

# REPORT: REALISING GOVERNMENT'S VISION FOR THE UK TO BECOME A GLOBAL HUB FOR CRYPTOCURRENCY & FINTECH INNOVATION

Inquiry of the All Party Parliamentary Group  
for Crypto & Digital Assets

JUNE 2023



This is not an official publication of the House of Commons or the House of Lords. It has not been approved by either House or its committees. All-Party Parliamentary Groups are informal groups of Members of both Houses with a common interest in particular issues. The views expressed in this report are those of the All Party Parliamentary Group Members following from a series of evidence sessions.

**“We want this country to be a global hub - the very best place in the world to start and scale crypto-companies.... If crypto-technologies are going to be a big part of the future, then we – the UK – want to be in, and in on the ground floor.”**

Keynote Speech by John Glen, Economic Secretary to the Treasury, at the Innovate Finance Global Summit during Fintech Week April 2022.

# Contents

Foreword by Appg Chair Dr Lisa Cameron MP	4
Executive Summary	5
1. The UK as a global home of cryptocurrency and digital asset investment	8
2. The UK's current approach to regulation of cryptocurrency and digital assets	15
3 The role and current approach of UK regulators	27
4. Central Bank Digital Currencies	33
5. Consumer Protection and Economic Crime	39
Annex: All Conclusions and Recommendations	45

# Foreword



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

**As chair of the Crypto and Digital Assets All Party Parliamentary Group in Parliament, I am delighted to present the group's inaugural report considering the potential opportunities and challenges of realising the Government's vision for the UK to become a global hub for Cryptocurrency and Digital Assets.**

This is the first report of its kind compiled jointly involving Members of Parliament and the House of Lords and we are keen that it contributes to evidence-based policy development across the sector.

The Crypto and Digital Assets All Party Parliamentary Group was formed in response to growing interest and scrutiny of the sector in Parliament and exists to help policymakers better understand the ever evolving world of cryptocurrency and digital assets and explore the urgent need for UK regulation.

Following the Government's announcement of its vision for the UK to become a global hub for cryptocurrency, the APPG launched our Inquiry to help identify the issues that policymakers will need to consider moving forward.

I am grateful to everyone who has contributed to our initial APPG Inquiry: to industry, the world of regulation and the banking sector; they have shared their views and expertise which has helped to inform this report and have informed our recommendations to Government.

Given the rapid growth of cryptocurrency and digital assets, the timing of this report is vital to protect consumers whilst ensuring the UK's leadership in this sector can be realised.

Dr Lisa Cameron MP

# Executive Summary

**In April 2022, the UK Government set out its landmark vision to make the UK the global hub for cryptocurrency investment, committing to create the right conditions for cryptocurrency and digital asset businesses to set up and to scale up in the UK.**

In response to the growing interest amongst Parliamentarians and the media regarding regulation of the UK cryptocurrency and digital asset sector, the Crypto and Digital Assets All Party Parliamentary Group (APPG) launched its initial Inquiry in August of 2022 to learn more about the opportunities presented for growth alongside the current challenges faced.

The Inquiry has focused upon a number of key areas including the UK's approach to regulation of cryptocurrency; the role and current approach of UK regulators including the Bank of England, the FCA and the ASA; the potential offered by Central Bank Digital Currencies - 'a Digital Pound'; and risks faced in terms of Consumer Protection and Economic Crime.

The APPG sought views from across the sector including from operators, regulators, and industry experts on the need for regulation of the sector. We invited written submissions from interested parties and subsequently held a number of evidence sessions in Parliament on the considerations that need to be made in order for the Government to achieve its vision for this innovative sector.

The Inquiry has identified a number of opportunities and potential challenges that are set out in this report. The recommendations are

intended to establish a foundation for further discussion regarding the future of cryptocurrency and digital asset regulation in the UK to help inform policymakers.

## KEY CONCLUSIONS AND RECOMMENDATIONS:

Cryptocurrency and digital assets have the potential to significantly transform our established financial services system and the way we deal with money. The rapid growth of cryptocurrency and digital assets in recent years and the increased interest and adoption amongst consumers and investors, suggests that the sector is here to stay and that it therefore needs to be regulated to protect consumers and to ensure guardrails for investment and economic growth.

The cryptocurrency and digital assets industry presents a number of potential opportunities in the UK including efficiencies and innovation in financial services and payments, economic growth, contribution to careers of the future, research and collaboration opportunities and greater financial inclusion for those who are currently marginalised. The UK is well placed to harness these opportunities but it will require cross governmental strategic planning to realise them.

The growth of the cryptocurrency and digital asset sector, without comprehensive regulation, also presents considerable risks particularly in terms of consumer protection, economic crime, and financial stability. Regulation of cryptocurrency and digital assets within financial services is vital to addressing consumer risks whilst harnessing the sector's potential and contribution towards economic growth.



A number of countries around the world have moved quickly to develop clear regulatory frameworks and to provide necessary clarity attracting companies to their jurisdictions. The UK must move within a finite window of opportunity within the next 12-18 months to ensure early leadership within this sector.

The APPG also welcomes the proactive steps that Government is taking alongside the Bank of England to explore the potential of a digital pound. The public and consumers are increasingly embracing more digital means of payments and it is right that Government and regulators too respond to this trend and actively explore the need for further regulation in this space. Any decision to introduce a digital pound in the future will be a profound decision and will require significant trust amongst the public and consumers. Government must ensure that there is sufficient and appropriate education and awareness amongst the wider public which will be a determining factor in the success of any future digital pound.

UK regulators will play a key role in delivering the Government's vision for cryptocurrency and digital assets. Significant concerns remain regarding whether regulators currently have the resources, capacity and technical expertise required and further support and monitoring must be provided to ensure progress is made.

Given the broad nature of cryptocurrency and digital asset regulation, Government will need to ensure that it has a joined up and coordinated approach across all Governmental Departments and agencies that will be impacted by the growth of cryptocurrency, digital assets and blockchain technologies. Government should consider the appointment of a

'Crypto Tsar' who can help coordinate across departments to ensure a consistent approach.

The APPG supports the position of HM Treasury that cryptocurrency and digital assets are best regulated, in so far as is possible and appropriate, within existing and new financial services regulations, which has a track record in mitigating risks to consumers and investors. The APPG also agrees with the recent recommendations by the International Organization of Securities Commissions (IOSCO) that regulators "should seek to achieve regulatory outcomes for investor protection and market integrity that are the same as, or consistent with, those that are required in traditional financial markets."

**“We want this country to be a global hub - the very best place in the world to start and scale crypto-companies.”**

John Glen, Economic Secretary to the Treasury, April 2022

# 1. The UK as a global home of cryptocurrency and digital asset investment.

**In setting out the Government's vision for the UK to become a global hub for cryptocurrency and digital assets investment, we have acknowledged the UK's significant strengths and advantages as a global leader in financial services that mean the UK is well positioned to capitalise on the opportunities presented by the growing sector.**

Government said that the UK is "the leading European fintech hub, second only to the U.S. worldwide" adding that "almost half of the fintech unicorns in Europe are based in the UK... and last year, the sector attracted more investment than France, Germany, Sweden, and the Netherlands combined". Government said that "year-on-year investment growth in UK fintech was up more than 200% in 2021" concluding that "if we commit now... if we act now... we can lead the way".<sup>1</sup>

As part of its Inquiry the APPG invited views on the UK's potential to become a global home of cryptocurrency and digital asset investment as well as the potential opportunities and risks associated with crypto and digital assets in the UK. The Inquiry heard that there were significant potential opportunities for the UK in terms of investment and growth but that there were also a number of potential risks that the UK will need to manage robustly as part of its efforts to regulate the sector.

## KEY FINDINGS:

### The growth of cryptocurrency and digital assets

The Inquiry heard that the cryptocurrency and digital asset sector has grown significantly over recent years with increased interest from consumers and institutional investors embracing this new asset class for a variety of uses.

Research published by the FCA<sup>2</sup> in 2021 estimated that ownership of cryptocurrencies was around 2.3 million individuals, up from around 1.9 million in 2020 – with 78% of UK adults having heard of cryptocurrencies and more people now considering them as an alternative to mainstream investments.

Additional research from HMRC published in July 2022 showed that 10% of UK adults said they hold or have held some type of cryptocurrency or digital asset showing an increase from the FCA's data from 2021.<sup>3</sup>

The Inquiry heard that the rapid increase in popularity of the sector, in spite of recent concerning market events and volatility, now suggests to some that the cryptocurrency and digital asset sector is growing and is likely to be here to stay.

### The UK is well positioned to take advantage of the growth of cryptocurrency and digital assets

The Inquiry heard that the UK is already well positioned to take advantage of the potential of the growth of cryptocurrency and digital assets and to realise the Government's vision of becoming a global hub for cryptocurrency and digital asset investment.

According to HM Treasury the UK is home to one of the largest financial services centres in the world, providing more than £194 billion in value to the UK economy.<sup>4</sup> In addition, the UK has already made progress in its positioning as a hub for fintech innovation and investment.

The UK already has examples of innovative cryptocurrency and digital asset businesses, with many of these businesses operating in regions right across the UK, not just in London, supporting the Government's Levelling Up agenda for all regions.

The UK is also well respected as having a less fragmented regulatory system than some other countries and is recognised for its commitment to high regulatory standards, as well having access to significant talent, skills and expertise in fintech.

### Increased investment in cryptocurrency and digital assets

The Inquiry heard that given these factors, there is significant economic potential for the UK economy presented by the growth of the cryptocurrency and digital asset industry.

In 2021 the UK was the largest European destination for blockchain investments according to Innovate Finance<sup>5</sup>, attracting 29% of crypto-related VC funding, approximately \$11.6bn investment.

Furthermore, according to a report from PwC, Blockchain technology has the potential to boost global GDP by \$1.76trn by 2023, with the potential for £57bn to be generated from the UK alone.<sup>6</sup>

The Inquiry heard that with the right regulatory environment there is a significant opportunity for the UK to capitalise on increased investment in the sector.

The UK Government also has potential to embrace opportunities that the post-Brexit environment offers, by forging its own path in relation to a bespoke, competitive regulatory framework. However the UK faces stiff competition from other countries such as the US, EU, the Middle East and Singapore.

### Cryptocurrency could help drive growth, jobs and skills in the UK

Equally the Inquiry heard of the significant economic benefits that a well regulated and responsible cryptocurrency and digital assets sector could bring to the UK in terms of economic growth, jobs and skills.

The Inquiry heard that research by King's College London found that in 2021, there were over 14,000 jobs advertised on LinkedIn in the cryptocurrency and blockchain industry worldwide. UK based firms provided almost a quarter of those job advertisements even though the UK housed less than 7% of all blockchain and cryptocurrency firms worldwide.<sup>7</sup>

<sup>1</sup> Keynote Speech by John Glen, Economic Secretary to the Treasury, at the Innovate Finance Global Summit, [April 2022](#).

<sup>2</sup> FCA Research Note: Cryptoasset consumer research, [June 2021](#).

<sup>3</sup> HMRC, Individuals holding cryptoassets: uptake and understanding, [July 2022](#).

<sup>4</sup> HM Treasury, UK Investment Research review, [April 2023](#).

<sup>5</sup> Innovate Finance, [January 2022](#).

<sup>6</sup> PwC, 'Time for trust: How blockchain will transform business and the economy', [2020](#).

<sup>7</sup> King's College London, Expertise in the Crypto and Blockchain Industries, [January 2022](#).



The Inquiry also heard that the UK already has a rich ecosystem of cryptocurrency and digital asset businesses in the UK. These firms are spread within regions across the UK, not just in London and thriving blockchain hubs already exist in Leeds, Bristol, Cambridge, Glasgow, Belfast, Birmingham, Liverpool, Manchester and elsewhere.

