


UK Crypto Industry Welcomes New Stablecoin Rules, Awaits Guidance

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Crypto advocates in the U.K. have largely welcomed a new bill that could bring digital assets like stablecoins into the scope of local payments regulation. But there's uncertainty about how the new rules will look like, should the bill pass.

The bill is scheduled to be debated in Parliament for the first time in September. It will move through a complex legislative process that could be slowed further by the recent cabinet shuffle, and crypto advocates are awaiting indications from regulators on how they plan to interpret and enforce the rules.

"We will have to wait to see what new rules are introduced as a consequence of the bill to fully understand the new powers and approaches of the various regulators," James Alleyne, legal counsel at the London-based law firm Kingsley Napley, who advises crypto firms on compliance, told CoinDesk in a statement.

The proposed stablecoin rules are part of a larger financial-services and markets bill that maps out the U.K.'s post-Brexit economic strategy. It looks to extend existing financial regulations to cover payments-focused cryptocurrencies such as stablecoins, which are cryptocurrencies intended to maintain a peg to a fiat currency, usually the U.S. dollar.

Those cryptocurrencies are defined broadly as "digital settlement assets," or DSAs. The bill also puts the U.K. Treasury in charge of defining what DSAs are and assigning the Bank of England (BoE), Financial Conduct Authority (FCA) and Payments Systems Regulator (PSR) various powers to enforce the rules.

Terra's influence

The U.K. is the latest major country to propose legislation targeting stablecoins. It was influenced in no small part by the downfall of terraUSD – a stablecoin that rapidly lost its peg to the U.S. dollar in May and led to the collapse of a \$40 billion enterprise. The U.S. and Singapore are also stitching together regulatory frameworks to rein in stablecoin issuers.

Meanwhile, policymakers in the European Union recently agreed on the Markets in Crypto Assets (MiCA) bill that seeks to set up licensing rules for crypto firms and lay out stringent requirements for stablecoin issuers that wish to operate in the EU.

At least six industry experts told CoinDesk the U.K.'s proposed measures were a welcome step and align with the U.K.'s ambitions of becoming a global crypto hub.

"I see this as a key piece of legislation for financial services, which I hope can allow us to make the most of the opportunities of Brexit and to establish an approach to crypto regulation that is right for the U.K.," said Lisa Cameron, a member of Parliament and chairwoman of the cross-party group for crypto.

"By bringing stablecoins within the scope of regulation, the bill paves the way for further adoption in the U.K., and this will be a key area of focus for parliamentarians as part of our inquiry into the wider sector," she added.

Blair Halliday, managing director of the U.K. for Gemini, a crypto exchange and custodian, called the legislation a "positive move that recognizes the significant role that these assets will play in our economy and financial system in the future."

Systemic stablecoin issuers

Much like the EU's MiCA legislation, the U.K.'s proposed rules place a heavy emphasis on systemic stablecoins, a term used to describe stablecoins issued at a large enough scale to threaten financial stability should they fail.

But whereas MiCA sets standards that need to be met for stablecoin issuers to operate in the EU, the U.K. bill assumes stablecoin issuers have already become operational and seeks to give powers to regulators to identify and supervise DSA service providers that are at risk of failure or bankruptcy, according to Matthew Nyman, a lawyer who specializes in crypto and blockchain fields at the CMS law firm in London.

"[This bill] is looking at the worst-case scenario," Nyman said, adding that the U.K. still has "zero explicit regulation" for cryptocurrencies and that the new bill doesn't clarify whether a DSA service provider is allowed to operate, indicate how that provider should operate or who needs to authorize it.

“You might be forgiven for thinking that if they've put something in place for what happens at the end ... That means they've already worked out what happens at the beginning. But they're doing it the other way around,” Nyman said.

The focus on failing DSA service providers reinforces the overall messaging around the U.K. government's post-Brexit economic strategy, as well as the positions of regulators in the U.S. and the EU on containing the risks of systemic stablecoin issuers.

The goal is to strengthen the U.K.'s position as a tech hub while “safely” adopting crypto assets, Nadhim Zahawi, the country's new finance minister, said when he introduced the markets bill.

The U.K. government's planned discussions on wider digital assets including bitcoin (BTC) for later this year will be crucial in understanding where it really stands on crypto-friendliness, Nyman said.

“That will be the key test of whether what the government departments and what the regulators are doing ... actually match up with what the politicians are saying,” he said.

Nyman also said it's still unclear what role each regulator will play in setting up everything that's “missing,” including an authorization regime for DSA service providers.

“The BoE will need to authorize any stablecoin, and there are due processes that firms will need to follow before being given authorization,” the PSR told CoinDesk in an emailed statement.

The proposed rules indicate the BoE will have final say over stablecoin issuers that could threaten the U.K. financial system or the central bank's ability to “act in its capacity as a monetary authority.”

The BoE will detail its plans to regulate systemic stablecoins, including whether it will be authorizing firms next year, in a consultation, where the government lays out proposed regulatory measures in a document and invites the public or industry representatives to weigh in. The PSR, too, is planning to issue guidance on how it would regulate DSAs, including stablecoins.

The FCA, which has already been authorizing crypto companies under the government's anti-money laundering rules, will probably continue to focus on consumer protection, according to Alleyne, while the BoE is likely to focus on wider financial stability.

Delays

Political turbulence in the U.K. government may cause delays in the bill's passing.

“Until we get a new [prime minister], Parliament is never going to pass anything of serious magnitude, so we're effectively on pause until then,” Ryan Shea, crypto economist at Trakx, a Paris-based crypto index platform with a U.K. presence, told CoinDesk in an

interview.

Adam Jackson, director of policy at U.K.-based crypto lobby group Innovate Finance, is concerned that the bill won't become law until next year and that regulators won't announce new rules until 2024.
