

Bank of England

The Baroness Noakes DBE
Chair, Financial Services Regulation Committee
House of Lords
London
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Sarah Breedon
Deputy Governor, Financial Stability

26 March 2026

Dear Chair,

Follow-up to evidence given to the FSRC on 11 March

Thank you for inviting Sasha Mills and me to give evidence to the Committee on 11 March. We appreciated the opportunity to discuss the Bank's work on the regulation of systemic stablecoins in the UK.

Unhosted wallets

First, I would like to offer further explanation of my answer to Lord Eatwell on unhosted stablecoin wallets.

As set out in the Bank's November 2025 [consultation paper](#), coinholders may choose to access their stablecoins via unhosted wallets. However, such arrangements will have to meet the relevant regulatory standards, which is likely to be challenging due to their pseudonymous nature.

To provide some more detail from our consultation, unhosted wallets typically offer users a higher degree of privacy and autonomy, as they operate without reliance on intermediaries. Consequently, the responsibility for safeguarding and managing private keys rests solely with the user.¹

¹ Private keys are strings of characters, akin to passwords, which cryptoasset holders use to access their assets.



In practice, therefore, unhosted wallets do not collect personal data, which can facilitate transactions that are less easily monitored. This characteristic can increase their attractiveness for illicit purposes, including money laundering and terrorist financing. Such risks are addressed under the international standards set by the Financial Action Task Force (FATF) – implemented in the UK through the Money Laundering Regulations (MLRs) – and ongoing international work is being undertaken jointly with the Financial Conduct Authority at the FATF. Nevertheless, the pseudonymous nature of these wallets may present challenges for systemic stablecoin payment chains to deliver against the Financial Policy Committee’s expectations, namely being regulated to standards equivalent to those applied to traditional payment systems and meeting equivalent standards to commercial bank money, when acting as money-like instruments. Specifically, it could impede the timely execution of payouts in the event of issuer failure and complicate the enforcement of any holding limits.

To support unhosted wallets, therefore, issuers of both non-systemic and systemic stablecoins must satisfy themselves that they can meet the relevant regulatory standards, including those for anti-money laundering and terrorist financing.

The Bank will continue to monitor the risks associated with unhosted wallets, including their potential suitability for use at systemic scale within the UK payments landscape.

The Digital Securities Sandbox

Separately, the Committee has recently heard evidence on regulatory sandboxes – namely that “sandboxes are the place where good ideas and good fintech innovations may go to die... it is time for the United Kingdom to innovate with real money and with responsible actors”.² I wanted in this letter also to clarify how the Bank is operating its **Digital Securities Sandbox** (DSS) with the FCA, since the opportunity to discuss this didn’t arise in our evidence on 11 March.

The DSS is indeed real activity, with real money, and responsible actors. It was launched in 2024, with 16 firms now preparing to launch regulated trading venues and settlement systems for live activity in digital securities from later this year, with a pathway to operating these on a permanent basis. This includes established financial institutions such as Euroclear, HSBC, JP Morgan and the London Stock Exchange Group, as well as newer entrants. The DSS allows firms and authorities to test, using real activity, the efficiency and functionality benefits that digital securities – which use distributed ledger technology (DLT) to record and transfer ownership – could offer to users of financial markets, as market participants will be able to interact with DSS

² [Oral evidence - 18 Mar 2026](#)

entrants as they do with existing financial market infrastructure.³ DSS activity will be in a range of asset classes, including bonds, equities and funds, and across multiple currencies. Under its DIGIT pilot, HM Treasury will be using a platform within the DSS to issue digitally native UK government debt.

DSS entrants operate under a modified legislative and regulatory framework to that which applies to traditional trading venues and settlement systems, in order transparently to remove legal obstacles that could otherwise prevent the use of developing technologies.⁴ This framework will serve as a starting point for a permanent regulatory regime. Authorities will learn from activities in the DSS how best to adapt the framework to enable the responsible adoption of DLT in financial markets on a long-term basis. And the DSS thus offers a pathway for firms to transition to long-term status as permanent market infrastructure when the DSS ends in January 2029.⁵ The Bank (working with FCA and HMT) will provide a full roadmap to the permanent regime later this year.

Since DSS entrants do not face the full suite of regulations that would typically apply to trading and settlement activities under international standards, the DSS sets issuance limits in important digital securities markets. These have been set at levels that allow for meaningful activity – for example, £8-13.1 billion for gilts, and £17-28 billion for sterling corporate bonds⁶ – while ensuring appropriate financial stability safeguards are in place.

The DSS promotes greater certainty, competition and innovation compared to alternative approaches adopted in some other jurisdictions, which (instead of establishing a new legislative and regulatory framework) have provided targeted, temporary relief from legal requirements to specific firms for a limited set of initiatives. By providing a transparent legal framework that applies a common set of rules to all firms, the DSS approach allows for a variety of business models and use cases, and provides a pathway for firms and authorities to learn how best to enable the responsible adoption of DLT in financial markets and adopt that in permanent operations and regulation.

In this way, through real activity with responsible actors, our view is that the UK is building solid foundations for innovators to enhance the functioning of UK financial

³ I discussed the potential benefits of digital securities, as well as challenges to overcome, in a speech in October: [Not just token gestures – speech by Sarah Breeden | Bank of England](#)

⁴ The Financial Services and Markets Act 2023

⁵ This end date can be extended through legislation.

⁶ Table D, [Guidance on the operation of the Digital Securities Sandbox | Bank of England](#)

markets, and for authorities to learn how to update our legal and regulatory frameworks.

I hope this information supports the Committee in its consideration of these important issues.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Sarah Breeden". The signature is written in a cursive, flowing style.

Sarah Breeden

Deputy Governor, Financial Stability