

Written evidence submitted by the Digital Pound Foundation

A. Overview of the Digital Pound Foundation

The [Digital Pound Foundation](#) (DPF) is an independent organisation that was incorporated on 22 June 2021 to work with a variety of stakeholders and participants towards the implementation of a well-designed digital Pound and an effective and diverse ecosystem for new forms of digital money.

The DPF's goal is to act as a catalyst among stakeholders across the public and private sectors, including academia to explore and articulate the case for a well-conceived digital Pound, in both publicly and privately issued forms. Beginning with a programme of research, advocacy and multi-stakeholder engagement, our work will progress through to regulatory engagement and industry testing, via support for practical sandbox experiments, proofs-of-concept, and pilot work, as needed. The DPF will support and complement other projects and associations having similar objectives, including the Bank of England's consultation framework and Engagement and Technology Forums, existing industry associations, and private sector initiatives.

Our intention is to create an inclusive, well-functioning forum for collaboration that looks at the implementation of a digital Pound from a holistic perspective, addressing narrow questions, such as the design, implementation and successful adoption of CBDC, and the wider impact of a digital Pound, in both publicly and privately issued forms and on the UK's economy and society. We will advocate and provide constructive input on vital considerations such as privacy, financial inclusion and technology inclusion, and will consider the digital Pound's role in enabling the UK's transition to a digital economy and underpinning a more efficient, sustainable payments and financial markets infrastructure.

Originating members of the group include: [Jeremy Wilson](#), [Jannah Patchay](#), [Lee Schneider](#), [Victoria Thompson](#), [Phil Kenworthy](#) and [Melanie Budden](#). Foundation and Associate members include [Accenture](#), [Avalanche](#), [Billon Group](#), [Clifford Chance](#), [CGI](#), [Electroneum](#), [Quant](#) and [Ripple](#). Partners include [Herbert Smith Freehills](#), [The Realization Group](#), [CryptoUK](#) and the [Digital Euro Association](#).

A. General Comments

The Digital Pound Foundation takes pleasure in responding to the [Treasury Committee's Call for Evidence on The crypto-asset industry](#).

The DPF is supportive of the UK government's commitment to place the UK's financial services sector at the forefront of cryptoasset technology and innovation, and to take a staged and proportionate approach to cryptoasset regulation, which is sensitive to risks posed and responsive to new developments in the market.

Given the DPF's focus on advocacy around new forms of digital money in the UK, including central bank digital currency (CBDC) as well as privately-issued stablecoins,

tokenised e-money and other forms of digital regulated liabilities, we have restricted our response to these.

B. Summary of Response

The introduction of new forms of digital money – whether public or private in form – is irreversible. And, given that money touches everyone and everything, its implications are enormous. A global race has therefore developed between private and public protagonists – the issuers of these new forms of digital money. The ability to maintain the stability, safety, and security of financial markets and access to money and payments infrastructure is therefore of profound social and political significance for all central banks and governments. These new forms of digital money create opportunities for radical transformation of the ways in which business is done, value is exchanged, and services are provided and received. They also give rise to risks and challenges, which must be recognised and addressed.

The DPF sees a clear distinction between digital forms of fiat currency (including fiat-pegged stablecoins and central bank digital currencies) and other forms of digital currencies, such as cryptocurrencies and those stablecoins that are pegged to multiple currencies or to one or more other types of asset. Digital forms of fiat currency - which can be thought of as new forms of digital money - are likely to play a growing role given the functionality, opportunities and potential benefits that they bring to the way in which consumers, businesses and governments transact with each other.

