



Regulating Cryptoassets Phase 1: Fiat-backed stablecoins

An overview of the proposed UK regulatory perimeter

6 November 2023



UK regulatory perimeter for fiat-backed stablecoins and other cryptoassets: Phase 1

Fiat-backed stablecoins – “...stablecoins which seek to maintain a stabilised value by reference to a fiat currency, and which may include the holding of, one or more specified fiat currencies. Also referred to as regulated (UK) stablecoin or approved (overseas) stablecoin”

| Activities | (A) Using UK fiat-backed stablecoins in UK payment chains | (B) Arranging to use and promotion of “overseas” fiat-backed stablecoins in UK payment chains | (C) Issuance of UK fiat-backed stablecoins | (D) Custody of UK fiat-backed stablecoins ¹ | (E) Custody of cryptoassets that currently meets the definition of specified investment ² | (F) Purchase of stablecoins using fiat currency |
|---------------------------|---|---|---|--|--|---|
| Regulatory regime | <i>Amendments to Payment Services Regulations 2017 (PSRs)</i> | <i>Amendments to Payment Services Regulations 2017 (PSRs) to regulate Payment Arrangers</i> | <i>Existing Financial Services and Markets Act (FSMA) 2023, amendments to FSMA Regulated Activities Order (RAO) 2001 and amendments to FCA Handbook</i> | | <i>Existing Payment Services Regulations 2017 (PSRs)</i> | |
| Regulator | FCA | FCA | FCA | FCA | FCA | FCA |
| Geographical jurisdiction | At least one end of the transaction is in the UK; or UK firms facilitating payment transactions | Issued outside the UK but used in UK payment chains ³ | Issued in or from the UK | Custody from the UK or to UK based customers | Custody from the UK or to UK based customers | Same as (A) |
| Timing | Secondary legislation - early 2024 (subject to available parliamentary time); FCA consultation - 2024 H2; implementation - 2025 | | | | | Not applicable |

| Activities | (G) Tokenised deposits | (H) Systemic payments systems and service provider using stablecoins as the DSA | (I) Algorithmic / crypto-backed stablecoins and commodity-linked tokens | (J) Stablecoins used in buying / selling of cryptoassets on exchanges | (K) Issuance and custody of other types of cryptoassets | (L) Exchange, lending, market abuse and disclosures | (M) Using non-fiat backed stablecoins or unbacked cryptoassets in UK payment chains | |
|---------------------------|--|---|---|---|---|---|---|--|
| Regulatory regime | <i>Existing</i> Article 5 (Accepting deposits) of the RAO 2001 | <i>Existing</i> Part 5 of the Banking Act 2009 (as amended by FSMA 2023) ⁴ | Phase 2 – as described in HMT’s Future financial services regulatory regime for cryptoassets – Consultation and call for evidence (February 2023) and Response to the consultation and call for evidence (October 2023) | | | | Not regulated in the UK and may be subject to consumer information disclosure requirements. | |
| Regulator | PRA | BoE and PSR | | | | | | |
| Geographical jurisdiction | UK deposits | UK based and sterling-denominated stablecoins | | | | | | |
| Timing | Not applicable | See timings described in (A) – (E) | | | | | | |



Glossary

BoE – Bank of England

CPMI-IOSCO – Committee on Payments and Market Infrastructures and the Board of the International Organization of Securities Commission

DSA – Digital Settlement Asset

FCA – Financial Conduct Authority

HMT – His Majesty’s Treasury

PFMIs – Principles for Financial Market Infrastructure

PRA – Prudential Regulation Authority

PSR – Payment Systems Regulator

UK – United Kingdom

Footnote

1 – Currently unclear on the UK regulatory scope for custody of approved (overseas) stablecoin when it is held and controlled by a UK regulated firm in its crypto storage wallet as it is not explicitly considered in FCA’s Discussion Paper 23/4.

2 – Cryptoassets that already meet the definition of a specified investment such as security tokens (see FCA Policy Statement 19/22) will instead be in scope of the new regulated activity for custody in Phase 1.

3 – UK payment chains: fiat-backed stablecoin vs fiat or vice versa (mixed); fiat-backed stablecoin vs fiat-backed stablecoin (pure); fiat-backed stablecoin vs cryptoasset; means of payment to purchase services and goods.

4 – BoE may publish principles and require payment systems to have regard to the CPMI-IOSCO PFMIs, and issue rules in the form of Codes of Practice which are binding.

Reference

1. HMT’s Update on Plans for the Regulation of Fiat-backed Stablecoins (30 October 2023)
2. FCA’s Discussion Paper (DP) 23/4 – Regulating cryptoassets Phase 1: Stablecoins (6 November 2023)
3. BoE’s Discussion Paper – Regulatory regime for systemic payment systems using stablecoins and related service providers (6 November 2023)
4. BoE-PRA-FCA – Cross-authority roadmap on innovation in payments (6 November 2023)

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