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What To Expect As UK, US Gov'ts Develop Stablecoin Policies

By **Alix Prentice and Mercedes Tunstall** (July 16, 2025, 4:03 PM BST)

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This article considers fiat-backed stablecoins and progress in their introduction as a mainstream method of making retail payments in both the U.K. and the U.S.

Both governments' policy position is that crypto-assets backed by widely used currencies, and that maintain a stable value, can improve efficiency and safety in payments systems. Advocates assert that these stablecoins use blockchain technology in a way that is both swift and protects consumer and wholesale transactions from fraud.

We will consider how the U.K. and U.S. propose to make this adoption happen, and in what stages. We also look at the barriers to entry into the retail market of such payment methodologies and our thoughts on their potential chances of success.

The U.K.

In May, the U.K.'s financial services regulator, the Financial Conduct Authority, published consultation paper 25/14 on **developing** a safe, competitive and sustainable crypto-asset sector that deploys stablecoins backed by secure and liquid assets held on trust for their owners.[1]

The paper focuses on qualifying stablecoins, which are those meeting technical design qualifications and that use managed direct ledger technology.

The Money Laundering Regulations 2017 and the draft Financial Services and Markets Act 2000 Order 2025 already cover the financial crime and certain regulatory aspects of using crypto-assets, including definitions of a regulated crypto-asset. However, this next stage represents a step forward. It will bring assets meeting qualifying factors into a new world of regularized coin-based payments as an accessible facility available to retail customers.

Prior to this, in its **paper** in April, HM Treasury had made it clear that, at least for the time being, any new regulation is not aimed at bringing crypto-assets directly into the U.K. regulated payments system, but that looks clearly to be an ultimate ambition, perhaps pending on the successful implementation and uptake of the FCA's proposals.[2]

In addition, the HM Treasury paper looks at draft legislation on the activity of issuing a stablecoin. It discusses requirements for FCA authorization and the stated intention to regulate stablecoins like any other cash-equivalent instrument, rather than as an investment that fluctuates in value in accordance with its backing assets.

This regulatory authorization will be distinct from that permitting the issuance of e-money; these are clearly now two separate activities.

Whatever the limitations in the scope of regulatory intervention, and pending the outcome of the FCA's consultation, stablecoins will be able, at least in the near-term, to be used for payments, albeit that those will be unregulated payments.

This policy decision explains why CP 25/14 examines requirements for stablecoin issuers, as well as qualifying custodians to enter into that mainstream world.

What the FCA Wants to Talk About

CP 25/14 sets out the proposed rules and guidance for the issuance of stablecoins and, importantly, safeguarding obligations. Note that the FCA asserts that as it has not seen a significant number of multicurrency-backed stablecoins, these proposals only relate to single currency-backed issuances.

Proposals and safety measures focus on the following.

- The requirements for issuing a stablecoin: Here, the FCA's proposals augment their proposals that are going to be set out in a future consultation, as well as those set out in CP 25/15.
- The ability of stablecoin holders to get their money back under a contractual mechanism and at par with the value of the reference currency backing the coins: This will require the appointment of a third-party valuer and manager, as well as a statutory trust over the fiat assets backing the stablecoins, established by an unconnected third party. The issuer would remain as trustee under this arrangement, with legal responsibility for the backing assets.
- Redemption at par should not be subject to any minimum, and should not be dependent on the performance of the backing assets.
- The use of third parties will be allowed, but the issuer will remain responsible.
- Assets backing stablecoins will need to be of a certain short-term and liquid class — including on-demand deposits, some repurchase agreements, short maturity treasury debt and qualifying money market funds.
- Backing assets must be subject to robust risk management procedures, including those covering liquidity risk management.
- Issuers will not be permitted to pass interest back to stablecoin holders, further distinguishing them from investments in traditional securities.
- Safeguarding, which the FCA sees as an essential element: It is proposing a requirement for the retention of backing assets as well as segregation on request that is built on the existing client assets regime covering the custody of client assets and client money in the U.K.

The FCA's proposals look to be a suitably cautious and measured approach, aimed at giving the public reassurance that stablecoins will retain their value and be easily redeemable.

However, the degree of public buy-in is likely to be subject to skepticism, based on the dematerialized nature of coins, whether stable or not; past crypto scandals; and the fact that U.K. retail customers have already embraced direct debit and app-based payment methodologies.

The U.S.

While there already are several kinds of stablecoins available in the marketplace in the U.S., the legal status of said stablecoins has been murky. Due to impending legislation being passed by Congress, legal certainty is on its way, at least for the kinds of stablecoins that are akin to those the FCA considers to be qualifying stablecoins.

First, on April 4, the U.S. Securities and Exchange Commission **issued** a statement on stablecoins explaining that they do not involve the offer and sale of securities, and are therefore not subject to registration with the SEC and other SEC requirements, if they are

> designed to maintain a stable value relative to the United States Dollar, or "USD," on a one-for-one basis, can be redeemed for USD on a one-for-one basis (i.e., one stablecoin

to one USD), and are backed by assets held in a reserve that are considered low-risk and readily liquid with a USD-value that meets or exceeds the redemption value of the stablecoins in circulation.[3]

Second, to date, Congress is **expected to pass** the Guiding and Establishing National Innovation for U.S. Stablecoins, or GENIUS, Act, this summer, which establishes a regulatory infrastructure for defining, managing, custodying and issuing payment stablecoins.

