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**Paradigm's response to the Bank of England's proposed regulatory regime for sterling-denominated systemic stablecoins**

Paradigm welcomes the opportunity to respond to the Bank of England's consultation on the proposed regulatory regime for sterling-denominated systemic stablecoins.

As a research-driven investor in next-generation crypto technologies, Paradigm invests in and supports early-stage startups and protocols across the crypto ecosystem. Our response to the Bank's proposals reflects our position as an investor and partner to firms spanning intermediaries, brokers, dealers, issuers, custodians, and protocol operators.

Paradigm supports the U.K. government's ambition to make the country a global center for digital innovation. Digital assets represent a natural extension of London's leadership in fintech and financial markets. The Chancellor of the Exchequer is right to recognize digital assets' role in economic growth, as the Financial Conduct Authority (FCA) and the Bank work towards a competitive, outcomes-based regulatory framework that allows the sector to mature unimpeded.

The Bank is right to recognize the growing role of stablecoins in the global economy and the need to consider their implications in becoming major retail and wholesale payment mechanisms. We are encouraged by the broad direction of travel outlined in this consultation paper versus the Bank's 2023 proposals, especially the emphasis on proportionality, interoperability, and recognition of stablecoins as a future component of the U.K.'s multi-money financial system. However, we urge the Bank to clarify several key design elements - notably around holding limits, backing asset composition, and redemption requirements - to ensure the regulatory framework remains workable, commercially viable, and globally interoperable for stablecoin issuers looking to operate, enter or grow in the U.K.



We welcome an opportunity to discuss our views on these matters in greater detail with regulatory decision-makers as this regime is finalized over the coming months.

### ***Regime scope and international deference***

Paradigm welcomes the Bank's decision to limit the scope of its systemic regime to sterling-denominated stablecoins used for payments. This appropriately narrows regulatory focus to coins that may present monetary and financial stability risks in the U.K., while leaving non-systemic and non-payment-oriented tokens (e.g. crypto trading pairs) under the FCA's perimeter.

Regulatory alignment is essential for U.S. dollar-denominated stablecoins, which dominate international settlements and liquidity provision. While we take no position on whether the Bank of England or FCA should oversee these instruments, we recommend further clarity on how the U.K.'s framework will align with both MiCA and the GENIUS Act, and how the Bank and FCA will coordinate domestically to ensure rule harmonization and avoid double regulation where non-GBP coins are used by U.K. institutions but issued from abroad.

Greater alignment with other jurisdictions remains critical. The U.K.'s approach should not isolate systemic or near-systemic firms by diverging from emerging global norms. We welcome the Bank's implicit openness to regulatory deference and cross-border equivalence, especially toward the U.S. framework enabled by GENIUS and now under consideration by the Federal Reserve and NYDFS. The U.K.-U.S. Transatlantic Taskforce provides an ideal forum to further define operational equivalence and recognition in advance of the regime's finalization in 2026.

However, further clarification is warranted on transitional boundaries and a glide-path to regulation where use-cases evolve organically. For example, it is possible that stablecoins used predominantly for on-chain settlement begin to be accepted for retail payments. We suggest clear interpretive guidance that allows a gradual transition from FCA to joint (Bank/FCA) oversight rather than immediate reclassification as "systemic."

### ***Interoperability and wholesale use-cases***

Paradigm welcomes the Bank's commitment to interoperability between systemic stablecoins, tokenized bank deposits, and central bank money, as well as its intention to explore stablecoin settlement in wholesale markets via the Digital Securities Sandbox (DSS) and its program of on-chain wholesale settlement pilots in 2026. These steps are a necessary precursor to a unified digital sterling ecosystem.

However, we also emphasize the need for neutrality between bank and non-bank issuance for future stablecoins, and that native issuers are not treated with materially more onerous



requirements. The proposed framework must avoid creating a structural advantage for banks over non-bank stablecoin issuers. This mirrors the principle underpinning tokenized deposits and systemic stablecoins being ‘functionally equivalent’ forms of sterling money. Non-bank issuers bring diversity, technological innovation, and global reach. Divergent treatment of comparable risks could distort incentives, inhibit interoperability, and weaken the overall resilience of the multi-money system the Bank seeks to develop.

We encourage the Bank to consider extending its DSS program to include direct integration with permissionless ledgers and cross-border settlement mechanisms, which are crucial for large-scale adoption. The Bank should also seek to clarify under what conditions stablecoins that successfully participate in the DSS may graduate to mainstream wholesale settlement usage.

### ***Treatment of permissionless ledgers***

*Paradigm welcomes the Bank’s recognition that permissionless blockchains can form the infrastructure for systemic stablecoins.* This is an important, future-proof stance that aligns with global developments. However, we encourage the Bank not to reflexively equate permissionless systems with ungovernable risk, but instead to assess them on empirical and operational grounds, including cryptographic finality assurances, validator diversity, and governance transparency. Permissionless ledgers may actually be safer precisely because of their transparency: public code is auditable, whereas the Bank should want to avoid commercial issuers developing proprietary codes and protocols to host future stablecoins as they scale. Much like the internet, robust standards are possible and aspirational, but not achieved through base-layer bias. The Bank’s supervisory model should move toward functional risk assessment rather than infrastructure type.

The Bank should look to prepare guidance identifying the specific operational standards by which permissionless ledgers would be judged “fit” for systemic use, including resilience, settlement finality, governance accountability, and recovery and rollback procedures.

### ***Backing assets***

Paradigm welcomes the revised proposal allowing up to 60% of backing assets to be held in short-term sterling-denominated U.K. government debt. This marks a major improvement from the 2023 proposal and better aligns the U.K. regime with international peers.

