

HMT announces regulatory plans for stablecoins and wider cryptoassets

AT A GLANCE

April 2022

Contacts

Conor MacManus

Director

T: +44 (0) 7718 979428

E: conor.macmanus@pwc.com

Sharon-Marie Fernando

Senior Manager

T: +44 (0) 7889 642744

E: sharon-marie.fernando@pwc.com

Laura Talvitie

Manager

T: +44 (0) 7850 908244

E: laura.talvitie@pwc.com

What's new?

- HM Treasury (HMT) [confirmed](#) on 4 April 2022 it will bring stablecoins, where used as a means of payment, into the UK regulatory perimeter, making them a recognised form of payment. This supports the UK's [wider plans](#) to become a global hub for the crypto industry.
- The planned legislative changes include amending the Electronic Money Regulations 2011 and Payment Service Regulations 2017 to include stablecoins as well as extending the applicability and scope of Part 5 of the Banking Act 2009 and the Financial Services (Banking Reform) Act 2013 to include stablecoin activities.
- On the investment and wholesale uses of distributed ledger technology (DLT) in financial markets, HMT will ensure that regulations can accommodate wider tokenisation and DLT in Financial Market Infrastructures (FMI).

What does this mean?

- Stablecoins are privately issued cryptoassets which aim to minimise volatility by being pegged to an asset, or assets considered to have a stable value (for instance, a fiat currency or precious metals).
- Currently, stablecoins are subject to UK regulation if they have the characteristics of E-money or a security.
- HMT recognises the growth of certain stablecoins and their potential to become a widespread means of payment, driving consumer choice and efficiencies.
- Following its January 2021 consultation, HMT plans to bring stablecoins within the UK regulatory perimeter.
- As a result, HMT intends to amend the the Electronic Money Regulations 2011 and Payment Service Regulations 2017 to deliver a consistent framework to regulate stablecoin issuance and the provision of wallets and custody services.
- It plans to extend the applicability of Part 5 of the Banking Act 2009 to include stablecoin activities (e.g. wallets, exchanges and custodians of reserves). Meaning, the Bank of England (BoE) will supervise systemic stablecoins.
- Similarly, HMT also plans to extend the scope of the Financial Services (Banking Reform) Act 2013 to ensure relevant stablecoin-based payment systems are subject to appropriate competition regulation by the Payment Systems Regulator.
- When stablecoins are used as a means of payment, HMT proposes that the regulation should capture all stablecoins which reference fiat currencies, including a single currency stablecoin or stablecoin based on a basket of currencies.
- Wallet providers and other entities providing stablecoin activities for payments in the UK must be authorised by the FCA and will be subject to BoE's supervision, if deemed systemic.



AT A GLANCE

April 2022

- Where stablecoins are brought into the existing regulatory perimeter covered by the FCA's Regulations, the requirements of the Regulations will apply, including provisions requiring entities to be based in the UK.
- HMT may consult on further adjustments to location requirements for stablecoin providers operating in the UK, as part of the systemic perimeter for wider payments, due later this year.
- The final legislation will set out how stablecoin custody, or arranging the custody, will be brought within the regulatory perimeter, including the FCA's powers.
- Arrangements will be needed to manage risks related to systemic stablecoin failure. HMT will later this year consult on amending the Financial Market Infrastructure SAR to include systemic stablecoin arrangements.
- HMT is developing an FMI Sandbox (to be up and running in 2023) to support firms wanting to innovate and to ensure that regulations can accommodate tokenisation and DLT in FMIs.
- HMT will ensure that the scope of the Sandbox can go potentially wider than DLT, to allow innovation with other solutions which may not strictly be DLT-based, but where other similar benefits could be delivered.
- HMT will consult later in 2022 on its proposed approach to wider cryptoassets, [supported](#) by a newly established Cryptoasset Engagement Group.
- HMT will also consult on extending the scope of the Investment Manager Exemption to include cryptoassets and explore ways of enhancing the competitiveness of the UK tax system to encourage further development of the cryptoasset market in the UK. This will include assessing how DeFi loans are treated for tax purposes.

What do firms need to do?

- The expansion of the cryptoasset sector into mainstream use means that the related activities will continue to be brought into the regulatory perimeter. The latest announcements come just a week after the regulators' previous [announcements](#) on their approach to cryptoassets.
- The direction of travel is clear. Stablecoin providers and the wider crypto players will need to be ready and willing to comply with the changing rules and regulations, if they want to continue to trade in the UK.
- New crypto firms in particular may require a significant investment into understanding and interpreting the new requirements in relation to their business activities.
- The FMI Sandbox could provide firms an effective channel to trial new technologies and for authorities to understand regulatory requirements as well as any implications on innovation and competition.
- For more information on stablecoins, please download [PwC Global CBDC Index and Stablecoin Overview 2022](#).

Contacts

Conor MacManus

Director

T: +44 (0) 7718 979428

E: conor.macmanus@pwc.com

Sharon-Marie Fernando

Senior Manager (Legal)

T: +44 (0) 7889 642744

E: sharon-marie.fernando@pwc.com

Laura Talvitie

Manager

T: +44 (0) 7850 908244

E: laura.talvitie@pwc.com

Next steps

The government will introduce the legislative changes to certain stablecoin arrangements when Parliamentary time allows. It will also consult later in 2022 on bringing wider forms of cryptoasset activity within the UK regulatory perimeter.

www.pwc.co.uk/regdevelopments

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2022 PricewaterhouseCoopers LLP. All rights reserved. PwC refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

