

International Regulatory Strategy Group response

Bank of England Discussion Paper (DP): Regulatory regime for systemic payment systems using stablecoins and related service providers

Introduction

The International Regulatory Strategy Group (IRSG) is a joint venture between TheCityUK and the City of London Corporation. Its remit is to provide a cross-sectoral voice to shape the development of a globally coherent regulatory framework that will facilitate open and competitive cross-border financial services. Members of the IRSG include firms from the UK financial and professional services sector.

The IRSG welcomes the discussion papers by both the Bank of England (BoE) and the Financial Conduct Authority (FCA) detailing proposals for the future regulatory regime for stablecoins when used as a means of payment. The IRSG has submitted a full response to the FCA's Discussion Paper DP23/4: Regulating cryptoassets Phase 1: Stablecoins. This shorter note provides some further considerations specific to the BoE's Discussion paper on a regulatory regime for systemic payment systems using stablecoins and related service providers. These should be considered in parallel to our response to the FCA's paper.

Summary

The IRSG is broadly supportive of the BoE's proposals. Efforts for the UK to develop a robust regulatory regime for cryptoassets in collaboration with industry are positive. In particular, we welcome the principle of 'same activity, same risk, same regulatory outcome' and alignment with international standards in the proposed regulatory regime.

Regarding the BoE's proposed regulatory regime for systemic payment systems using stablecoins, it is the IRSG's view that:

- Clarity is needed on the 'systemic threshold' for payment systems using stablecoins, and the classification of systemic third-party service providers.
- The BoE and the FCA must ensure that any future policy proposals are aligned and consider any unintended consequences of how they interact.
- The BoE must distinguish more clearly between stablecoins, electronic money (e-money) and tokenised deposits.
- Further clarification is needed on who the required central entity will be.
- Overseas systemic stablecoins should be incorporated into the final regime.

Moreover, The IRSG would welcome additional opportunities to engage with regulators/government on the issues highlighted in the Dear CEO letter¹ published by PRA. The letter sets out measures which the PRA expects banks to take where they are both accepting deposits, and issuing e-money and regulated stablecoins. Given the extent and significance of the measures proposed, members of the

¹ [Letter from David Bailey, Nathanaël Benjamin and Vicky Saporta on 'Innovations in the use by deposit-takers of deposits, e-money and regulated stablecoins' | Bank of England](#)

IRSG agree that further opportunities to comment on the measures would be beneficial (e.g. a formal consultation process).

Key considerations for the BoE

Systemic threshold

The BoE's expanded remit covers systemic payment systems using stablecoins. HMT designates payment systems as systemic where they could threaten the stability of, or confidence in, the UK financial system. We recognise that there is not one fixed 'systemic threshold' but rather the Banking Act 2009² establishes certain criteria for recognition, such as the number and nature of transactions. However, further clarity is needed on what HMT and the BoE consider the 'systemic threshold' for payment systems using stablecoins. This will allow service providers to make informed decisions between scale, compliance, and revenues. In addition, further clarity is needed on whether a designation as systemic refers to a stablecoin or its underlying use.

Another point for further consideration is systemic third-party service providers. This discussion paper explicitly states that a service provider, such as a wallet, could be recognised by HMT as systemic in its own right. However, is it unclear whether a wallet provider would be classified as systemic due to the volume of consumers it serves, or because it is an integral part of the UK's stablecoin ecosystem. A scenario may arise where a single wallet provider becomes integral in catering for the newly issued, and therefore not systemic, stablecoins. Further clarification is needed on whether a third-party service provider could be designated systemic independently of interaction with any systemic stablecoins.

Alignment across regulatory regimes

Where a fiat-backed stablecoin has been designated as systemic by HMT (in consultation with the BoE), under these proposals it will be subject to additional and more stringent requirements from the BoE. While it is important that systemic stablecoins are subject to stronger regulatory oversight, differences between the BoE and FCA's regimes may create unintended consequences. For example, too much of a cliff edge would create timely and costly changes operationally in scaling up. Additional compliance burdens may cause FCA regulated stablecoin issuers to be disincentivised to reach, or purposely avoid, the systemic threshold. Importantly, the widespread adoption of a particular stablecoin may not be in the control of the issuer. One solution could be to apply granular systemic thresholds, an approach consistent with the EU's Market in Crypto-assets Regulation (MiCA).

The BoE and the FCA must ensure that any future policy proposals are aligned and consider how these regimes would interact. We look forward to receiving clarity on how the regulatory framework for firms that fall within multiple regimes will work in practice in due course.

Other considerations

² The Financial Services and Markets Act (FSMA) 2023 extends Part 5 of the Banking Act 2009 (Bank of England oversight of payment systems) to payment systems using digital settlement assets and DSA service providers.

- HMT has acknowledged that fiat-backed stablecoins are distinct from e-money and tokenised deposits and has committed to ensure the legal separation of these products. However, further clarification is needed on how the BoE will distinguish between these.
- The BoE's proposals require the existence of a central entity to govern the safe operation of the transfer function and to assess risk across the entire chain. Clarity is needed on who this central entity will be.
- Incorporating foreign-issued systemic stablecoins into the UK economy could be beneficial to consumers and the UK economy. Potential benefits may include improved cross-border payments, the utilisation of stablecoins by tourists for retail payments in the UK, applications in wholesale markets, and facilitating remittances.

Conclusion

The IRSG supports the development of a UK regulatory regime for systemic payment systems using stablecoins. This step towards an effective and appropriate regulatory framework for cryptoassets will allow the benefits of these technologies to be realised sustainably while managing the associated risks.

We encourage the BoE to stay closely engaged with the industry and look forward to receiving updated proposals on the final future regime.

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