

Debate Pack

20 January 2023

Number CDP-2023-0018

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Regulation of cryptocurrency

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1

Background

A Westminster Hall debate on the regulation of cryptocurrencies is scheduled for Wednesday 25 January 2023 at 11 am. Dr Lisa Cameron will lead the debate.

1.1

What are cryptocurrencies and cryptoassets?

The Commons Library briefing paper [Cryptocurrencies: Bitcoin and other exchange tokens](#) provides general background about cryptoassets and policy responses up to February 2020.

‘Cryptocurrency’ is the more familiar term for a major sub-group of what the Government and regulators prefer to call ‘cryptoassets’. As the Treasury noted in July 2020:

There is no single, widely-agreed definition of a cryptoasset. Broadly, a cryptoasset is a cryptographically secured digital representation of value or contractual rights that uses some type of distributed ledger technology (DLT) and can be transferred, stored or traded electronically. This is the approach taken to defining cryptoassets for the purposes of the UK’s Money Laundering and Terrorist Financing regulations.... Examples of cryptoassets include Bitcoin and Ethereum. The market is constantly evolving, with new and different cryptoassets being developed.¹

This debate pack uses both of those terms. In any event, most political and regulatory attention has been focused on cryptocurrencies. The Financial Conduct Authority (FCA) also refers to them as “exchange tokens”, one of three types of cryptoasset it identified in 2019.² As the FCA noted:

These are not issued or backed by any central authority and are intended and designed to be used as a means of exchange. They tend to be a decentralised tool for buying and selling goods and services without traditional intermediaries.³

1.2

UK regulation of cryptoassets

While the use of decentralised technologies (most commonly ‘blockchain’) is intended to ensure the veracity of cryptoasset transactions⁴, it also means that such systems are essentially hosted online, with no centralised authority

¹ HM Treasury, [Cryptoasset promotions: Consultation](#), July 2020, p3

² An overview of the regulation of other classes of cryptoassets is available in, for instance, Practical Law, [FCA regulation of cryptoassets: overview](#) (£), [Parliamentary Intranet access only]

³ Financial Conduct Authority, [Guidance on Cryptoassets: Feedback and Final Guidance to CP 19/3, PS19/22](#) (pdf), July 2019, p4

⁴ See POSTnote [Distributed Ledger Technology](#), 6 September 2018, for further background.

or geographical location that might facilitate traditional approaches to regulation.

Although HRMC had issued guidance on the tax treatment of cryptocurrencies from 2014 and the FCA had published warnings to consumers about associated risks from 2017, the emerging nature of the phenomenon meant that the first coordinated response came from the formation of the Cryptoassets Taskforce in 2018.⁵

Bringing together the Treasury, the FCA and the Bank of England, the Taskforce set out a plan for implementing regulation and overseeing future developments. Overall, regulatory responses have emphasised the need to balance innovation with protecting consumers and financial stability.⁶

The Taskforce also highlighted the importance of international cooperation in this area.⁷

Government vision for the future

Building on the wider Fintech (financial technology) strategy⁸ and the 2021 Kalifa Review⁹, in April 2022 the Government announced its plan “to make the UK a global cryptoasset technology hub” and set out a range of actions to support this.¹⁰

Protecting consumers

An important focus of the FCA’s response to the emergence of cryptoassets has been to issue strong cautions to consumers about the risks involved in such investments, such as that:

- most forms of cryptoassets – and particularly cryptocurrencies – are not regulated, and that consumers will not have redress from the Financial Ombudsman Service or the Financial Services Compensation Scheme for most types of problems that may arise
- consumers should regard such investments as high-risk and speculative, and be prepared to lose all their money

⁵ Commons Library briefing [Cryptocurrencies: Bitcoin and other exchange tokens](#) (CBP 8780, 19 February 2020), p19-21

⁶ HM Treasury, [Cryptoassets Taskforce: final report](#), 29 October 2018

⁷ [As above](#). For a general overview of international approaches, see for instance Thomson Reuters, [Cryptocurrency regulations by country](#), 2022

⁸ HM Treasury, [Fintech Sector Strategy](#), 22 March 2018

⁹ HM Treasury, [The Kalifa Review of UK FinTech](#), 16 April 2021

¹⁰ HM Treasury, [Government sets out plan to make UK a global cryptoasset technology hub](#), 4 April 2022

- they should ensure that they use businesses registered with the FCA ([see below](#)) for any investments that they choose to make
- many fraudsters and scammers have targeted the cryptoasset market¹¹

The FCA also placed a permanent ban on certain complex financial products whose value related to cryptoassets from January 2021. Again it highlighted the levels of volatility and risks involved, as well as “inadequate understanding” of such matters by retail customers.¹²

In January 2022, the Government announced its intention to bring certain cryptoassets under the scope of the Financial Promotions Order, through which the FCA regulates the way that certain investment products and services are marketed to consumers.¹³

Registering cryptoasset businesses

While regulators and the Government have little control over the anonymised online transactions of distributed ledgers, they have taken action to register cryptoasset businesses – notably the exchanges that offer gateways that allow conversion of fiat currencies (such as sterling) into and out of cryptocurrencies.