Whilst we recognise a key priority as part of the Government's vision is to attract cryptocurrency and digital asset investment to the UK, equally it must also act to protect the high growth cryptocurrency and digital asset firms that have already chosen the UK as a base for their operations.

**Cryptocurrency and digital assets could be an alternative to mainstream payments**

In addition to the economic potential of a regulated sector, the Inquiry heard that cryptocurrency and digital assets present a number of potential opportunities to improve existing payments and financial services systems.

It's clear from evidence received, that even given its rapid increase in popularity, it's unlikely that cryptocurrency and digital assets will ever entirely replace other forms of finance. Instead it is more likely to complement existing payment systems and be an alternative to other mainstream forms of payment, within particular use case scenarios for those who choose to use it.

In example, the Inquiry heard that cryptocurrency and digital assets are allowing people to transfer value quickly at lower cost and in some cases making it much easier, faster, and cheaper for families to send money to loved ones overseas.

The Inquiry also heard that a regulated sector could potentially offer significant benefits in terms of improving financial inclusion. As yet 1.2 million people in the UK do not have access to a bank account<sup>8</sup> and according to the World Bank one-third of the adult population worldwide – 1.7 billion people – remained unbanked in 2017.<sup>9</sup>

We heard that many consumers in minority or low socio-economic groups have historically had difficulty in accessing financial services and that the opportunities presented by cryptocurrency, digital assets and other means of decentralised finance could potentially remove traditional barriers to entry for some of these groups.

It seems vitally important that if the sector is proving attractive to those who are currently on the margins of financial inclusion, that vulnerable consumers should be protected via robust regulation, education and awareness campaigns.

**The potential of cryptocurrency and digital assets in times of crisis**

The Inquiry also heard that cryptocurrencies and digital assets have proven effective in facilitating fast and unencumbered donations in times of global humanitarian crises, as recently seen during relief efforts in Ukraine, and more recently in Turkey and Syria.

Following the Russian invasion of Ukraine, the Ukrainian Government appealed for cryptocurrency donations and received over \$100 million in cryptocurrency to support military and humanitarian efforts on the frontline.

Cryptocurrencies have been used by Ukrainians to buy crucial goods and services after critical infrastructure being damaged by attacks, leading to no cash in ATMs or access to bank branch services. Citizens from around the world have been able to support Ukraine and its people through cryptocurrency transactions, which are available to send and receive 24/7.

The APPG was honoured to hear from Ukraine's Deputy Minister of Digital Transformation Alex Bornyakov who told us that cryptocurrency had been "essential" to Ukraine's response to the Russian invasion.<sup>10</sup>

A recent report by blockchain analytics firm Chainalysis also estimated that since the devastating earthquakes had hit parts of Turkey and Syria in February around \$5.9 million of cryptocurrency donations have been made to support relief efforts in the region.<sup>11</sup>

*"If we used the traditional financial system it was going to take days. We were able to secure the purchase of vital items in no time at all via crypto, and what is amazing is that around 60% of suppliers were able to accept crypto, I didn't expect this."*

**Alex Bornyakov,**  
**Deputy Minister of Digital Transformation of Ukraine,**  
**February 2023**

The APPG believes that there is significant potential for blockchain technology in helping to ensure that UK financial aid overseas reaches the most vulnerable and encourages Government and in particular the UK Foreign, Commonwealth & Development Office (FCDO) to actively consider how it can harness this technology going forward.

**Government should be mindful of the risks**

The Inquiry heard that in seeking to take advantage of the potential benefits presented by the growth of cryptocurrency and digital assets, Governments and regulators must also be mindful of the risks.

Government must balance harnessing potential opportunities with the need to ensure high standards of compliance and consumer protection in any future regulatory framework for cryptocurrency and digital assets in the UK, as well as having regard to other potential risks in terms of financial stability, and economic crime.

In relation to financial stability in January 2023, the International Monetary Fund (IMF) said that as cryptocurrency and digital assets become more deeply linked with the core financial system there could be "concerns about systemic risk and financial stability in the near future".<sup>12</sup>

Sir Jon Cunliffe Deputy Governor for Financial Stability at the Bank of England has also previously warned that while the risks posed by cryptocurrency and digital assets are "not yet systemic" the situation should be "closely monitored" by Governments.<sup>13</sup>

8 FCA Financial Lives 2020 survey, [February 2021](#).  
9 The World Bank, The Global Findex Database, [2021](#).

10 Alex Bornyakov, Deputy Minister of Digital Transformation of Ukraine, [July 2022](#).  
11 Chainalysis, Crypto Donations Provide Fast Relief for Earthquake Victims in Turkey and Syria, [February 2023](#).  
12 IMF, [January 2023](#).  
13 Sir Jon Cunliffe, Bank of England, [October 2021](#).

The Inquiry heard that cryptocurrency and digital assets do not at present pose a current systemic risk to the financial system; however Government should continue to monitor the growth of cryptocurrency and digital assets and take action should these reach a scale where they could impact wider financial stability.

**The UK risks falling behind in the global cryptocurrency and digital assets race**

The rapid pace of change in the cryptocurrency and digital asset sector presents a challenge for Governments and regulators who are seeking to grapple with how best to regulate this new technology.

The Inquiry heard that at present the UK is at serious risk of being left behind by countries with clear and comprehensive approaches to cryptocurrency and digital asset regulation. A number of prominent examples include the European Union which has recently adopted the Markets in Crypto-Assets (MiCA) regulation; and other countries which are actively exploring regulation in this space.

Former Chancellor of the Exchequer Philip Hammond has said that the UK is lagging behind other countries on cryptocurrency and digital asset regulation warning that the UK has to move quickly to regain its footing or risk a loss of talent and its status as a global financial services leader.<sup>14</sup>

*“It isn’t too late for us to catch up and recover, but we are getting very close to the point where it will be too late....The jurisdictions that have embraced this technology that have regulated it properly and effectively will be the ones that develop these markets and they will become the new hubs.”*

**Former Chancellor of the Exchequer Philip Hammond, Bloomberg, 23 June 2022**

**CONCLUSIONS AND RECOMMENDATIONS:**

**Recommendation 1:** The UK is well positioned to become a global hub for cryptocurrency and digital asset investment. Government should seek to build on its existing strengths as a leader in financial services and as a hub for Fintech investment as it seeks to realise its vision for the UK cryptocurrency and digital asset sector and to leverage the UK’s post Brexit opportunities to chart its own bespoke course in terms of regulation.

**Recommendation 2:** The UK should seek to capitalise on the significant investment opportunities presented by the growth of the cryptocurrency and digital assets industry.

**Recommendation 3:** The UK should seek to harness the significant opportunities in terms of economic growth, and the potential for job creation in its approach towards the sector.

**Recommendation 4:** Government should look to create the right conditions to attract inward investment in the UK cryptocurrency and digital assets sector and should also support development of businesses that have already set up in the UK so as not to risk losing growth to other jurisdictions.

**Recommendation 5:** Government should explore how it can support regional growth and leverage the strength of its existing regional fintech hubs across the UK.

**Recommendation 6:** Government should look at ways to cultivate and attract the right talent and skills needed to support the growth of emerging technologies in fintech and the digital assets industry. A review should be undertaken of educational and business opportunities across the UK in order to develop sector skills required and to support the Government’s Levelling Up agenda.

**Recommendation 7:** Government should explore the potential for improved access to financial services for the 1.2 million people in the UK who do not have access to mainstream financial services. We encourage further research into the potential for digital financial inclusion.

**Recommendation 8:** Government should be mindful of the potential risks presented by the continued growth and popularity of the cryptocurrency and digital asset sector, particularly in terms of any potential risks to financial stability, consumer protection, and risks identified from economic crime.

**Recommendation 9:** The Inquiry heard that cryptocurrency and digital assets do not at present pose a systemic risk to the financial system; however Government should continue to monitor the growth of the sector and take risk management action should cryptocurrency and digital assets reach a scale where they could impact wider financial stability.

**Recommendation 10:** Government must keep pace with the rapid developments in emerging technology and not risk falling behind other countries overseas in the race to regulate the industry in achieving its goal of becoming an international hub of cryptocurrency, digital assets and fintech.

**Recommendation 11:** The APPG believes that there is significant potential for blockchain technology in helping to ensure that UK financial aid overseas reaches the most vulnerable and encourages Government and in particular the UK Foreign, Commonwealth & Development Office (FCDO) to actively consider how it can harness this technology going forward.

14 Bloomberg, UK Has ‘Missed A Trick’ on Crypto, Minister-Turned-Adviser Says, [23 June 2022](#).



“Above all, we want to position the UK as a pro-innovation jurisdiction... which is attractive to inward investment, and to firms who don't yet have a settled base.”

John Glen, Economic Secretary to the Treasury, April 2022.

## 2. The UK's current approach to regulation of cryptocurrency and digital assets.

**In April 2022 the Government set out its vision for the UK to be a global hub for cryptocurrency and digital asset investment.**

The Government also announced plans to legislate in the form of the Financial Services And Markets Bill to regulate stablecoins as a means of payment, as well as the launch of a Financial Market Infrastructure Sandbox, the formation of a ministerial level Cryptoasset Engagement Group, and continued collaboration between the FCA and industry in the form of “crypto sprints” that would help inform policy views.

The UK Government has since brought forward proposals within the Financial Services and Markets Bill to regulate Stablecoins and also on the financial promotion of cryptocurrency and digital assets, as well as publishing its recent consultation on regulation of the wider cryptocurrency and digital asset industry.

Government has said that it wants to ensure that companies can invest, innovate and scale up in this country and that its clear message is that the ‘UK is open for business’ for cryptocurrency and digital asset firms where consumers can use this new technology ‘reliably and safely’.

As part of its Inquiry the APPG invited views on the UK's current approach towards the regulation of cryptocurrency and digital assets and what more might be required to help deliver on the Government's stated ambition to become a global cryptocurrency and digital asset hub.

### **KEY FINDINGS:**

#### **Industry overwhelmingly supports regulation**

The Inquiry heard that the sector is overwhelmingly in support of regulation. Industry recognises the importance of a well-regulated industry in the UK, and welcomes regulation which provides business certainty, clarity, encourages a responsible market with integrity, consumer protections and enables innovation to flourish. .

#### **UK still in early stage of regulation**

The Inquiry heard that the Government's vision to make the UK a global home of cryptocurrency and digital asset investment sent a powerful signal to the market that the UK is committed to pursuing cryptocurrency and digital assets as a strategic objective. Industry was encouraged by Government's ambitious vision for the sector which went some way to providing confidence to firms to innovate and invest in the UK.



The Inquiry heard that in spite of the Government's vision to make the UK a global hub for cryptocurrency and digital assets investment, the UK still remains in the very early stages of regulation of the industry.

Industry has welcomed some of the recent steps taken by Government to address some of the gaps in regulation. The Inquiry heard that the Government's Financial Services and Markets Bill which seeks to regulate Stablecoins as a means of payment is a welcome first step, however many noted that the FSMB doesn't provide further clarity on other types of cryptocurrency and digital assets.

As such the Government's recent consultations and in particular HM Treasury's consultation on regulation of the wider cryptocurrency and digital asset industry is another positive step, setting out the Government's intentions for the sector and setting clear expectations which should give firms the confidence needed to come to the UK and innovate.

### A stablecoin first approach

We heard that the sector broadly welcomed the Government's efforts through the Financial Services and Markets Bill to regulate stablecoins as a means of payment.

