Crypto Council for Innovation

GLOBAL DIGITAL FINANCE

UK Cryptoasset Business Council

EMAIL SUBMISSION TO: FSGrowthStrategy@hmtreasury.gov.uk

To whom it may concern,

Re: HM Treasury Financial Services Growth & Competitiveness Strategy Call for Evidence

About Crypto Council for Innovation (CCI), Global Digital Finance (GDF) and UK Cryptoasset Business Council (UK CBC)

CCI, GDF and UK CBC are leading global members associations representing firms delivering crypto and digital assets solutions. Collectively, we work towards advancing the adoption, regulation, and innovation of blockchain, cryptoassets, and Web3 technologies globally.

Our members share the goal of encouraging the responsible global regulation of crypto and digital assets to unlock economic potential, improve lives, foster financial inclusion, protect security, and disrupt illicit activity.

Ensuring a strong growth agenda in the UK is incredibly important and we support the Government's ambition to restore economic stability, increase investment, and reform the economy to drive up prosperity and living standards across the UK. The depth and breadth of our Financial Services sector, combined with how we have cultivated innovation, means that the UK consistently attracts firms globally that want to start up and scale up here. We are therefore heartened by the Government's commitments in the Financial Services Growth & Competitiveness Strategy ('the Strategy').

In order for the Government to best deliver on the Strategy, industry needs to play its part, and speak with a unified voice to provide thoughtful, solution-oriented feedback and robust, evidence-based challenge. CCI, GDF and UK CBC are proud to present that unified voice, by collectively representing over 100 firms spanning the digital asset ecosystem and include the leading global crypto exchanges, stablecoin issuers, digital asset Financial Market Infrastructure providers, innovators, and investors operating in the global financial services sector.

As always, we remain at your disposal for any further questions or clarifications you may have, and we would welcome a meeting with you to further discuss these matters in more detail with our members.

Yours faithfully,

Laura Navaratnam - UK Policy Lead, CCI

Elise Soucie – Executive Director – GDF

Alex Royle - Policy Director, UKCBC

Chapter 3 – Objectives and Approach Objectives and Approach:

Question 3.1: Do you agree with the proposed objectives set out in paragraph 3.6?

Yes, we agree with the proposed objectives outlined in paragraph 3.6. The objectives align well with our broader desire to see HMT set goals to foster long-term sustainable growth and competitiveness in the UK's financial services sector. These objectives focus on ensuring the UK remains a leading financial hub, promotes innovation, attracts international investment, and capitalises on the growing demand for sustainable finance.

Key aspects, such as fostering innovation, ensuring access to a skilled workforce, maintaining a robust regulatory environment, and increasing global market access, are crucial for the UK's financial services ecosystem. CCI, GDF & UK CBC all strongly believe that digitisation promises to be an opportunity that will transform the global financial services industry. The jurisdiction that can establish itself as the leader and centre will have a distinct advantage, and will deliver greater efficiencies, new products, and transformative innovation to its consumers and businesses.

Overall, we believe that the objectives set out by HMT broadly align with the financial services sector's evolving nature, especially the emphasis on leveraging emerging technologies like blockchain, AI, and quantum computing to ensure the sector remains competitive. Furthermore, the commitment to enhancing regional growth and promoting sustainability directly reflects the UK's ambition to develop a more inclusive and forward-looking financial services sector that is prepared to be a leader in global digitalisation.

Growth and Competitiveness

Question 3.2: [For Financial Services Organisations] For firms operating in more than one jurisdiction, what are the main drivers affecting your decisions on where to invest?

For firms operating in multiple jurisdictions, several key factors influence investment decisions:

- **Regulatory Clarity and Support for Innovation**: The regulatory framework is a primary consideration, especially in sectors like fintech and blockchain, which are highly dependent on clear and forward-thinking regulations. The UK has an opportunity to lead in areas such as blockchain and digital finance, but regulatory certainty is critical for firms to confidently invest and scale their operations. The government's commitment to creating a balanced regulatory environment that encourages innovation while ensuring financial stability is a key investment driver. To deliver this clarity we would urge UK regulators to complete the development of an overarching regulatory framework for digital assets as quickly as possible; innovation and experimentation must be underpinned by legal and regulatory certainty. In this respect the FCA's recently published crypto roadmap is most welcome.[1]

[1] https://www.fca.org.uk/publication/documents/crypto-roadmap.pdf

- **Market Access and Global Connectivity**: The UK remains one of the most globally connected financial centres, and the ability to access diverse markets and capital is a significant advantage. The UK's role as a leader in global finance, particularly in areas such as capital markets coupled with the strength of the Common Law provides firms with unparalleled opportunities for growth and international trade. UK Common law Structure, together with the soon to be enacted Property Legislation for crypto, will support broader market access as well as connectivity and growth across Common Law countries.

- **Talent and Workforce Availability**: The availability of skilled professionals, particularly in emerging fields like AI, blockchain, and cybersecurity, is a significant driver of investment. The UK's strong educational system, its dynamic labour market, and government initiatives to boost skills in financial services are essential in attracting and retaining top talent.

- **Technological Infrastructure**: The readiness of a jurisdiction to support technological innovation, including AI, blockchain, and quantum computing, plays a key role in investment decisions. The UK's commitment to developing cutting-edge infrastructure in areas like digital payments and sustainable finance makes it an attractive destination for technology-driven financial firms.

- **Economic Stability and Future Growth**: Firms seek environments that offer economic stability and long-term growth prospects. The UK's strategy to harness innovation across multiple sectors, including finance, ensures a future-proof and resilient economic environment that can support continued growth in the financial services sector.
- **Competitive Taxation and Incentives**: A competitive taxation regime, along with government incentives for innovation and investment in emerging technologies, significantly influences decision-making.

Members of our three organisations believe that the UK's vibrant existing professional services industry and financial ecosystem, globally respected courts and legal frameworks, and a readily available pipeline of talent that continues to expand, are crucial strengths that the UK could utilise to maintain its competitive edge.