The DPF believes that an effective and diverse ecosystem for both public and private forms of digital money within the UK has the potential to deliver a number of benefits:

- ☐ Promoting a more automated and frictionless better, more certain and efficient value transfer and payments system from source to destination – be it payments from governments to individuals, or vice versa, or payments between two parties.
- ☐ Underpinning a payments and market infrastructure that can support greater financial inclusion and access to capital, for both individual citizens and small-to-medium enterprises.
- ☐ Enabling the UK's transition to a digital economy, and laying the foundation for the UK to become a world leader in the digital economy and the Fourth Industrial Revolution.
- ☐ Supporting the development of digital assets and digital asset markets.
- ☐ Enhancing the status of the UK's currency as a desirable means of exchange, store of value and unit of account in global marketplaces.
- ☐ Stimulating innovation and new technologies across all sectors of the economy and extending the UK economy's reach well beyond its physical borders.
- ☐ Encouraging private sector investment in digital infrastructure, job creation, and expansion of service offerings in all sectors of the economy.
- ☐ Providing new ways for the government to interact with citizens and businesses, including, post-Covid, via inventive new economic stimulus and recovery programmes.

The UK can facilitate the development of a healthy and diverse ecosystem for new forms of digital money, through the following actions:

- ☒ Recognising the role to be played by both public and private forms of digital money in the digital economy of the future, and the potential for complementarity between the two.
- ☒ Developing a regulatory framework for new forms of digital money that:
 - Adheres to the principles of “same risk, same regulation” in its treatment of the proportionality of risks posed by systemically important stablecoins and their issuers.
 - Addresses systemic risk, conduct risk and prudential risk, operational risk, liquidity risk and legal risk in a proportionate manner whilst also allowing for a diverse set of participants in the sector and opening it up to innovation.
 - Contains proportionate and appropriate measures for the prevention, detection and deterrence of fraud, and the use of digital money in economic and financial crime.
 - Ensures end user and customer confidence through a safe and secure payment system.
- ☒ Promoting healthy competition between issuers and market participants, and competitive outcomes for end users and consumers, through the development of interoperability requirements and standards for issuers of new forms of digital money, both public and private.
- ☒ Ensuring sufficient and appropriate privacy measures are put in place so that users of new forms of digital money have trust in the system and are confident that their data and privacy are protected from breaches, leaks and unauthorised commercial exploitation.
- ☒ Putting in place sufficient resilience measures to protect both the infrastructure underpinning systemically important new forms of digital money, as well as the user / customer base, in the event of operational or commercial failure.

C. Call for Evidence - Response

1. To what extent are crypto-assets when used as digital currencies (such as Stablecoin) likely to replace traditional currencies?

The introduction of new forms of digital money will lead to the coexistence of three forms of fiat currency: cash, commercial bank money, and new forms of digital money (which may be further subdivided into CBDC and privately issued systemically important stablecoins, should a CBDC be introduced). In the DPF’s view, public interest will likely be less in the potential utility of a central bank-backed form of digital money, and more in the potential anonymous (or otherwise) aspects of such a development. Since the Bank has already said that any form of digital money will not be anonymous, digital money is likely to be more of an alternative to commercial bank e-money than to cash, with the exception of financial inclusion requirements (bearing in mind that people do not necessarily transact in cash out of choice, but also due to exclusion from the banking system for whatever reason). Its primary appeal to the public will therefore lie in fact that it is smart (programmable etc) e-money, much like a smarter form of commercial bank or EMI-issued e-money, and that it is fully backed by the central bank with no FSCS limit.

We do not see digital money as supplanting other forms of money, but rather as coexisting alongside them, for the foreseeable future. Furthermore, over time the lines between these forms of money may become blurred, as commercial bank money itself becomes issued in a digital-native form akin to stablecoins (or “tokenised” commercial bank money) and if a retail CBDC that is implemented with cash-like features becomes used in a similar way to cash.

2. What opportunities and risks would the introduction of a Bank of England Digital Currency bring?

As the Bank of England itself has noted, in its 2021 [Discussion Paper on New Forms of Digital Money](#), the introduction of a CBDC would likely result - to at least some extent in a shift away from commercial bank money deposits. This in turn could represent a potential challenge to the existing fractional reserve banking system, on which the UK is highly dependent (particularly as an economy that is reliant on higher levels of household debt). Nevertheless, it is also possible that innovative forms of financing could arise as a result of the introduction of CBDC and the technological opportunities to which it gives rise.

