the payments association

# Enhancing stablecoin regulation: how to support the UK's global competitiveness

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# Foreword

**Natalie Lewis**
Chair of The Payments Association's Digital Currencies Working Group and head of fintech, market infrastructure & payments
**Travers Smith LLP**

**The Chancellor's draft legislation covering cryptoasset regulation and the rapidly growing-set of Financial Conduct Authority (FCA) publications have provoked a wide range of reactions from the industry and media.**

There is much to praise in the detail that has been shared so far, and it's encouraging to see steps in the right direction to create an effective regime that will benefit consumers, businesses, and the wider economy.

However, although the proposals continue to evolve, as it stands today, there are currently significant areas of concern.

**The Payments Association's Digital Currencies Working Group** has discussed the proposals in depth and highlighted key policy adjustments we believe the Treasury and regulators need to introduce to maximise the opportunities ahead, boost innovation and growth, and secure the UK's competitiveness. The UK needs to be thoughtful, bold, and brave.

A critical omission at this stage was the decision to defer a comprehensive integration of stablecoins into payments regulation.

This has meant that the legal treatment of stablecoins has been designed on the basis that stablecoins are merely one of a number of different types of cryptoassets; most of which are primarily used as investments (speculative or otherwise). As is well understood by the industry, in contrast, stablecoins are not only a next-generation payment instrument; they are transforming payments already.

The approach taken has created several areas of confusion or difficulty for the adoption of stablecoin payments at scale; however, it is positive that the Government appears receptive to feedback on this point.

Taking a broader perspective, the current approach risks impacting the UK's global competitiveness. Given the UK is trying to promote growth by opening doors to firms looking to operate in its jurisdiction, it was surprising to see that the combined effect of the proposals from the Treasury, the FCA and the Bank of England (BoE) could actively incentivise firms (especially stablecoin issuers) to operate from other markets such as the US. This is a rapidly growing industry with over $200 billion in stablecoins in circulation globally; the UK cannot risk becoming an unattractive jurisdiction for inbound and homegrown business, and doing so risks talent and capital leaving for more hospitable climes.

**This is a rapidly growing industry with over**
**$200 billion in stablecoins in circulation globally**

The UK's strategic approach needs to be both holistic and specific – holistic in looking at the incentives created by the entire package, but with the specific lens of stablecoins as the future of payments.

The Treasury, regulators and supervisors need to support the industry by highlighting the benefits and opportunities stablecoins offer in real-world use cases. Improvements to cross-border payments are one of the clearest examples – the use of stablecoins in these transactions can deliver faster, lower-cost, and more reliable options, all while improving access to financial services for underserved communities. We are already seeing progress, as evidenced by the recent rollout of stablecoin cards by both Mastercard and Visa, which empowers consumers and businesses to transact in stablecoins. This is a great example of how innovation can benefit users. This type of activity should be encouraged.

Regulation needs to be targeted and proportionate – an overly strict approach could make the UK an unattractive jurisdiction pushing cryptoasset firms and consumers into other markets while an excessively light-touch approach is also high risk. We need to strike a balance.

The recommendations explored in this paper will help inform a legal and regulatory architecture that supports the industry and attracts overseas issuers looking to use the UK as a global hub.

The UK is in a strong position – we offer a robust legal system, global language advantages and a world-class talent pool, which reinforces the UK's reputation as a global hub for financial services, and for stablecoins specifically. There are plenty of reasons to be optimistic about the future of the industry in the UK, but it is vital that we create a supportive regulatory framework which allows the industry to thrive and maximise the opportunities ahead.

# Key Policy Messages

1

## Accelerate the UK's digital asset regulatory framework

**The UK needs to create a globally competitive framework that effectively supports innovation and boosts the UK's attractiveness as a global financial hub.**

The UK must move swiftly to build a globally competitive framework. This must cover the full spectrum of digital assets, including stablecoins, tokenised securities, and programmable payments infrastructure that maintains competitiveness with global markets. While stablecoins present an immediate priority, particularly for payment use cases, there is a broader opportunity to create a legal and regulatory architecture that supports tokenisation of assets, innovation in custody, and interoperable digital financial market infrastructure, all of which will boost the economy and the UK's global competitiveness.

