

THE BANK OF ENGLAND SYSTEMIC STABLECOIN ISSUER CODE OF PRACTICE

Powers exercised

A. This code of practice is published under:

- (1) section 189 of the Banking Act 2009; and
- (2) [*statutory trust enabling power*¹].

B. A failure to comply with this code will constitute a “compliance failure” under section 196 of the Banking Act 2009, which can result in the imposition of a sanction under sections 198 to 200 of the Banking Act 2009 (financial penalty, management disqualification, and in certain specified circumstances, a closure order). It can also involve publication of the details of the compliance failure and any sanction imposed (section 197 of the Banking Act 2009).

The Bank of England Systemic Stablecoin Issuer Code of Practice.

C. The Bank of England makes the rules in the Annexes to this code of practice.

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Commencement

D. This code of practice comes into force on [dd/mm/yy]

Citation

E. This code of practice may be cited as the Bank of England Systemic Stablecoin Issuer Code of Practice.

[DATE]

¹ As explained in section 2.2.2 (Safeguarding and trust arrangements) of the accompanying Policy statement and consultation on the draft Code of Practice, legislation will be required to give the Bank the necessary enabling powers for statutory trusts.

Annex A

PART 1: APPLICATION AND DEFINITIONS

1 APPLICATION

- 1.1 This code of practice applies to a *systemic issuer* that is incorporated in the *UK* in relation to any of its *systemic stablecoin*.
- 1.2 This code of practice does not apply to a *systemic issuer* that is subject to a *direction*, to the extent set out in such *direction*.

2 DEFINITIONS

- 2.1 Unless otherwise stated, the following definitions shall apply across the code of practice:

account acknowledgement letter

means a letter in the form in 6.13 of the Safeguarding Part.

asset

means any property, right, entitlement or interest, excluding *money*.

asset pool

means a *backing asset pool*, a *financial risk reserve pool*, or the *wind-down reserve pool*.

asset pool account

means a *systemic issuer's* account with a *third party* in which it holds *money* or *assets* comprising all or part of an *asset pool*.

backing assets account

means an *asset pool account* with a *custodian* to hold *assets* that the *systemic issuer* holds as part of the *backing asset pool*.

backing asset pool

means

- (1) the pool of *money* and any *assets* held by a *systemic issuer* in accordance with 1.1(1) of the Backing Assets Part in connection with a *systemic stablecoin* with a view to maintaining the stability or value of that *systemic stablecoin*; and
- (2) any additional sum held in excess of the requirement in 1.1(2) of the Backing Assets Part in accordance with 3.15(2) of the Safeguarding Part.

backing assets trust

means the trust created by 4.1 of the Safeguarding Part.

backing funds account

means an *asset pool account* with the *Bank* in which the *systemic issuer* holds *central bank money* as part or all of a *backing asset pool*.

Bank

means the Bank of England.

Banking Act

means the Banking Act 2009.

burning

means the process by which a *systemic stablecoin* is permanently removed from circulation on a blockchain or other network using distributed ledger technology or similar technology.

business day

means

- (1) in relation to anything done or to be done in (including to be submitted to a place in) any part of the *UK*, any day which is not a Saturday or Sunday, Christmas Day, Good Friday or a bank holiday in that part of the *UK*;
- (2) in relation to anything done or to be done by reference to a market outside the *UK*, any day on which that market is normally open for business.

capital

means *subscribed capital* and its related share premium accounts in so far as:

- (1) it has been paid up;
- (2) it fully absorbs losses in going concern situations; and
- (3) it ranks after all other claims in an insolvency, including retained earnings and *reserves*.

central bank money

means *money* denominated in *GBP* held by the *systemic issuer* at the *Bank*.

central bank money minimum

means an amount of *central bank money* at least equal in value to 30% of the *systemic stablecoin product total*.

commercial bank

means a person with a permission from the Prudential Regulation Authority under Part 4A of *FSMA* to carry on the regulated activity specified in article 5 (Accepting deposits) of the *Regulated Activities Order*, excluding:

- (1) persons with permission to effect or carry out contracts of insurance as principal; and
- (2) a credit union as defined in the *PRA Rulebook*.

custodian

means a person with permission from the Financial Conduct Authority under Part 4A of *FSMA* to carry on the regulated activity of safeguarding and administering investments under Article 40 (Safeguarding and administering investments) of the *Regulated Activities Order*, and that is a separate legal entity to the *systemic issuer*.

deferred net settlement

means a net settlement mechanism which settles on a net basis at the end of a predefined settlement cycle.

designated system

means

- (1) a system which is declared by a designation order for the time being in force to be a designated system for the purposes of Financial Markets and Insolvency (Settlement Finality) Regulations 1999; or

- (2) a system which has temporary designation in accordance with Part 4 of the Financial Markets and Insolvency (Amendment and Transitional Provision) (EU Exit) Regulations 2019.

direction

means a direction given by the *Bank* under section 191 of the *Banking Act*.

DSA service provider

means a DSA service provider (as defined in section 182(5A) of the *Banking Act*) specified in a recognition order under section 184A of the *Banking Act*.

electronic money

means “electronic money” as defined in the *FCA Handbook*.

eligible liquid assets

means *assets* that are eligible to meet any of the requirements at 3.7, 4.6, 4.7 and 5.2 of the Capital and Reserves Part.

FCA Handbook

means the Handbook of rules and guidance of the Financial Conduct Authority.

financial risk reserve account

means an *asset pool account* a *systemic issuer* has with the *Bank* containing *financial risk reserve funds*.

financial risk reserve funds

means the *money* in a *financial risk reserve pool*.

financial risk reserve pool

means the *money* or *assets* held to meet the *financial risk reserve requirement*.

financial risk reserve requirement

means the requirement in 4.2 of the Capital and Reserves Part.

FSMA

means the Financial Services and Markets Act 2000.

full redemption request

means a *redemption* request:

- (1) that meets the requirements of *[insert rule reference]* of the *FCA Handbook*;
- (2) in respect of which the *systemic issuer* has completed all relevant checks to comply with customer due diligence requirements under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (SI 2017/692) and any other enactment; and
- (3) where the *holder* has returned the *systemic stablecoin* to the *systemic issuer*.

GBP

means British pound sterling.

general business risk requirement

means the requirement in 3.1 of the Capital and Reserves Part.

governing body

means the board of directors, committee of management or other governing body of a *systemic issuer*.

group

has the meaning in section 421 of *FSMA*.

holder

means (in relation to a *systemic stablecoin*):

- (1) the person who has the right to *redeem* that *systemic stablecoin*; or
- (2) a person who is exercising the right in (1) until *redemption* is completed in respect of that *systemic stablecoin*.

issuing qualifying stablecoin

means the activity defined in article 9M (Issuing qualifying stablecoin) of the *Regulated Activities Order*.

market value

means the value as determined in accordance with generally accepted accounting practice.

minting

the process of putting a *systemic stablecoin* on a blockchain or other network using distributed ledger technology or similar technology in a transferrable form.

money

means any form of money, including cheques and other payable orders.

on demand deposits

means a sum of *money* paid on terms where the principal is repayable at par on demand.

overall risk assessment

means the assessment a *systemic issuer* must perform according to 7.3 of the Capital and Reserves Part.

parent undertaking

has the meaning in section 420 of *FSMA*.

payment account

has the meaning in the *FCA Handbook*.

PRA Rulebook

means the Rulebook of the Prudential Regulation Authority.

proceed funds

means *money* held or received by a *custodian* on behalf of a *systemic issuer*, in connection with *assets* held in or settled through a *settlement system*, arising from or for the purpose of:

- (1) the redemption of *assets* that form part of an *asset pool*;
- (2) the purchase of *assets* that are to form part of an *asset pool* (including as part of a *reverse repurchase agreement*);

- (3) the sale of *short-term government debt securities* under a *repurchase agreement*; or
- (4) any other return on *assets* held in an *asset pool* (including interest or a manufactured dividend).

proceed funds account

means an account held by a *systemic issuer* with a *commercial bank* in which *proceed funds* are held, and to which the requirements in Chapter 2 of the Safeguarding Part apply.

qualifying stablecoin

means the specified investment defined in article 88G (Qualifying Stablecoin) of the *Regulated Activities Order*.

recognised payment system operator

means the operator of a payment system specified in a recognition order as a recognised payment system under section 184 of the *Banking Act*.

redeem

means the execution of a *redemption*.

redemption

means the process by which a *systemic issuer* fulfils its obligation to the *holder* of a *systemic stablecoin*, whether carried out directly or indirectly (for example, through a *third party*), to provide value in exchange for the *holder* returning a *systemic stablecoin*.

redemption amount

means *the reference value* of the sum total of *systemic stablecoins* in respect of which a *full redemption request* is received.

reference value

means the face value of a *systemic stablecoin*, with reference to a unit of *GBP*.

