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Regulatory Update

Bank of England Consults on Systemic Stablecoins

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As part of the UK's rapid overhaul of its digital assets regulatory regime, the Bank of England this week issued a consultation paper on the bank's "Proposed regulatory regime for sterling-denominated systemic stablecoins". The bank's proposals for the sector were originally aired in a 2023 discussion paper. The consultation paper now sets out the bank's policy position for a proposed regulatory regime for sterling denominated systemic stablecoins for UK payments issued by nonbanks.

The UK does not presently have bespoke regulatory requirements relating to the issuance of stablecoins. A stablecoin product referencing a single fiat currency will most likely be regulated as an e-money product and will be regulated under the Electronic Money Regulations 2011.

In 2026 the UK will introduce a new regulatory authorisation requirement specifically for stablecoin issuers. A dual regime will exist, one for systemic stablecoins which the Bank of England is now consulting on, and a parallel regime that will also apply for non-systemic stablecoins which will be regulated by the FCA on a solo basis. The FCA has already consulted on stablecoin issuance in its Consultation Paper 25/14 published in May 2025.

This client alert covers the Bank of England's proposals in its consultation paper on systemic sterling denominated stablecoins.

New Licensing Requirement

Issuing a qualifying stablecoin in the UK will become a regulated activity for which regulatory authorisation will be required when carried on by a nonbank issuer.

The PRA stated in its consultation paper that for banks, the current regulatory regime for banking will apply. The PRA has set out in its 2023 Dear CEO Letter its regulatory expectations for banks that plan to issue tokenised deposits or other new forms of digital money, including stablecoins.

Nonbank issuers of stablecoins used for everyday retail and corporate payments that are recognised by HM Treasury as *systemic* will be jointly regulated by the Bank of England (for prudential and resilience matters) and the FCA (for conduct).

Application of the New Rules to Non-UK Issuers

The status of cross-border issuers (i.e., issuing stablecoins into the UK from abroad) is not entirely clear.

In a policy note issued in April 2025 the UK Treasury stated that UK regulatory authorisation to issue stablecoins will be required if a firm undertakes the issuing activity from an establishment in the UK. This would suggest that a licence will not ordinarily be required for cross-border activities from outside

the UK. However, this legislation has not been finalised and if a stablecoin is denominated in sterling and has been designated as being *systemic*, the position will be more complex.

The consultation paper states that the Bank of England's regulatory regime will apply to all issuers whose stablecoins are designated as being of systemic importance. If a non-UK issued stablecoin is designated as systemic the issuer will need to establish a licensed UK subsidiary and hold backing assets in the UK.

In practical terms non-sterling denominated stablecoins are unlikely to become of systemic importance in the sense of being widely used for UK payment transactions.

Key Ongoing Requirements

Once licensed, a stablecoin issuer will need to comply with ongoing requirements.

The key regulatory requirements addressed in the Bank of England's consultation are:

- Composition of the reserve assets
- Ability for issuers to earn a return on the reserves
- Liquidity requirements
- Capital requirements
- Holding limits
- Redemption rights

The Reserves

Coins in issuances will be required to be 100% backed by reserves.

In its original discussion paper the Bank of England had proposed that issuers would have to back their liabilities for issue coins with 100% deposits held at the Bank of England. These deposits would not be remunerated. However, the responses to the discussion paper pushed back on this proposal, forcing the bank to change its position.

The bank is now proposing to require systemic stablecoin issuers to hold the reserve assets per a 60/40 split with 60% of their backing assets in short-term sterling denominated UK government debt and the remaining 40% held as unremunerated deposits at the Bank of England. Issuers would thus be able to receive a return on the proportion of their backing assets held in UK government debt. The bank also recognises that issuers will be able to raise revenues from the services that they provide such as fees with respect to payment services.

Only temporary deviations from the 60/40 split will be permitted. This will be the case if an issuer needs to adjust the allocation to meet large or unanticipated redemption requests.

A step-up regime is proposed which would allow stablecoin issuers who are designated at the time of the launch of the new rules to hold up to 95% of the reserve assets in sterling denominated UK government securities and move to the new allocation over time.

Liquidity Requirements

The Bank of England expects that the above allocation of assets held as reserves will provide sufficient liquidity to meet redemption requests.

However, concerns relating to liquidity are further addressed in the section of the consultation on capital.

Capital Requirements

In relation to capital requirements the Bank of England proposes that issuers hold both capital against general business risk and a reserve of liquid assets to mitigate the financial risk of backing assets and to manage insolvency.

General business risk capital is intended to cover risks that a systemic stablecoin issuer may face during normal business operations. This capital requirement will be set at the higher of:

- The cost of recovery from the largest plausible loss event (based on modelling of risks); or
- Six months of current operating expenses.

Capital will need to be in the form of paid-up capital, share premium, retained earnings and other disclosed reserves.

The PRA also proposed that issuers hold on statutory trust two reserves of liquid assets to (1) top up shortfalls in backing assets due to financial risk, and (2) meet the cost of continuing critical services and distributing or transferring coin-holder assets in the event of the issuer's failure.

Holding Limits

To address risks of disintermediation of bank deposits, the Bank of England is proposing to impose holding limits. These are £20,000 for individuals and £10 million for businesses. The Bank of England proposes that exemptions from the proposed £10 million business limit could be granted if the business requires balances above it in the course of doing normal business.

The Bank of England expects to loosen and ultimately remove such limits as it gains comfort that the financial stability risks have been understood and mitigated.

Redemption of the Stablecoins

Holders of systemic stablecoins will have a legal right to redemption. The Bank of England has confirmed that an issuer must satisfy a redemption request by the end of the business day on which a valid request is made, ensuring timely access to funds.

Safeguarding

The Bank of England confirms that backing assets for coins issued must be safeguarded for the benefit of coin-holders in the UK. The assets will need to be held under the terms of a statutory trust of which the coin-holders will be the beneficiaries. The position is therefore more prescriptive than, for example, the existing safeguarding rules for e-money. For assets that are not held with the Bank of England itself, i.e., the UK government debt securities, issuers will need to appoint a qualified third party to hold the relevant assets.

Safeguarding obligations are also being imposed with respect to reserves of liquid assets for financial risk and insolvency/winddown costs. Again, these will need to be held under a statutory trust and segregated from the issuer's own assets.

Payment of Interest to Coin-Holders

Coin-holders will not be permitted to receive interest on their coin holdings. This is on the basis that systemic stablecoins should not be used as a means of investment.

The consultation closes on 10 February 2026 with the final rules to be introduced later in 2026.

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