examples showing how the two interact in practice for an issuer of representative scale.

Part 4: Capital and Reserves

Members' central concern here is less with the capital methodology itself than with the scale of the step change firms face on becoming systemic. An issuer moving from FCA solo regulation is likely to see a substantial fall in backing asset revenue, members suggested a reduction of 60% or more, reflecting the loss of unrestricted use of backing assets, at the same time as it becomes subject to a materially larger capital and reserve requirement. Several members drew a direct comparison with the step change some e-money institutions have made in moving to a full banking licence: this is not a modest adjustment but a different kind of business, and we are not aware of any settled market view on whether the combined

revenue loss and capital increase leaves a stablecoin business viable at the point it becomes systemic.

Members were also concerned that this combination could, at worst, either discourage firms from pursuing systemic scale at all, or encourage firms to structure around the threshold rather than engage with it directly. We ask the Bank to consider whether the transition mechanics, rather than the underlying capital methodology, could be adjusted to reduce this risk, for example through a more gradual step-up in capital requirements as an issuer's scale increases towards the threshold, rather than a single step change at the point of systemic designation.

There is also a broader policy question underlying this discussion, which we raise directly, and which connects to the level playing field point in our general observations above. If becoming a large, successful, UK-domiciled sterling stablecoin issuer results in a materially harder regulatory and commercial position than remaining smaller, or than operating a non-sterling stablecoin used in the UK, the practical effect may be to discourage a systemic GBP stablecoin from emerging in the UK at all. We do not think this is the Bank's intention, but we ask the Bank to confirm how it has weighed this risk against its financial stability objective, particularly in light of its forthcoming secondary competitiveness objective.

Part 6: Remuneration

Members broadly support the principle that systemic stablecoins should not pay interest or any holding-based return, reflecting a clear and, in our members' view, sensible regulatory intention to treat stablecoins as money in transit rather than money at rest, in contrast to tokenised deposits and other instruments designed to generate a return from holding. We understand this mirrors the existing boundary in the E-Money Regulations between e-money and deposit taking, and note that our members' legal advisers have long experience advising clients on that boundary.

That said, members asked for this position to remain under periodic review rather than treated as settled, since patterns of stablecoin use over the longer term may diverge materially from e-money usage patterns, and other major jurisdictions are still working through their own position on this question. We would also welcome confirmation that the boundary between a permitted activity-based reward, such as the transaction credits and other incentives some issuers already offer in place of interest, and a disguised interest payment, is clear enough in practice for issuers to design compliant reward programmes with confidence.

Part 7: Temporary Issuance Guardrail

The guardrail has no defined sunset date or objective review trigger; the Bank has indicated only that it intends to loosen or remove the guardrail once financial stability risk is adequately controlled. While members did not see this as an immediate barrier to launching given current headroom below the £40 billion threshold, the absence of a defined review point is, in our members' view, a legitimate competitiveness concern in its own right, particularly relative to other jurisdictions that may set out a clearer glide path. We ask the Bank to publish an objective test, or at minimum a review timetable, for when the guardrail will be loosened or lifted.

Q3: Do you have any comments on any operational constraints associated with implementing our proposed rules?

Our members' operational comments centre on the safeguarding structure, the redemption standard, and the Central Bank Liquidity Facility, set out below.

Part 3: Safeguarding

Members who work closely with trust structures broadly see the two-trust model, a backing assets trust and a separate wind-down reserve trust, as workable in principle, but were clear that the rationale for splitting coinholder protection across two trusts, rather than a single ring-fenced trust covering both purposes, has not been explained. Since both trusts ultimately protect the same underlying coinholder right in the stablecoin's issuance and redemption, we ask the Bank to set out why a single trust structure was not considered sufficient, and how the two trusts are intended to be reconciled with each other on an ongoing basis.

Members also stressed that the hardest test of this structure is not business as usual but a stress scenario: the point at which coinholders are most likely to seek redemption is precisely the point at which an issuer may be failing, meaning the wind-down reserve trust and the ordinary redemption process would need to operate at the same time, potentially under severe operational pressure. We would welcome the Bank's assessment of how the two-trust model, and the underlying operational teams, are expected to cope with simultaneous large-scale redemption and wind-down management, rather than a general assurance that arrangements will hold.