The DPF sees five key areas in which a CBDC could deliver benefits for the UK:

1. Central bank and monetary policy

- a. As a meaningful and potentially safer public money alternative to the use of private stablecoins and cryptocurrencies for payments and settlements, by providing a central bank-backed alternative digital currency that preserves consumer protections whilst also enabling the benefits associated with programmable money.
- b. With the decline in cash usage and acceptance, the creation of a CBDC would enable the continuation of the wider general public’s ability to hold public (or “central bank money”) as opposed to exclusively relying on private money - whether in the form of commercial bank money, e-money or privately-issued stablecoins - for digital account holdings and digital transactions.
- c. Improvements in monetary policy transmission, and the potential to allow central banks to deploy highly reactive monetary policy measures. In the event that a CBDC is designed to be interest-bearing, it could directly enable interest rate policies to be transmitted more rapidly and efficiently to end-users.
- d. CBDCs can be used as a tool in implementing programmes such as digital borders, for example in enabling the digitisation and automation of customs paperwork and associated payments.

2. Domestic and cross-border payments infrastructure

- a. More efficient cross-border payments infrastructure (for both wholesale and retail/commercial payments), and a more efficient domestic payments infrastructure through developments such as programmability of money.
- b. Underpinning a digital-native, comprehensive payments service for government, individual and business users, enabling the legal and regulatory requirements arising from any given payment or transaction to be met in real time.

3. Transition to a digital economy

- a. Enabling the transition to a digital economy and helping to drive innovation. Introduction of a CBDC can drive greater adoption and innovation of transformative technology paradigms such as artificial intelligence (AI), decentralised systems and applications implemented via distributed ledger technology, and the internet of things (IoT). Combining the power of AI and DLT can give rise to a diverse set of new business models and applications associated with internet-enabled, networked hardware devices that can act as digital agents for their owners.

4. Financial/Digital inclusion and social policy delivery

- a. As we have seen, the use cases and benefits associated with CBDC have gained significant traction in the wake of the COVID-19 pandemic, particularly with respect to the potential applications around financial inclusion – including improved capabilities around government distributions, and the achievement of existing and future public policy.
- b. A well-designed CBDC that encompasses principles of universal account access has the potential to enable greater financial inclusion. Payment service providers in a CBDC ecosystem could be incentivised to offer accounts or wallets to those customers that are excluded from conventional banking services. Greater financial inclusion, and more universal access to accounts, can generate wider social benefits, including improved credit ratings, lower costs of transactions (to the users of the services) and access to cheaper credit.
- c. The introduction of a retail CBDC in the UK will need to be accompanied by careful consideration of the UK's specific needs with respect to digital inclusion, and how these can be addressed and accommodated through a combination of design alongside the accompanying payments market structure and the roles of participants such as wallet providers and payment interface providers.

5. Financial Crime

- a. As highlighted in UK Finance's half-yearly Fraud Report (22nd September 2021), the level of digital payment fraud through existing payment channels continues to be substantial. Authorised Push Payment Fraud increased by 60% in volume and 71% in value (to £353m) in the first half of 2021 compared to 2020. The

intrinsic characteristics of CBDCs (e.g. their traceability and programmability) provides a strong opportunity for such fraud to be significantly reduced. These same characteristics could also greatly assist in reducing the ability to process proceeds of crime, terrorism financing and money laundering.

One of the most exciting features of CBDC is the potential for introducing programmable money - a form of digital money that, by design, allows for the execution of certain software code in the course of a transaction using that money. Programmable money can offer users - be they individuals, businesses, local authorities or government departments - a means of transacting in which all the consequences and obligations arising as a result of their transaction are managed seamlessly. For example, this could include automated tax reporting and tax deductions at the transaction level, greatly simplifying company accounting procedures and improving the real-time flow of tax receipts to HMRC. For government and local authorities, this could mean better policy delivery, in real time, and for individuals and families it could mean cheaper, easier and more secure access to benefits and entitlements, via digital money, than is currently available. There are indeed risks associated with the introduction of a CBDC, although we note that, given the benefits of introducing one - and indeed the importance of introducing a UK CBDC, given global developments in this space - these can all be managed and mitigated given appropriate planning and resources. Risks include:

