



Hogan
Lovells



Digital Assets
and Blockchain

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

What's 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.

In recent years, Hogan Lovells has received a significant volume of similar queries in this context, including from banks seeking to develop a retail-facing digital money solution. This is expected to be an area of continued and growing interest for us.

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.

	Tokenised 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.	A means of payment as well as a store of value and a unit of account. May also be used to facilitate cryptocurrency trading (e.g. to hedge against the volatility of other currencies and to reduce the need to switch to traditional money) as well as cross-border payments (including for humanitarian aid, e.g. in the case of Stellar Aid Assist).	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).
Issued by	Banks	A wide range of potential issuers (with the required permission).	E-money institutions, or banks with the appropriate permissions.
Technology	DLT or similar technology	DLT or similar technology	Technology agnostic
Examples	<ul style="list-style-type: none"> JPM Coin on Onyx USDF Consortium 	<ul style="list-style-type: none"> EURCV (EUR CoinVertible issued by Societe Generale-FORGE) USDT (Tether) 	<ul style="list-style-type: none"> Revolut Airwallex Paypal Paysafe
Redemption	The nature of the deposit claim on the relevant institution for tokenised deposits would be the same as for “traditional” deposits (e.g. a bank deposit is repayable on demand) - accordingly, tokenised deposits are not “redeemable” in the same way as stablecoins or e-money. However, depending on the design of the product, value in a client’s tokenised deposit account can be transferred to a client’s “traditional” deposit account.	Redemption terms are generally set out by issuers in the contractual terms applying to the stablecoin. In practice, holders are likely to sell stablecoins on secondary markets in exchange for fiat or other cryptoassets. Depending on the use case, holders may also never seek to redeem stablecoins for fiat (e.g. if used as a means of exchange in a “metaverse”).	E-money is redeemable at any time and at par value.
Value	Parity with the deposit (or part of the deposit) that has been tokenised.	There will almost always be an exchange rate between the value of the stablecoin and the relevant currency to which the value of the stablecoin is pegged.	Parity with the fiat currency used to acquire the e-money.
Interest	Can earn interest.	A coinholder may be able to earn interest if deposited in an interest-earning platform (subject to regulatory requirements) and typically would not earn interest on backing assets.	Cannot earn interest.
Use as payment	Transfers in value are typically undertaken via a “burn-issue model” and, accordingly, represented by a decrease in the balance of the account / wallet of the sender, and a corresponding increase in the balance of the account/wallet of the recipient.	Stablecoins 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.

Contact us to find out more, or visit the [Hogan Lovells Digital Assets and Blockchain Hub](#).

Regulatory approach to different types of “digital money”

Based on recent statements such as the ‘Cross-authority roadmap on innovation in payments’ issued on 6 November 2023, it is evident that UK regulators view stablecoins, e-money and tokenised deposits as three distinct types of instruments.

Type of digital money	UK Regulatory Framework
Tokenized deposits	HMT clarified that the regulation of tokenized deposits will be separate from that of fiat-backed stablecoins.
E-money	The Electronic Money Regulations 2011 (EMRs) and Payment Services Regulations 2017 (PSRs) . This may change under the “Smarter Regulatory Framework”.
Stablecoin	<p>The UK has yet to issue legislation to regulate stablecoins and the the FCA is currently consulting on this (alongside the BOE’s consultation on systemic payment systems using fiat-backed stablecoins and HMT’s initiatives to introduce new / updated legislation).</p> <p>The consultation defines stablecoins as cryptoassets that “seek or purport to maintain a stable value by reference to a fiat currency and by holding fiat currency, in whole or in part, as backing”.</p> <p>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. When fiat-backed stablecoins are used for payments, those activities will also be regulated (via amendments to the payment regulations).</p> <p>Further rules will be proposed in the future to address activities relating to other types of cryptoassets.</p> <p>The PRA has made it clear that it does not expect banks to issue stablecoins (or e-money) themselves, but to use separate entities if they wish to do so.</p>
E-money or Stablecoins?	<p>The proposed legislative approach to stablecoins and e-money appear to have numerous similarities:</p> <p>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 uncertainty as to the legal distinction between e-money and stablecoin and the substantial cross-over between the two definitions, HMT notes that e-money and fiat-backed stablecoins are different products and it intends to ensure they remain distinct.</p>
Payments with Stablecoins	The use of UK fiat-backed stablecoins in payment chains will also be regulated via amendments to the PSRs.

Interoperability with CBDCs

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

Bank-issued stablecoins and tokenized bank deposits can be seen as private tokenized money which coexist alongside a 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.

Find out more



Sharon Lewis
Partner, Paris and London
sharon.lewis@hoganlovells.com



John Salmon
Partner, London
john.salmon@hoganlovells.com



James Black
Partner, London
james.black@hoganlovells.com



Roger Tym
Partner, London
roger.tym@hoganlovells.com



Charles Elliott
Counsel, London
charles.elliott@hoganlovells.com



Grace Wyatt
Counsel, London
grace.wyatt@hoganlovells.com



Charlie Middleton
Senior Associate, London
charlie.middleton@hoganlovells.com



Christina Wu
Associate, London
christina.wu@hoganlovells.com



Lavan Thasarathkumar
Senior Advisor, London
lavan.thasarathkumar@hoganlovells.com