However, we also note that relying on these past successes would not be enough for the UK to remain competitive in light of the progress being made globally on digitalisation, in particular in jurisdictions like the EU, the US, and APAC. We encourage UK policymakers to learn from the developments occurring at pace around the world to ensure the UK can retain its competitive edge.

Future of Financial Services

Question 3.3: What do you consider to be the most important trends or changes likely to affect the financial services industry over the next 10 years?

We believe there are several important macro trends that will shape the future of the financial services industry:

1. **Regulatory Evolution**: As the financial services industry evolves, regulatory frameworks will need to keep pace, particularly in emerging sectors like cryptoassets, blockchain, and DeFi as well as other areas in which decentralisation will help reshape financial services, as discussed further below. The UK must create a clear and forward-looking regulatory framework to support innovation while ensuring market stability and consumer protection. Regulatory uncertainty in these areas could slow investment and innovation, making it imperative that governments act decisively to provide clarity.
2. **Digital Assets**: Digital assets offer a range of benefits that are transforming financial systems and other industries. They enable faster and more cost-effective transactions, especially across borders, by removing intermediaries and leveraging blockchain technology. Their transparency and immutability enhance trust and security, reducing the risk of fraud and errors. Digital assets also support financial inclusion by providing individuals without access to traditional banking systems the ability to participate in the global economy through decentralised platforms. Additionally, they offer new opportunities for innovation, such as programmable assets and smart contracts, which streamline complex processes and create efficiencies.
3. **Decentralisation:** One of the most significant trends likely to affect the financial services industry over the next decade is the shift towards decentralisation, driven by the adoption of Web3 technologies. Decentralisation fosters open, user-controlled networks, which promote competition, reduce barriers to entry, and safeguard against monopolistic practices. By leveraging public, permissionless blockchains, financial systems can enhance transparency and security while limiting the power of centralised entities to control or restrict access. Additionally, decentralisation empowers stakeholders by distributing rewards more equitably, aligning incentives across contributors, and empowering consumers through self-custody, which enables direct control and ownership of assets. This shift is poised to reshape financial services by enabling more inclusive, fair, and resilient systems, challenging traditional models and redefining governance and value distribution.
4. **Broader Technological Innovation**: The financial services sector will continue to be transformed by technologies such as AI, blockchain, quantum computing, and decentralised finance (DeFi). These technologies have the potential to revolutionise financial transactions, improve efficiency, and reduce costs. The integration of blockchain and AI will drive new financial products and services, enabling firms to offer more personalised and secure solutions to consumers.
5. **Sustainable Finance**: The transition to a net-zero economy will be a major driver of change, with increasing demand for sustainable financial products and services. The UK has the potential to lead in this area, as demonstrated by its commitment to sustainable finance initiatives, such as the Green Finance Institute and its role in global ESG standards. The demand for green bonds, ESG investing, and financing for renewable energy projects will continue to grow, positioning the UK as a global leader in sustainable finance.

6. **Cybersecurity and Data Privacy**: As financial services become increasingly digital, concerns around cybersecurity, data privacy, and fraud prevention will intensify. The need for stronger cybersecurity measures and the implementation of privacy-respecting technologies will be crucial. Both governments and firms must collaborate to safeguard financial systems against cyber threats and ensure consumer confidence in digital financial services. As privacy and security become an increasing priority, we expect to see a commensurate growth in privacy preserving technologies like zero-knowledge proofs, which ensure maximum privacy and control for users.
7. **Financial Inclusion**: The rise of fintech and mobile banking will continue to drive financial inclusion, particularly in underserved regions. Financial services companies will increasingly focus on providing access to banking and financial products for individuals and businesses that have traditionally been excluded from the formal financial system.
8. **Tokenisation**: we are highly supportive of the approach the UK Government has taken to tokenisation to date, and its recognition of tokenisation as a vital tool for modernising the financial system. By supporting tokenisation through regulatory reform, pilot projects (e.g. DIGIT), and innovation-friendly initiatives (e.g. the DSS) as the Government has done, the UK can remain a leader in the global digital economy.

In conclusion, the next decade will see the financial services industry embrace new technologies, regulatory frameworks, and sustainable practices, with the UK positioning itself as a global leader in these transformations. These trends highlight the need for strategic government policies and private sector innovation to ensure that the UK remains a competitive financial hub.

Chapter 4 – Policy Pillars

Question 4.1: Do you agree with the list of policy pillars that the government intends to focus on? Are there other areas that should be included?

Yes, we agree with the outlined list of policy pillars and we believe these pillars emphasise areas that are essential for fostering long-term sustainable growth and competitiveness in the UK's financial services sector.

1. Innovation & Technology is paramount as it addresses the rapid evolution in financial services driven by technologies such as blockchain, AI, and quantum computing. These innovations are central to the future of finance and ensuring a robust technological ecosystem is key for the UK to maintain its global leadership in financial services.

2. The Regulatory Environment is equally critical. Clear, forward-looking, and adaptable regulation ensures stability and growth, particularly in emerging sectors such as blockchain and digital finance.

3. Regional Growth is important for inclusive growth across the UK, ensuring that the benefits of a strong financial services sector are felt nationwide, in line with the overarching goal for regional economic development.

4. Skills & Access to Talent supports the need for a highly-skilled workforce to drive innovation, particularly in emerging areas such as blockchain, AI, and sustainable finance.
5. International Partnerships & Trade will continue to be essential as the UK seeks to expand its global footprint, fostering stronger international relationships and promoting cross-border financial flows. Industry and policymakers should prioritise common standards where possible as well as harmonisation, interoperability and scaling for the UK's digital market to flourish.

