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**BoE's Recalibration and the Global Race
for Digital-Finance Leadership**

By

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7 July 2026

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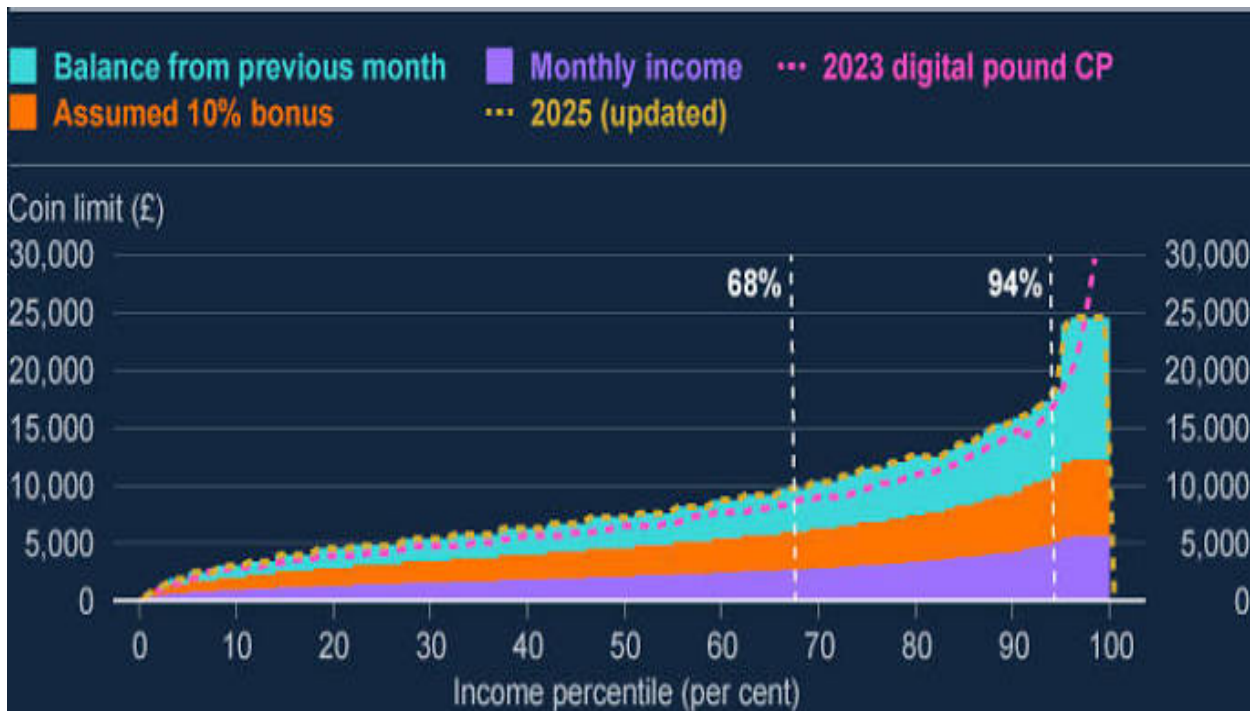
BoE's Recalibration and the Global Race for Digital-Finance Leadership

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Executive Summary

- ✦ The UK has recalibrated its proposed stablecoin regime to better balance financial stability with innovation and the development of a competitive digital asset market.
- ✦ US regulatory reforms have changed the global debate with the GENIUS Act strengthening the US influence over stablecoins and digital-finance markets.
- ✦ Jurisdictions are increasingly competing for digital-finance leadership. Stablecoin regulation is becoming an economic and strategic policy tool.
- ✦ Stablecoins are evolving beyond payments and are becoming important infrastructure for tokenised assets, digital markets, and on-chain finance.
- ✦ The key challenge is achieving both innovation and stability. Regulators must support market development while managing risks and preventing regulatory arbitrage.

Key Picture: Digital Pound Holding Limits and Consumer Usability



Source: [Bank of England](https://www.bankofengland.co.uk/digital-asset/digital-pound)

1. Introduction

The United Kingdom's (UK) approach to stablecoin regulation appears to be moving toward a recalibration of its proposed stablecoin regime as policymakers and regulators reassess measures that industry participants have argued could hinder the development of a domestic digital asset market.