Since January 2020, new businesses “carrying on cryptoasset activity in the UK” have had to apply for registration with the FCA and to ensure compliance with anti money laundering and counter-terrorist financing regimes. Existing businesses were required to have gained registration by January 2021.¹⁴

These place a range of requirements on registered businesses, including customer due diligence checks and the identification and consideration of “politically exposed persons”.¹⁵

As noted in the previous section, the FCA encourages consumers to check that businesses appear on the Financial Services Register. In addition, it publishes a list of “UK businesses that appear to be carrying on cryptoasset activity that are not registered with the FCA for anti-money laundering purposes.”¹⁶

Regulating stablecoins

In January 2021, the Treasury launched a consultation and call for evidence on the UK’s regulatory approach to cryptoassets and the use of distributed

¹¹ Financial Conduct Authority, [Cryptoassets](#), 23 May 2022

¹² Financial Conduct Authority, [PS20/10: Prohibiting the sale to retail clients of investment products that reference cryptoassets](#), 9 October 2020

¹³ HM Treasury, [Cryptoasset promotions: Consultation response](#), January 2022

¹⁴ Financial Conduct Authority, [Cryptoassets: AML/CTF regime: Register with the FCA](#), 24 January 2022

¹⁵ For further information, see HMRC, [Anti money laundering supervision: detailed information](#) and Commons Library briefing [Politically Exposed Persons Regime](#) (CBP 7376), 16 February 2022.

¹⁶ Financial Conduct Authority, [Unregistered Cryptoasset Businesses](#)

ledger technology in financial markets. It sought to explore how the UK's regulatory framework might best support innovative new technologies while mitigating risks.¹⁷

The Government noted that most types of cryptoassets fell outside the regulatory perimeter and would continue to do so. But it highlighted the emergence of some types – notably 'stablecoins' – that might become attractive as a widespread means of payment, notably in cross-border payments. Such cryptoassets could present risks to consumers and wider financial stability if not adequately regulated.¹⁸

Stablecoins

Most cryptocurrencies such as Bitcoin are characterised by extreme volatility and so are not considered practical for use as a means of exchange. Stablecoins, on the other hand, seek to overcome this problem – either by being backed with reserves of fiat currencies (such as US dollars or pounds sterling) or by using algorithms to control supply.¹⁹

In April 2022, the Government announced in its response to the consultation that it intended to bring stablecoins into the regulatory perimeter when they were used as a means of payment.²⁰

An article by law firm Pennington Manches Cooper discusses this topic further and concludes that the market is likely to welcome some regulation provided it doesn't stifle innovation:

The market is...likely to welcome some regulation of the riskier parts of the digital asset landscape to offer consumers protection, providing that it does not stifle innovation or seek to control the way in which blockchain and distributed ledgers work (ie by consensus, without one controlling party). How the regulation transpires and whether it ends up stifling innovation or undermining the very reasons why the DeFi ['decentralised finance', that is, financial systems based on using blockchain] community came together in the first place remains to be seen.²¹

As a result, clauses 21 and 22 of the Financial Services and Markets Bill 2022-23 (which will begin Lords Committee stage on 25 January 2023) aim to give the Treasury powers to give regulators (the FCA, the Bank of England, the Prudential Regulation Authority and the Payment Services Regulator)

¹⁷ HM Treasury, [UK regulatory approach to cryptoassets and stablecoins: Consultation and call for evidence](#), January 2021

¹⁸ [As above](#), p3

¹⁹ See, for instance, Investopedia, [Stablecoin](#), 11 May 2022 (accessed 12 August 2022)

²⁰ HM Treasury, [UK regulatory approach to cryptoassets, stablecoins, and distributed ledger technology in financial markets: Response to the consultation and call for evidence](#), April 2022

²¹ Penningtons Manches Cooper, [The pending regulations of stablecoins](#), 26 July 2022

oversight over stablecoins and potentially other similar cryptoassets. It describes them as “digital settlement assets”.²²

The Bill includes further related measures to support innovation in decentralised finance, including developing “digital sandboxes” to test new approaches.²³

Current and recent Parliamentary consideration

As well as the Financial Services and Markets Bill, there has recently been more Parliamentary consideration of cryptoassets:

- Part 4 of the Economic Crime and Corporate Transparency Bill (whose report stage is scheduled for 24 January 2023) would amend wider legislation to explicitly apply criminal and civil asset recovery powers to cryptoassets.²⁴
- The Treasury Select Committee launched an inquiry into the cryptoasset industry in July 2022.²⁵
- The All-Party Parliamentary Group on Crypto and Digital Assets also launched an inquiry into the sector in August 2022.²⁶
- Martin Docherty-Hughes led a Westminster Hall debate on the Government's regulatory approach to cryptoassets on 7 September 2022.²⁷

Potential future consultation

In its April 2022 response to the consultation on cryptoassets and stablecoins, the Government also reported that many respondents had highlighted a range of potential advantages and risks relating both to unregulated cryptoassets and technologies associated with decentralised finance. It said that it was continuing to consider wider regulatory responses and would consult further.²⁸

²² See Commons Library briefing, [Financial Services and Markets Bill 2022-23 \(CBP 9594\)](#), 30 November 2022, p30-32

²³ [As above](#), p26-28

²⁴ Commons Library briefing, [Economic Crime and Corporate Transparency Bill 2022-23: Progress of the Bill \(CBP 9625\)](#), 20 January 2023

²⁵ Treasury Committee, [The crypto-asset industry](#)

²⁶ All-Party Parliamentary Group on Crypto and Digital Assets, [Crypto Inquiry 2022](#) (accessed 20 January 2023)

²⁷ Cryptoassets: Regulation, WH Deb, 7 September 2022, [c77WH-99WH](#)

²⁸ HM Treasury, [UK regulatory approach to cryptoassets, stablecoins, and distributed ledger technology in financial markets: Response to the consultation and call for evidence](#), April 2022, p34

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Press/Blog/Journal articles

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[EU policymakers fret over regulation after digital asset exchange blow-up](#), FT.com, 12 January 2023