In Europe, MiCA's strict regulatory standards led to the delisting of Tether, clearing the path for regulated euro-denominated stablecoins to gain traction, underscoring how fast market leadership can shift when clear rules are in place. Meanwhile, the US is actively encouraging banks to engage with digital assets, giving them greater clarity and flexibility. UK banks continue to face uncertainty and operational hesitancy due to the lack of a coordinated regulatory approach, which puts them at a global disadvantage to competitors in other jurisdictions which can freely transact. The UK must avoid being caught between delay and divergence.

The BoE's systemic stablecoin regime timelines should also be clarified, and the FCA's Phase 1 proposals (including retail stablecoin payments) must be reintegrated to avoid further delays. The Financial Services and Markets Act 2023 empowers HM Treasury to enact secondary legislation regarding stablecoins and other assets, and we request that they assume a central coordinating role, ensuring the FCA, BoE, and PRA align on a clear, time-bound roadmap for consultation, drafting, and implementation of this regulation. While recent comments by Sarah Breeden, Deputy Governor for Financial Stability at the BoE, have been encouraging - particularly her 6 May speech recognising the need for international harmonisation and addressing risks of fragmentation in payment systems - there remain concerns about the direction of travel that the BoE might take, given its stance on the concept of 'singleness of money', which could hinder stablecoin issuers in the UK and lead to the UK losing its attractiveness as a global financial innovation centre.


**Perry Scott**
senior policy manager
(UK & APAC)
**Kraken**

*"Whilst views across the industry remain mixed, the Treasury's pivot on stablecoins clears much of the complexity around existing tokens and offers a fresh slate to build on. Now is the time for bold action to incentivise local issuance and foster a thriving market for GBP-denominated stablecoins.*

*"There are several policy levers available to regulators. One clear opportunity is to allow UK issuers to pass interest on to customers – a low-hanging fruit that could drive adoption and enable everyday users to share in the economic upside of stablecoins."*

2

# Align with global standards while transforming UK competitiveness

**UK regulation must support interoperability between markets to ensure it remains competitive on the global stage. Urgent clarification on current legislation is required to provide certainty to the industry.**

**Euro-based stablecoins are still less than 1% of the global issuance, so we have a long way to go, and a GBP-based stablecoin still has time to build global traction.**

Digital assets are inherently cross-border and require internationally aligned standards to scale safely. The UK must ensure that its rules facilitate interoperability, particularly with euro- and dollar-denominated stablecoins, which dominate market liquidity. The growing presence of euro stablecoins (10 euro-denominated issued by major global players) under MiCA signals a shift that the UK cannot ignore if it wishes to remain competitive. However, Euro-based stablecoins are still less than 1% of the global issuance, so we have a long way to go, and a GBP-based stablecoin still has time to build global traction.

We need to create a regulatory solution that allows the UK to take a proper risk-based approach, enabling consumers and businesses to make informed and transparent choices about which stablecoins to use. Our aim must be to address, in a meaningful way, solutions that can resolve the issues around the singleness of money and propel the development of a world-leading GBP-backed stablecoins environment.

The UK's framework must also support evolving technologies, such as programmable money and tokenised deposits. This will require regulators to work more dynamically and collaboratively, engaging industry early and updating guidelines in step with technological progress.

The wording of the current legislation contains numerous uncertainties that raise questions. For example, clarification is needed on the definition of the phrase "established in the UK", regarding the territorial regulatory scope or the distinctions between providing services to UK consumers and institutional clients and the impact on firms.


**Natalie Lewis**
chair of The Payments Association's Digital Currencies Working Group and head of fintech, market infrastructure & payments
**Travers Smith LLP**

*"Unfortunately, the legislation, because of the delay in integrating stablecoins properly into payments regulation, risks creating unintended problems. Far from allowing payments use cases to evolve naturally, these may stifle them entirely."*

*"There's a risk of incoming regulation being overly complex whilst not offering adequate protections or supporting competitiveness. The UK should ensure that it looks to other jurisdictions to take their learnings on board and ensure it creates a world-leading regime that supports innovation and global competitiveness."*


**Riccardo Tordera-Ricchi**
director of policy & government relations
**The Payments Association**

*"Over the last few years, there has been a real missed opportunity for the UK to assume a leadership position in the regulation of stablecoins. For too long, the UK has lacked vision in this area and failed to act with the proactivity needed to get ahead of competitor markets, leaving us in a position where we must now urgently catch up.*

