Aave Labs
London, United Kingdom
22 September 2026

Bank of England
Threadneedle Street
London EC2R 8AH

By email to the consultation mailbox.

Re: Response to the Bank of England Policy Statement and Consultation on the Draft Code of Practice for Sterling-Denominated Systemic Stablecoin Issuers (June 2026)

Dear Sir or Madam,

Aave Labs welcomes the opportunity to respond to the Bank of England's June 2026 policy statement and the accompanying consultation on the draft Code of Practice for sterling-denominated systemic stablecoin issuers. We commend the Bank for the substantial revisions made since the November 2025 consultation, in particular the move away from a fixed individual holding limit toward a temporary aggregate issuance guardrail, and the introduction of a Central Bank Liquidity Facility. Both changes reflect genuine engagement with industry feedback and materially improve the workability of the regime.

Aave Labs is the core contributor to the Aave Protocol, the largest decentralised lending protocol globally by total value locked, and one of the largest venues in which high-quality stablecoins are supplied and borrowed. Users supply stablecoins to, and borrow them from, the protocol's liquidity pools; the principal stablecoins in use today, USDC and USDT, are both dollar-denominated. Aave Labs is also the developer of GHO, an over-collateralised, self-custodial stablecoin. Our interest in this consultation is primarily that of a user of stablecoins rather than an issuer of them: a deeper and more diverse supply of high-quality regulated stablecoins, including in currencies other than the US dollar, would directly benefit the protocol and its users, which is why the conditions for viable sterling-denominated issuance are of direct interest to us. Our UK-regulated affiliates, Push Labs Ltd. and Push Virtual Assets Ltd., are registered with the Financial Conduct Authority, and our engagement here is guided by a commitment to sterling remaining a currency of choice in the next generation of payments infrastructure. It is from that starting point, a shared interest in the UK's success as a venue for sterling-denominated digital money, that we offer the observations below.

This response is focused rather than comprehensive. It sets out one principal recommendation, concerning the remuneration of reserves held at the Bank, framed by the wider role of privately issued sterling money. It is directed principally at Question 2 of the consultation, on how the proposed rules affect financial stability and commercial considerations including business-model viability, and bears also on Question 1, on whether the rules give effect to the Bank's stated policy. The framing in section 1 below is offered as general comment relevant to Question 4, and our response to Question 5 is set out at the end. Consistent with the Bank's guidance that respondents need not address every question, we do not comment on operational constraints under Question 3. We would be glad to provide input on other areas of the Code on request.

① Regulated Sterling Stablecoins and the UK Monetary System

The majority of money in the UK economy is privately issued. On the Bank's own analysis, around 97% of the money held by the public takes the form of commercial bank deposits rather than central bank money, with cash and central bank reserves comprising the remainder. The public therefore already transacts predominantly in privately issued money that sits within narrow, transactional money alongside currency, and that is anchored to, and convertible at par into, central bank money.

Regulated sterling stablecoins are a natural extension of this arrangement. They are a further form of privately issued sterling money: backed by high-quality liquid assets and deposits at the Bank, they would sit alongside commercial bank deposits within the same layer of privately issued money, while remaining anchored to central bank money at the base through their backing and through the Central Bank Liquidity Facility. Encouraging a healthy population of privately issued sterling stablecoins is therefore consistent with, rather than a departure from, the structure of the UK monetary system. The relevant question is not whether privately issued sterling money should exist, since it already constitutes the great majority of money in use, but whether the UK's rules allow this new form of it to be issued on viable terms.

That question matters because sterling is one of the world's principal currencies. It is among the small number of currencies the International Monetary Fund separately identifies in its official reserve data, standing as approximately the fourth-largest official reserve currency globally, and it is the fourth most-traded currency in global foreign exchange markets. The UK therefore has an unusually strong base on which to build the next generation of sterling money. A regime whose economics discourage sterling issuance risks leaving that extension of the sterling franchise to be built in other currencies, an outcome that would serve neither the Bank's objectives nor the UK's wider interest in sterling's continued international standing.

