Bitcoin Policy UK: Response to the Bank of England's Consultation on Stablecoins Code of Practice

Submitted by: Bitcoin Policy UK (BPUK)

Date: 17 September 2026

In response to: Bank of England's policy statement and consultation on draft Code of Practice for sterling-denominated systemic stablecoins

Consultation deadline: 22 September 2026

Consultation contact: CP-systemicstablecoin@bankofengland.co.uk

Consent: We consent to the Bank of England disclosing and/or publishing our name and/or the name of our organisation as a respondent to this consultation.

Executive Summary

Bitcoin Policy UK (BPUK) welcomes the opportunity to respond to the Bank of England's (the Bank) Policy Statement and consultation on the draft Code of Practice for sterling-denominated systemic stablecoins, published 22 June 2026.[1]

BPUK's position is that regulation should match the risk. It should not make legitimate private money models unworkable or favour larger firms that can absorb higher compliance costs. Systemic stablecoins are a different asset class to Bitcoin, but this consultation still affects competition, innovation and the future of money in the UK.

BPUK supports the Bank's move from a 60/40 to a 70/30 backing model and the replacement of per-coin holding limits with a temporary issuance guardrail; both changes reduce the burden on issuers.

We have two main concerns. First, parts of the draft Code hold private stablecoin issuers to a different standard from other forms of private money, without fully explaining why the difference needs to be so significant. Second, the regime would make systemic stablecoins fully backed, dependent on Bank of England infrastructure and subject to more central bank rules as they grow. The proposed reserve structure could also direct significant private capital into UK government debt as the stablecoin market grows. Taken together, these rules risk giving the central bank too much influence over privately issued money.

A. Proportionality, competition and business model viability

BPUK's approach is to ask whether regulation creates unfair distortions between similar forms of money and payment systems. We support a "same risk, same regulation" approach, where rules reflect the actual risk of an activity rather than treating different business models as if they were the same.

[1] Bank of England, 'Sterling-denominated systemic stablecoins', Policy Statement and consultation on draft Code of Practice, published 22 June 2026: https://www.bankofengland.co.uk/paper/2026/ps/sterling-denominated-systemic-stablecoin

BPUK welcomes the changes made since the November 2025 consultation. Reducing the Bank of England deposit requirement from 40% to 30%, and allowing systemic-at-launch issuers to hold up to 95% in government debt, should lower entry costs while keeping the liquidity protections in place. Replacing per-coin holding limits with a £40 billion issuance guardrail is also an improvement. It avoids the need for bespoke smart contracts, coordination between firms and digital identity systems that would have raised privacy and implementation concerns. BPUK has previously raised similar privacy concerns about digital identity requirements in the digital pound debate.

BPUK has two outstanding proportionality concerns on which we would welcome clarification.

First, the total cost of the regime. Together, the 30% unremunerated deposit requirement, the capital floor, the financial risk reserve and the wind-down reserve create a substantial fixed cost for issuers. The Bank's own example in Box C puts capital and reserve requirements at about £461 million, plus wind-down costs, for a £40 billion issuer. That does not include the cost of holding 30% of backing assets at the Bank of England without earning interest. Many of these costs, including trust administration, risk assessment, recovery planning and custodian checks, do not scale proportionately with issuance size. These costs are likely to hit smaller and newer firms harder than large, well-capitalised issuers or firms linked to existing banks. The Bank's case-by-case approach for systemic-at-launch issuers may reduce some of these costs, but the published material does not yet show how effective it will be.

Recommendation: *the Bank should publish an indicative worked example of the fixed compliance cost facing a smaller systemic-at-launch issuer (for example, a stablecoin recognised as systemic at launch with issuance in the low single-digit billions), alongside the £40 billion example already provided, so that respondents can properly assess whether the regime is proportionate across the range of firms it is intended to accommodate.*

Second, the basis for the 30% central bank deposit requirement. The Bank's own Box A notes that its benchmark comes from the March 2023 outflows from Silicon Valley Bank US and USDC, where depositors were unusually concentrated in the technology and venture capital sectors. A more diverse stablecoin user base may show less correlated withdrawal behaviour. The Bank has already reduced the requirement from 40% to 30% partly in recognition of this. BPUK asks the Bank to review the 30% threshold once there is enough evidence from actual stablecoin use and redemptions, rather than treating it as permanent. The current figure is based on a single, unusual stress episode.

