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Growing stablecoin use affects financial stability and prompts regulatory concerns, BOE official says

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Widespread use of stablecoins and people’s increasing reliance on them for their daily needs are creating significant financial stability risks, senior Bank of England official Sasha Mills has warned at a conference where she and a UBS executive discussed innovative cryptoasset regulation. Bringing together new forms of payments such as card systems, stablecoins and decentralized money at the same time creates unique risks, Mills said.

Widespread use of stablecoins and people’s increasing reliance on them for their daily needs are creating significant financial stability risks, a key Bank of England official has warned.

Sasha Mills’ remarks came at a conference in London* yesterday where officials from the Bank of England and UBS discussed innovative cryptoasset regulation — including of stablecoins, virtual tokens that have their value pegged to that of a more traditional currency, commodity or financial instrument.

“There is a widespread growth in the use of stablecoins across the economy in goods and services, retail purchases every day. People come to rely on that, so disruption of that would cause a financial stability consideration in that area of payments,” said Mills, the BOE's executive director of financial market infrastructure. The central bank is focusing on that, she said.

On cryptocurrency regulation, Mills said that with regard to wholesale payments the BOE is committed to creating an enabling environment and a regulatory safe harbor to foster innovation. On the retail side, she said, the bank is exploring ways to ensure innovation is safe and sustainable and examine how the benefits of new technologies can be harnessed without lowering standards.

She gave the example of the Bank of England’s Omnibus account, a facility that allows payment system operators to offer financial institutions a method of settling payments in central bank money.

Bringing together new forms of payments such as card systems, stablecoins and decentralized money at the same time creates unique risks, Mills said.

Financial stability was a key concern in terms of operational risks, she said, and uniform standards for both traditional banks and new technology such as stablecoins and decentralized finance would be useful to address risks. She also stressed a need for regulation to ensure resilience and good governance of stablecoin issuers.

“Where a firm is providing a digital payment system, it must be operated to meet the financial and operational risk and resilience standards you would expect for existing incumbents,” she said.

Ensuring uniform standards would ultimately also help in building and ensuring interoperability between payment systems, Mills said, adding that resulting novel effects on financial stability also need to be taken into consideration when framing regulations.

Mills cited policy proposals published by the Bank of England along with the UK Financial Conduct Authority to reduce volatility of stablecoins (see here and here). “If you were to see really severe problems, then we would have to go quite deep into payment in coins, and then you have a safe operating system,” she said speaking about the regulator's early intervention powers.

On governance of stablecoin issuers, Mills said, aspects such as capital adequacy requirements, segregation of accounts and ensuring robust protections for coin holders need to be dealt with through effective regulation.

Anthony Clark-Jones, portfolio manager at UBS Investment Bank, spoke also at the event. On financial stability risks, he said that UBS is working with financial regulators including the Bank of England, European Central Bank and the US Federal Reserve to develop institutional-grade payment networks to facilitate global payments using blockchain technology.

“Conversely to what uninitiated onlookers might think, it is the stability that digital coins can bring that is at the top of mind of regulators and institutions like UBS,” he said, adding that there is a lot to learn from the transparency and peer-to-peer nature of blockchain technology.

The ability to interrogate the system helps in addressing systemic as well as operational risks, he said, underpinning the need for closer coordination with regulators to design a new landscape that can introduce these technologies into financial services with pragmatic and prudent regulation.

*Financial Times Crypto and Digital Assets Summit, Dec. 5, 2023.

Areas of Interest: Sector Regulation

Industries: Banking & Finance

Geographies: Europe, Northern Europe, United Kingdom