[Addressing the risks in crypto: laying out the options](#), Bank for International Settlement Bulletin, 12 January 2023

[Illegal crypto activity hit all-time high of \\$20 billion in 2022](#), Evening Standard, 11 January 2023

[City minister says UK crypto regulations unlikely to be ready in 2023](#), Cityam, 10 January 2023

[US charges Sam Bankman-Fried with defrauding investors](#), BBC News, 13 December 2022

[Crypto dominos: the bursting crypto bubbles and the destiny of digital finance: speech](#), European Central Bank, 7 December 2022

[Lessons from the crypto winter: DeFi versus CeFi](#), OECD Business & Finance Papers, December 2022

[FTX’s Collapse Was a Crime, Not an Accident](#), Coindesk.com, 30 November 2022

[Let crypto burn: Just say no to legitimacy-inferring regulation](#), FT.com, 17 November 2022

[The crypto world must be made safer for investors and users](#), FT.com, 11 November 2022

[Bitcoin and the planet: crypto miners chip away at cavernous carbon footprint](#), The Times, 27 October 2022

[The most important cryptocurrency event in years is about to begin – and the biggest windfall goes to the planet](#), The Conversation, 5 September 2022

[UK forces crypto exchanges to report suspected sanction breaches](#), The Guardian.com, 4 September 2022

[A Sceptic’s Guide to Crypto: NFT Mania](#), Financial Times, 1 September 2022 [Podcast]

[Regulating crypto](#), IMF Finance and Development, September 2022

[Making sense of crypto](#), IMF Finance and Development, September 2022

[A divide has emerged in EU and UK crypto regulation](#), FT.com, 31 August 2022

[Cryptocurrency ethereum plans to cut carbon emissions by 99% with upgrade](#), The Guardian, 29 August 2022

[Crypto crash: how a teacher's dream investment turned into a nightmare loss](#), The Guardian, 29 August 2022

[The future of crypto regulation: Highlights from the Brookings event](#), US Brookings Institution, August 2022

[Cryptoassets, the metaverse and systemic risk](#), Bank Underground/Bank of England, 9 August 2022

[‘They couldn’t even scream any more. They were just sobbing’: the amateur investors ruined by the crypto crash](#), The Guardian, 12 July 2022

[EU moves to rein in ‘wild west’ of crypto assets with new rules](#), The Guardian, 1 July 2022

[EU agrees on landmark crypto regulation in wake of Terra meltdown and Bitcoin plunge](#), Euronews, 1 July 2022

[All that glitters is not gold: The high cost of leaving cryptocurrencies unregulated](#), UNCTAD, June 2022

[Why Does Bitcoin Use So Much Energy?](#) Forbes.com, 22 May 2022

[ECB executive calls for clampdown on ‘lawless frenzy’ of crypto trading](#), FT.com, 25 April 2022

[Cryptocurrency: UK Treasury to regulate some stablecoins](#), BBC News, 4 April 2022

[Cryptoasset regulation suffering from lack of consensus](#), Official Monetary and Financial Institutions Forum, 18 March 2022

[Bitcoin: What are crypto-currencies?](#) BBC News, 27 November 2021 [Video]

[Understanding Cryptocurrencies](#), Journal of Financial Econometrics, Spring 2020

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Press notices

Edinburgh Reforms hail next chapter for UK Financial Services

HM Treasury

9 December 2022

Chancellor of the Exchequer Jeremy Hunt today unveiled the “Edinburgh Reforms” of UK financial services – over 30 regulatory reforms to unlock investment and turbocharge growth in towns and cities across the UK.

Chancellor of the Exchequer Jeremy Hunt unveils new “Edinburgh Reforms” of financial services, to help turbocharge growth and deliver a smarter and home-grown regulatory framework for the UK – that is both agile and proportionate.

Speaking at an industry roundtable in Edinburgh today, the Chancellor will announce new plans to seize the benefits of Brexit by setting out a detailed timeline establishing the government’s approach to repealing burdensome pieces of retained EU law.

Reforms deliver the next chapter of the government’s vision for UK financial services, set out at Mansion House 2021.

The Chancellor will set out plans to repeal, and replace, hundreds of pages of burdensome EU retained laws governing financial services. This will establish a smarter regulatory framework for the UK that, is agile, less costly and more responsive to emerging trends.

These plans included a commitment to make substantial legislative progress over the course of 2023 on repealing and replacing EU-era Solvency II – the rules governing insurers balance sheets which is expected to unlock over £100 billion of private investment for productive assets such as UK infrastructure.

The financial services sector is vital for Britain’s economic strength, contributing £216 billion a year to the UK economy. This includes £76 billion in tax revenue, enough to fund the entire police force and state school system, while employing over 2.3 million people - with 1.4 million outside London.

As announced in the Autumn Statement, the government will look to announce changes to EU regulations in four other high growth industries by the end of next year, including digital technology, life sciences, green industries and advanced manufacturing.

Chancellor of the Exchequer, Jeremy Hunt said:

We are committed to securing the UK’s status as one of the most open, dynamic and competitive financial services hubs in the world.

The Edinburgh Reforms seize on our Brexit freedoms to deliver an agile and home-grown regulatory regime that works in the interest of British people and our businesses.

And we will go further – delivering reform of burdensome EU laws that choke off growth in other industries such as digital technology and life sciences.

Economic Secretary to the Treasury, Andrew Griffith said:

The UK is a financial services superpower – and we have long benefited from, and are committed to, high quality regulatory standards.

Scotland’s role in maintaining our status as the global benchmark for regulation is crucial - with Edinburgh and Glasgow the two largest UK hubs outside of London.

