

# Bank of England PRA

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Dear Chief Executive Officer

## **Reaffirming the Prudential Regulation Authority's (PRA) position and clarifying expectations on innovations in the use of deposits, e-money and stablecoins**

In 2023, the PRA wrote to banks setting out its expectations with respect to **innovations in the use by deposit-takers of deposits, e-money and regulated stablecoins** (the '2023 Dear CEO letter'). Since then, the landscape for innovation in money and payments has continued to evolve. There has been significant progress in digital money innovation, including the development of regulatory regimes for stablecoins in the UK and internationally, and in the use of tokenised deposits. This includes the secondary legislation passed in February 2026, which enables the regulation of stablecoins and cryptoassets in the UK.<sup>1</sup> This letter supersedes the 2023 Dear CEO letter and should be read alongside our May 2026 Dear CEO letter on the **prudential treatment of banks' cryptoassets exposures**.

The PRA continues to welcome the benefits that could arise from innovation and competition in this area, including improvements in efficiency and functionality in

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<sup>1</sup> **The Financial Services and Markets Act 2000 (Cryptoassets) Regulations 2026**. In this letter, 'stablecoins' refers to qualifying stablecoins as defined in this statutory instrument.

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payments and settlement.<sup>2</sup> At the same time, the PRA remains mindful of the risks that innovations in money and payments may pose to safety and soundness, and to financial stability if not appropriately managed.

The PRA is therefore writing with two main aims: (a) to reaffirm the broad expectations set out in the 2023 Dear CEO letter; and (b) to provide some additional information on how those expectations should be interpreted in light of developments since the original letter was issued. The core risks identified previously have not changed, so while the PRA's overall expectations remain the same, this letter includes additional clarity on the details where the PRA considers appropriate and useful.

This letter concerns risks that arise specifically in a retail context.<sup>3</sup> The PRA remains concerned about the risks of contagion that may arise if deposit-taking entities were to offer e-money or stablecoins under the same branding as their deposits. In particular, if deposits (which are protected by the Financial Services Compensation Scheme, hereafter FSCS), and other forms of digital money (which are not protected by the FSCS) were issued under the same brand, then any issues arising from e-money or stablecoins could lead to a loss of confidence in deposits and vice versa. Such a contagion in confidence could happen, even though it would not be warranted given the FSCS protection available to deposits. Past experience, including as recently as the March 2023 banking turmoil, indicates contagion can happen quickly and is very difficult to reverse once it takes hold. As such, the PRA's expectations are intended to help mitigate this risk, especially given the speed with which information can now be proliferated.

These behavioural risks remain relevant, given the protections for retail holders of e-money and stablecoins differ markedly from those of deposits.<sup>4</sup> Retail customer confidence in money is driven by public trust and confidence and should not have to rely on a detailed understanding of legal or regulatory distinctions.

### **Expectations for deposit-takers and clarity of expectations on distinct branding**

The PRA is reaffirming that all the expectations set out in the 2023 Dear CEO letter remain, including those relating to deposit-takers who wish to undertake stablecoin issuance (See Annex 1 for a summary of the ongoing expectations). In particular, the PRA expects that deposit-takers may innovate in the form of deposits (eg tokenised

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<sup>2</sup> This includes transferable 'tokenised' deposit claims. As in the 2023 Dear CEO letter, the PRA is aware of market participants exploring the possibility of tokenised deposit arrangements (sometimes referred to as 'deposit tokens'). This is where the token representing the deposit claim is a transferable liability of the issuing deposit-taker and where, in payment transactions that involve a transfer of the token between individuals, the recipient becomes a customer of the issuing deposit-taker. We remain open to exploring where regulatory barriers may exist to these models.

<sup>3</sup> As with the 2023 Dear CEO letter, in this letter, 'retail customers' refers to natural persons; and micro, small and medium-sized enterprises.

<sup>4</sup> Even for stablecoins used in systemic payment systems (for which the Bank's proposed regime aims to ensure an equivalent overall level of protection to that for depositors, but with different types of protection).

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deposits, including deposit claims structured as transferable liabilities) within their deposit-taking entities. Where a deposit-taker wishes to issue a stablecoin or e-money, this should be done from a non-deposit-taking insolvency-remote entity with distinct branding from the deposit-taker, given the risk of confusion set out above.

