We thank you for your time spent taking this survey. Your response has been recorded.

Below is a summary of your responses

**Discussion Paper DP23/04: Regulating cryptoassets**

**Phase 1: Stablecoins**

**FCA proposed future regime on fiat-backed stablecoins**

**Responding to the Discussion Paper**
You are asked to respond to our stablecoins discussion paper by completing this online response survey that lists the questions as set out in the discussion paper.

We recommend you review all questions before starting your response.

**Click below to download an editable copy of all questions you will be asked:**

Download questions

Before starting the survey, you are required to complete the introductory questions about yourself or your organisation. Later in the survey, you will be able to upload any additional data you would like to provide as part of your response.

**Introduction**
The Government has announced plans to legislate for a future financial services regime for cryptoassets. It is taking a phased approach, focusing initially on fiat-backed stablecoins used as a form of payments, followed by the wider cryptoasset regime. In our Discussion Paper we cover the proposed approach to regulating fiat-backed stablecoins. Under these plans, we will regulate the issuance and custody of fiat-backed stablecoins under the Financial Services and Markets Act 2000, and the use of these stablecoins as a means of payments under the Payment Services Regulations.

**Why are we asking for feedback**
We want to use our DP to help inform the development of our regime for fiat-backed stablecoins as a means of payments and ensure any regime we create meets our objectives, giving firms the ability to facilitate payments safely and securely using fiat-backed stablecoins.
First tell us something about your organisation or yourself

* Respondent full name

Simon Youel

* Respondent contact email

simon.youel@positivemoney.org.uk

* Are you responding on behalf of a company or organisation or as a private individual in a personal capacity?

Company or organisation

Private Individual, in a personal capacity

* Please provide the following information

Name of organisation/company

Positive Money

Your position in the organisation/company

Head of Policy & Advocacy

* Type of organisation or company

Firm type

Consumer group

Sector

None

Portfolio

None
Chapter 1: Overview

Comments

While the future of stablecoins may seem uncertain, or even irrelevant, much is at stake with their regulation. The stability of not just the financial system, but the entire economy, relies on households and businesses being able to trust that a pound is always worth a pound. Though this may sound like a truism, stablecoins may disrupt this trust and risk undermining the wider monetary and financial system, unless regulated appropriately. As we have also argued in our response to the Bank of England’s consultation on regulating systemic payment systems using stablecoins, sterling-denominated stablecoins should be fully backed by risk-free central bank reserves in order to ensure they are interchangeable at par with other forms of money. To preserve the singleness of money and mitigate risks of regulatory arbitrage, this should apply to all stablecoins integrated into the UK monetary system, whether deemed 'systemic' or not. We therefore recommend that all issuers of sterling-denominated stablecoins should be regulated to the same standards. In practice, this would mean all issuers having access to deposit accounts at the Bank of England, where they would be required to hold reserves fully backing their stablecoins, and thus being subject to both PRA and FCA supervision. We strongly support the need to increase competition in payments by reducing barriers to entry, and to this end we have long-argued for the Bank of England to open up access to settlement accounts to non-bank firms that only provide payments. However, we are concerned by risks that stablecoin issuers may not only confine themselves to payments, but may seek exposure to credit, liquidity and market risk as well. Stablecoin issuers are already acting as 'shadow banks', providing liquidity at the off-ramp/on ramp margins of the cryptoasset industry, such as exchanges. As the FCA notes, stablecoin issuers currently derive most of their revenue from the interest and returns from backing assets. Stablecoin issuers will likely complain about the restrictiveness of backing assets. They will likely argue that even with a wider range of backing assets they will still be able to fully repay depositors, just as money market mutual funds argued the same, before a run on their short-term liabilities ultimately sparked the global financial crisis in 2008. The industry will likely also argue against being subject to stricter requirements than e-money institutions (EMIs), but unlike stablecoins, e-money does not have the potential to seriously compete with bank deposits as a means of payment. We urge regulators to stand firm against such lobbying. The supposed use cases for stablecoins are payments - if this is truly their purpose then non-interest bearing reserves should be a sufficient backing asset. If stablecoins issuers fear they would be 'uncompetitive' with banks or EMIs, attention should be focused on improving existing standards for incumbents, rather than watering down standards to make new business models viable. Otherwise the entire system will be inevitably undermined by regulatory arbitrage. If stablecoin issuers want to introduce maturity transformation into their business model, they should apply for a banking licence. Otherwise there is a significant risk of stablecoin issuers exacerbating problems with shadow banking, undermining the uniformity and integrity of the monetary system we all rely on.

Chapter 2: A new stablecoin regime

Q1: Should the proposed regime differentiate between issuers of regulated stablecoins used for wholesale purposes and those used for retail purposes? If so, please explain how.