Regulated Activities Order

means the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544).

repurchase agreement

means an agreement, to which the issuer is a counterparty, in respect of a *repurchase transaction*:

- (1) that has a maximum maturity up to and including one *business day*;
- (2) that concerns the sale by the *systemic issuer* of:
 - (a) *short-term government debt securities*; or
 - (b) for the purposes of the Capital and Reserves Part, *UK government debt securities*; and
- (3) in relation to which the counterparty is limited to one the following:
 - (a) a credit institution that meets the definition of 'CRR firm' under article 4(1)(2A) of the *UK* version of Regulation of the European Parliament and the Council on prudential requirements for credit institutions and investment firms (Regulation (EU) No 575/2013) and amending Regulation (EU) No 648/2012;
 - (b) a *MIFIDPRU investment firm* as defined in the *FCA Handbook*;

- (c) a designated investment firm as defined in the *FCA Handbook*;
- (d) a 'UK Solvency II firm' as defined in Chapter 2 of Solvency II Firms Insurance General Application Part of the *PRA Rulebook*; or
- (e) a person incorporated in a territory or country which is not the *UK* with a main business comparable to any of the entities referred to in (a) to (d).

repurchase transaction

means an agreement between a seller and buyer for the sale of *assets*, under which the seller agrees to repurchase the *assets*, or substituted *assets* of the same description, at an agreed date and, at a stated price.

reserves

means reserves as set out in item K.IV of balance sheet format 1 in Section B of Part 1 of Schedule 1 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and profits and losses brought forward as a result of the application of the final profit or loss.

reverse repurchase agreement

means an agreement, to which an issuer is a counterparty, in respect of a *repurchase transaction*:

- (1) that has a maximum maturity up to and including one *business day*;
- (2) that concerns the purchase by the *systemic issuer* of:
 - (a) *short-term government debt securities*; or
 - (b) for the purposes of the Capital and Reserves Part, *UK government debt securities*; and
- (3) in relation to which the other counterparty is limited to one of those listed in (3) in the definition of a *repurchase agreement*.

reverse repo collateral assets

means the *assets* received as collateral under all the *reverse repurchase agreements* that remain outstanding, in respect of which the *systemic issuer* used *money* that formed part of the *backing asset pool*.

senior management

means the senior management of a *systemic issuer* who are responsible, and accountable to the *governing body*, for the day-to-day management and supervision of the *systemic issuer*.

settlement system

means a system commercially available to *custodians*, a purpose of which is to facilitate the settlement of transactions using *money* and/or *assets* held on one or more accounts with the *Bank*, a central securities depository, a central counterparty or any other institution acting as a settlement agent.

short-term government debt security

means a debt security representing a claim on the *UK* government denominated in *GBP* with a residual maturity of 186 days or fewer.

short-term MMF

has the meaning in the *FCA's Handbook*.

specified service provider

means a service provider specified in a recognition order under section 206A of the *Banking Act*.

stablecoin pool

means a number ('X') of *systemic stablecoins* calculated in accordance with 4.2 of the Backing Assets Part.

subscribed capital

comprises all amounts, regardless of their actual designations, which, in accordance with the legal structure of the *systemic issuer* concerned, are regarded under the law of any part of the *UK* as equity capital subscribed by the shareholders or other proprietors.

systemic issuer

means a *recognised payment system operator*, *DSA service provider* or *specified service provider* that is *issuing qualifying stablecoins*.

systemic stablecoin

means a *qualifying stablecoin* that:

- (1) references *GBP*; and
- (2) is specified in the recognition order in which the *systemic issuer* is specified.

systemic stablecoin product

means a category of *systemic stablecoins* identifiable on the basis that each *systemic stablecoin* within that category is fungible with each other *systemic stablecoin* within that category and together all the coins in that category represent a single product.

systemic stablecoin product total

means the amount calculated in accordance with 4.1 of the Backing Assets Part.

third party

means a separate legal entity to the *systemic issuer*.

UK

means the United Kingdom.

UK government debt security

means a debt security representing a claim on the *UK* government denominated in *GBP*.

wind-down reserve funds

means the *money* in the *wind-down reserve pool*.

wind-down reserve funds account

means an *asset pool account* a *systemic issuer* has with the *Bank* or a *commercial bank* containing *wind-down reserve funds*.

wind-down reserve pool

means the *money* or *assets* held to meet the *wind-down reserve requirement*.

wind-down reserve requirement

means the requirement in 5.1 of the Capital and Reserves Part.

wind-down reserve trust

means the trust created under 4.7 of the Safeguarding Part.

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Annex B

PART 2: BACKING ASSETS

1 REQUIREMENT FOR BACKING ASSET POOLS

- 1.1 A *systemic issuer* must ensure that at all times, and separately, in relation to each *systemic stablecoin product*:
- (1) it holds a *backing asset pool*, which consists exclusively of:
 - (a) *central bank money*; and
 - (b) *short-term government debt securities*; and
 - (2) subject to 2.7 and 3.15(2) of the Safeguarding Part, the value of the relevant *backing asset pool* is equal to the *systemic stablecoin product total*.
- 1.2 A *systemic issuer* must use best endeavours to ensure that it holds at least the *central bank money minimum* in the *backing asset pool*.
- 1.3 When calculating the value of *central bank money* in the *backing asset pool*, a *systemic issuer* that is a member of a *deferred net settlement designated system* must:
- (1) exclude any *money* held in the relevant *backing funds account* pending settlement, which relate to transfer orders that:
 - (a) have been entered into the *designated system* on behalf of the *systemic issuer*; and
 - (b) are irrevocable under the rules or default arrangements of the *designated system*; and
 - (2) include any *money* to be credited to the relevant *backing funds account* pending settlement, which relate to transfer orders that:
 - (a) have been entered into the *designated system*; and
 - (b) are irrevocable under the rules or default arrangements of the *designated system*.
- 1.4 A *systemic issuer* must notify the *Bank* promptly if, at the point of an internal safeguarding reconciliation required by 3.5 of the Safeguarding Part, the *central bank money* in the *backing asset pool*:
- (1) is not at least equal in value to 20% of the *systemic stablecoin product total*; or
 - (2) has not been at least equal in value to 25% of the *systemic stablecoin product total* for 5 consecutive *business days*.
- 1.5 Where a *systemic issuer* is required to make a notification under 1.4, it must submit to the *Bank* a plan specifying how it will ensure that its *backing asset pool* includes at least the *central bank money minimum*, including the measures it will take and the timeframe for such measures.

2 REPURCHASE TRANSACTIONS

- 2.1 A *systemic issuer* must not use *assets* in the *backing asset pool* to enter into a *repurchase agreement* if as a result the *assets* in the *backing asset pool* would cease to be at least equivalent, in description and quantity, to the *reverse repo collateral assets*.
- 2.2 A *systemic issuer* must not use *money* in the *backing asset pool* to enter a *reverse repurchase agreement* if it would result in the *money* in the *backing asset pool* being less than the greater of:

- (1) the *central bank money minimum*; and
 - (2) the aggregate repurchase price under all the *repurchase agreements* that remain outstanding, in respect of which the *systemic issuer* used *assets* that, prior to being used as collateral, formed part of the *backing asset pool*.
- 2.3 A *systemic issuer* must ensure that any *reverse repurchase agreement* using *money* that formed part of the *backing asset pool* is over-collateralised such that in the event of counterparty default, the *systemic issuer* is able to ensure compliance with 1.1(2), taking into account the market risk from adverse movements in the value of the *assets* received or held as collateral.

3 CALCULATION OF BACKING ASSET POOL

- 3.1 A *systemic issuer* must calculate the value of the *backing asset pool* and *systemic stablecoin product total* as regularly as necessary and at least each time it carries out an internal safeguarding reconciliation in accordance with 3.5 of the Safeguarding Part.
- 3.2 A *systemic issuer* must calculate the value of the *backing asset pool* in *GBP* as:
- $$X = A + B + C - D$$
- Where:
- X is the value of the *backing asset pool*;
 - A is all *central bank money* in the *backing funds accounts*;
 - B is all *short-term government debt securities* held in the *backing assets accounts*;
 - C is the aggregate repurchase price under all the *reverse repurchase agreements* that remain outstanding, in respect of which the *systemic issuer* used *money* that formed part of the *backing asset pool*; and
 - D is the *market value* of the *reverse repo collateral assets*.
- 3.3 For the purposes of calculating the value of *short-term government debt securities* in 3.2, a *systemic issuer* must ensure that:
- (1) any valuation of the *short-term government debt securities* is performed with due skill, care and diligence;
 - (2) it uses:
 - (a) the *market value* of the relevant *short-term government debt securities*; or
 - (b) where a *market value* is not available for a *short-term government debt security*, an alternative measure of fair value, which may include an estimated value calculated on a best-efforts basis;
 - (3) it bases calculations on its records as at the time at which it is carrying out the calculation; and
 - (4) it records the process by which it has calculated the value of the *short-term government debt securities*, including which method has been used.

4 CALCULATION OF STABLECOIN POOL

- 4.1 A *systemic issuer* must calculate the *systemic stablecoin product total* by multiplying the *systemic stablecoin's reference value* by the *stablecoin pool*.
- 4.2 A *stablecoin pool* is a number (X) of *systemic stablecoins* in the *systemic stablecoin product* to which the *backing asset pool* relates calculated as follows:
- $$X = A - B$$

where:

- A is the number of such *systemic stablecoins* that have ever been *minted*; and
- B is the number of such *systemic stablecoins* that have ever been *burned*.

4.3 A *systemic issuer* must calculate at least once in every 24-hour period the number of *systemic stablecoins* in the *systemic stablecoin product* to which the relevant *backing asset pool* relates that have been subject to *redemption* within the 24 hours preceding the point of calculation but have not been *burned*.

4.4 A *systemic issuer* must keep records that accurately record at least the following:

- (1) the number of *systemic stablecoins* in the *systemic stablecoin product* to which the *backing asset pool* relates that have ever been *minted*;
- (2) the number of *systemic stablecoins* in the *systemic stablecoin product* to which the *backing asset pool* relates that have ever been *burned*; and
- (3) all calculations of the number of *systemic stablecoins* that have been *redeemed* but not *burned* in 4.3.

