

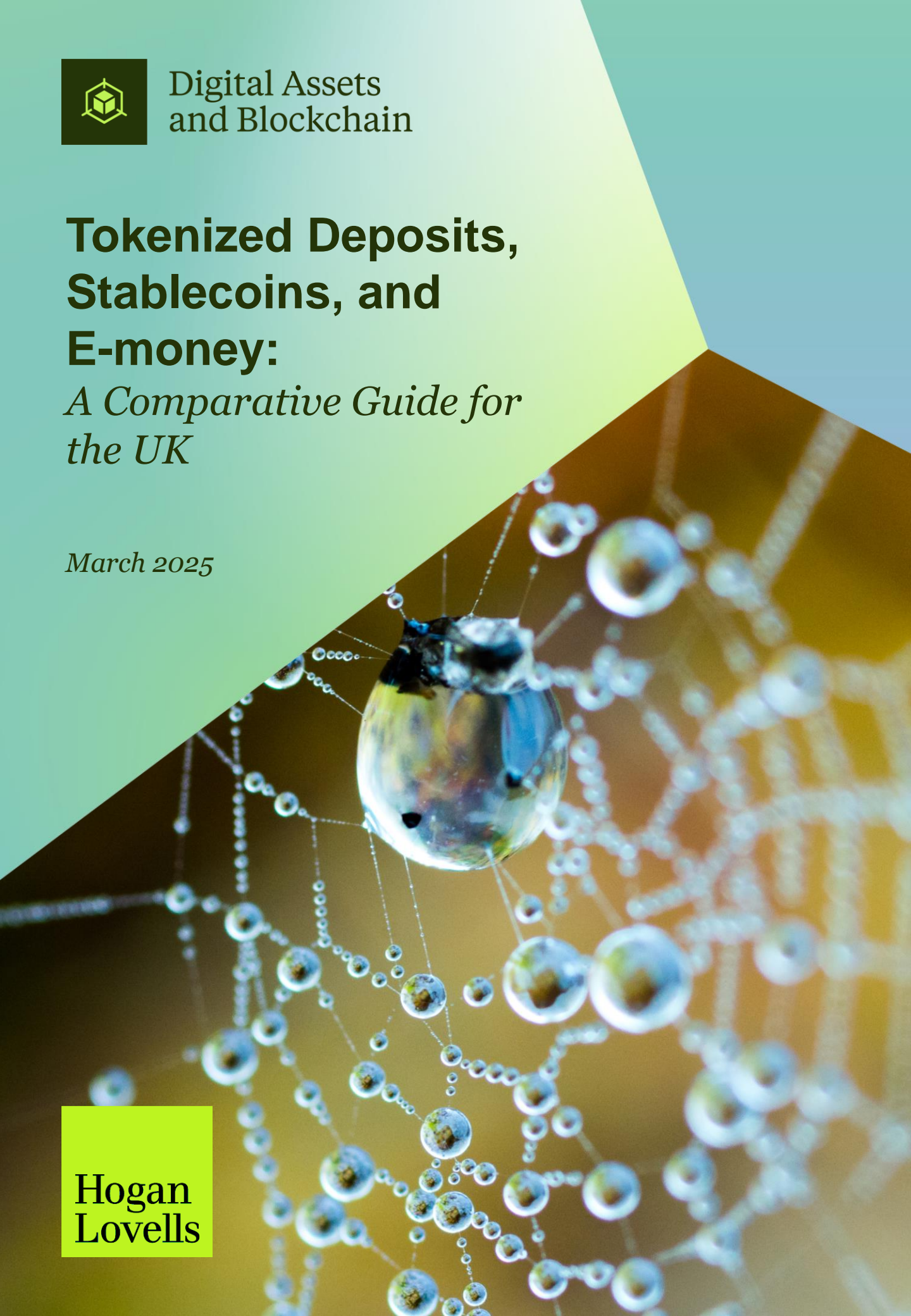


Digital Assets
and Blockchain

Tokenized Deposits, Stablecoins, and E-money: *A Comparative Guide for the UK*

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A Comparative Guide for the UK

What is happening

From the use of metal coins to the dematerialization of money, the advent of distributed ledger technology (DLT) and tokenisation arguably represents the next stage in the evolution of money and the payments ecosystem.

As noted in the PRA's Dear CEO letter dated 6 November 2023, we are now seeing "innovations in the forms of digital money and money-like instruments available to retail customers", including fiat-referencing stablecoins, e-money and tokenised deposits - this document sets out a short comparative guide, including what these innovations are, how they may be used in practice, as well as an overview of the regulatory framework.

Why it matters

Decentralized models offer protection against traditional institutional failures. Programmability and smart contract technology can enhance the user experience, minimise the scope for human error and counterparty risk, and reduce inefficiencies. Importantly, DLT-based solutions such as stablecoins and tokenized deposits can act as the payment leg of on-chain settlement systems and interact with other forms of tokenized assets.

