



HM Treasury

Update on Plans for the Regulation of Fiat-backed Stablecoins

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Chapter 1

Context

1.1 In January 2021, HM Treasury published its consultation on the UK regulatory approach to cryptoassets and stablecoins, together with a call for evidence on distributed ledger technology in financial markets. The consultation response was published in April 2022, confirming the government's plans to legislate to bring certain activities relating to stablecoins into the regulatory perimeter for financial services. This policy update sets out further detail on the government's planned approach.

1.2 As set out in the government's consultation response, it is the government's intention to facilitate and regulate the use of fiat-backed stablecoins in UK payment chains. This is because certain stablecoins have the potential to become a widespread means of retail payment, driving consumer choice and efficiencies. In order to deliver this, the government intends to bring the regulation of certain activities relating to fiat-backed stablecoins¹ within the UK's financial services regulatory perimeter. This will include bringing the use of fiat-backed stablecoins in payment chains into the Payment Services Regulations 2017 (PSR 2017) and bringing the activities of issuance and custody of fiat-backed stablecoins where the coin is issued in or from the UK within the regulatory perimeter of the Financial Services and Markets Act 2000 (FSMA 2000).

1.3 The government's previously stated view is that cryptoassets and related activities underpinning their use should follow the standards expected of similar existing financial service activities, commensurate to the risks they pose, while harnessing potential benefits of the technologies behind them. Having a regulatory framework in place will stimulate growth and innovation in the sector by giving responsible actors regulatory certainty whilst mitigating financial stability risks and ensuring consumer protection. Therefore, it is right that HM Treasury puts in place a regulatory framework for fiat-backed stablecoins including when used as a means of payment.

1.4 The government has already acted to start to implement this regime. The Financial Services and Markets Act 2023 (FSMA 2023) was introduced into Parliament in July 2022. The Act contains measures which, alongside existing powers in FSMA 2000, allow HM Treasury to bring activities relating to fiat-backed stablecoins within the financial

¹ As defined in the Consultation on the Future Financial Services Regulatory Framework for Cryptoassets, fiat-backed stablecoins include stablecoins that seek to maintain a stabilised value of the cryptoasset by reference to, and which may include the holding of, one or more specified fiat currencies.

services regulatory perimeter. FSMA 2023 also provides the Bank of England and the Payment Systems Regulator (PSR) with powers over systemic and recognised digital settlement asset (“DSA”) payment systems and service providers, subject to Treasury recognition and designation respectively. The definition of a DSA² is designed to capture stablecoin-based arrangements but has been drawn broadly in order to ensure the required future regulatory flexibility.

1.5 In the next stage of implementation, HM Treasury intends to bring forward secondary legislation as soon as possible and by early 2024, subject to available parliamentary time. These legislative provisions will bring activities relating to fiat-backed stablecoins into the regulatory perimeter, enabling the FCA to regulate them. This policy update sets out further detail on the objectives of the proposed legislation to facilitate the FCA’s regime.

1.6 HM Treasury also published a consultation on the Future Financial Services Regulatory Regime for Cryptoassets in February 2023³. That consultation set out the proposals for the regulation of wider cryptoasset activities, including exchange activities, custody activities and lending activities, which the government is intending to bring into the regulatory perimeter for financial services. The consultation paper also proposed regimes for market abuse and cryptoasset issuance and disclosures.

1.7 The response to that consultation, published alongside this policy update, notes feedback received regarding the delineation between the regulation of phase 1 (the regulation of fiat-backed stablecoins) and phase 2 (the regulation of other activities in relation to cryptoassets) and potential confusion between the two phases. This policy update sets out clearly the government’s plan to regulate certain activities relating to fiat-backed stablecoins in phase 1. Activities relating to wider types of cryptoassets (for example, so-called algorithmic stablecoins, and commodity-backed tokens not caught in phase 1) will be in scope of phase 2 and further details can be found in the consultation response. The government expects that this phased approach will provide a degree of optionality and flexibility for firms wishing to undertake phase 1 activities as early adopters as well as those with business models more focused on phase 2-only activities.

² The definition of a digital settlement asset is “a digital representation of value or rights, whether or not cryptographically secured that a) can be used for the settlement of payment obligations, b) can be transferred, stored or traded electronically, and c) uses technology supporting the recording or storage of data (including DLT)”. A digital settlement asset also includes a right to, or an interest in, a digital settlement asset. A “digital settlement asset” includes those cryptoassets that can be used for the settlement of payments.