5 BACKING ASSET RISK MANAGEMENT

5.1 A *systemic issuer* must have a robust backing assets risk management framework that enables it to identify, measure and manage risks in relation to the *backing asset pool*, including at least the following:

- (1) a liquidity risk management policy which:
 - (a) enables it to identify, measure, manage and monitor liquidity risk in relation to the *backing asset pool*, including managing concentration risk in relation to certain asset types, maturity profiles or *repurchase transaction* counterparties, so that:
 - (i) it can comply with its obligations in Chapter 3 of the Issuance, Legal Claim and Redemption Part; and
 - (ii) the *backing asset pool* includes at least the *central bank money minimum*, with the majority of that minimum ordinarily not comprising *money* received under *repurchase agreements*; and
 - (b) sets out how a *systemic issuer* will undertake liquidity stress testing, including of its liquidity contingency funding plan required under (2);
- (2) a liquidity contingency funding plan, which describes the tools that will be used to monitor market conditions, and which addresses how additional liquidity would be sourced in the event of:
 - (a) the *backing asset pool* no longer including at least the *central bank money minimum*;
or
 - (b) market stress which may impact the number of *redemptions* anticipated; and
- (3) a prudent custody policy which:
 - (a) addresses all aspects of who will provide custody for *short-term government debt securities* in the *backing asset pool*; and
 - (b) ensures prompt access to those *short-term government debt securities* when required.

- 5.2 A *systemic issuer* must be able to provide to the *Bank* on request a current version of all documents it is required to produce in accordance with this Chapter, together with all versions produced during the preceding five years.
- 5.3 A *systemic issuer* must have in place robust processes and systems to manage the *backing asset pool* effectively and prudently, including in line with its backing asset risk management framework.
- 5.4 A *systemic issuer* must ensure that all documents required in this Chapter make clear:
- (1) the identity of the person who is responsible for their monitoring and execution within the *systemic issuer*;
 - (2) the way in which the *senior management* has oversight of their monitoring and execution; and
 - (3) the frequency with which they will be reviewed and updated.
- 5.5 A *systemic issuer* must ensure that:
- (1) the *governing body* oversees and approves; and
 - (2) the *senior management* has effective oversight of the day-to-day implementation of, its backing assets risks management, including the framework required by 5.1 and the processes and systems required by 5.3.
- 5.6 A *systemic issuer* must ensure that its *governing body's* oversight and approval of the matters in 5.5 is appropriately documented.

Annex C

PART 3: SAFEGUARDING

1 SAFEGUARDING REQUIREMENTS

- 1.1 A *systemic issuer* must, in relation to each *systemic stablecoin product*, hold the *money* and *assets* in each *backing asset pool*, each *financial risk reserve pool* and that constitute *proceed funds* in such a way that the *money* and *assets* are segregated and managed separately from:
- (1) the *systemic issuer's own money* and *assets*;
 - (2) for *money* and *assets* in an *asset pool*, the *proceed funds* and *money* and *assets* in any other *asset pool*;
 - (3) for the *proceed funds*, *money* and *assets* in any *asset pool*; and
 - (4) *money* and *assets* relating to any other *qualifying stablecoin*.
- 1.2 Notwithstanding 1.1, a *systemic issuer* may continue to hold *money* in a *backing funds account* that is subject to an irrevocable transfer order as described in 1.3(1) of the Backing Assets Part.
- 1.3 A *systemic issuer* must hold the *money* and *assets* in the *wind-down reserve pool* in such a way that the *money* and *assets* are segregated and managed separately from:
- (1) the *systemic issuer's own money* and *assets*;
 - (2) the *money* and *assets* in any other *asset pool*;
 - (3) the *proceed funds*; and
 - (4) *money* and *assets* relating to any *qualifying stablecoin*.
- 1.4 A *systemic issuer* must hold the *money* and *assets* in each *asset pool* in an account or accounts provided by the *Bank*, a *commercial bank* or a *custodian* as specified in this Part.
- 1.5 An *asset pool account* must:
- (1) be held expressly in the name of the *systemic issuer*;
 - (2) include in its title an appropriate description to distinguish the *money* and *assets* in the account from:
 - (a) the *systemic issuer's money* and *assets*;
 - (b) in the case of a *backing asset pool* or a *financial risk reserve pool*:
 - (i) *money* or *assets* held in a different *asset pool account* relating to that *systemic stablecoin product*; and
 - (ii) *money* or *assets* relating to any other *qualifying stablecoin*; and
 - (3) for *money*, be an account held with the *Bank* or a *commercial bank* and for *assets*, be an account held with a *custodian*.
- 1.6 Where a *systemic issuer* receives payment for a *systemic stablecoin*, it must be promptly paid into a *backing funds account* or invested in a *backing assets account*.

2 PROCEED FUNDS

- 2.1 This Chapter is to be read as imposing requirements on a *systemic issuer* separately in relation to each *systemic stablecoin product*.
- 2.2 A *systemic issuer* must ensure that any *proceed funds* received by a *custodian* on the *systemic issuer's* behalf are held in or promptly placed into:

- (1) one or more *proceed funds accounts*; or
 - (2) in the case of *proceed funds* received in connection with an *asset* forming part of the *wind-down reserve pool*, a *wind-down reserve funds account*.
- 2.3 A *systemic issuer* may transfer *money* from an *asset pool account* to a *proceed funds account* for the purposes of carrying out a transaction to purchase an *asset* (including as part of a *reverse repurchase agreement*) that will form part of the same *asset pool*.
- 2.4 A *proceed funds account* must:
- (1) be held expressly in the name of the *systemic issuer*;
 - (2) include in its title an appropriate description to distinguish the *money* in the account from the *systemic issuer's own money*; and
 - (3) be a deposit account.
- 2.5 A *systemic issuer* must:
- (1) maintain a record identifying *money* as *proceed funds*; and
 - (2) ensure that accounts in which *proceed funds* are held are identifiable and clearly distinguished from accounts in which the *systemic issuer's own money* is held.
- 2.6 A *systemic issuer* must ensure that *money* is only removed from a *proceed funds account*:
- (1) where the *proceed funds* relate to an *asset* or *money* that forms part of, or immediately prior to the event or transaction formed part of:
 - (a) the *backing asset pool*, to:
 - (i) transfer it into the *backing funds account*; or
 - (ii) meet a *full redemption request*;
 - (b) the *financial risk reserve pool*, to transfer it into the *financial risk reserve account*; or
 - (c) the *wind-down reserve pool*, to hold it in or transfer it to the *wind-down reserve funds account*; or
 - (2) to carry out a transaction in accordance with 2.3.
- 2.7 A *systemic issuer* may defer remedying any shortfall in the relevant *asset pool* resulting from:
- (1) *money* held in the *proceed funds account* in accordance with 2.2, until the *proceed funds* are removed in accordance with 2.6; or
 - (2) *money* held in the *proceed funds account* in accordance with 2.3, until the earlier of the next internal safeguarding reconciliation, the completion of the transaction referred to in 2.3 or the end of that *business day*.
- 2.8 A *systemic issuer* must ensure that all *proceed funds* are removed from the *proceed funds account* in accordance with this Chapter as soon as possible.

3 POLICIES, RECORD KEEPING AND RECONCILIATION REQUIREMENTS

Policies and procedures

- 3.1 For each *systemic stablecoin product*, a *systemic issuer* must establish, implement and maintain appropriate policies and procedures sufficient to ensure compliance with this Part, including in relation to any services provided through a *third party*.
- 3.2 The policies and procedures in 3.1 must include:

- (1) the frequency and method of the reconciliations the *systemic issuer* must carry out for each of the relevant *asset pools* under this Chapter;
- (2) the resolution of reconciliation discrepancies under this Chapter;
- (3) the approach to valuing an *asset* for the purposes of the Backing Assets Part and the Capital and Reserves Part; and
- (4) the frequency with which the *systemic issuer* will review these policies and procedures.

Record keeping requirements on asset pools

- 3.3 For each *asset pool*, a *systemic issuer* must keep such records and accounts as are necessary to enable it, at any time and without delay, to distinguish between:
- (1) its own *money* or *assets* and the *money* and *assets* in *asset pools* and held as *proceed funds*;
 - (2) the *money* in *asset pools* and the *proceed funds*; and
 - (3) the *money* and *assets* in each *asset pool*.
- 3.4 A *systemic issuer* must maintain its records and accounts in a way that ensures accurate records about each *asset pool*, including:
- (1) the value of *money* and *assets* that should be held in the account or accounts in each *asset pool*;
 - (2) the value of the *money* and *assets* held in the account or accounts in each *asset pool*;
 - (3) the location of *money* and *assets* in each *asset pool*; and
 - (4) the identity of the *third party* or *third parties* responsible for the holding of *money* and custody of *assets* in each *asset pool*.

Internal safeguarding reconciliation

- 3.5 A *systemic issuer* must carry out an internal safeguarding reconciliation:
- (1) as regularly as necessary and at least once each *business day*; and
 - (2) based on its most up to date records.
- 3.6 When carrying out an internal safeguarding reconciliation, a *systemic issuer* must reconcile its internal records and accounts of the amount it safeguards in each relevant *asset pool* with its internal records and accounts of the amount that it should safeguard in that *asset pool*.
- 3.7 For the purposes of 3.6 a *systemic issuer* must use the values contained in its internal records and not records provided by *third parties* with whom it has placed the *money* or *assets* in the relevant *asset pool*.
- 3.8 A *systemic issuer* must promptly identify and resolve any discrepancies arising from its internal safeguarding reconciliation in 3.6.