However, given the range of business models and technological approaches now being explored, The PRA is providing further detail to clarify how it expects firms to meet the outcome of sufficient distinction between deposits and other forms of digital money or money-like instrument.

Where a banking group issues e-money or stablecoins, supervisors will consider the overall customer experience in assessing whether our concerns have been addressed in terms of suitably differentiating from retail deposits. This includes the naming, branding, access arrangements, and information provided for the product. Examples provided by firms to show how proposed e-money or stablecoins will be differentiated from deposits will help to facilitate discussions with supervisors as to how firms plan to meet these expectations.

The PRA's expectations do not replace any existing regulatory requirements for deposits, e-money or stablecoins. Rather, they are intended to provide additional clarity in the interest of further fostering distinction between products that are functionally similar but carry different protections.

In particular, firms should ensure that:

- The name and presentation of the e-money or stablecoin product establish that it is clearly different from deposit products. There may be a range of approaches firms can take to achieve this, for example, it might include reference to the parent brand (eg 'by XYZ'), the visual appearance might be different, or it may be positioned in a different part of the website or app; and
- Consistent with existing regulatory requirements, customers receive clear, prominent and ongoing information about the different protections that apply.

Disclosures, warnings, on-boarding, and customer education play an important supporting role, but should not be relied upon as the sole means of mitigating the risk of confusion.

### **Insolvency-remote issuance**

Similar to the requirements set out for US stablecoins under the GENIUS Act,<sup>5</sup> the PRA also continues to expect that e-money and stablecoins are issued from a separate non-deposit-taking and insolvency-remote entity. The key outcome we expect firms to

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<sup>5</sup> The Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act is a U.S. federal law establishing a regulatory framework for stablecoins.

achieve is that stress or failure of the issuing entity would not have adverse impacts on the wider deposit-taking group or the continuity of deposit-taking services.

Firms should seek to achieve this outcome from the outset. However, where there is a need for a proportionate transitional period while appropriate legal and operational arrangements are put in place, supervisors will take this into account, subject to firms demonstrating a credible and timely plan to achieve insolvency-remoteness.

### Wholesale use cases

The 2023 Dear CEO letter focused primarily on risks arising in a retail context. For stablecoin use cases that limit holdings to **only** wholesale customers, the PRA considers that the risks to confidence in stablecoins are not so prevalent as they are for individual retail customers. Firms considering stablecoin issuance exclusively limited to wholesale use should engage with supervisors at an early stage so that supervisors can understand the risk profile and take a proportionate approach to assessing wholesale stablecoin proposals.

As part of their engagement with supervisors, firms should be prepared to set out how access will be restricted to wholesale users, how the relevant risks will be managed, and which stablecoin regulatory regime would apply. The Bank of England is currently working to expand the range of settlement assets used in the Digital Securities Sandbox (DSS) to include stablecoins. The DSS may provide an appropriate environment to explore such proposals.

### Next steps

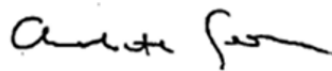
Fundamental Rule 7 requires deposit-takers to deal with regulators in an open and co-operative way, and to disclose appropriately anything of which the PRA would reasonably expect notice. Firms should therefore continue to keep their supervisors informed of any material developments in their plans for innovations in the use of digital money or money-like instruments, and how those plans meet the expectations set out in this letter and in the 2023 Dear CEO letter.

The PRA will continue to monitor developments closely and to work with other UK authorities as the regulatory framework for stablecoins and digital money evolves.

Yours sincerely,



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Rebecca Jackson,  
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**Annex 1: Definitions of the forms of digital money and money-like instruments discussed in this letter**

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|---------------------|---|
| Deposit             | A sum of money within the meaning of Article 5 of The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544).  |
| 'Tokenised' deposit | Concepts, terms, potential forms and use cases for tokenisation are still evolving. Standard-setters and market participants have not yet settled on any definitions for 'tokenised' deposits. In this letter, tokenised deposits mean deposit claims represented on programmable ledgers that enable novel techniques such as atomic settlement and smart contracts. |
| E-money             | Electronically stored monetary value as represented by a claim on the issuer within the meaning of the Electronic Money Regulations 2011 (SI 2011/99).  |
| Stablecoin          | Stablecoins described as 'qualifying stablecoins' within the SI referred to in footnote 1, ie a form of cryptoasset that purports to maintain a stable value relative to a fiat currency by holding assets (which may be of variable value) the purpose of which is to maintain that stable value.  |