Our reforms deliver smarter regulation of financial services that will unlock growth and opportunity in towns and cities across the UK.

The work to repeal, and where appropriate replace, retained EU law governing the sector has been guided by industry – and split into two initial tranches. These will focus on delivering reform to areas which provide the most significant boost to UK growth and competitiveness, and we will set out further detail on future tranches over time.

Today’s announcement delivers the next chapter in the roadmap for UK announced at Mansion House 2021 for a UK financial services sector that is open, sustainable, and technologically advanced - one that is globally competitive and acts in the interests of communities and citizens. This vision will create jobs, support businesses, and power growth across all four parts of the UK.

A competitive marketplace promoting the effective use of capital

The Edinburgh Reforms ensure that the UK’s financial markets are among the most open and attractive in the world. They deliver this by overhauling the UK prospectus regime to make it more attractive for firms to list and raise capital here; reforming the rules governing Real Estate Investment Trusts, to reduce friction and allow savers to more easily access higher returns; formally reviewing the provision of investment research in the UK, including the effects of the EU’s MiFID unbundling rules, which aren’t applied in leading markets such as the US; and working with the regulators and companies to trial a new class of wholesale market venue that operates on an intermittent basis – improving companies access to capital before they publicly list.

The government has also announced that the ring-fencing regime will be reformed in response to the recommendations of the Skeoch Review - including by freeing retail focussed banks from the regime – easing unnecessary regulatory burdens on firms while maintaining protections for depositors.

The Chancellor has also issued new remit letters to the Financial Conduct Authority and Prudential Regulation Authority emphasising the new secondary competitiveness objectives. Regulators will have a duty to facilitate, subject to aligning with relevant international standards, the international competitiveness of the UK economy and its growth in the medium to long term.

We are committed to seeing financial service firms deploy more capital in productive assets such as UK infrastructure and low carbon and clean energy. This will be facilitated by Long-Term Asset Funds – a new type of fund structure tailored to the UK market, replacing the EU’s ineffective European Long Term Investment Fund regime, which will be repealed from the UK rulebook. The LTAF regime has recently seen its first application from an issuer of this new type of fund.

Delivering for consumers

The government is committed to enabling consumers to access the benefits of new products and technologies, while ensuring they remain protected. To support this, the government is today publishing its first consultation on proposals to modernise the Consumer Credit Act – simplifying the regime to encourage innovation in the credit sector and cutting costs for consumers and businesses.

A sector at the forefront of innovation and technology

The reforms build on the UK’s desire to harness the benefits of emerging technologies, including committing to shortly publish a consultation on proposals to establish a UK Central Bank Digital Currency– which could one day see Brits using a digital pound. Other measures will see the Investment Management Exemption extended to cryptoassets, ensuring more overseas investment can flow into the sector – and the government has recommitted to establishing the Financial Markets Infrastructure Sandbox in 2023, allowing firms and regulators to safely test, adopt and scale new technologies that could transform financial markets.

A world leader in sustainable finance

The UK is working to become the world’s first net-zero aligned financial centre, and today’s measures will further deliver on this ambition, including by committing to publish a new green finance strategy in early 2023, and to consult on bringing Environmental, Social and Governance (ESG) ratings providers into the City Watchdog’s regulatory perimeter, to ensure these products are transparent and use consistent standards. Achieving this ambition will see more investment in sustainable energy supplies such as nuclear, hydrogen and offshore wind – delivering new opportunities and well-paying jobs.

More broadly, the government's Financial Services and Markets Bill successfully completed its remaining stages in the Commons on Wednesday and is expected to receive Royal Assent by Spring 2023. This further delivers on the government's vision for financial services, including by bringing certain types of stablecoins within the payments regulatory perimeter; protecting access to cash for millions of people that rely on it; and enabling the Payments Systems Regulator to force banks to reimburse the victims of Authorised Push Payment (APP) fraud.

[UK Parliamentary Group Announces Crypto Inquiry](#)

All Party Parliamentary Group (APPG) for the UK Crypto and Digital Assets August 2022

The All Party Parliamentary Group (APPG) for the UK Crypto and Digital Assets sector has announced an inquiry into the UK's growing cryptoasset industry.

Summary:

The inquiry will consider the need for further regulation of the UK crypto sector.

The APPG has called for input from interested stakeholders across the sector;

APPG Chair Lisa Cameron MP says the UK must not take its foot off the gas when it comes to crypto.

The Crypto and Digital Assets All Party Parliamentary Group (APPG) has today announced details of an inquiry into the UK Crypto and Digital Assets sector.

The cross party group, chaired by Dr Lisa Cameron MP, is made up of MPs and Lords from across the main political parties and represents a broad range of interests and expertise in financial services, digital and technology. The group acts as a forum for parliamentarians, policymakers and the UK crypto sector to discuss policy and regulation of the industry.

The short inquiry will focus on key policy issues in relation to the UK crypto and digital asset sector.

As part of its inquiry the APPG is inviting views from across the sector and has said it wants to hear from crypto operators, regulators, industry experts and Government on the need for regulation of the sector.

The inquiry will focus on a range of key areas including the UK's current approach to regulation of crypto and digital assets and the Government's plans to make the UK the global home of crypto investment; the role and current approach of UK regulators including the Bank of England, the FCA

and the ASA in relation to crypto and digital assets; the potential of Central Bank Digital Currencies; and potential risks in terms of Consumer Protection and Economic Crime.

The APPG is inviting written submissions from interested parties until the 5th September 2022.

The group will also be holding a number of evidence sessions over the coming months which will hear from key stakeholders. The group will produce a report with key recommendations and will share its findings with Government for consideration as well as with the Treasury Select Committee in Parliament which has also announced an upcoming inquiry into the sector.