In addition to these, we would suggest adding a pillar focused on Sustainability and Green Finance. We note the identification of the objective for the UK to be 'a leading centre for sustainable finance and rising green capital', and the priority growth opportunity of 'Sustainable Finance', and consider that adding Sustainability and Green Finance as a distinct policy pillar would complement this position – as global demand for sustainable investments continues to grow, fostering the UK's leadership in sustainable finance could have significant economic and geopolitical benefits, meriting its additional recognition from a policy perspective. It is critical, however, that any rules implemented around sustainability and green finance not interfere with the decentralised nature of web3 technologies by, for instance, requiring reporting by centralised intermediaries that are open-source, autonomous software cannot comply with. Any sustainability and green finance rules related to disclosures, white papers, and the like should be limited to centralised intermediaries in scope and should not in any way impede the decentralisation of web3 systems.

Question 4.2: Please rank the list of pillars in order of importance to your business or organisation for i) day-to-day operations and ii) longer-term plans for investing in the UK: 1. Innovation & Technology 2. Regulatory Environment 3. Regional Growth 4. Skills & Access to Talent 5. International Partnerships & Trade

Day-to-day operations:

1. **Regulatory Environment**: Clear and stable regulations are crucial for the day-to-day operations of financial services firms. A supportive regulatory framework reduces compliance burdens and ensures operational efficiency.
2. **Innovation & Technology**: Given the rapid pace of technological change in financial services, a focus on innovation ensures that firms remain competitive and able to meet evolving customer demands.
3. **Skills & Access to Talent**: The availability of skilled workers, particularly in fintech and emerging technologies, is essential for smooth daily operations and service delivery.
4. **International Partnerships & Trade**: Ensuring strong international partnerships facilitates smoother cross-border transactions and access to global markets, enhancing operational effectiveness.
5. **Regional Growth**: While regional growth is essential for the broader economic ecosystem, it has a relatively lower immediate impact on day-to-day operations for firms primarily based in major hubs like London.

Longer-term plans for investing in the UK:

1. **Innovation & Technology**: Investment in technology will drive the future growth of the sector, creating opportunities in new areas such as blockchain, AI, and digital finance.
2. **Regulatory Environment**: A stable and forward-looking regulatory environment will support long-term planning and help firms navigate the future of finance, particularly in emerging technologies.
3. **International Partnerships & Trade**: Expanding international partnerships will be vital to growing the UK's position as a global financial hub, attracting investment from overseas.
4. **Skills & Access to Talent**: Long-term success depends on continuous access to a skilled workforce, particularly in highly specialised areas like sustainable finance and digital assets.
5. **Regional Growth**: While important for the overall economic ecosystem, regional growth has a relatively lesser direct impact on long-term investment for firms focused on national or international markets.

Question 4.3: How well is competition currently working in the financial services sector, and how can it be improved?

Promoting effective competition while also maintaining consumer protection and market integrity has been a perennial challenge for the UK financial services sector. In some parts of the market the UK has been very successful in cultivating the right kind of competition, for example in payments. However in other parts of the market, such as digital assets, ensuring a level playing field has been more challenging. Given the complexities with the existing framework, as discussed further in response to question 4.6, this does not support or encourage competition between native digital assets firms and traditional finance; addressing this disconnect will be an important step in maximizing the utility of digital assets for the UK economy.

In order for the UK Government to best deliver against the Strategy, the UK needs to ensure healthy and appropriate competition in all corners of the financial services sector. This in turn will ensure the UK remains competitive on a global stage. Below we highlight five particular barriers that will need to be overcome in order to create a pro-competition landscape.

1. **Barriers to Entry for New Firms**: High regulatory costs and the complexity of navigating multiple regulatory frameworks can deter new entrants, particularly in fintech and blockchain. Reducing these barriers through streamlined regulatory processes or regulatory sandboxes could enhance competition.
2. **Debanking/ Access to bank accounts:** A recent joint survey by the UK Cryptoasset Business Council, the Start-Up Coalition, and Global Digital Finance (GDF) found that:
    - **50%** of crypto, blockchain, and Web3 firms faced refusal or subsequent closure of their bank accounts.
    - Only **14%** secured an account without later closure.
    - **81%** agreed that banking restrictions significantly hinder their success in the UK, while **70%** indicated these challenges make relocation more likely.
    - **76%** resorted to what they consider riskier banking solutions due to lack of mainstream options.

These challenges persist even for FCA-registered and supervised firms. Without reliable banking services, the UK risks losing innovative businesses and talent to other jurisdictions, undermining its ambition to be a global hub for digital assets.

We urge HM Government to align with rival jurisdictions, such as Hong Kong and France, by ensuring banks provide transparent, substantive justifications when refusing accounts. Such measures will foster competition, enable growth, and affirm the UK's position as a leader in digital innovation.

3. **Access to Capital**: Smaller firms often struggle to secure funding for innovation. The UK should continue to foster a more competitive investment environment by incentivising venture capital and private equity investments, particularly in emerging technologies.
4. **Incumbent Market Power**: Large, established firms often hold a significant market share, particularly in traditional banking. Encouraging innovation through initiatives like open banking and promoting fintech solutions will create more competitive market dynamics.
5. **Lack of effective policy on permissionless blockchains and decentralisation:** Decentralisation, which we identified as being one of the most transformative technologies for financial services in the next 10 years, helps promote competition by lowering barriers to access and combatting regulatory economies of scale. Permissionless blockchains are a fundamental driver of decentralisation, enabling open, trustless, and distributed networks where control is not concentrated in the hands of a single authority or small group of actors. Unlike centralised systems, where decision-making and access are controlled by a central entity, permissionless blockchains allow anyone to participate as a validator, node operator, or user. This open participation reduces reliance on intermediaries and ensures that no single party can alter the network's rules or censor transactions. Decentralisation is only feasible, however, within a regulatory environment that seeks to realise its benefits. Legacy rules that focus on centralised intermediaries are unsuited to open-source software and, moreover, fundamentally incompatible with such decentralised systems. For example, to decentralise, a project's crypto-asset must be widely distributed, often via airdrop. Imposing issuer-centric disclosure obligations on airdrops is not only inappropriate as the issuer is of no consequence to a decentralised crypto-asset, but can lead to re-centralisation. Policymakers should clarify that web3 projects are able to undertake the distributions of their native crypto-assets for the purposes of decentralisation following substantial development without issuer-centric disclosure requirements.

