

Britain's Historic Pathway to Digital Money

From Scottish banknotes to sterling stablecoins

Britain invented private, centrally-backed paper money in 1845. The Bank of England was formed in 1694 by Royal Charter and a Scot from Aberdeen. Now a very deliberate regulatory sprint from 2025 to 2027 is to build the digital equivalent. Scotland's note-issuing banks and the Bank of England's incoming sterling stablecoin regime are separated by a massive chasm of technology. They are solving the identical problem: how does a privately issued instrument earn the same trust as central bank money, without being central bank money?

The precedent: private notes, public confidence

Scotland currently has three authorised note-issuing banks Bank of Scotland, Royal Bank of Scotland, and Clydesdale Bank (now trading as Virgin Money) with three more in Northern Ireland: Bank of Ireland, Danske Bank, and Ulster Bank. The legal basis differs too: Scottish notes now sit under the Banknotes (Scotland) Regulations 2009, successor to the 1845 Act, while Northern Ireland operates under separate legislation, but the mechanics converge on the same principle.

A simple principle that has barely changed in 180 years. Each issuing bank must hold Bank of England notes, coin, or a Bank of England deposit equal to its own notes in circulation, above a small historic allowance. The note itself is never legal tender, not even in Scotland. It circulates purely on the strength of that backing and the convention that follows it. The Bank of England does not issue a single Scottish note. It simply makes the promise behind every note that gives credibility.

The pivot: 1845 and 2027 are mirror like images

The two regimes share a mechanism but not a motive, and that inversion is the most interesting part of the comparison. The 1845 Act was reactive. Dozens of Scottish banks had been issuing notes of wildly inconsistent backing quality, and Westminster stepped in to contain a mess that already existed. The 2027 sterling stablecoin framework is anticipatory. Tether and USD Coin already carry market capitalisations in the hundreds of billions of dollars on reserve regimes far less transparent than what the Bank of England is now mandating for sterling issuers. The Bank is not cleaning up a crisis; it is trying to make sure that when digital cash-equivalents become the default rail for retail and machine-to-machine payment, a credibly-backed sterling option already exists rather than being invented after the fact.

The draft published by the Bank of England in June 2026, with the Code of Practice due to be finalised by yearend drops the individual and per-wallet holding limits that were floated in the November 2025 consultation. In its place sits a temporary £40 billion issuance cap per systemic stablecoin. Issuers now may hold up to 70% of reserves in short-dated UK government debt, with the remainder in unremunerated central bank deposits. From October 2027, firms will need FCA authorisation to issue a qualifying stablecoin from the UK, and any stablecoin HM Treasury designates as systemic will fall under joint Bank of England and FCA supervision. None of this grants stablecoins legal tender status. Trust is being built the same way it was

in 1845: through asset backing and a redemption guarantee, not through a change in the law of the currency itself.

A personal footnote: when the backstop changed hands

The principle that the Bank of England is the backstop rather than the issuer has a curious modern echo in HSBC, which was founded in Hong Kong in 1865 by Thomas Sutherland. A banker from Aberdeen who wanted the new institution run on “*sound Scottish banking principles*.” When HSBC started in 1978, to acquire Marine Midland Bank that transition was not only visible in the press. Running a payments area at Citibank in New York at the time meant a regular working relationship with Marine Midland Bank, the first person encountered after HSBC involvement was, fittingly, a Scot.

What differs entirely is what the instrument can do once it exists. A Scottish banknote's whole purpose was to be a credit: a static promise, designed so nobody ever had to think about it twice. A sterling stablecoin, under this framework, is being built to be composable (fractionalised) usable inside smart contracts, stream-able in real time, and settled by software AI agents without a human authorising every transaction. The collateral logic is a direct descendant of 1845. The use case is not a faster horse it is a different kind of animal wearing the same harness. HSBC in buying UK's Midland Bank, 1992, folded into Bank of England's orbit. Regulatory gravity pulling a global institution toward an international trusted backstop.

Try buying a pint with it

A Scottish ten-pound note is, today, a strange traveller. It is legal in London, but not legal tender anywhere. A shop can refuse it, and plenty do, even though the Bank of England stands fully behind it. Three centuries of paper currency never solved that patchwork of regional trust; we simply learned to live with it.

A sterling stablecoin is being engineered to fail in the opposite direction. Built under the same 1:1, central-bank-backed discipline as the note in your pocket but designed from day one for a payment rail with no geography. Accepted identically whether the counterparty is a shop in Edinburgh, a merchant in Belfast, or an autonomous agent settling a machine-to-machine transaction at 3 a.m.

The 2027 regulatory regime is the first word on a digital currency built to travel at the speed of light. The question to the bar keeper in a London pub may not be “do you take Scottish notes?” simply: “do you take sterling?” mean the stablecoin is readily useable as the note.