HM Treasury

Future financial services regulatory regime for cryptoassets (regulated activities)

Policy Note

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ISBN: 978-1-917638-06-7 PU: 3511

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Chapter 1
Introduction

Overview

1.1 This document provides commentary on the draft Financial Services and Markets Act 2000 (Regulated Activities and Miscellaneous Provisions) (Cryptoassets) Order 2025 ("the SI") in order to aid the review of its provisions. The commentary looks to explain the Treasury's intended policy outcomes for these provisions, and as appropriate how the provisions seek to achieve these.

1.2 This is a draft SI and should not be treated as final. It is being published for technical checks, such as any significant errors or oversights in the legal drafting that would mean that the provisions in this SI would not achieve the desired outcomes explained in this note, or that could lead to other significant unintended consequences. The drafting approach, and other technical aspects of the proposal, may therefore change before the final instrument is laid before Parliament.

Background

1.3 In October 2023 the Treasury published detailed proposals for the creation of a financial services regulatory regime for cryptoassets, including stablecoins. Those proposals were to create new regulated activities for cryptoassets such as 'the operation of a cryptoasset trading platform', requiring firms wishing to provide associated services in or to the UK to be authorised and supervised by the Financial Conduct Authority (FCA). Supporting these new regulated activities would be further admissions and disclosures, and market abuse frameworks. For stablecoins, the proposals were to create a new regulated activity of issuing fiat-referenced stablecoins in the UK, and to amend the Payments Services Regulations 2017 (PSRs 2017) to bring payments using these stablecoins within the regulatory perimeter for payments. Beyond this, stablecoins, including those issued in the UK, would be regulated in the same way as other cryptoassets, for instance in relation to custody/safeguarding services.

1.4 In November 2024, the Government confirmed that it would proceed with implementing these proposals largely unchanged and intended (parliamentary time permitting) to make the associated legislation this year. The exception to this is that the Government has said it will not proceed with amending the PSRs 2017 to bring UK-issued stablecoins into regulated payments at this time. This does not

mean that stablecoins cannot be used for payments in the UK, but simply that they will remain unregulated for payments for the time being. The Government considers that stablecoins have the potential to play a significant role in both wholesale and retail payments, and stands ready to respond to this as part of wider payments reforms as use-cases and user adoption develops over time.

1.5 The draft SI provisions published alongside this policy note pertain only to the new regulated activities to be created under the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 ("the RAO"), and their associated consequential amendments to other instruments such as existing anti-money laundering and financial promotions requirements for cryptoasset firms. The planned market abuse and admissions and disclosures provisions will be published in due course.

1.6 Specifically, these draft provisions:

- Amend the RAO to —
  - Define "qualifying cryptoassets" and "qualifying stablecoin", as the principal classes of cryptoassets to which the amendments apply
  - Classify "qualifying cryptoassets" and "qualifying stablecoin" as specified investments under the Financial Services and Markets Act 2000 ("FSMA")
  - Specify certain activities related to these assets as regulated activities, such that persons carrying on those activities need to be authorised for that activity by the FCA
- Amend FSMA as a consequence of the RAO amendments, in particular to set the geographic perimeter for the new regulated activities
- Amend the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 ("FPO") to apply FSMA's regulatory framework to that included in the RAO
- Make consequential amendments to the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 ("MLRs") to reflect the new regulatory perimeter
- Make further consequential amendments to ensure -
  - "Qualifying stablecoin" backing assets are not considered either an alternative investment fund ("AIF") or collective investment scheme ("CIS")
  - That there is a clear distinction between qualifying stablecoin and tokenised deposits, and electronic money, through an amendment to the Electronic Money Regulations 2011

Chapter 2
Interpretation

Part 1

2.1 Part 1 details the SI's commencement, initially enabling the FCA and the Prudential Regulation Authority ("PRA") to issue directions, guidance, and rules, with full commencement beginning later, at a date to be set in the final SI. The reason for this approach is to allow the FCA to prepare for the regime coming into effect by finalising rules and guidance ahead of time, which it would not be able to do without having its powers early. This will not affect (i.e. bring forward) the timings for when firms will need to be compliant with the regulatory regime. Part 1 allows the PRA to similarly issue directions, guidance, and rules ahead of full commencement in preparation for firms currently within the PRA's purview seeking to vary their permissions to include new cryptoasset activities.

Part 2

2.2 Part 2 amends the RAO to insert a new chapter ("Chapter 2B (cryptoassets)") to create new categories of specified investments and associated new specified activities for cryptoassets.