The APPG inquiry comes at a time of increased scrutiny of the UK crypto and digital asset sector. HM Treasury announced plans earlier this year to make the UK the global home of crypto investment, seeking to attract crypto firms to the UK and to boost the UK's technology and fintech sector, creating jobs and boosting skills and talent. Research from HMRC in July 2022 also showed that 10% of UK adults said they hold or have held a cryptoasset. That figure is up from 5.7% in January 2021, based on Financial Conduct Authority data.

Lisa Cameron MP, Chair of the Crypto and Digital Assets APPG, said:

“The UK Crypto sector has seen increased interest from consumers and regulators as the number of people who now own some form of cryptocurrency or digital asset has grown in recent years. We are at a crucial time for the sector as global policy makers are also now reviewing their approach to crypto and how it should be regulated.

As part of its inquiry the APPG will investigate the state of the UK crypto sector and recent concerns raised around financial crime and advertising. It will consider the growth of crypto over recent years and the need for regulators and Government to keep pace with the rapid advancements in innovation and technology, as well as considering whether enough is being done in terms of consumer protection. The group will also look at international examples from other jurisdictions that have already taken steps to regulate the crypto sector.

It's vital that the UK does not take its foot off the gas and that Government and regulators keep to their commitments when it comes to crypto and digital assets.”

CryptoUK, the UK's independent trade association which represents over 100 members from across the crypto sector, and also provides the secretariat for the APPG, welcomed the launch of the inquiry.

Ian Taylor, Executive Director of CryptoUK, said:

“We welcome the announcement of the APPG inquiry and are pleased that policymakers are waking up to the huge potential for the UK in terms of economic growth, jobs and skills from a properly regulated crypto and digital asset sector.

The Government has said it wants the UK to be the global home for crypto investment and the focus now must be on how the UK can deliver on this commitment.

The UK crypto sector recognises the importance of a well regulated industry in the UK and supports regulation which provides business certainty and encourages a healthy and robust market. We want to see a proportionate approach to regulation that balances the need for consumer protection with the need to support innovation and growth.”

Treasury Committee launches inquiry into crypto-assets

House of Commons Treasury Select Committee

13 July 2022

The Treasury Committee today calls for written evidence as it launches a new inquiry into crypto-assets.

In the inquiry, the Committee will explore the role of crypto-assets in the UK, as well as the opportunities and risks they bring to consumers and businesses.

The Committee requests written evidence submissions which examine whether crypto currencies are likely to replace traditional currencies, what opportunities and risks the use of crypto-assets pose for individuals and the economy, and their impact on social inclusion.

MPs will also explore how regulation could be balanced to provide protection for consumers without stifling innovation.

Views on whether the Government and regulators are suitably equipped are welcomed, as are submissions discussing the effectiveness of recent regulation around advertising and money laundering in protecting consumers.

The Committee will seek to investigate whether regulation could benefit crypto-asset start-ups by improving consumer trust and resilience, and the potential impact of distributed ledger technology on financial institutions, including the Bank of England.

MPs are also interested in hearing from stakeholders and experts on how Governments and regulators in other countries are approaching crypto-assets, and what lessons the UK can learn from overseas.

Chair's comment

Commenting on the new inquiry, Rt. Hon. Mel Stride MP, Chair of the Treasury Committee, said:

“Crypto-assets have the potential to bring new and innovative changes to the UK financial system, the economy and broader society. However, there are also significant concerns around their use to launder funds, purchase illegal products, and evade international sanctions.

“In recent months, the value of most crypto-assets has fallen dramatically. As a Committee, we will be investigating the opportunities and risks that crypto presents, where additional regulation may be required, and the lessons the Government can learn from other countries.

“We look forward to receiving written evidence from experts and interested stakeholders on this important topic.”

Government sets out plan to make UK a global cryptoasset technology hub

HM Treasury

5 April 2022

The government yesterday announced moves that will see stablecoins recognised as a valid form of payment as part of wider plans to make Britain a global hub for cryptoasset technology and investment.

- Stablecoins to be brought within regulation paving their way for use in the UK as a recognised form of payment.
- Announcement part of a series of measures to make the UK a global hub for cryptoasset technology and investment.
- Measures include legislating for a ‘financial market infrastructure sandbox’ to help firms innovate, an FCA-led ‘CryptoSprint’, working with the Royal Mint on an NFT, and an engagement group to work more closely with industry.

This is part of a package of measures to ensure the UK financial services sector remains at the cutting edge of technology, attracting investment and jobs and widening consumer choice. It includes:

- introducing a ‘financial market infrastructure sandbox’ to enable firms to experiment and innovate,
- establishing a Cryptoasset Engagement Group to work more closely with the industry,
- exploring ways of enhancing the competitiveness of the UK tax system to encourage further development of the cryptoasset market,

- and working with the Royal Mint on a Non-Fungible Token (NFT) this summer as an emblem of the forward-looking approach the UK is determined to take

Chancellor of the Exchequer, Rishi Sunak yesterday said:

It's my ambition to make the UK a global hub for cryptoasset technology, and the measures we've outlined today will help to ensure firms can invest, innovate and scale up in this country.

We want to see the businesses of tomorrow – and the jobs they create - here in the UK, and by regulating effectively we can give them the confidence they need to think and invest long-term.

This is part of our plan to ensure the UK financial services industry is always at the forefront of technology and innovation.

Stablecoins are a form of cryptoasset that are typically pegged to a fiat currency such as the dollar and are intended to maintain a stable value. With appropriate regulation, they could provide a more efficient means of payment and widen consumer choice.

