

Bank of England PRA

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18 May 2026

Dear Chief Executive Officer,

Prudential treatment of tokenised assets, stablecoins, and other cryptoasset exposures

In 2022, the Prudential Regulation Authority (PRA) [wrote to the CEOs of banks and designated investment firms](#) to remind them of relevant obligations under PRA rules and to communicate the PRA's expectations regarding firms' exposures to cryptoassets¹. The 2022 letter set out interim expectations at a time when cryptoasset markets were less developed and international standards were still under development. It emphasised a prudent approach, including strong governance and risk management, and outlined expectations that firms would apply the full prudential framework to cryptoassets, including the PRA Fundamental Rules, Pillar 1 requirements, the Internal Capital Adequacy Assessment Process (ICAAP) and related Pillar 2 frameworks. The letter also noted that, for the vast majority of cryptoassets, a conservative capital treatment would be warranted, reflecting elevated credit, market, liquidity, and operational risks.

¹ 'Cryptoassets' (in line with BCBS SCO60) are defined as private digital assets that depend on cryptography and distributed ledger technologies (DLT) or similar technologies, and includes tokenised assets, stablecoins, and financial products linked to the performance of cryptoassets. Digital assets are a digital representation of value, which can be used for payment or investment purposes or to access a good or service.

Since then, there have been numerous regulatory and market developments. Innovations in tokenised assets, stablecoins, as well as financial products linked to the performance of cryptoassets, have continued to progress rapidly, creating new opportunities as well as new risks for the financial system. The underlying technologies have progressed and are increasingly used in ways that could, if appropriately managed, improve the efficiency and resilience of the financial system – for example by reducing transaction costs, 24/7 availability, and increased choice for users. However, these potential benefits can only be realised in a sustainable way if activity is undertaken safely and accompanied by effective regulatory frameworks that maintain trust and integrity in the financial system.

In terms of regulatory developments, the Basel Committee on Banking Supervision (BCBS) has published the [international standard for the prudential treatment of cryptoasset exposures](#), providing greater granularity on the risks associated with different cryptoasset arrangements and a prudential framework for how those risks may be mitigated in a safe and sound manner. The BCBS has since expedited a [review of targeted elements of the prudential standard](#) given recent cryptoasset market developments, the timeline of which has not been confirmed publicly.

Reflecting these developments, this letter provides an update on the PRA's expectations for managing the prudential risks from cryptoasset exposures², replacing previous expectations outlined in the 2022 letter. It should be read alongside the PRA's Dear CEO letter on [deposit-takers' innovations in deposits, e-money, and stablecoins](#), which was published at the same time.

In practice, the expectations outlined in this letter mean that firms should continue to apply the risk controls and expectations previously set out by the PRA, while recognising that – following the market and regulatory developments it has seen – certain forms of cryptoassets may benefit from a more risk-sensitive prudential treatment (that remain in line with existing PRA rules). These expectations will continue to be on an interim basis until the PRA publishes its proposed future prudential framework following the completion of the BCBS targeted review. Given this review, the PRA expects to consult on a proposed framework in 2028 at the earliest.

Developments since the 2022 letter

As a reminder, firms' responsibilities under the PRA's Fundamental Rules are 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. Firms should consider the full prudential framework when assessing and mitigating risks from cryptoasset exposures, including Pillar 1, the ICAAP, Pillar 2, and operational risk

² A summary of the key expectations in the 2022 letter and this one is set out in the Annex.

requirements. Firms should use all aspects of the prudential framework and consider risks from first principles where existing methodologies do not adequately reflect the unique features of cryptoasset markets.

Cryptoassets remain novel and relatively untested, with limited data with which to inform firms' approaches. Many can also be characterised by very high volatility and risk, and may involve market participants and structures that differ significantly from other markets in which firms participate. Firms should consider carefully whether characteristics of these assets are sufficiently captured within their existing risk management frameworks. While the regulatory framework may provide a structure to consider such risks, methodologies and calibrations may need to be adjusted to ensure that risks are appropriately identified, mitigated and capitalised.

In line with the 2022 letter, in some cases direct holding of cryptoassets may be classified as intangible assets under applicable accounting frameworks. Intangible assets are deducted from Common Equity Tier 1 (CET1) under Articles 36(1)(b) and 37 of the Own Funds (CRR) Part of the PRA Rulebook. The PRA continues to expect that it remains appropriate under the market risk framework³ for firms to apply a 100% capital requirement to unbacked cryptoassets to reflect their elevated volatility and/or limited price history.

However, since the PRA's last letter, some forms of cryptoassets have started to emerge that exhibit features that pose less significant risks than those outlined in the expectations above. In applying the prudential framework to such exposures, firms should focus on the specific risk characteristics of each cryptoasset they hold. Where the application of PRA rules involves discretion in light of those risk characteristics, the classification conditions and methodologies set out in the BCBS standard can inform firms in how they can determine an appropriate and proportionate risk-sensitive treatment.⁴ Firms should continue to exercise judgement and engage with their prudential supervisors where appropriate, particularly where their approach to the existing framework differs materially from the standard.