B. Financial stability and the backing standard: comparison with other forms of money

BPUK has considered whether the Code holds stablecoin issuers to a different standard from other forms of money, and whether that difference is justified.

There is a structural reason for a different standard. Commercial bank deposits are not individually backed 1:1; banks use deposits and other sources of funding to support their lending activities and rely on the Financial Services Compensation Scheme, prudential capital requirements and central bank lender-of-last-resort facilities to sustain confidence. Systemic stablecoin issuers have no equivalent deposit insurance and, under this regime, are prohibited from lending or extending credit against backing assets. The Bank's own reasoning, that the absence of equivalent deposit insurance is likely to remain an important factor for coinholders in a stress, is a fair basis for requiring full backing and a liquid reserve that a fractional-reserve bank does not need to hold in the same form.

The key question is whether requiring a large, permanent and unremunerated cash holding is a proportionate and cost effective way to achieve the Bank's liquidity objective. Banks meeting their own liquidity coverage requirements are permitted to hold a range of high-quality liquid assets, some of which earn a return, and central bank reserves held by banks are, in the ordinary course, remunerated. Systemic stablecoin issuers, by contrast, must hold 30% of backing assets as permanently unremunerated central bank deposits as a matter of policy, expressly because stablecoins are not intended to play a role in monetary policy transmission. BPUK accepts that central bank cash provides the highest level of immediate liquidity. However, the Bank should explain why 30% must permanently be held in unremunerated central bank deposits, and whether equivalent resilience could be achieved through a less prescriptive approach.

The proposed backing model could also make systemic stablecoins a growing source of demand for UK government debt. If sterling stablecoins reach significant scale, requiring a large share of their reserves to be held in eligible government securities could channel substantial private capital into gilts. This may be a consequence of the liquidity framework rather than its purpose, but it is worth acknowledging explicitly when considering how the regime could shape the market.

BPUK also notes the Bank's stated reason for excluding commercial bank deposits and a wider set of eligible assets from backing composition: the risk of 'tiering' and contagion between systemic stablecoin issuers and the wider banking sector. This is a legitimate financial stability concern. It also means that issuers without an existing banking relationship, balance sheet or connection to an established bank must bear the full cost of the 70/30 backing model, the capital floor and the reserve requirements themselves, while firms with an established bank relationship may be better placed to absorb these costs through existing infrastructure and funding relationships. BPUK does not suggest this is the Bank's intention, and recognises that each requirement has a financial stability justification. Combined, these costs could make it much easier for large banks and established firms to enter the market than smaller independent issuers, which runs against the Bank's stated aim of supporting competition and a range of business models.

Recommendation: *the Bank should publish a comparative assessment of the effective cost of the 70/30 backing model, capital and reserve requirements relative to (a) the cost of a bank's own liquidity and capital requirements for holding an equivalent value of customer funds, and (b) comparable overseas regimes, such as the US GENIUS Act and the EU's MiCA. This would allow the proportionality of the UK standard to be assessed against relevant alternatives.*

C. Private digital money, central bank dependency, and the CBDC parallel

BPUK's established position on a retail central bank digital currency is that a CBDC with tiered access based on identity, central bank oversight of transaction data and design parameters set by the central bank would significantly expand central bank control over money and payments. In our view, it would also compare poorly with physical cash and existing digital alternatives on privacy and inclusion. This consultation does not concern the digital pound. However, BPUK asks the Bank to consider whether the framework for privately issued systemic stablecoins shares some of the same structural features BPUK has previously raised in the CBDC context. These features are set out below. Some of these measures are intended to protect financial stability, but BPUK questions whether requiring 30% to be held at the Bank of England without interest, while directing much of the remaining backing into government debt, is proportionate.

Under this regime, a systemic stablecoin would be sterling and fully backed 1:1. Its backing rules, eligible assets and haircuts would be set in the Code of Practice. It would depend on a Bank of England deposit account and potentially the proposed Central Bank Liquidity Facility. It would also be subject to thresholds set by the Bank, including the 30% deposit floor and the £40 billion issuance guardrail. As a stablecoin moves from sole FCA regulation into the jointly regulated systemic regime , the Bank gains more control over how its backing assets are structured.

