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Crypto Policy Team
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RE: CP25/14: Stablecoin Issuance and Cryptoasset Custody

BlackRock¹ is pleased to have the opportunity to respond to CP25/14: Stablecoin Issuance and Cryptoasset Custody.

BlackRock's purpose is to help more and more people experience financial well-being. As a fiduciary to investors and a leading provider of financial technology, we help millions of people build savings that serve them throughout their lives by making investing easier and more affordable.

This consultation paper raises important issues, and we will continue to contribute to the thinking of the Financial Conduct Authority (FCA) on any matters that may assist in the final outcome.

Yours faithfully,

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¹ BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

Executive summary

BlackRock welcomes the FCA's proposal to consult on stablecoin issuance as part of its broader crypto asset roadmap. We are supportive of measures intended to allow retail investor access to new and innovative products, ensuring consumers are adequately protected and promoting responsible growth in financial markets. We also recognise the FCA's ongoing efforts to consider its secondary international competitiveness and growth objective in its work on digital assets more broadly.

We view stablecoins as a foundational component of the evolving digital asset ecosystem, serving as a bridge between traditional finance and decentralised infrastructure. As programmable fiat-backed digital tokens, stablecoins offer the potential for new forms of critical utility such as enabling frictionless payments and real-time settlement across blockchain networks that could help transform capital markets.

The promise of stablecoins lies in combining the programmability and immediate transfer of cryptocurrency ownership with the stability of fiat currencies. Unlike traditional bank deposits, stablecoins can be moved anywhere in the world, almost instantly and at any time, without reliance on intermediaries. This makes them a more versatile form of money from a payments perspective, enhancing liquidity in a system otherwise limited by the constraints of existing banking infrastructure and providing accessible digital payment tools that could lead to greater financial inclusion. For instance, stablecoin utility could enable efficient subscription and redemptions into both traditional and tokenised investment funds, providing faster settlement, reducing counterparty risk and enhancing liquidity management, thereby improving financial stability. These benefits could also democratise access to investment opportunities by lowering costs and streamlining client experience by improving retail client fund interactions.

We acknowledge the ongoing policy debate around the introduction of risks posed by stablecoins such as potential issuer default and the loss of "monetary singleness" – where all forms of a given currency are equal in value – since stablecoins can sometimes deviate from their peg. However, to truly benefit from future capital market growth and innovation such as the significant potential of tokenisation, UK digital infrastructure requires a robust and well-functioning on chain payment mechanism which could either be in the form of stablecoins, tokenised commercial bank money or central bank digital currencies (CBDC).

As stablecoins become more integrated into the UK financial system, we agree with the FCA's decision to focus on reserve asset backing. This process is essential for stablecoin credibility and therefore underpins the FCA's aims of protecting consumers, ensuring market integrity, and maintaining financial stability. Stablecoin issuers commonly use liquid assets such as cash or short-term treasuries, and demand for these instruments could rise, with the global stablecoin market potentially set to grow to \$1 trillion by 2030. BlackRock therefore supports the FCA's move to broaden reserve asset eligibility, including select Money Market Funds (MMFs), and certain assets, rights or money held as a counterparty to reverse repurchase agreements (subject to conditions as set out in the rules in Client Asset Sourcebook Chapter 16 – CASS 16) as this will help strengthen the stability, risk management and scalability of the stablecoin ecosystem. At the same time, we recommend refinements to the reserve backing asset and safeguarding proposals to increase operational efficiency and further reduce risk to the stablecoin framework.