³ <https://www.gov.uk/government/consultations/future-financial-services-regulatory-regime-for-cryptoassets>

Chapter 2

UK stablecoins regulation

2.1 The regulatory landscape will bring certain (fiat-backed) stablecoins within the remit of the Bank of England, Financial Conduct Authority (FCA) and Payment Systems Regulator (PSR), which altogether will aim to minimise potential for customer harm and mitigate the conduct, prudential, and financial stability risks arising from those stablecoins, particularly when used for payments. Those regimes will be designed in line with the regulators' statutory objectives. As noted below, regulators will coordinate to create a regulatory framework that is coherent and minimise the risks of regulatory overlaps for firms.

2.2 With regard to the FCA's regime, HM Treasury seeks to regulate activities relating to stablecoins in two ways: firstly, by regulating the use of fiat-backed stablecoins in payment chains; secondly, by regulating the activities of issuance and custody of fiat-backed stablecoins when issued in or from the UK irrespective of their uses (for example whether they are used for payments, store of value or as a settlement asset). Regulating activities relating to fiat-backed stablecoins used for payments in this way will give consumers and industry confidence over the use of stablecoin as a means of payment.

2.3 HM Treasury intend that the category of fiat-backed stablecoins will be defined in legislation and capture those stablecoins which seek to maintain a stable value by reference to a fiat currency, and hold (in part or wholly) that currency as "backing".

2.4 The use of fiat-backed stablecoins in payment chains will be regulated through amendments to the Payment Services Regulations 2017 (PSRs 2017), which provide for the regulation of authorised or registered payment institutions (PIs) and set the conditions for providing payment services.

2.5 The activities of issuance and custody of UK issued fiat-backed stablecoin will be included in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 ("RAO"). This will enable the FCA to make rules for firms conducting these activities. Firms wishing to apply for authorisation to conduct either of those issuance or custody activities will be subject to FCA rules and guidance as is usual for FCA regulated activities.

2.6 Fiat-backed stablecoins issued in or from the UK by persons authorised for the RAO issuance activity will be permitted for use in UK

payments. The government wishes to accommodate fiat-backed stablecoins not issued in or from the UK (“overseas” stablecoins) for use in UK payments for goods and services in the real economy. The government and FCA will engage industry ahead of legislation on options for doing this safely. The government would like to explore the workability of an approach whereby the arranger of the payment (i.e. the entity who facilitates the individual or merchant to pay or be paid using an overseas stablecoin within the chain) is authorised by the FCA and is responsible for ensuring the overseas stablecoin used by it in a payment chain meet FCA standards for use in UK payments.

2.7 Under the proposed secondary legislation, the FCA will be able to make appropriate rules for the issuance and custody of fiat-backed stablecoins issued in or from the UK, as well as to make rules relating to what arrangements need to be in place for fiat-backed stablecoins within scope to be used in UK regulated payment chains. Until the wider regime for regulation of cryptoassets comes into place in phase 2, the scope of the regime will not cover stablecoins used in the buying and selling of cryptoassets on exchanges.

2.8 Other types of stablecoins (for instance, non-fiat backed stablecoins) or unbacked cryptoassets will still be allowed to be used in payment chains, but these transactions will remain unregulated. This is because HM Treasury judges that they are currently unsuitable for use in regulated payments. In order to ensure clear messaging for consumers, HM Treasury and FCA are considering the rules around disclosures to ensure that consumers are adequately informed of cryptoassets that remain unregulated for the use of payments in the UK. HM Treasury and the FCA will continue to consider the communication of promotions for fiat-backed stablecoins and custodians.

2.9 When the wider regime for the regulation of cryptoassets comes into place in phase 2, the regime set out here will remain established and not be replaced. However, there will also be an expansion of the custody activity in the RAO to cover the custody of a wider category of cryptoassets coming into the regulatory perimeter, as well as the creation of new regulated activities such as “operating a cryptoasset trading venue” which will cover the buying and selling of cryptoassets using cryptoassets (including stablecoins) on an exchange.

2.10 In addition to the FCA’s regulatory regime, the Bank of England will have the ability to regulate systemic DSA payment systems and service providers (including those using stablecoins issued both in or from the UK or issued overseas), which will cover a wider category of payments (including those on exchanges) to that proposed for the FCA under the PSRs 2017 above. Similar powers are given to the PSR for DSA payment systems. This is subject to HM Treasury recognition or designation, respectively. Some elements of the Bank of England’s regime and the interaction with the FCA’s regime will be addressed below, but further detail will be set out in the Bank of England’s discussion paper.

