



BANK OF ENGLAND

13 July 2021



# Digital money and Financial Stability

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# The Bank's mission and objectives around new forms of digital money

## The Bank's mission

- The Bank's mission is to promote the good of the people of the United Kingdom by maintaining monetary and financial stability.
- The FPC expectations are the guiding principles for the Bank's approach to payments and stablecoin regulation.
- **The Bank is committed to working with other authorities to understand opportunities and challenges of new forms of digital money.**

## Other public policy objectives

Access to central bank money

Payments functionality

Data protection

Financial inclusion

Competition

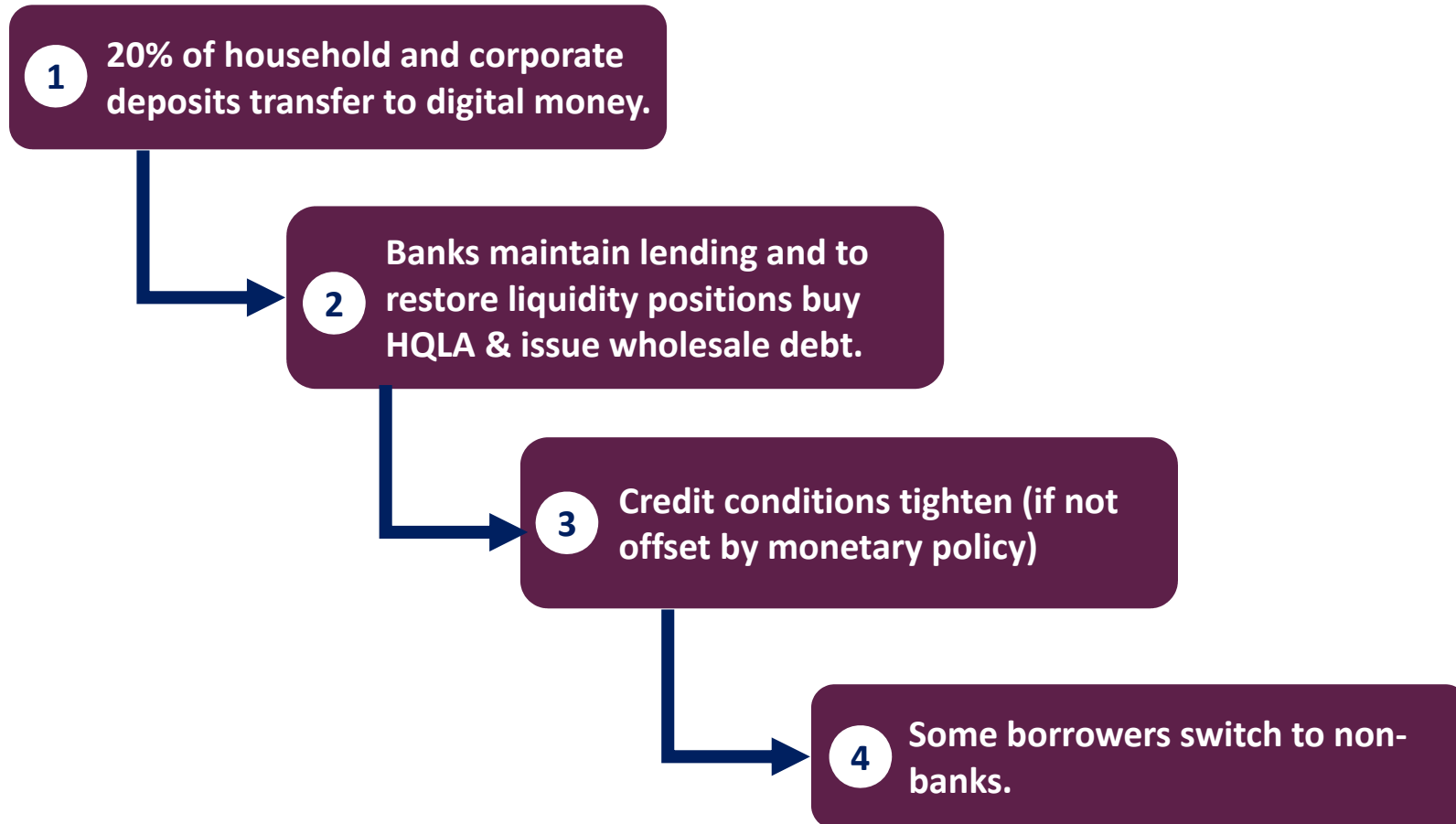
Interoperability



# An illustrative scenario

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## An illustrative scenario



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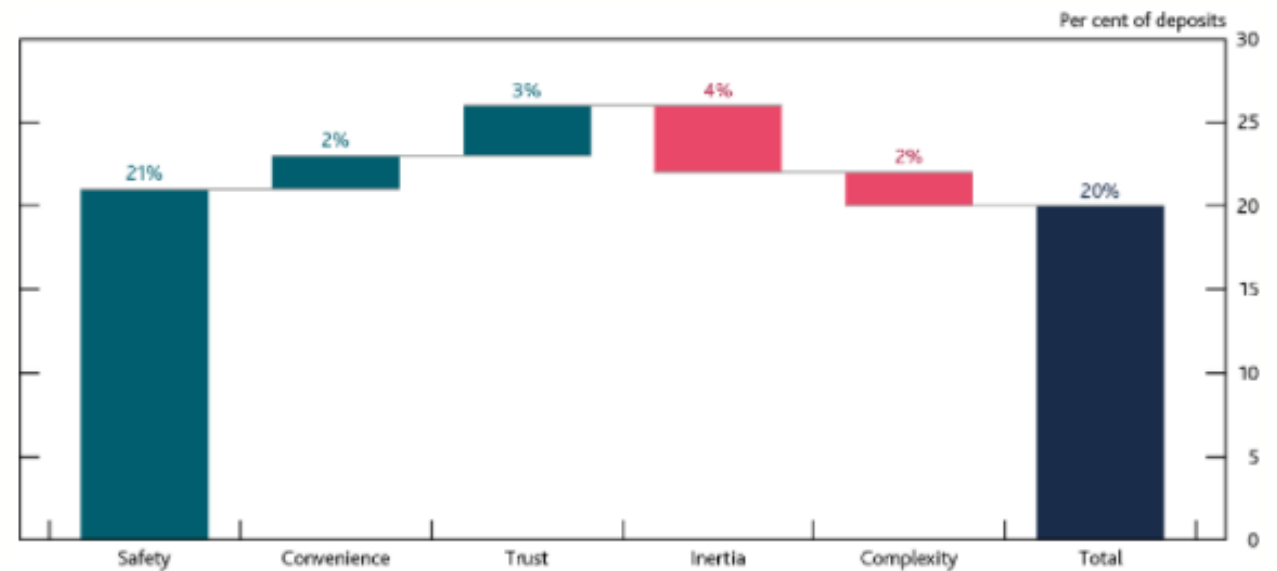
1 20% of household and corporate deposits transfer to digital money.