To improve competition, the UK should continue fostering innovation, reducing barriers to market entry, and ensuring a fairer distribution of market power across incumbents and new entrants.

Innovation & Technology

Question 4.4: What is your assessment of how effectively the UK supports innovation and the adoption of new technology? What could be improved in the financial services sector?

The UK has historically been highly effective in supporting innovation, and has been a global leader in how it promotes and regulates new technologies. Initiatives like the FCA sandbox, combined with dedicated regulatory resources for new market entrants, has been a key part in anchoring the UK as a leading jurisdiction for financial innovation.

However, progress has slowed in the last two years, at the same time as other jurisdictions like the EU, Singapore, UAE and Japan have pushed ahead significantly with their innovation agendas. The UK is therefore at an inflection point, and we welcome swift, decisive action on the back of this Call for Evidence to ensure that the UK remains a global hub for financial innovation and capitalises on its 'second mover advantage', through observing existing regimes and addressing interpretive issues that have arisen. By way of example, the application of the European regime, the Markets in Crypto-assets Regulation (MiCA) has highlighted opportunities to improve an equivalent UK regime through features including permitting brokerage activities to preserve liquidity, ensuring the crypto and payments regulatory regimes do not overlap or contradict, permitting sub-custody using non-UK entities, and ensuring clarity regarding the regulatory perimeter for technology companies and DeFi activities.

Three areas we highlight where improvements could be made are:

- Adoption of Emerging Technologies: More could be done to encourage faster adoption of emerging technologies like decentralisation and self-custody, ensuring the UK stays at the forefront of technological innovation. Ensuring the UK has clear regulatory boundaries that allows new projects to continue to flourish and grow is vital.
- Cross-Sector Collaboration: Encouraging greater collaboration between fintechs, large banks, and tech companies would help scale new innovations quickly and ensure that financial institutions are ready to adopt new solutions.
- Government Investment in Tech Infrastructure: Increased government investment in technological infrastructure and cyber-resilience measures would further solidify the UK's role as a leader in financial technology.
- Cooperation between the UK and Innovative Jurisdictions: As capital is already flowing to regions where technology is growing rapidly (such as the Middle East and Asia) the UK should consider how it can more cooperatively work with the regions who have been early adopters in order to support the broader ecosystem and increase its own competitiveness.

Question 4.5: Which technologies do you think have the most potential to transform financial services over the next 10 years? And in which financial services sectors or functions do you see these being applied most effectively?

1. **Decentralisation**: The most transformative technology for financial services over the next decade is that which facilitates decentralisation, underpinned by Web3 innovations

and blockchain systems. Decentralisation enables open, user-controlled networks that promote competition, reduce barriers to entry, and protect against monopolistic practices. Its applications are particularly effective in DeFi, where it offers alternatives to traditional banking, lending, and asset management through trustless, transparent systems. Additionally, decentralised identity systems, carbon credit markets, and secure messaging platforms are poised to revolutionise their respective sectors by enhancing user control and safeguarding against centralised exploitation. This technology holds the potential to redefine governance, value distribution, and operational transparency across financial services

2. **Blockchain and Distributed Ledger Technology (DLT)**: These technologies have the potential to transform payments, settlements, and asset management by providing faster, more secure, and transparent systems. They will be particularly impactful in cross-border payments, trade finance, and supply chain finance.
3. **Decentralised Finance**: DeFi promises to disrupt traditional financial intermediation by enabling peer-to-peer lending, borrowing, and trading, all through smart contracts on the blockchain. This will have a major impact on lending, insurance, and capital markets.
4. **Self-Custody:** Self-custody of assets brings full user ownership and control, mitigating risks traditionally associated with users having to rely on centralised third-party intermediaries, such as capitalisation and misappropriation risks, whilst safeguarding financial empowerment, inclusion, and enhancing security of a wider range of financial and non-financial assets.
5. **Artificial Intelligence (AI)**: AI will revolutionise areas such as risk management, customer service (through chatbots and virtual assistants), fraud detection, and personalized financial advice. AI is already being used for predictive analytics, enabling firms to make more informed decisions in real-time.
6. **Broader Digital Connectivity Across the Wider Ecosystem:** In order for the above technologies to scale, the government will need to support digitisation across the UK in the financial services industry and beyond. For example, Digital-ID will be a crucial enabler not just in finance but in the digitisation of all sectors.

Regulatory Environment

Question 4.6: What is your assessment of the UK's current regulatory environment?

The UK's regulatory environment is generally strong, with a well-established framework for financial services. However, challenges exist, particularly in areas like cryptoassets and DeFi, where the regulation is still evolving.

The issues faced by the current digital asset regulatory environment can be broadly categorised into three groups: i)slow action from Government; ii)increased pace in the international community; and iii)ongoing challenges with the existing regulatory approach.

<u>Slow action from Government and HMT</u>

It will soon be two years since HMT published its consultation on the future financial services regulatory framework for cryptoassets, which set out extensive proposals for a UK regime, including plans to regulate core activities such as custody and lending, and to bring centralised cryptoasset exchanges into financial services regulation for the first time. However the Government is yet to finalise the relevant legislation to ensure cryptoassets are within the regulatory purview of the FCA and where appropriate, the Bank of England.

We applaud the recent publication of the FCA's Cryptoasset Roadmap[2] and we urge the Government to give the regulator both the legal powers it requires, but also the support and backing, to execute on this ambitious but desperately needed agenda. Its success will be central to the Government delivering against the Strategy.

Additionally, we note that the Government has recently pivoted from a modular approach to digital asset regulation, to an 'all at once' approach, as confirmed by the Economic Secretary to the Treasury in her recent Tokinsation Summit speech, saying "[d]oing everything in a single phase is simpler, and it just makes more sense." This decision, which does not appear to have been made via consultation with industry or indeed the regulators, is deeply problematic.

Firstly, a modular approach allows the UK to be more responsive to market changes, ensuring it can act quickly to introduce regulation which manages actual risks and encourages genuine innovation. This has been a perennial challenge of the 'all at once' approach of MiCA, which is already outdated.