External safeguarding reconciliation

- 3.9 A *systemic issuer* must carry out an external safeguarding reconciliation as regularly as necessary and at least once each *business day*.
- 3.10 For the purposes of 3.9, a *systemic issuer* must reconcile its internal records and accounts with those of any *third party* with whom the *systemic issuer* has an *asset pool account*.
- 3.11 When carrying out an external safeguarding reconciliation, a *systemic issuer* must compare:

- (1) the balance of funds on each *asset pool account* as recorded by the *systemic issuer*, with the balance on that account as set out in the statement or other form of confirmation issued by the *third party* with whom that account is held; and
 - (2) the balance of *assets, asset by asset*, on each *asset pool account* as recorded by the *systemic issuer*, with the balance of those *assets* as set out in the statement or other form of confirmation issued by the *third party* with whom the account is held.
- 3.12 A *systemic issuer* must promptly identify and resolve any discrepancies between the balances compared in 3.11.

Identifying and resolving backing asset pool discrepancies

- 3.13 Subject to 3.15(2), where, following the reconciliation procedure in 3.6 or 3.11 or otherwise, a *systemic issuer* identifies a discrepancy between the value of a *systemic issuer's backing asset pool* and the *systemic stablecoin product total*, the *systemic issuer* must determine the reason for that discrepancy and resolve it in accordance with this Chapter.
- 3.14 For the purposes of 3.13, a *systemic issuer* must resolve a discrepancy using one of the following methods:
- (1) the *systemic issuer* must adjust the value of the *backing asset pool* by ensuring that either:
 - (a) any shortfall is paid into the *backing funds account* from the *proceed funds* or *financial risk reserve pool* relating to that *systemic stablecoin product* or from the *issuer's own money*; or
 - (b) subject to 3.15(2), any excess is withdrawn from a *backing funds account*; or
 - (2) the *systemic issuer* must adjust the *systemic stablecoin product total* by ensuring either:
 - (a) any excess of *systemic stablecoins* which have been *minted* but are not represented by *money* or *assets* in the *backing asset pool* are *burned*; or
 - (b) any shortfall of *systemic stablecoins* which has led to an excess of value in the *backing asset pool* is resolved by the *minting* of additional *systemic stablecoins* with no corresponding adjustment to the *money* or *assets* held in the *backing asset pool*.
- 3.15 A *systemic issuer*:
- (1) must resolve a discrepancy as soon as possible and, in any event, no later than the end of the *business day* on which the reconciliation is performed, or the discrepancy is otherwise identified; and
 - (2) may retain an amount equal to up to 5% of the *systemic stablecoin product total* as excess in the *backing asset pool*.
- 3.16 A *systemic issuer* must investigate the reason for a discrepancy identified by an internal or external safeguarding reconciliation carried out under 3.6 or 3.11 without undue delay, unless the discrepancy arises solely as a result of timing differences between the accounting systems of the person providing the statement or confirmation and that of the *systemic issuer*.
- 3.17 A *systemic issuer* must keep records of the following for each internal safeguarding reconciliation and external safeguarding reconciliation:
- (1) the time and date it carried out the relevant process;
 - (2) the actions it took;
 - (3) the outcome of its calculations about the amount of *money* or *assets* in each *backing asset pool* and the *systemic stablecoin product total*; and

- (4) whether any discrepancies were identified and, if so, what actions were taken in respect of those discrepancies.

Identifying and resolving financial risk reserve pool discrepancies

- 3.18 If, following the reconciliation procedure in 3.6 or 3.11 or otherwise, a *systemic issuer* identifies a shortfall in a *financial risk reserve pool* relative to its *financial risk reserve requirement*, it must ensure that the shortfall is remedied by paying the required amount into a *financial risk reserve account* before the next reconciliation procedure.
- 3.19 If, following the reconciliation procedure in 3.6 or 3.11, a *systemic issuer* identifies an excess in a *financial risk reserve pool* relative to its *financial risk reserve requirement*, it may withdraw that excess.

Identifying and resolving wind-down reserve pool discrepancies

- 3.20 If, following the reconciliation procedure in 3.6 or 3.11 or otherwise, a *systemic issuer* identifies a shortfall in a *wind-down reserve pool* relative to its *wind-down reserve requirement*, the *systemic issuer* must ensure the shortfall is remedied by paying the required amount into a *wind-down reserve funds account* before the next reconciliation procedure.
- 3.21 If, following the reconciliation procedure in 3.6 or 3.11, a *systemic issuer* identifies an excess in a *wind-down reserve pool* relative to its *wind-down reserve requirement*, it may withdraw that excess.

Notification requirements

- 3.22 A *systemic issuer* must notify the *Bank* in writing without delay if:
- (1) its internal records and accounts relating to a *backing asset pool*, a *financial risk reserve pool* or a *wind-down pool* are materially out of date, inaccurate or invalid, such that it is unable to comply with the requirements in 3.6 and 3.11;
 - (2) it is unable to, or materially fails to, carry out an internal safeguarding reconciliation in accordance with 3.6;
 - (3) it is unable to, or materially fails to, conduct an external safeguarding reconciliation in accordance with 3.11;
 - (4) it is unable to, or materially fails to, identify and resolve discrepancies following an internal or external safeguarding reconciliation or otherwise; or
 - (5) it becomes aware that, at any time in the preceding 12 months, the value of:
 - (a) a *backing asset pool* was materially different from the *systemic stablecoin product total* other than any excess held in accordance with 3.15(2);
 - (b) a *financial risk reserve pool* was materially less than its *financial risk reserve requirement*; or
 - (c) the *wind-down reserve pool* was materially less than its *wind-down reserve requirement*.

Retention of records

- 3.23 Unless otherwise stated, a *systemic issuer* must retain any record made under this Part for a period of five years starting from the later of:
- (1) the date it was created; or
 - (2) if it has been modified since the date it was created, the date it was most recently modified.

4 STATUTORY TRUST

Backing assets trust

- 4.1 For each *systemic stablecoin product*, a *systemic issuer* holds as trustee the *money* and *assets* that comprise the *backing asset pool*, the *financial risk reserve pool* and the *proceed funds* (with the exception of *proceed funds* received or held in connection with an *asset* forming part of the *wind-down reserve pool*) as a *backing assets trust* on the terms set out in 4.2 to 4.6 and 4.13 to 4.15.
- 4.2 A *systemic issuer* holds the *money* and *assets* subject to each *backing assets trust* for the purposes of meeting its obligations under, and on the terms of, this Part, the Backing Assets Part, the Capital and Reserves Part, and the Issuance, Legal Claim and Redemption Part.
- 4.3 For each *backing assets trust*, a *systemic issuer* holds the *money* and *assets* subject to that trust on the following terms:
- (1) for the *holders* of the relevant *systemic stablecoin product*, with the value of each *holder's* proprietary claim being the *reference value* of the sum total of *systemic stablecoins* in respect of which they are the *holder*; and
 - (2) after all valid claims in 4.3(1) have been met, for the *systemic issuer* itself.
- 4.3 *[in an insolvency/failure [TBD]]*
- 4.4 A *systemic issuer* must not use *money* or *assets* subject to a *backing assets trust* to borrow or lend *money* or *assets*, except in so far as:
- (1) such borrowing or lending forms part of a *repurchase agreement* or *reverse repurchase agreement*; or
 - (2) such lending forms the act of placing *money* into a *backing funds account*, *financial risk reserve account* or *proceed funds account*.
- 4.5 A *systemic issuer* may withdraw *money* and *assets* from a *backing assets trust* to:
- (1) pay the *holders* of the relevant *systemic stablecoin* in connection with a *redemption*, in accordance with the Issuance, Legal Claim and Redemption Part;
 - (2) withdraw in accordance with 3.14(1)(b) or 3.19;
 - (3) transfer to or pay a *third party* on the terms of a *repurchase agreement* or *reverse repurchase agreement*; or
 - (4) transfer to a *third party* for the sale, or purchase of a *short-term government debt security*.
- 4.6 For the purposes of 4.5, *money* is regarded as having been paid or withdrawn, and will cease to be subject to the *backing assets trust*, if it is subject to an irrevocable transfer order as described in 1.3 of the Backing Assets Part.

Wind-down reserve trust

- 4.7 A *systemic issuer* holds as trustee the *money* and *assets* which comprise the *wind-down reserve pool* and the *proceed funds* received or held in connection with an *asset* forming part of the *wind-down reserve pool* as a *wind-down reserve trust* on the terms set out in 4.8 to 4.15.
- 4.8 A *systemic issuer* holds the *money* and *assets* subject to the *wind-down reserve trust* for the purposes of meeting its obligations under, and on the terms of, the provisions of this Part and the Capital and Reserves Part.
- 4.9 For the *wind-down reserve trust*, a *systemic issuer* holds the *money* and *assets* on the following terms:

- (1) for an insolvency practitioner or special administrator appointed for the winding-up or administration of the *systemic issuer*, for the payment of fees and costs properly charged and incurred by that insolvency practitioner or special administrator following the failure of the *systemic issuer* or entry into special administration;
 - (2) for the payment of costs properly attributable to completing *redemption* for *holders* of a *systemic stablecoin*, or transferring all or part of a *systemic stablecoin product* business to another entity;
 - (3) for the *holders* of the relevant *systemic stablecoins*, to the extent there is a shortfall in the *backing assets trust*, with the value of each *holder's* proprietary claim being the *reference value* of the sum total of *systemic stablecoins* in respect of which they are the *holder*; and
 - (4) after all valid claims in 4.9(1) to 4.9(3) have been met, for the *systemic issuer* itself.
- 4.10 A *systemic issuer* must not use *money* or *assets* subject to a *wind-down reserve trust* to borrow or lend *money* or *assets*, except in so far as any lending forms the act of placing *money* into a *wind-down reserve funds account*.
- 4.11 A *systemic issuer* may withdraw *money* and *assets* from the *wind-down reserve trust* to:
- (1) pay the *holders* of the relevant *systemic stablecoin* according to 4.9(3);
 - (2) withdraw in accordance with 3.21;
 - (3) transfer to a *third party* for the sale or purchase of a *UK government debt security*;
 - (4) pay an insolvency practitioner or special administrator according to 4.9(1); or
 - (5) pay for the costs in 4.9(2).
- 4.12 For the purposes of 4.11, *money* is regarded as having been paid or withdrawn if it is subject to an irrevocable transfer order as described in 1.3 of the Backing Assets Part.