Commercial yield on backing assets: rule 2.6 does not work alongside rule 4.15. We do not think rule 2.6 of Part 3 works for the commercial yield a systemic issuer earns on its backing assets. Rule 2.6(1)(a) allows proceed funds to go only to the backing funds account or to meet a redemption request, with no third option. A coupon on a gilt, the main way a systemic issuer will earn money under this regime, is a proceed fund under limb (4) of that definition: "any other return on assets held in an asset pool (including interest or a manufactured dividend)". Rule 2.6 would therefore trap that income in the backing asset pool, and rule 2.8 compounds this by requiring it to be moved out "as soon as possible". This conflicts with rule 4.15, which lets the issuer keep yield on the pool for itself, but only "consistent with its obligations under this Part". On the current drafting, rules 2.6 and 2.8 are those obligations, so they override rule 4.15 rather than the reverse. We think this is a drafting error, not intended policy, and ask the Bank to reverse the priority: either state expressly that rule 4.15 takes precedence over rule 2.6, or build that priority into rule 2.6 itself.

Part 5: Issuance, legal claim and redemption

Members support the principle of a fast, reliable redemption standard: coinholders reasonably expect near-instant access to their money, and issuers should expect to manage redemption risk as a normal part of providing a payment service. Our members' concerns are about the operational mechanics of the 24-hour standard, not the principle behind it.

First, the 24-hour standard sits awkwardly alongside the FCA's existing next-business-day standard elsewhere in payments regulation, which in practice can extend to close to 48 hours. Since the underlying infrastructure for a transitioning issuer will typically be the same regardless of which regulator's terminology applies, we ask the Bank and FCA to reconcile

this terminology, particularly for issuers transitioning from FCA solo regulation (see also our response to Question 4 of the Bank and FCA's joint approach to regulation consultation, submitted separately).

Second, many systemic stablecoins will circulate through exchanges and other intermediaries, meaning the issuer may not have a direct relationship with, or prior AML and KYC checks on, the ultimate coinholder seeking redemption. We note that the Code's own definition of a "full redemption request" already addresses this: the 24-hour clock runs only once the issuer has completed the necessary customer due diligence and received the holder's stablecoin, not from the point of an initial, incomplete request. This gives an issuer the time it needs to complete onboarding on a coinholder it has not itself onboarded before the clock on that particular request begins to run.

Third, we ask the Bank to clarify the operational mechanics of the 24-hour standard during a mass redemption event. It is not clear to members whether each redemption request is intended to carry its own independent 24-hour clock, which could in practice create an unbounded queue of individually compliant requests during a stress event, or whether the Bank has a different mechanism in mind for managing redemption at scale. We would welcome a worked example showing how the Bank expects this to operate in a stress scenario, alongside the business-as-usual position.

Central Bank Liquidity Facility

Members were broadly positive about this part of the package and raised comparatively few concerns in discussion. We would nonetheless ask the Bank to confirm, alongside the finalised Code of Practice, an indicative timetable for publishing the detailed design of the Central Bank Liquidity Facility, given that issuers will otherwise be required to build and launch under the regime without knowing the terms of their own liquidity backstop.

Q4: Do you have any other comments or feedback on our proposed rules?

Commercial bank deposits (Part 2). The complete exclusion of commercial bank deposits from backing assets was questioned by several members as unusually restrictive. While we understand the financial stability rationale, we ask the Bank to explain the circumstances, if any, in which some allowance for commercial bank deposits might be reconsidered, particularly given issuers' own operational and diversification needs.

Systemic designation (Part 2). Members raised a genuinely open question about the practical meaning of systemic designation as an issuer approaches the threshold. Since the Bank has said that transaction volume is not the only test of systemic importance, an issuer that deliberately manages its growth to remain below the guardrail could still be found systemic on a broader, more judgemental assessment of its embeddedness in the payments ecosystem. We ask the Bank to clarify how it would approach this scenario, since it materially affects how issuers can plan.

Failure and wind-down arrangements (Part 3). As set out in our general observations above, the Bank has said that further provisions on failure, resolution and wind-down will follow, but firms are being asked to plan for these outcomes, including in applications for recognition, before that framework exists. We ask the Bank to publish a timetable for this work.