2 Banks maintain lending and to restore liquidity positions buy HQLA & issue wholesale debt.

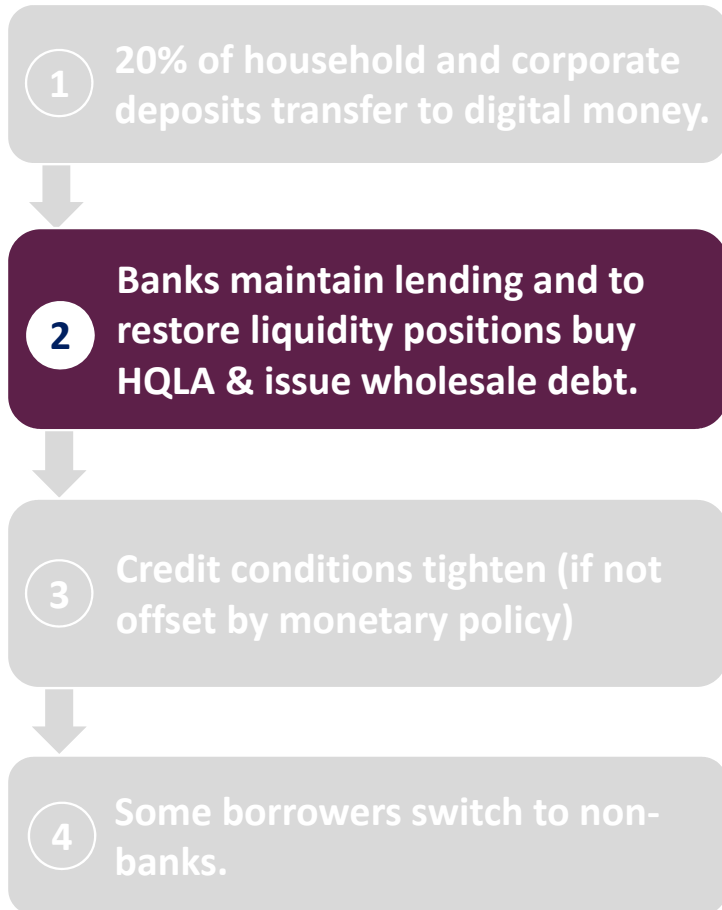
3 Credit conditions tighten (if not offset by monetary policy)

4 Some borrowers switch to non-banks.

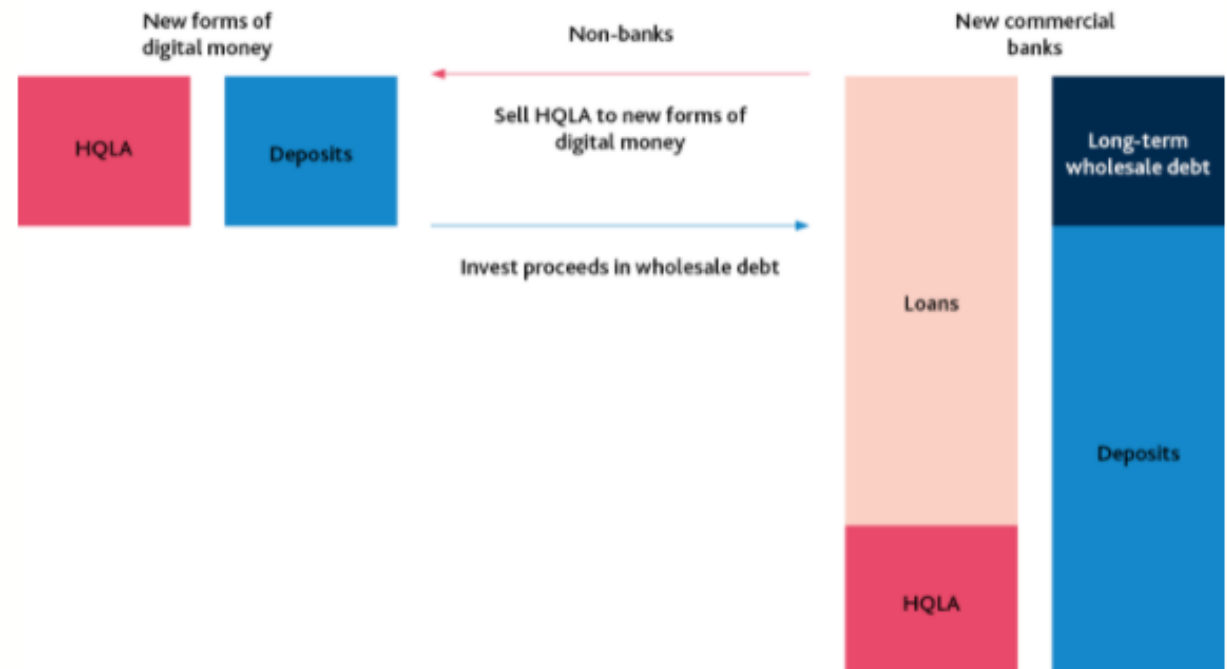
Assumed total household and corporate commercial bank deposits migrating to digital money, by non-financial factor