The Bank of England (BoE) has revised its proposed framework for systemic sterling-denominated stablecoins following feedback from industry participants and policymakers. The changes soften several elements of the original proposal, including the removal of proposed holding limits and adjustments to reserve requirements, while maintaining the Bank's focus on financial stability. While the BoE continues to emphasise financial stability as its primary objective, the review highlights growing recognition that regulatory design may also influence the UK's competitiveness as a centre for digital finance.^{1 2 3}

The changing global regulatory landscape provides important context for this evolving approach. As stablecoins become an increasingly important component of digital financial infrastructure, regulatory discussions have increasingly shifted from whether stablecoins should be permitted to how they should be regulated in a manner that supports innovation while preserving financial stability. Jurisdictions are increasingly seeking to attract digital asset activity, investment, and innovation, making regulatory design a matter of economic strategy as well as prudential oversight.⁴

2. Europe's From Caution to Recalibration: What is Changing in the UK

The BoE's initial concerns centred on financial stability vulnerabilities, deposit substitution that could affect banks' funding models, run risks during market stress, and broader monetary sovereignty concerns. To address these risks, the central bank proposed safeguards including holding limits, reserve requirements, and robust redemption and liquidity obligations. Under the original framework, systemic stablecoin issuers would have been required to hold 40% of backing assets at the central bank as unremunerated deposits with the remaining 60% largely invested in short-term UK government debt.⁵

The Bank of England (BoE) has significantly revised its proposed framework for systemic sterling-denominated stablecoins⁶. In its final policy statement, the BoE abandoned the previously proposed £20,000 individual holding limit, replacing it with a temporary £40 billion issuance guardrail for each systemic stablecoin. Under the revised framework, users will be able to hold and transact unlimited amounts of approved systemic stablecoins, while issuers will be permitted to invest up to 70% of reserve assets in short-term UK government debt (up from 60%), with the remainder held as deposits at the Bank of England⁷. In effect, the cap acts as a maximum "tank size" for each systemic stablecoin, preventing issuers from minting more than £40 billion of a single coin until the Bank determines that the associated financial stability risks have diminished and the limit can be relaxed or removed. Regulated systemic stablecoins are expected to begin operating in the UK from 2027, reflecting the BoE's efforts to balance financial stability with the commercial viability and competitiveness of the UK's emerging stablecoin market⁸.

Together, they indicate a shift from a predominantly precautionary approach toward a framework that places greater emphasis on balancing risk mitigation with innovation and market development. Importantly, this does not amount to deregulation. Systemic stablecoins would remain subject to joint oversight by the BoE and the FCA, with the BoE responsible for prudential supervision and financial stability oversight, and the FCA responsible for conduct regulation and consumer protection.⁹

The BoE's recent statements also suggest an increasing focus on how innovation and financial stability can be pursued simultaneously rather than viewed as competing objectives. Speaking at the Tokenisation Summit, Sasha Mills, BoE's Executive Director for Financial Stability Strategy and Risk, stated that the UK should seek to shape its digital financial future while ensuring that stablecoins meet the same standards of trust expected of money used in the real economy.¹⁰ This approach reflects a growing recognition that regulatory frameworks

must preserve financial stability while remaining capable of supporting technological innovation and market development.

3. How the US Changed the Global Conversation

Recent developments in the US have significantly influenced the global conversation around stablecoins. The GENIUS Act established the US' first comprehensive federal framework for payment stablecoins, requiring stablecoin issuers to maintain reserves backed by highly liquid assets, including US dollars and short-term US Treasury securities, while also imposing disclosure and supervisory requirements.¹¹ The legislation received bipartisan support in Congress,¹² reflecting a growing consensus that stablecoins are likely to form part of the future financial system rather than remain a niche component of the digital asset market.

This legislative and regulatory momentum reflects a broader policy objective of facilitating the integration of stablecoins into mainstream financial markets while maintaining prudential safeguards. Importantly, the significance of US action extends beyond its domestic market. Dollar-denominated stablecoins account for the overwhelming majority of global stablecoin activity, and the US continues to play a central role in digital asset innovation, capital formation, and financial infrastructure development.^{13 14} As a result, regulatory developments in the US are likely to influence market behaviour and policymaking in other jurisdictions.

The risks facing more restrictive jurisdictions are increasingly apparent. Stablecoin issuers and related businesses can relocate to favourable regulatory environments, leading to the loss of fintech investment and reduced influence over the future development of digital payment infrastructure.¹⁵ These concerns have been recognised beyond the US. The European Central Bank (ECB) has warned that differences between the US stablecoin framework and the European Union's (EU) MiCA regime could create competitive imbalances and raise financial stability concerns.¹⁶

These developments signal a shift in influence from the traditional "Brussels effect"¹⁷ – where the EU's comprehensive regulations set global standards – to what could become a more pronounced US influence over digital finance regulation or a "Washington effect".¹⁸ From this perspective, the UK's reassessment of its stablecoin framework may be driven not only by domestic policy considerations but also by concerns about maintaining competitiveness in a market increasingly shaped by US regulatory choices.

The broader strategic implications are becoming increasingly difficult to ignore. Stablecoin issuers concentrate a significant proportion of their reserve assets in Treasury bills, effectively making stablecoin a global distribution channel for short-term US government debt.¹⁹ This dynamic may create incentives for jurisdictions to consider whether they wish to facilitate the expansion of dollar-denominated stablecoins or encourage the development of local-currency alternatives.