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## Annex 2: Summary of the PRA's expectations on innovations in the use by deposit-takers of deposits, e-money and regulated stablecoins

- Deposit-takers should ensure that deposit-taking entities only provide innovations in money to retail customers in the form of deposits. If deposit-takers or their groups want to issue e-money or stablecoins to retail customers, this should be done from separate non-deposit-taking and insolvency-remote entities, ensuring that: (i) they have distinct branding to the deposit-taker; and (ii) their failure would not have adverse impacts on the rest of the deposit-taking group and the continuity of its deposit-taking services.
- Where a firm without a deposit-taking permission has issued e-money or regulated stablecoins to retail customers and seeks a deposit-taking permission for the issuing entity, we expect them to transition their UK customers to deposits at the new deposit-taking entity as soon as practicable.
- The PRA expects deposit-takers' innovations in deposits taken from retail customers, e.g. through tokenised deposits, including claims structured as transferable liabilities, to be done in a way that meets the PRA's rules for depositor protection under the FSCS and associated operational requirements.
- For international deposit-takers with UK branches, or for those seeking to open them, given FSCS protection extends to deposits in branches of international banks, the messages in this letter should be read in conjunction with the PRA's expectations for international deposit-takers that engage in retail activities<sup>6</sup>. Noting that the risk of contagion exists independently of the scale of any particular operations, we expect international deposit-takers operating in the UK to follow the same approach as domestic deposit-takers for their UK operations.
- The PRA has broader expectations for deposit-takers in the context of either retail or wholesale innovations in the use of digital money or money-like instruments in relation to: (i) money laundering and terrorist financing risks, (ii) strong risk controls, and (iii) senior managers' responsibilities. Further information on this can be found in Annex 3 of this letter.
- Deposit-takers should consider the challenges associated with innovations in digital money or money-like instruments at a senior level within their organisations.

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<sup>6</sup> [Supervisory statement \(SS\) 5/21 – International banks: The PRA's approach to branch and subsidiary supervision.](#)

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## Annex 3: Our broader expectations for deposit-takers for innovations in the use of digital money or money-like instruments

### Money Laundering/Terrorist Financing risks

The PRA continues to consider money laundering and terrorist financing (ML/TF) concerns in our prudential assessments of deposit-takers.<sup>7</sup>

Where your firm decides to engage in innovations in the use of any form of digital money or money-like instrument, you should meet deposit-takers' obligations under the PRA's General Organisational Requirements to have effective processes for identifying, managing, monitoring and reporting ML/TF risks. And in line with the PRA's Fundamental Rule 1 that a deposit-taker must conduct its business with integrity, we remind you of your wider obligations, including compliance with the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, and with the FCA's SYSC provisions.

### Strong risk controls

In addition to mitigating the risks from customer confusion set out above, where your firm decides to engage in innovations in the use of any form of digital money or money-like instrument, you should meet deposit-takers' general responsibilities under the PRA's Fundamental Rules 3, 5 and 7 to: (i) act in a prudent manner; (ii) have effective risk strategies and risk management systems; and (iii) deal with regulators in an open and co-operative way, and disclose appropriately anything relating to your deposit-taker of which we would reasonably expect notice.

The banking prudential regulatory framework is flexible and risk-sensitive. The scope and level of requirements of the framework can adjust up and down in a proportionate way, depending on the risks of different business models and activities. However, within the existing regulatory framework, deposit-takers may need to adjust methodologies and calibrations for identifying and addressing relevant risks in some areas if innovative digital money products are offered. We provide you with some examples of aspects that may need consideration below.

### Liquidity and funding risk

Where deposit-takers offer innovative forms of digital money or money-like instruments to retail customers, there is a risk that their product or customer characteristics will expose deposit-takers to a higher liquidity risk than that usually assumed for traditional retail liabilities. When considered alongside the greater uncertainty about the nature

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<sup>7</sup> September 2019: [Letter from Vicky Saporta 'Money Laundering/Terrorist Financing risks in prudential supervision'](#).

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and scale of risks when products are new, deposit-takers should be prudent in relation to such innovations.