The Inquiry heard that the sector supports the general decision of policymakers and regulators to focus on stablecoins in the first instance given their potential to develop into a widespread means of payment and the potential to spur further innovation and greater efficiencies in existing payments. Research from Deloitte in 2022 showed that nearly 75% of merchants expect to accept stablecoin payments within 24 months.<sup>15</sup>

The Inquiry heard that stablecoins could provide a range of benefits and improvements to existing payment systems including access to lower cost, safer, and more transparent cross border remittances and could easily co-exist alongside other forms of payments and digital assets. The Inquiry heard that not all stablecoins are created equal however, and there have been examples of harmful crashes in the stablecoin market. As such regulators will need to insist that stablecoins are backed by high-quality assets, and ideally by fiat currency, to provide trust and confidence in this new form of payment.

Most stablecoins at present are pegged to other international currencies such as the dollar however it is possible that in the future given sufficient regulatory clarity and Government support, the UK could see the growth of Sterling backed stablecoins.

### NFTS

The Inquiry also considered the growth and popularity of non-fungible tokens (NFTs).

A market report in 2022 predicted that the value of the nonfungible token (NFT) market could reach \$231 billion by 2030.<sup>16</sup> The Law Commission has said "NFTs can become a powerful technological structure that can be used to link to — and to transfer — other legal rights to things external to crypto-token systems."

The Inquiry heard that whilst there may be a need for regulation of this area in the near future, Government should proceed cautiously and that early over-regulation of NFTs could stifle innovation and development in this growing area.

The Inquiry also heard about the increasing popularity and use of Fan Tokens by cryptocurrency and digital asset firms and football clubs. The Inquiry heard that whilst there are some concerns regarding the potential for consumer harm due to the price volatility of some of these assets, fan tokens can also enhance the experience of fans and increase the opportunities for fans to engage with their club through voting rights and other benefits, as well as providing an important additional revenue stream for many clubs.

Government should continue to monitor developments in relation to NFTs and Fan Tokens and consider how appropriate regulation of NFTs could support growth and innovation in this space whilst protecting consumers from potential harm.

### A clear strategy and action plan

The Inquiry heard that while the progress being made is welcome, much of the progress thus far has focused on specific issues without being part of a wider strategy. It was felt that there still needs to be a clearly defined overarching strategy and an action plan to deliver on the Government's vision for the UK.

### UK regulation should follow several key principles:

The Inquiry heard that the Government should consider a number of fundamental principles in the development of any future regulation of the UK cryptocurrency and digital asset sector:

- **Proportionate and balanced regulation:** The Inquiry heard that there is a need for any future regulation of the cryptocurrency and digital asset sector to be balanced and proportionate and that Government should take care to balance the need for regulation with the need to ensure it does not inadvertently stifle innovation and growth in the sector.

- **Clear pathways for good actors:** Government should ensure that there are clear pathways for legitimate and responsible cryptocurrency and digital asset businesses to operate and grow in the UK, whilst acknowledging the clear need to sift out bad actors.
- **Regulatory clarity:** The Inquiry heard that the lack of regulatory clarity is one of the single biggest obstacles facing UK cryptocurrency and digital assets businesses when competing globally. Regulatory clarity will be a key driver in the UK encouraging investment by industry.
- **Future proof:** As the industry continues to grow and innovate, Government should take care to ensure that any future regulation is future-proofed to allow it to adapt to the fast pace of change in the industry and should take a long-term view in its approach to regulation. The Inquiry heard that an agile approach that can keep pace with the speed of developments will be key as traditional regulatory approaches may be too static for such a dynamic market.
- **Different types of assets:** The Inquiry heard the UK cryptocurrency and digital assets industry is incredibly diverse with varying types of businesses providing a range of different products and services. We also heard that cryptocurrency and digital assets differ in their characteristics, functionalities and risks for consumers meaning a one size fits all approach to future regulation may not be appropriate. There may also be a need to delineate between consumer facing cryptocurrency and digital asset businesses - which present a unique set of risks - and others that are not.

<sup>15</sup> Merchants getting ready for crypto, Merchant Adoption of Digital Currency Payments Survey, Deloitte, [June 2022](#).

<sup>16</sup> Verified Market Research (VMR), [July 2022](#).

- **Different levels of consumer sophistication:** The Inquiry also heard that cryptocurrency and digital asset investors can also differ in their understanding, use and risk appetite and as such a distinction needs to be made between sophisticated and unsophisticated investors.
- **Nuanced and bespoke approach:** Government should take care to distinguish different classes of cryptocurrency and digital asset based on their specific characteristics and uses and adopt a nuanced and bespoke approach to regulating cryptocurrency and digital assets depending on their specific characteristics.
- **Same risk same regulation:** The Inquiry heard that Government and regulators should adopt the principle of “same risk, same regulation” looking at specific use cases and their specific risks in its approach. The UK should adopt activity-based, technology-neutral regulation - meaning that regulation should be technologically neutral, without the technology being regulated but what it does.

**Existing regulations**

Given the unique and broad nature of different cryptocurrency and digital assets the Government may wish to consider a tailored and bespoke approach to regulation based on the specific use cases and the specific risks of particular types of cryptocurrency and digital assets.

Government should consider whether existing regulations and frameworks are appropriate and if not should consider new cryptocurrency and digital asset specific regulation.

HM Treasury has said that the “risks posed by crypto are typical of those that exist in traditional financial services” and it’s financial services regulation – rather than gambling regulation – that has the track record in mitigating them.

The APPG supports the position of HM Treasury that cryptocurrency and digital assets are best regulated, in so far as is possible and appropriate, within existing and new financial services regulations, which has a track record in mitigating risks to consumers and investors. The APPG also agrees with the recent recommendations by the International Organization of Securities Commissions (IOSCO) that regulators “should seek to achieve regulatory outcomes for investor protection and market integrity that are the same as, or consistent with, those that are required in traditional financial markets.”<sup>17</sup>

**Speed of regulation**

The Inquiry has heard numerous representations regarding the UK’s need to move at pace to develop a fit for purpose regulatory framework for cryptocurrency and digital assets and that there is a real risk of the UK being left behind by more advanced regulated markets overseas.

The Inquiry heard that other jurisdictions are making significant headway in delivering legal and regulatory certainty to the market and there remain concerns over the speed of regulation in the UK compared to other jurisdictions.

Already, companies have left the UK for other countries where the regulatory climate is welcoming and supportive with authorities providing the clarity needed for long term investment.

*“The U.K. needs to be leading in this area post-Brexit. It’s allowed itself to slip behind. Switzerland is further ahead. The EU is also moving faster. There has to be appetite to take some measured risk.”*

**Former Chancellor of the Exchequer Philip Hammond MP, Financial Times, January 2023**

The APPG encourages UK regulators to learn from international best practice frameworks such as the European Union’s Markets in Crypto-Assets Regulation (MiCA) to identify measures which encourage industry innovation, while also working to promote global best practices which reflect the global nature of cryptocurrency and digital assets.

The UK should carefully consider the steps being taken in the EU and elsewhere to regulate the cryptocurrency and digital asset industry, which can provide a useful blueprint for the UK’s own approach to regulation.

The Inquiry heard that there are a number of benefits to the UK adopting a ‘first mover’ approach by introducing a regulatory framework that will attract cryptocurrency and digital asset businesses to the UK quickly. Alternatively the Inquiry heard that there may also be benefits to the UK adopting a ‘second or even third mover’ approach which may allow more time for the UK to develop considered regulation for cryptocurrency and digital assets and to learn from other jurisdictions. If the UK is to adopt a ‘second mover’ approach then Government must be ready to move at

pace and should take the time now to prepare the necessary regulations and frameworks required.

**Public and private engagement**

We believe that a continued dialogue between industry and regulators is key to inform proportionate and effective policy. We welcome that Government has said that it recognises the importance of engagement with the sector and committed to hold six industry roundtables throughout 2023.<sup>18</sup> To that end the APPG welcomes the recent commitment by Government to Ministerial Level engagement with industry and strongly encourages Government to ensure that these forums represent the leading operators and trade bodies from the cryptocurrency and digital asset sector.

**A coordinated international approach to cryptocurrency and digital asset regulation**

Another significant element to be addressed is a coherent international regulatory approach given the borderless nature of cryptocurrency and digital assets. A key challenge in adopting digital currencies is the lack of harmonised regulatory standards at an international level.

A further area of concern is the inconsistent approach to the regulation of cryptocurrency and digital assets in the UK with regulation in British Overseas Territories, creating challenges for businesses seeking to broaden market access for UK consumers.

The Inquiry heard that it must be made as easy as possible, through passporting arrangements or similar, for UK-based

<sup>17</sup> International Organization of Securities Commissions (IOSCO). Recommendations for Crypto and Digital Asset Markets. Recommendation 1. [23 May 2023](#).

<sup>18</sup> Westminster Hall Debate, Cryptocurrency Regulation, [January 2023](#).



cryptocurrency and digital asset businesses to access strategically important global markets. Government should seek to play a leading role in driving forward a consistent global approach to cryptocurrency and digital asset regulation through international forums such as the G7 and others.

**A whole of Government approach**

The UK must ensure that all Government departments are working in the same direction in a joined up approach. The Inquiry heard that whilst the Government has set out a clear vision for the future of cryptocurrency and digital assets in the UK, Government must take a ‘whole of government’ approach to cryptocurrency and digital asset regulation and ensure that there is a consistent approach across all government departments and regulatory bodies.

**Sufficient Government resource**

In addition, given the unique and often complex nature of cryptocurrency and digital assets, the Government should ensure that it has the sufficient resources and expertise to deliver on its vision. Government and regulators should consider developing more domain specific knowledge and expertise within Government departments in order to properly understand and regulate the sector.

We heard that Government would benefit from dedicated cryptocurrency and digital asset units to ensure it has the necessary skills and understanding required to achieve its vision.

Government should also consider the appointment of a ‘Crypto Tsar’ within Government who can help lead this

work and who can coordinate across Government departments to ensure a consistent approach.

**Potential barriers to the UK achieving its vision for the UK to become a global hub for cryptocurrency and digital assets**

The Inquiry heard that there remain a number of potential barriers to the UK fulfilling its vision to become a global cryptocurrency and digital asset hub.

**A clear framework for the taxation of cryptocurrency and digital assets**

In addition to regulation, the Inquiry heard that the UK tax regime for cryptocurrency and digital assets also needs to adapt. In announcing the Government’s vision for cryptocurrency and digital assets the Government has said that it does not think that the UK’s tax code will need ‘major surgery’ to make it work more easily for cryptocurrency and digital assets.<sup>19</sup>

However, the Inquiry heard that the UK’s tax regime, like that in many countries around the world, was largely written when cryptocurrency and digital assets and blockchain technology did not exist. As such, the UK tax regime is built on certain premises that may not be entirely transferable.

Government has already taken some steps to provide further clarity in relation to the taxation of cryptocurrency and digital assets. HMRC has already issued guidance for the treatment of cryptocurrency and digital assets for taxation purposes and we welcome the Government’s commitment to look at and to resolve specific issues like the treatment of DeFi loans and staking.

In addition, Government announced changes in the Chancellor’s recent budget statement to Self Assessment Tax return forms requiring amounts in respect of cryptocurrency and digital assets to be identified separately which are forecast to raise about £30mn for the exchequer between 2025-28.<sup>20</sup> Whilst the APPG welcomes the steps taken by Government thus far on the taxation of cryptocurrency and digital assets, the Inquiry heard that there remains a need for further clarity for investors in relation to the UK’s tax framework.

According to HMRC research from 2022, a third of those holding cryptocurrency and digital assets reported having a good understanding of capital gains requirements (34%), with 37% of people saying they knew “little or nothing”, while 22% said they were “not familiar at all”.

