

# The Distributed Ledger

## Blockchain, Digital Assets and Smart Contracts

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If you have any questions regarding the matters discussed in this memorandum, please contact the following attorneys or call your regular Skadden contact.

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## Bank of England Revises Its Proposed Regime for Regulating 'Systemic' Stablecoins

### Executive Summary

- **What's new:** The Bank of England issued a consultation paper setting out in detail its latest proposals for regulating stablecoins which are deemed "systemic," including requirements for backing assets, capital and reserves, and redemption procedures for coinholders.
- **Why it matters:** The bank's proposals are more restrictive in a number of respects than the Financial Conduct Authority's proposed rules for non-systemic stablecoins. In considering whether to recommend to HM Treasury that a stablecoin be treated as systemic, the bank will look at a number of factors, including the volume of transactions using the stablecoin, the nature of transactions processed and its interconnectedness with other systemically important financial market infrastructure.
- **What to do next:** The industry will be monitoring the ongoing consultation on the bank's proposed regime and may want to submit comments on the proposals before the consultation ends in February 2026.

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The long-awaited Bank of England (Bank) consultation paper on its proposed regulatory regime for sterling-denominated systemic stablecoins was published on 10 November 2025 (Consultation Paper). This follows its discussion paper of 6 November 2023, as well as the UK Financial Conduct Authority's (FCA) consultation paper (CP25/14) on stablecoin issuance and cryptoasset custody.

The Consultation Paper outlines the Bank's current position across a number of key areas, including:

- The scope of "systemic stablecoins."
- The composition of "backing assets."
- Capital and reserve requirements.
- Holding limits.
- Redemption requirements.
- Safeguarding of backing assets.
- Remuneration of coinholders.

Whilst the Bank has shown some flexibility on its positions on a number of topics since 2023, its proposed regime remains, as expected, significantly more onerous than the FCA's proposals for non-systemic stablecoins.

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## What Is a Systemic Stablecoin?

As noted, the Bank’s proposals (and therefore the scope of its regulation of stablecoins) only relate to sterling-denominated systemic stablecoins. In response to feedback, the Consultation Paper seeks to clarify and offer further guidance on what constitutes systemic importance.

HM Treasury is responsible for determining whether a payment system which uses stablecoins or service provider which issues stablecoins is systemic (whether in its own right or because it provides an essential service to a systemic payment system or service provider). HM Treasury will consider a number of factors, including the advice of the Bank regarding whether an entity should be recognised as systemic.

The Consultation Paper sets out a number of specific criteria and indicators which the Bank will look at when providing advice to HM Treasury as to whether a stablecoin should be considered systemic. Those include:

- The number and value of transactions presently processed or likely to be processed in the future, and the value of services that the service provider presently provides or is likely to provide in the future.
- The nature of the transactions processed or the nature of the services provided.
- Whether those transactions or equivalent could be processed elsewhere or whether the services or equivalent could be provided by others.
- The relationship with other systems and service providers (*i.e.*, its interconnectedness with other systemically important financial market infrastructures or institution specific exposures).
- Whether the system is used by the Bank in the course of its role as a monetary authority.

The Bank, however, declined to provide any quantitative thresholds, saying that such an approach could cause the Bank to recognise stablecoin issuers that it would not otherwise propose to HM Treasury as systemic.

The Consultation Paper also notes that the Bank is exploring stablecoin use in wholesale settlement through the Digital Securities Sandbox and, if that proves successful, it is expected that the Bank would recommend to HM Treasury that the issuer of a stablecoin used for settlement in core wholesale financial markets be recognised as systemic and therefore fall under the joint regulation of both the Bank and FCA.

## Key Requirements

### Backing Assets

In its 2023 consultation paper, the Bank proposed that backing assets could only be comprised of unremunerated central bank deposits. This was at odds with both the proposed FCA regime for non-systemic stablecoins as well as the regulations in a number of other comparable jurisdictions. In response to feedback, the Bank has proposed that:

- At least 40% of the backing assets must comprise unremunerated central bank deposits (*i.e.*, held at the Bank itself).
- Up to 60% of the backing assets may be held in short-term sterling-denominated UK government debt securities.
- Temporary deviations from the 40:60 split are possible to meet large unanticipated redemption requests.
- Securities may be lent by issuers via repurchase agreements for liquidity purposes.
- Issuers will be able to transition to the 40:60 split over an appropriate time horizon, with it being expected that there will be an allowance for sterling-denominated UK government debt securities of up to 95% at the outset.

The Bank has clarified that its allowance of 40% central bank deposits aligns with its estimates of potential short-term redemption requests based on outflows which have occurred during stress events in the markets. In terms of what is meant by “short-term” sterling-denominated UK government debt, the Bank said that further guidance regarding the maximum maturity of eligible assets will follow. The move to allow backing assets to be held in short-term securities will be welcomed by the industry.

