Stablecoin Issuance and Cryptoasset Custody: Response to FCA Consultation

Paper CP25/14

Executive summary:

In response to the Financial Conduct Authority's (FCA) Consultation Paper CP14/24 on strengthening custody and safeguarding rules for cryptoasset firms, we make the following recommendations:

- *A clear regulatory environment and a firm government stance on stablecoin regulation can positively contribute to the long-term viability of stablecoins, making their use safer for consumers.*
- *Specific regulations for stablecoins will help build consumer trust and support the retail adoption of stablecoins by UK consumers over the next two years.*
- *To enable transparency, regulators should mandate the segregation of client assets from firm assets to prevent misappropriation or loss in the event of bankruptcy.*
- *Conducting regular independent audits and providing full disclosure of reserves can enhance the survivability of stablecoin pegs.*
- *Stablecoin structural attributes and technological characteristics are key drivers of survivability, with factors such as the peg mechanism, type of peg, and issuer solvency playing a central role.*
- *We recommend employing the Stablecoin Survivability Assessment Framework (Labouré & Yarovaya, 2025) for a comprehensive assessment of stablecoin resilience and to reduce the risk of de-pegging. This framework evaluates three key dimensions: (i) structural attributes; (ii) regulatory and institutional factors; and (iii) market and adoption factors.*

Response Authors:

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The response provides evidence and policy recommendations in relation to the following questions:

- Do you agree that the Consumer Duty alone is not sufficient to achieve our objectives and additional requirements for qualifying stablecoin issuers are necessary? (Question 1 in the terms of reference)

- Do you agree that issuers of multi-currency qualifying stablecoins should be held to similar standards as issuers of single-currency qualifying stablecoins unless there is a specific reason to deviate from this? Please explain why? (Question 2 in the terms of reference)

- Do you agree with our proposals for requirements around the composition of backing assets? If not, why not? (Question 3 in the terms of reference)

- Do you agree with our proposal that qualifying stablecoin issuers are required to back any stablecoins they own themselves? If not, please provide details of why not. (Question 8 in the terms of reference)

- Do you agree with our proposals for disclosure requirements for qualifying stablecoin issuers? If not, why not? (Question 17 in the terms of reference)

- Do you agree with our proposed approach towards recordkeeping? If not, why not? In particular, do you foresee any operational challenges in meeting the requirements set out above? If so, what are they and how can they be mitigated? (Question 20 in the terms of reference)

I. Do you agree that the Consumer Duty alone is not sufficient to achieve our objectives and additional requirements for qualifying stablecoin issuers are necessary? (Question 1 in the terms of reference)

Consumer awareness of crypto assets remains one of the most significant barriers to broader retail adoption. A recent Deutsche Bank dB DIG survey reveals that 49% of UK consumers do not understand cryptocurrencies, while 45% perceive them as too risky (Labouré and Yarovaya, 2025a). Furthermore, 19% of respondents identified the lack of clear and specific regulation as the primary obstacle to engaging with crypto assets (see Figure 1). While the Consumer Duty plays an important role in promoting fair outcomes for consumers, it is not designed to address the foundational issues of knowledge gaps, perceived risk, and regulatory ambiguity that currently hinder trust and participation in crypto markets. To bridge this gap, additional requirements for qualifying stable coin issuers are essential. These measures would offer the regulatory clarity and oversight needed to support consumer confidence and facilitate responsible innovation in the digital asset space.

