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REGULATORY INTELLIGENCE

HM Treasury consults on UK regulatory approach to crypto assets, stablecoins

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HM Treasury is proposing to introduce a regulatory regime for stable tokens used as a means of payment, meaning tokens which stabilise their value by referencing assets. In the longer term, it is considering bringing a broader set of crypto asset market actors or tokens into an authorisation regime, it said in a consultation paper on the UK regulatory approach to crypto assets and stablecoins.

"The government's priority is to ensure that tokens which could reliably be used for retail or wholesale transactions are subject to appropriate regulation," HM Treasury said.

This should be part of a UK authorisation regime, it said. The approach has been heavily influenced by UK work through international bodies such as the G20.

The government is considering whether those tokens deemed out of scope from these minimum requirements should be subject to marketing or promotions restrictions in retail or wholesale markets activity, it said in its paper.

UK authorities are considering requirements for reserves held by stable tokens, particularly when operating on a systemic scale, the paper said. This includes how to ensure regulation and requirements are appropriate for the risks taken in the reserve assets where stable tokens are intended for widespread use in retail or wholesale transactions.

This involves exploring what regulation might be necessary to enable issuers of systemic stable tokens to hold reserve assets in central bank accounts, commercial bank deposits or high-quality liquid assets. UK authorities will consult in due course on the impact of these options, HM Treasury said.

"The proposals on stable tokens are going in the right direction and there is consistency on the narrative and approach by Europe, but the devil is in the detail and we will know the full effect of this when the proposed regulation is shown in full. That being said, perhaps there is merit for a completely bespoke regime," said Lavan Thasarathakumar, head of regulatory affairs–EMEA, Global Digital Finance, an industry trade body.

"HM Treasury is looking at stable tokens like e-money but there are some nuances that make e-money not sit so neatly with stable tokens. For example, there is not always a claim on the issuer or stable tokens may not be claimed at par value and as such could easily fall out of scope. As such, rather than a piecemeal approach, perhaps a new bespoke regime would provide greater clarity," he said.

DLT focus

In a related call for evidence, the paper looks at distributed ledger technology in market infrastructure.

"DLT can provide efficiency and cost savings by instantaneous settlement, but at present, existing financial services regulation prevents this," Thasarathakumar said.

"This call for evidence by HM Treasury means it wants to explore this area. This could lead to something more ambitious. It could allow market participants to use DLT in a controlled environment while under the supervision of the regulator."