### Capital and Reserve Requirements

The Bank intends to use existing international standards (*i.e.*, the [Principles for Financial Market Infrastructures](#)) as the baseline for calculating capital requirements, with some modifications. In particular:

- Capital against general business risk should be sufficient to recover from the larger of: (i) the largest plausible loss event or (ii) current operating expenses for six months.
- Issuers must hold a reserve of liquid assets to mitigate the financial risk of backing assets and to manage an insolvency/wind-down. This includes both a financial risk reserve (*i.e.*, in respect of the risk of holding short-term UK government debt securities) and a insolvency/wind-down reserve (to cover the costs of an insolvency practitioner, continuation of critical services and the return of funds to coinholders).

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This is a departure from the FCA's proposed regime in its consultation paper (CP25/14) for non-systemic stablecoins, which proposes the use of the K-SII factor to determine an issuer's variable capital requirement (which is broadly 2% of issued stablecoins). This may pose operational challenges for issuers transitioning into the systemic regime.

## Holding Limits

The Bank remains concerned that a disorderly transition to widespread adoption of systemic stablecoins could negatively impact the provision of credit to the UK economy, resulting from diminished levels of UK bank deposits. Consequently, the Bank is proposing that issuers implement a per-coin holding limit of £20,000 for individuals and £10 million for businesses (subject to exceptions if a business requires larger balances in the ordinary course of its business).

The Bank's intention is that these limits will ultimately fall away once there is sufficient understanding and mitigation of the potential financial stability risks arising from the adoption of systemic stablecoins. Whilst these proposals seem onerous, the Bank has noted that it remains open to views on alternative tools to achieve its desired outcomes (which, per the Consultation Paper, includes not stifling innovation in payments and money).

In the meantime, however, the thresholds are not in line with proposals in other markets and may be seen as very conservative in terms of restricting the adoption and use of stablecoins. Questions will also remain about how such limits can be enforced given the possibility of secondary trading activity, as well as about the effectiveness of the limits given that individuals will potentially be able to easily swap systemic stablecoins for non-systemic stablecoins (which have no holding limits).

## Legal Claim and Redemption

The Bank's expectation is that coinholders have a robust legal claim for the value of their stablecoins on demand without undue constraint or cost. In order to achieve this, the Bank's proposals provide that:

- Redemption requests must be met by the end of the business day on which a valid request is made.
- Issuers should have processes in place to ensure that anti-money laundering and know-your-customer verification is completed so that it can meet this timeline, and issuers should set out in advance to coinholders the documentation to be submitted with or prior to a redemption request.
- Issuers remain responsible for meeting the redemption requirements and no use of intermediaries will discharge it of this obligation.

- Redemptions should, where possible, be free of charge, and where any fees do apply, they should be fair, transparent and proportionate to costs incurred.
- Systemic stablecoins should directly access payment systems to support frictionless redemptions and interoperability across different forms of money.

The Bank also proposed providing a backstop lending facility for eligible, solvent and viable systemic stablecoin issuers, which remains subject to further consideration.

## Safeguarding of Backing Assets

The Bank's proposed safeguarding regime focuses on two key elements:

- **Segregation and statutory trust.** The Bank is proposing that safeguarded assets (*i.e.*, backing assets and reserves of liquid assets for financial risk and insolvency/wind-down costs) be held under a statutory trust for the benefit of coinholders. This will establish fiduciary duties on the issuer as trustee and, in the case of any non-central bank deposits, will require the appointment of a separate and qualified third-party custodian who is authorised and regulated in the UK.
- **Robust safeguarding rules.** These would cover a range of areas including segregation and reconciliation requirements (among other things), with the intended outcome of providing confidence that systemic stablecoin issuers maintain sufficient backing assets and reserves. Further consultation is expected in relation to the detailed design of the safeguarding regime.

## Remuneration for Coinholders

Consistent with the Bank's position in 2023 and FCA proposals, the Consultation Paper maintains that systemic stablecoins should primarily be used for payments and not as a means of investment, and so issuers should not pay interest to coinholders. The Bank is, however, also considering whether providers may offer incentives such as points or rewards linked to transaction volume, as is the case in the existing payments market.

## Location

The Bank is requiring any non-UK based sterling-denominated systemic stablecoin issuers to establish a subsidiary in the UK in order to carry out business and issuance activities in the UK and with UK-based consumers. This will, in its view, allow the Bank to mitigate risks to UK financial stability through direct regulation.

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By contrast, in the case of any non-sterling denominated systemic stablecoins in the UK which are issued from non-UK entities, the Consultation Paper indicates that the Bank will, in the first instance, engage with the issuer’s home authority. The Bank notes that it could consider deferring to the home authority’s regulatory and supervisory framework provided (among other things) it delivers broadly similar outcomes to the Bank’s regime and there are sufficient co-operation arrangements in place to rely on such home authority.

## What’s Next?

The Consultation Paper is only intended to “lay the groundwork” for the Bank’s next phase of work. The Bank intends to consult on and finalise its draft Codes of Practice during the course of next year. Responses to the Consultation Paper are due in by 10 February 2026, with a view to the Bank publishing its final rules instrument and supervisory approach in the second half of 2026. We will continue to monitor developments from the Bank and other market participants over the coming months.