Onboarding fees and delay as a substitute for redemption fees (Part 5). Part 5 tightly regulates fees on redemption itself: an issuer must not impose undue fees on a holder to process a full redemption request, may not charge a fee to cover the cost of monetising backing assets, and may only deduct a fee from the redemption amount with the holder's express consent. The Code is silent, however, on what an issuer may charge, or how long it may take, to complete the AML and KYC checks that are a precondition of a request becoming "full" in the first place. This point was raised directly in our evidence session: since the 24-hour clock does not start until that precondition is met, an issuer under commercial pressure could, in principle, use onboarding charges and delay to achieve indirectly what the redemption fee rules prohibit directly, particularly for the large volume of non-original, previously unonboarded coinholders systemic distribution is likely to create. The balance to this is of course the fact that onboarding can be an unpredictable process dependent on the individual or organisation involved.

Indirect returns from custodians (Part 6). Members raised a genuine, unresolved question that goes beyond the issuer's own conduct: what is the position where a third party, such as a custodian or a platform offering staking-type arrangements, pays a return to a holder for merely holding or staking a stablecoin with them, rather than the issuer paying interest directly? We ask the Bank and FCA to clarify whether, and in what circumstances, such indirect returns should be treated as a separate regulated investment activity, rather than as a matter for the stablecoin issuer's own remuneration rules.

Per-product aggregation (Part 7). Members welcome the replacement of individual holder limits with a single aggregate issuance guardrail as a genuinely positive response to industry feedback: an aggregate cap is materially easier to implement and monitor than tracking individual holdings. Since the guardrail applies per stablecoin product rather than at issuer or group level, however, an issuer operating multiple stablecoin products could in aggregate exceed £40 billion many times over without breaching the guardrail for any single product. We ask the Bank to confirm whether this is a deliberate design choice, and if so, why group-level aggregation was not considered necessary to achieve the same financial stability objective.

Q5: Please indicate in your response if you believe any of the proposals in this paper are likely to impact persons who share protected characteristics under the Equality Act 2010 and, if so, please explain which groups and what the impact on such groups might be.

We have not identified any respect in which the proposals in this paper are likely to have a different impact on persons who share a protected characteristic under the Equality Act 2010; this question was not raised as a concern during our members' evidence session, and we would welcome the opportunity to consider it further should the Bank or FCA identify a specific concern.

Conclusion: three recommendations to the Bank and FCA

Drawing together the answers above, together with the points we will raise in our separate response to the Bank and FCA's joint approach to regulation consultation, if TPA were to make only three recommendations to the Bank and FCA at this stage, they would be:

1. Preserve viability while protecting stability: confirm the circumstances and process for revisiting backing asset composition, capital calibration and the issuance guardrail as the market develops, so that becoming systemic is not, in effect, a penalty for a UK stablecoin's success.

2. Clarify how the regime works under stress, not only in business-as-usual conditions: reconcile redemption terminology across the Bank and FCA's regimes, explain the rationale for the two-trust safeguarding model, and publish a timetable for the wider failure and resolution arrangements regime.

3. Guarantee a level playing field: set out explicitly how non-UK-issued systemic stablecoins circulating in the UK will be supervised to a comparable standard, whether through equivalence or another mechanism, so that UK-domiciled issuers are not competitively disadvantaged for being regulated at home.

TPA and its members stand ready to support the Bank and FCA's continued engagement with industry as this work progresses, including through TPA's Digital Currencies working group, and we would welcome the opportunity to discuss any of the points raised in this response, and in our forthcoming response to the joint approach to regulation consultation, in more detail.

About The Payments Association

The Payments Association is for payments institutions, big and 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 to bring about meaningful change and innovation. We work closely with industry stakeholders such as the Bank of England, the FCA/PSR, HM Treasury, 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 digital and face-to-face events including our annual PAY360 and FC360 conferences, our PAY360 Awards dinner, PA@The City, CEO round tables, webinars, working group events and training activities.

We run focused stakeholder working groups spanning Agentic Commerce, Cross-Border, Digital Currencies, ESG, Financial Crime, Financial Inclusion, Merchant Payments, Open Banking, Regulatory, and Payments Infrastructure. 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.

Our Payments Intelligence team and our working groups aim to produce regular thought leadership for our membership and beyond. These include data-driven reports, articles, video interviews and podcasts. 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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