Further trust terms

- 4.13 Unless permitted by this Part, a *systemic issuer* must not:
- (1) remove *money* or *assets* from an *asset pool account*;
 - (2) grant a right of recourse against *money* or *assets* in an *asset pool*; or
 - (3) otherwise use *money* or *assets* in an *asset pool* for its own account.
- 4.14 Notwithstanding 4.13, a *systemic issuer* may grant an interest or right in favour of the *Bank* over *money* in a pre-funded settlement account with the *Bank* to ensure the availability of funds to complete the settlement of transfer orders in accordance with the rules or default arrangements of a *designated system*.
- 4.15 A *systemic issuer* may keep interest or income accruing from an *asset pool* for its own account, provided that doing so is consistent with its obligations under this Part, the Backing Assets Part and the Capital and Reserves Part and any other legal or regulatory obligations to which the *systemic issuer* is subject.

5 APPOINTMENT OF THIRD PARTIES

- 5.1 This Chapter does not apply to *central bank money* held by a *systemic issuer* with the *Bank*.
- 5.2 A *systemic issuer* must appoint one or more *third parties* to provide it with accounts for the purpose of safeguarding *money* or *assets* in the *asset pools* and the *proceed funds*.
- 5.3 A *systemic issuer* must exercise all due skill, care and diligence:

- (1) in the selection, appointment, and periodic review of *third parties* that provide an account for the purpose of safeguarding the relevant *asset pool* and the *proceed funds*; and
 - (2) in the arrangements for the holding and protection of *money* and *assets* in each *asset pool* and the *proceed funds*.
- 5.4 A *systemic issuer* must take the following into account when it selects, appoints or conducts a periodic review of a *third party*:
- (1) the expertise and market reputation of the *third party*, with a view to ensuring the protection of the rights of the *holders* as beneficiaries of the trusts established by Chapter 4; and
 - (2) any legal or regulatory requirements or market practices relating to the holding of the *money* or *assets* that could adversely affect *holders'* rights or interests as beneficiaries of the trusts established by Chapter 4.
- 5.5 A *systemic issuer* must:
- (1) deposit *assets* in an *asset pool* with a *custodian* that holds the *assets* in the *UK*; and
 - (2) hold *money* that is permitted by this Code of Practice to be held with a *commercial bank* with a *commercial bank* in the *UK*.
- 5.6 A *systemic issuer* must periodically review its arrangements with *third parties*, including whether it is appropriate to diversify (or further diversify) the *third parties* with which it deposits *money*, or holds *assets*.
- 5.7 A *systemic issuer* must make adjustments to the following if it concludes that it is appropriate to do so after carrying out a review in 5.6:
- (1) the *third parties* it uses; and
 - (2) the amounts or types of *assets* or *money* deposited, held or invested with those *third parties*.
- 5.8 A *systemic issuer* must make a record of:
- (1) the grounds on which it satisfies itself as to the appropriateness of its selection and appointment of a *third party*;
 - (2) each periodic review of its selection and appointment of a *third party* and the considerations and conclusions of the review; and
 - (3) each periodic review that it conducts, and the considerations and conclusions of the review.
- 5.9 A record under 5.8 must be made on the date the selection or periodic review is made or the review completed (as the case may be) and kept for a period of five years from that date or, if later, five years from the date on which the *systemic issuer* ceases to use the *third party*.

6 ACKNOWLEDGEMENT LETTERS

- 6.1 For each appointed *third party* other than the *Bank* providing one or more *asset pool accounts* or *proceed funds accounts*, a *systemic issuer* must:
- (1) complete and sign a safeguarding *account acknowledgement letter* that identifies the relevant account or accounts;
 - (2) send the *account acknowledgement letter* to the *third party* with which the relevant account or accounts are, or will be, opened; and

- (3) request the *third party* to acknowledge and agree to the terms of the *account acknowledgement letter* by countersigning it and returning it to the *systemic issuer*.
- 6.2 A *systemic issuer* must not hold any *money* or *assets* in any *asset pool account* (other than an account provided by the *Bank*) or *proceed funds account* unless the *systemic issuer* has received a duly countersigned *account acknowledgement letter* from the *third party* with which the account is held that has not been inappropriately redrafted.
- 6.3 When completing an *account acknowledgement letter*, a *systemic issuer*:
- (1) must not amend any of the *account acknowledgement letter* fixed text;
 - (2) subject to (3), must ensure the *account acknowledgement letter* variable text is removed, included or amended as appropriate; and
 - (3) must not amend any of the *account acknowledgement letter* variable text in a way that would alter or otherwise change the meaning of the *account acknowledgement letter* fixed text.
- 6.4 If, on countersigning and returning the *account acknowledgement letter* to a *systemic issuer*, the *third party* has also made amendments to:
- (1) any of the *account acknowledgement letter* fixed text; or
 - (2) any of the *account acknowledgement letter* variable text in a way that would alter or otherwise change the meaning of the *account acknowledgement letter* fixed text,
- the *account acknowledgement letter* will have been inappropriately redrafted and no longer comply with 6.3.
- 6.5 Amendments made to the *account acknowledgement letter* variable text in the *account acknowledgement letter* returned to a *systemic issuer* by a *third party* will not have the result that the letter has been inappropriately redrafted if those amendments:
- (1) do not affect the meaning of the *account acknowledgement letter* fixed text;
 - (2) have been specifically agreed with the *systemic issuer*; and
 - (3) do not cause the *account acknowledgement letter* to be inaccurate.
- 6.6 A *systemic issuer* must use reasonable endeavours to ensure that any individual that has countersigned an *account acknowledgement letter* that has been returned by a *third party* to the *systemic issuer* was authorised to countersign the letter on behalf of that *third party*.
- 6.7 A *systemic issuer* must retain each countersigned *account acknowledgement letter* it receives from the date of receipt until the expiry of a period of five years starting on the date on which the last account to which the letter relates is closed.
- 6.8 A *systemic issuer* must also retain any other documentation or evidence it believes is necessary to demonstrate that it has complied with each of the applicable requirements in this Chapter (such as any evidence it has obtained to ensure that the individual that has countersigned an *account acknowledgement letter* that has been returned to the *systemic issuer* was authorised to do so).
- 6.9 A *systemic issuer* must periodically (at least annually, and whenever it becomes aware that something referred to in an *account acknowledgement letter* has changed) review each of its countersigned *account acknowledgement letters* to ensure that they remain accurate.
- 6.10 Whenever a *systemic issuer* finds a countersigned *account acknowledgement letter* contains an inaccuracy, the *systemic issuer* must promptly draw up a new replacement letter and ensure that the new *account acknowledgement letter* is duly countersigned and returned by the relevant *third party*.

- 6.11 Under 6.10, a *systemic issuer* must obtain a replacement *account acknowledgement letter* whenever:
- (1) there has been a change in any of the parties' names or addresses or a change in any of the details of the relevant account(s) as set out in the letter; or
 - (2) it becomes aware of an error or misspelling in the letter.
- 6.12 If any of a *systemic issuer's asset pool accounts* or *proceed funds accounts* is transferred to another *third party*, the *systemic issuer* must:
- (1) promptly draw up and send out a new *account acknowledgement letter* under 6.1; and
 - (2) ensure that the new *account acknowledgement letter* is duly countersigned and returned by the relevant *third party*.

6.13 The *account acknowledgement letter* template:

[Letterhead of systemic stablecoin issuer, including full name and address of systemic stablecoin issuer]

[name and address of bank or custodian]

[date]

Backing/Financial Risk Reserve/Wind-down Reserve/Proceed [asset/funds] account acknowledgement letter (pursuant to the Code of Practice published by the Bank of England)

We refer to the following account[s] which [name of systemic stablecoin issuer], regulated by the Bank of England and Financial Conduct Authority (Firm Reference Number [FRN]), ('us', 'we' or 'our') [has opened or will open] [and/or] with [name of bank or custodian] ('you' or 'your'):

[insert the account title[s], the account unique identifier[s] (e.g., sort code and account number, deposit number or reference code) and (if applicable) any abbreviated name of the account[s] as reflected in the firm's systems]

([collectively,] the 'backing/financial risk reserve/wind-down reserve/proceed [asset/funds] account[s]').

[For [each of] the backing/financial risk reserve/proceed [asset/funds] account[s] identified above, you acknowledge that we have notified you that:

1. we are under an obligation to keep [money/assets] we hold to meet the claims of holders of [insert name of systemic stablecoin product] (to the extent of their valid claim, with the residual for us) separate from other [money/assets] and to keep backing funds/assets, proceed funds and financial risk reserve funds/assets separate;
2. we have opened, or will open, the backing/financial risk reserve/proceed [asset/funds] accounts for the purpose of depositing [money/assets] with you to meet the claims of holders of [insert name of systemic stablecoin product]; and
3. we hold all [money/assets] standing to the credit of the backing/financial risk reserve/proceed [assets/funds] accounts to meet the claims of holders of [insert name of systemic stablecoin product] (to the extent of their valid claim, with the residual for us) as trustee under the laws applicable to us.]

