

4 April 2022

The UK HM Treasury Announces that London is Open for Crypto Business

On 4 April 2022 at UK Fintech Week, John Glen, Economic Secretary to the Treasury (EST) announced that London is open for Crypto Business. Outlining a three point plan, the EST stated that the UK:

- has a detailed plan;
- is determined to learn quickly; and
- Government needs to play a leading role.

Following the consultation paper on stablecoins and cryptoassets last year, the detailed plan includes with a number of initiatives. Firstly, it looks to bring stablecoins within the remit of existing payments regulation. In practice, this will mean that where stablecoins are being used as a means of payment, they will amend the e-money framework to regulate stablecoin issuance and the provision of wallets and custody services.

Part 5 of the Banking Act will be extended to cover stablecoins activities in cases where there is potential systemic risk. The scope of the Financial Services (Banking Reform) Act (2013) will be extended to ensure that stablecoin-based payments systems are subject to appropriate competition regulation by the Payments Systems Regulator.

Lavan Thasarathakumar, Director of Regulatory Affairs – EMEA, says, 'The Consultation paper published last year was angled at this. GDF pushed for a bespoke regime for cryptoassets, acknowledging that the existing regulation, in particular the treatment of e-money, did not quite fit the nuances of the industry. We are hoping that the EST's comments on dynamic regulation rings true here and the agility afforded to UK's financial services regulation through the Future Regulatory Framework allows for the efficacy of this approach to be reviewed.'

Whilst the EST addressed stablecoins specifically, he acknowledged that the industry as a whole has 'changed sufficiently' and that there will be a further consultation on regulating a broader set of crypto activities, including trading tokens such as Bitcoin.

Says Thasarathakumar. 'The EST proposes that this will be a world-leading regime for the rest of the crypto market. This is a significant and ambitious proposal. If this is as good as it sounds, the UK could be delivering a comprehensive framework that covers all cryptoassets and gives regulatory clarity to the industry in the UK. This could be the bespoke regime that GDF has been asking for. All of this is still to be seen pending the publication of the consultation paper.'

The EST also reiterated the promises from the Chancellor last year of a financial market infrastructure sandbox, assuring the industry that 'very good progress' has been made and that it is expected to be up and running in 2023. The intention of this sandbox, which will be run by the Bank of England and the FCA, is to allow firms to experiment and innovate in producing the services that underpin the market. The testing environment will allow for updates to legislation where necessary.

Thasarathakumar continues, 'While this is not a new announcement, it is a very important piece of the UK's strategy for distributed ledger technology (DLT) and cryptoassets. The UK is well primed to lead in this area and it is imperative that, where necessary, legislation is amended or enacted quickly in order to build the infrastructure needed to deliver this new financial ecosystem'



Encouragingly, the Treasury has asked the Law Commission to consider the legal status of decentralised autonomous organisations (DAO), which is a question that remains vital to the future of the industry.

‘This is a long-awaited announcement from the EST,’ says Thasarathakumar. ‘While there was no ground breaking announcement that perhaps some in the industry hoped for, it certainly feels like a change in narrative. The Chancellor has even asked the Royal Mint to create a non-fungible token (NFT) to be issued this summer as an emblem of the forward-looking approach that the UK is determined to take.’

There was an acknowledgement that this will not be delivered overnight, but that there is a need to create a country that is ‘a hospitable place for crypto [where] we can attract investment, generate swathes of new jobs and create a wave of ground breaking new products and services.’

Though the messaging from the Government may sound optimistic, the elephant in the room is the question of how the FCA will respond. There have been concerns that the FCA has taken quite a strong stance against crypto, especially with regards to AML Registration regime. However, it seems like there is optimism to be had here as well. The FCA have announced that they will be holding the first of a series of crypto sprints next month, to work through some of the core legal, technical, and regulatory issues that the industry is facing and deliver some innovative solutions to this.

There will also be a new Cryptoasset Engagement Group that will meet up to eight times a year, and will bring together industry leaders and be chaired at a ministerial level with senior representatives from the FCA and Bank of England.

All in all, a lot of time and effort that has clearly been put into how the Government will approach crypto and we should remain optimistic about what this new consultation will bring.