## An illustrative scenario



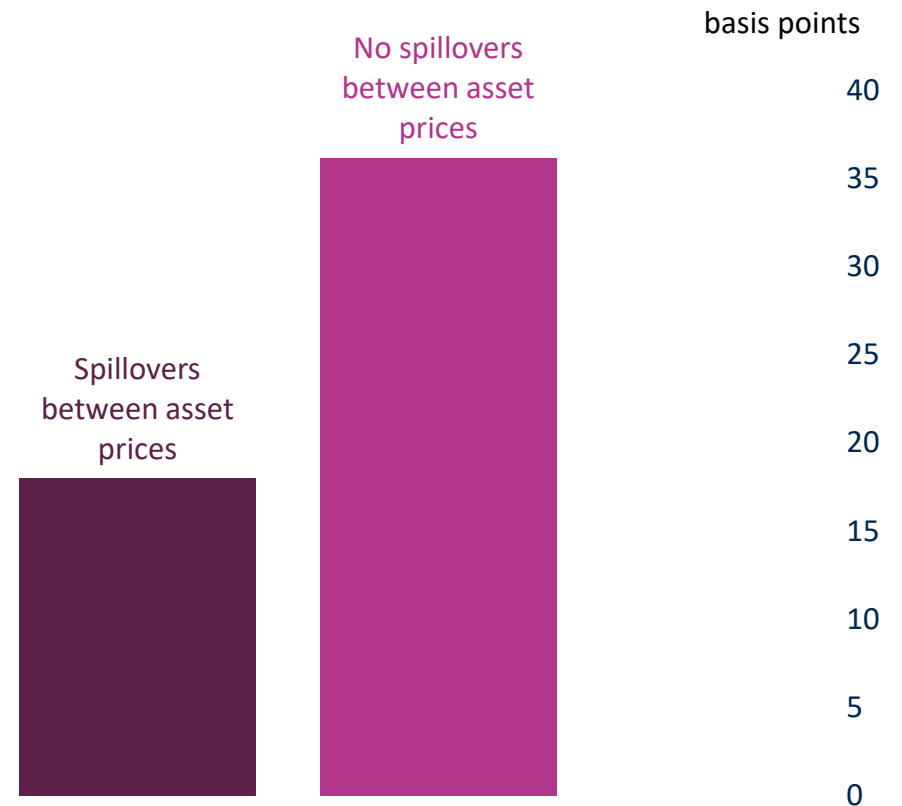
Stylised view of how real-economy loans could be backed by a combination of deposits and wholesale funding



## An illustrative scenario



Changes in lending rates associated with the introduction of new forms of digital money under different asset price spillover assumptions.



## An illustrative scenario

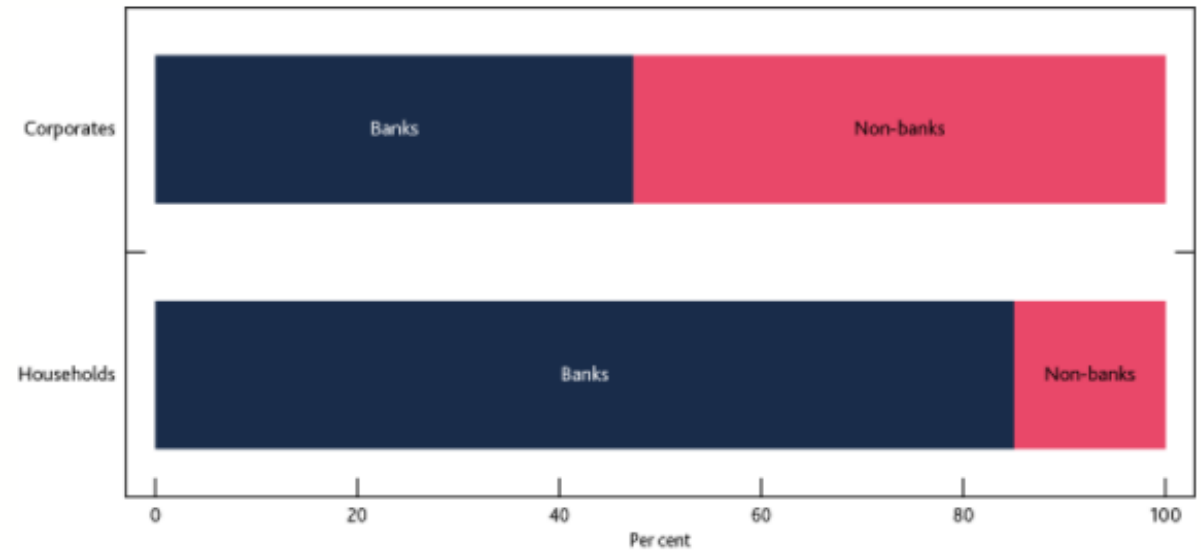
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Proportion of debt outstanding for UK corporates and households (a)