[For [each of] the wind-down reserve [asset/funds/] account[s] identified above, you acknowledge that we have notified you that:

1. we are under an obligation to keep [money/assets] we hold to meet the costs properly attributable to an insolvency practitioner, costs attributable to returning funds to coinholders or transferring coinholders to another entity, and to meet coinholders claims to the extent not met by the backing assets trust, in the event of our insolvency separate from other [money/assets];

2. we have opened, or will open, the wind-down reserve [asset/funds] accounts for the purpose of depositing [money/assets] with you to meet the costs properly attributable to an insolvency practitioner, costs attributable to returning funds to coinholders or transferring coinholders to another entity, and to meet coinholders claims to the extent not met by the backing assets trust, in the event of our insolvency; and
3. we hold all [money/assets] standing to the credit of the wind-down reserve [assets/funds] accounts to meet the costs properly attributable to an insolvency practitioner, costs attributable to returning funds to coinholders or transferring coinholders to another entity, and to meet coinholders claims to the extent not met by the backing assets trust, in the event of our insolvency as trustee under the laws applicable to us.]

For [each of] the backing/financial risk reserve/wind-down reserve/proceed [assets/funds] account[s] above, you agree that:

4. you do not have any interest in, or recourse or right against [money/assets] in the backing/financial risk/wind-down/proceed [assets/funds] accounts in respect of any sum owed to you, or owed to any third party. This means, for example, that you do not have any right to combine the backing/financial risk/wind-down/proceed [assets/funds] account[s] with any other account and right of set-off or counterclaim against [money/assets] in the backing/financial risk/wind-down/proceed [assets/funds] accounts.
5. you will title, or have titled, the backing/financial risk reserve/wind-down reserve/proceed [assets/funds] account as stated above and that this title is different to the title of any other account containing [money/assets] that belong to us or to any third party; and
6. you are required to release on demand all [money/assets] standing to the credit of the backing/financial risk reserve/wind-down reserve/proceed [assets/funds] account upon proper notice and instruction from us or a liquidator, receiver, administrator or trustee (or similar person) appointed for us in bankruptcy (or similar procedure), in any relevant jurisdiction.

We acknowledge that:

7. you are not responsible for ensuring compliance by us with our own obligations in respect of the backing/financial risk/wind-down/proceed [assets/funds] account[s].

You and we agree that:

8. the terms of this letter will remain binding upon the parties, their successors and assigns, and, for clarity, regardless of any change in any of the parties' names;
9. this letter supersedes and replaces any previous agreement between the parties in connection with the backing/financial risk/proceed [assets/funds] account[s], to the extent that such previous agreement is inconsistent with this letter;
10. if there is any conflict between this letter and any other agreement between the parties over the backing/financial risk reserve/wind-down reserve/proceed [assets/funds] account[s], this letter will prevail;
11. no variation to the terms of this letter shall be effective unless it is in writing, signed by the parties and permitted under the [Systemic Stablecoin Code of Practice] of the Bank of England;
12. this letter is governed by the laws of [*insert appropriate jurisdiction*] [*systemic stablecoin issuer may optionally use this space to insert additional wording to record an intention to exclude any rules of private international law that could lead to the application of the substantive law of another jurisdiction*]; and
13. the courts of [*insert same jurisdiction as previous*] have nonexclusive jurisdiction to settle any dispute or claim from or in connection with this letter or its subject matter or formation (including non-contractual disputes or claims).

Please sign and return the enclosed copy of this letter as soon as possible. For and on behalf of
[name of systemic stablecoin issuer]

x _____

Authorised signatory

Print name:

Title:

ACKNOWLEDGED AND AGREED:

For and on behalf of [*name of bank or custodian*]

x _____

Authorised signatory

Print name:

Title:

Contact information: [*insert signatory's phone number and email address*]

Date:

DRAFT

Annex D

PART 4: CAPITAL AND RESERVES

1 OVERALL FINANCIAL RESOURCES ADEQUACY

- 1.1 A *systemic issuer* must maintain *capital* and *eligible liquid assets* that are sufficient in amount and of appropriate quality to meet the requirements in this Part, taking into account the risks to which it is exposed, as identified in the *systemic issuer's overall risk assessment*.

2 COMPOSITION OF CAPITAL

- 2.1 A *systemic issuer* must hold *capital* to meet the *general business risk requirement*.
- 2.2 A *systemic issuer* may only recognise *subscribed capital* or *reserves* as *capital* where it is available to the *systemic stablecoin issuer* for unrestricted and immediate use to cover risks or losses as soon as these occur.

3 CAPITAL REQUIREMENTS - GENERAL BUSINESS RISK

Capital requirement

- 3.1 A *systemic issuer* must maintain an amount of *capital* at least equal to the higher of:
- (1) six months of its operating expenses (according to 3.3); or
 - (2) the aggregate cost of its recovery actions (according to 7.5(3)) and its orderly wind-down plan (according to 7.8 to 7.11).
- 3.2 For the purposes of 3.1(2), a *systemic issuer* must exclude the costs identified according to 7.10(2) and (3).

Operating expenses

- 3.3 A *systemic issuer* must annually calculate six months of its operating expenses using the figures in its most recent audited annual financial statements, or its unaudited statements where audited annual financial statements are not available.
- 3.4 The *systemic issuer* may deduct any of the following from the operating expenses calculated in 3.3, to the extent those items have been included:
- (1) if they are fully discretionary, staff variable remuneration and employees', directors', partners' and limited liability partnership members' shares in profits and other appropriations of profits;
 - (2) shared commission and fees payable where they are directly related to commission and fees receivable, included in total revenue, and the payment of the commission and fees payable is contingent on receipt of the corresponding commission and fees receivable;
 - (3) non-recurring expenses from non-ordinary activities;
 - (4) taxes where they fall due in relation to the annual profits of the *systemic issuer*;
 - (5) payments related to contract-based profits and loss transfer agreements according to which the *systemic issuer* is obliged to transfer its profit to the *parent undertaking* following the preparation of annual statements; and
 - (6) depreciation and amortisation expenses.
- 3.5 The *systemic issuer* must add any fixed expenses that have been incurred on its behalf by a *third party*, where not already included in the calculation in 3.3.

- 3.6 Where a *systemic issuer's* projected operating expenditure for the current financial year increases by 30% or more compared with those calculated in accordance with 3.3, the *systemic issuer* must, as soon as reasonably practicable, recalculate its operating expenses for the purposes of 3.1(1), on the basis of unaudited financial statements where audited financial statements are unavailable.

Liquid assets funded by capital

- 3.7 A *systemic issuer* must invest its *capital* only in one or more of the following:
- (1) coins and banknotes;
 - (2) *central bank money*;
 - (3) *UK government debt securities*;
 - (4) *on demand deposits with commercial banks*; and
 - (5) units or shares in a *short-term MMF*.
- 3.8 A *systemic issuer* must ensure that the *assets* held in accordance with 3.7 are:
- (1) high quality, sufficiently liquid and are accessible promptly within the timeframe needed to meet the *systemic issuer's* liquidity needs in the scenarios envisaged by the recovery plan and orderly wind-down plan;
 - (2) able to be liquidated with negligible to no loss of value; and
 - (3) valued in accordance with Chapter 6.
- 3.9 A *systemic issuer* must ensure that the *assets* or *money* held in accordance with 3.7 are not used to enter into a *repurchase transaction*, unless that *repurchase transaction* is a *repurchase agreement* or *reverse repurchase agreement*.

4 FINANCIAL RISK RESERVE

- 4.1 For each *systemic stablecoin product*, a *systemic issuer* must hold *money* and *assets* eligible under 4.6 and 4.7 in a *financial risk reserve pool* of an amount at least equal to its *financial risk reserve requirement*.
- 4.2 A *systemic issuer's* *financial risk reserve requirement* is equal to the sum of:
- (1) the interest rate risk component in 4.3;
 - (2) the monetisation risk component in 4.4; and
 - (3) the counterparty credit risk component in 4.5.
- 4.3 The interest rate risk component is calculated by applying the methods set out in the Market Risk: Simplified Standardised Approach (CRR) Part of the *PRA Rulebook* in respect of:
- (1) the *short-term government debt securities* in the *backing asset pool* (excluding *short-term government debt securities* equal in amount to any *reverse repo collateral assets*); and
 - (2) any *short-term government debt securities* that formed part of the *backing asset pool* which have been used to enter into *repurchase agreements* that remain outstanding,
- and multiplying the result by the scalar for interest rate position risk in Article 325(2)(a)(i) of the Market Risk: General Provisions (CRR) Part of the *PRA Rulebook*.

- 4.4 The monetisation risk component is calculated by applying a percentage to the *market value* of the *short-term government debt securities* in the *backing asset pool* where that percentage [is the haircut applicable to those securities under the *Bank's* liquidity facility for *systemic issuers*].²
- 4.5 The counterparty credit risk component is calculated by applying the Financial Collateral Comprehensive Method in the Credit Risk Mitigation (CRR) Part of the *PRA Rulebook* to *reverse repurchase agreements* in respect of which the *systemic issuer* used *money* that formed part of the *backing asset pool*.
- 4.6 A *systemic issuer* must hold an amount at least equal to the interest rate risk component in 4.3 in *central bank money*.
- 4.7 A *systemic issuer* must hold an amount at least equal to the monetisation risk component in 4.4 and the counterparty credit risk component in 4.5 in either or both of:
- (1) *short-term government debt securities*; and
 - (2) *central bank money*.
- 4.8 A *systemic issuer* must ensure that the *assets* held in accordance with 4.7 are:
- (1) high quality, sufficiently liquid and are accessible promptly within the timeframe needed to meet the *systemic issuer's* liquidity needs to meet *redemption* requests;
 - (2) able to be liquidated with negligible to no loss of value; and
 - (3) valued in accordance with Chapter 6.