1. *Systemic and structural challenges*

- a. As the Bank of England has noted in its Discussion Paper on New Forms of Digital Money, the introduction of a CBDC could lead to outflows from commercial bank deposits into CBDC holdings, resulting in lower deposit balances being held with commercial banks and hence posing challenges to the ability of commercial banks to maintain their lending abilities, all other things being equal. The same Discussion Paper observes that similar effects could in any case be experienced should the public shift significant holdings and transactions to privately issued systemically important stablecoins. In the DPF's view, such risks to financial incumbents should not outweigh the potential benefits of digital money for the UK, although we agree that these risks will require management. The Bank has proposed options such as the imposition of limits on holdings in any new forms of digital money, in order to manage the transition towards their adoption at scale, with which we would concur.
 - i. In [a recent speech](#), Fabio Panetta, member of the Executive Board of the ECB, noted that the ECB's "preliminary analyses indicate that keeping total digital euro holdings between one trillion and one and a half trillion euro would avoid negative effects for the financial system and monetary policy. This amount would be comparable with the current holdings of banknotes in circulation."
- b. Opponents of CBDCs often argue that their introduction would force a central bank into becoming a consumer service provider, or would lead to the disintermediation of commercial banks. We would dispel these myths at the outset, noting that the Bank of England itself, in its [2020 Discussion Paper on central bank digital currency](#), has explicitly rejected any model that would require the Bank itself to provide accounts to the general public, instead seeking to maintain direct access only to certain service

providers (in keeping with the current wholesale payments and accounts model). The DPF - like the Bank - envisages a continued role for commercial banks as well as a broader and diverse range of regulated service providers in the role of Payment Interface Providers in a CBDC system. Additionally, to the extent development of a CBDC results in greater competition from non-bank providers to fill the roles traditionally played by commercial banks, consumers could benefit as well.

2. Operational challenges

- a. Introduction of a CBDC will require financial institutions to assess the impact on all of their front-to-back technology and operational infrastructure and processes. The impact is not limited to payments and settlements systems- introduction of a CBDC, and the associated changes to payments processing, can potentially impact the systems of every function in a financial institution (e.g. sales and trading, trade finance, treasury and lending). When viewed in the context of the wider wholesale review, re-engineering, modernisation and digitisation required for a successful transition to a digital economy, this is not necessarily a negative development. Nevertheless, the challenges associated with loss of data, sunk investment costs due to CBDC making previous or planned changes redundant, and general re-engineering challenges are all challenges that must be managed.
- b. Customers of these institutions, including corporates and buy-side financial institutions such as asset managers, will be impacted too, in particular where they have direct interfaces to the bank.
- c. In order for implementation and roll-out to be successful, the Bank of England will require intensive cross-industry engagement and collaboration, and a detailed implementation roadmap that will cover the impact on and risks posed to every part of the financial markets ecosystem.

We anticipate that CBDC will co-exist with other existing forms of public money for some time, if not indefinitely. Accordingly, CBDC infrastructure should also be designed such that it is interoperable with existing and planned payment infrastructure within the UK and globally, and also with respect to some in-flight upgrades to existing payment infrastructure (such as the UK's New Payments Architecture), so that these expensive initiatives do not become throwaway efforts.

3. Reputational and commercial challenges

- a. Public trust in a CBDC is vital, in order for successful commercial uptake. Public trust can be negatively impacted, for example, by a perception that the design of the CBDC does not adequately address privacy concerns, that there are insufficient legal safeguards for privacy and autonomous control of personal finances and transactions, and that the use of features such as programmability may violate an individual's autonomy over their own finances. Such concerns can be addressed in the design of the CBDC as well as the legislative framework around it. The cost of failing to gain sufficient public trust in a CBDC, and hence sufficient uptake, would likely be a gravitation towards private forms

of digital money (e.g. stablecoins) or to cryptocurrency-based payment systems and accounts.