The PRA has a general expectation that deposit-takers assess and capture the liquidity risk of their liabilities. In order to ensure these risks are captured in this context, deposit-takers should:

- Actively consider the appropriate outflow rates for new types of retail liability (including innovative forms of digital money or money-like instruments) when calculating their Liquidity Coverage Ratio, taking into account factors such as the relationship between the deposit-taker and the customer, nature of the liability, and remuneration rate compared to that applied to similar retail liabilities;<sup>8</sup> and
- Actively assess and capture the liquidity risk posed by their new types of retail liability (including innovative forms of digital money or money-like instruments) via internal liquidity stress testing.<sup>9</sup> For example, where such innovations are offered via third parties and represent a significant portion of their balance sheet, this could present a concentrated liquidity risk for those deposit-takers. In line with the 2021 Dear CEO letter on deposit aggregators from the PRA and the FCA,<sup>10</sup> and the subsequent 2023 Dear CFO letter from the PRA,<sup>11</sup> deposit-takers should factor such considerations into their management of liquidity risk and funding needs.

#### Operational risk and resilience, including third-party risk management

Some innovations in the use of digital money or money-like instruments by deposit-takers could lead to reliance on new and potentially untested payment rails with operational uncertainties. Third parties, such as deposit aggregators and wallet providers, already play key roles in the delivery of deposit-takers' important business services; and the services they provide to deposit-takers may change and grow as innovations in the use of digital money or money-like instruments develop.

The PRA's operational risk capital framework is flexible enough to capture operational risks arising from such innovations. However, the limited past data to model the kind of novel operational risks these innovations bring will present a particular challenge. In line with the PRA's Fundamental Rule 5 to have effective risk strategies and risk management systems, deposit-takers that want to introduce such innovations should – as a priority – develop robust ways of identifying, measuring and mitigating associated operational risks.

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<sup>8</sup> As set out in the Liquidity Coverage Ratio (CRR) Part of the PRA Rulebook.

<sup>9</sup> As required by the Internal Liquidity Adequacy Assessment Part of the PRA Rulebook.

<sup>10</sup> April 2021: [Letter from the PRA and FCA 'Obtaining deposits via deposit aggregators'](#).

<sup>11</sup> November 2023: [Letter from the PRA on working with Deposit Aggregators](#).

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We expect deposit-takers to have fully understood the impact of such innovations on their operational resilience, and to have met our supervisory expectations as set out in SS1/21 and SS2/21, before offering them to customers in any material way.

### Wallet providers and deposit aggregators (third-party risk management)

There is an emerging class of third-party wallet and deposit aggregation products, in part enabled by open banking. As these services grow, deposit-takers should ensure they closely and prudently manage the risks arising from using services provided by external third parties through outsourcing and other arrangements as part of their wider operational-resilience framework.

Where third parties are involved in providing wallet services for deposits and act as deposit aggregators,<sup>12</sup> deposit-takers should meet their obligations to prepare for resolution – in line with the 2021 Dear CEO letter on deposit aggregators from the PRA and FCA and the subsequent 2023 Dear CFO letter from the PRA – and meet single customer view and exclusions view requirements. They may need to plan ahead with wallet providers to ensure eligible claimant criteria are met and customer-specific information is available to ensure a swift FSCS pay-out.

One way of facilitating a swift FSCS pay-out would be for third parties to provide wallets on a pass-through basis. When pass-through wallets are used, users are direct customers of the deposit-taker (as with deposit aggregators that use the direct model as opposed to the trust model) and users' balances are recorded on the deposit-taker's ledger. Pass-through wallets would allow customers to hold and use deposits which would always be a direct liability of the deposit-taker.

### **Senior managers' responsibilities**

Innovations in the use of digital money or money-like instruments by deposit-takers could pose novel challenges that should be considered at a senior level within those deposit-takers. We expect boards and senior managers to understand the safety and soundness implications of moving into such innovations before they do so. In particular, an individual performing an appropriate Senior Management Function should be actively involved in reviewing and signing off on the risk assessment framework for any

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<sup>12</sup> Deposit aggregators are providers of intermediary services who sit between savings account providers and retail customers. Deposit aggregators operate under two models: one where their customers become direct customers of the firm ('direct models'), or one where the deposit aggregator holds the deposit accounts on trust for their customers who thus do not become the firm's direct customers ('trust models'). Customers who place their deposits via a deposit aggregator may not fully understand how these relationships work or, in trust models, how they can differ from a direct-depositor relationship. They may not know that in the event of a failure of the deposit-taker, FSCS payments can take longer for deposits placed via a deposit aggregator under the trust model.

planned use of new technology in the provision of important business services and critical functions.