5 WIND-DOWN RESERVE

- 5.1 A *systemic issuer* must hold *money* and *assets* eligible under 5.2 in the *wind-down reserve pool* of an amount equal to the aggregate of the costs estimated in 7.10(2) and (3).
- 5.2 A *systemic issuer* must hold an amount at least equal to its *wind-down reserve requirement* in any of:
- (1) coins and bank notes;
 - (2) *central bank money*;
 - (3) *UK government debt securities*; and
 - (4) *on demand deposits* with *commercial banks*.
- 5.3 A *systemic issuer* must ensure that the *assets* held in accordance with 5.2 are:
- (1) high quality, sufficiently liquid and are accessible promptly within the timeframe needed to meet the *systemic issuer's* liquidity needs in the scenarios envisaged by the orderly wind-down plan under 7.8;
 - (2) able to be liquidated with negligible to no loss of value; and
 - (3) valued in accordance with Chapter 6.

6 VALUATION

- 6.1 For the purposes of the calculations in this Part, a *systemic issuer* must ensure that:
- (1) any valuation of *assets* is performed with due skill, care and diligence;

² Subject to the Bank confirming the availability of a liquidity facility for systemic stablecoin issuers and setting the applicable haircuts in due course.

- (2) it uses:
 - (a) the *market value* of the relevant *assets*; or
 - (b) where a *market value* is not available for an *asset*, an alternative measure of fair value, which may include an estimated value calculated on a best efforts basis;
- (3) it bases calculations on its records at the time at which it is carrying out the calculation; and
- (4) it records the process by which it has calculated the value of *assets*, including which method of valuation has been used.

6.2 Where *assets* have maturities longer than the expected timeframe in which those assets may need to be liquidated according to its recovery plan under 7.5 and wind-down plan under 7.8, a *systemic issuer* must value such assets with appropriate reductions in value to account for potential losses or penalties for early withdrawal or liquidation.

7 RISK ASSESSMENT

- 7.1 A *systemic issuer* must have in place systems and controls that are appropriate to identify, monitor, quantify and manage risks:
- (1) arising from its business operations that may cause material harm to the *systemic issuer's* business, its financial position, *holders*, or the financial system; and
 - (2) arising from its wind-down that may cause material harm to *holders* or to the financial system.
- 7.2 A *systemic issuer* must carry out an *overall risk assessment* as set out in 7.3, at least annually and as soon as reasonably practicable following any material change in its risk profile.
- 7.3 The *overall risk assessment* must:
- (1) refer to a clearly articulated business model and strategy;
 - (2) refer to a clearly articulated risk appetite that is consistent with the business model and strategy identified;
 - (3) identify any material risks of misalignment between the *systemic issuer's* business model and strategy and:
 - (a) the interests of its *holders*; or
 - (b) the orderly functioning of financial markets,
 and assess whether the *systemic issuer* has appropriate measures to manage those risks;
 - (4) assess on a forward-looking basis taking into account any planned growth the *capital* and *eligible liquid assets* the *systemic issuer* will require to meet its *general business risk* requirement, its *financial risk reserve requirement*, and its *wind-down reserve requirement*;
 - (5) identify and assess extreme but plausible stress scenarios which:
 - (a) include periods of heightened volatility relevant to the markets in which the *systemic issuer* operates and a range of potential future scenarios;
 - (b) take into account sudden sales of financial resources and rapid reductions in market liquidity; and

- (c) test whether, if such scenarios were to crystallise, the *systemic issuer* would still have sufficient *capital* and *eligible liquid assets* to meet its *general business risk requirement* and its *financial risk reserve requirement*; and
- (6) identify, monitor and manage its concentration risk, using sound administrative and accounting procedures and robust internal control mechanisms.

Stress Testing

7.4 A *systemic issuer's* assessment of stress scenarios pursuant to 7.3(5) must:

- (1) consider stress scenarios with a likelihood of occurrence of 1 in 1,000 or more frequently;
- (2) include stress tests and shock levels that are appropriate to the nature of the *systemic issuer's* business and that reflect:
 - (a) the composition and risk characteristics of the *assets* in the *backing asset pool* and *financial risk reserve pool*;
 - (b) the *systemic issuer's* *redemption* obligations;
 - (c) its business model, strategy and operations; and
 - (d) the time required to mitigate or manage risks under extreme but plausible market conditions;
- (3) clearly set out the assumptions and scenarios upon which the assessment is based; and
- (4) consider the adequacy of valuation adjustments in the book value of the *assets*.

Recovery planning

7.5 As part of its *overall risk assessment*, a *systemic issuer* must prepare a recovery plan identifying:

- (1) the amount of *capital* and *eligible liquid assets* that, if reached, would indicate a credible risk that the *systemic issuer* will breach its *general business risk requirement*, its *financial risk reserve requirement*, or its *wind-down reserve requirement*;
- (2) potential recovery actions that the *systemic issuer* would expect to take:
 - (a) to avoid breach of its *general business risk requirement*, its *financial risk reserve requirement*, or its *wind-down reserve requirement*; and
 - (b) to restore compliance with its *general business risk requirement*, its *financial risk reserve requirement*, or its *wind-down reserve requirement*, if the *systemic issuer* were to breach any of those requirements during a period of financial difficulty; and
- (3) the cost of implementing the recovery actions, based on the matters that it is required to consider in 7.7.

7.6 A *systemic issuer* must adopt a proportionate approach to identifying its recovery actions, taking into account the nature, scale and complexity of the *systemic issuer's* business and operating model.

7.7 The recovery actions identified by a *systemic issuer* must be credible and justifiable, taking into account the circumstances in which those actions may be required. In preparing its recovery plan a *systemic issuer* must consider at least:

- (1) the time required to implement the recovery actions;
- (2) the estimated losses that would need to be covered during the recovery period including the timing of those losses (whether one off or continuous);

- (3) the scope and effectiveness of recovery actions, including insurance, indemnity coverage, loss distribution arrangements;
- (4) the estimated impact on operating expenses during the recovery period;
- (5) the estimated impact on revenue during the recovery period; and
- (6) the ability of the *systemic issuer* to transition to an orderly wind-down if recovery actions fail to restore compliance with its *general business risk requirement*, its *financial risk reserve requirement*, or its *wind-down reserve requirement*.

Wind-down planning

7.8 As part of its *overall risk assessment*, a *systemic issuer* must prepare an orderly wind-down plan which must:

- (1) include a strategy to wind-down its business in each extreme but plausible stress scenario that it assesses under 7.3(5) by:
 - (a) terminating the business including completing *redemption* for all *holders* of a *systemic stablecoin*: or
 - (b) sale to a purchaser of part or all of the *systemic stablecoin issuer's* business relating to a *systemic stablecoin*;
- (2) identify the steps and resources that would be required to ensure the wind-down and termination of the *systemic issuer's* business in a realistic timescale; and
- (3) identify the risks arising from winding down the *systemic issuer's* business that may cause material harm to *holders* or the financial system, assess the potential impact of those risks, and identify the measures to manage them.

7.9 When preparing an orderly wind-down plan, a *systemic issuer* must consider:

- (1) the length of time needed to effect an orderly wind-down under each scenario including the time taken to complete *redemption* for *holders* of a *systemic stablecoin* or transfer the *systemic stablecoin* business to another entity;
- (2) the cost of maintaining critical systems and operations, including those relating to returning funds to *holders* of a *systemic stablecoin*, or transferring the *systemic stablecoin* business to another entity;
- (3) any residual losses that it could not fully cover during the recovery period and the timing of such losses (whether one off or continuous);
- (4) the scope and effectiveness of available resources to address losses following the application of recovery actions (including but not limited to a guarantee from a *parent undertaking* or *third party*);
- (5) the estimated impact on operating expenses during the orderly wind-down period (including but not limited to legal costs, completing *redemption* for *holders* of a *systemic stablecoin* or transferring all or part of the *systemic stablecoin* business to another entity);
- (6) the estimated impact on revenue during the orderly wind-down period;
- (7) the costs payable to an insolvency practitioner or a special administrator appointed under any special administration regime; and
- (8) costs incurred in the event of insolvency additional to the costs identified in (1) to (7).

7.10 Based on its orderly wind-down plan, a *systemic issuer* must estimate:

- (1) the aggregate cost of winding-down the general business operations of the *systemic issuer*;

- (2) the costs of completing *redemption* for all *holders* of a *systemic stablecoin* or transferring all or part of the *systemic stablecoin* business to another entity, whichever is higher; and
- (3) the costs incurred in the event of insolvency including the expected costs payable to an insolvency practitioner or special administrator appointed under any special administration regime.

7.11 The sum of the costs in 7.10 must be sufficient for the orderly wind-down of the *systemic issuer* in the event of an extreme but plausible loss event.

Documentation and Governance

7.12 A *systemic issuer* must make and retain a written record of its *overall risk assessment* required by this Part. The written record must be retained for at least five years and include at least the following:

- (1) an overview of the business model assessment and financial resources planning undertaken by the *systemic issuer*;
- (2) a summary of the risks identified by the *systemic issuer* under 7.1 and any steps taken to manage them;
- (3) an assessment of the effectiveness of the *systemic issuer's* systems and controls to identify, monitor, quantify and manage risks that may cause a material change in its risk profile;
- (4) an explanation of how the *systemic issuer* is complying with the provisions of this Part including a breakdown of the following as at the review date:
 - (a) its total *capital*;
 - (b) its total *eligible liquid assets*; and
 - (c) the *systemic issuer's general business risk requirement*, its *financial risk reserve requirement* and *wind-down reserve requirement*;
- (5) the potential recovery actions that the *systemic issuer* has identified under 7.5(2);
- (6) an overview of the *systemic issuer's* wind-down plan under 7.8;
- (7) the costs of recovery and wind-down;
- (8) the results of stress testing; and
- (9) an assessment of concentration risks.