This role extends beyond retail payments into wholesale markets. HM Treasury's Wholesale Digital Markets Champion has identified regulated stablecoins, alongside tokenised deposits, as emerging components for on-chain settlement in tokenised wholesale markets, and has recognised a specific need for sterling-denominated stablecoins to be issued at scale if the UK is to strengthen its competitiveness and keep this activity onshore. As those markets tokenise, and as the authorities remain open to the role of permissionless networks within them, decentralised protocols are the infrastructure layer on which these markets are being built: a neutral base on which tokenised assets can be issued, mobilised, lent and settled. In that setting a regulated stablecoin is the on-chain settlement asset that moves when a tokenised instrument changes hands, complementing rather than displacing commercial bank money and central bank settlement. If credible regulated stablecoins exist only in the US dollar, tokenised sterling activity will tend to settle in dollars. A viable sterling stablecoin regime is therefore not only a retail payments question but part of the infrastructure on which the UK's tokenised wholesale markets, and sterling's place in them, will depend.

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① Bank of England, 'Money in the modern economy: an introduction' and 'Money creation in the modern economy', Quarterly Bulletin 2014 Q1. The Bank states that around 97% of the money held by the public is in the form of deposits with banks rather than currency.

② International Monetary Fund, Currency Composition of Official Foreign Exchange Reserves (COFER), World Aggregates, 2025 Q4 (published 27 March 2026). Sterling accounted for 4.64% of allocated reserves; total global foreign exchange reserves stood at USD 13.14 trillion.

③ Bank for International Settlements, Triennial Central Bank Survey of foreign exchange and OTC interest rate derivatives markets, April 2025 (press release, 30 September 2025). Sterling was on one side of 10.2% of FX trades; sterling interest-rate-derivatives turnover reached USD 939 billion per day, or 12% of global turnover, and rose 179% since 2022.

② Reserves Held at the Bank Should be Remunerated

Our principal recommendation is that deposits placed by systemic stablecoin issuers at the Bank should earn a return. The draft Code provides that these deposits will not be remunerated. We understand the Bank's reasoning: remuneration of reserves has historically been tied to monetary-policy transmission, and because systemic stablecoin issuers are not permitted to pay interest to coinholders and will not extend credit, the Bank concludes that they sit outside that transmission mechanism and so should not be remunerated. We accept that, under the design proposed, issuers largely do sit outside that mechanism today. We invite the Bank to weigh two considerations that this reasoning does not address: the effect of non-remuneration on the incentive to issue a sterling stablecoin at all, and, as set out below, the transmission channel that remuneration would itself create.

Under the draft Code, systemic issuers must hold at least 30% of backing assets as unremunerated deposits at the Bank. We welcome the Bank's decision to reduce this floor from the 40% originally proposed to 30%. For a single systemic stablecoin issued up to the 40 billion pound guardrail, that reduction would shift on the order of 4 billion pounds from unremunerated deposits into income-generating assets, a change in unit economics that moves in exactly the direction we encourage here. The residual unremunerated requirement nonetheless continues to bear directly on issuance economics. A stablecoin issuer's economic model depends substantially on the return earned on its backing assets, because the issuer cannot pass yield through to holders and must instead fund its operations, compliance, audit and safeguarding costs from the reserve. Requiring that a significant proportion of backing assets earn nothing therefore operates, in commercial terms, much like a standing charge on issuance. The scale of that charge is not trivial:

Unremunerated Floor (Share of backing assets)	Forgone yield on the total reserve, at a 3.75% Bank Rate
30% (as proposed)	Approximately 113 basis points
20%	Approximately 75 basis points
10%	Approximately 38 basis points
0% (with remuneration	Nil

At the proposed 30% floor and a 3.75% Bank Rate, an issuer forgoes on the order of 113 basis points of yield on its entire reserve, before any operating costs. Where issuers in other jurisdictions can hold their reserves in short-dated government securities that generate a return, an unremunerated UK requirement of this size places sterling issuance at a structural disadvantage. This matters precisely because sterling starts from a position of strength: the depth of sterling

④ Wholesale Digital Markets Champion, First Report to the Chancellor, July 2026. The report identifies regulated stablecoins, alongside tokenised deposits, as emerging components for on-chain settlement, and states that there remains a need for GBP-denominated stablecoins to be developed and issued at scale and pace, describing a robust domestic stablecoin ecosystem as critical to UK competitiveness and operational resilience.