Chapter 3

FCA's regime

3.1 HM Treasury will bring activities relating to fiat-backed stablecoins into the FCA's regulatory perimeter via secondary legislation. The precise legal drafting is to be developed and draft secondary legislation will be published before legislation is subsequently laid in Parliament.

Definition

3.2 HM Treasury expects to define fiat-backed stablecoins as a cryptoasset that seeks or purports to maintain a stable value by reference to a fiat currency and by holding fiat currency, in whole or in part, as backing.

3.3 This definition of fiat-backed stablecoin will not be limited to particular currencies, nor will it be limited to single currency stablecoins - stablecoins which reference a basket of currencies will be included in this definition.

3.4 This definition does not include so-called algorithmic or crypto-backed stablecoins. These tokens will be captured by the cryptoasset regulation in phase 2. As set out in the consultation on the Future Financial Services Regulatory Regime for Cryptoassets, HM Treasury considers that activities relating to these tokens should be subject to the same requirements as for unbacked cryptoassets. For so-called algorithmic stablecoins, this is because their undercollateralised nature means they share characteristics with unbacked cryptoassets and crypto-backed tokens are only as stable as the underlying cryptoasset.

3.5 This definition also does not include commodity-linked tokens, which share characteristics and risks with unbacked cryptoassets. There are established regulatory structures to accommodate products which provide entry into the market for commodities or other assets. If a commodity-linked token meets the definition of a specified investment or the arrangements relating to the token meet the definition of a collective investment scheme, it should for the most part continue to be regulated accordingly. However, custody of such tokens will no longer be regulated in the same way as other specified investments and will instead be in scope of the new regulated activity for custody in phase 1 (please see below). If there are other commodity-linked tokens which do not meet these definitions, then activities relating to these tokens should be dealt with through the broader cryptoasset regime in phase 2.

3.6 The regulation of tokenised deposits will be separated from the regulation of fiat-backed stablecoins. The government has set out previously that it is not its intention to include tokenised deposits within the scope of regulated activity. This is because tokenised deposits are covered by the existing deposit taking activity in Article 5 (accepting deposits) of the RAO.

3.7 Electronic money, as it exists now, and fiat-backed stablecoins are different products and HM Treasury intends to put in place legislative clarification to ensure their legal separation.

Issuance

3.8 HM Treasury intends to create a regulated activity under the RAO for the issuance of fiat-backed stablecoins in or from the UK. This will apply to all issuers of fiat-backed stablecoin located within the UK.

3.9 The FCA will specify in its rules the requirements for backing assets for fiat-backed stablecoin issued under this activity, in addition to the requirements for redemption rights and capital requirements, amongst other things. As part of the normal process, the FCA will consult on these rules prior to their coming into force.

3.10 HMT intends to ensure that the FCA (and, if considered appropriate, the Bank) has the power to require that the backing assets of fiat-backed stablecoins are held in a statutory trust. This will enable the FCA and Bank to make rules on requiring the stablecoin issuer (or any other firm safeguarding the backing assets) to hold backing assets for the benefit of customers. The terms of the trust will be set out in the FCA's rules, including when the backing assets could be paid out of the trust (for example to meet redemption obligations) and how they would be distributed in a firm failure. The FCA will also consult on these rules prior to their coming into force.

3.11 In the case of firm failure, the standard corporate insolvency procedures under the Insolvency Act 1986 (e.g. liquidation and administration under Schedule B1 of the Insolvency Act) will be applicable to UK issuers of fiat-backed stablecoins. Part 24 of FSMA 2000 provides the FCA with specific powers to protect consumers in these insolvency procedures. The government will extend these provisions to issuers of fiat-backed stablecoins in or from the UK, so that the FCA has the same rights to participate and protect consumers in an insolvency process as it does for other FCA supervised firms. The government will also consider whether bespoke insolvency arrangements should be developed in due course for non-systemic entities. Moreover, the government does intend to apply the Financial Market Infrastructure Special Administration Regime (FMI SAR), with modifications where necessary, as the primary regime to be used in the event of a failure of a systemic DSA issuer.