- b. There is also a cost associated with adopting new forms of money and payments systems, on the part of businesses and consumers. Such costs can be addressed in design choices, for example via mechanisms such as interoperability of CBDC with existing payment systems, and by requirements (or subsidies) for payments intermediaries in a CBDC ecosystem to make the on-ramps and off-ramps to CBDC affordable and easily integrated with existing B2B and B2C payments applications.

3. What impact could the use of crypto-assets have on social inclusion?

When the trend towards digital-only payments is viewed against the backdrop of bank branch closure reports and a movement to digital-only operations in retail and SME banking segments, we can see that this is leading to a significant financial inclusion issue with a scope of impact going beyond those that have historically been most impacted by the issues of financial inclusion.

The Covid pandemic has served to further highlight this significant social issue. Around 14 million people in the UK alone are unable to embrace a move to a cashless society – and now because of the pandemic they are at a real risk of being left behind and stuck in the poverty premium trap. One in 5 people (19 percent of the population, 10 million people) say they would struggle to cope in a cashless society.

For many people, it is clear that the pivot to digital for the bulk of consumer transactions has created a wave of distress and anxiety in an already turbulent time. To those for whom contactless and digital banking is not even an option, this means even more isolation and potential for exploitation. It seems counter-intuitive that innovation should lead to less satisfactory outcomes for an already disadvantaged community.

The issues around financial and social exclusion will only grow in significance as the digital economy expands, and as bank accounts and payment cards become more fundamental to full participation within it. In this context, digital currencies are increasingly touted as a tool that can be deployed to overcome some of these challenges to financial inclusion. Their potential benefits include:

- Development of accessible wallet and payment facilities, without a central intermediary (bank account)
- Enabling fast and low-cost cross border remittances
- Enabling access to new income streams via the global digital economy
- Development of digital identities and robust data trails including AML due diligence and credit history
- Ability to access loans and other financial services

Despite the widespread and increasing uptake of mobile technology and internet usage, there remains a persistent segment of society that is lacking in internet access (not to mention the risks associated with power outages and loss of internet connectivity for even the most sophisticated user). A key consideration, therefore, will be the extent to which CBDCs and other new forms of digital fiat money are designed for offline use.

As cash use continues to decline (and availability of cash becomes more expensive due to the greater expenses associated with distribution), this will become more problematic over time. Cryptocurrency and blockchain providers have already developed pragmatic solutions for offline functionality from which governments can learn and adapt. The Indian e-Rupi is a live example of how this technology could work, allowing its users to print a QR code and make use of it for offline purchases. In jurisdictions with lower levels of internet access or more frequent outages, for example, governments and central banks can incorporate such approaches into their CBDC design to ensure it remains accessible to everyone, 100% of the time.

There are also the hurdles of digital identity and the establishment of personal credit history to be overcome. Solving these obstacles leads to solutions that not only provide the financially excluded with access to digital payments but also enable them to build a credit score and subsequently gain access to financial products such as loans and mortgages. Developed countries, like the UK, rely on citizens having access to formal documents of identification, such as a passport or driver's licence. Unfortunately, even in developed countries, this is not always available for a variety of personal reasons – and this is even more so the case for those in developing regions, where infrastructure and logistics can combine to create even more challenging conditions. Governments will need to design CBDCs with this in mind, allowing people to set up digital wallets with effective yet practicable KYC requirements. For example, in regions with high smartphone usage, sim card registration can be used as a means of identifying people. Downsides to this type of approach could however include increased chances of fraudulent activity, and so further measures must be considered in order to address these risks – not only for the government but for the user as well.

4. Are the Government and regulators suitably equipped to grasp the opportunities presented by crypto-assets, whilst at the same time mitigating against the risks?

We support 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.