*“It is estimated that \$8.16bn in cryptocurrency profits were realised in the UK in 2021, according to blockchain research group Chainalysis. This was second only to the US and signalled the extent of crypto gains realised by investors, which were unlikely to be fully disclosed.”*

*Chainalysis, The Financial Times, March 2023*

The tax rules for cryptocurrency and digital assets are still confusing for many investors and there is a need for further clarity in relation to the taxation of cryptocurrency and digital assets in the

UK. The UK should publish clear guidance for the taxation of cryptocurrency and digital assets and tax rules should, as much as possible, be consistently applied to similar financial instruments or similar activities. Government should consider issuing updated guidance on the taxation of cryptocurrency and digital assets in the UK and also consider a comprehensive tax framework for cryptocurrency and digital assets which ensures that the UK remains internationally competitive, provides clarity for investors and generates appropriate revenue.

**Legal classification of assets**

The Inquiry heard that another key area of consideration in any future regulatory framework is the legal classification of cryptocurrency and digital assets.

The Government said in announcing its vision for the UK to be a global hub for cryptocurrency and digital assets that “looking ahead, the legal landscape will also be crucial...and can play a big part in making the UK an attractive hub for all things digital and for new technologies more generally.”<sup>21</sup>

The UK Government has asked the Law Commission to make recommendations for reform to ensure that the law is capable of accommodating both cryptocurrency and digital assets in a way which allows the possibilities of this type of technology to flourish.

The Inquiry has considered the recent proposals by the Law Commission<sup>22</sup> of England and Wales to reform the law relating to digital assets and introduce a new category of personal property right specifically tailored for this type of asset.

19 Keynote Speech by John Glen, Economic Secretary to the Treasury, at the Innovate Finance Global Summit, [April 2022](#).

20 Spring Budget 2023 Policy Costings, [March 2023](#).

21 Keynote Speech by John Glen, Economic Secretary to the Treasury, at the Innovate Finance Global Summit, [April 2022](#).

22 Law Commission, Digital Assets: Consultation paper, [28 July 2022](#).



If agreed, those proposals could have significant implications for the industry in the UK, and if implemented correctly, are likely to help achieve the Government's goal for the UK to become a global hub for cryptocurrency and digital assets.

The Law Commission has said that "Digital assets are increasingly important in modern society. They are used for an expanding variety of purposes – including as valuable things in themselves, as a means of payment, or to represent or be linked to other things or rights – and in growing volumes. It added that "Reforming the law to provide legal certainty would lay a strong foundation for the development and adoption of digital assets. It would also incentivise the use of English and Welsh law and the jurisdiction of England and Wales in transactions concerning digital assets."

*"With digital assets and other emerging technologies developing rapidly in recent years, the laws that support and govern them have struggled to keep pace. This has led to inconsistencies across jurisdictions, with uncertainty over which laws should be applied and which courts should rule on them. By clarifying the law, the UK can lead the way in providing solutions to the legal issues increasingly seen at an international level, creating a commercial environment that allows these technologies to thrive."*

**Professor Sarah Green,**  
the Law Commissioner for  
Commercial and Common Law,  
October 2022

The APPG welcomes the work of the Law Commission in this important area and its recent consultation. We encourage Government to carefully consider any recommendations from the Law Commission and to move quickly on the legal classification of these assets where this may provide further clarity for the sector, regulators and the legal system.

### **The UK banking sector and access to banking services**

Another area of concern for many cryptocurrency and digital asset firms is access to basic financial services. The Inquiry heard that UK cryptocurrency firms often struggle to secure access to UK banking services and a high proportion of banks have refused to provide bank accounts to cryptocurrency and digital asset firms even where those firms are regulated and licensed to operate in the UK. In addition, the Inquiry heard that a number of major banks have also announced limits on cryptocurrency and digital asset transactions over recent months.

These services are necessary for companies to operate regulatory-compliant businesses. The Inquiry heard that this could be one of the single biggest barriers to growth and innovation that the UK has. There are concerns that this could fundamentally undermine the Government's ambition for the UK to become a global cryptocurrency and digital asset hub and could be a significant barrier to growth and innovation.

The industry has proposed that the Government introduce a 'white list' of registered cryptocurrency and digital asset firms to avoid the sector being cut off from the financial system.

The Government should take urgent steps to ensure that there are clear pathways for legitimate and responsible cryptocurrency and digital asset companies to be able to access fundamental services required to operate regulated businesses, such as adequate insurance and banking facilities. The APPG encourages the Government to take the lead on this issue and to urgently find a solution for both the banking and cryptocurrency and digital asset industries. Guidance on how traditional financial institutions can work with the sector productively would be welcome and Government should seek to use its convening power to help facilitate a dialogue between the banking and cryptocurrency and digital asset industry on this issue.

### **The environmental impact of cryptocurrency and digital assets**

The Inquiry are aware of concerns that some cryptocurrency and digital assets can have a significant environmental impact. The Government has said that it 'has been monitoring developments within the cryptoasset industry, including rising energy usage'.<sup>23</sup>

The Inquiry heard that the cryptocurrency and digital asset sector is already exploring innovative ways to address this issue. Industry efforts like the recent Ethereum 'Merge' are a welcome and positive step in the right direction with some operators taking proactive steps on sustainability.

Government, regulators and industry should seek to work together to move towards a more sustainable industry and it is important that policymakers build a strong evidence base to properly understand the scale and impact of these challenges when making decisions over future regulation of the sector.

## **CONCLUSIONS AND RECOMMENDATIONS:**

**Recommendation 1:** The Inquiry heard that the industry is overwhelmingly in support of regulation and Government and regulators should seize the opportunity to work with industry to help develop fit for purpose regulation.

**Recommendation 2:** The Inquiry heard that in spite of the Government's vision to make the UK a global hub for cryptocurrency and digital asset investment, the UK still remains in the very early stages of regulation of the industry. Government should continue to develop a comprehensive framework that provides regulatory clarity which will be a key factor in attracting inward investment in the UK.

**Recommendation 3:** The Inquiry heard that stablecoins could provide a range of benefits and improvements to existing payment systems. Regulators will need to insist that stablecoins are backed by high-quality assets, and ideally by fiat currency, to provide trust and confidence in any new form of payment.

**Recommendation 4:** Government should continue to monitor developments in relation to NFTs and Fan Tokens and consider how appropriate regulation of NFTs could support growth and innovation in this space whilst protecting consumers from potential harm.

**Recommendation 5:** The Inquiry heard that while the progress being made is welcome, much of the progress thus far has focused on specific issues without being part of a wider strategy. It was felt that there still needs to be a clearly defined overarching strategy and an action plan to deliver on the Government's vision for the UK.

**Recommendation 6:** Regulatory clarity will be a key factor in attracting inward investment in the UK and Government should ensure that there are clear pathways for legitimate and responsible businesses to operate and grow in the UK, while acknowledging the clear need to sift out bad actors.

**Recommendation 7:** The Government should ensure that regulation is balanced and proportionate to protect consumers and so as not to stifle innovation, whilst also ensuring that any regulatory regime is agile enough to adapt easily to the fast pace of change in the sector. There may be a need to acknowledge the unique nature of some assets with a 'same risk, same regulation' approach.

**Recommendation 8:** Given the unique nature of different cryptocurrency and digital assets, Government should consider whether existing regulations and frameworks are appropriate or could be amended and if not should consider new, domain specific regulation.

**Recommendation 9:** Other jurisdictions are making significant headway in delivering legal and regulatory certainty and there is a real risk of the UK being left behind by more advanced and more cryptocurrency and digital asset friendly regulated markets overseas. The Government must move within a finite window of opportunity within the next 12-18 months to ensure early leadership within this sector.

**Recommendation 10:** The APPG welcomes the recent commitment by Government to Ministerial Level engagement with industry and strongly encourages Government to ensure that these forums represent the leading operators and professional bodies from the cryptocurrency and digital asset sector.

**Recommendation 11:** The Inquiry heard that it must be made as easy as possible, through passporting arrangements or similar, for UK-based cryptocurrency and digital asset businesses to access strategically important global markets. Government should also seek to play a leading role in driving forward a consistent global approach to cryptocurrency and digital asset regulation through international forums such as the G7 and others.

**Recommendation 12:** Government must take a 'whole of government' approach to cryptocurrency and digital asset regulation and ensure that there is a consistent approach across all government departments and regulatory bodies. Government should consider the appointment of a 'Crypto Tsar' who can help coordinate across departments to ensure a consistent approach.

**Recommendation 13:** Government should ensure that it has the sufficient resources and expertise to deliver on its vision. Government and regulators should consider developing specialist knowledge and expertise within Departments in order to properly understand and regulate the sector. We believe that Government would benefit from dedicated units to ensure it has the necessary skills and understanding required to achieve its vision.

**Recommendation 14:** Government should consider issuing updated guidance on the taxation of cryptocurrency and digital assets in the UK and also consider a comprehensive tax framework which ensures that the UK remains internationally competitive, provides clarity for investors and ensures tax revenue.

**Recommendation 15:** We welcome the work of the Law Commission on the classification of cryptocurrency and digital assets. We encourage the Government to carefully consider any recommendations from the Law Commission and move quickly on the legal classification of these assets where this may provide further clarity for the sector, regulators and the legal system.

**Recommendation 16:** UK cryptocurrency and digital assets firms are struggling to secure access to UK banking services which could fundamentally undermine the Government's ambition for the UK to become a cryptocurrency and digital asset hub and could be a significant barrier to growth and innovation. The Government should take urgent steps to ensure that there are clear pathways for legitimate and responsible companies to be able to access fundamental services required to operate regulated businesses, such as adequate insurance and banking facilities. The APPG encourages the Government to take the lead on this issue to find a solution for both the banking and cryptocurrency and digital assets industries. Guidance on how traditional financial institutions can work with the sector productively would be welcome and Government should seek to use its convening power to help facilitate a dialogue between the banking and cryptocurrency and digital assets industry on this issue.

**Recommendation 17:** Government should consider the environmental impact of cryptocurrency and digital assets and build a strong evidence base to properly understand the scale and impact of these challenges when making decisions over future regulation of the sector.

**Recommendation 18:** The APPG supports the position of HM Treasury that cryptocurrency and digital assets are best regulated, in so far as is possible and appropriate, within existing and new financial services regulations, which has a track record in mitigating risks to consumers and investors.



**“We cannot have a financial system that is competitive internationally if it has a slow latency and if it does not operate at speed.”**

Andrew Griffith MP,  
Economic Secretary to Treasury and City Minister,  
January 2023

## 3. The role and current approach of UK regulators.

**Governments and regulators around the world are developing their own approaches for the regulation of this new and emerging technology and UK regulators will play a pivotal role in delivering the Government's vision for the UK to become a global hub for cryptocurrency and digital assets.**

As part of its Inquiry the APPG invited views on the approach of UK regulators, in particular the role of the Financial Conduct Authority (FCA), the Bank of England, and the Advertising Standards Authority in relation to cryptocurrency and digital assets.

### KEY FINDINGS:

#### The role of regulators

The approach of UK regulators will be pivotal to the success of the Government's vision for cryptocurrency and digital assets. Mitigating and managing any potential risks associated with the regulation of cryptocurrency and digital assets should be a key priority for UK regulators; however, this must be balanced with the Government's desire for the UK to be an attractive destination for cryptocurrency and digital asset companies to invest and grow their businesses.

Recent high-profile events in the cryptocurrency and digital asset industry such as the collapse of the major exchange FTX have rightly focused the minds of global regulators on the need for proper supervision of operators to protect

consumers and the wider financial system. It is clear that industry must seek to demonstrate its commitment to high standards of regulatory compliance and good corporate governance in order to rebuild trust.

Equally it is vital that regulators are equipped with the necessary powers and resources to be able to regulate the industry appropriately. It is also important that regulators provide clear guidelines and requirements for any cryptocurrency and digital asset businesses that are looking to invest in the UK.