In the interests of preserving uniformity of money and reducing regulatory arbitrage risks, we would suggest that the regime should not differentiate between issuers of regulated stablecoins used for wholesale and retail purposes.

Q2: Do you agree with our assessment of the type of costs (both direct and indirect) which may materialise as a result of our proposed regime? Are there other types of costs we should consider?
Q3: Do you agree with our assessment above, and throughout this DP, that benefits, including cheaper settlement of payment transactions, reduced consumer harm, reduced uncertainty, increased competition, could materialise from regulating fiat-backed stablecoins as a means of payment? Are there other benefits which we have not identified?

Stablecoins may offer improved payments, but it is difficult to see how these would not be better provided by a retail central bank digital currency without the associated risks. Any other 'benefits' appear to be derived from exploiting opportunities for regulatory arbitrage, at the expense of the public.

Chapter 3: Backing assets and redemption

Q4: Do you agree with our proposed approach to regulating stablecoin backing assets? In particular do you agree with limiting acceptable backing assets to government treasury debt instruments (with maturities of one year or less) and short-term cash deposits? If not, why not? Do you envision significant costs from the proposal? If so, please explain.

We believe that stablecoins should be fully backed by reserves, for the reasons outlined in the Bank of England's discussion paper. However, we believe this should apply to all sterling denominated stablecoins integrated into the UK monetary system, not just those which are deemed 'systemic', in order to ensure uniformity in money and safeguard against regulatory arbitrage risks. This would entail all regulated stablecoins being given access to Bank of England reserves and thus subject to PRA supervision. Broadening backing assets beyond risk-free reserves would expose stablecoin issuers, and therefore consumers, to credit, liquidity, market, and counter-party risks. Various financial crises over recent years have shown how serious such risks can suddenly become - regulation should therefore aim to unbundle the provision of payments from such risks. Stablecoin issuers will likely complain about the restrictiveness of backing assets. They will likely argue that even with a wider range of backing assets they will still be able to fully repay depositors, just as money market mutual funds argued the same, before a run on their short-term liabilities ultimately sparked the global financial crisis in 2008. The industry will likely also argue against being subject to stricter requirements than e-money institutions (EMIs), but unlike stablecoins, e-money does not have the potential to seriously compete with bank deposits as a means of payment. We urge regulators to stand firm against such lobbying.

The supposed use cases for stablecoins are payments - if this is truly their purpose then non-interest bearing reserves should be a sufficient backing asset. If stablecoins issuers fear they would be 'uncompetitive' with banks or EMIs, attention should be focused on improving existing standards for incumbents, rather than watering down standards to make new business models viable. Otherwise the entire system will be inevitably undermined by regulatory arbitrage. If stablecoin issuers want to introduce maturity transformation into their business model, they should apply for a banking licence. Otherwise there is a significant risk of stablecoin issuers exacerbating problems with shadow banking, undermining the uniformity and integrity of the monetary system we all rely on.

Q5: Do you consider that a regulated issuer’s backing assets should only be held in the same currency as the denomination of the underlying regulated stablecoin, or are there benefits to allowing partial backing in another currency? What risks may be presented in both business-as-usual or firm failure scenarios if multiple currencies are used?

We contend that any sterling-denominated stablecoin should be fully backed by reserves at the Bank of England, and therefore agree that a regulated issuers’ backing assets should only be held in the same the same currency as the underlying stablecoin is denominated in.

Q6: Do you agree that regulated stablecoin issuers should be able to retain, for their own benefit, the revenue derived from interest and returns from the backing assets. If not, why not?
We do not agree that stablecoin issuers should receive pecuniary benefits from their backing assets. If stablecoin issuers want to derive revenue from maturity transformation rather than just payments, they should apply for a banking licence like everyone else. Otherwise stablecoin issuers risk exacerbating 'shadow banking’ risks by issuing short-term liabilities in order to finance positions in longer-term assets without the equivalent regulation required for banks. We therefore do not agree with the FCA’s intention to create distinctions between stablecoins and deposits. If stablecoins seek to function as sterling-denominated money they should be regulated as such. It is crucial for monetary and financial stability that there is uniformity between all forms of money, whether cash, deposits, e-money or stablecoins.

**Q7:** Do you agree with how the CASS regime could be applied and adapted for safeguarding regulated stablecoin backing assets? If not, why not? In particular:

i. Are there any practical, technological or legal obstacles to this approach?

ii. Are there any additional controls that need to be considered?

iii. Do you agree that once a regulated stablecoin issuer is authorised under our regime, they should back any regulated stablecoins that they mint and own? If not, why not? Are there operational or legal challenges with this approach?