Custody

3.12 HM Treasury intends to create a regulated activity under the RAO for custody comprising the safeguarding, safeguarding and administering, or the arranging of safeguarding or safeguarding and administering of UK issued fiat-backed stablecoins – those issued under the issuance activity detailed above. Custody of fiat-backed stablecoins issued outside of the UK will not be captured under this regulated activity under the RAO.

3.13 Just as for the issuance regime detailed above, the FCA will be able to create rules relating to this custody activity. The FCA's rules will be based on the existing custody framework for traditional finance custodians under Article 40 of the RAO, with modification where necessary to adapt to specific features of cryptoassets. As part of the normal process, the FCA will consult on these rules prior to their coming into force.

3.14 As noted in the response to the consultation on the Future Financial Services Regulatory Regime for Cryptoassets, it is HM Treasury's intention to expand the new custody activity to cover a broader set of cryptoassets in phase 2. The activity of custody in phase 1 will therefore be created in such a way that the regulatory framework for custody can be expanded to cover the custody of other cryptoassets in phase 2, rather than separate, overlapping regimes. It is necessary to create a narrower custody activity in phase 1 ahead of the full custody regime in phase 2 as custody is a crucial way in which consumers interact with stablecoins.

3.15 As addressed in the response to the Future Financial Services Regulatory Regime for Cryptoassets consultation, custody of security tokens will no longer be regulated in the same way as other specified investments and will instead be included in the new regulated activity for custody, alongside fiat-backed stablecoins issued in or from the UK.

3.16 As for stablecoin issuers, in the case of firm failure, the standard corporate insolvency procedures under the Insolvency Act 1986 will continue to be available for those firms. The government will extend the FCA's powers under Part 24 of FSMA 2000 to custodians of UK issued fiat-backed stablecoins, so that the FCA has the same rights to participate and protect consumers in an insolvency process as it does for other FCA supervised firms. Likewise, the Government intends to apply the FMI SAR, with modifications, as the primary regime to be used in the event of the failure of a systemic DSA custodian.

Payments

3.17 HM Treasury intends to amend the PSRs 2017 to bring into regulation payment chains for:

- Mixed stablecoin payments – where the on-ramp to the payment chain is from a stablecoin, but it is converted to fiat within the payment chain, and the off-ramp is in fiat (or vice versa)
- Pure stablecoin payments – where both the on-ramp and off-ramp in the payment chain are in stablecoin and the transfer of value occurs in stablecoin

3.18 This will cover payments including those relating to purchasing a service or good in a retail payment in shops or online.

3.19 In line with fiat peer-to-peer transfer, this will not include peer-to-peer stablecoin transfers where the payment service underpinning or facilitating the transfer is not offered on a commercial basis. It will also not include the purchase of stablecoin using fiat currency as this is already regulated under the PSR 2017.

3.20 Geographically, this will cover: (1) payment transactions involving UK consumers, where at least one end of the transaction is in the UK; or (2) UK firms facilitating payment transactions, regardless of whether the transaction takes place in the UK.

3.21 The intention is that the regulatory regime would cover the use of fiat-backed stablecoin issued in or from the UK, which would be a regulated activity (see above), ensuring that such coins are suitable for use in payments. The government also wishes to accommodate overseas stablecoins for use in UK payments for goods and services in the real economy and will engage industry alongside the FCA ahead of legislation on options for doing this safely.

3.22 The government would like to explore the workability of an approach whereby the arranger of the payment (i.e. the entity who facilitates the individual or merchant to pay or be paid using a fiat-backed stablecoin within the chain) is authorised by the FCA and is responsible for ensuring an overseas stablecoin meets FCA standards for use in UK payments chains. Under this approach, if adopted, the firm arranging the stablecoin payment services (the payment arranger) would only be allowed to initiate/arrange a payment if it was satisfied the stablecoin met the requisite FCA standards for a stablecoin to be used in payments.

3.23 If this approach is taken forward, HM Treasury will seek to ensure that the FCA is given requisite powers to take action against payment arrangers where it believes they have not undertaken adequate checks against its standards for stablecoins. The FCA can regulate how authorised or registered persons are able to promote overseas stablecoins to UK consumers. The FCA will also consider whether specific disclosures are required for promotions of fiat backed stablecoins.

3.24 Finally, under such an approach, HM Treasury also intends to place a requirement upon the payment arranger to collect and report information regarding the number of payment transactions of a particular stablecoin, in order that both the Bank and the FCA can

obtain this information. This information may be useful in determining whether a stablecoin payment system is systemic, as discussed below.