⑤ Bank of England, Policy Statement and draft Code of Practice (June 2026). The temporary issuance guardrail is set at an initial maximum of 40 billion pounds per systemic stablecoin product. The 4 billion pound figure is illustrative, representing the effect of the 10 percentage point reduction in the unremunerated floor for a single issuer at the level of the guardrail; actual amounts will depend on the level of issuance.

⑥ Illustrative only. Figures are the product of the unremunerated share and an assumed 3.75% Bank Rate (the rate in effect at the time of writing), expressed as foregone yield on the whole reserve, and do not account for issuer-specific costs or fee income.

markets is considerable, with sterling interest-rate-derivatives turnover reaching around 939 billion US dollars per day in April 2025 and rising by 179% since 2022, so the practical effect of an uncompetitive issuance regime is not an absence of demand for sterling exposure but a decision to meet that demand through instruments issued elsewhere. That risk is not hypothetical. The stablecoin market is today almost entirely dollar-denominated: on European Central Bank figures, around 99% of stablecoin supply in circulation is in US dollars, with all non-dollar stablecoins together accounting for under 1% of a market of roughly 316 billion US dollars, a dominance reinforced by a US regime that permits issuers to hold interest-bearing reserves. An unremunerated sterling requirement risks entrenching that lead and forgoing the UK's opportunity to establish sterling as a credible denomination in this market before it consolidates further around the dollar. We can attest to that demand directly: as one of the largest venues in which stablecoins are supplied and borrowed, the Aave Protocol today intermediates predominantly dollar-denominated stablecoins, and a viable supply of regulated sterling stablecoins would give the protocol and its users a credible sterling alternative. The likely result of an uncompetitive regime is not that issuers pay the charge, but that sterling-denominated issuance becomes comparatively less attractive to develop and scale. That outcome would run counter not only to the Bank's own objective of a thriving and competitive UK payments landscape, but to HM Treasury's stated position, through the Wholesale Digital Markets Champion, that sterling-denominated stablecoins need to be issued at scale and pace and that a robust domestic stablecoin ecosystem is critical to UK competitiveness. Remuneration of issuer deposits is a direct and low-cost means of aligning the systemic regime with that objective.

Remuneration resolves this without requiring the Bank to revisit its financial-stability calibration of the backing-asset framework. It is a pricing decision on the deposits, not a change to their size or composition. It is also consistent with the Bank's own practice: the Bank already remunerates the reserves that commercial banks hold with it, and paying a return on the backing deposits of stablecoin issuers would extend no credit and would pay nothing to coinholders. What changes is only that a form of privately issued sterling money is no longer disadvantaged relative to its equivalents in other currencies.

Remuneration would also open, rather than foreclose, a channel of monetary-policy transmission. The draft Code proceeds on the basis that systemic stablecoin issuers sit outside the transmission mechanism, and under an unremunerated design they largely do. But that is a consequence of the design, not an inherent feature of the instrument. If issuers' backing deposits were remunerated in line with Bank Rate, the supply and economics of sterling stablecoins would respond to the policy rate, and as these instruments come to be used more widely in payments, wholesale settlement and on-chain lending, that rate sensitivity would carry the Bank's policy stance into parts of the sterling economy that are today beyond its direct reach. A change in Bank Rate would flow through to the cost and availability of sterling stablecoin liquidity in the same way that it flows through the banking system, giving the Bank a further channel through which to influence monetary conditions as the tokenised economy grows. An unremunerated regime forgoes that channel and leaves this activity insulated from monetary policy.

[7] European Central Bank, cited in industry analyses of stablecoin supply (mid-2026). Approximately 99% of stablecoin supply in circulation is US dollar-denominated; euro-denominated stablecoins account for around 0.2% and all non-dollar stablecoins combined for under 1%. Total stablecoin supply was approximately USD 316 billion as of June 2026 (DefiLlama).