#### The registration and licensing of cryptocurrency and digital asset firms in the UK

A key area of concern highlighted has been the Financial Conduct Authority's (FCA) handling of the registration process for cryptocurrency and digital asset businesses to operate in the UK market.

Since January 2020 the FCA has been responsible for the licensing and registration of companies to operate in the UK for the purposes of anti-money laundering and counter terrorist financing supervision. However as of January 2023 just 41 firms<sup>24</sup> had been registered to operate in the UK raising concerns over the FCA's approach to cryptocurrency and digital asset firms.

Whilst the Government has said the UK is open for business for cryptocurrency and digital asset companies, the Inquiry heard that this has not been the experience of

<sup>24</sup> Westminster Hall Debate, Cryptocurrency Regulation, [January 2023](#).



many firms seeking to obtain licences to operate in the UK. Many have seen lengthy delays or in many cases their applications rejected without clear explanations as to the reasons why.

Government has said that it is “interested in general, as we seek to have an agile and proportionate financial regulatory system, in our regulators moving at the right pace” and that “we cannot have a financial system that is competitive internationally if it has a slow latency and if it does not operate at speed.”<sup>25</sup>

The Inquiry heard that at present the process for cryptocurrency and digital asset businesses to enter the UK is burdensome and lengthy, resulting in many businesses ultimately choosing to invest outside of the UK. This not only presents a barrier to the UK’s vision of becoming a global cryptocurrency and digital asset hub, but also increases the risk that UK consumers are choosing platforms and services which are outside of UK jurisdiction and oversight. The Inquiry heard that the difficulty in gaining a UK licence to provide cryptocurrency and digital asset services means that firms will need to delay investment decisions about the UK market for a year or more.

We believe therefore there might be an opportunity to explore how the UK can remain attractive, whilst ensuring the thoroughness of its assessments.

**Cryptocurrency and digital asset advertising and financial promotions**

The Inquiry heard that given the increase in cryptocurrency and digital asset adverts and the potential risk for consumer harm, in 2021 the ASA identified cryptocurrency and digital asset advertising as a ‘red alert’

high priority issue and has taken steps to investigate and enforce guidance for the promotion of these assets.

The FCA and the ASA have developed guidance to ensure that all cryptocurrency and digital asset service providers registered in the UK are subject to similar advertising standards and required to include appropriate and prominent risk disclosures in the advertisement of their services.

The Government has also taken welcome steps to grant powers to the FCA for the regulation and supervision of cryptocurrency and digital asset promotions. The government has said that it anticipates that this measure “will significantly improve UK consumers’ understanding of the risks and benefits associated with their investments and ensure that cryptoasset promotions are held to the same high standards as broader financial services with similar risk profiles.”<sup>26</sup>

The APPG welcomes the steps to extend the UK’s financial promotions regime to cover cryptocurrency and digital assets. Government should ensure that cryptocurrency and digital asset promotions are fair, clear and not misleading and carry sufficient warnings regarding the potential risks for consumers.

It is important that Government takes a consistent approach to the promotion of cryptocurrency and digital assets to that of other similar-risk investments and ensures that the UK has robust yet fair standards for the promotion of digital assets, whilst ensuring that there is a level playing field for all legitimate businesses that are licensed in the UK.

**Ensuring regulators have the resource and knowledge to regulate the industry**

We also have concerns as to whether authorities and regulators have sufficient resources and the appropriate knowledge and skills internally to deliver on its new cryptocurrency and digital asset responsibilities.

We recognise that the FCA for example has said it is investing in their internal capacity and Nikhil Rathi, Chief Executive of the FCA, has accepted some of these resourcing challenges telling the Treasury Select Committee in 2021 that “the technical skills around crypto are hard to find. It is competitive” adding that “one of the consequences of more regulation coming into play for crypto firms is that they are all out there hiring compliance people who know about crypto. We have created a market for some of that talent.”<sup>27</sup>

Charles Randall, the former Chair of the FCA, has highlighted that it is not clear how the FCA will pay for the “very significant cost” of oversight of the cryptocurrency and digital asset industry.<sup>28</sup> Some firms who have undergone the FCA’s authorization process have complained about the high staff turnover at the FCA and the lack of knowledge.<sup>29</sup>

The APPG recognises the increased competition in general for crypto-related skill sets and expertise and recommend urgent steps be taken to ensure that regulators have the resources they need to be able to properly deliver on their new cryptocurrency and digital asset responsibilities.

One solution would be to ensure that UK regulators have dedicated cryptocurrency and digital asset units with proper resource and sector understanding to deliver on their responsibilities. The pooling and sharing of qualified resources between regulators and Government bodies, as well as increased secondments between public and private sector may help to improve regulators’ understanding of cryptocurrency and digital assets and their ability to move at pace.

**Better coordination between Government and regulators**

There is also a need for improved coordination between Government and regulators in delivering the Government’s vision for the UK to be a global cryptocurrency and digital assets hub.

The Inquiry heard that despite statements from Government that the UK is open for cryptocurrency and digital asset businesses, the tone of several public statements from UK regulators including the FCA and the Bank of England have at times been contradictory to that of the Government which risks undermining the Government’s objective and can deter long term investment.

For example comments by the incoming chair of the FCA Ashley Alder in December 2022 who said in his experience cryptocurrency and digital asset platforms were “deliberately evasive”, facilitated money laundering at scale and created “massively untoward risk”.<sup>30</sup> We also note comments made by the Governor of the Bank of England Andrew Bailey on 4th April 2022 - incidentally the exact same day that the Government announced its landmark vision for the UK

25 Westminster Hall Debate, Cryptocurrency Regulation, [January 2023](#).  
26 HM Treasury, March [2023](#).

27 Treasury Select Committee Oral evidence, The work of the FCA, [December 2021](#).  
28 The Financial Times, [May 2022](#).  
29 The Financial Times, [March 2022](#).  
30 The Financial Times, [December 2022](#).

- where he said that cryptocurrencies are the new “front line” in criminal scams and created an “opportunity for the downright criminal.”<sup>31</sup>

It is of course extremely important that we recognise and address legitimate risks posed by the growth of the sector and we also welcome the Government's commitment to “take an evidence-based and proportionate approach to regulation”.<sup>32</sup>

### **Meaningful and sustained engagement with industry**

The Inquiry heard that industry supports the development of a clear regulatory framework for cryptocurrency and digital assets in the UK which provides clarity for businesses and consumers.

Meaningful and ongoing engagement between regulators and industry can help to ensure that the UK develops clear and workable regulations for the sector.

We welcome some of the positive steps that have been taken by UK regulators thus far to engage with industry, such as the Bank of England expert working groups on digital currencies and also the FCA's recent ‘crypto sprint’ events which have brought together industry operators and policymakers.

Government should ensure that there is continued and meaningful dialogue and engagement between regulators and industry.

## **CONCLUSIONS AND RECOMMENDATIONS:**

**Recommendation 1:** Following the collapse of exchange FTX and others the cryptocurrency and digital asset industry must seek to rebuild the trust of regulators and demonstrate its commitment to high standards of regulatory compliance and good corporate governance.

**Recommendation 2:** The Inquiry heard that at present the process for cryptocurrency and digital asset businesses to enter the UK is too burdensome and lengthy, resulting in many businesses ultimately choosing to invest outside of the UK. Government must ensure that regulators are properly equipped to be able to deliver the Government's streamlined vision for the UK sector.

**Recommendation 3:** We have concerns as to whether authorities and regulators have sufficient resources and the appropriate knowledge and skills internally to deliver on their new cryptocurrency and digital asset responsibilities. The FCA registration regime in particular is in need of significantly greater resource to ensure firms' applications can be reviewed within a reasonable period of time. All UK regulators related to the sector should have dedicated cryptocurrency and digital assets units with proper resource and sector understanding to deliver on their responsibilities.

**Recommendation 4:** The APPG welcomes the steps to extend the UK's financial promotions regime to cover cryptocurrency and digital assets. Government should ensure that cryptocurrency and digital asset promotions are fair, clear and not misleading and carry sufficient warnings regarding the potential risks for consumers. It is important that Government takes a consistent approach to the promotion of cryptocurrency and digital assets to that of other similar-risk investments and ensures that the UK has robust yet fair standards for the promotion of these assets, whilst ensuring that there is a level playing field for all legitimate businesses that are licensed in the UK.

**Recommendation 5:** There is a need for improved coordination between Government and regulators in delivering the Government's vision for the UK to be a global cryptocurrency and digital asset hub. Government should also ensure that there is continued and meaningful dialogue and engagement between regulators and industry.

<sup>31</sup> Bloomberg, [April 2022](#).

<sup>32</sup> Westminster Hall Debate, Cryptocurrency Regulation, [January 2023](#).

“We want ‘to ensure the UK remains competitive and at the forefront of payments innovation.’”

HM Treasury, February 2023

## 4. Central Bank Digital Currencies.

**In February 2023 the UK Government in conjunction with the Bank of England set out its public consultation on the potential case for a UK central bank digital currency, or CBDC, also known as a “digital pound”.**

The Government said the consultation would start “a national conversation about the future of our money” and is part of a broader agenda ‘to ensure the UK remains competitive and at the forefront of payments innovation’.<sup>33</sup>

The Government said a UK central bank digital currency would be a new form of digital money for use by households and businesses for their everyday payments needs.

As part of its Inquiry the APPG invited views on Central Bank Digital Currencies particularly in relation to the potential use cases of any future UK CBDC as well as the opportunities and potential risks associated with a UK CBDC.

### The case for a digital pound

Governments and central banks around the world are increasingly exploring the potential of CBDCs including in the UK.

According to the Bank for International Settlements (BIS) 90% of central banks surveyed in 2021 were “engaged in some form of CBDC work,” with 26% running pilots on CBDCs and more than 60% doing experiments or proofs-of-concept related to a digital currency.<sup>34</sup>

Research has also suggested that the global value of central bank digital currencies could grow dramatically from \$100 million to \$213 billion by 2030.<sup>35</sup> The UK Government has said given the rapid pace of innovation we are seeing in digital currencies around the world that a digital pound is “likely to be needed in the future” and that Government is “convinced that further preparatory work is justified.”

*“As the world around us and the way we pay for things becomes more digitalised, the case for a digital pound in the future continues to grow. A digital pound would provide a new way to pay, help businesses, maintain trust in money and better protect financial stability.”*

**Andrew Bailey,  
Governor of the Bank of  
England, February 2023**

The Inquiry heard that while it is right that the UK should actively explore the potential for a digital pound there remain questions about what any future digital pound might look like, as well as continued debate regarding the potential opportunities and potential risks which Government should consider moving forward.

<sup>33</sup> HM Treasury, Consultation, The digital pound: A new form of money for households and businesses?, [February 2023](#).

<sup>34</sup> BIS, Results of the 2021 BIS survey on central bank digital currencies, [May 2022](#).

<sup>35</sup> Juniper Research, [March 2023](#).



**KEY CONSIDERATIONS:****The potential benefits of a UK CBDC - 'A Digital Pound'**

The Inquiry heard that there are a number of potentially significant benefits that could be offered by a future digital pound:

- **Encouraging Innovation In Payments:**

The Government has said that a Digital Pound could provide “a platform for private sector innovation, promoting further choice, competition, efficiency and innovation in payments.” The Inquiry heard that any future digital pound can co-exist alongside other means of payment and indeed other types of cryptocurrency and digital assets, providing an alternative for those who choose to use it.