**Q8:** We have outlined two models that we are aware of for how the backing assets of a regulated stablecoin are safeguarded. Please could you explain your thoughts on the following:

i. Should regulated stablecoin issuers be required to appoint an independent custodian to safeguard backing assets?

ii. What are the benefits and risks of this model?

iii. Are there alternative ways outside of the two models that could create the same, or increased, levels of consumer protection?
Q9: Do you agree with our proposed approach towards the redemption of regulated stablecoins? In particular:

i. Do you foresee any operational challenges to providing redemption to any and all holders of regulated stablecoins by the end of the next UK business day? Can you give any examples of situations whether this might this be difficult to deliver?

ii. Should a regulated issuer be able to outsource, or involve a third party in delivering, any aspect of redemption? If so, please elaborate.

iii. Are there any restrictions to redemption, beyond cost-reflective fees, that we should consider allowing? If so, please explain.

iv. What costs associated with our proposed redemption policy do you anticipate?

Q10: What proof of identity, and ownership, requirements should a regulated stablecoin issuer be gathering before executing a redemption request?

Chapter 4: Other key expectations of stablecoin issuers

Q11: Do you agree with our approach to the Consumer Duty applying to regulated stablecoin issuers and custodians. Please explain why.
Q12: Do you consider that regulated stablecoins should remain as part of the category of ‘restricted mass marketed investments’ or should they be captured in a tailored category specifically for the purpose of cryptoasset financial promotions? Please explain why.

Chapter 5: Custody requirements

Q13: Should individual client wallet structures be mandated for certain situations or activities (compared to omnibus wallet structures)? Please explain why.

Q14: Are there additional protections, such as client disclosures, which should be put in place for firms that use omnibus wallet structures? Are different models of wallet structure more or less cost efficient in business as usual and, (ii) firm failure scenarios? Please give details about the cost efficiency in each scenario.

Q15: Do you foresee clients’ cryptoassets held under custody being used for other purposes? Do you consider that we should permit such uses? If so, please give examples of under what circumstances, and on what terms they should be permitted. For example, should we distinguish between entities, activities, or client types in permitting the use of clients’ cryptoassets?

Q16: Do you agree with our proposals on minimising the risk of loss or diminution of clients’ cryptoassets? If not, please explain why not? What additional controls would you propose? Do you agree with our proposals on accurate books and records? If not, please explain why not.

Q17: Do you agree with our proposals on reconciliation? If not, please explain why not? What technology, systems and controls are needed to ensure compliance with our proposed requirements?

Q18: Do you consider that firms providing crypto custody should be permitted to use third parties? If so, please explain what types of third parties should be permitted and any additional risks or opportunities that we should consider when third parties are used.
Q19: Do you agree with our proposals on adequate governance and control? If not, please explain why not? What (if any) additional controls are needed to achieve our desired outcomes? What challenges arise and what mitigants would you propose?

Q20: Should cryptoasset custodians undertaking multiple services (eg brokers, intermediaries) be required to separate custody and other functions into separate legal entities?

Q21: Are there any practical issues posed by requiring cryptoasset exchanges to operate a separate legal entity for custody-like activities? Specifically, please could you explain your thoughts on the following:

i. Would these issues differ between institutional and retail clients?

ii. What would be the operational and cost impact?

iii. What are the benefits to clients of cryptoasset exchanges prefunding trades? Can these be achieved if there is legal separation of entities?

iv. Would separating custody and exchange functions impact the way clients’ accounts are managed and structured (in omnibus and individual client wallets)?

v. Do you agree that the conflicts of interest we have identified exist? Are there other conflicts of interest we should consider?
vi. Are there alternative ways to ensure the same level of consumer protection?

Q22: What role do you consider that custodians should have in safeguarding client money and redemption? What specific safeguards should be considered?

Chapter 6: Organisational requirements

Q23: Do you agree that our existing high-level systems and controls requirements (in SYSC) should apply to the stablecoin sector? Are there any areas where more specific rules or guidance would be appropriate?

Q24: Do you agree with our proposal to apply our operational resilience requirements (SYSC 15A) to regulated stablecoin issuers and custodians? In particular:

i. Can you see how you might apply the operational resilience framework described to your existing business (eg considering your important business services and managing continuity)? Please set out any difficulties with doing this?

ii. What approach do you take when assessing third party-providers for your own internal risk management (such as responding to, testing and managing potential disruption)?

iii. Are there any minimum standards for cyber security that firms should be encouraged to adopt? Please explain why.