We would encourage the Bank to weigh the value of preserving, rather than severing, a transmission channel into a growing form of privately issued sterling money.

We note that a related concern has been raised by other respondents to the earlier consultation. The suggestion that issuers should simply diversify their revenues beyond backing-asset income has been met with the observation that the Bank has offered limited practical guidance on what alternative commercial models it would regard as acceptable, and that pressing issuers toward such models before the market has matured could distort competition rather than support it. We share that view. A clear position on reserve remuneration is a more direct and more predictable way to support viable business models than an expectation that issuers will locate revenue elsewhere.

Conclusion

We support the Bank's objective of a regime that safeguards monetary and financial stability while enabling sterling-denominated stablecoins to operate at scale. Regulated sterling stablecoins are a natural extension of a monetary system in which privately issued money already predominates, and remunerating issuer deposits at the Bank would allow that extension to develop on viable terms without disturbing the Bank's stability calibration or its monetary-policy position. We would welcome the opportunity to discuss this response with the Bank and to provide any further detail that would assist as the Code of Practice is finalised.

We thank the Bank for its continued engagement with industry and for the opportunity to contribute.

Aave Labs responds to this consultation as an organisation and consents to the Bank publishing its name as a respondent.

In response to Question 5, we have not identified any respect in which the proposals in this paper are likely to have a particular impact on persons who share protected characteristics under the Equality Act 2010.

Respectfully submitted,

aave labs

June 2026

Response to the BoE Consultation on the Draft Code of Practice for Sterling-Denominated Systemic Stablecoin Issuers

Q1 Whether the Proposed Rules Appropriately Reflect and Give Effect to the Policy

Aave Labs welcomes the substantial revisions made since the November 2025 consultation, in particular the move from a fixed individual holding limit to a temporary aggregate issuance guardrail, the introduction of a Central Bank Liquidity Facility, and the reduction of the unremunerated central bank deposit floor from 40% to 30%. In one respect, however, we consider that the draft rules do not fully give effect to the Bank's stated policy of enabling viable and sustainable stablecoin business models. The provision that deposits held at the Bank will not be remunerated sits in tension with that objective: because a systemic issuer cannot pass yield to coinholders and must fund its costs from the reserve, an unremunerated floor operates as a standing charge on issuance that works against the business-model viability the policy is intended to support. We elaborate under Question 2.

Q2 Impact on Financial Stability and Commercial Considerations (Including Business Model Viability)

Our principal recommendation is that deposits placed by systemic stablecoin issuers at the Bank should earn a return. We understand the Bank's monetary-policy premise for non-remuneration, namely that because issuers cannot pay interest to coinholders and will not extend credit, they sit outside the transmission mechanism. We accept that under the design proposed they largely do. We ask the Bank to weigh two considerations this reasoning does not address: the effect of non-remuneration on the incentive to issue a sterling stablecoin at all, and the transmission channel that remuneration would itself create.

Under the draft Code, systemic issuers must hold at least 30% of backing assets as unremunerated deposits at the Bank. We welcome the reduction from the 40% originally proposed to 30%. For a single systemic stablecoin issued up to the 40 billion pound guardrail, that reduction would shift on the order of 4 billion pounds from unremunerated deposits into income-generating assets (illustrative; actual amounts depend on the level of issuance), a change in unit economics that moves in exactly the direction we encourage. The residual unremunerated requirement nonetheless bears directly on issuance economics. At a 30% floor and a 3.75% Bank Rate, an issuer forgoes on the order of 113 basis points of yield on its entire reserve before any operating costs (illustrative; 20% would imply approximately 75 basis points and 10% approximately 38 basis points). Where issuers in other jurisdictions can hold reserves in short-dated government securities that generate a return, an unremunerated UK floor places sterling issuance at a structural disadvantage.