The DPF also agrees that the introduction of such regulation will help create the conditions for issuers and service providers of stablecoins and e-money tokens used as a means of payment to operate and grow safely in the UK, driving consumer choice and efficiency. However, we recognise that the government also considers it necessary to ensure appropriate and proportionate tools are in place to mitigate the financial stability issues that could materialise by the failure of a firm of systemic scale. To date, no firm in the UK has yet launched a stablecoin capable of being used as a means of payment to such an extent. Globally, stablecoins such as Tether's USDT and Circle's USDC are primarily used for transacting in cryptocurrencies; that said, their potential benefits in both wholesale and retail payment and settlement use cases are well documented. It is only a matter of time until they are more widely adopted. We are also

mindful of the efforts by private entities to introduce stablecoins whose use would, by virtue of the user base and platform on which they are offered, rapidly become systemic in nature (the now-defunct Libra and Diem proposals being a prime example of this phenomenon).

The DPF is also mindful that privately-issued new forms of digital money remain a nascent sector at present, and that many discussions – including those between the Digital Pound Foundation, its Members and Partners, and the wider financial community – are taking place about the form of digital money in the future, and the market structures and ecosystems that may evolve and rise.

Whilst it is true that recent events in the cryptoasset markets have highlighted the need for appropriate regulation to mitigate consumer, market integrity and financial stability risks, it is also notable that the stablecoin regulatory perimeter currently envisaged by HMT would not have prevented the collapse of TerraUSD, a so-called algorithmic stablecoin. We are mindful of the potential for this emerging sector to evolve unexpectedly, and for the risks of potential contagion and systemic impact to manifest itself in ways difficult to envisage at present. In this context, regulators and policymakers should remain vigilant and mindful of the need for appropriate risk management not only on the part of the issuers of those stablecoins that may become systemic in scale, but also on the part of systemically important users of such stablecoins (specifically, regulated financial institutions).

5. **What opportunities and risks could the use of crypto-assets—including Non-Fungible Tokens—pose for individuals, the economy, and the workings of both the public and private sectors?**

No response.

6. **How can distributed ledger technology be applied in the financial services sector?**

No response.

7. **What work has the Government (and its associated bodies) done to understand, prepare for and, where relevant, encourage changes that may be brought about by increased adoption of crypto-assets?**

No response.

8. **How might the Government's processes – for instance the tax system - adapt should crypto-assets be adopted more widely?**

No response.

9. How effective have the regulatory measures introduced by the Government - for instance around advertising and money laundering - been in increasing consumer protection around crypto-assets?

No response.

10. Is the Government striking the right balance between regulating crypto-assets to provide adequate protection for consumers and businesses and not stifling innovation?

With respect to stablecoins, fundamentally, a stablecoin must be able to hold its value such that users can be confident that they are holding a stable method of payment that will not fluctuate in value. This is where the challenge with some stablecoin structures lies. For those that are in essence a tradable asset that can be used for payments, there is the potential for the value of these stablecoins to fluctuate as a result of their tradable features. And this means that it does not behave entirely like a currency, but potentially more as a commodity that is used as a means of payment.

It is also important to distinguish between user types, and between different types of user behaviour. Client classification is a well-established component of EU and UK financial regulation, with clients broadly being classified into Retail or Professional (and Eligible Counterparty) categories, and subject to appropriate protections based on their sophistication. User behaviour can be split across those who are holding stablecoins as a store of value or investment asset and are primarily interested in their tradability (i.e. more speculative behaviour), and those who are more risk averse, and see the benefits of digital currency for payments and settlements, but do not not want to expose themselves to price fluctuations.

In the current absence of a regulatory regime for stablecoins (which is soon to change in the EU with the introduction of the MiCA regulations, and in the UK, to some extent, with the broadening of the current e-money and payments regimes to encompass certain types of fiat-backed stablecoins), most stablecoin issuers (with the exception of those that are currently subject to the e-money regime) are not currently subject to any prudential or conduct regulatory requirements. So, whilst they can purport to offer a “stable” coin, there is actually no requirement for them to demonstrate or maintain its stability. And even with the best intentions, the case studies mentioned above show that the current regulatory infrastructure is not as robust as it needs to be.