The advent of digital money and on-chain payment instruments is inevitable, and a variety of solutions are likely to co-exist in the future as the digital financial landscape continues to evolve.

A Comparison

The table below sets out a high-level comparison based on typical characteristics of each type of instrument as they are currently understood. In practice, each of the instruments below can come in a variety of different forms.

	Tokenized deposit	Fiat-referencing stablecoin	E-money
Summary	A “deposit” (or part of a deposit) that has been recorded on a distributed ledger by the deposit taking institution	A type of cryptoasset that seeks or purports to maintain a stable value by reference to a fiat currency or a basket of currencies	Electronically stored monetary value, represented by a claim on the issuer, issued on receipt of funds for the purpose of making payment transactions, and which is accepted by a person other than the issuer
Key features	Adds programmable functionality to funds held in the form of a deposit. Based on DLT or similar technology	A means of payment as well as a store of value and a unit of account. May also be used to facilitate cryptocurrency trading, reduce the need to switch to off-chain forms of money, as well as cross-border payments (including for humanitarian aid, e.g. in the case of Stellar Aid Assist). Based on DLT or similar technology	A means of storing value for the purpose of making payments electronically (instead of via other means such as cash, bank account, credit card, or Open Banking)
Issuer	Banks	A wide range of potential issuers (with the required permissions)	E-money institutions, or banks with appropriate permissions
Examples	<ul style="list-style-type: none"> JPM Coin on Kinexys USDF Consortium 	<ul style="list-style-type: none"> EUR CoinVertible by SG Forge USDT (Tether) 	<ul style="list-style-type: none"> Revolut Airwallex Paypal Paysafe
Redemption	The nature of the deposit claim would be the same as for “traditional” deposits (e.g. a bank deposit is repayable on demand) - accordingly, tokenized deposits are not “redeemable” in the same way as stablecoins or e-money. However, depending on the product, the value in a tokenised deposit account can be said to be “redeemed” by transferring into a “traditional” deposit account.	Redemption terms are generally set out by issuers in the contractual terms applying to the stablecoin and subject to regulation. In practice, holders may sell stablecoins on secondary markets in exchange for fiat or other cryptoassets rather than “redeem” the stablecoin from the issuer.	E-money is redeemable at any time and at par value.
Value	Parity with the deposit (or part of the deposit) that has been tokenized	Intended to maintain a stable value (e.g. of a currency). Note that the value of which a stablecoin is traded at on secondary markets is distinct from the value for which a stablecoin may be “redeemed” from the issuer.	Parity with the fiat currency used to acquire the e-money
Interest	Can earn interest	A holder could earn interest (e.g. if deposited on an interest-bearing platform), but this is subject to regulation	In general, cannot earn interest
Transfers	Transfers are typically carried out via a “burn-issue model” represented by a decrease in the balance of the sender’s account, and a corresponding increase in the balance of the recipient’s account	Can be transferred between holders without the need for consent or involvement of the issuer. The receiver becomes the new holder of the claim on the issuer.	E-money can be transferred to another e-money wallet, sent to a payment account or used to pay using the card scheme rails

Regulatory approach

Type of instrument	UK regulatory framework
Tokenized deposits	The BoE has indicated in its July 2024 discussion paper on its approach to innovation in digital money and payments that, to the extent tokenization does not change the fundamental nature and underlying economics of a deposit claim, tokenised deposits will be treated similarly to a traditional deposit under the PRA's prudential regulatory framework.
E-money	E-money is primarily regulated under the Electronic Money Regulations 2011 (EMRs) and Payment Services Regulations 2017 (PSRs).
Stablecoin	<p>The UK has yet to issue legislation to regulate stablecoins. In November 2023, the FCA issued a discussion paper on fiat-backed stablecoins i.e. cryptoassets that purport to maintain a stable value by reference to a fiat currency and by holding fiat currency, in whole or in part, as backing". The paper describes new regulated activities of issuing and providing custody of UK fiat-backed stablecoins that will be introduced in the regime under FSMA and the RAO. (The paper also proposed regulating stablecoins through payments legislation—however, more recently in November 2024, a speech by the former Treasury minister Tulip Siddiq MP indicated that the government is not currently seeking to bring stablecoins within scope of UK payments regulation.)</p> <p>More recently, the FCA's Crypto Roadmap indicates that a consultation on rules relating to stablecoins (e.g. backing assets and redemption) and cryptoassets including stablecoins more broadly (e.g. issuance, custody, and more) are expected in Q1/Q2 2025.</p> <p>The PRA has also previously stated that it does not expect banks to issue stablecoins (or e-money) under the same branding as their deposit-taking activities, but to use separate entities if they wish to do so.</p>
E-money or Stablecoins?	<p>Stablecoins and e-money appear to have some similarities. Both can be used for payments, are issued on receipt of funds, represent a claim on the issuer, must be redeemable at par, and can be accepted by a third party. Neither enjoys FSCS protection (i.e. they are not deposits) and neither can pay interest.</p> <p>However, despite the apparent crossovers, HMT has previously clarified that different legislative approaches will be taken to stablecoins and e-money: <i>"electronic money, as it exists now, and fiat-backed stablecoins are different products and HM Treasury intends to put in place legislative clarification to ensure their legal separation"</i> (para. 3.7 of its 2023 update).</p>

Interoperability with CBDCs

Central bank digital currencies (CBDC) are another form of digital money. Unlike the privately issued forms of digital money discussed so far which broadly represent claims on the issuer, CBDCs represent **direct claims on the central bank of the relevant jurisdiction**. Both the UK and the EU have been exploring the potential introduction of retail CBDCs in the form of the [digital pound](#) and the [digital euro](#), respectively.