3.25 In the case of firm failure, the standard corporate insolvency procedures under the Insolvency Act 1986 (e.g. liquidation and administration under Schedule B1 of the Insolvency Act) will continue to be available for payment arrangers.

Chapter 4

Bank of England's regime

4.1 For additional context, the Bank of England has powers under Part 5 of the Banking Act 2009 (as amended by FSMA 2023) to supervise systemic DSA payment systems and service providers to such systems, as well as systemic DSA service providers, following the making of a recognition order by HM Treasury. As noted above, the definition of DSA is designed to capture stablecoin-based arrangements, but has been drawn broadly in order to ensure the required future regulatory flexibility.

4.2 The definition of a DSA service provider includes stablecoin issuers, custodians and exchanges as well as other participants in the payment chain.

4.3 HM Treasury retains the decision-making power regarding which DSA payment systems and service providers are recognised as systemic. The criteria to assess whether a firm is deemed systemic is set out in Part 5 of the Banking Act 2009. HM Treasury must be satisfied that a system or service providers' potential failure may threaten the stability of, or confidence in, the financial system or have serious consequences for businesses and other interests. HM Treasury will have regard to particular matters set out in Part 5, including the likely number, value and nature of transactions carried out on a system and the value of services provided by a service provider when considering whether a system or service provider is systemically significant.

4.4 As part of this assessment, HM Treasury must consult the Bank of England and the PSR before making a recognition order in respect of a payment system or service provider. If a stablecoin issuer or custodian has applied for a Part 4A activity under FSMA 2000, HM Treasury must also consult the FCA before making the recognition order. HM Treasury must also notify the operator of the systemic DSA payment system and service providers to such system, as well as DSA systemic service providers, and consider any representations raised.

4.5 The Bank of England has powers under Part 5 of the Banking Act 2009 to supervise systemic DSA payment system operators, service providers to such systems, and DSA systemic service providers, including: publishing principles and code of practice; and requiring operators of recognised payment systems to establish rules and change them in specified ways. The Bank will set requirements for operators of and service providers to systemic DSA payment systems and DSA service providers which are systemic in their own right. The Bank's

regime will ensure that systemic stablecoin payment chains as a whole demonstrate end-to-end financial and operational resilience, in line with the expectations set out by the Financial Policy Committee and international standards. The Bank is considering setting out requirements regarding the choice and management of backing assets, capital and shortfall reserves requirements, location requirements for issuers (including in relation to stablecoins issued overseas but used systemically for payments in the UK) and limit requirements. It will also include requirements around the use of ledgers and the standards that intermediaries (including custodial wallets) in systemic stablecoin payment chains should meet. These will be set out in the Bank's discussion paper and, in due course, in the policy statement that the Bank is obliged to issue on its approach to the regulation of systemic DSA payment systems and DSA service providers (see below).

4.6 HM Treasury previously consulted on managing the failure of systemic DSA (including stablecoins) firms. The response to this consultation has been published alongside this policy statement, confirming the Government's intention to appoint the FMI SAR, with necessary modifications, as the primary regime for the event of the failure of a systemic DSA firm. The consultation response also confirms the Government's intention to establish an additional objective for the FMI SAR as it applies to DSA firms, focused on the return or transfer of client assets.

4.7 HM Treasury also set out in its response to the Payments Regulation and the Systemic Perimeter consultation forthcoming changes to the Bank of England's regulatory perimeter for systemic payment systems and service providers. This includes a new accountability framework with regards to the Bank's remit, in a similar manner to the accountability framework set out in FSMA 2023 for the Bank of England's supervision of central counterparties (CCPs) and central securities depositories (CSDs). This accountability framework includes a new secondary objective, a new statutory 'FMI Committee', and new powers for HM Treasury to require the Bank to have regard to specific considerations on government policy. The government has confirmed it intends to progress this accountability framework to apply to the Bank's systemic payments perimeter in the Banking Act 2009. This includes its new scope over systemic DSAs, as part of wider reforms to the Bank's systemic perimeter in relation to non-DSA payment firms at the next legislative opportunity. Ahead of these reforms being legislated for, the Bank will take into account the future establishment of this framework for payment chains as it considers how and prepares to regulate any future systemic DSA payment systems and service providers.

4.8 In addition to this, HM Treasury will also seek to clarify the application of the Settlement Finality Regulations 1999 (SFRs). The purpose of the SFRs is to mitigate the potential systemic impact of a participant in a system becoming insolvent. This is achieved by Bank of England designation of the relevant system under the SFRs, which

protects the designated system and its participants against the adverse operation of certain provisions of UK insolvency law.