25. Do you agree with our proposal to use our existing financial crime framework for regulated stablecoin issuers and custodians? Do you think we should consider any additional requirements? If so, please explain why.
Q26: Do you agree with our proposal to apply our existing Senior Managers and Certification Regime to regulated stablecoin issuers and custodians? In particular:

i. Should we apply the current SMR and requirements to issuers and custodians of regulated stablecoins? Are there additional SMFs or requirements needed to capture the nature of regulated stablecoin business services?

ii. Should we create additional criteria to determine when the ‘enhanced category’ of the regime should apply to regulated stablecoin issuers and custodians?

iii. Should we apply the current certification functions and requirements to regulated stablecoin issuers and custodians? Are there any additional functions needed to capture the nature of regulated stablecoin issuers and custodians business services?

iv. Do you agree that we should apply the existing Conduct Rules to regulated stablecoin issuers and custodians?

Chapter 7: Conduct of business and consumer redress

Q27: Do you agree with our consideration to apply our Principles for Businesses and other high-level standards to regulated stablecoin issuers and custodians? Are there any particular areas you think we should apply detailed rules regarding information to (other than those for backing assets set out in Chapter 3)?

Q28: Do you consider that we should design more specific conduct of business rules to regulated stablecoins issuers and custodians? In particular what approach should we take to applying rules on inducements and conflicts of interest management to regulated stablecoin issuers and custodians?
Q29: Do you agree that the dispute resolution mechanisms provided in traditional financial services (ie the application of the DISP sourcebook and access to the Ombudsman Service) should be applied to the business of regulated stablecoin issuers and custodians? Have you identified any gaps or issues in relation to dispute resolution? Please explain.

Q30: Do you agree that the FCA should not be proposing to extend FSCS cover to the regulated activities of issuing and custody of fiat-backed stablecoins? If you do not agree, please explain the circumstances in which you believe FSCS protection should be available.

Chapter 8: Prudential requirements

Q31: Do you agree with our proposed prudential requirements for regulated stablecoin issuers and custodians? In particular, do you agree with our proposals on any of the following areas:

i. Capital requirements and quality of capital

ii. Liquidity requirements and eligible liquid assets

iii. Group risk

iv. Concentration risk

v. Internal risk management
Chapter 9: Managing stablecoin firm failure

Q32: Do you agree with applying the existing CASS rules on post-failure treatment of custody assets to regulated stablecoin issuers and other firms holding backing assets for regulated stablecoins, as well as CASS pooling events? If not, why not? Are there any alternative approaches that should be considered? If so, please explain.

Q33: Do you agree with our thinking on how the CASS rules can be adapted for returning regulated stablecoin backing assets in the event of a firm failure or solvent wind-down? If not, why not? Do you foresee the need for additional protections to ensure prompt return of backing assets to consumers or otherwise reduce harm in firm failure (eg strengthening wind-down arrangements, a bespoke resolution regime)? If so, please explain.

Q34: Do you agree with the proposed overall approach for post-failure trading? If not, is there anything else that should be considered to make the approach more effective? If so, please explain. Are there any arrangements that could avoid distribution of backing assets in the event an issuer fails and enters insolvency proceedings?

Q35: What challenges arise when stablecoins are returned to consumers, particularly with respect to their entitlements? Do you foresee the need for additional protections to facilitate the prompt return of regulated stablecoins to consumers or otherwise reduce harm in firm failure (eg introducing distribution rules within CASS for cryptoassets, strengthening wind-down arrangements, or a bespoke resolution regime)? If so, please explain.

Chapter 10: Regulating payments using stablecoins

Q36: Do you agree that this approach to integrating PSR safeguarding requirements and custody requirements will secure an adequate degree of protection for users of stablecoin payment services?
Q37: Do you agree that the custody requirements set out in chapter 5 should apply to custody services which may be provided by payment arrangers as part of pure stablecoin payment services?

Q38: Are there additional risks or opportunities, not considered above, of different stablecoin payment models that our regulation of payment arrangers should seek to tackle or harness?

Chapter 11: Overseas stablecoins used for payment in the UK

Q39: What are the potential risks and benefits of the Treasury’s proposal to allow overseas stablecoins to be used for payments in the UK? What are the costs for payment arrangers and is the business model viable?

Q40: What are the barriers to assessing overseas stablecoins to equivalent standards as regulated stablecoins? Under what circumstances should payment arrangers be liable for overseas stablecoins that fail to meet the FCA standards after approval, or in the case where the approval was based on false or incomplete information provided by the issuer or a third party?

Chapter 12: Conclusion

Comments

Would you like to upload any data as part of your response?

- [ ] Yes
- [x] No

Thank you for completing the survey.
By clicking SUBMIT, your responses will be submitted and you will not be able to return to the survey.

On submission, a summary of your responses will be displayed on screen with the option to save a copy for your records.

If you need to make any changes, please navigate using the back button before submitting the survey.