Prudential treatment of tokenised traditional assets

As noted above, the PRA recognises the potential for innovation in financial markets – and particularly in tokenised traditional assets – to create a more efficient, competitive, and robust financial system that helps facilitate economic growth.

³ From 1 January 2027 the relevant CRR provisions on Market Risk will be transferred from UK CRR into the PRA Rulebook. The relevant rule will be Article 325b1 of the Market Risk: General Provisions (CRR) Part of the PRA Rulebook.

⁴ Firms should also consider any updates to the BCBS Standard as and when they are published.

Consistent with the PRA's primary and secondary objectives and its 'same risk, same regulatory outcome' approach to policymaking, the PRA's view is that tokenised traditional assets would, in general, receive the same prudential treatment as their non-tokenised equivalents where the legal rights conferred are identical and the underlying risks are comparable. In determining the prudential treatment, the PRA therefore encourages firms to focus on the risk characteristics and holistic outcomes of tokenised traditional asset arrangements rather than the specific technology or type of ledger (eg permissioned vs permissionless) on which they are recorded.

While existing PRA rules remain the primary source of requirements, where these allow discretion or do not address the novel risks that may be posed by tokenised traditional assets, the classification conditions set out in the BCBS Standard provide a useful reference point to assist firms in determining whether particular tokenised traditional asset arrangements pose risks similar to traditional assets, and therefore whether a similar application of the existing prudential framework may be appropriate. The PRA will continue to keep this position under review as the international standards evolve.

One relevant example to which this prudential treatment could apply is through the [Digital Securities Sandbox](#) (DSS), which is part of the Bank of England's wider programme of work on innovation. The Bank of England is testing the use of distributed ledger technology to host financial securities through the DSS. PRA-regulated firms may apply the prudential treatment described above to digital issuances within the DSS. This may include the UK Government's Digital Gilt Issuance Pilot, which, in line with the text above, the PRA would expect to receive a prudential treatment aligned with traditional government debt securities, provided that the underlying risks are comparable.

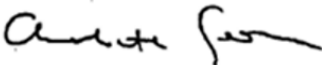
Next steps

The approach described above is not intended to apply in the long term. These expectations will continue to be on an interim basis until the PRA publishes its proposed future prudential framework. This will follow the completion of the BCBS targeted review, which the PRA is closely engaged with in line with the PRA's commitment to international standards. Until then, this letter provides further clarity on how existing rules apply, while ensuring that firms remain resilient as cryptoasset markets continue to evolve.

Yours sincerely



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Annex 1: Summary of expectations in the 2022 Dear CEO letter and this letter

This annex summarises the key areas in which the PRA's expectations set out in this letter reaffirm, update, or clarify, those set out in the 2022 Dear CEO letter on cryptoasset exposures.

	2022 Dear CEO letter	This letter
Strong risk controls	Emphasised firms' responsibilities under the PRA's Fundamental Rules 3, 5 and 7. Crypto risks should be considered fully by the board and the highest levels of executive management. Firms will likely need to adapt existing risk management strategies and risk management systems to suit the different risk profile of many crypto activities.	Reaffirmed ; no change to expectations.
Prudential Framework	Set out that firms should consider the full prudential framework when assessing and mitigating risks, including the PRA Fundamental Rules, Pillar 1, the Internal Capital Adequacy Assessment Process, and related Pillar 2 capital considerations.	Reaffirmed ; no change to expectations.

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Pillar 1	Reminded firms of the requirements for specific risks or activities. In particular, participation in market-making or direct holdings will likely expose firms to market risk and counterparty credit risk. Following the PRA rules on market risk, the letter set out a conservative capital treatment for cryptoassets, reflecting high volatility, limited data and uncertainty, including a 100% capital requirement for the vast majority of cryptoassets, particularly unbacked crypto.	Reaffirms expectation that a 100% capital requirement remains appropriate for unbacked cryptoassets under the market risk framework, while clarifying that there are some forms of cryptoasset exposures that exhibit features that pose less significant risks. Firms should exercise judgement and where PRA rules allow discretion the BCBS standard provides a useful reference point when applying existing prudential requirements.
Pillar 2	Set out that firms should assess cryptoasset exposures through ICAAP and Pillar 2, including where Pillar 1 requirements may not fully capture the risks.	Reaffirmed ; no change to expectations.
Engagement with supervisors	Expected firms to discuss the proposed prudential treatment of cryptoasset exposures with their supervisors.	Reaffirmed ; particularly where their approach to the existing framework differs materially from the standard.
Use of international standards	Discussions were ongoing internationally on the prudential treatment of cryptoassets.	Updated ; Recognises publication of the BCBS standard and encourages its use as a reference point where PRA rules allow discretion in their application to cryptoasset exposures and leave scope for interpretation.
Tokenised traditional assets	Emphasises conservative treatment for the vast majority of cryptoassets, reflecting high volatility and uncertainty.	Updated ; that tokenised traditional assets would generally receive the same prudential treatment as non-tokenised equivalents where legal rights and underlying risks are comparable, applying a 'same risk, same regulatory outcome' approach.

Future framework	Not specified.	Updated; that expectations remain interim and that the PRA intends to consult on implementation of the BCBS standard following completion of the targeted review, with publication expected no earlier than 2028.
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