4. The Emergence of Jurisdictional Competition

Stablecoins are increasingly becoming part of a global competition for digital-finance leadership, with major jurisdictions adopting distinct regulatory approaches. The US, through the GENIUS Act, has established a federal framework for payment stablecoins that restricts issuance to authorised entities meeting specified prudential and reserve requirements.²⁰ The UK has proposed a dual regime under which systemic stablecoins would be jointly regulated by the BoE and FCA, while non-systemic stablecoins would remain subject primarily to FCA oversight.²¹ The EU's MiCA has introduced a comprehensive framework governing stablecoin issuance and operation across member states, significantly reshaping the global regulatory landscape.²²

These jurisdictions balance consumer protection, financial stability, and market development in varied ways. The UK emphasises a temporary issuance guardrail, which will be reviewed and removed once transition risks to financial stability diminish. The US mandates 100% reserve backing with permitted reserves limited to coins, currency, insured deposits, short-dated Treasury bills, and government money market funds. The EU requires full collateralisation for asset-referenced tokens, effectively excluding algorithmic stablecoins.

The growing divergence between regulatory approaches has important competitive implications. Stablecoin issuers are highly mobile businesses that can choose where to establish operations, influencing capital flows, payments innovation, tokenisation initiatives, and broader financial sector competitiveness. This creates the potential for regulatory arbitrage, whereby firms relocate activities to jurisdictions perceived as offering more favourable regulatory conditions. In this context, the ECB has cautioned that differences between national and regional frameworks may contribute to market fragmentation and encourage regulatory arbitrage if international approaches remain insufficiently coordinated.²³

5. What the UK Debate Reveals About the Future of Tokenised Finance

The stablecoin debate reveals a broader trend: stablecoins are increasingly being viewed as foundational infrastructure for tokenised deposits, tokenised securities, digital payments, and on-chain financial markets. As tokenisation initiatives expand across both public and private sectors, policymakers are increasingly considering how digital forms of money can support the development of programmable and interoperable financial infrastructure.

Regulators are also beginning to view stablecoin policy as part of a wider digital-finance strategy rather than as a standalone issue.^{24 25} In the UK, the transition from an AML-focused registration model to a dedicated authorisation and supervision for digital asset activities signals this broader shift²⁶ and the implications extend beyond stablecoins themselves. Restrictive regulatory approaches may affect the broader development of tokenisation initiatives by influencing the availability of digital settlement assets and payment infrastructure. Central banks, financial institutions, and international organisations are actively exploring how tokenisation could reshape settlement processes, liquidity management, collateral mobility, and market connectivity. At the same time, policymakers have emphasised that tokenised markets require trusted settlement assets to operate efficiently at scale.^{27 28}

Institutional adoption of tokenised financial products has accelerated in recent years, with examples such as BlackRock's USD Institutional Digital Liquidity Fund (BUIDL) demonstrating growing interest in tokenised investment vehicles and on-chain financial infrastructure.²⁹ These developments suggest that tokenisation is increasingly moving from experimentation towards practical implementation within parts of the financial sector.

Central banks are likewise exploring how tokenised forms of central bank money could support the development of tokenised financial markets. The ECB has argued that tokenised central bank money could provide a risk-free settlement asset for DLT-based financial markets and improve the efficiency of collateral management and monetary operations.³⁰ Similarly, the Bank for International Settlements (BIS) has suggested that tokenised wholesale central bank money could perform functions comparable to existing reserve assets while enabling additional functionalities associated with tokenisation and programmability.³¹

Viewed in this context, the stablecoin debate is becoming a proxy for a larger question – where future financial infrastructure will be built, how it will be governed, and which jurisdictions will shape its development.

6. Conclusion

The BoE's reported adjustments signal a broader recalibration of regulatory approaches to stablecoins. The move from caution to recalibration reflects growing recognition that regulatory design can have significant implications for innovation, competitiveness, and market development. The debate is no longer framed simply as innovation versus regulation, but rather as how both objectives can be pursued simultaneously – maintaining financial stability while enabling digital finance to develop within credible regulatory frameworks.

The next phase of stablecoin regulation is likely to be defined by increasing competition among jurisdictions seeking to attract digital-finance activity while preserving trust and resilience. As stablecoins become increasingly integrated into digital payment systems and tokenised financial markets, regulatory frameworks will need to balance consumer protection, financial stability, and market development. Ultimately, the central

challenge is to prevent regulatory arbitrage from undermining financial stability while allowing jurisdictions to compete for leadership in digital finance – a balance that may play an important role in shaping the future architecture of global financial infrastructure.

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