New categories of specified investments

2.3 "Cryptoassets" are already defined in FSMA (as amended by the Financial Services and Markets Act 2023) as being "any cryptographically secured digital representation of value or contractual rights that— (a) can be transferred, stored or traded electronically, and (b) that uses technology supporting the recording or storage of data (which may include distributed ledger technology)."

2.4 Part 2 creates the following new definitions:

- "Qualifying cryptoassets" are defined in Article 88F and are a subcategory of FSMA "cryptoassets" which are fungible and transferable, and which includes "qualifying stablecoin"; excluded from this definition are "specified investment cryptoassets" and other instruments that could meet the definition of a "cryptoasset" under FSMA, such as tokenised e-money or tokenised deposits
- "Qualifying stablecoin" is defined in Article 88G, and is a stablecoin that references one or more fiat currencies, and seeks to hold those

fiat currencies or fiat currencies and other assets as backing assets to maintain a stable value

- A "specified investment cryptoasset" is defined as something that meets both the FSMA definition of a "cryptoasset" and the FSMA definition of a specified investment (for instance an equity or a bond). An example of this would be a token on a blockchain that represents an interest in or right to an equity

New specified activity: stablecoin issuance

2.5 Article 9AZA provides legal clarity to ensure that stablecoin issuers are not at risk of being deemed to be accepting deposits.

2.6 Article 9M creates the activity of issuing 'qualifying' stablecoin in the UK. There are three components to this activity, which are: offering, redemption, and maintaining the value of the qualifying stablecoin. Undertaking any one of these three activities from an establishment in the UK for qualifying stablecoin will bring firms within the regulatory perimeter for issuance.

New specified activity: safeguarding

2.7 Article 9O creates a new activity for the safeguarding ('custody') of qualifying cryptoassets. In addition to qualifying cryptoassets, this activity extends to specified investment cryptoassets that are securities or contractually based investments (termed 'relevant specified investment cryptoassets' in the draft SI provision). This is because securities and contractually based investments are within scope of the existing safeguarding regime for specified investments; bringing their tokenised versions into this new activity for qualifying cryptoassets will ensure the FCA can make rules to address the specific risks associated with digital asset technologies.

2.8 Article 9R seeks to ensure that qualifying cryptoassets that are held on behalf of another temporarily and specifically for the purpose of settling trades are excluded from the definition of cryptoassets safeguarding. This is so that cryptoasset trading platforms can give UK customers access to global markets without the risk of being deemed to be carrying on the safeguarding activity and needing to be authorised for that purpose.

Other new specified activities

2.9 Part 2 creates the following further activities:

- Operating a qualifying cryptoasset trading platform – the scope of this activity will extend to where qualifying cryptoassets are exchanged with either other qualifying cryptoassets or money (including e-money); this will ensure a clear perimeter between activities associated with cryptoasset trading, and those for the trading of traditional securities, including those in tokenised form

- Dealing in qualifying cryptoassets as principal – this activity is drafted such that it is also intended to capture cryptoasset lending and borrowing services
- Dealing in qualifying cryptoassets as an agent
- Arranging deals in qualifying cryptoassets – this activity is drafted such that is also intended to capture the operation of a cryptoasset lending platform
- Qualifying cryptoasset staking – to note this activity includes liquid staking; however, the issuance of liquid staking tokens is covered by the dealing activity, and therefore a person engaging in such activity will require the necessary separate or additional permission

Decentralised finance

2.10 To note, the draft SI does not include special provisions for decentralised finance (DeFi) models. Where specified activities are being undertaken on a truly decentralised basis, i.e. where there is no person that could be seen to be undertaking the activity by way of business, then requirements to seek authorisation will not be applicable. The FCA will determine in any given case whether there is a sufficiently controlling party or parties that ought to be subject to the requirement to be authorised in line with section 19 of FSMA.

Part 3

2.11 Part 3 makes amendments to section 418 of FSMA to set the geographic scope of the regulatory perimeter, in line with the Government's intention to ensure that cryptoasset firms serving UK retail customers should be authorised in the UK.

2.12 The geographic perimeter is designed to achieve the outcomes listed below.

2.12.1 For the following activities, firms that are dealing directly or indirectly with a UK consumer will need to be authorised in the UK regardless of whether the firm is based in the UK or overseas: operating a qualifying cryptoasset trading platform; dealing in qualifying cryptoassets as principal; dealing in qualifying cryptoassets as agent; arranging deals in qualifying cryptoassets. Where a firm is dealing with a UK consumer through an intermediary, they will not need to be authorised if there is an intermediary between them and the UK consumer that is a firm authorised to operate a qualifying cryptoasset trading platform or deal in qualifying cryptoassets as principal. This is in order to avoid a situation where an ever-growing chain of firms are required to be authorised.

