

HMT sets out new regulatory approach for cryptoassets

AT A GLANCE

January 2021

What's new?

- HM Treasury (HMT) opened a [consultation](#) on the Government's approach to cryptoasset regulation and a call for evidence on investment and wholesale uses of cryptoassets on 7 January 2021.
- This is the first stage of the Government's consultative process on cryptoassets, focussing on stablecoins, as their risks and opportunities are seen as most urgent to address.
- Other types of cryptoasset may be considered for UK regulation in future as part of a staged and proportionate approach.

What does this mean?

- HMT acknowledges the growth and potential in the use of stablecoins and how they can play an important role in retail and cross-border payments, as well as promote innovation and industry growth.
- The Government's near-term priority is the safe use of stablecoins. Algorithmic stablecoins are out of scope.
- As a result, HMT is considering the introduction of a new category of regulated tokens called 'stable tokens'.
- Stable tokens stabilise their value by referencing one or more assets, such as fiat currency or a commodity (i.e. stablecoins), and could be used more reliably.
- HMT also proposes a regulatory regime for stable tokens used as a means of payment in the wholesale and retail space.
- The regulatory regime proposal covers firms issuing stable tokens as well as providing services in relation to them to consumers.
- According to the proposal, authorisation will be required based on activities involving stable tokens which comprise:
 - issuing, creating or destroying asset-linked or fiat-linked tokens
 - value stabilisation and reserve management
 - validation of transactions
 - access activities
 - transmission of funds
 - providing custody and administration of a stable token for a third party
 - executing transactions in stable tokens
 - exchanging tokens for fiat money and vice versa.
- HMT also proposes that systemic stable token payment systems will become subject to payment services regulation.

Contacts

Haydn Jones

Director

T: +44 (0) 7802 438 892
E: haydn.jones@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



AT A GLANCE

January 2021

Contacts

Haydn Jones

Director

T: +44 (0) 7802 438 892
E: haydn.jones@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

- Due to the digital, decentralised and cross-border nature of stable tokens, HMT and UK authorities are also considering whether firms actively marketing them to UK consumers should have a UK establishment and be authorised in the UK.
- Decentralised finance activities (also known as DeFi) are not in scope of the consultation. HMT will keep this under review.
- HMT proposes that other types of cryptoassets (such as Bitcoin) will be outside the regulatory perimeter, at least in the short term. But these cryptoassets are proposed to be subject to more stringent regulation on financial promotions and AML/CTF regulation.
- Utility tokens, used to access a service, will also remain outside the authorisation perimeter for the time being.
- The Government will consider the case for bringing a broader set of cryptoasset market actors or tokens into an authorisation regime.
- HMT continues to assess new and emerging risks as the market continues to mature. Future regulation of a potentially wider set of cryptoassets and services will be informed by this analysis and by the market use of the products and services.

What do firms need to do?

- Firms in the cryptoasset sector have enjoyed relative anonymity to date, as cryptoassets and the activities relating to them have generally sat outside the scope of regulation.
- However, the UK Government and regulators are working to ensure markets adapt to take advantage of the benefits cryptoassets provide, while also looking to protect consumers, businesses and the economy from excessive levels of risk.
- The future UK regulatory approach is likely to mirror the Markets in Crypto-Assets Regulation (MiCA) currently at the proposal stage in the EU.
- Firms should keep a close eye on further regulatory perimeter developments relating to other types of cryptoasset, as they are not considered in this phase of HMT's approach.

Next steps

This consultation closes on 21 March 2021. Further consultations and guidance will be issued by HMT and relevant UK authorities on implementation, including specific firm requirements, in due course.



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.

© 2021 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.