7.13 A *systemic issuer* must ensure that the written record of the *overall risk assessment* is reviewed and approved by its *governing body* as soon as reasonably practicable after completion of that assessment.

7.14 As part of its review under 7.13, a *systemic issuer* must ensure that its *governing body* reviews and approves the key assumptions and underlying scenarios used in the *overall risk assessment*.

7.15 A *systemic issuer's* recovery plan and orderly wind-down plan must be:

- (1) reviewed and updated as soon as reasonably practicable following any material changes to the assumptions and factors used to determine the calculation of the cost estimates in 7.5 and 7.10;
- (2) reviewed by the *governing body* after any update according to (1) and at least annually; and

- (3) validated by external auditors or other qualified external party at least once every three years.

Group risk assessment and management

7.16 Where a *systemic issuer* is part of a *group*, 7.17 to 7.21 apply.

7.17 A *systemic issuer* must as part of its *overall risk assessment*:

- (1) adequately consider any risks that may cause material harm to its business, financial position or *holders*, and which are a result of the *systemic issuer's* relationship with other members of that *group* or the *group* as a whole;
- (2) ensure that its financial resources are sufficient on an individual basis in light of its *group* risks; and
- (3) ensure that its membership of a *group* does not impede its ability to wind-down its business without causing material harm to *holders* or the financial system.

7.18 A *systemic issuer* must identify, monitor and assess the potential impact of any *group* risks that may cause material harm to its financial position or to *holders*, including:

- (1) direct financial exposures to another *group* member, such as:
 - (a) trading activity between the *systemic issuer* and another *group* member;
 - (b) intra-group lending arrangements and other *group* treasury activity; and
 - (c) any guarantees provided by the *systemic issuer* for the benefit of another *group* member;
- (2) indirect financial exposures to another *group* member, such as:
 - (a) reliance on another *group* member for revenue generation;
 - (b) reliance on another *group* member for services or functions; and
 - (c) expectations that the *systemic issuer* will provide financial resources to meet financial liabilities incurred by another *group* member, even if these expectations are not legally enforceable; and
- (3) risks that may result from other aspects of *group* membership, such as:
 - (a) shared reputation;
 - (b) shared clients; and
 - (c) shared policies or control frameworks.

7.19 Where proportionate, a *systemic issuer* must reduce any *group* risks that may cause material harm to its financial position or to *holders*, including by:

- (1) assuring itself of the non-financial resources (including control frameworks and back-office functions) of relevant *group* members;
- (2) assuring itself of the financial resources and financial resilience of relevant *group* members;
- (3) ensuring sufficiently independent decision-making by the *systemic issuer*, so that the interests of the other *group* members are not prioritised over the interests of the *systemic issuer* itself or *holders*; and
- (4) holding financial resources in the absence of other mitigants for *group* risks.

7.20 If any risk that may cause material harm to its financial position or to *holders* remains after a *systemic issuer* has complied with 7.19, the *systemic issuer* must consider these risks as part

of its assessment of its operating expenses, the cost of its recovery plan and the cost of its orderly wind-down plan.

- 7.21 Where two or more *systemic issuers* are members of the same *group*, each *systemic issuer* should document its *overall risk assessment* on an individual basis in accordance with 7.17 to 7.20.

8 NOTIFICATIONS

- 8.1 A *systemic issuer* must notify the *Bank* promptly and without undue delay if:
- (1) it does not comply with its *general business risk requirement*, *financial risk reserve requirement* or the *wind-down reserve requirement*; or
 - (2) it is reasonably likely that it will not comply with such a requirement.
- 8.2 A notification required under 8.1 must include a credible plan to restore compliance with the relevant requirement within a reasonable timeframe.
- 8.3 A *systemic issuer* must notify the *Bank* if the amount of *capital* it holds is less than 110% of its *general business risk requirement*.
- 8.4 A *systemic issuer* must notify the *Bank* within a reasonable period before the date on which it intends to:
- (1) issue new capital instruments;
 - (2) include unaudited interim profits in the amount of *capital* it holds to comply with its *general business risk requirement*; or
 - (3) reduce its *subscribed capital*.

Annex E

PART 5: ISSUANCE, LEGAL CLAIM AND REDEMPTION

1 ISSUANCE

- 1.1 A *systemic issuer* must not offer, or arrange for another person to offer, a *systemic stablecoin* for sale or subscription other than in exchange for *money*.
- 1.2 Where a *systemic issuer* receives *money* in exchange for the purchase of a *systemic stablecoin*, it must immediately send a *systemic stablecoin*:
- (1) to that person's nominated address on the blockchain or other network using distributed ledger technology or similar technology in a transferrable form; and
 - (2) at the *reference value* equal to the *money* received.

2 LEGAL CLAIM

- 2.1 A *systemic issuer* must ensure that the contract between the *systemic issuer* and the *holder* includes a right for the *holder* to *redemption* in accordance with this Part.

3 REDEMPTION

- 3.1 A *systemic issuer* must *redeem* a *systemic stablecoin* it issues at any time on receipt of a *full redemption request*.
- 3.2 A *systemic issuer* must ensure that the obligations it owes to *redeem* a *systemic stablecoin* under the contract between the *systemic issuer* and any person to whom it issues that *systemic stablecoin* are effectively transferred in law along with the *systemic stablecoin*, such that when the *systemic stablecoin* transfers to a new person, that new person acquires the same rights against the *systemic issuer* in respect of the *redemption* of that *systemic stablecoin*.
- 3.3 On receipt of a *full redemption request*, a *systemic issuer* must ensure that *redemption* is completed:
- (1) subject to 4.3, at the value of the *redemption amount*;
 - (2) in *money* (excluding *electronic money*) and, unless the *holder* requests *redemption* in a different currency, denominated in *GBP*; and
 - (3) as soon as practicable but no later than within 24 hours of receipt of a *full redemption request*.
- 3.4 Unless 3.5 applies, for the purposes of 3.3 a *redemption* is completed when a payment order instructing the transfer of the *redemption amount* from the *systemic issuer* to the *holder* has been made.
- 3.5 Where a *systemic issuer* operates a *payment account* for a *holder* and credits the *redemption amount* to that account without needing to transfer the *redemption amount* to another payment service provider, *redemption* is complete at the point the *systemic issuer* credits the *redemption amount* to the *holder's payment account*.
- 3.6 The time limit in 3.3(3) does not apply if:
- (1) the completion of a particular *full redemption request* within the time limit would cause the *systemic issuer* to be in breach of any *UK* legal requirement or court order; or
 - (2) the *holder* of the *systemic stablecoin* requests *redemption* in a currency other than in *GBP*.

4 FEES AND COSTS

- 4.1 A *systemic issuer* must not impose undue fees or costs on the *holder* to process a *full redemption request*.
- 4.2 A *systemic issuer* may not charge a fee in relation to a *redemption* to cover costs or losses incurred in monetising *assets* that form part of the *backing asset pool*.
- 4.3 A *systemic issuer* may only deduct fees from the *redemption amount* with the express consent of the *holder* requesting the *redemption*.

5 ORDER OF REDEMPTIONS

- 5.1 A *systemic issuer* must complete *redemptions*:
- (1) in the order in which each *full redemption request* is received from a *holder*; and
 - (2) based on fair and objective criteria that does not prejudice, directly or indirectly, the interests of any particular type of *holder*.

6 SECURITY OF REDEEMED STABLECOINS

- 6.1 Where a *systemic issuer* receives a *systemic stablecoin* in the course of carrying out, or in connection with, a *redemption*, it must either:
- (1) continue to include that *systemic stablecoin* in the relevant *stablecoin pool* and ensure compliance with Chapter 1 of the Backing Assets Part in respect of that *systemic stablecoin*; or
 - (2) *burn* that *systemic stablecoin*.
- 6.2 If a *systemic stablecoin* continues to be included in a *stablecoin pool* under 6.1(1), the *systemic issuer* must add *central bank money* or *short-term government debt securities* to its *backing asset pool* if necessary to ensure compliance with Chapter 1 of the Backing Assets Part.

Annex F

PART 6: REMUNERATION

1 INTEREST AND REWARDS

- 1.1 A *systemic issuer* must not, directly or indirectly, pay interest or income to a *holder* in connection with the holding or retention of a *systemic stablecoin*, including any payment calculated by reference to the period for which a *systemic stablecoin* is held.
- 1.2 Activity-based rewards and other benefits or incentives that are consistent with the use of a *systemic stablecoin* as a means of payment, and do not arise from the holding or retention of that *systemic stablecoin*, are not prohibited under 1.1.

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Annex G

PART 7: TEMPORARY ISSUANCE GUARDRAIL

1 ISSUANCE GUARDRAIL

- 1.1 A *systemic issuer* must not issue *systemic stablecoins* in a *systemic stablecoin product* where the relevant *systemic stablecoin product total* exceeds £40 billion.
- 1.2 Where the *systemic stablecoin product total* of any *systemic stablecoin product* exceeds, or is reasonably expected to exceed, £40 billion a *systemic issuer* must as soon as possible:
- (1) notify the *Bank*, together with details of the relevant *systemic stablecoin product* and *systemic stablecoin product total*; and
 - (2) submit a plan to the *Bank* setting out the measures and timetable for achieving compliance with this Part.

2 RECORDS

- 2.1 A *systemic issuer* must keep records that are accurate, complete and up to date, and are sufficient to enable it to monitor and demonstrate its compliance with the requirements in this Part.
- 2.2 A *systemic issuer* must retain any record made under 2.1 for a period of five years starting from the later of:
- (1) the date it was created; or
 - (2) if it has been modified since the date it was created, the date it was most recently modified.