However, we are concerned that the 60% ceiling remains too restrictive to support commercially sustainable models, particularly during low-rate periods. The Bank has acknowledged the importance of stablecoin issuers’ business model viability but has provided



little empirical justification for fixing this proportion, mindful of commercial models that exist in the stablecoin market today. We encourage the Bank to consider evidence from international equivalents that can inform whether a higher proportion of HQLA (up to 80–90%) would continue to provide sufficient liquidity resilience without compromising par redemption.

In Paradigm’s view, a model that prioritizes cash over short-dated government securities sacrifices issuer viability without yielding a commensurate reduction in systemic risk. Given the near-identical credit profile and strong liquidity characteristics of U.K. government bonds, they should be treated as equivalent high-quality liquid assets.

The proposed “step-up regime” for issuers recognized as systemic at launch is constructive, but underdeveloped. Its calibration remains opaque, particularly the parameters for reducing HQLA holdings from 95% to the desired 60% final state and the timeframe for the transition. It is unclear whether this is a universal trajectory or subject to supervisory discretion. This lack of clarity makes entry into the U.K. challenging to interpret, cost, and risk assess for global issuers that may wish to operate a GBP stablecoin.

We encourage the Bank to consider replacing a fixed ratio (60:40%) and a “step-up regime” with a flexible, risk-adjusted range (60–100%) that can be determined case-by-case. This would allow the Bank’s capacity to mitigate risks associated with issuer liquidity management, its redemption model, and access to the Bank’s backstop facilities. It would also better demonstrate the Bank’s openness to flexible ratios that do not directly undermine competitive commercial models in the face of regulatory standards.

Paradigm also cautions against pushing issuers toward fee-based business models. The Bank’s encouragement for stablecoin issuers to diversify revenues beyond backing-asset interest offers little practical guidance on what it considers acceptable or desirable alternative models. We welcome policymakers to consider more closely the implications of the proposals on issuers’ existing models and the need to promote such a change. Paradigm supports evolution and innovation in value-added services and commercial models for stablecoins used in payments. However, pushing this artificially could distort competition, reduce transactional efficiency, and burden end-users out of a seamless experience.

### ***Holding limits***

Paradigm recognizes the Bank’s intent to safeguard financial stability by proposing per-coin holding limits of £20k for individuals and £10m for businesses. However, we are concerned that such limits, particularly if applied on a proactive basis, risk constraining innovation, distorting market behavior, and undermining the development of efficient payment and liquidity solutions that leverage stablecoins.



Comparable constructs already exist within the financial system: money market funds (MMFs), fully deposited narrow banks and payment firms holding safeguarded client funds, all of which hold short-term liquid assets matching liabilities at par value. None of these models are or were subject to fixed ex-ante holding caps as they grow. The risks to monetary stability are best mitigated through robust liquidity and capital regulation, not through restrictions on user balances. It is unclear why a highly liquid stablecoin backed at par by central bank cash and short-dated U.K. government bonds should be treated more restrictively than these established precedents.

The central concern cited by the Bank - potential deposit flight from the banking system - echoes earlier debates around MMFs, where experience shows that liquidity management tools and supervisory monitoring proved more effective than arbitrary limits. Evidence suggests that properly structured redemption and asset-liability frameworks can deliver the same stability. Moreover, limits risk signaling instability to users, contradicting the Bank's core objective of building trust and fungibility between new and traditional forms of money.

We urge the Bank to treat holding limits as a discretionary contingency deployable under defined stress conditions rather than a permanent design feature of its regime. A stablecoin system meeting robust backing, capital, and redemption standards should not face artificial ceilings on scale or adoption simply because it operates on permissionless infrastructure.

### ***Redemption requirements***

Paradigm is concerned that the Bank's reaffirmation of end-of-day redemption requirements may not fully reflect how stablecoin markets function in practice. Unlike traditional bank deposits, on-chain redemptions and liquidity transformations occur 24/7, across multiple intermediaries, often without uniform AML/ CFT sequencing. This often results in faster settlement than fiat payment journeys. However, while preserving full par redemption and AML integrity are essential, imposing strict EOD redemption windows could create liquidity bottlenecks and discourage participation. This model diverges from other standards abroad: both MiCA's flexible timeline for redemption processing and the prevailing U.S. practice, which both emphasize outcomes-based redemption capability.

The Bank should reconsider the viability of an outcomes-based redemption standard focused on consistency, transparency, and consumer protection, rather than prescriptive timing. In particular, this would support multilateral redemption intermediaries (e.g., primary distributors) in performing AML/CFT verification post-funding within a defined grace period, mirroring accepted practices in stablecoin secondary markets. It would also recognize continuous redemption liquidity models (including on-chain AMM-based mechanisms) as compliant alternatives, provided they meet liquidity and transparency criteria.



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Taken together, Paradigm welcomes the Bank considering how it may go further to make its regime more flexible, outcomes-based, and internationally aligned to support innovation in future payments models, and to ensure the U.K. is positioned as an attractive place for future coins to be issued, hosted, and for the underlying infrastructure to be developed. Doing so should be in the Bank's interest to inform global standards and future business models as this market matures.

Paradigm looks forward to continued engagement with the Bank as it advances its regulatory framework for stablecoins. This includes opportunities to join the Bank and other industry players in roundtable and group engagement through 2026. Please contact Justin Slaughter, Paradigm's VP of Regulatory Affairs ([justin@paradigm.xyz](mailto:justin@paradigm.xyz)), with any questions or follow-up discussions.

Sincerely,

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