Sources: Bank of England, Bank for International Settlements (BIS), Deloitte, Finance & Leasing Association, firm public disclosures, Integer Advisors, London Stock Exchange, ONS, Peer-to-Peer Finance Association, Refinitiv and Bank calculations.





# Implications for macroeconomic stability

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## Implications for macroeconomic stability

### 1 Confidence in money and payments

Unless adequately regulated, stablecoins could undermine public confidence in money and payments and in the financial system as a whole. But, if they meet the FPC's expectations, they could better serve the payment needs of people.

### 2 Banking sector liquidity resilience

### 3 Credit conditions

### 4 Implementation and transmission of monetary policy

### 5 Money market functioning

## Implications for macroeconomic stability

**1** Confidence in money and payments

**2** Banking sector liquidity resilience

**3** Credit conditions

**4** Implementation and transmission of monetary policy

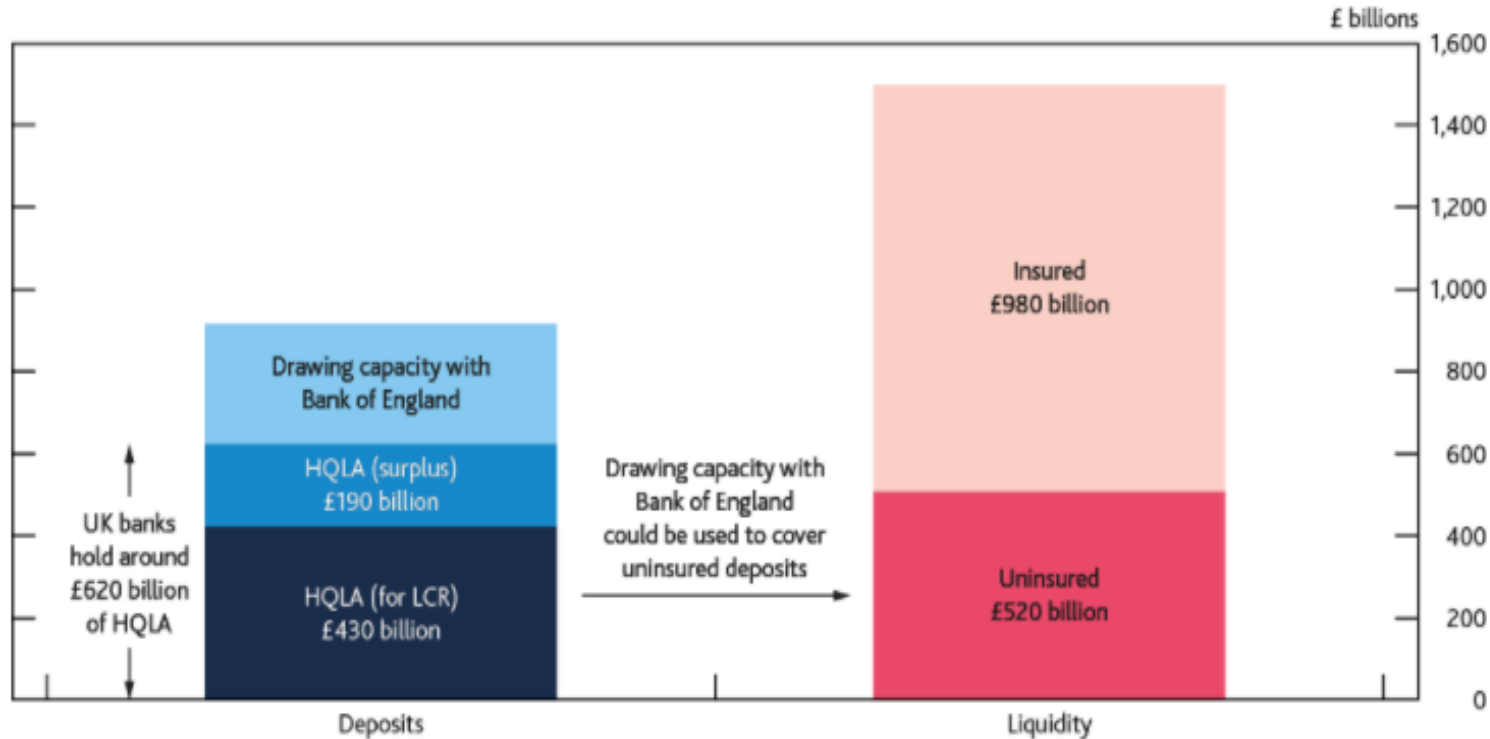
**5** Money market functioning

In aggregate, given existing liquidity resources, banks should be able to withstand sudden deposit outflows. But there is uncertainty around how smoothly such a deposit outflow would unfold, so banks should ensure they have access to the Bank's liquidity facilities.

## 2. Banking sector liquidity resilience

Chart 4.1: Banks could use current liquidity holdings and liquidity available from the Bank to cover their uninsured deposits

Decomposition of major UK banks' deposits and HQLAs





## Implications for macroeconomic stability

**1** Confidence in money and payments

**2** Banking sector liquidity resilience

**3** Credit conditions

**4** Implementation and transmission of monetary policy

**5** Money market functioning

Digital money could affect the cost and availability of borrowing from banks. All else equal, that could make it more difficult for monetary policy to ease financial conditions.