*"This is the time for the UK to be brave, level the playing field and support the UK stablecoin industry to thrive."*

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3

## Support financial inclusion through innovative regulation

**The UK needs to prioritise building a regulatory framework that boosts financial inclusion and continued innovation. This is key in order to meet both the government's ambitions ahead of the publication of its Financial Inclusion Strategy as well as the UN's Sustainable Development Goals.**

Stablecoins can provide an alternative pathway to access digital financial services. As the UK increasingly moves into a digital economy, we should take stock of how financial inclusion is being addressed by countries which aren't affected by advanced legacy systems and can better exploit the benefits of emerging technologies. For instance, In Nigeria, digital wallets linked to the eNaira can be accessed without a bank account; in Argentina and Venezuela, USD-backed stablecoins are helping people protect savings and maintain financial stability amid economic volatility. It is therefore vital that incoming regulation effectively supports financial inclusion efforts.

For governments aligning with the UN's Sustainable Development Goals, and with the UK government due to publish its Financial Inclusion Strategy later this year, effective regulation of stablecoins is another step towards democratising financial services.

The UK has an opportunity to position itself as a leader in financial inclusion through digital innovation; this must be front and centre of the regulatory agenda.


**Rosalind Marsh**
senior legal counsel—commercial
**OpenPayd**

*"There is a major opportunity for stablecoins to support global financial inclusion initiatives. Utilising these assets in cross-border payments allows users to make instant payments via stablecoin rails which offer enhanced security and speed whilst eliminating fees. Similarly, those without access to bank accounts in global currencies will be able to hold stablecoins pegged to currencies such as USD or GBP in order to store their wealth outside of potentially volatile currencies."*

## 4 Cement the UK's position as a financial services hub

**The UK is well-positioned to draw on international regulatory lessons to create a world-class regime that supports domestic innovation and attracts stablecoins from global markets. This should be the primary goal when developing a regulatory framework.**

In the post-Brexit world, the UK has the strategic flexibility to diverge from the EU's approach and align with the evolving US framework, particularly as MiCA is not widely regarded as a model for regulating digital money. However, any regulation is better than no regulation, as it gives certainty to businesses and investors. The UK has the opportunity to create a proportionate, innovation-friendly regime that offers such certainty. This could position the UK as a globally competitive jurisdiction, particularly attractive to US-based stablecoin issuers seeking a compliant base for their non-US operations.

Moreover, as per our submission to HM Treasury's draft Statutory Instrument (SI) on 23 May 2025, while we are happy with the current approach to overseas issuers, we believe the UK is missing out on the opportunity to actively support the growth of a domestic stablecoins sector. The usage of international stablecoins will favour users' usage of dollar-denominated stablecoins, and not creating an attractive framework for the creation of GBP-backed stablecoins could cause unintended consequences for the role of the pound.

In addition, debanking remains a barrier for many of our crypto members. There is a pressing need for a shift in the UK's risk appetite among conventional financial providers to better support crypto and stablecoin firms. Without access to banking services, responsible innovation in this sector is stifled and driven to other, more welcoming, jurisdictions. Addressing this issue is essential if the UK is to cement its position as a hub for digital finance and enable the responsible growth of this strategically important industry.


**Rosalind Marsh**
senior legal counsel—commercial
**OpenPayd**

*"Recent legislation is hugely welcome and keeps the UK competitive, but there is a risk that it could lead to the further dollarisation of the industry. The current approach constrains UK stablecoin issuers with a high regulatory burden whilst simultaneously providing a competitive advantage to overseas issuers who can operate outside of these requirements. This essentially encourages issuers to base themselves outside of the UK and in its current form will have a detrimental impact on the UK's attractiveness amongst issuers compared to markets such as the US."*

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## 5 Support innovation and growth by highlighting use cases

**Stablecoins have the potential to transform the monetary system, providing ownership over money whilst making it cheaper and faster to transact. Regulation will support the industry, but the UK also needs to ensure that it is effectively communicating the benefits stablecoins can bring to the economy, businesses and consumers.**

A one-size-fits-all regime will not work for the diversity of digital asset models emerging today, from decentralised finance (DeFi) to asset-backed stablecoins and tokenised real-world assets. The UK must lead with a risk-based framework that encourages safe experimentation while preserving financial stability.