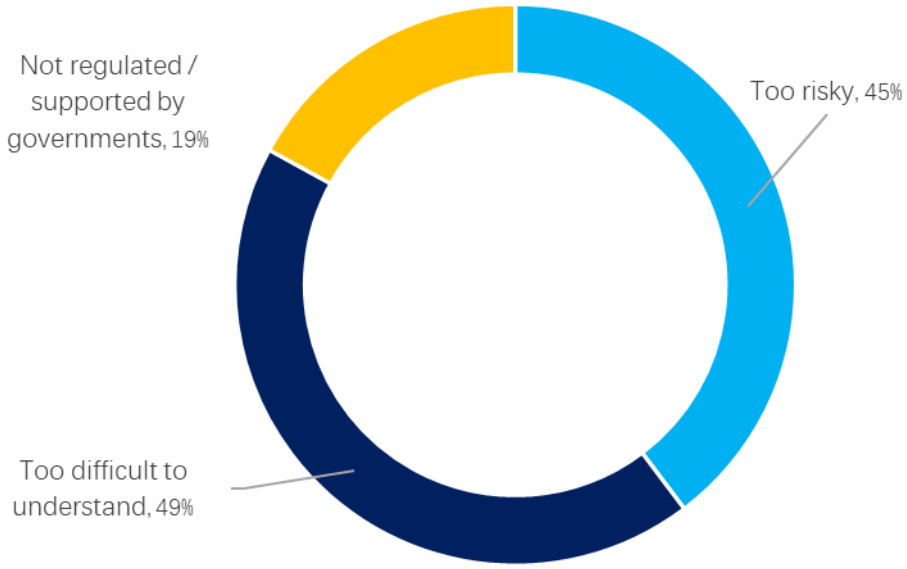

Figure 1 The main barriers to crypto assets adoption in the UK, March 2025

According to a separate survey conducted by Deutsche Bank in August 2024, only 8% of UK consumers are considering investing in stablecoins—specifically Tether—over the next two years. This is significantly lower than 82% who indicated plans to invest in Bitcoin (Labouré & Yarovaya, 2025b). These figures are also considerably lower than responses from consumers in the US and Germany (Figure 2), highlighting the urgent need to remove key barriers to adoption. Increasing consumer awareness and building trust, especially in the stablecoin market, should be a priority in the coming years.

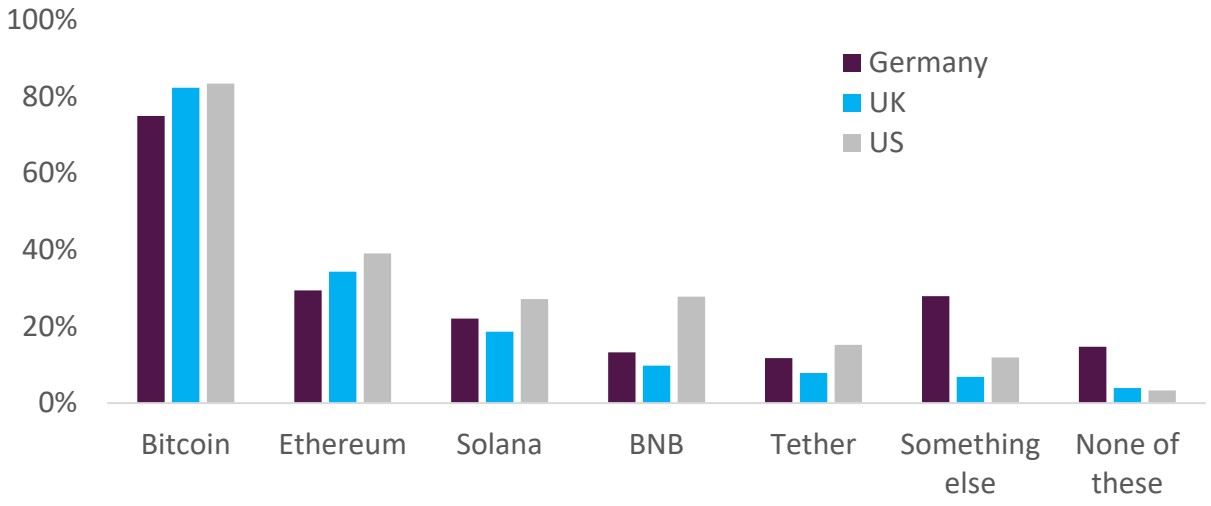

Figure 2 Intention to invest in the following assets over the next two years, UK, German and US consumers, 2024.