In terms of the backing asset proposal, we recommend:

- EU domiciled Public Debt Constant Net Asset Value Money Market Funds (PDCNAV MMFs) be classified as “core” rather than “expanded” FCA backing assets. This allows stablecoin issuers access to products with similar maturity and liquidity profiles as cash and short-term debt, along with additional structural safeguards, without having to undertake additional steps to notify the FCA.
- EU Low Volatility Net Asset Value (LVNAV) MMFs should be included in the “expanded” list of backing assets as they meet the criteria for low-risk, secure, and liquid assets that help stablecoins maintain their fiat peg.
- The FCA should define permissible expanded stablecoin backing assets as government debt instruments with maturities of up to “397 days” to align with standard money market practices and regulations and avoid operational issues such as one-year maturities coinciding with holiday periods.
- It is recommended that the FCA expand its definition of Qualified Money Market Funds (QMMFs) to encompass EU-based funds, in addition to those domiciled in the UK. Such an approach would promote greater asset diversity, liquidity, and financial stability for stablecoin issuers. The current restrictive definition limits available options and introduces uncertainty for clients and firms whose funds were previously classified as QMMFs but no longer meet the criteria. Updating the QMMF criteria across relevant FCA regulations, including CASS 7 (Client Money Rules for Investment Firms) and CASS 15 (Safeguarding for Payment and E-Money Firms) handbooks would better support stablecoin reserve management across all currencies.

In terms of safeguarding arrangements, we strongly disagree with the proposal for stablecoin issuers to be required to hold backing assets by way of statutory trust. The FCA should instead align any rules they plan to develop to the existing regulatory framework, which will allow stablecoin issuers the flexibility to operate in jurisdictions without trust arrangements in place.

We also believe the FCA could design a far more efficient safeguarding arrangement for stablecoin asset backing if they consider stablecoin issuers’ MMF underlying assets that are held within existing MMF custody arrangements as acceptable for safeguarding (even if the custodian is EU-registered) without having to purchase the MMF through the additional layer of a UK authorised custodian.

Responses to questions

This response is intended to highlight those areas where we believe that particular attention by the regulators is warranted. We welcome the opportunity to comment on the issues raised by this consultation paper in our capacity as an asset manager and will continue to work with the industry and the regulators on this matter and other topics.

1. Do you agree that the Consumer Duty alone is not sufficient to achieve our objectives and additional requirements for qualifying stablecoin issuers are necessary?

We endorse the integration of stablecoin issuance into the UK regulatory framework and believe that establishing a clear, resilient and forward-looking structure is essential for safe and responsible innovation. Nonetheless, we recommend that the FCA applies existing regulations, such as the Consumer Duty, in a manner that is proportionate and aligned with the distinct risks associated with stablecoins. This ensures good outcomes for retail customers are considered by firms and they act to foresee any potential harm through the

issuance of stablecoin. An excessively broad or prescriptive approach may inadvertently encourage issuers to relocate abroad and could negatively impact the UK's competitive position.

We support the FCA taking an active role in regulating stablecoin issuers and custody arrangements, in addition to the existing Consumer Duty requirements. This approach will help foster a healthy and competitive market within the digital finance ecosystem.

3. Do you agree with our proposals for requirements around the composition of backing assets? If not, why not?

We are supportive of the FCA's intention to allow qualifying stablecoins to use additional backing assets, particularly units in PDCNAV MMFs (and the corresponding inclusion of government debt up to 397 days) along with certain reverse repurchase agreement assets as defined in CASS 16.

The ability for issuers to diversify their reserves beyond short-term government debt and deposits can bring key benefits related to stablecoin stability, risk management and scalability. For instance, the ability to access a wider set of backing assets that are appropriately structured and readily available to support redemptions when required can reduce concentration risk caused by an over reliance on specific asset types and can help issuers maintain stable valuations during periods of market volatility, interest rate changes or liquidity stress. It also allows stablecoin issuers to better match asset maturities with redemption obligations, preserving overall system stability.

While these proposals overall represent a step in the right direction, we believe there are further refinements the FCA should consider in order to enhance operational efficiency and facilitate greater stability within the wider stablecoin ecosystem.

Widening the scope of Core Backing Assets

Firstly, we believe **PDCNAV MMFs should be included as “core” rather than “expanded” backing assets** in the FCA's framework given the eligibility of their underlying assets, maturity and liquidity profile, and daily look-through within a fund wrapper structure.

