

July 31, 2025

Crypto Policy Team
Financial Conduct Authority,
12 Endeavour Square,
London, E20 1JN

Submitted via email: cp25-14@fca.org.uk

Re: Consultation paper – Stablecoin Issuance and Cryptoasset custody

Dear Sir/Madam:

State Street Bank and Trust Company ("State Street") appreciates the opportunity to respond to the consultation paper issued by the Financial Conduct Authority ("FCA") on its proposed rules and guidance for the activities of issuing a qualifying stablecoin and safeguarding of qualifying cryptoassets.

State Street is one of the world's leading providers of financial services to institutional investors including investment servicing, investment management and investment research and trading. With \$49 trillion in assets under custody and/or administration and \$5.1 trillion in assets under management as of June 30, 2025, State Street operates globally in more than 100 geographic markets and employs approximately 52,000 worldwide.

State Street supports the FCA's objective to foster a safe, competitive, and transparent digital asset ecosystem in the UK. As a global custodian bank, we see our role as improving trust and safety in digital asset custody, including stablecoins, and we believe that digital asset custody should be about leveraging the best practices of traditional custody. In order to achieve this goal, the regulatory framework must uphold the foundational principles of asset segregation, operational resilience and functional separation that ensure systemic stability and full investor protection in the traditional assets space.

Consequently, while acknowledging the pro-growth policy goal of establishing a UK regulatory framework that enhances international competitiveness, it is essential to recognize the foundational role credit institutions can play in the digital ecosystem owing to their capital strength, liquidity, and expertise in risk management. This means that as a matter of priority, the rules should promote consistency between traditional and digital asset custody, leveraging as much as possible existing practices for the custody of traditional assets. For traditional bank custodians, the regime should allow the custody of backing assets for stablecoins without additional regulatory authorizations.

In response to the FCA's consultation paper, we offer our reflections as a global custodian specifically on the following issues: the safekeeping of reserve assets and the separation of custody from other financial services; the composition of backing assets; the need for international alignment and regulatory interoperability among key jurisdictions.

Safekeeping of reserve assets and functional separation of custody services

Custodian banks recognize three principles for the proper organization of the custody function – the absence of which may compromise the protection of client assets and therefore the long-term stability of the digital assets market.

The first principle is that client assets must be segregated from the custodian's proprietary assets, and the assets of other clients, at all times. Secondly, for custody to be effective, the safekeeping function must be maintained and operated separately from other market facing activities, as is the case for traditional assets. Conflict of interests may otherwise arise, including the use of client assets for the benefit of the financial entity. Finally, the custodian must have full control over the assets of its clients and the exclusive ability to transfer assets upon instruction; this includes the implementation of mature risk management controls and governance.

State Street welcomes and strongly supports the FCA's firm requirement that the reserve assets backing a stablecoin issuance must be held by an independent custodial entity. This approach aligns with global best practices in custody banking and is essential to ensuring the integrity, trustfulness and resilience of the stablecoin ecosystem. Conversely, we are concerned by the FCA's decision to defer judgment on whether entities in the digital asset marketplace should be permitted to combine services – including custody – within a single entity. The separation of financial activities is foundational to the custody function, ensures high levels of investor protection and serves as a critical safeguard against conflicts of interest and operational risk.

We therefore urge the FCA to reconsider its position and take a firmer stance against vertically integrated business models that blur the lines between issuance, custody, and trading. We consider this a very important issue to maintain trust and stability in the crypto asset market. Moreover, although we do not object to the FCA's decision to establish a separate draft CASS 17 regime for crypto assets, we recommend aligning it more closely with the existing CASS 6 framework. Firms already subject to CASS 6 should be presumed compliant under the new requirements.

From an operational resilience and risk perspective, another essential component of effective custody are comprehensive recordkeeping and daily reconciliations, where custodian banks have well-established capabilities. We would recommend considering reconciliation timelines that are proportionate and practically achievable, aligning traditional asset safeguarding standards. Additional guidance by the FCA on the operation of daily reconciliations, bridging the 24/7 availability of stablecoins with the traditional operations of banks valuations processes, may be required.

Similarly, we recommend the FCA considers and provides further guidance and measures to define and clarify settlement finality in the context of stablecoins. This is fundamental to ensure the integrity, stability and trustworthiness of stablecoin transactions.

Composition of backing assets

We share the FCA's assessment that, in order for stablecoins to hold their value and be redeemable on-demand, the backing asset pool must be composed of assets that are low risk, secure and sufficiently liquid. We also welcome that the FCA has enlarged the range of permissible backing assets to include units in a Public Debt CNAV Money Market Fund (PDCNAV MMF).