## Implications for macroeconomic stability

**1** Confidence in money and payments

**2** Banking sector liquidity resilience

**3** Credit conditions

**4** Implementation and transmission of monetary policy

**5** Money market functioning

There is risk of some disruption to money markets in the short-term. This could impede the Bank's ability to implement monetary policy under the current framework and undermine the integrity of key benchmarks such as SONIA. But, providing the digital money has a retail-focus only, money markets should be able to adapt in the long-term.



# The regulatory environment

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# FPC expectations for stablecoin-based payment chains



BANK OF ENGLAND

Financial Policy Committee



Financial Stability  
Report

**In December, the FPC set out two expectations for stablecoin-based payment chains:**

- **Payment chains that use stablecoins should be regulated to standards equivalent to those applied to traditional payment chains. Firms in stablecoin-based systemic payment chains that are critical to their functioning should be regulated accordingly.**
- **Where stablecoins are used in systemic payment chains as money-like instruments they should meet standards equivalent to those expected of commercial bank money in relation to stability of value, robustness of legal claim and the ability to redeem at par in fiat.**



# Proposed models to meet the FPC's second expectation

The FPC's second expectation relates to the use of stablecoin as money.

**It seeks to ensure that the public should be able to trust the reliability and stability of the money it uses every day, regardless of its form.**

Certain key features of the banking regime should be reflected in the regulatory regime for stablecoins to ensure that they are safe to use – as safe as commercial bank money. These core features are:



**Robust legal claim**



**Capital requirements**



**Liquidity requirements**



**A backstop to protect coin holders**