The government intends to legislate to bring stablecoins – where used as a means of payment – within the payments regulatory perimeter, creating conditions for stablecoins issuers and service providers to operate and invest in the UK.

By recognising the potential of this technology and regulating it now, the government can ensure financial stability and high regulatory standards so that these new technologies can ultimately be used both reliably and safely.

The UK's vision for being a global hub for cryptoasset technology was set out in a speech by the Economic Secretary to the Treasury, John Glen at the Innovate Finance Global Summit yesterday.

He also announced that the UK will proactively explore the potentially transformative benefits of Distributed Ledger Technology (DLT) in UK financial markets, which enables data to be synchronized and shared in a decentralised way to potentially achieve greater efficiency, transparency and resilience.

The government will legislate to establish a financial market infrastructure (FMI) 'Sandbox' that will enable firms to experiment and innovate in providing the infrastructure services that underpin markets, in particular by enabling Distributed Ledger Technology to be tested. The government further confirmed that it will initiate a research programme to explore the feasibility and potential benefits of using DLT for sovereign debt instruments.

John Glen also confirmed that the government will consult on wider regulation of the cryptoasset sector later this year.

Other measures include:

- The UK government will explore ways of enhancing the competitiveness of the UK tax system to encourage further development of the cryptoasset market in the UK. It will review how DeFi loans – where holders of cryptoassets lend them out for a return – are treated for tax purposes. The government will also consult on extending the scope of the Investment Manager Exemption to include cryptoassets.
- The Chancellor has commissioned the Royal Mint to create a Non-Fungible Token this summer.
- The Financial Conduct Authority will hold a two day ‘CryptoSprint’ in May with industry participants, seeking views directly from industry on key issues relating to the development of a future cryptoasset regime.
- The Economic Secretary will establish and chair a Cryptoasset Engagement Group, convening key figures from the regulatory authorities and industry to advise the government on issues facing the cryptoasset sector.

In his Mansion House speech in July 2021, the Chancellor set out his vision for the future of the financial services sector, which included a plan to ensure that the UK remains at the forefront of technology and innovation. This was one of four key components of that vision, with the ultimate aim of building a financial services sector that continues to be one the rest of the world looks towards.

Further information

- [UK regulatory approach to cryptoassets and stablecoins: consultation and call for evidence](#)
- [Keynote Speech by John Glen, Economic Secretary to the Treasury, at the Innovate Finance Global Summit, 4 April 2022\)](#)
- [2021 Mansion House speech and roadmap document](#)

[FCA research reveals increase in cryptoasset ownership](#)

Financial Conduct Authority

18 June 2021

Research published by the FCA estimates that 2.3 million adults now hold cryptoassets (up from 1.9 million last year). 78% of adults have now heard of cryptoassets, up from 73% in a year.

The consumer research shows that as holding cryptoassets has become more common attitudes to them have changed. 38% of crypto users regard them as a gamble (down from 47% last year), while increasing numbers see them as either a complement or alternative to mainstream investments.

By contrast, the level of overall understanding of cryptocurrencies is declining, suggesting that some people who have heard of crypto may not fully understand, with only 71% correctly identified the definition of cryptocurrency from a list of statements.

Enthusiasm for cryptoassets is growing with over half of crypto users saying they have had a positive experience so far and are likely to buy more (rising from 41% to 53%). Fewer people also regret having bought cryptocurrencies, down from 15% to 11%.

1 in 10 who had heard of cryptocurrency said they are aware of consumer warnings on the FCA website. Of these, 43% said they were discouraged from buying crypto. Most consumers recognise that crypto investments are not protected, although 12% of crypto users believe otherwise.

Sheldon Mills, FCA's Executive Director, Consumers and Competition yesterday said:

“The research highlights increased interest in cryptoassets among UK customers. The market has continued to grow, and some investors have benefitted as prices have risen. However it is important for customers to understand that because these products are largely unregulated that if something goes wrong they are unlikely to have access to the FSCS or the Financial Ombudsman Service. If consumers invest in these types of products, they should be prepared to lose all their money.”

The research is the FCA's fourth consumer research publication on cryptoassets ownership. It is part of the FCA's strategy to develop its thinking on the potential harms and benefits to consumers from cryptoassets and help better understand consumers' attitudes and patterns of use.

During that period the FCA issued further consumer warnings, stating that investing in cryptoassets is high risk and that investors should be prepared to lose all their money.

The FCA will continue working closely with HM Treasury and other regulators, including through the UK Cryptoasset Taskforce.

Notes to Editors

- The term 'cryptocurrency' was used for the survey as the term is more widely recognised. Otherwise, we generally use the term 'cryptoasset'.
- Research Note: [Cryptoasset consumer research 2021](#)
- The 2021 research was conducted in January 2021.

- As cryptoassets are largely unregulated, the FCA does not hold significant relevant data about them. A series of regulatory developments has taken place, including: the Treasury consulted in 2020 on extending the perimeter of the financial promotions order to include unregulated cryptoassets, from 2020, the FCA became the anti-money laundering and counter-terrorist financing supervisor of UK cryptoasset businesses, the Treasury consulted in January 2021 on a UK regulatory approach to cryptoassets, proposing to bring within the regulatory framework a subset of cryptoassets when used as a means of payment.
- See further information on the [FCA's approach to cryptoassets](#).
- We have published guidance on the cryptoassets that currently fall within our regulatory perimeter.
- The FCA has an overarching strategic objective of ensuring the relevant markets function well. To support this it has 3 operational objectives: to secure an appropriate degree of protection for consumers; to protect and enhance the integrity of the UK financial system; and to promote effective competition in the interests of consumers.