We believe that for the purposes of the backing assets category, all qualifying MMFs under CASS 7 should be eligible, given that by definition such qualifying MMFs should:

- have as their primary investment objective to maintain the net asset value of the undertaking constant at par (net of earnings);
- invest exclusively in high quality money market instruments with a maturity or residual maturity of no more than 397 days, and with a weighted average maturity of no more than 60 days;

- offer T+1 settlement.

Furthermore, we would also point out that the definition of qualifying MMFs for CASS 7 has recently been amended post the UK's withdrawal from the EU. The revised definition, which was not consulted upon, represents a significant shift in policy as it restricts qualifying MMFs to only UK UCITS, thus eliminating all AIFs and EU UCITS that previously met the definition. Given the very small number of sterling MMFs domiciled in the UK meeting the qualifying MMFs definition, this significantly limits the number of MMFs available for holding client money and for future use as backing assets for stablecoins.

While not the direct object of this consultation, we would urge the FCA to reconsider this matter in the broader revision of the CASS regime, with the aim of expanding the definition of qualifying MMFs for CASS 7 beyond UK UCITS to include all MMFs registered under the Temporary Marketing Permissions Regime (TMPR) that meet the qualifying MMFs criteria.

On-demand deposit requirement (ODDR)

We support the introduction of a 5% ODDR for qualifying stablecoin issuers. We recognize the proposal's intent to enhance liquidity and redemption confidence for end users, and we agree that a portion of backing assets held in UK bank deposits can contribute to financial stability.

However, we would like to raise a point of clarification regarding the prudential treatment of these deposits from the perspective of UK banks: Under current liquidity rules, deposits from issuers are typically classified as non-operational deposits. As such, they attract a 100% outflow rate under the Liquidity Coverage Ratio (LCR) and are not considered stable funding. This treatment significantly limits the ability of banks to support such deposits at scale, particularly if they are ring-fenced and not available for general liquidity management. We would therefore recommend reconsidering the treatment of such deposits if the following conditions are evidenced:

- The deposits are tied to an overall custody, clearing and/or cash management relationship with the bank, and
- The deposits over time demonstrate behavioural stability and low withdrawal risk.

Financial crimes and sanctions

In the context of financial crimes and sanctions, State Street would like to highlight two further considerations:

- **Validators:** Permissionless blockchain networks such as Bitcoin and Ethereum rely on globally distributed, typically unknown, network participants to validate or confirm network transactions (so-called validators). These unknown network participants typically collect transaction fees for their efforts. At the time a transaction is submitted to the network, participants do not have visibility into the recipients of transaction fees in connection with any specific transaction. As such, custodians are not able to preemptively identify the recipients of transaction fees connected with such transactions which potentially creates legal risks for custodians. To address this, we would recommend clarifying that the lack of knowledge of the identity or background of the validator entity, by itself, will not constitute a failure of the custodian to have effectively performed their relevant monitoring and screening processes in line with applicable financial crimes rules and regulations.
- **Travel Rule:** While the Travel Rule is now a global standard, its implementation varies across jurisdictions, leading to challenges like varying timelines, de minimis thresholds, and differences in required information.¹ As a result, significant differences in the implementation can be observed causing concerns in particular in the context of cross-border transactions. Technical Solutions operating in this space now enable consortium-based Virtual Asset Service Provider (VASP) memberships where members can share travel rule information globally even though VASPs in certain jurisdictions are not currently members of such consortiums. The evolution into stablecoins and their potential use by illicit actors (just like other virtual assets) requires consideration of appropriate risk mitigation measures especially for peer-to-peer unhosted wallets where users are acting on their own behalf and are not explicitly subject to AML/CFT controls.

In order to address these concerns, we encourage the FCA and UK authorities to closely work with their international counterparts to ensure a complete and consistent application of the Travel Rule globally.

International alignment

Finally, State Street encourages the FCA to address how foreign-based stablecoin issuers will be treated under the final regime. Parallel regulatory initiatives in key jurisdictions, such as for example the GENIUS Act in the U.S., accommodate for equivalence regimes that allow foreign stablecoin issuance if the foreign regime is comparable and certain conditions are met. We urge the FCA to

¹ As of April 2025, 138 jurisdictions have been assessed for technician compliance with FATF requirements of which 29% are fully compliant, 49% are partially compliant and 21% are non-compliant.

incorporate a similar philosophy: recognize or grant equivalence to foreign stablecoin firms that are subject to equivalent prudential standards.

Conclusion

State Street supports the FCA's efforts to build a safe and competitive framework for stablecoin issuance and cryptoasset custody. We encourage the FCA to maintain its commitment to transparency, investor protection, functional separation, and international alignment. We look forward to continued engagement and stand ready to contribute further as the regulatory framework evolves.

Yours Sincerely,

A handwritten signature in dark ink, appearing to read "C. Rowland", is positioned above the printed name.

Chris Rowland
Executive Vice President,
Head of Custody, Digital and Fund Services Product