That disadvantage is not hypothetical. The stablecoin market is today almost entirely dollar-denominated: on European Central Bank figures, around 99% of stablecoin supply in circulation is in US dollars, with all non-dollar stablecoins together under 1% of a market of roughly 316 billion US dollars, a dominance reinforced by a US regime that permits issuers to hold interest-bearing reserves. An unremunerated sterling requirement risks entrenching that lead and forgoing the UK's opportunity to establish sterling as a credible denomination before the market consolidates further around the dollar. Sterling starts from a position of strong potential as approximately the fourth-largest reserve currency and fourth most-traded currency globally, with sterling interest-rate-derivatives turnover reaching around 939 billion US dollars per day in April 2025, up 179% since 2022. As one of the largest venues in which stablecoins are supplied and borrowed, the Aave Protocol today intermediates predominantly dollar-denominated stablecoins (principally USDC and USDT); a viable supply of regulated sterling stablecoins would give the protocol and its users a credible sterling alternative. An uncompetitive regime would run counter to the Bank's own objective of a thriving and competitive UK payments landscape, and to HM Treasury's stated position, through the Wholesale Digital Markets Champion, that sterling-denominated stablecoins need to be issued at scale and pace.

Remuneration resolves this without requiring the Bank to revisit its financial stability calibration of the backing-asset framework. It is a pricing decision on the deposits, not a change to their size or composition, and it is consistent with the Bank's own practice of remunerating the reserves that commercial banks hold with it. Paying a return on issuers' backing deposits would extend no credit and would pay nothing to coinholders.

Remuneration would also open, rather than foreclose, a channel of monetary-policy transmission. Under an unremunerated design, systemic stablecoin issuers sit outside the transmission mechanism, but that is a consequence of the design, not an inherent feature of the instrument. If issuers' backing deposits were remunerated in line with Bank Rate, the supply and economics of sterling stablecoins would respond to the policy rate, and as these instruments are used more widely in payments, wholesale settlement and on-chain lending, that rate sensitivity would carry the Bank's policy stance into parts of the sterling economy that are today beyond its direct reach. A change in Bank Rate would flow through to the cost and availability of sterling stablecoin liquidity much as it does through the banking system, giving the Bank a further channel through which to influence monetary conditions as the tokenised economy grows. An unremunerated regime forgoes that channel. We would encourage the Bank to weigh the value of preserving, rather than severing, a transmission channel into a growing form of privately issued sterling money. We note that other respondents to the earlier consultation observed that the Bank's suggestion that issuers diversify revenues beyond backing-asset income offers limited practical guidance and could distort competition if pressed prematurely; a clear position on reserve remuneration is a more direct means of supporting viable business models.

Q4 Any Other Comments or Feedback

We offer the following framing as general context. The majority of money in the UK economy is privately issued: on the Bank's own analysis, around 97% of the money held by the public takes the form of commercial bank deposits rather than central bank money. Regulated sterling stablecoins are a natural extension of this arrangement, sitting alongside commercial bank deposits within privately issued money while remaining anchored to, and convertible at par into, central bank money. Encouraging a healthy population of privately issued sterling stablecoins is therefore consistent with, not a departure from, the structure of the UK monetary system.

This role extends beyond retail payments into wholesale markets. HM Treasury's Wholesale Digital Markets Champion has identified regulated stablecoins, alongside tokenised deposits, as emerging components for on-chain settlement, and has recognised a specific need for sterling-denominated stablecoins to be issued at scale. As those markets tokenise, decentralised protocols are the infrastructure layer on which they are being built, and a regulated stablecoin is the on-chain settlement asset that moves when a tokenised instrument changes hands, complementing rather than displacing commercial bank money and central bank settlement. If credible regulated stablecoins exist only in the US dollar, tokenised sterling activity will tend to settle in dollars. A viable sterling stablecoin regime is therefore part of the infrastructure on which the UK's tokenised wholesale markets, and sterling's place in them, will depend.

Q5 Impact on Persons Sharing Protected Characteristics Under the Equality Act 2010

We have not identified any respect in which the proposals in this paper are likely to have a particular impact on persons who share protected characteristics under the Equality Act 2010.