Secondly, the UK has been committed to a modular approach to digital assets regulation for some time, and a change in approach at this stage will have significant consequences. The stablecoin secondary legislation which would have been delivered last summer were a snap election not called, needs to be passed, accordingly allowing the FCA to publish its draft rules which it has been preparing for some time. Instead, the FCA must now hold back this document until it has worked up an 'all at once' proposal. The task of mapping existing conduct and firm standards for all Regulated Activities Order activities cannot be understated, and the FCA mapping this to a Q3 2025 consultation paper in its Roadmap demonstrates admirable intention but is nonetheless a stretch target. The logic behind requiring stablecoin issuers and custodians to endure further delay and confusion in pursuit of a misplaced notion of regulatory harmonisation is fundamentally flawed. We urge the Government to reconsider this position.

<u>Increased pace in the international community</u>

The need for swift, decisive action in the UK grows ever more pressing as other international jurisdictions establish their digital asset regimes.

The EU was the first large financial market to introduce a fulsome regime for digital assets via MiCA. While this approach is certainly not perfect, and there are areas where further refinement is required, it gives firms a very clear framework from which to operate and most importantly, from which to make commercial decisions about the services their business offers and activities

[2] https://www.fca.org.uk/publication/documents/crypto-roadmap.pdf

it conducts, and from where. However, MiCA has not been a catalyst for growth in the EU, which is a stated objective of the UK government.

The US has for a long time been absent in meaningful conversations about digital asset regulation, however since the election, a consensus appears to be growing. Legislators from both major parties now acknowledge that the crypto market needs regulation, and there have been several attempts to progress toward the development of bipartisan crypto market structure legislation. Earlier this year, the U.S. House of Representatives passed one such bill, the Financial Innovation and Technology for the 21st Century Act (FIT21), with overwhelming bipartisan support. Seventy-one House Democrats voted in favor of this landmark bill, which would give blockchain-based projects a pathway to safely and effectively launch in the U.S., while incentivising decentralisation and safeguarding users. [3] President Trump has also shown his support, by pledging to make the U.S. the "crypto capital of the planet."

The UK has long reassured itself that firms will contend with a slower pace of regulation, in order to enjoy the many broader advantages offered by this market, like deep liquidity pools, world class education and access to talent. While this is undoubtedly true - there is a tipping point. If the UK continues to weaken its grip at the same time as other jurisdictions are on a charm offensive, firms will run out of patience. The UK has a window of opportunity to act now, and it must do so swiftly and decisively in order to remain not just globally competitive, but globally relevant. In particular, this is crucial in light of both MiCA implementation and the now rapid direction of travel for crypto developments in the United States.

The existing regulatory approach

The FCA has implemented the financial promotions regime, and maintains the MLR registration process, but these interventions have not been without challenge. These challenges have primarily come via the supervision and enforcement of these requirements rather than the actual rules themselves.

For example, firms have struggled with the MLR process, believing it to be slow, burdensome and disproportionate to the AML/KYC risks it looks to mitigate. While the FCA has repeatedly claimed that the benchmark is in the right place, and almost certainly some firms' applications will have been below par, an approval rate of 14% (and only 3 firms between December 2023 and November 2024) suggests that an honest conversation is needed. Prospective firms remain concerned about the dissonance between the outward rhetoric of adoption and innovation presented by the Government and regulator, and the lived reality and perceived bias experienced at the authorisation and registration gateway. We applaud the FCA for introducing pre-application meetings, however we encourage more dialogue with industry on what is and isn't working, and to better align internally so that action matches narrative. To achieve this, regulators should deliberately place increased emphasis on the supervision of registered firms. Today's registration process gives equal regard to risk mitigation and meeting threshold conditions as it does to document format and style - an approach that is anathema to growth

[3] https://a16zcrypto.com/posts/article/bipartisan-crypto-issues/

and innovation. This is even more pressing as the MLR registration process will likely continue in lieu of full FSMA regulation for many cryptoasset firms for some years.

Finally, we urge the FCA and Government to give firms comfort on what future transition periods will look like. While we appreciate all the details cannot be provided at this early state, firms will be more willing to go through the MLR registration process if they are reassured that there will be a transition process for registered firms moving into full FSMA regulation, which crucially, looks different to the process for entirely unregulated/unregistered firms applying at the gateway.

Treatment of cryptoasset ETNS for retail

For innovation to thrive within a system, it is crucial for two things to be true:

- Regulators must understand that ex-ante interventions (prohibitions) are an unnatural externality that directly impacts all further innovation within that system; and
- Innovators must believe that those with the power to direct the evolution of innovation (regulators) will only introduce frictions as a last possible resort, on the basis of overwhelming fact (that accounts for their own bias and conflicts), and never arbitrarily.

Global market participants believe neither of these tests can be met in the UK under the prevailing prohibition for retail cryptoasset ETNs. The current prohibition on retail cryptoasset ETNs is counterproductive, leaving the UK lagging behind European peers such as Sweden, USA, Germany, and Switzerland. Notably, the London Stock Exchange (LSE) remains the only major European exchange without listed cryptoasset products, even as jurisdictions globally move toward accommodating such offerings. The UK stands out due to its isolationist approach.

The evolving cryptoasset landscape necessitates a reassessment of the risks and harms that initially justified the prohibition. A regulated framework for these products can meet growing consumer demand, align with the Consumer Duty, and the UK's goals for growth and international competitiveness, signaling that the UK is open for digital and cryptoasset innovation. It is unequivocal that the prohibition has aged poorly, and reassessing its value (particularly given its lack of efficacy) would enhance the UK's reputation as an innovation-friendly jurisdiction while ensuring robust consumer protection and market integrity. We urge action on this point.

Question 4.7: How can regulation support responsible and informed risk-taking?

