

CryptoUK – Written evidence (SCG0014)

CryptoUK (“we”) and its members welcome the opportunity to comment on the Call for Evidence - Inquiry into the secondary international competitiveness and growth objective given to the Financial Conduct Authority (“FCA”) and the Prudential Regulation Authority (“PRA”) under the Financial Services and Markets Act 2023. CryptoUK is the UK’s self-regulatory trade association representing the cryptoasset sector. Our members comprise over 150 of the leading companies of all sizes and maturities across the crypto and digital assets sector.

In responding to the Call for Evidence, we set out the views of our members and others in the crypto and digital assets community. We seek to offer pragmatic and relevant observations about, and suggestions for, the FCA and PRA and their secondary objective.

We have provided more detailed answers to each question in the Appendix, but would like to succinctly summarise our members’ feedback on six key areas for improvement with respect to the regulators’ secondary objective:

1. Improve engagement and communication with the crypto and digital assets industry specifically on the secondary objective.
 - a. In the newly published [FCA Crypto Roadmap](#), issued on 26 November 2024, there are no indicators of a focus on the secondary objective.
 - b. We also would encourage the Committee to ask for clear milestones from the FCA for the secondary objective within their roadmap, with an emphasis on consulting with the industry.
2. Provide different and better metrics and KPIs by which to effectively measure the regulators’ performance against the secondary objective.
3. Upskill regulator teams on two dimensions (potentially via secondments):
 - a. Greater expertise related to crypto and digital assets transactions, as well as to the industry itself.
 - b. Improved knowledge around how commercial entities operate, innovate, navigate economic and regulatory changes or uncertainty, and become globally competitive.
4. Design a fee and authorisation structure that is calibrated appropriately for size, maturity, and risk profile of the company.

5. Work closely with the newly-formed Regulatory Innovation Office (“RIO”) to ensure the secondary objective is met for this industry, which requires an expansion of the sector list of the RIO.
6. Learn from other global regulators whose approaches have been evidenced to enable growth and international competitiveness.

PwC has estimated that blockchain could contribute [\\$1.76 trillion](#) to the global economy by 2030, with approximately a £57 billion contribution to the UK GDP by that same year. This estimate clearly indicates that the secondary objective should be a key focus of the FCA with respect to the digital and cryptoassets industry, given the significance of our industry’s economic contribution. CryptoUK and its members stand ready to support this success in any way needed. We sincerely thank the Committee for this important call for evidence as a significant step in ensuring the UK’s continued growth and global competitiveness. We would welcome the opportunity to meet with you to discuss our members’ input in further detail.

Appendix

Our members’ feedback is presented in more detail here by the question number posed:

1. What opportunities or changes should be prioritised in order for the regulators to meet their secondary growth and competitiveness objectives effectively?

Our members wanted to highlight two areas that have worked well with the FCA to date:

- a. Joint efforts and engagement with the industry on the design of the Travel Rule.
- b. This resulted in the proportionate application of regulation in this instance.

However, to best meet the secondary objective, our members believe the following areas should be addressed:

- a. Seek to be at the forefront globally with respect to the secondary objective.
- b. Add new KPIs/metrics for the regulators that clearly and validly capture the secondary objective. (for more details, please see Q7)

- c. Upskill regulator staff with additional industry-specific skills, as well as with knowledge about how the commercial sector grows and competes internationally.
- d. Engage with the crypto and digital assets industry on the secondary objective itself, instead of solely or primarily on consumer protection.
- e. Publish key statistics and information on how UK authorisation statistics compare with other countries.
- f. Explore in more detail the dearth of authorisations in the UK for this industry.
- g. Calibrate fees more effectively to ensure start-ups and new companies are truly being encouraged to grow and innovate.

2. To what extent are the regulators focused on the objective to promote international competitiveness and growth? Are there areas where the ability of the regulators to fulfil their secondary objectives might be constrained by having to fulfil their primary objectives?

The regulators **are not** adequately focused on the secondary objective because consumer protection, fraud prevention, and market abuse/stability are such a primary focus. While the industry understands and supports the work done on the latter areas, the secondary objective is key to achieving significant and sustained economic growth in the UK.

Further, our members are concerned that the FCA is not clearly enabled by the government to carry out both objectives without significant change in the FCA's underlying structure, KPIs, culture, and skills.

3. What are some of the barriers in the current regulatory framework (including the role and responsibilities of other regulators and bodies such as the Payment Systems Regulator, The Pensions Regulator and the Financial Ombudsman Service) that could hinder efforts to drive economic growth and international competitiveness in (a) the UK economy and (b) the financial services sector?

Some of the barriers in the current regulatory framework include:

- a. Costs to participate in the sandboxes and to register in the UK are not tiered according to the size, maturity, and risk profile of the company.
- b. Pace of engagement and progress is either too slow or very uneven, without timely feedback and responses.
- c. Incomplete knowledge of the industry and of how commercial firms grow and compete internationally.

4. Do the regulators have the right capability and capacity to fulfil their regulatory objectives on growth and competitiveness? To what extent might the culture of the FCA and PRA influence their ability to fulfil their growth and competitiveness objectives?

While our members do see clear indications that the FCA wishes to develop an appropriate level of expertise in this new and fast-changing industry, they unfortunately **do not** appear to have sufficient capability and capacity currently to fulfil the secondary objective. This lack applies both to digital and cryptoassets knowledge itself, and to how commercial endeavours grow and compete globally.