For systemically important stablecoins, in particular, to be truly “stable”, there are some clear risk mitigating steps that can be taken, including lessons that can be learnt from the e-money regime. Again, the proportionality of the stablecoin’s usage, and the risk it poses, should always be taken into consideration when determining how this risk can be managed through regulation. Rather than being prescriptive about the types of stablecoins that “should” be allowed, or how all stablecoins should be regulated, it will be important for regulators to consider the types of risks that can arise based on different stablecoin structures - including algorithmic stablecoins - and how these might be addressed in a proportionate manner.

11. Could regulation benefit crypto-asset start-ups by improving consumer trust and resilience?

The development of private sector initiatives such as Facebook's "Diem" (formerly Libra) in recent years has raised important questions around security, consumer protection, data privacy and even economic policy. Similar issues arise around CBDCs, which also raise key challenges in the areas of monetary policy and political strategy. These last two issues must be considered in terms of both their national and international impact.

The government and regulators should give careful consideration to the balance between consumer protection and promotion of competition. In this new fast moving digital age a flexible regulatory environment will be key if the UK is to retain its global position as a centre of financial excellence. The recent Fintech review by Ron Kalifa has shown that, while the UK is a key Fintech hub, there is increasing competition from other financial centres.. However consumers will not use new services unless such services are provided within a safe and measured regulatory framework.

In terms of priorities, ensuring financial stability and market integrity is key. Any jurisdiction that cannot guarantee these will quickly find itself shunned by start-ups and abandoned by businesses and therefore the other objectives will not be achieved. It will be imperative for regulators to clearly identify the risks in crypto assets, particularly with respect to areas such as liquidity and market value. Consumer protection is the next priority, and regulators need to understand the risks with respect to areas such as redemption rights, legal ownership and liability of the issuer. Only then will investors be willing to invest, after which the competitive landscape for start-ups can be considered.

There will always be tensions between stability and competition - or to put it another way, between risk and rewards. As an advance in the digital representation of value, crypto assets have the power to widen the products that clients can purchase. That means scope for new providers, which in turn can grow the economy. There are, of course, accompanying risks in areas such as volatility, liquidity, redemption of value as well as financial crime. These are new assets, hence the risks need to be explored and fully understood, so that the balance of risk and reward can be accurately measured.

12. How are Governments and regulators in other countries approaching crypto-assets, and what lessons can the UK learn from overseas?

It is the DPF's view that consideration must be given to international developments with respect to the regulation of new forms of digital money, particularly given their potential to have a user base spread across and transacting across multiple jurisdictions. In an increasingly global world, it is imperative that the delicate balance of financial stability, risk and promotion of competition is maintained. The growing power of China and other Asian economies, and the reality of Brexit, means that the UK must give careful consideration to how it competes in a challenging global market. The potential global growth in private stable token and central bank digital currency systems over the next few years, means that maintaining international co-

operation will be key in order to ensure maximum operational efficiency, security and resilience. In the case of central bank digital currencies, the political and economic strategies of state actors will also be a key driving force.

Cryptoassets are, by their nature, globally accessible instruments which derive a great deal of value from their global reach and the absence of technological constraints limiting their usage to a single jurisdiction. Their potential usefulness, value and role in driving innovation and competition should not be stifled by artificial regulatory constraints, particularly those created by a failure to adequately consider the multilateral development of global regulatory approaches and standards.

Many types of UK financial institutions, corporates and retail investors trade and settle assets on a global basis today and will surely do so with cryptoassets. In an increasingly global world, harmonisation of commercial laws, practices and standards is vital. This is particularly relevant to cryptoassets when considered as a means of payment i.e. stablecoins and CBDCs. In the world of payments, the move to ISO20022 message standards is being driven by the need for frictionless immediate settlement. The Financial Stability Board wishes to see legal and technical standardisation around cross border payments for the same reason.

Post-Brexit, the UK has an even stronger set of drivers for seeing the establishment of a legally and technically aligned approach to the treatment of cryptoassets. The more that operational, technological and legal standards can be aligned, the more efficient the new digital landscape will be. This will support maximum global efficiency whilst allowing players the freedom to create value add services.

13. The environmental and resource intensity of using crypto-asset technology.

No response.

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