As a general point, regulation can support responsible and informed risk-taking by:

- Providing clear guidance on the application of regulatory requirements to existing and emerging technologies, (including to clarify areas of regulatory uncertainty, such as the scope of ‘arranging ' in relation to cryptoasset related activity), therefore enabling firms to innovate while minimising risks. We note the City Minister’s clarification that ‘staking’ services will be exempt from the scope of the definition of a Collective Investment Scheme, an area of significant uncertainty with respect to cryptoassets, and welcome similar regulatory interventions where required (see below).

- Using regulatory sandboxes to allow firms to test new products in a controlled environment before full-scale implementation.
- Risk-based regulation: regulators need to adopt a proportionate approach to regulation, and consider the evidence-based risks that exist, and the degree to which current regulatory frameworks and interventions mitigate these risks. The debate then needs to focus on the necessity of additional interventions to manage residual risk, cognisant that unduly punitive requirements will chill innovation and dissuade responsible risk taking.
- Ensuring consumer protection through robust safeguards and transparency, allowing firms to take risks with confidence while maintaining public trust.
- Additionally, the public sector and regulators should be equipped with new products in order for a complete and holistic digitalisation of the financial services ecosystem to take place. Industry should support them in implementing these technologies.

As per the recent FCA Crypto Roadmap, a discussion paper on disclosures and market abuse is to be published imminently. Taking this is a specific example insofar as it applies to decentralisation, which we identified as being one of the most transformative technologies for financial services in the next 10 years, we provide two specific areas where regulation can support responsible and informed risk-taking.

- **Disclosures:** To decentralise, a project's crypto-asset must be widely distributed, often via airdrop. Imposing issuer-centric disclosure obligations on airdrops is not only inappropriate as the issuer is of no consequence to a decentralised crypto-asset, but can lead to re-centralisation. Policymakers should clarify that web3 projects are able to undertake the distributions of their native crypto-assets for the purposes of decentralisation following substantial development without issuer-centric disclosure requirements.
- **Market abuse:** Decentralised systems rarely begin as such; the vast majority of them start as centralised networks. While a system remains centralised, there is a risk that insiders may seek to exploit information asymmetries. Policymakers must ensure that insiders are appropriately restricted from trading crypto-assets for a period following admission to trading unless the relevant protocol and crypto-asset have achieved sufficient levels of decentralisation.

Regional Growth

Question 4.8: What are the three most important factors, ranked in order, that you consider when making an investment location decision within the UK?

1. Regulatory Environment: A clear, stable, and supportive regulatory framework is crucial for investment.
2. Access to Talent: The availability of a skilled workforce, especially in emerging sectors like fintech and AI, is essential for sustainable growth.
3. Market Access: The ability to access large, global financial markets is a key factor in investment decisions.

Question 4.9: How can we capitalise on synergies between different regional financial services hubs to support growth?

Regional financial hubs can collaborate by sharing best practices, building sector-specific expertise, and providing cross-regional innovation opportunities. For instance, fintech hubs in Belfast and Leeds could collaborate with the asset management sector in Edinburgh to build innovative, cross-sector solutions. Leveraging regional strengths while fostering connections across hubs will create a more resilient and diverse financial ecosystem across the UK.

Skills & Access to Talent

Question 4.10: What is your assessment of the UK's ability to attract global talent to the financial services sector?

The UK has a strong ability to attract global talent, especially in major financial hubs like London. However, post-Brexit, challenges around immigration policies and the availability of skilled professionals from outside the UK remain. Expanding visa options and ensuring that the UK remains an attractive destination for global talent, particularly in emerging sectors like AI and blockchain, will be key to maintaining this competitive edge.

There is a clear opportunity for the UK to create new, higher value roles and to increase productivity as a result of the efficiencies and new products that can be created by tokenisation and a shift to digital assets. According to Tech Nation, the UK's digital sector, including blockchain and tokenisation, is expected to create 1.2 million new jobs by 2030. The Financial Conduct Authority (FCA) in the UK reported that digital asset firms earned £339 million in 2023, an increase from £190 million in 2022. Similar to the use of AI tools, there is potential for workforce transformation away from certain operational roles in the medium to long-term, but with thoughtful investment in education and by creating an ecosystem that incentivises development of talent in the UK, this risk can be mitigated and pivoted to a growth story.[4] This education should start as part of school curriculum from early years, this can contribute to Financial Inclusion – because the best way to protect prospective investors is to inform them.

Question 4.11: What is your assessment of the UK's ability to effectively upskill and reskill domestic workers for roles in the financial services sector?

The UK has made significant strides in upskilling workers, particularly through initiatives like the *Financial Services Skills Commission* and other educational programs. However, with the rapid pace of technological change, continuous investment in reskilling programs, particularly in areas like digital finance, AI, and sustainable finance, will be essential to meet the sector's future needs. Critical gaps to fill in the talent market centre on the application of blockchain technology in product design and programming roles, cryptography, and cybersecurity. In financial services, the unique combination of blockchain-focused skills, and understanding of the financial markets and infrastructure is in short supply, with banks and asset managers competing with digital natives for top talent.

[4] https://www.gdf.io/wp-content/uploads/2024/11/TheVoiceofGlobalDigitalFinanceatParliament.pdf

Education, supported by a cooperative public and private sector, should be a priority in order for the UK's citizens to benefit from the new jobs created, while also mitigating the risk of jobs which may be disintermediated by new technologies. This education should start early as noted above.

International Partnerships & Trade

Question 4.12: What barriers do international financial services firms face in either establishing and operating in the UK, or using UK markets?

Barriers include complex regulatory compliance processes, particularly for new market entrants in emerging sectors like crypto and DeFi. Additionally, post-Brexit, firms face challenges in cross-border operations with the EU, including uncertainty around data protection and regulatory equivalence. Addressing these barriers through streamlined processes and clearer regulatory guidance will improve the UK's attractiveness to international firms.

On international firms in particular, we would encourage the FCA to take a more nuanced attitude to the organisational structure of international groups, (e.g., avoiding unnecessary duplication of functions at UK level provided there is sufficient oversight and governance in the UK).

Question 4.13: What opportunities should the government seek to advance through its international financial services relationships?