To the extent that the regulator teams and their leaders have only or mainly been in public sector roles they will likely be limited in their understanding of the private sector, how competition and growth occurs, and how best to responsibly foster it, while also protecting consumers and markets. Our members strongly recommend that a programme of secondments from the industry into the FCA and from the FCA into the industry be pursued.

Because of the speed at which commercial entities must operate and adapt to new regulations or timelines, the private sector would benefit from more timely publication of findings and next steps after a regulator has engaged with the industry. FCA roundtables were held with the industry in April and May of 2024, with some of the results and findings only recently being released or scheduled for release.

5. How effectively have the FCA and PRA consulted or engaged with industry in relation to the new secondary growth and competitiveness objective?

The regulators **have not** adequately consulted with the industry on the secondary objective. Most, if not all, of the consultations to date

have focused on consumer and market protection, even when the industry attempts to raise concerns about global competitiveness.

6. In delivering their secondary objective on growth and competitiveness, what opportunities are there for the regulators to help to promote and support innovation in the financial services sector? How effective has the FCA's regulatory sandbox been for supporting greater innovation in the financial services industry?

Some of the opportunities to promote innovation and growth in the financial services sector include:

- a. Formalise an effective regulatory framework for the digital and cryptoassets industry that attracts new businesses to the UK and keeps those that are already here. This is a call to the new government to finalise the legislation developed with strong industry input over the past several years. While the FCA has recently published its Crypto Roadmap (26 November 2024), it still needs further details and confirmation on concrete next steps to ensure regulatory clarity in the UK.
- b. Ensure that the FCA understands how commercial firms grow, innovate, and compete globally within the digital and cryptoassets industry, which can be different from traditional corporate and financial services organisations.
- c. Recognise and support the role that proportionate taxation plays in growth and international competition, even if that is not within the direct remit of the FCA.
- d. Provide regulatory sandboxes for which costs to engage are tiered by development stage of the company, and for which digital and crypto currency innovations can then be tested and provided to the retail marketplace.
- e. Coordinate with a strong, informed, strategic, and nimble Regulatory Innovation Office and add the digital and cryptoassets industry to its list of sectors of focus.

7. How should the regulators ensure that any measures introduced to meet the secondary growth and competitiveness objectives work for businesses of all sizes across the sector, including startups, scaleups, and incumbents? (please see Q8 details below)

8. Are there any additional metrics over and above those already agreed by the regulators that would better enable stakeholders to track progress and support scrutiny of their work against the

secondary growth and competitiveness objective? How should a measure of growth be included in these metrics?

To ensure growth and international competitiveness for all maturities of companies (from start-ups to incumbents), regulators should be in regular dialogue with the industry and our members. Additional or improved KPIs are absolutely needed, and we encourage the following as a starting point:

- a. Regulatory clarity and responsiveness
We recommend introducing additional metrics assessing the speed, clarity and adaptability of regulation. Relevant metrics include:
 - i. Timeframes for issuing consultations, new rules, or amendments in response to technological and market developments.
 - ii. Authorisation metrics by sector, specifically addressing delays in crypto authorisations compared to traditional finance.
- b. Innovation and product development
 - i. Number of new financial products and services introduced into the market
 - ii. Types of new financial products and services introduced into the market.
(particularly those that leverage emerging technologies such as blockchain, AI, and decentralised finance (DeFi)).
- c. Market access and liquidity
 - i. Tracking liquidity across markets (including cryptoassets), alongside the number of firms.
- d. Inward Investment from abroad into the UK
 - i. Monitoring venture capital, private equity, and other forms of investment into UK [fintech and] crypto businesses would provide an indicator of both current and future.

9. Does the requirement within the secondary growth and competitiveness objectives to align with international standards create any constraints to fulfilling those objectives?

The requirement in the secondary objective to align with international standards **does not** hinder its execution. Most international standards

for the crypto and digital assets industry are ahead of the UK currently, so aligning should provide additional stability and insights to us.

10. Are the existing accountability measures around the secondary growth and competitiveness objective adequate?

The existing accountability measures around the secondary growth and competitiveness objective **are not** adequate. (please see Q8 details above)

11. Are there examples of regulatory policies in other jurisdictions that should be considered by UK regulators to help facilitate the new secondary objective? What might the FCA and PRA be able to learn and apply from comparable supervisors in other markets in terms of applying secondary objectives on growth and competitiveness?

There are important examples from other jurisdictions that the UK should emulate. We invite both the House of Lords Financial Services Regulation Committee and the FCA to meet with the CryptoUK and its members to discuss in person the following key examples (as well as additional experiences with other jurisdictions):

- a. Specific European regulators working on the Markets in Crypto-Assets (MICA) implementation and the resultant authorisation changes. They are actively working with legitimate market participants to navigate the process.
- b. Dubai pays its regulators and staff competitively and can adjust regulation at pace as needed. Communication throughout the process is seamless and timely between the applicant and the regulator.
- c. Japan has a significant department that focuses on business development and international growth.
- d. The United States is poised to develop a significant regulatory framework and may create a stand-alone advisory council with industry representation as part of its approach to designing and implementing an effective regulatory framework.

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