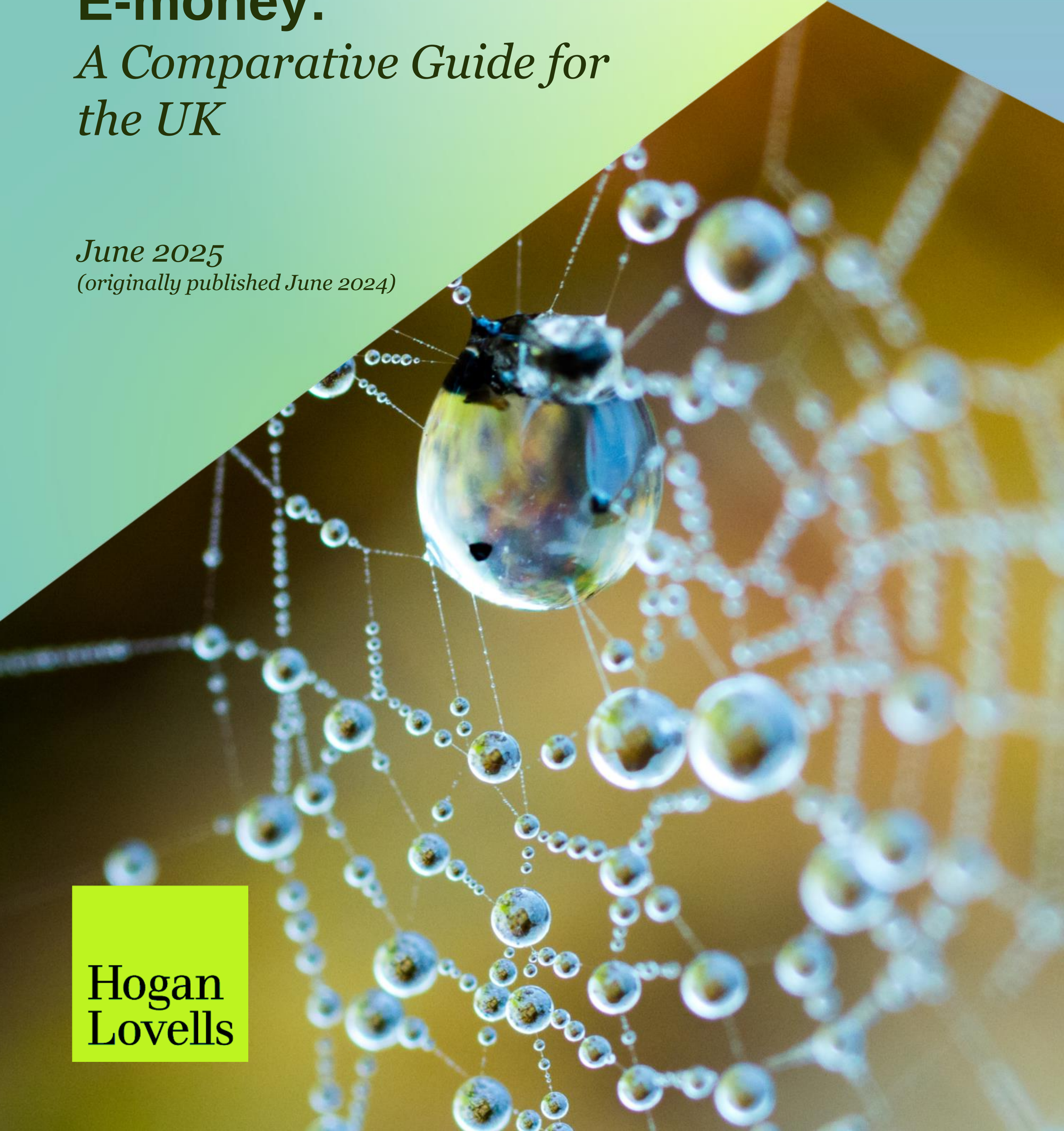
Digital Assets and Blockchain

Tokenized Deposits, Stablecoins, and E-money:

A Comparative Guide for the UK

June 2025

(originally published June 2024)



