



connecting the future

**Crypto Inquiry 2022 – Call for Evidence
APPG Crypto & Digital Assets**

September 2022

Response from The Payments Association

Introduction

The Payments Association welcomes the opportunity to contribute to the APPG Crypto & Digital Assets “*Crypto Inquiry 2022 – Call for Evidence*”.

The community’s response contained in this paper reflects views expressed by our members and industry experts recommended by them who have been interviewed and who are referenced below. As The Payment Association’s membership includes a wide range of companies from across the payments value chain, and diverse viewpoints across all job roles, this response cannot and does not claim to fully represent the views of all members.

We are grateful to the contributors to this response, which has been drafted by Riccardo Tordera, our Head of Policy & Government Relations. We would also like to express our thanks to the APPG Crypto & Digital Assets for their continuing openness in these discussions. We hope it advances our collective efforts to ensure that the UK’s payments industry continues to be progressive, world-leading and secure, and effective at serving the needs of everyone who pays and gets paid.

With special thanks to:

- Robert Courtneidge – Policy Advisor to The Payments Association

Tony Craddock

Director General

The Payments Association

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The section numbering below responds to the invitation to provide views on the following areas of interest:

1. The UK as a global home of crypto investment:
 - a) The potential opportunities and risks associated with crypto and digital assets in the UK

We believe that the creation of good and smart regulation in this area will create an ideal environment to welcome businesses from around the world to the UK, as a result of regulatory arbitrage. The UK is in a unique position, being independent of the EU, to rapidly develop the best of breed regulation which will provide both the high levels of AML / CTF and security that the industry needs, coupled with sufficient flexibilities to avoid stifling the technological innovations which abound in the emerging crypto and digital assets community.

We are aware that many territories around the world are looking to create regulation in this space, both as a means of protecting their financial stability whilst also providing a good environment for innovation. The EU's Markets in Crypto-Assets regulation (MiCA) has already received approval and will come into force in October 2024: the risk of the UK being slow at developing its own regulation could result in being effectively left behind. We urge HM Government to lead in this space and we would welcome the opportunity to assist them in any way we can.

2. The UK's current approach to regulation of crypto and digital assets:
 - a) The current state of regulation in the UK of crypto and digital assets;

Overall we judge the current state of regulation to still be at a very early stage of preparation, with the regulators looking to existing laws in financial services to deal with these new digital financial assets.

- b) Whether the UK's current approach is aligned to the Government's stated ambition for the UK to be a global hub for crypto investment?

We welcome the consultations that are coming through from HMT, FCA and other bodies in this space as we believe that good new regulation is required to help this industry flourish in the UK. At present we observe a mismatch between the goal of becoming a global hub for crypto investment and the measures put in place. All the consultations that are coming through seem to respond to specific issues without being part of a wider strategy that sets clear objectives and designs the appropriate framework to achieve them.

- c) What is required to fulfil this ambition?

Fast and coordinated private / public sector engagement focused on achieving the government's goal.

3. The role and current approach of UK regulators including the Bank of England, the FCA and the ASA in relation to crypto and digital assets:
 - a) Views on the current approach by UK regulators, specifically the Financial Conduct Authority, the Bank of England, and the Advertising Standards Authority

Since the FCA introduced the registration process for crypto businesses in the UK, it has faced numerous delays due to shortages of sufficiently qualified staff to run the registration process and it faced criticism from the industry not only for being slow but also because many companies do not believe they have had clear enough explanations as to why their applications have been rejected. Whilst we appreciate having high standards in place, we still wish for the UK to become the number one hub for this industry, while providing the right balance between industry growth and consumer protection.

In relation to the consultations currently going on in respect of stablecoin regulation, it would appear that the regulators' views are that the current e-money regulations should be used as a base line. This is because it is not currently envisaged that financial institutions would be included in the regulations and hence they would only apply to non-bank issuers of stablecoins. It is our view that, if a stablecoin were to become systemic, the regulation to be applied should be banking regulation under control of the PRA, rather than e-money regulation supervised by the FCA.

4. Central Bank Digital Currencies:
 - a) Views on what any UK CBDC should look like;
 - b) Views on the potential use case for a UK CBDC;
 - c) Views on the opportunities and risks associated with a UK CBDC.

Along with a number of our members, including Boston Consulting Group and paywith.glass, this February we released a Green Paper entitled "New Era for Money", which set out our views on a UK CBDC covering points a), b), and c) above, which has already been shared with you.

Further, we are supporting the Pilot which has resulted from the Green Paper and is due to commence in October this year to test and validate the potential use cases. The Pilot is being run by the Digital FMI Consortium (<https://www.digitalfmi.com/>) who have also produced a response to this Inquiry.

5. Consumer Protection and Economic Crime:
 - a) Views on the potential risks posed to consumers by crypto and digital assets;

There are many scams and Ponzi schemes offered to consumers under the guise of crypto and digital assets. Whilst the media has been good at highlighting bad actors, consumers still lack sufficient knowledge and education to be able to distinguish between good and bad players.

b) Views on whether current protections in place are sufficient and any further action that may be required in this regard;

The change in financial promotion regulation to encompass crypto advertising has clearly had the positive outcome of stopping bad actors advertising their scams, nonetheless it has caused the unintended consequence of closing down all crypto advertising. This is the only specific crypto-led regulation currently in place other than traditional financial crime regulations. Urgent action should be taken to tackle these issues, while enabling the facilitation of the UK as the global crypto hub.

c) The level of economic crime in relation to crypto and digital assets and the effectiveness of current controls in place to combat any potential risks.

Various organisations provide data showing the growth of economic crime in the crypto arena, however this needs to be viewed alongside the equal or greater growth of crypto in general. Current controls were not drafted with crypto in mind. Hence, it is our belief that more targeted regulations should be created to deal with the emergence of these new crimes which will deter the bad actors without the unintended consequence of inhibiting growth and innovation. To fulfil the ambition of becoming a global hub, the UK should prioritise its efforts in relation to dealing with economic crime in the crypto space.

About The Payments Association

The Payments Association (previously the Emerging Payments Association, or EPA) is a community for all companies in payments, whatever their size, capability, location or regulatory status. Its purpose is to empower the most influential community in payments, where the connections, collaboration and learning shape an industry that works for all. It works closely with industry stakeholders such as the Bank of England, the FCA, HM Treasury, the PSR, Pay.UK, UK Finance and Innovate Finance.

Through its comprehensive programme of activities and with guidance from an independent Advisory Board of leading payments CEOs, The Payments Association facilitates the connections and builds the bridges that join the ecosystem together and make it stronger. These activities include a programme of monthly digital and face-to-face events including an annual conference, PAY360, The PAY360 Awards dinner, CEO round tables and training activities. The Payments Association also runs six stakeholder working project groups covering financial inclusion, regulation, financial crime, cross-border payments, open banking and digital currencies. The volunteers in these groups represent the collective views of the industry and work together to ensure the big problems facing the industry are addressed effectively. The association also conducts original research which is made available to members and the authorities. These include monthly whitepapers, insightful interviews, and tips from the industry's most successful CEOs.

See www.thepaymentsassociation.org for more information. Contact malik.smith@thepaymentsassociation.org for assistance.