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Parliamentary material

Written Parliamentary Questions

Economic Growth

Asked by: Julian Sturdy

16 Jan 2023 | Written questions | Answered | House of Commons | 120917

To ask the Chancellor of the Exchequer, what assessment he has made of the potential merits of using new and innovative methods to generate economic growth and revenue, in particular in relation to cryptocurrency such as bitcoin, in the context of the current economic climate.

Answering member: Andrew Griffith | Department: Treasury

The government's ambition is to make the UK a global hub for cryptoasset technology and investment. In April 2022, the government set out a number of reforms which will see the regulation and aspects of tax treatment of cryptoassets evolve. This included confirming the intention to regulate cryptoassets known as stablecoins and to introduce a 'financial market infrastructure sandbox' to enable firms to experiment and innovate. The government will consult on its approach to regulating a broader set of investment-related cryptoasset activities in due course.

The UK is committed to creating a regulatory environment in which firms can innovate, while crucially maintaining financial stability and regulatory standards so that people and businesses can use new technologies both reliably and safely. Recent events in the crypto market reinforce the case for timely, clear and effective regulation.

These measures will help to ensure firms can invest, innovate and scale up in this country.

Cryptocurrencies: Advertising

Asked by: Baroness Bennett of Manor Castle

09 Jan 2023 | Written questions | Answered | House of Lords | HL4473

To ask His Majesty's Government what assessment they have made of the impact of cryptocurrency advertisements being targeted at (1) young people, and (2) people from minority communities, including with the involvement of celebrities, sports stars and sports teams; and what plans they have, if any, to place restrictions on such advertising.

Answering member: Baroness Penn | Department: Treasury

The government's ambition is to make the UK a global hub for cryptoasset technology and investment. In April, previous Ministers set out a number of

reforms which will see the regulation and aspects of tax treatment of cryptoassets evolve. The government will also consult on its approach to regulating wider cryptoasset activities in the coming weeks.

Recent events in cryptoasset markets have highlighted the importance of establishing regulation which supports safe innovation and protects consumers and stability. As the cryptoasset market has developed rapidly, HMT and the FCA have been working at pace to adapt existing regulation to the challenges – and opportunities – posed by unique cryptoassets.

For instance, to protect consumers, the FCA has banned the sale of cryptoasset derivatives to retail consumers and in January 2022 the government published a response to a consultation on a proposal to bring certain cryptoassets into the scope of financial promotions regulation. The forthcoming legislation on cryptoasset promotions, and supporting FCA rules, will regulate in-scope cryptoasset financial promotions, requiring them to be fair, clear and not misleading. This is aimed at improving consumers' understanding of the risks and benefits associated with cryptoasset purchases and ensuring that cryptoasset promotions are held to the same standards as similar risk financial services products.

The government also draws attention to and restates the FCA's warnings to consumers that buyers of most cryptoassets should be prepared to lose all of the money they invest.

The government and the Cryptoassets Taskforce continue to closely monitor the wider cryptoasset market and will stand ready to take further regulatory action if required.

Cryptocurrencies: Regulation

Asked by: Lord Taylor of Warwick | Party: Non-affiliated

01 Aug 2022 | Written questions | Answered | House of Lords | HL1986

To ask Her Majesty's Government what plans they have to discuss an approach to crypto-asset regulation with other countries and international bodies.

Answering member: Baroness Penn | Department: Treasury

As set at out Fintech Week in April, the UK is committed to establishing a world-leading regulatory regime for cryptoassets. Given the cross-border nature of cryptoassets, the UK is committed to working with other jurisdictions and through the international standard-setting bodies to support harmonisation of treatment as far as is feasible.

HM Treasury is engaging extensively with international partners on cryptoasset regulation on a bilateral basis. For example, HM Treasury hosted the Regulatory Pillar of the Financial Innovation Partnership with the US Treasury in June. Attendees exchanged views on cryptoasset regulation and market developments, including recent developments in relation to stablecoins and the exploration of central bank digital currencies (CBDCs).

The UK is also active in international work on cryptoassets being carried out through global fora, including the G7, G20, OECD, IMF and the Financial Stability Board (FSB).

Cryptocurrencies: Regulation

Asked by: Lord Taylor of Warwick | Party: Non-affiliated

22 Jul 2022 | Written questions | Answered | House of Lords | HL1885

To ask Her Majesty's Government what plans they have to create a bespoke regulatory framework for the UK cryptoasset sector.

Answering member: Baroness Penn | Department: Treasury

At Fintech Week 2022, the Government set out our firm ambition to make Britain a global hub for cryptoasset technology and investment. The UK is committed to creating a regulatory environment in which firms can innovate, while crucially maintaining financial stability and regulatory standards so that people can use new technologies both reliably and safely.

The UK is taking a dynamic approach to engagement with the industry, and the government has committed to consult later this year on the broader regulation of cryptoassets, as part of a staged approach to developing a world-leading regime for cryptoasset activities.

Cryptocurrencies: Regulation

Asked by: Kevin Brennan | Party: Labour Party

22 Jul 2022 | Written questions | Answered | House of Commons | 38529

To ask the Chancellor of the Exchequer, what recent discussions he has had with (a) the Secretary of State for Digital, Culture, Media and Sport, (b) the Gambling Commission and (c) the Financial Conduct Authority on the regulation of crypto-based products and services.

Answering member: Richard Fuller | Department: Treasury

Treasury Ministers and officials have meetings with a wide variety of organisations in the public and private sectors as part of the process of policy development and delivery.