Stablecoins differ from other crypto assets, and in our recent research, we compared stablecoins with historical fixed-currency regimes to better understand the factors influencing their survivability (Labouré & Yarovaya, 2025c). According to the Stablecoin Survivability Assessment Framework, regulatory and institutional factors can significantly affect the survivability of both historical currency pegs and modern stablecoins. Therefore, additional requirements for qualifying stablecoin issuers are necessary to achieve the FCA's stated objectives.

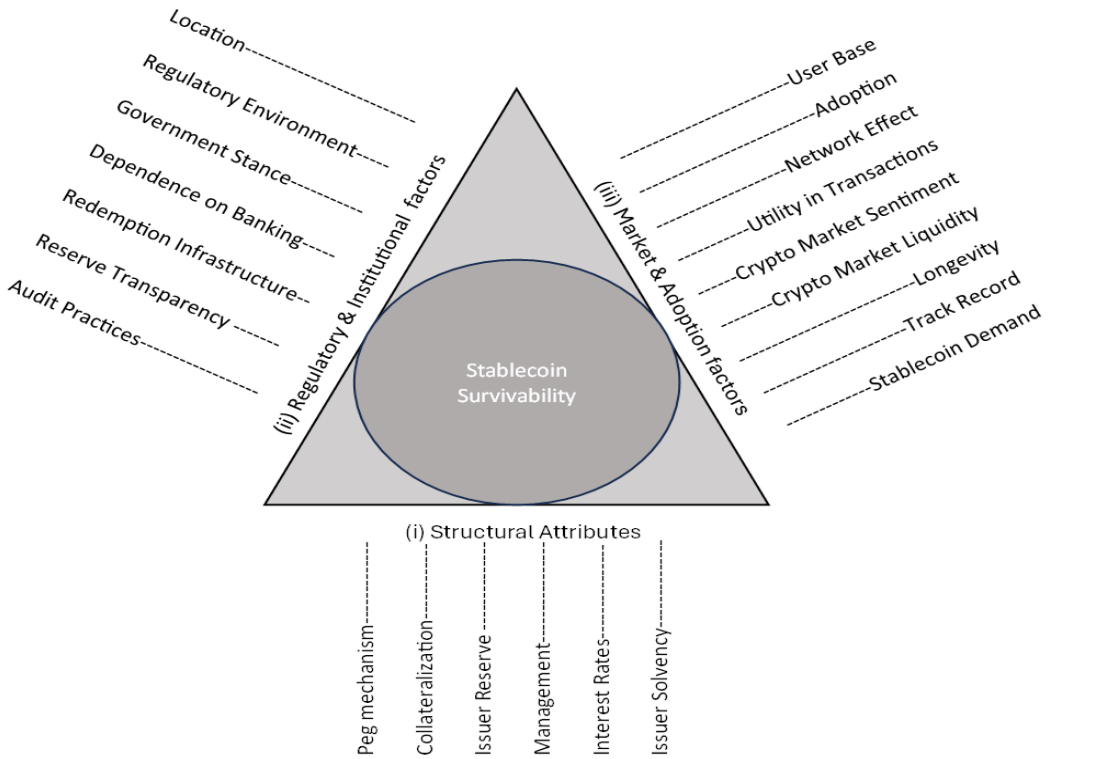

Figure 3. Stablecoin Survivability Assessment Framework, Labouré and Yarovaya (2025c).

II. Do you agree that issuers of multi-currency qualifying stablecoins should be held to similar standards as issuers of single-currency qualifying stablecoins unless there is a specific reason to deviate from this?