The future of retail payments is likely to encompass multiple forms of digital payment instruments including stablecoins, tokenized deposits, e-money and retail CBDCs, with the popularity of each being dependant on the needs of each jurisdiction as well as consumer demands (e.g. for use as a payment method or store of value; for making domestic or cross-border transfers, etc.).

Additionally, stablecoins and tokenized bank deposits can be seen as private tokenized money which coexist alongside a **wholesale** CBDC—the BIS's vision of "unified ledgers" and the "Finternet" (as described in its April 2024 Working Paper), for example, envisions a two-tier monetary system where tokenized deposits would function as a means of payment for individuals and businesses, while wholesale tokenized central bank money would enable settlement of commercial banks' accounts on the central bank's balance sheet. (See also our [Comparative Guide: DLT and Innovations in Wholesale Settlement in Central Bank Money \(UK\)](#).)




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- Digital bond and tokenization of debt instruments
- Service providers facilitating the tokenization of assets
- Regulatory requirements for cryptoasset and DLT-related activities
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- Regulatory and policy engagement advice

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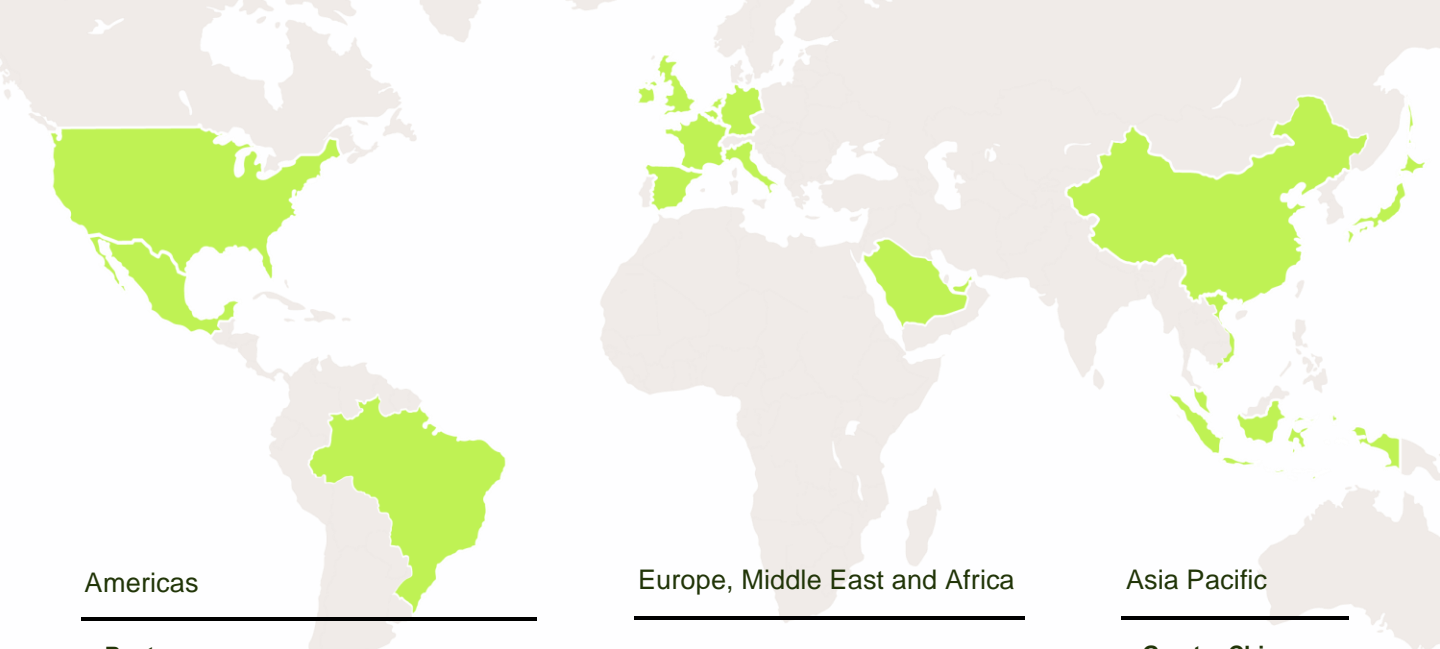
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