For instance, the Money Market Fund Regulation 2017/1131 (MMFR) specifies PDCNAV funds must invest 99.5% in government assets with a **maximum maturity of 397 days, and cash**. This means PDCNAV MMFs share a similar risk profile to both short-term government debt of less than a year and cash deposits, which the FCA currently deems acceptable as core backing assets. PDCNAVs also display minimal price volatility, carry low investment risk due to the strong credit rating of the underlying government securities in which the fund invests, and which themselves are considered liquid instruments. The strict regulation that requires each fund to maintain high levels of liquidity, transparency, and maturity thresholds has led to a proven ability to diversify risk and reduce volatility—even in stressed markets. This is because the money market fund structure reduces the operational burden on the stablecoin issuer and outsources liquidity management to specialist providers. Further MMF regulatory enhancements in review will continue to underscore the resilience of the structure.

These features make PDCNAVs suitable for use as core stablecoin backing assets alongside short-term deposits and short-term government debt instruments. As such, we recommend the FCA reconsider the initial classification of this product, as this will enable stablecoin issuers to leverage a suitably robust High Quality Liquid Asset (HQLA) without having to go

through the additional, potentially lengthy steps of the FCA notification process, which could hinder widespread user adoption.

Additionally, we support the decision to include reverse repurchase agreements (subject to conditions set out in CASS 16 rules) as extended backing assets. The FCA could also consider treating certain short-term reverse repurchase agreements (e.g. overnight, fully collateralised high quality liquid assets such as government bonds) as core backing assets, providing the underlying collateral meets core backing requirements.

Inclusion of Additional Extended Backing Assets

The FCA proposal specifies that the range of permissible “expanded backing assets” for qualifying stablecoins should be defined as “*longer term government debt instruments that mature in over one year*”. **We believe this wording could be amended to “397 days” to be consistent with short-term funding market practice and MMFR.** This practice has developed for several reasons not least to avoid any such issues as 1-year maturities falling over holiday periods.

Secondly, we recommend **EU domiciled Low Volatility Net Asset Value (LVNAV) MMFs are included in the FCA’s stablecoin “extended backing asset” list.** As with PDCNAV MMFs, the core objective of an LVNAV MMF is to provide liquidity and preserve capital while investing in high-quality, short-term government debt and cash-equivalent instruments on a look through basis. Although not restricted to purchasing only government assets, LVNAV portfolios have a similarly conservative structure in terms of credit quality and diversification. For instance, the minimum liquidity requirements and limitations on the maturity of investments are the same as for PDCNAVs, i.e., a 60-day weighted average maturity, and a 120-day weighted average life and 397-day max maturity of any individual instrument which serves to limit the product risk profile.

LVNAV MMFs are important cash and liquidity management tools for many European and global investors. Even during times of significant market turbulence (for example, in March 2020 and more recently in September/ October 2022 in UK gilt markets), these MMFs have performed well, continuing to meet redemptions in full and on time. The notable outflows that many LVNAV MMFs managed at times during these market episodes were not a sign of a lack of resilience, but rather, evidence of a high degree of resilience, as they were able to continuously provide liquidity to investors who needed it. This included regulated entities who were required to redeem shares to meet cash margin obligations.

As such, BlackRock views the composition of LVNAV MMFs - which now represent close to 50% of European MMF assets under management (€2,022bn as of end of 2025) - as sufficient to meet the quantitative criteria for low risk, secure and sufficiently liquid assets that would allow stablecoins to preserve their peg to fiat currencies. Therefore, LVNAV MMFs should be considered an appropriate instrument for inclusion within scope of the extended backing asset composition.

As stablecoins become more popular, the FCA could also consider extending the scope of eligible backing assets to include all Undertakings for Collective Investment in Transferable Securities (UCITS) fund types providing the underlying assets qualify on a daily look-through basis. This may open eligibility to other pooled structures, including Exchange-Traded Funds (ETFs), which might further broaden eligible investment options and increase diversification.

Finally, we urge the FCA to create a straightforward and transparent process for reviewing and approving stablecoin issuers' notifications about expanding their asset backing pool.

Procedures should be proportionate, focused on essential risk management principles, and clearly explain reasons for any rejections. Furthermore, the regulator should provide clarity around what the “right skills and competencies” a firm must have when evaluating eligibility for extending the asset backing pool.