The Cryptoasset Taskforce, comprising HM Treasury, the Bank of England, the Financial Conduct Authority (FCA), and the Payment Systems Regulator (PSR), continues to monitor ongoing development in cryptoasset markets, and is taking forward a range of regulatory measures to mitigate market integrity risks, protect consumers and support innovation in the cryptoasset market.

Since January 2020, cryptoasset firms operating in the UK have been subject to the Money Laundering Regulations. To protect consumers, on 18 January 2022, the government set out its intention to legislate later this year to bring certain cryptoassets into financial promotion regulation. This would ensure that relevant cryptoasset promotions are held to the same high standards for fairness, clarity and accuracy that exist in the financial services industry. Additionally, on the 20 July, the government introduced the Financial Services and Markets Bill, which includes a measure allowing HM Treasury to bring

stablecoins, where used as a means of payment, within the UK regulatory perimeter.

The government has committed to consult later this year on the broader regulation of cryptoassets.

Oral Parliamentary Questions/Debates

Cryptocurrencies

**Asked by: Lord Davidson of Glen Clova | Party: Labour Party
20 Dec 2022 | Oral questions - Lead | Answered | House of Lords**

To ask His Majesty's Government whether they have revised their policy towards cryptocurrencies following the collapse of the cryptocurrency exchange FTX.

Crypto Asset Technology

**Asked by: Lord Davidson of Glen Clova
21 Jul 2022 | Oral questions - Lead | Answered | House of Lords**

To ask Her Majesty's Government what progress they have made towards their ambition to make the United Kingdom a global cryptoasset technology hub.

Economic Crime: Law Enforcement

07 Jul 2022 | Proceeding contributions | House of Commons

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Further reading

[FCA regulation of cryptoassets: overview](#) (£), Practical Law, accessed 20 January 2023 [Parliamentary Intranet access only]

[Hot topics: UK cryptoassets regulatory developments](#) (£), Practical Law, accessed 20 January 2023 [Parliamentary Intranet access only]

1) Library briefings

[Financial Services and Markets Bill 2022-23](#), 30 November 2022

[Economic Crime and Corporate Transparency Bill 2022-23: Progress of the Bill](#), 20 January 2023

[Central bank digital currencies](#), 13 April 2022

[Fintech: a guide to financial technology](#), 22 April 2021

[Cryptocurrencies: Bitcoin and other exchange tokens](#), 19 February 2020

2) UK Official documents

[Factsheet: cryptoassets technical](#), DBEIS/HM Treasury/Home Office/Ministry of Justice/SFO, 18 January 2023

[Cryptoassets](#), Financial Conduct Authority, 23 May 2022

[UK regulatory approach to cryptoassets, stablecoins, and distributed ledger technology in financial markets: Response to the consultation and call for evidence](#), HM Treasury, April 2022

[Financial Stability in Focus: Cryptoassets and decentralised finance](#), Bank of England, 24 March 2022

[Cryptoassets Manual](#), HMRC, February 2022

[The Kalifa Review of UK FinTech](#), HM Treasury, 16 April 2021

[Cryptoasset consumer research 2021](#), Financial Conduct Authority, June 2021

[How and why consumers buy cryptoassets](#), Financial Conduct Authority, 2019

[Government and Financial Conduct Authority Responses to the Committee's Twenty-Second Report: Crypto-assets](#), HM Treasury, November 2018

[Cryptoassets Taskforce: final report](#), HM Treasury, July 2018

[Fintech Sector Strategy](#), HM Treasury, 22 March 2018

3)UK Parliament

[Parliamentary material on cryptocurrencies](#) [2013-present]

[The crypto-asset industry](#), House of Commons Treasury Select Committee inquiry, 2022-23

4)International

[What Happened at FTX and What Does It Mean for Crypto?](#) US Congressional Research Service, 29 November 2022

[Markets in crypto-assets \(MiCA\)](#), European Parliamentary Research Service, November 2022.

[Cryptocurrency dangers and the benefits of EU legislation](#), European Parliament, October 2022

[Digital Assets and Illicit Finance: E.O. 14067 and Recent Anti-Money-Laundering Developments](#), US Congressional Research Service, 26 October 2022

[Stablecoins: Legal Issues and Regulatory Options \(Part 2\)](#), US Congressional Research Service, June 2022

[Stablecoins: Legal Issues and Regulatory Options \(Part 1\)](#), US Congressional Research Service, June 2022

[Assessment of Risks to Financial Stability from Crypto-assets](#), Financial Stability Board, February 2022

[Cryptocurrency regulations by country](#), Thomson Reuters, 2022

[New assets: an analysis of cryptocurrencies and their regulation all over the world.](#) Russo, Ettore (A.A. 2020/2021) Tesi di Laurea in Principles of civil law, Luiss Guido Carli, relatore Valerio Cosimo Romano, 2020/2021 pp. 82. [Bachelor's Degree Thesis]

5)Other material

[Cryptoassets: Shaping UK regulation for innovation and global leadership](#), UK Finance, May 2021

[Cummings Pepperdine Cryptionary: a dictionary of crypto terms](#), Cummings Pepperdine, 2022

[Legal and Regulatory Considerations for Digital Assets](#), University of Cambridge/Judge Business School, 2020

6) Websites

[Cryptoassets](#), Financial Conduct Authority, accessed 20 January 2023

[Crypto and Digital Assets All Party Parliamentary Group](#), accessed 20 January 2023

[CryptoUK](#) - self-regulatory trade association for the UK cryptoasset industry, accessed 2 September 2022

[Virtual Assets](#), Financial Action Task Force, accessed 2 September 2022

[Bitcoin Energy Consumption Index](#), Economist.net, accessed 6 September 2022

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