Opportunities include

- Strengthening financial trade agreements to provide firms with greater certainty and access to global markets.
- Promoting UK leadership in sustainable finance and green investments globally: While the world continues to work on an agreed global taxonomy for Carbon Credits, there is a more immediate opportunity for the UK to become global leader in trading of Digital Renewable Energy Certificates, such as C:Pesa DIGIRECs® innovated by UK start-up to help Corporates, Financial Firms and Funds around the world meet Sustainability requirements – such as ESG Scope 2 Electricity compliance – as populations around the planet increasingly adopt Artificial Intelligence and similar innovations that correspondingly will drive significant increase in demand for clean Electricity. See pages 26-29 of Annex 3 - Spotlight-Sustainability, Digital Energy Attribute Certificates: Case study of UK Climate Fintech C:Pesa DIGIRECs® to achieve Carbon Free electricity parameters for consumption in [The Voice of Global Digital Finance at Parliament] report launched at Westminster on 11 November 2024
- Fostering partnerships with emerging markets to tap into new growth Africa, Asia, and the Middle East.
- Reducing Friction – For example, Stamp Duty Reserve Tax (SDRT) on purchase of shares – or digital twins / tokens that retain both economic profile and the vote and/or

ownership rights – at 50bp x Purchase Value is a giant wall of upfront cost that drives international investors to similar instruments on other markets that do not levy purchase tax on asset managers or end investors; If HM Treasury wishes to keep SDRT in place, an alternative is to switch it from a purchase tax to an exit tax to remove the disincentive to send purchase orders to Regulated Markets and MTFs. Note, for example by comparison, that:

1. Markets in Asia such as South Korea and Taiwan have a 'sales tax' rather than a 'purchase tax' on the electronic trading of select financial instruments
2. Growth Market / AIM stocks are exempt from SDRT on purchase.
3. Global Depository Receipts are exempt from SDRT on purchase.
4. ETFs are exempt from SDRT on purchase.

Because one can manifest tokenised instruments by 'wrapping' underlying instruments with a Fund or Special Purpose Vehicle (SPV) or Limited Company structure registered by Companies House, it would help development of UK Digital Finance and liquidity in these novel instruments to accord them with similar exemption from SDRT on purchase.

Chapter 5 – Priority Growth Opportunities

Question 5.1: Do you agree with the priority opportunities that have been identified?

Yes, the priority opportunities identified, such as fintech, sustainable finance, capital markets, and asset management, align well with the UK's strategic goals and vision for the future. These sectors are ripe for growth, particularly with the UK's strengths in innovation and financial services infrastructure.

Question 5.2: Which of the following business areas and activities do you see as high growth opportunities for your firm and the sector?

Across the three trades and the firms we represent we have identified Fintech, Sustainable Finance, and Asset Management offer the highest growth potential, particularly given the UK's strengths in technological innovation and green finance.

Fintech

Question 5.3: What do you see as the most important ingredients for a thriving UK fintech sector in the coming 10 years?

Key ingredients for a thriving digital financial services sector include regulatory clarity, access to capital, a strong talent pipeline, and the continuous development of innovation hubs. Ensuring that the UK fosters an environment conducive to rapid fintech innovation will position it as a global leader.

Furthermore, the UK should consider how it can be an environment that truly enables scaling. For example, access to banking currently makes it difficult for both Fintech and crypto companies to grow and scale in the UK, broader economic factors also may incentivise companies to follow capital elsewhere. It should also be taken into consideration how the UK can transform these factors in order to attract genuine growth.

Question 5.4: Which are the critical factors for success that are specific to the fintech sector to enable innovative businesses to succeed?

The critical factors include:

- Access to funding (including access to bank accounts), particularly through venture capital and angel investors.
- Regulatory support, particularly in areas like cryptoassets, AI, and data privacy.
- A collaborative ecosystem where traditional financial institutions and fintech firms can co-create solutions.
- An economy that is growth focused enabling firms to grow, and attract capital and investment.
- An environment that encourages firms to scale.

Sustainable Finance

Question 5.5: In the UK's sustainable finance framework, as set out in the Chancellor's Mansion House package, do you see barriers or gaps that would support the growth and competitiveness of the UK sustainable finance market?

Barriers include a lack of standardisation in green finance frameworks and insufficient clarity on transition finance. Addressing these issues and developing a robust UK Green Taxonomy would help position the UK as a global leader in sustainable finance. It is critical, however, that any rules implemented around sustainability and green finance not interfere with the decentralised nature of web3 technologies by, for instance, requiring reporting by centralised intermediaries that are open-source, autonomous software cannot comply with. Any sustainability and green finance rules related to disclosures, white papers, and the like should be limited to centralised intermediaries in scope and should not in any way impede the decentralisation of web3 systems

Question 5.6: What should be the UK's priority when engaging with the global sustainable finance agenda?

The UK should prioritise developing global standards for green finance and fostering international collaboration to finance the net-zero transition. This would enhance the UK's role in global green finance markets.

Question 5.7: What are the opportunities and barriers for the financial services sector in developing the products and/or services necessary to facilitate investment into the net-zero transition?

Opportunities include the creation of green bonds, ESG-focused investment products, and the integration of carbon offsetting into financial services. Barriers include regulatory uncertainty and the lack of universally agreed-upon sustainability standards, which must be addressed to unlock greater investment in net-zero transition projects.

Capital Markets (including retail investment)

Question 5.8: Are there any barriers to growth in capital markets that are not being targeted by existing government reforms?

Barriers include market fragmentation and limited retail investor participation, such as prohibitions on offering new and innovative retail products like retail Bitcoin or Ethereum ETPs. Efforts to simplify market access and encourage long-term investment from retail investors will be key to sustaining growth. This is further discussed under Question 5.12

Question 5.9: Are there any barriers to retail participation in UK capital markets?