Qualified Money Market Fund Definition

As noted above, in order to ensure stablecoin issuers have access to a sufficient and diverse range of suitably robust, high quality liquid collateral, we **urge the FCA to extend the scope of QMMFs to include non-UK (in particular EEA) domiciled MMFs under CASS 7 and should be applied consistently under CASS 15.** This change in scope, introduced during the EU withdrawal process, has significantly narrowed the scope of eligible MMFs that can be used, in this instance, for stablecoin reserve asset backing purposes. Only a small number of sterling denominated MMFs are domiciled in the UK, and the majority of European stable NAV MMFs (including PDCNAV and LVNAV MMFs) are UCITS funds based in Luxembourg and Ireland. Any decision to limit the ability of stablecoin backing assets to UK-domiciled MMFs would substantially restrict the availability and choice of MMFs that could be used by stablecoin issuers and would limit the opportunity to diversify the composition of the backing asset pool, which in turn could limit liquidity and reduce financial stability, particularly during times of stress.

To this end, we echo the Investment Association (IA) and Institutional Money Market Funds (IMMFA)’s recommendation that the FCA broadens the definition of a QMMF beyond the current UK UCITS definition to also include MMFs that are UK Alternative Investment Funds (AIF) and EEA UCITS/AIFs registered under the Temporary Marketing Permissions Regime (TMPR).

To ensure legal and operational certainty, we recommend that a consistent approach is taken when re-addressing the definition of QMMF under CASS 7 and under CASS 15 and aligns with the broader QMMF criteria in the FCA Handbook Glossary.

We consider it important that LVNAV MMFs remain eligible as QMMFs, however we recognise that safeguarding for E-Money and Payments firms has been focussed to date on government debt security, and we are supportive of this approach. Therefore, we would not object to a narrower scope of CASS 15 QMMFs limited to PDCNAV MMFs. While the CASS 15 QMMF definition applies only to PDCNAV MMFs, the CASS 7 QMMF definition should still include both PDCNAV and LVNAV MMFs, given LVNAV MMFs are resilient, liquid, and secure assets. The eligibility of non-UK (in particular EEA) domiciled MMFs is critical to offer scale and liquidity to these growing segments of UK financial services.

7. Do you agree that qualifying stablecoin issuers should hold backing assets for the benefit of qualifying stablecoin holders in a statutory trust? If not, please give details of why not

BlackRock supports the FCA’s commitment to improving safeguarding requirements for the benefit of stablecoin holders however, we **do not agree with the proposal for stablecoin issuers to be required to hold backing assets by way of a statutory trust.**

Some market participants, like E-Money and Payment firms, may use trusts to hold traditional assets, but the FCA does not mandate this as the only option under the current safeguarding rules. In our view, any new proposals introduced by the FCA should align with

the existing regulatory framework, which allows stablecoin issuers the flexibility to operate in jurisdictions without trust arrangements.

Furthermore, and as outlined in our response to Q3, the current definition of a QMMF under the CASS 7 rules restricts QMMFs to UK UCITS which presents several operational and commercial challenges for stablecoin issuers who might invest in MMFs for asset backing purposes. This is because of the way MMF custodial arrangements are structured; when an issuer invests in MMFs, the account holder becomes the registered shareholder of the MMF units, but the underlying assets of the fund are held with an independent custodian and are therefore segregated from assets of the fund manager, custodian, sub-custodian or other clients.

BlackRock, as an MMF manager, may appoint a foreign credit institution (for instance, an entity domiciled in Ireland or Luxembourg) as the independent depositary for the UCITS MMF range (depending on jurisdiction of the range). Since the FCA proposal specifies there needs to be a UK authorised custodian to safeguard funds, some stablecoin issuers will be required to set up additional arrangements with UK authorised custodians to gain access to MMFs for safeguarding purposes. This incurs additional cost and introduces operational risk and complexity without bringing any added benefit in terms of protection and may ultimately deter issuers from leveraging qualifying MMFs as backing assets. Furthermore, the ongoing requirement for a “UK authorised custodian” sits at odds with the FCA’s Overseas Fund Regime, (OFR) which has recently become operational, and does allow for UK investors to access a broad range of overseas funds while maintaining robust protection standards.