- **More Efficient Payment Methods:**

CBDCs could offer digital methods of payments that are quicker, more efficient, and cheaper. Particularly in relation to cross border payments, CBDCs could help to alleviate some of the frustrations concerning cross border payments and high costs and fees for transferring money across borders. The Bank of England has acknowledged that “cross-border payments are typically...slower, more costly, less transparent, and harder to access than domestic payments” with instances of payments “taking up to 10 days and costing more than 10% of the payment value”.<sup>36</sup> We heard that this could be a key benefit of any future digital pound.

- **Increased Transparency:** One of the key attractions of CBDC as a widely used payments and disbursement system is the fact that distributed ledger technology allows for far greater transparency around flows of money and individuals' transactions meaning the ability to commit fraud and other illicit activities could be reduced.
- **Improved Access to Digital Payments:** CBDCs could improve access to digital payments, acting as a gateway to wider access to financial services. Despite attempts to improve financial inclusion in the UK, there remain 1.2 million people who are 'unbanked' and unable to access the full range of basic financial services. A well-designed digital pound could potentially improve financial inclusion by making transactions cheaper, which in turn can enable financially under-served portions of society to be better included in the economy.
- **Protecting the UK's Monetary Sovereignty:** The Inquiry heard that a digital pound could play a key role in safeguarding the UK's payment autonomy and that the growth and adoption of a successful CBDC by other international competitors, for example Russia or China, could bring with it a great deal of political control which the Government should consider.
- **Driving Efficiencies in International Aid:** We have already seen the positive role that cryptocurrency donations played in Ukraine in response to the Russian invasion. CBDCs could also support the aid sector by providing a fast, safe, fraud-proof way to send money to vulnerable populations or those with limited access to traditional banking.

**Careful consideration of the risks associated with a digital pound**

The Inquiry heard that while there are a number of potential benefits, Government should carefully consider and seek to mitigate any potential risks surrounding the development and potential introduction of a digital pound.

The Chancellor of the Exchequer Jeremy Hunt MP has said he “fully accepts that there were risks that have to be managed” in relation to a digital pound if the decision was taken to introduce one in the future and that “it'll be a lot of work to do to get there.”<sup>37</sup>

Whilst a digital pound may provide some advantages, experts have said it could also present challenges for financial stability, the protection of privacy and security risks:

- **Financial Stability:** It remains unclear what the impact might be on financial stability and without safeguards there are concerns a digital pound could potentially exacerbate financial instability.
- **Security and Economic Crime:** As with all new types of technology there is a potential risk that a digital pound could equally open up new opportunities that criminals may seek to exploit. Government will need to be mindful of potential new forms of fraud that could arise were a digital pound introduced. However, as CBDCs are easier to track and monitor, the ability to commit fraud and other illicit activities should be reduced. There have also been concerns over cybersecurity for example where individual accounts could be compromised through weaknesses in cyber security, or the centralised CBDC

ledger, which would be a critical piece of national infrastructure, could be a target for attack from hostile state and non-state actors.

- **Privacy and Data Protection:** There have been questions and concerns over privacy and access to users' personal data and over who would have access to that data and for what purposes. Government said that a digital pound would be subject to “rigorous standards of privacy and data protection - the same privacy protections as bank accounts, debit cards or cheques - and that neither Government nor the Bank would have access to digital pound users' personal data, except for law enforcement agencies under limited circumstances.”<sup>38</sup>
- **International Competitiveness:** As other countries move at pace to develop and pilot their own CBDCs, the UK must be careful not to be left at a disadvantage. The Inquiry heard that the Treasury and the Bank of England will benefit from evaluating other CBDC pilots overseas and that the UK should again consider the merits of a first or second mover approach. At a geopolitical level, there could be first-mover advantages of being among the first countries to have an internationally trusted and widely used CBDC. However, there is also value in a second mover approach allowing the UK to benefit from lessons learned from other countries own CBDC initiatives.
- **Careful Consideration and Testing:** Given the rapid pace of change in digital payments and the varying approaches being taken overseas in relation to CBDCs it is difficult to predict what the ecosystem could look like in the future. As such it

<sup>36</sup> The Bank of England, [March 2023](#).

<sup>37</sup> House of Lords Economics Affairs Committee, [March 2023](#).

<sup>38</sup> HM Treasury, Consultation, The digital pound: A new form of money for households and businesses?, [February 2023](#).

is important that the UK adopts a flexible approach in designing and building a CBDC and we recommend that the Bank of England and the UK government pilot, experiment and test with various design options, using different technologies.

- **Regulators Resource and Skills:** Ensuring that Government and UK regulators have the appropriate knowledge and resource to be able to properly evaluate, the case for a potential digital pound should also be a priority. We welcome the recent reports of plans by the Bank of England to allocate dedicated resources of up to 30 people to help develop its work on a digital pound.<sup>39</sup> This is a significant resource which highlights the scale of the work involved and the bank's commitment to the project. Government should continue to ensure that regulators have the resources and skills they need and ensure that there is meaningful and sustained engagement with industry and other experts moving forward.
- **Public Awareness and Education:** The Inquiry heard that there still remains a lot of confusion between a digital pound and other types of cryptocurrency and digital assets. Any decision to introduce a digital pound in the future will be a profound decision and will require significant trust amongst the public and consumers. Ensuring there is sufficient and appropriate education and awareness amongst the wider public will also be a determining factor in the success of any future digital pound.

## CONCLUSIONS AND RECOMMENDATIONS:

**Recommendation 1:** The APPG welcomes the proactive steps that Government is taking alongside the Bank of England to explore the potential of a digital pound. The public and consumers are increasingly embracing more digital means of payments and it is right that Government and regulators too respond to this trend and actively explore the need for further regulation in this space.

**Recommendation 2:** Access to cash should be protected and we welcome the steps that Government is taking to legislate to protect access to cash alongside any future digital pound.

**Recommendation 3:** Government should carefully consider the potential benefits of any future digital pound and seek to harness the opportunities this could bring in terms of greater efficiencies in our financial and payments system as well as encouraging further innovation in this area.

**Recommendation 4:** The Inquiry heard that while there are a number of potential benefits, Government should carefully consider and seek to mitigate any potential risks surrounding the development and potential introduction of a digital pound, particularly in relation to financial stability, privacy and security risks.

**Recommendation 5:** Government should be careful to ensure that the introduction of any future digital pound does not stifle private sector innovation.

**Recommendation 6:** The Inquiry heard that a digital pound could play a key role in safeguarding the UK's payment autonomy. Government should carefully consider the potential impact of other countries' CBDCs in its strategy for exploring a future digital pound.

**Recommendation 7:** As other countries move at pace to develop and pilot their own CBDCs, the UK must be careful not to be left at a disadvantage. At a geopolitical level, there could be first-mover advantages of being among the first countries to have an internationally trusted and widely used CBDC. However, there is also value in a second mover approach allowing the UK to benefit from lessons learned from other countries own CBDC initiatives. Government must decide if it wants to lead or follow in relation to CBDCs.

**Recommendation 8:** Any future digital pound requires careful consideration and testing. Government and the Bank of England should pilot, experiment and test any future digital pound with various design options, using different technologies.

**Recommendation 9:** Ensuring that Government and UK regulators have the appropriate knowledge and resource to be able to properly explore the case for a potential digital pound should be a priority. Government should take steps to ensure that regulators have the resources and skills they need, and ensure that there is meaningful and sustained engagement with industry and other experts moving forward.

**Recommendation 10:** Any decision to introduce a digital pound in the future will be a profound decision and will require significant trust amongst the public and consumers. Government must ensure that there is sufficient and appropriate education and awareness amongst the wider public which will be a determining factor in the success of any future digital pound.

39 The Times, April 2023.

“It’s essential that investors understand the risks they are taking.”

John Glen, Economic Secretary to the Treasury, April 2022

## 5. Consumer Protection and Economic Crime.

**In setting out its vision for the UK to be a global hub for cryptocurrency and digital assets the Government set out the importance of consumer protection as well as addressing potential risks posed in relation to economic crime.**

In April 2022 John Glen, the then Economic Secretary to the Treasury said that it is “essential that investors understand the risks they are taking” when it comes to cryptocurrency and also addressed concerns regarding the potential misuse by criminals adding that “We’re aware too that cryptoassets have proven attractive to criminals and hostile states. Which is why we’ve taken proactive steps to prevent their misuse”.<sup>40</sup>

As part of its Inquiry the APPG invited views on the potential risks posed to consumers and the level of economic crime in relation to cryptocurrency and digital assets as well as if any further action should be taken by Government in this area.

### **Putting consumer protection at the heart of cryptocurrency and digital asset regulation**

The Inquiry heard that if the UK is serious about becoming a global cryptocurrency and digital assets hub, high standards of protection for consumers will be a key factor in the success of the Government’s vision and in ensuring that consumers have trust that they are dealing with reputable, responsible and regulated operators in the UK.

Recent events in the global crypto market have highlighted the need for strong and robust regulation of the cryptocurrency and digital assets industry as well as the need for high standards of corporate governance and compliance. Events such as the recent collapse of the major exchange FTX have demonstrated the importance of high standards across the sector in terms of consumer protection, and the need for the cryptocurrency and digital assets industry itself to rebuild the trust and confidence of consumers and regulators alike.

### **Awareness and education**

The Inquiry heard that some cryptocurrency and digital assets can be highly volatile in their nature which presents a potential risk to consumers and highlights the importance of ensuring that consumers properly understand the risks involved.

The Government and UK regulators including the FCA and the Bank of England have consistently warned that cryptocurrency and digital assets are high risk investments and that there is unlikely to be any compensation under the Financial Services Compensation Scheme for consumers who lose money.

<sup>40</sup> Keynote Speech by John Glen, Economic Secretary to the Treasury, at the Innovate Finance Global Summit, [April 2022](#).



*“Cryptoassets remain high risk. We have repeatedly warned that consumers should be prepared to lose all of their money if they buy cryptoassets. Recent events such as the high-profile failure of several cryptoasset firms further highlight the riskiness of these products. There is unlikely to be any compensation under the Financial Services Compensation Scheme for consumers who lose money.”*

FCA

Whilst research from the FCA in 2021 showed that overall public awareness and ownership of crypto had increased, it also showed that “the level of understanding of cryptocurrencies is declining, suggesting that some users may not fully understand what they are buying”<sup>41</sup> with a proportion of people also investing in cryptocurrencies in the mistaken belief that they offer regulatory protection. It did however note that the level of digital currency people held on average was moderate at around £300 and that attitudes had shifted with “fewer users regarding them as speculative and more seeing them as an alternative or complement to mainstream investments”.

Consumer research by the Financial Services Compensation Scheme (FSCS) has also highlighted the low levels of understanding amongst consumers and the need for greater financial education. The research showed nine in ten people have heard of cryptocurrencies but only one in ten have a good understanding of how they work.<sup>42</sup>

The Inquiry heard that improving consumer awareness of cryptocurrency and digital assets and the potential risks associated with it should be a top priority and will be a key factor in protecting consumers from harm.

**Tackling misuse and abuse of cryptocurrency and digital assets**

As with all new emerging technologies, cryptocurrency and digital assets also have the potential to be exploited by criminals. The Inquiry heard there have been concerns regarding the potential for these types of assets to be used for the purposes of economic crime, including concerns in relation to fraud and scams, as well as the potential for them to be used as a means to circumvent economic sanctions.

The Inquiry heard that given the rapid pace of growth and consumer adoption of cryptocurrency and digital assets, the risks in this area cannot be ignored particularly if the UK wants to position itself as the global home of cryptocurrency investment, and consumer protection measures will need to consistently adapt to mitigate risks associated with new developments in the sector.

The Inquiry heard that financial crime continues to be one of the biggest challenges for financial services as a whole, including for cryptocurrency and digital assets firms. This has been exacerbated by the Covid-19 pandemic and our ever growing reliance on digital technologies such as online and digital banking.

