
Press release

UK proposals for stablecoins should incentivise DLT-based capital markets

6 February 2024

Commenting on the UK FCA and Bank of England consultations on the regulatory approach to stablecoins, which close today, **James Kemp, Managing Director of Technology and Operations at the Association for Financial Markets in Europe (AFME)**, said:

“The UK’s plan to bring stablecoins into the regulatory perimeter is a positive step towards creating a safe and sound system for cryptoassets, and towards promoting confidence in DLT-based capital markets. However, AFME has concerns around the proposed design of a number of the rules, which in their current form will have negative consequences for wholesale markets and participants.

“The FCA discussion paper goes beyond just regulating stablecoins, as it proposes enhanced rules in the custody of other types of cryptoassets, including those that currently meet the definition of specified investments. These instruments, which include security tokens, are inherently securities and should be treated as such throughout their lifecycle. To preserve market functioning, it is important that they are not subject to the separate regulatory treatment and territorial scope for custody proposed by the FCA.

“AFME is greatly concerned that the proposed custody rules would undermine the status quo for the provision of custody services, especially in wholesale markets. We therefore urge the UK Treasury and FCA to reconsider their proposals: changes are needed to enable UK wholesale institutions to optimally access and provide custody services in the growing markets of security tokens. Without such changes, the proposals would negatively impact UK investors’ market access, hamper the UK’s role as a fintech hub and challenge the growth of DLT-based capital markets in the UK.”

Specifically, AFME suggests:

- **The territorial scope of regulated custody activities should not deviate from current market practice.** We disagree with the proposed expanded territorial scope to capture relevant cryptoasset activities undertaken from outside of the UK. This proposed treatment would represent a significant departure from the way the territorial scope for regulated financial services activities (including the custody of security tokens) is currently determined under the UK framework.
- **Cryptoassets qualifying as specified investments (including security tokens) should be treated as such throughout the regulatory framework and not be subject to a proposed separate regime for custody.** The FCA’s approach to regulating the custody of cryptoassets should distinguish between the custody of cryptoassets qualifying as specified investments (including security tokens) and the custody of other cryptoassets (including stablecoins). Existing FCA rules should be maintained for the custody of cryptoassets that meet the definition of specified investments (including security tokens) and tokenised deposits.
- **To facilitate and incentivise the issuance of regulated stablecoins, the criteria for FCA-regulated and BoE-regulated stablecoins should not be overly restrictive.** We view that the criteria for backing assets should be broadened beyond short-term government bonds and cash-deposits for FCA-regulated stablecoins and central bank deposits for BoE-regulated systemic stablecoins and should at a minimum include high-quality liquid assets.

Association for Financial Markets in Europe

London Office: Level 10, 20 Churchill Place, London E14 5HJ, United Kingdom T: +44 (0)20 3828 2700

Brussels Office: Rue de la Loi 82, 1040 Brussels, Belgium T: +32 (0)2 883 5540

Frankfurt Office: Neue Mainzer Straße 75, 60311 Frankfurt am Main, Germany T: +49 (0)69 710 456 660

www.afme.eu

- **It is imperative that wholesale financial institutions should be able to easily access and use overseas issued stablecoins (e.g. USDC).** We believe that the FCA should reconsider the proposed requirement for a UK payment arranger in relation to wholesale payment chains or at a minimum delay its implementation until international frameworks and markets mature.

- ENDS -

Notes to Editors:

Background:

As part of the future financial services regulatory regime for cryptoassets, the UK Government has announced a phased regulatory approach to regulating the new asset classes, with: Phase 1 focused on fiat-backed stablecoins issuance and custody, followed by Phase 2 on the regulation of broader cryptoasset regime. HM Treasury will lay down secondary legislation to implement the framework for regulating both categories of assets and delegate rulemaking powers to the regulators (FCA and Bank of England). The discussion papers from the FCA and Bank of England on stablecoins set out the regulators' initial Phase 1 proposals. Should they decide to proceed with rulemaking, they have committed to consulting on any final rules through a subsequent call for feedback.

AFME has been heavily engaged with the UK's future financial services regulatory regime for cryptoassets. In 2023, AFME responded to the HM Treasury's consultation on the regime. AFME intends to engage with UK policymakers throughout the design and implementation of the regime.

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AFME Contacts

Rebecca Hansford

Head of Communications and Marketing

Rebecca.hansford@afme.eu

+44 (0)20 3828 2693

Notes:

1. AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu
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