Digital Currencies Governance Group – Written evidence (SCG0021)

The Digital Currencies Governance Group (DCGG) welcomes the opportunity to contribute to the Financial Services Regulation Committee's inquiry into the secondary objectives of the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA). Representing leading cryptoasset firms such as Tether and Ledger, we view this as a critical juncture for the UK to establish itself as a global leader in digital assets by fostering a regulatory environment that enables growth, innovation, and international competitiveness.

DCGG is a coalition of digital asset issuers, service providers, and blockchain innovators, including stablecoin issuers, infrastructure developers, and exchanges. Our mission is to bridge the gap between policymakers and industry experts, advocating for balanced and proportionate regulatory frameworks that safeguard consumer interests while unlocking the economic potential of emerging technologies.

Overview and Context

The Financial Services and Markets Act 2023 mandates UK regulators to promote international competitiveness and medium-to-long-term economic growth as a secondary objective. However, despite the government's ambition to position the UK as a global hub for digital assets, current regulatory practices risk undermining these goals.

While we acknowledge the FCA's work to uphold consumer protection and market stability, DCGG believes that the current regulatory approach requires recalibration. Striking a proportionate balance between oversight and innovation is essential to attract investment, create high-skilled jobs, and enable the UK to compete globally.

Blockchain and digital assets represent transformative opportunities for the global economy, with blockchain alone projected to contribute $1.76 trillion by 2030, including a £57 billion impact on UK GDP. Realising this potential requires regulators to prioritise a balanced approach, aligning with international standards and leveraging the sector's capacity for innovation and growth.

The UK has the expertise, infrastructure, and talent to lead the global digital asset market. However, achieving this ambition will depend on creating a regulatory environment that fosters innovation, attracts investment, and promotes long-term competitiveness.

DCGG will not be submitting a full consultation response, although we wish to offer some commentary highlighting specific concerns regarding the FCA's approach to the cryptoasset industry. As the members of our association do not fall within the remit of the Prudential Regulation Authority (PRA), we place our focus exclusively on matters relevant to the FCA.

Industry Challenges

Low Authorisation Rates

The FCA's approval rate of 13% for cryptoasset firms under the Money Laundering Regulations (MLRs) significantly lags behind international benchmarks, such as the EU's *Markets in Crypto-Assets (MiCA)* and the UAE's Virtual Assets Regulatory Authority (VARA). The pace of engagement and feedback from the FCA remains uneven, with firms experiencing prolonged delays in authorisation decisions. These low rates discourage investment, innovation, and operational efficiency, pushing firms to establish themselves in more supportive jurisdictions.

Disproportionate Compliance Burdens

The Financial Promotions (FinProms) regime creates significant hurdles for firms, particularly non-MLR-registered entities. The reliance on a limited number of "S21 approvers" has resulted in prohibitive costs and delays, disproportionately impacting startups and smaller players.

Lack of Guidance

A lack of detailed, sector-specific guidance creates uncertainty, especially for firms navigating the authorisation process or attempting to innovate within unclear regulatory boundaries. This lack of clarity hampers firms' ability to plan effectively and increases the risk of unintentional non-compliance.

Regulatory Complexity and Ambiguity

Ambiguities in FCA guidance—such as the unclear treatment of educational content under promotional material rules—exacerbate compliance challenges. Clearer, actionable, and sector-specific guidance is urgently needed. FCA policies frequently overemphasise risks associated with cryptoassets, overshadowing the sector's significant economic potential. This creates a perception of hostility toward innovation and disincentivises global firms from establishing a presence in the UK.

Regulatory Capacity and Expertise Gaps

A lack of specialised knowledge within regulatory teams, particularly around emerging technologies and the operational realities of commercial firms, limits the FCA's ability to engage meaningfully with the industry. Without sufficient industry expertise or mechanisms like secondments, regulators may struggle to design proportionate frameworks that encourage growth while safeguarding consumers and markets.

Recommendations for a Competitive Framework

To fulfil the government's stated ambitions, DCGG proposes the following measures:

Proportionate Regulation

Introduce a tiered regulatory framework tailored to the size, maturity, and risk profile of market participants. Startups and emerging firms should not face the same financial and compliance burdens as large incumbents.

Clear Guidance and Metrics

Provide sector-specific guidance to reduce legal uncertainty, particularly regarding promotional activities, compliance expectations, and authorisation processes.

Establish performance metrics for regulators to measure progress on the secondary objective, such as:

1. Timeframes for authorisation and response to market developments.
2. Comparative analysis of authorisation rates between jurisdictions.
3. The introduction and adoption of new financial products leveraging blockchain and digital assets.

Enhanced Engagement and Expertise

Regulators should upskill their teams by incorporating industry secondments and fostering greater commercial awareness. Establishing advisory panels to ensure ongoing dialogue with industry experts, enabling informed policy development would be beneficial.

Global Benchmarking

Regularly evaluate the UK's regulatory framework against international peers, including the EU, UAE, and Singapore. These jurisdictions provide valuable models for fostering innovation while maintaining robust safeguards.

Support for Innovation and Growth

Expand initiatives such as the *Digital Securities Sandbox* to encompass a broader range of cryptoasset use cases. Calibrate fees to ensure accessibility for early-stage companies and startups, promoting innovation without stifling growth.

DCGG stands ready to support the Committee, FCA, and PRA in refining the regulatory framework to achieve these objectives. We would welcome the opportunity to engage further and provide detailed input on any of the issues raised.

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