The largest barrier is the prevention of products or prohibition on developing new products for retail customers in the UK. Barriers also include a lack of awareness, complexity, and perceived risks. Simplifying investment products and improving financial literacy could increase retail participation. Yet the key blocker is the lack of availability. We would encourage the government to enable a wider selection of new retail products, supported by appropriate disclosures and investor protections. This would both stimulate the retail market and also prevent retail consumers from seeking products on the grey market, or without appropriate protections which currently can easily be done via a VPN. This is further discussed under Question 5.12

Insurance & Reinsurance Markets

Question 5.10: What are the barriers to insurers and reinsurers to growing their businesses and share of international markets?

No comments

Question 5.11: What are the barriers to innovation in the UK's insurance markets?

No comments

Asset Management & Wholesale Services

Question 5.12: What are the barriers to setting up and conducting business as a UK asset manager or conducting wholesale services in the UK?

The following is an extract from GDF's recently published report "The voice of global digital finance at Parliament: 10 Recommendations for Digital Britain from the global financial services and fintech sector."[5] The report includes contributions from both GDF & CCI members as well as the broader financial services industry on how the UK can catalyse change, progress digitisation, boost growth, create new jobs, promote greater social inclusion, and deliver greater

[5] https://www.gdf.io/wp-content/uploads/2024/11/TheVoiceofGlobalDigitalFinanceatParliament.pdf

prosperity by working across three key pillars of digitisation: competition, productivity, & new products.

“Innovation and technological advancements have always been fundamental to the evolution of capital markets and will continue to play an important role in reshaping the financial services landscape. Electronic and algorithmic trading, big data analytics, cloud computing, machine learning and artificial intelligence already augment many key aspects of the asset management value chain by enhancing investment, trading, risk management and compliance capabilities to improve the investor experience and help more people achieve financial wellbeing.

Digitisation and tokenisation are also emerging as a powerful transformative force that could play a significant role in reducing fragmentation and removing structural siloes that exist across market infrastructure. For instance, blockchain and DLT offer new ways to trade, move and manage assets. Processes that are integral to capital markets such as clearing, settlement, margin and collateral management might benefit from features such as near instantaneous transfer of ownership (essential for unlocking trapped liquidity), digital audit history and immutable recordkeeping which could bring capital efficiencies and pre and post trade benefits.

Overall, the buy-side’s commitment to innovation and efficiency, characterised by careful and considered adoption of advanced technologies, will continue in helping to foster a more efficient, inclusive, and resilient financial ecosystem.

Globally, investment products such as spot cryptoasset exchange-traded products (ETPs) and the broader move towards tokenisation of real-world assets mean that traditional financial (TradFi) and digitally native firms, along with respective financial ecosystems, are increasingly having to learn to interoperate. Real world use cases are starting to emerge that are driving a trend towards greater convergence and improved interaction between capital markets infrastructure, whether it is between blockchain and non-blockchain networks or development of cross-chain bridges.

For instance, tokenisation of real-world assets such as money market funds enable digitally native firms to leverage and still gain access to traditional investment products. Additionally, expanding the pool of collateral acceptable to market participants to include specific money market funds, which could subsequently be tokenised, might create new forms of fund utility and commercial opportunity linked to areas such as asset transferability, improved liquidity and distribution.

Fully realising the benefits of a digital ecosystem will also require a network effect. To achieve this, a scalable financial market structure that brings together market participants across the capital markets spectrum and allows them to seamlessly interoperate is needed. For instance, while activity in digital bond issuance has increased, institutional adoption will remain limited until infrastructure that can unify the full bond market ecosystem, such as secondary market liquidity, expansion of the custody framework, financing, lending and collateral, is in place.

Over the past few decades, ETPs have transformed investor’s access to traditional financial markets. With no minimum investment requirement, low fees and diversified holdings, ETPs offer a secure way for investors to access thousands of securities across multiple asset classes in a well-regulated and understood wrapper. These structural qualities could make holding cryptoassets via an ETP wrapper attractive to investors who see crypto as a burgeoning alternative asset class or who wish to gain exposure to thematic opportunities such as digital disruption.

Spot cryptoasset ETPs have the capacity to provide end investors with an efficient way of gaining exposure by removing barriers to entry while mitigating associated operational and custody risks. For instance, ETPs offer a safer mechanism for investors to hold a bearer instrument by removing the need for self-custody, which limits the risk of loss attributed to user error or hacking. As with traditional ETPs, investors also gain access to the full global network of liquidity venues, sophisticated levels of best execution and a familiar trading and settlement ecosystem, including standardised marketplaces, time zones and transparent reporting. This alleviates certain operational complexities investors often face directly trading cryptoassets such as 24/7 market operations and ensures transactions are safe and secure.

Finally, the standardised nature of ETP wrappers brings economies of scale, which lowers costs and makes investor education around areas such as product and risk easier. For instance, if the FCA were to permit cryptoasset ETPs to be sold to retail investors with authorised prospectuses approved under the Prospectus Regulations, the FCA could ensure retail investors receive higher levels of risk disclosure and awareness of investment risks than via direct cryptoasset investments. Furthermore, if the FCA were to allow UCITS funds to invest in cryptoasset ETPs, UCITS funds would apply diversification rules to their holdings, meaning investors would get exposure to cryptoasset ETPs as part of a broader diversified investment portfolio. As the cryptoasset ecosystem continues to mature, certain existing challenges posed to end investors may be mitigated and barriers to direct investment of cryptoassets reduced. However, investors have a wide range of financial objectives and the efficiency of a traditional wrapper structure such as ETPs may continue to appeal to those who seek exposure to cryptoassets in an efficient and professionally risk–managed manner.”

Question 5.13: In what ways could the regulatory landscape for asset management or wholesale services adapt to the needs of organisations over the next 10 years?

As set out above, in the areas of digitisation, the regulatory landscape could evolve to be more future proof and to enable and support new types of products, in particular those driven by innovation and new technologies such as blockchain and AI.

In addition to the previous points raised, we would also note that it could be beneficial for the regulatory framework to set out further differentiation between wholesale and retail markets in some areas (e.g., approach to MLR registration, cross border market access (depending on how this develops), and the financial promotion regime).