The Government set out proposals in March to “robustly” regulate cryptocurrency and digital assets to combat the illicit use of these assets as part of its overall economic crime plan which it said is in keeping with its ambition to make the UK an attractive destination for investment.

Setting out its proposals the Government said “Cryptoassets provide a near-instant and low-cost way to transfer value across borders. Whilst the vast majority of cryptoasset transfers are conducted for valid purposes, they are an attractive technological enabler for criminal activity.”<sup>43</sup>

Government has also said it will be seeking additional powers to seize cryptocurrency and digital assets more quickly and easily under proposals in its Economic Crime and Corporate Transparency Bill.

For the Government’s ambitions around cryptocurrency and digital assets to come to fruition, there needs to be a clear and robust regulatory regime that is effectively enforced, and which provides consumers and investors with confidence, and which prevents malign actors from abusing the potential of these assets.

**The scale of crypto-related economic crime**

The Inquiry heard that whilst cryptocurrency and digital assets do have the potential to be used for illicit purposes, the overall level of economic crime associated with cryptocurrency and digital assets remains a relatively small proportion of overall activity.

According to Chainalysis, illicit activity in cryptocurrency remains a small share of total volume at less than 1% with transactions involving illicit activity representing just 0.24% of cryptocurrency transaction volume in 2022.<sup>44</sup>

*“The overall number and value of cryptocurrency transactions related to criminal activities still represents only a limited share of the criminal economy when compared to cash and other forms of transactions.”*

**Europol, Cryptocurrencies - Tracing the evolution of criminal finances, 2021**

Equally a report by UK Finance in September 2021 also assessed the financial crime risk posed by cryptocurrency and digital assets and some of the myths surrounding these assets and economic crime. It found that “Cryptoassets’ reputation as a medium of exchange and a platform for decentralised financial activity has suffered by association with illicit activity since its creation”. The report said that “this perception is despite evidence to indicate that, considered in proportion to the increasing size of the cryptoasset market, this is increasingly less of an issue and that cryptoassets provide a traceable ledger of actively providing transparency on all transactions”. It said that “unlike cash and other traditional forms of value transfer, cryptoassets are inherently transparent. Every transaction is recorded in a publicly visible ledger”.<sup>45</sup>

41 FCA Research Note: Cryptoasset consumer research, [June 2021](#).

42 FSCS Consumer Research: Attitudes Towards Investing In Cryptocurrencies, [April 2023](#).

43 HM Government, Economic Crime Plan 2, [March 2023](#).

44 Chainalysis 2023 Crypto Crime Report, [February 2023](#).

45 UK Finance, [September 2021](#).

## Fraud and scams

The Inquiry also heard concerns regarding the risks to consumers from fraud and scams associated with cryptocurrency and digital assets. The Inquiry heard that figures from Action Fraud showed that over £146m was lost to cryptocurrency fraud in 2021.<sup>46</sup> We are seeing the emergence of new types of fraud and scams in relation to cryptocurrency where criminals have sought to exploit consumers.

We are also aware of concerns regarding cryptocurrency scams being promoted over social media and some cases where scammers have used false endorsements by celebrities and other high profile figures to lure people into investing in their schemes. Martin Lewis recently warned of the risks to consumers from these types of scams where his face was used in a fake cryptocurrency advert.

The Inquiry heard concerns about the potential misuse of social media by influencers to promote financial products - so called 'fin-fluencers' - and the harm this can cause their followers. Charles Randall, former chair of the FCA, warned that "social media influencers are routinely paid by scammers to help them pump and dump new tokens on the back of pure speculation" which "generates a powerful fear of missing out from some consumers who may have little understanding of their risks".<sup>47</sup>

We welcome the recent joint initiative by the FCA and ASA to engage with influencers and their agents, and provide them with clear information about what could be an illegal financial promotion.<sup>48</sup>

The APPG welcomes the existing guidance for consumers in relation to fraud and scams, however the Inquiry heard that consumers are often still unaware of the potential risks and also what to do and where to go if they do fall victim to a scam.

It's clear that more needs to be done to ensure that consumers are aware of the potential risks, as well as ensuring that consumers are aware of what to do if they are the victim of a scam.

Industry must do more to help raise consumer awareness and we would like to see a joined up, coordinated and concerted effort by all players including industry, regulators, law enforcement and government to clamp down on scams.

## Economic sanctions

The Inquiry also considered the potential use of cryptocurrency and digital assets as a means of circumventing economic sanctions particularly in relation to recent sanctions imposed on Russia following the invasion of Ukraine.

The Inquiry heard that whilst it is likely that states may turn to cryptocurrency as a means of circumventing economic sanctions, cryptocurrency does not generally provide an effective means of bypassing sanctions due to the size of the market and the inherent transparency of cryptocurrency and digital assets.

Research from Elliptic said that it remains 'unfeasible' for cryptocurrency to achieve the scale of financial transactions Russia would require to compensate for the major disruptions to its financial and commodities flows.<sup>49</sup>

*"While the overall level of economic crime associated with cryptocurrency and digital assets appears to remain a relatively small proportion of overall activity, their potential use by criminals, whether to evade sanctions, launder the proceeds from organised crime, commit large-scale fraud or, support terrorist groups, requires that regulators and authorities put in place robust appropriate safeguards."*

**Royal United Services Institute (RUSI)**

## Cryptocurrency a key player in fighting crime

The Inquiry also heard that the cryptocurrency and digital assets industry can be a key player in helping to tackle economic crime.

Firms have made significant investments in their systems, processes and internal resources to ensure that they protect their customers and also work closely with law enforcement agencies.

Although transactions are anonymous, transaction data stored in public blockchains is accessible to everyone in real-time, allowing users as well as enforcement agencies to trace transactions and wallets on the chain in cases of suspected illicit activity much more efficiently than in cases of illicit activity in traditional finance or assets such as fiat currency.

## CONCLUSIONS AND RECOMMENDATIONS:

**Recommendation 1:** The Inquiry heard that if the UK is serious about becoming a global cryptocurrency and digital assets hub, high standards of protection for consumers will be a key factor in the success of the Government's vision. Government must ensure that consumer protection is at the heart of any future regulatory framework.

**Recommendation 2:** The level of understanding of cryptocurrency amongst consumers remains low. Improving consumer awareness and the potential risks associated with it should be a top priority and will be a key factor in protecting consumers from harm. There needs to be a renewed and joint effort by industry and policymakers to improve public digital finance education. We also recognise that there have also been calls for improved digital financial education in the school curriculum which Government may wish to consider.

**Recommendation 3:** Government must ensure that there are adequate safeguards and protections in place for consumers and ensure that measures are able to adapt to mitigate risks associated with new developments in the cryptocurrency and digital assets sector.

**Recommendation 4:** The Inquiry heard that consumers are often still unaware of the potential risks and also what to do and where to go if they do fall victim to a scam. Industry must do more to help raise awareness of the risks and we would like to see a joined up, coordinated and concerted effort by all players including industry, regulators, law enforcement and government to clamp down on scams.

<sup>46</sup> Action Fraud, [October 2021](#).

<sup>47</sup> Charles Randall, FCA, [September 2021](#).

<sup>48</sup> FCA, [April 2023](#).

<sup>49</sup> Elliptic, Sanctions Compliance in Cryptocurrencies 2022, [March 2022](#).

**Recommendation 5:** Government should ensure that regulatory bodies and other law enforcement agencies are properly resourced to be able to tackle the threat from cryptocurrency related crime. Consistent training of regulators on these new avenues can aid in combating financial crime as well as continued engagement and sharing of best practice between industry, regulators and law enforcement.

**Recommendation 6:** Government should be alive to the emergence of new types of fraud and scams in relation to cryptocurrency and digital assets where criminals have sought to exploit consumers and also the risks posed by scams being promoted over social media. Government must ensure that regulators, and law enforcement continue to monitor and adapt to the latest techniques used by criminals to exploit cryptocurrency and digital assets. The Government should also put further consideration into guidance, support and redress for victims of scams.

**Recommendation 7:** While the overall level of economic crime associated with cryptocurrency and digital assets remains a relatively small proportion of overall activity, there remains potential for cryptocurrency to be used by criminals. Government should ensure that there are robust safeguards in place. Government should adopt a proportionate and risk based approach to addressing any potential risks and seek to establish a strong evidence base in relation to economic crime to inform its regulatory response.

**Recommendation 8:** Given the cross-border nature of cryptocurrency and digital assets, coordinated efforts between global regulators are required. Government should seek to use its leadership position through international forums such as the G7 and others to push for further action on global standards for cryptocurrency and digital assets regulation.

**Recommendation 9:** The Inquiry heard that the cryptocurrency and digital asset industry can be a key player in helping to tackle economic crime. Government should seek to work together with industry as much as possible in helping to identify and trace illicit cryptocurrency and digital asset activity and should consider establishing formalised methods for sharing cryptocurrency and digital asset financial crime typologies between industry and law enforcement.

# Annex: All Conclusions and Recommendations

## 1. THE UK AS A GLOBAL HOME OF CRYPTOCURRENCY AND DIGITAL ASSET INVESTMENT:

**Recommendation 1:** The UK is well positioned to become a global hub for cryptocurrency and digital asset investment. Government should seek to build on its existing strengths as a leader in financial services and as a hub for Fintech investment as it seeks to realise its vision for the UK cryptocurrency and digital asset sector and to leverage the UK's post Brexit opportunities to chart its own bespoke course in terms of regulation.

**Recommendation 2:** The UK should seek to capitalise on the significant investment opportunities presented by the growth of the cryptocurrency and digital assets industry.

**Recommendation 3:** The UK should seek to harness the significant opportunities in terms of economic growth, and the potential for job creation in its approach towards the sector.

**Recommendation 4:** Government should look to create the right conditions to attract inward investment in the UK cryptocurrency and digital assets sector and should also support development of businesses that have already set up in the UK so as not to risk losing growth to other jurisdictions.

**Recommendation 5:** Government should explore how it can support regional growth and leverage the strength of its existing regional fintech hubs across the UK.

**Recommendation 6:** Government should look at ways to cultivate and attract the right talent and skills needed to support the growth of emerging technologies in fintech and the digital assets industry. A review should be undertaken of educational and business opportunities across the UK in order to develop sector skills required and to support the Government's Levelling Up agenda.

**Recommendation 7:** Government should explore the potential for improved access to financial services for the 1.2 million people in the UK who do not have access to mainstream financial services. We encourage further research into the potential for digital financial inclusion.

**Recommendation 8:** Government should be mindful of the potential risks presented by the continued growth and popularity of the cryptocurrency and digital asset sector, particularly in terms of any potential risks to financial stability, consumer protection, and risks identified from economic crime.



**Recommendation 9:** The Inquiry heard that cryptocurrency and digital assets do not at present pose a systemic risk to the financial system; however Government should continue to monitor the growth of the sector and take risk management action should cryptocurrency and digital assets reach a scale where they could impact wider financial stability.

**Recommendation 10:** Government must keep pace with the rapid developments in emerging technology and not risk falling behind other countries overseas in the race to regulate the industry in achieving its goal of becoming an international hub of cryptocurrency, digital assets and fintech.

**Recommendation 11:** The APPG believes that there is significant potential for blockchain technology in helping to ensure that UK financial aid overseas reaches the most vulnerable and encourages Government and in particular the UK Foreign, Commonwealth & Development Office (FCDO) to actively consider how it can harness this technology going forward.

## 2. THE UK'S CURRENT APPROACH TO REGULATION OF CRYPTOCURRENCY AND DIGITAL ASSETS:

**Recommendation 1:** The Inquiry heard that the industry is overwhelmingly in support of regulation and Government and regulators should seize the opportunity to work with industry to help develop fit for purpose regulation.

