






HM Treasury's latest consultation on cryptoasset promotions closed at the end of October, and its findings are due to be published very shortly. In the meantime, HM Treasury has published a [consultation paper](#) on the regulation of cryptoassets and stablecoins (Thursday 7 January 2021).

This paper is the first stage in HM Treasury's consultation process with industry and stakeholders on the broader regulatory approach to cryptoassets and stablecoins. It seeks views from a range of stakeholders (particularly firms engaged in cryptoasset or distributed ledger technology (DLT) activities) on how the UK can ensure its regulatory framework is equipped to harness the benefits of new technologies, and support innovation and competition, while also mitigating risks to consumers and ensuring stability. If the proposals are adopted, further consultations and guidance on implementation, including specific firm requirements will be issued by HM Treasury, the Financial Conduct Authority (FCA), the Payment Services Regulator (PSR) and the Prudential Regulation Authority (PRA).

Regulation of Tokens





HM Treasury is proposing to introduce a regulatory regime for stable tokens used as a means of payment. This would cover firms issuing stable tokens that could be reliably used for retail or wholesale payment transactions, and ensure that they are subject to minimum requirements and protections as part of a UK authorisation regime. The following table summarises the potential scope of regulation of tokens:

| Token Type | Subject to Regulation? |
|--|--|
| Single Fiat Stable Tokens Value linked to a single fiat currency (e.g. sterling, dollar, euro, etc.) |  FCA authorisation will be required under payments regulation, although limited exemptions available (e.g. the limited network exclusion). |
| Asset Linked Stable Tokens Value linked to an asset other than a single fiat currency (e.g. gold or multicurrency) |  FCA authorisation will be required, although limited exemptions available (e.g. the limited network exclusion). |
| Unregulated Exchange Tokens No backing – primarily retail speculative investments (e.g. bitcoin); may include algorithmic tokens |  Likely to be subject to regulation in future. |
| Unregulated Utility Tokens Used to access a current or future service (e.g. DLT platform access) |  Likely to be subject to regulation in future. |
| Security Tokens Constitute specified investments under the RAO |  Already subject to FCA regulation. |

HM Treasury is considering whether those tokens deemed out of scope from these minimum requirements should be subject to restrictions with respect to marketing or promotion for use in retail or wholesale payments activity.

Regulation of Activities

HM Treasury plans to maintain the current division of responsibilities between the FCA, the PSR and the PRA as far as possible. The approach to regulation draws on broader elements of financial services and e-money regulation, for example the protection of client assets, as well as specific requirements for stablecoins, such as safeguarding. The following table summarises the potential scope of regulation of activities:

| Activities | FCA Regulated? | PSR Regulated? | PRA/BoE Regulated? |
|--|--|--|---|
| Issuing, creating or destroying tokens Minting or destroying tokens Issuing, creating or destroying single fiat tokens Minting or destroying tokens Providing custody and admin of token for a third party Managing tokens on behalf of owners, including the storage of private keys Executing transactions in a token – making Conducting transactions on behalf of another Exchanging tokens for fiat and vice versa Purchasing/exchanging a stable token with fiat money |  Authorisation is required and must comply with a wide range of requirements, including the threshold conditions, prudential requirements and compliance-related systems, controls, risk management and governance requirements. | Potentially, if activity meets PSR designation criteria. | Potentially, if activity meets Bank recognition criteria and poses a systemic risk (indicators likely to include user base, likely transaction volumes and likely avenues for acquisition of customers, e.g. through a widely used platform). |
| Value stabilisation and reserve management Managing reserve assets that are backing the value of a stable token and providing custody/trust services |  Although no authorisation regime. | Potentially, if activity meets PSR designation criteria. | Potentially, if activity meetings Bank recognition criteria and poses a systemic risk. |
| Validation of transactions Authorising or verifying the validity of transactions and records |  | Potentially, if activity meets PSR designation criteria. | Potentially, if undertaken by asset issuers, system operators or specified service providers, and meets Bank recognition criteria and poses a systemic risk. |
| Access Providing services or support to facilitate access of participants to the network or underlying infrastructure |  | PSR has powers with regard to system access. | Potentially, if activity meets Bank recognition criteria and poses a systemic risk. |
| Transmission of funds Ensuring the correct and final settlement of transactions while limiting counterparty and default risk |  | Potentially, if activity meets PSR designation criteria. | Potentially, if activity meets Bank recognition criteria and poses a systemic risk. |

This paper is the first stage in the consultative process, and comments can be made on the proposals by email to cryptoasset.consultation@hmtreasury.gov.uk until 21 March 2021.