We therefore believe the FCA has an opportunity to design a more efficient safeguarding arrangement for stablecoin asset backing arrangements. As such, we **firmly recommend that the FCA consider a stablecoin issuers’ MMF underlying assets that are held within existing MMF custody arrangements as acceptable for safeguarding (even if the custodian is EEA-registered) without having to purchase the MMF through the additional layer of a UK authorised custodian.** This should also be applied to QMMF requirements for CASS 7 and CASS 15.

Regulating Custody of Cryptoassets and Safeguarding

**19. Do you agree with our proposed approach towards the segregation of client assets?
In particular:**

- i. **Do you agree that the client qualifying cryptoasset should be held in non-statutory trust(s) created by the custodian**
- ii. **Do you foresee any practical challenges with this approach**
- iii. **Do you have any views on whether there should be individual trusts for each client, or one trust for all clients? Or whether an alternative trust structure should be permitted**
- iv. **Do you foresee any challenges with firms complying with trust rules where clients’ qualifying cryptoassets are held in an omnibus wallet**
- v. **Do you foresee any challenges with these rules with regards to wallet innovation (e.g. the use of digital IDs) to manage financial crime risk**

We note several concerns with HM Treasury’s draft Regulated Activities Order 2025 (Crypto RAO) and the Financial Services and Markets Act (FSMA) 2000 relating to collateral arrangements and safeguarding of specified investment cryptoassets. These points are relevant to both CP25-14 and the FCA’s upcoming consultation paper on Trading Platforms, Intermediation, Lending, and Staking.

The broad definition of safeguarding and the ability to transfer custody

Article 90(2) of the Crypto RAO defines safeguarding as “circumstances in which a person (“C”) has control of the cryptoasset through any means that would enable C to bring about a transfer of the benefit of the cryptoasset to another person, including to C”. This broad definition is not limited to circumstances where another person retains legal or equitable title in the cryptoassets, but also to where another person has “a right against C for the return of a relevant” cryptoasset.

Any firm “controlling the ability to transfer a cryptoasset for another”, such as by investment management mandate or power of attorney, even without “holding” the private key, part of the private key, or any other mechanical means of transfer, may therefore be deemed to engage in the regulated activity of safeguarding. Consequently, activities such as holding crypto collateral, facilitating crypto loans, or managing staked assets on behalf of clients would fall within remit of the FCA’s custody rules, even if such firms were not traditionally considered custodians. This safeguarding definition also implies client involvement is required to move such assets.

In addition, the new activity of safeguarding cryptoassets amounts to a regulated activity even where there is no administration of the cryptoassets. While this might make sense for certain qualifying cryptoassets, especially those without governance rights, it significantly expands the regulatory perimeter with respect to specified investment cryptoassets, which may unintentionally bring additional entities under its scope. **The FCA should therefore carefully consider the implication of this, ensuring that the custody of traditional assets in tokenised form remain consistent with existing CASS rules and not subjected to additional unnecessary rules.** The FCA might also consider possible transitional periods or provide tailored guidance for firms newly subject to regulation due to the extended scope, ensuring they can comply with trust, segregation, and audit requirements.

Tokenised securities (‘relevant specified investment cryptoassets’ and ‘collateral arrangements’)

With respect to the safeguarding of specified investment cryptoassets and collateral arrangements, many tokenised securities are already managed under CASS custody frameworks or Title Transfer Collateral Arrangements (TTCAs). Requiring statutory or bare trusts for these assets could conflict with existing practices like outright title transfer of securities.

Again, we believe it would be beneficial for the FCA to clarify that crypto custody rules will not unintentionally disrupt title-transfer arrangements or duplicate existing custodial requirements. **We recommend that assets subject to a TTCA, including on-chain tokens, be excluded from the “safeguarded” pool as per the current CASS approach, ensuring new rules do not hinder legitimate tokenised security arrangements.**