**Recommendation 2:** The Inquiry heard that in spite of the Government's vision to make the UK a global hub for cryptocurrency and digital asset investment, the UK still remains in the very early stages of regulation of the industry. Government should continue to develop a comprehensive framework that provides regulatory clarity which will be a key factor in attracting inward investment in the UK

**Recommendation 3:** The Inquiry heard that stablecoins could provide a range of benefits and improvements to existing payment systems. Regulators will need to insist that stablecoins are backed by high-quality assets, and ideally by fiat currency, to provide trust and confidence in any new form of payment.

**Recommendation 4:** Government should continue to monitor developments in relation to NFTs and Fan Tokens and consider how appropriate regulation of NFTs could support growth and innovation in this space whilst protecting consumers from potential harm.

**Recommendation 5:** The Inquiry heard that while the progress being made is welcome, much of the progress thus far has focused on specific issues without being part of a wider strategy. It was felt that there still needs to be a clearly defined overarching strategy and an action plan to deliver on the Government's vision for the UK.

**Recommendation 6:** Regulatory clarity will be a key factor in attracting inward investment in the UK and Government should ensure that there are clear pathways for legitimate and responsible businesses to operate and grow in the UK, while acknowledging the clear need to sift out bad actors.

**Recommendation 7:** The Government should ensure that regulation is balanced and proportionate to protect consumers and so as not to stifle innovation, whilst also ensuring that any regulatory regime is agile enough to adapt easily to the fast pace of change in the sector. There may be a need to acknowledge the unique nature of some assets with a 'same risk, same regulation' approach.

**Recommendation 8:** Given the unique nature of different cryptocurrency and digital assets, Government should consider whether existing regulations and frameworks are appropriate or could be amended and if not should consider new, domain specific regulation.

**Recommendation 9:** Other jurisdictions are making significant headway in delivering legal and regulatory certainty and there is a real risk of the UK being left behind by more advanced and more cryptocurrency and digital asset friendly regulated markets overseas. The Government must move within a finite window of opportunity within the next 12-18 months to ensure early leadership within this sector.

**Recommendation 10:** The APPG welcomes the recent commitment by Government to Ministerial Level engagement with industry and strongly encourages Government to ensure that these forums represent the leading operators and professional bodies from the cryptocurrency and digital asset sector.

**Recommendation 11:** The Inquiry heard that it must be made as easy as possible, through passporting arrangements or similar, for UK-based cryptocurrency and digital asset businesses to access strategically important global markets. Government should also seek to play a leading role in driving forward a consistent global approach to cryptocurrency and digital asset regulation through international forums such as the G7 and others.

**Recommendation 12:** Government must take a 'whole of government' approach to cryptocurrency and digital asset regulation and ensure that there is a consistent approach across all government departments and regulatory bodies. Government should consider the appointment of a 'Crypto Tsar' who can help coordinate across departments to ensure a consistent approach.

**Recommendation 13:** Government should ensure that it has the sufficient resources and expertise to deliver on its vision. Government and regulators should consider developing specialist knowledge and expertise within Departments in order to properly understand and regulate the sector. We believe that Government would benefit from dedicated units to ensure it has the necessary skills and understanding required to achieve its vision.

**Recommendation 14:** Government should consider issuing updated guidance on the taxation of cryptocurrency and digital assets in the UK and also consider a comprehensive tax framework which ensures that the UK remains internationally competitive, provides clarity for investors and ensures tax revenue.

**Recommendation 15:** We welcome the work of the Law Commission on the classification of cryptocurrency and digital assets. We encourage the Government to carefully consider any recommendations from the Law Commission and move quickly on the legal classification of these assets where this may provide further clarity for the sector, regulators and the legal system.

**Recommendation 16:** UK cryptocurrency and digital assets firms are struggling to secure access to UK banking services which could fundamentally undermine the Government's ambition for the UK to become a cryptocurrency and digital asset hub and could be a significant barrier to growth and innovation. The Government should take urgent steps to ensure that there are clear pathways for legitimate and responsible companies to be able to access fundamental services required to operate regulated businesses, such as adequate insurance and banking facilities. The APPG encourages the Government to take the lead on this issue to find a solution for both the banking and cryptocurrency and digital assets industries. Guidance on how traditional financial institutions can work with the sector productively would be welcome and Government should seek to use its convening power to help facilitate a dialogue between the banking and cryptocurrency and digital assets industry on this issue.

**Recommendation 17:** Government should consider the environmental impact of cryptocurrency and digital assets and build a strong evidence base to properly understand the scale and impact of these challenges when making decisions over future regulation of the sector.

**Recommendation 18:** The APPG supports the position of HM Treasury that cryptocurrency and digital assets are best regulated, in so far as is possible and appropriate, within existing and new financial services regulations, which has a track record in mitigating risks to consumers and investors.

### 3. THE ROLE AND CURRENT APPROACH OF UK REGULATORS:

**Recommendation 1:** Following the collapse of exchange FTX and others the cryptocurrency and digital asset industry must seek to rebuild the trust of regulators and demonstrate its commitment to high standards of regulatory compliance and good corporate governance.

**Recommendation 2:** The Inquiry heard that at present the process for cryptocurrency and digital asset businesses to enter the UK is too burdensome and lengthy, resulting in many businesses ultimately choosing to invest outside of the UK. Government must ensure that regulators are properly equipped to be able to deliver the Government's streamlined vision for the UK sector.

**Recommendation 3:** We have concerns as to whether authorities and regulators have sufficient resources and the appropriate knowledge and skills internally to deliver on their new cryptocurrency and digital asset responsibilities. The FCA registration regime in particular is in need of significantly greater resource to ensure firms' applications can be reviewed within a reasonable period of time. All UK regulators related to the sector should have dedicated cryptocurrency and digital assets units with proper resource and sector understanding to deliver on their responsibilities.

**Recommendation 4:** The APPG welcomes the steps to extend the UK's financial promotions regime to cover cryptocurrency and digital assets. Government should ensure that cryptocurrency and digital asset promotions are fair, clear and not misleading and carry sufficient warnings regarding the potential risks for consumers. It is important that Government takes a consistent approach to the promotion of cryptocurrency and digital assets to that of other similar-risk investments and ensures that the UK has robust yet fair standards for the promotion of these assets, whilst ensuring that there is a level playing field for all legitimate businesses that are licensed in the UK.

**Recommendation 5:** There is a need for improved coordination between Government and regulators in delivering the Government's vision for the UK to be a global cryptocurrency and digital asset hub. Government should also ensure that there is continued and meaningful dialogue and engagement between regulators and industry.

### 4. CENTRAL BANK DIGITAL CURRENCIES:

**Recommendation 1:** The APPG welcomes the proactive steps that Government is taking alongside the Bank of England to explore the potential of a digital pound. The public and consumers are increasingly embracing more digital means of payments and it is right that Government and regulators too respond to this trend and actively explore the need for further regulation in this space.

**Recommendation 2:** Access to cash should be protected and we welcome the steps that Government is taking to legislate to protect access to cash alongside any future digital pound.

**Recommendation 3:** Government should carefully consider the potential benefits of any future digital pound and seek to harness the opportunities this could bring in terms of greater efficiencies in our financial and payments system as well as encouraging further innovation in this area.

**Recommendation 4:** The Inquiry heard that while there are a number of potential benefits, Government should carefully consider and seek to mitigate any potential risks surrounding the development and potential introduction of a digital pound, particularly in relation to financial stability, privacy and security risks.

**Recommendation 5:** Government should be careful to ensure that the introduction of any future digital pound does not stifle private sector innovation.

**Recommendation 6:** The Inquiry heard that a digital pound could play a key role in safeguarding the UK's payment autonomy. Government should carefully consider the potential impact of other countries' CBDCs in its strategy for exploring a future digital pound.

**Recommendation 7:** As other countries move at pace to develop and pilot their own CBDCs, the UK must be careful not to be left at a disadvantage. At a geopolitical level, there could be first-mover advantages of being among the first countries to have an internationally trusted and widely used CBDC. However, there is also value in a second mover approach allowing the UK to benefit from lessons learned from other countries own CBDC initiatives. Government must decide if it wants to lead or follow in relation to CBDCs.

**Recommendation 8:** Any future digital pound requires careful consideration and testing. Government and the Bank of England should pilot, experiment and test any future digital pound with various design options, using different technologies.

**Recommendation 9:** Ensuring that Government and UK regulators have the appropriate knowledge and resource to be able to properly explore the case for a potential digital pound should be a priority. Government should take steps to ensure that regulators have the resources and skills they need, and ensure that there is meaningful and sustained engagement with industry and other experts moving forward.

**Recommendation 10:** Any decision to introduce a digital pound in the future will be a profound decision and will require significant trust amongst the public and consumers. Government must ensure that there is sufficient and appropriate education and awareness amongst the wider public which will be a determining factor in the success of any future digital pound.

## 5. CONSUMER PROTECTION AND ECONOMIC CRIME:

**Recommendation 1:** The Inquiry heard that if the UK is serious about becoming a global cryptocurrency and digital assets hub, high standards of protection for consumers will be a key factor in the success of the Government's vision. Government must ensure that consumer protection is at the heart of any future regulatory framework.

**Recommendation 2:** The level of understanding of cryptocurrency amongst consumers remains low. Improving consumer awareness and the potential risks associated with it should be a top priority and will be a key factor in protecting consumers from harm. There needs to be a renewed and joint effort by industry and policymakers to improve public digital finance education. We also recognise that there have also been calls for improved digital financial education in the school curriculum which Government may wish to consider.

**Recommendation 3:** Government must ensure that there are adequate safeguards and protections in place for consumers and ensure that measures are able to adapt to mitigate risks associated with new developments in the cryptocurrency and digital assets sector.

**Recommendation 4:** The Inquiry heard that consumers are often still unaware of the potential risks and also what to do and where to go if they do fall victim to a scam. Industry must do more to help raise awareness of the risks and we would like to see a joined up, coordinated and concerted effort by all players including industry, regulators, law enforcement and government to clamp down on scams.

**Recommendation 5:** Government should ensure that regulatory bodies and other law enforcement agencies are properly resourced to be able to tackle the threat from cryptocurrency related crime. Consistent training of regulators on these new avenues can aid in combating financial crime as well as continued engagement and sharing of best practice between industry, regulators and law enforcement.

**Recommendation 6:** Government should be alive to the emergence of new types of fraud and scams in relation to cryptocurrency and digital assets where criminals have sought to exploit consumers and also the risks posed by scams being promoted over social media. Government must ensure that regulators, and law enforcement continue to monitor and adapt to the latest techniques used by criminals to exploit cryptocurrency and digital assets. The Government should also put further consideration into guidance, support and redress for victims of scams.

**Recommendation 7:** While the overall level of economic crime associated with cryptocurrency and digital assets remains a relatively small proportion of overall activity, there remains potential for cryptocurrency to be used by criminals. Government should ensure that there are robust safeguards in place. Government should adopt a proportionate and risk based approach to addressing any potential risks and seek to establish a strong evidence base in relation to economic crime to inform its regulatory response.

**Recommendation 8:** Given the cross-border nature of cryptocurrency and digital assets, coordinated efforts between global regulators are required. Government should seek to use its leadership position through international forums such as the G7 and others to push for further action on global standards for cryptocurrency and digital assets regulation.

**Recommendation 9:** The Inquiry heard that the cryptocurrency and digital asset industry can be a key player in helping to tackle economic crime. Government should seek to work together with industry as much as possible in helping to identify and trace illicit crypto activity and should consider establishing formalised methods for sharing cryptocurrency and digital asset financial crime typologies between industry and law enforcement.



