

# **Response to the Bank of England Consultation Paper:**

*Proposed Regulatory Regime for Sterling-Denominated Systemic Stablecoins*

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# Executive Summary

This response welcomes the Bank of England’s progress in refining its proposed framework for systemic stablecoins, while noting that the regime is still among the most restrictive internationally. Although the move from a 100% unremunerated central bank deposit requirement to permitting up to 60% investment in short-term UK sovereign debt is a constructive step, the framework continues to resemble a quasi-CBDC model and risks placing GBP-denominated stablecoins at a competitive disadvantage compared to USD and EUR equivalents.

We have set out key considerations for the Bank and industry to help strike an appropriate balance between holder protection and monetary policy objectives, while ensuring that the regulatory framework does not become overly prohibitive in a way that could unnecessarily stifle innovation and adoption.

## Interest, Incentives, and Consumer Outcomes

The prohibition on passing through interest or other economic benefits to stablecoin holders risks creating adverse incentives. In practice, it may encourage retail users to seek yield through opaque staking, rehypothecation, or DeFi arrangements, potentially increasing risk elsewhere in the financial system. Retail users are unlikely to hold stablecoins solely on an intraday basis for payments and are therefore disproportionately disadvantaged by a blanket non-remuneration requirement.

In the context of regulatory regimes in the United States, European Union, and United Arab Emirates, and noting the recently announced decision to allow interest to be paid on central bank digital currency in China, there is a strong case for allowing greater flexibility in the provision of rewards or alternative forms of remuneration to stablecoin holders.

Where a stablecoin is materially backed by cash deposits, whether held at the central bank or with commercial banks, it is structurally analogous to a deposit delivered via Web3 infrastructure. In such cases, consideration should be given, jointly by the Bank and the FCA, to permitting the pass-through of interest. Conversely, stablecoins fundamentally backed by non-cash assets should be treated as securities rather than deposits.

## Deposit Insurance

Furthermore, where stablecoins exhibit strong deposit-like characteristics, there is a strong case for deposit protection mechanisms (e.g. FSCS) to apply. This would incentivise the use of commercial bank deposits, support fractional-reserve banking, and help avoid excessive migration of liquidity out of the real economy.

In the longer term, trust in widely used stablecoins may require an insurance scheme analogous to that which applies to bank deposits, alongside a statutory resolution regime that ensures coinholders are treated as preferred creditors in insolvency, as highlighted by Dave Ramsden in a speech at Kings College in January 2026<sup>1</sup>. To ensure not unduly over burdening the issuers,

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<sup>1</sup> <https://www.bankofengland.co.uk/speech/2026/january/dave-ramsdens-speech-at-kings-college-london-the-evolution-of-resolution>

any insurance contributions by stablecoin issuers could be structured on a multi-year basis, allowing a build up to the required level.

The Bank's proposal to provide unremunerated accounts to issuers should be revised. Concerns around deposit flight from commercial banks could be mitigated via remuneration caps or tiered interest structures.

## **Backing Assets**

As outlined above, the proposed restrictions on eligible backing assets are overly narrow and risk concentrating demand at the very short end of the gilt curve. A broader, risk-managed HQLA framework would improve resilience and market functioning. This should include, subject to supervisory oversight:

- Cash deposits at commercial banks
- Short-duration term deposits
- Money Market Funds (including bespoke MMFs for stablecoin issuers)
- UK government gilts across a broader maturity spectrum, subject to weighted-average-maturity limits

## **Scope of Systemic Stablecoins**

We broadly agree with the proposed scope. However, stablecoins used for settlement of crypto-assets currently represent the largest retail use case by volume. The introduction of high-quality GBP stablecoins is likely to accelerate adoption by both retail and professional users.

The mechanics of settlement for crypto-assets increasingly resemble those for tokenised securities, including models explored in the Digital Securities Sandbox. It is therefore unclear why stablecoin-based settlement of crypto-assets is treated differently from the settlement of tokenised securities and for payments. We believe it may be useful to reassess the scope of systemic to include all forms of settlement.