2.12.2 Overseas cryptoasset firms carrying on the above activities but serving only UK institutional customers will not be required to be

authorised, assuming those institutional customers are not acting as an intermediary between the overseas cryptoasset firms and UK consumers.

2.12.3 Firms will need to be authorised in the UK if they are carrying on the following activities in the UK or on behalf of a consumer in the UK: safeguarding qualifying cryptoassets and relevant specified investment cryptoassets; qualifying cryptoasset staking. There is an exception for firms carrying on the safeguarding activity where they do so at the direction of a person who is themselves authorised to carry on that activity.

2.12.4 For firms issuing qualifying stablecoin, they will only be required to be authorised if they are carrying on the activity of issuing qualifying stablecoin from an establishment in the United Kingdom.

Part 4

2.13 Part 4 amends the FPO to update its existing definition of "qualifying cryptoasset" so that it aligns with the new definition in this SI, and also to insert the new definition of "qualifying stablecoin".

2.14 It also inserts the following as new FPO controlled activities:

- Safeguarding of both qualifying cryptoassets and relevant specified investment cryptoassets
- Operating a qualifying cryptoasset trading platform
- Qualifying cryptoasset staking, along with a carve out for this activity from the existing FPO controlled activity of 'arranging deals'

2.15 Where new cryptoasset activities have not been added to the FPO, this is because they are judged to be accounted for under the existing FPO controlled activities. For the avoidance of doubt, qualifying cryptoasset staking has been added as a new activity for clarity but we recognise some staking models are likely to have already been caught in the existing FPO controlled activities.

2.16 Furthermore, Part 4 removes the current provisions allowing cryptoassets firms that are registered with the FCA under the MLRs to approve their own financial promotions. These provisions were always intended to be temporary, and reflected the fact that there were no FSMA regulated activities for cryptoassets. With the creation of the new regulated activities for cryptoassets in this draft SI, firms that are authorised for these activities in future will be able to approve their own financial promotions in line with other FSMA authorised firms.

Part 5

2.17 Part 5 makes consequential amendments to other relevant statutory instruments. Most notably, this part makes changes to the MLRs to account for the relevant new regulated activities created by this draft SI. Specifically, the changes mean that firms authorised for the new cryptoasset activities will not be required to additionally register as "cryptoasset exchange providers" or "custodian wallet providers" under the MLRs, and they only need to notify the FCA. This change is to avoid unnecessary and duplicative compliance burdens. However, importantly, other than the requirement to register, the existing requirements of the MLRs will continue to apply to these authorised firms in full, as they would have done previously when the firms were required to register. This approach reflects feedback on Government consultation on this point, including the consultation on improving the effectiveness of the Money Laundering Regulations published in February 2024.

2.18 Additionally, Part 5 amends various other pieces of secondary legislation. The Financial Services and Markets Act 2000 (Carrying on Regulated Activities by Way of Business) Order 2001 is amended to include the new Chapter 2B regulated activities.

2.19 In relation to qualifying stablecoin, the backing assets and stabilisation mechanism are exempted from being a Collective Investment Scheme. Qualifying stablecoins, including their backing assets, are also removed from the scope of the Alternative Investment Fund Managers Regulations 2013.

2.20 Finally, Part 5 makes changes in relation to the Electronic Money Regulations 2011. Provisions are included with a view to ensuring qualifying stablecoin and its backing assets are not within the legal definition of electronic money. In addition, changes are also made to clarify that cryptoassets representing deposits ("tokenised deposits") are not e-money either. The provisions in the SI in aggregate seek to establish a clear legal boundary between qualifying stablecoins, tokenised deposits, and e-money/tokenised e-money.

Part 6

2.21 Part 6 requires the FCA to set a period ahead of full commencement of the regime where firms can submit advance applications for authorisation. This part also provides arrangements for firms already undertaking the provision of cryptoasset services here, but whose applications during this period fail to secure the necessary permissions to continue providing these services in or to the UK. In such cases those firms will be treated as if they are not in breach of the new regime. However, they will no longer be able to undertake new business and will therefore need to orderly wind down. This part further

provides the FCA with limited powers over the scope of the exemption provided to firms to facilitate firms' orderly wind down of their remaining UK business over a maximum two-year period. Such firms who apply during the application period will not be placed into these transitional arrangements until they have either passed the window for appealing the FCA's decision to not grant the firm authorisation, or where they have appealed, until after that appeal process has fully completed, or where the application has been withdrawn. However, Part 6 provides the FCA with the power to direct firms into the transitional arrangements at an earlier stage if it deems this appropriate, and to shorten the two-year wind down period for specific firms as required. Where a firm fails to apply within the application period specified by the FCA, and the FCA has: not decided on their application; it has been refused (even if being appealed); or the application has been withdrawn, then that firm will be put into the transitional arrangements.