Under the act, a so-called payment stablecoin is a digital asset that is designed only to be used for payment or settlement purposes. Payment stablecoins may only be issued by issuers that are obligated to both convert or redeem them for a fixed amount of monetary value, and to maintain the stable value of the payment stablecoin.

Issuers must maintain reserves backing payment stablecoins on at least a 1-to-1 basis, reserves of which are restricted to highly liquid and creditworthy assets, such as deposit accounts, Treasury bills, notes or bonds with maturity tenors of 93 days or less.

The reserves backing payment stablecoins may not be rehypothecated — that is, used as the basis for lending or other activities, or otherwise reused.

Also, issuers may not pay any form of interest or yield to holders of payment stablecoins solely in connection with their holding, use or retention of such stablecoins.

The act provides that all issuers of payment stablecoins must be approved by U.S. regulators. Issuers based in the U.S. must be approved either by the relevant federal banking regulator, or, to the extent an individual state has a state stablecoin regulator, by such state stablecoin regulator.

This means that U.S. issuers that have already issued stablecoins must apply to the appropriate regulator for approval and must be able to demonstrate that their existing stablecoins meet the payment stablecoin definition, and relevant reserves and design requirements.

These issuers have three years from the date President Donald Trump signs the GENIUS Act to be approved by the regulators as a permitted payment stablecoin issuer. Otherwise, their payment stablecoins may no longer be used for payment or settlement purposes.

Meanwhile, issuers based outside of the U.S. that wish to offer or issue new payment stablecoins to U.S. persons must apply to the Office of the Comptroller of the Currency to be approved as a permitted payment stablecoin issuer.

For foreign payment stablecoin issuers that have already issued stablecoins that meet the payment stablecoin definition, the U.S. Department of the Treasury will make an initial determination that the foreign payment stablecoin regulator, e.g., the FCA, has rules and authority comparable to the regulatory and supervisory regime established by the GENIUS Act.

After the foreign stablecoin regulator has been deemed comparable, foreign payment stablecoin issuers will have the opportunity to register with the Office of the Comptroller of the Currency, registration of which will be contingent at least upon the issuer holding reserves in a U.S. financial institution that are sufficient to meet liquidity demands of U.S. customers.

Similar to the concerns described by the FCA, the GENIUS Act provides paths by which to connect existing laws regarding anti-money laundering and custodying of payment stablecoins, making these existing laws applicable to issuers of payment stablecoins.

The act also provides provisions indicating how to deal with the bankruptcy of a payment stablecoin issuer and how bankruptcy courts should handle payment stablecoins when they are part of debtor's estate.

Implications For U.K. Companies

Without reserve requirements enforced by U.S. regulators against the issuers of payment stablecoins and protections provided to holders of payment stablecoins, including bankruptcy and disclosure protections, it has been relatively risky for U.K. businesses to engage in payment stablecoin-based transactions in the U.S., and even to just purchase payment stablecoins issued by U.S. entities.

When the GENIUS Act passes and is effective, U.K. businesses may reasonably be able to view using U.S.-based payment stablecoins as much less risky than presently, and to present the kinds of risks equivalent to engaging with U.S.-based money market funds or derivative transactions.

Only U.S.-based deposits have the full faith and credit of the U.S. behind them, but payment stablecoins issued pursuant to the GENIUS Act will be only somewhat less dependable.

Thoughts and Conclusions

In the U.K., 12% of people own crypto-assets, of whom 27% hold those assets in stablecoins. As the FCA says, the perception, at least, of crypto-assets as a whole is that they remain high risk, so it remains to be seen what consumers will make of them, despite a certain level of already enthusiastic participation.

However, many have adjusted, or are used to other methods of payment, such as direct debit, while a number of clients deal in cash. This naturally means that, despite the promotion of stablecoins as a safer and easier method of transferring payment for bills, the potential degree of uptake once this transition takes place remains questionable, particularly when it comes to paying everyday household bills.

In the U.S., there is presently less of a perception that consumers will use stablecoins in any significant volume anytime soon. Instead, stablecoins are viewed as being an alternative form of payment or settlement, primarily for business-to-business transactions and indeed, even high finance transactions like securitizations.

By using stablecoins for these kinds of transactions, the parties can benefit by having greater transparency into the movement of the stablecoins, 24/7 settlement of transactions, and the kind of security and immutability that only blockchain technologies can offer today.

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[1] https://www.fca.org.uk/publications/consultation-papers/cp25-14-stablecoin-issuance-cryptoasset-custody.

[2] https://www.gov.uk/government/publications/regulatory-regime-for-cryptoassets-regulated-activities-draft-si-and-policy-note/future-financial-services-regulatory-regime-for-cryptoassets-regulated-activities-policy-note-accessible.

[3] https://www.sec.gov/newsroom/speeches-statements/statement-stablecoins-040425.
