BITPANDA RESPONSE

BANK OF ENGLAND CONSULTATION

Bitpanda welcomes the opportunity to respond to the Bank of England's consultation on systemic stablecoins. The UK has a critical opportunity over the next 12 months to establish a stablecoin regulatory framework that is internationally attractive, commercially viable, and supportive of innovation. If fully utilised, stablecoins can deliver significant downstream benefits to the UK economy by enabling 24/7 payments, seamless settlement, and new forms of innovation across financial services.

EXECUTIVE SUMMARY

As a European firm with extensive experience engaging with regulators across multiple jurisdictions, Bitpanda is committed to constructive collaboration with the Bank of England and to sharing practical insights from the implementation of MiCA.

The Bank of England has a pivotal role to play in the tokenisation of financial markets and in positioning the City of London competitively in the next phase of global capital markets innovation. We recognise and support the Bank's focus on financial stability and risk mitigation. However, these objectives must be carefully balanced against the need to ensure that the UK's stablecoin regime remains proportionate, commercially workable, and globally competitive.

We welcome the Bank's proposals and appreciate the constructive engagement with policy officials in recent weeks. In particular, we acknowledge the progress made since the previous consultation, including the removal of the requirement for 100% of backing assets to be held in unremunerated central bank reserves.

That said, several aspects of the proposed framework risk constraining the development of a viable UK stablecoin market, particularly given their commercial impact on crypto-asset firms. Our experience with the implementation of MiCA in the EU demonstrates that overly restrictive requirements can stifle market entry and innovation, as evidenced by the continued absence of a widely adopted euro-denominated stablecoin.

This challenge has become increasingly prominent in the EU debate on monetary sovereignty and the systemic implications of US dollar dominance in digital markets.

Sterling is the fourth most traded currency globally, yet there is currently no widely used GBP-denominated stablecoin capable of reinforcing its role in digital and tokenised financial markets. A regime that is prohibitive at the outset risks undermining the international relevance of GBP, with potential implications for monetary sovereignty and fiscal strength.

Against this backdrop, we encourage the Bank of England to work closely with the FCA and HM Treasury to monitor the evolving use of stablecoins. At present, there is no stablecoin operating in the UK that would reasonably be considered systemic. In the short to medium term, the policy objective should therefore be to support market development and adoption, allowing stablecoins to integrate into mainstream payments before the imposition of more restrictive measures. We would welcome greater clarity on the criteria and thresholds that would trigger a designation of systemic importance, as this would enable early and constructive engagement between industry, the FCA, and the Bank.

BACKING ASSETS

We welcome the Bank's revised approach to backing assets and the removal of the requirement to hold 100% of reserves at the central bank. However, we remain concerned about the commercial implications of requiring 40% of backing assets to be held in unremunerated central bank reserves. This requirement would be highly unusual internationally and would present significant challenges for issuers.

We recommend that the Bank place greater emphasis on the underlying liquidity and credit risk of backing assets. High-Quality Liquid Assets (HQLA), including cash and short-dated UK government debt, provide a robust and credible guarantee of redeemability at par. Under the Basel III framework, UK Gilts are classified as Level 1 HQLA and are treated as at least as liquid as bank deposits for prudential purposes. Banks are permitted to rely on such assets to meet their Liquidity Coverage Ratio (LCR) precisely because of their proven liquidity, credit quality, and resilience under stress. In this context, short-dated UK government debt provides a level of safety and liquidity that is fully consistent with the objectives of stablecoin backing.

Allowing a greater proportion of reserves to be held in HQLA would underpin confidence in stablecoins, support and help maintain price stability in secondary markets, while aligning stablecoin regulation more closely with the wider UK prudential framework. We therefore recommend that the Bank reconsiders the proposed reserve composition to ensure consistency with existing regulatory treatment of liquidity risk. We agree that a proportion of reserves should be held at the central bank but encourage the Bank to consider whether these reserves can be remunerated as the treatment of stablecoins should be no different to retail bank deposits.