In our analysis of 350 historical fixed exchange rate regimes dating back to 1800—including both single-currency pegs and pegs to composite or basket currencies—we found that neither approach is immune to failure (Labouré & Yarovaya, 2025c). However, the type of currency peg emerged as a key factor influencing survivability. Specifically, pegs to a single currency, such as the U.S. dollar, were associated with a higher likelihood of being maintained over time. This finding suggests that issuers of assets pegged to a basket of currencies, such as multi-currency qualifying stablecoins, must carefully consider the additional risks and structural complexities involved. To enhance survivability, regulatory standards should ensure that these issuers implement robust frameworks that account for volatility, reserve adequacy,

governance, and operational resilience.

III. Do you agree with our proposals for requirements around the composition of backing assets?

We agree with the proposed requirements regarding the composition of backing assets. Our historical analysis supports this approach, as transparency of reserves and issuer solvency are among the key factors that contribute to the long-term survivability of stablecoins, ultimately making them safer for consumers.

Our results also indicate that even the largest and most established stablecoins—such as Tether—are not immune to episodes of de-pegging (Labouré & Yarovaya, 2025c). Such instability can trigger significant volatility shocks across the broader digital asset ecosystem, due to the central role stablecoin liquidity plays in cryptocurrency market liquidity provision (Farag et al., 2025).

In addition, adequate risk management practices and thorough assessment of liquidity are integral components of the Stablecoin Survivability Assessment Framework (see Figure 3 above). These elements are essential for maintaining trust and resilience in the stablecoin ecosystem. Therefore, the FCA's proposals are well aligned with our findings and represent a necessary step toward ensuring financial stability and consumer protection in the growing digital asset market.

IV. Do you agree with our proposal that qualifying stablecoin issuers are required to back any stablecoins they own themselves?

This requirement forms an important part of the broader transparency agenda. Unlike historical fixed currency regimes, which were backed by central banks prioritising public interest and national stability, stablecoins are issued by private companies that may have different motivations. This structural difference makes regulatory oversight even more critical.

Our research highlights that clear reserve backing and assurance of solvency are essential to the long-term survivability of stablecoins (Labouré & Yarovaya, 2025c). Requiring all issued stablecoins — including those held by the issuers themselves — to be fully backed by high-quality, liquid assets helps strengthen trust in the system and aligns with international efforts to establish rigorous, credibility-enhancing standards.

Moreover, full backing of issuer-held coins reinforces market discipline, reduces the risk of self-dealing or manipulation, and supports the FCA's core objectives: ensuring transparency, safeguarding consumers, and promoting financial stability in the evolving digital asset ecosystem.

V. Do you agree with our proposals for disclosure requirements for qualifying stablecoin issuers?

According to our findings, regulatory and institutional factors—such as auditing practices and reporting transparency—play a significant role in supporting the survivability of modern stablecoins. Therefore, adding clarity to the disclosure requirements for qualifying stablecoins will not only benefit issuers but also help safeguard UK consumers. We particularly support the importance of presenting information clearly, understandable, and accessible to consumers, as this can enhance public understanding, build awareness and trust in the asset, and foster a broader network effect that facilitates adoption.

VI. Do you agree with our proposed approach towards recordkeeping? If not, why not? In particular, do you foresee any operational challenges in meeting the requirements set out above?

While we agree that robust recordkeeping is essential for auditing, oversight, and transparency, we also caution that the proposed requirements may inadvertently limit some of the key advantages offered by distributed ledger technology (DLT). One of the core features of DLT is its ability to maintain an immutable and transparent record of transactions in a secure, decentralised manner, potentially reducing the need for duplicative, centralised ownership records.

Mandating additional layers of off-chain or centralised recordkeeping could therefore diminish the operational efficiency and innovation appeal of blockchain-based systems. In particular, this may be seen as burdensome by smaller issuers or firms working to integrate DLT in a compliant but streamlined way.

We recommend that the FCA consider a proportionate and technologically neutral approach that recognises the functionality of DLT in meeting many of the objectives of traditional recordkeeping—while still ensuring accountability and consumer protection.

References:

Farag, H., Luo, D., Yarovaya, L., Zieba, D. (2025). Returns from liquidity provision in cryptocurrency markets. Journal of Banking & Finance, 175.

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