None of these measures is unreasonable on its own. Each is intended to address a specific financial stability risk, and BPUK is not arguing that these safeguards should be removed. In combination, they raise an important question: from a coinholder's perspective, how different would a systemic sterling stablecoin really be from a form of digital money administered by the central bank? The policy statement places systemic stablecoins, tokenised bank deposits and a potential retail CBDC within the same system for money and payments, with the Bank playing a central role. BPUK asks whether bringing these forms of money closer together is a deliberate part of the Bank's strategy, or a consequence of the rules being designed. If it is deliberate, the Bank should explain that clearly alongside its work on the digital pound.

The redemption process requires issuers to complete AML/KYC checks and collect identity and transaction data before the 24 hour redemption clock starts. BPUK has longstanding concerns about excessive identity checks, unnecessary collection of personal data and the linking of financial information across systems. These concerns apply here too. We recommend that the Bank limit the collection, sharing and linking of personal data to what is strictly necessary for the regime to operate.

Recommendation: *the Bank should explain how much systemic stablecoins will depend on its infrastructure and rules, and how privately issued money will remain meaningfully distinct from central bank money as issuers grow.*

D. Operational constraints

- **Redemption and AML/KYC checks**: the 24 hour redemption clock only starts once AML/KYC checks are complete. BPUK asks the Bank to explain what happens when enhanced due diligence or sanctions checks take longer, so coinholders have a clear and enforceable expectation of when redemption will occur.

- **Custodian concentration:** the Bank has noted that only a small number of unconnected custodians can currently serve systemic stablecoin issuers. BPUK recommends publishing regular data on custodian concentration so the market can see whether this risk is reducing over time.

- **Overnight repo and reverse repo**: limiting these transactions to overnight reduces interconnectedness risk, but it also means issuers must rely on the gilt repo market working every day. BPUK asks the Bank to explain what contingency plans issuers should have if that market is disrupted during a period of heavy redemptions.

- **Notification and remediation:** the draft Code sets clear triggers for when issuers must notify the Bank, including when central bank deposits fall below 25% for five consecutive business days or below 20% at any point, or when capital falls below 110% of the minimum requirement. BPUK asks the Bank to explain how quickly it will review and respond to remediation plans, so issuers know what to expect.

- **Transition from FCA to Bank regulation:** BPUK welcomes the joint Bank and FCA work on transition arrangements for firms moving into the systemic regime. Issuers should be given enough time to understand and prepare for the Code before it is finalised.

E. Equality Act 2010: impact on persons sharing protected characteristics

We have not identified clear evidence that these rules would affect people with protected characteristics differently from others. However, some indirect effects may only become clear once the regime is operating in practice, particularly where access, identity checks or redemption processes are involved. These rules mainly govern how issuers operate, rather than how consumers access or use stablecoins.

This differs from the per-coin holding limits originally proposed, which have since been dropped. In its work on the digital pound, BPUK found that limits enforced through identity checks could raise financial inclusion concerns. As that approach is not included in this Code, we do not have enough evidence to draw the same conclusion here. We would welcome any equality impact assessment carried out on these proposals.

Summary of recommendations

- Show what these rules would cost a smaller issuer, alongside the existing £40 billion example.
- Review the 30% central bank deposit requirement once there is enough evidence from actual stablecoin use and redemptions.
- Compare the cost of these backing, capital and reserve requirements with the rules that apply to banks and stablecoin issuers in other countries.
- Explain how much systemic stablecoins will depend on the Bank of England, and how privately issued money will remain meaningfully distinct from central bank money.
- Limit the collection, sharing and linking of personal data to what is strictly necessary for the regime to operate.
- Explain what happens to the 24 hour redemption clock when enhanced due diligence or sanctions checks take longer.
- Publish regular data on custodian concentration so the market can see whether this risk is reducing over time.
- Explain what contingency plans issuers should have if the gilt repo market is disrupted during a period of heavy redemptions.
- Explain how quickly the Bank will review and respond to remediation plans after an issuer is required to notify it.
- Give issuers enough time to understand and prepare for the Code before it is finalised.

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