We are also concerned about the proposed requirement to safeguard backing assets solely through an unconnected third party holding the assets in a statutory trust. This does not reflect how safeguarding is typically handled in traditional financial markets, where firms may use custodians within the same group, provided there is appropriate governance, oversight and regulatory scrutiny. We encourage the Bank and the FCA to take an outcomes-focused approach and to consider the practical challenges of relying on a small number of third-party providers to safeguard backing assets, including potential concentration risks and wider implications for resilience and financial stability.

Finally, we would welcome greater clarity on the transition between FCA-supervised requirements and the Bank of England's framework for systemic stablecoins, to avoid the risk of abrupt "cliff edges" as firms scale.

HOLDING LIMITS

While we understand the Bank's objective in considering holding limits as a tool to protect financial stability, such limits are typically designed for stress scenarios or exceptional market conditions, rather than as a standard feature of a baseline regulatory framework. Introducing holding limits from the outset therefore risks sending an unintended signal that stablecoins are expected to pose immediate financial stability risk.

This signalling effect matters. Making holding limits a standard requirement implies that large-scale use of stablecoins is, by default, a cause for concern, rather than something that can be monitored and addressed as adoption grows. This risks undermining confidence among users, corporates, and institutions, and contradicts the UK's ambition to support the development of stablecoin-based payments and settlement.

In practical terms, holding limits would constrain growth and discourage the issuance and use of GBP-denominated stablecoins. The consultation does not clearly set out the scale or likelihood of the deposit displacement risks that these limits are intended to address, nor the conditions under which they would be expected to bind. There is also a risk that standing holding limits could themselves contribute to instability. If users believe limits may apply at any point, this could encourage precautionary behaviour, such as moving balances early or concentrating activity elsewhere, which would run counter to the objective of financial stability.

From an operational perspective, holding limits would be difficult to implement and enforce. Monitoring individual and corporate balances would require complex aggregation across multiple wallets and service providers. There is an added complexity if holding limits are only required in the short term and firms would need further clarity on how this would operate in practice. For many businesses, balances would also routinely exceed proposed thresholds as part of normal payment, settlement, or treasury activity, without creating the type of risks described in the consultation.

We therefore suggest that holding limits be treated as a contingent tool, to be used if clearly defined stress conditions arise, rather than as an immediate feature of the framework. If a GBP-backed stablecoin operates under the FCA regime, this provides a window of opportunity for the Bank to monitor any deposit outflows ahead of its designation as systemic. This approach would better align holding limits with their purpose, reduce adverse signalling, and allow the stablecoin market to develop in a measured and proportionate way.

CROSS-BORDER COLLABORATION

As global frameworks continue to evolve, strong cross-border supervisory cooperation will be essential. Bitpanda works closely with regulators across the EU to uphold high standards of financial stability and consumer protection, and we see similar cooperation as critical in the UK context. It would be beneficial for the Bank to consider how non-UK based third country issuers will be regulated, particularly with regulatory consistency in mind.

We support robust and enforceable information-sharing arrangements, supervisory access to data relevant to UK financial stability, and clarity on the treatment of UK users in resolution scenarios. These measures address the underlying risks associated with cross-border fragmentation more effectively than additional domestic prudential constraints that may be difficult to enforce in practice.

CONCLUSION

In summary, we encourage the Bank of England to consider carefully whether the cumulative impact of the proposed requirements risks constraining the development of a viable and competitive UK stablecoin market before it has had the opportunity to mature. A framework that is disproportionately restrictive at this stage could deter issuance, limit adoption, and shift innovation to other jurisdictions.

We encourage a more proportionate, risk-based approach, particularly in relation to backing assets and holding limits. By allowing market usage to develop ahead of a stablecoin's designation as systemic, the Bank can support financial stability while preserving the UK's competitiveness.

Getting this balance right is critical if the UK wants to secure its position as a leading international hub for stablecoin innovation and adoption. I'd be happy to discuss any of the policy issues mentioned in further detail.