## Key use cases include:

**Cross-border payments**, particularly in emerging markets and jurisdictions with volatile local currencies, represent a compelling case for stablecoins, which offer faster, lower-cost, and more reliable remittance options. By offering instant, lower-cost transfers via blockchain-based rails, without relying on stablecoins, can enhance access for individuals excluded from global banking infrastructures.  Users can store value in stablecoins pegged to more stable currencies, such as USD or GBP, to safeguard their wealth against potentially volatile currencies and reduce reliance on expensive intermediaries.

**Payment processing** with stablecoins offers businesses greater flexibility by enabling instant, low-cost transactions. Global retailers can accept USD-denominated stablecoins, reducing FX fees and delays, which is particularly valuable for customers in emerging markets with limited card access. Crypto-native platforms like NFT marketplaces also benefit from real-time stablecoin payments. On the disbursement side, organisations can use stablecoins for faster, cheaper, and more reliable global payroll and supplier payments, especially in underbanked regions where traditional banking is slow or inaccessible.

**Tokenisation of real-world assets**, such as money market funds, bonds, and gold, where the absence of a digital settlement leg remains a key barrier. Enabling digital currencies to settle transactions in these tokenised assets can unlock faster settlement, reduce costs, and expand investor access, especially for traditionally lower-yield, high-volume instruments like MMFs.

**Corporate treasury,** providing organisations with access to global currencies via stablecoins. For example, organisations can hold part of its working capital in stablecoins pegged to USD, providing exposure to the dollar without the requirement of a USD bank account and enabling 24/7 liquidity and the rapid deployment of funds. Firms in emerging markets with volatile currencies can use stablecoins as a hedge against the local currency and can covert funds into USD-pegged stablecoins to preserve its value.

**AI (including Agentic AI)**, where connecting intelligent agents to digital assets enables autonomous systems to transact, invest, or execute tasks on behalf of users. This unlocks new use cases across financial services, compliance, and digital commerce, but without access to digitally native money, these agents will face critical limitations in functionality and market adoption.

# Conclusion

**Digital assets present a significant opportunity for the UK to foster innovation, strengthen financial markets, promote financial inclusion, and reinforce its position as a global leader in financial services and technology. Among these, stablecoins stand out as a foundational element of the next generation of money and payments, particularly as the economy moves towards Web 3.0 infrastructure.**

These policy recommendations are widely represented in our response to HM Treasury's draft Statutory Instrument (SI), titled "The Financial Services and Markets Act 2000 (Regulated Activities and Miscellaneous Provisions) (Cryptoassets) Order 2025", where we outlined how the UK's current approach lacks the necessary urgency and strategic clarity to establish a robust regulatory framework for stablecoin-based payments. Other jurisdictions - including the United States, European Union, Hong Kong, and emerging financial hubs such as the UAE - are advancing with far more proactive and forward-looking policies. Without similar ambition, the UK risks ceding ground in the race for digital finance leadership, with potentially serious consequences for long-term investment, innovation, and economic growth.

Although we support the UK's treatment of overseas issuers, there remains a missed opportunity to actively cultivate a thriving domestic stablecoin sector. Continued dependence on foreign-issued, dollar-denominated stablecoins may ultimately diminish the role of sterling in the digital economy. To mitigate these risks and secure the UK's future competitiveness, it is essential that policymakers prioritise the creation of a clear, attractive regulatory framework that supports the issuance and adoption of GBP-backed stablecoins.

the payments association

# About The Payments Association

The Payments Association is the largest community in payments. Founded in the UK in 2008, the association now operates communities in the UK, EU and Asia, helping almost 300 companies enhance their commercial interests, solve societal problems such as financial exclusion and evaluate new opportunities for innovation in payments.

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 awards dinner, CEO roundtables and training activities.

We run seven stakeholder working Project groups: Cross-Border, Digital Currencies, ESG, Financial Crime, Inclusion, Open Banking and Regulatory. 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 conduct exclusive industry research. This research is not legal advice. It is made available to our members through our Insights knowledge base to challenge and support their understanding of industry issues. This includes whitepapers, insightful interviews and tips from the industry's most successful CEOs.

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