Chapter 3
Stakeholders and contact

3.1 The policy set out in this note is now settled and HM Treasury intends to legislate for the new cryptoasset regulatory regime by the end of this year, subject to parliamentary time allowing.

Comment on this SI

3.2 This is a near-final version of this SI, which is being published for technical checks.

3.3 It is also important to note that details of the planned market abuse and admissions and disclosures elements of the cryptoasset regulatory regime have intentionally not been included in this SI. As stated above, provisions relating to market abuse and admissions and disclosures will be published in due course.

3.4 HM Treasury will consider technical comments on this draft SI, focused on any changes that need to be made to this draft instrument to achieve the stated policy intent as set out in chapter two of this policy note.

3.5 Any comments should be provided to cryptoasset.legislation@hmtreasury.gov.uk by **23 May 2025**.

Processing of personal data

Data subjects

3.6 The personal data we will collect relates to individuals who voluntarily respond to this consultation. These responses will come from a wide group of stakeholders with knowledge of a particular issue.

The personal data we collect

3.7 The personal data will be collected directly from data subjects through voluntary email submissions in response to this consultation and are likely to include respondents' names, email addresses, employers, job titles, telephone numbers, and opinions.

3.8 Respondents might include other types of personal data in their response to this consultation where they feel that it is relevant to their response.

How we will use the personal data

3.9 This personal data will be processed for the purpose of obtaining opinions about Government policies, proposals, or an issue of public interest to inform the further development or implementation of the consultation subject.

3.10 Contact details you provide during this consultation will, in some circumstances, be used to contact you to discuss your response further.

3.11 Processing of this personal data is necessary to help us understand who has responded to this consultation and their opinion on the future financial services regulatory regime for cryptoassets.

3.12 Consultation responses will be used to consider any appropriate amendments to the draft legislation.

Lawful basis for processing the personal data

3.13 Article 6(1)(e) of the UK GDPR; the processing is necessary for the performance of a task we are carrying out in the public interest. This task is consulting on the continued development of the draft SI.

Who will have access to the personal data

3.14 The personal data will only be made available to those with a legitimate business need to see it as part of the consultation process.

3.15 There is no intention to share personal data collected during this consultation with any other data controllers.

3.16 As the personal data is stored on our IT infrastructure, it will be accessible to our IT service providers. They will only process this personal data for our purposes and in fulfilment with the contractual obligations they have with us.

How long we hold the personal data for

3.17 We will retain personal data contained within consultation responses until work on the consultation is complete and no longer needed.

Your data protection rights

3.18 You have the following rights in relation to this activity:

- request information about how we process your personal data and request a copy of it.
- object to the processing of your personal data.
- request that any inaccuracies in your personal data are rectified without delay.
- request that your personal data are erased if there is no longer a justification for them to be processed.

- request that we restrict the processing of your personal data in certain circumstances.
- complain to the Information Commissioner's Office if you are unhappy with the way in which we have processed your personal data.

How to submit a data subject access request (DSAR)

3.19 You can exercise your information rights - including requesting a copy of personal data that HM Treasury holds about you - by contacting DSAR@HMTreasury.gov.uk. You will not be charged to exercise your information rights.

3.20 You can help us to process your request more effectively by explaining what information you think HM Treasury holds about you.

3.21 We will usually need to verify your identity before we can provide you with personal data, as such, you can assist us in actioning your request quickly by providing:

- proof of identification (such as a copy of a passport or picture driving license) and
- proof of address (such as copy of a bank statement or utility bill).

3.22 Please do not send original documents to us, copies or digital versions are sufficient.

Complaints

3.23 If you have concerns about Treasury's use of your personal data, please contact our Data Protection Officer (DPO) in the first instance at: privacy@hmtreasury.gov.uk

3.24 If we are unable to address your concerns to your satisfaction, you can make a complaint to the Information Commissioner at casework@ico.org.uk or via this website: https://ico.org.uk/make-a-complaint.

Chapter 4
Further information

4.1 Read HM Treasury's Consultation on the Future Financial Services Regulatory Regime for Cryptoassets published in February 2023, and the Consultation Response published in October 2023.

4.2 Read the Keynote address at the Tokenisation Summit delivered by the Economic Secretary to the Treasury on 21 November 2024, which provides an update on the Government's approach to the cryptoasset regulatory regime.

M Treasury contacts

This document can be downloaded from www.gov.uk

If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

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