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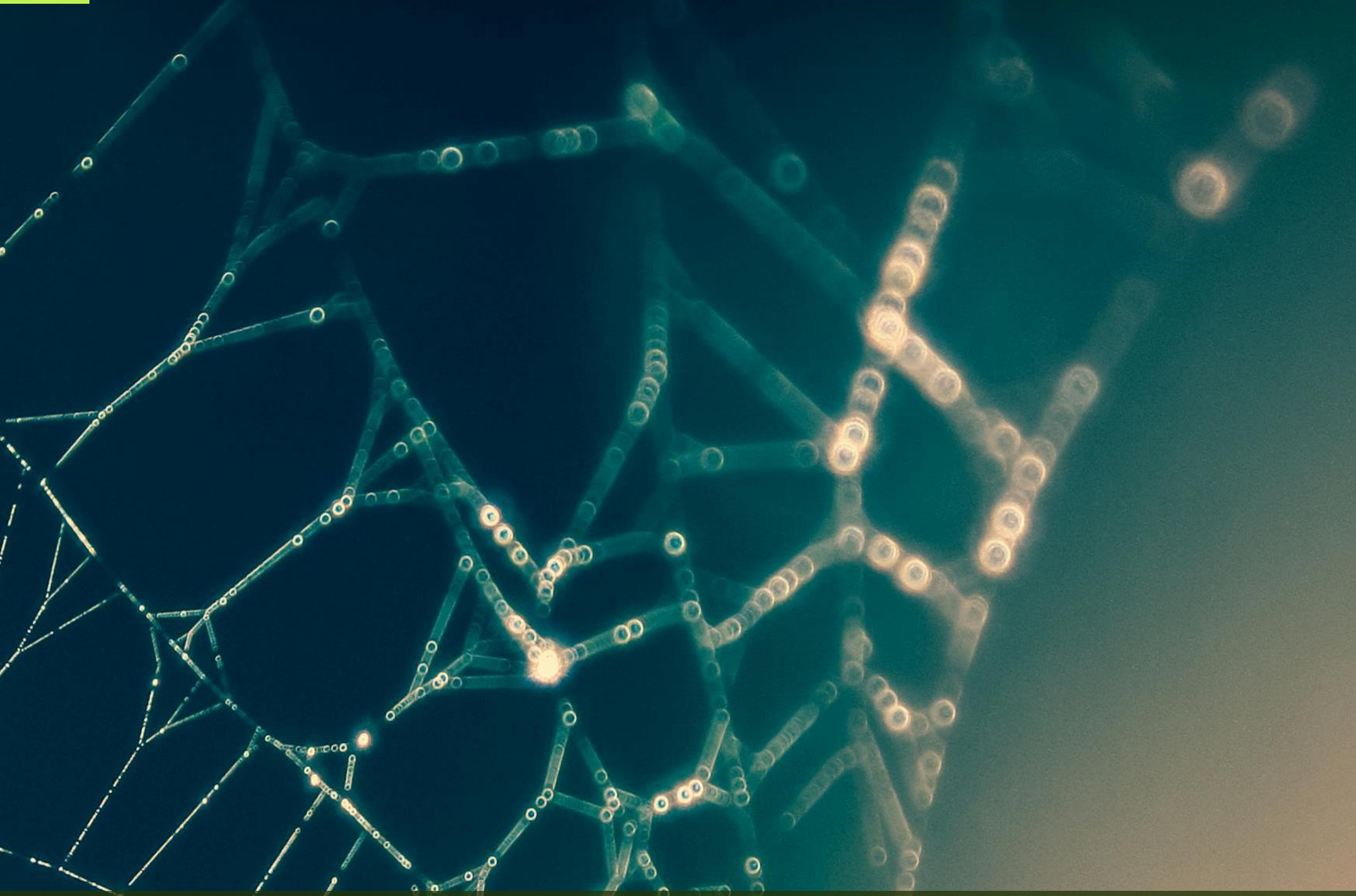

Tokenized Deposits, Stablecoins, and E-money

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	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	• JPM Coin on Kinexys • USDF Consortium	• EUR CoinVertible by SG Forge • USDT (Tether)	• 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 the distinction between (i) the value at which a stablecoin can be traded on secondary markets and (ii) 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 (akin to a bearer instrument) 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 value transfers involve the increase and decrease in balances held in e-money wallets

Regulatory approach

Type of instrument	UK regulatory framework
Stablecoin	**The UK has issued draft legislation on the issuance of "qualifying stablecoins".** The draft Financial Services and Markets Act 2000 (Regulated Activities and Miscellaneous Provisions) (Cryptoassets) Order 2005 (the "draft Order"), which is currently undergoing consultation, covers "issuance of qualifying stablecoin" as a regulated activity. A "qualifying stablecoin" is defined in the draft Order as a stablecoin that (i) references a fiat currency (although paragraph 2.4 of the Policy Note accompanying the draft Order indicates that the regime may cover stablecoins that refence one or more fiat currencies) and (ii) seeks to hold fiat currency (or fiat currency and other assets) as backing assets to maintain a stable value. The draft Order also seeks to exempt stablecoins and backing assets from being a "collective investment scheme", and from the scope of the Alternative Investment Fund Managers Regulations 2013. Additionally, in May 2025, the FCA issued a consultation paper on draft rules relating to issuance, backing assets, redemption, custody etc., following its discussion paper in November 2023. Stablecoins are not within the remit of payments legislation for now—that said, this does not preclude a framework for the regulation of stablecoins used for payments from being introduced in the future. The Bank of England also continues to develop its approach to regulating **systemic stablecoins for payments** (building on its discussion paper in November 2023). 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.
E-money	E-money is primarily regulated under the **Electronic Money Regulations 2011** (EMRs) and **Payment Services Regulations 2017** (PSRs). The recently published draft Order seeks to amend the EMRs to ensure that qualifying stablecoins and their backing assets do not fall within the definition of electronic money.
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**. Additionally, the draft Order includes language which seeks to clarify that tokenized deposits are distinct from e-money and from stablecoins.

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).)

Hogan Lovells Digital Assets and Blockchain

Our Digital Assets and Blockchain (DAB) practice is widely recognized for the breadth and depth of its expertise and experience. We provide clients with streamlined cross-practice and cross-jurisdiction support that utilizes our firm's leading, global **regulatory**, **financial market infrastructure**, and **capital markets** experience in the traditional finance space, alongside our DAB teams' deep understanding of the opportunities and challenges surrounding the adoption of new technologies and asset classes in financial services.

Our commercially-oriented, forward-thinking lawyers have worked with clients across the full ecosystem, including on:

- DLT Consortia formation and launches (including drafting and negotiating member documentation)
- On-chain payment and settlement solutions
- Trading platform launches and digitalized financial market infrastructure
- Digital bond and tokenization of debt instruments
- Service providers facilitating the tokenization of assets
- Regulatory requirements for cryptoasset and DLT-related activities
- Custody solutions (including tripartite arrangements)
- Regulatory and policy engagement advice
- Authorizations and variations of permissions

Find out more

Sharon Lewis
Partner, Paris & London
Sharon.lewis@hoganlovells.com

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

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

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

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

James Sharp
Senior Associate, London
james.sharp@hoganlovells.com

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

Lavan Thasarathakumar
Senior Advisor, London
Lavan.thasarathakumar@hoganlovells.com

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