## **Access to Bank Accounts and Liquidity Facilities**

Granting systemic issuers access to Bank of England accounts and liquidity facilities is prudent.

Clarification is required on the treatment of negative interest rates for unremunerated accounts and whether costs would be passed on to issuers.

## **Capital, Reserves, and Standardisation**

While the proposed risk-based capital and reserve framework is directionally appropriate, the current reliance on issuer-specific assessments of "largest plausible loss" risks inconsistency and regulatory arbitrage. Greater standardisation, potentially linked to revenue or transaction volumes, would improve comparability and supervisory clarity.

Wind-down reserves overlaps with business risk capital and should be consolidated under a unified operational risk framework aligned with Basel standards.

## **Holding Limits and Systemic Designation**

While holding limits may be an effective transitional tool, they also introduce operational complexity and may give rise to unintended behavioural responses, such as customers spreading balances across multiple stablecoins. Enhanced regulatory reporting and graduated capital or reserve requirements based on issuer size, in our view, offer a more effective means of achieving the Bank's objectives.

## **Public Blockchains and Operational Resilience**

Cybersecurity and smart-contract risk are currently key risks associated with public permissionless ledgers. Issuers should be required to maintain robust audit, monitoring, and contingency frameworks, including off-chain backup databases to support business continuity and orderly wind-down.

## **Non-Sterling Stablecoins**

A globally competitive GBP stablecoin regime is the most effective way to mitigate risks from non-sterling stablecoins. Current limitations on GBP stablecoins have driven UK users toward USD stablecoins, introducing FX risk. Passporting may be appropriate where equivalent standards apply, but full deference should be carefully constrained given divergent monetary policy objectives between the Bank and a foreign central bank / regulator.

# **Responses to Consultation Questions**

## **Q1**

While the 60% gilt allowance is an improvement, the remaining constraints remain excessive and risk disadvantaging GBP stablecoins. The mandatory 40% deposit requirement may constrain commercial bank deposits and credit creation. A WAM-based approach to gilt holdings would mitigate concentration risk.

## **Q2**

The step-up regime is directionally appropriate but overly narrow. Subject to prudent risk management, issuers should have flexibility to place funds with commercial banks and invest in MMFs.

## **Q3**

A risk-based approach is appropriate, but greater standardisation is needed to avoid regulatory arbitrage. Capital requirements linked to revenue or transaction volumes would improve consistency across issuers.

#### **Q4**

We agree that backing assets and excess financial risk reserves should be ring-fenced and held on trust.

#### **Q5**

Advanced operational risk models have proven unreliable. A simplified approach aligned with Basel Basic Indicator or Standardised Approaches would ensure consistency.

#### **Q6**

Insolvency and wind-down reserves should align with international market and liquidity risk standards, potentially using PRA simplified models or Bank haircuts plus a fixed add-on. Flexibility to use MMFs should be retained.

#### **Q7**

Wind-down reserves overlap materially with business risk capital. These should be consolidated under a single operational risk category aligned with Basel standards.

#### **Q8–Q10**

Hard holding limits are operationally complex and risk stifling adoption. Enhanced regulatory reporting and graduated capital or reserve requirements based on issuer size would be more effective. The proposed £10m business limit appears too low.

#### **Q12–Q13**

We support safeguarding backing assets via UK-regulated trustees. Decisions on single versus multiple trust structures should remain with issuers.

#### **Q14–Q15**

Cybersecurity and smart-contract risks are the most material risks associated with public permissionless ledgers. Issuers should maintain robust audit, monitoring, and contingency frameworks, including off-chain backup databases.

#### **Q16**

Concentration risks in blockchain infrastructure and smart-contract dependencies may warrant further supervisory attention.

#### **Q20–Q22**

Non-sterling systemic stablecoins pose risks to monetary policy transmission. A competitive GBP stablecoin regime is the most effective mitigation. Passporting may be appropriate where equivalent standards apply, but full deference should be constrained.