4.9 Under the existing SFRs, only a system for the clearing or execution of transfer orders/instructions (i) involving the transfer of money or the assumption or discharge of a payment obligation, and/or (ii) involving the transfer of title to or an interest in 'securities' (defined by reference to existing categories of authorised financial instruments) can apply for designation. HM Treasury therefore intends to clarify the application of the SFRs to include a system involving the transfer of DSA (as provided for in the FSMA 2023 changes to Part 5 of the Banking Act 2009).

4.10 Furthermore, the application of the existing SFRs in the context of a DLT based system may present challenges because some of the key concepts and definitions might be considered difficult to apply (e.g. references to a 'system operator' responsible for the operation of the system and 'book-entry' records and the maintenance of 'accounts').

4.11 We will consider whether a number of limited changes might be desirable in the context of DLT based systems more widely (e.g. involving transfer orders / instructions relating to payments and or securities').

Chapter 5

Payment Systems Regulator's regime

5.1 In a similar manner to the Bank, the PSR has regulatory powers under Part 5 of the Financial Services (Banking Reform) Act 2013 ("FSBRA") to regulate DSA payment systems and participants in DSA payment systems, following the publication of a designation order by HM Treasury.

5.2 The definition of participants in a DSA payment system includes stablecoin issuers, custodians and exchanges.

5.3 HM Treasury retains the decision-making power regarding which DSA payment systems and service providers are designated for PSR regulation. The criteria for how this is assessed are set out in Part 5 of FSBRA. HM Treasury must be satisfied that any deficiencies in the design of the system, or any disruption of its operation, would be likely to have serious consequences for those who use the services provided by the DSA system. HM Treasury will have regard to the likely number, value and nature of transactions carried out on a system, links to other systems and whether other systems could handle such transactions when considering whether a DSA system should be designated.

5.4 As part of this assessment, HM Treasury must consult the PSR before making a designation order in respect of a DSA payment system. If the DSA system is a recognised systemic payment system, HM Treasury must also consult the Bank of England before making the recognition order. HM Treasury must also notify the operator of the DSA system and consider any representations raised.

5.5 The PSR has powers under Part 5 of FSBRA which include: to give directions to participants in regulated payment systems; to require the operator of a regulated payment system to establish rules and to change them in specified ways; and to require the operator of a regulated payment system to grant access to the payment system.

Chapter 6

Co-responsibility for supervision of systemic fiat-backed stablecoin firms

6.1 In a scenario where an FCA authorised fiat-backed stablecoin firm is recognised as systemic by HM Treasury, and so should be supervised by the Bank of England, the government expects that the Bank of England should act as the lead prudential regulator and be able to supervise such an entity through Part 5 of the Banking Act 2009, while the firm continues to also be regulated by the FCA for conduct.

6.2 There may also be instances where the PSR is also responsible for regulating fiat-backed stablecoin firms, which are already regulated by the Bank or FCA, for competition, innovation and access purposes. This model of co-supervision is based on the approach taken for co-supervising designated investment firms between the Prudential Regulation Authority (PRA) and FCA today.

6.3 The regulators will set out how they will work together through a memorandum of understanding to reflect their new supervisory responsibilities for stablecoin firms. These measures are consistent with those that exist for currently co-supervised investment firms, and existing requirements under FSBRA.

6.4 The regulators will coordinate to ensure a smooth transition for firms. The regime will ensure that the regulators have the ability to put in place regulatory standards consistent with their statutory objectives, subject to a duty to cooperate.

6.5 It would also be possible for HM Treasury to enable transitional regulatory arrangements to apply, for example to support a firm's adjustment in a scenario whereby a firm migrated from solo regulation by the FCA to dual regulation by the FCA and the Bank.

6.6 The Bank is required to issue a high-level policy statement in accordance with clause 203C of the Banking Act 2009, on its overarching approach to the regulation of systemic DSA payment systems, service providers to such systems and DSA service providers, following consultation with the FCA and the Treasury. This will include an indication of the matters the Bank may consider when exercising its powers over DSA payment systems or service providers, and the

procedures it intends to follow, especially where the Bank would replace the FCA as the lead authority in setting certain rules and making directions for a specific DSA firm, due to the primacy afforded to the Bank for prudential matters in relation to systemic entities.

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