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The UK Government Announces Plans for the Regulation of Fiat-Backed Stablecoins



By **Alix Prentice**
Partner | Financial Regulation

The UK's Treasury has released an [Update on Plans for the Regulation of Fiat-backed Stablecoins](#). Following up on its January 2021 consultation on the UK regulatory approach to cryptoassets and stablecoins, the government's intention at this stage is to "*facilitate and regulate the use of fiat-backed stablecoins in UK payment chains.*" This is being driven forward by bringing into regulatory scope the use of stablecoins in payment chains under the Payment Services Regulations 2017 ("PSRs") alongside directly regulating, under the Financial Services and Markets Act 2000 ("FSMA"), the activities of: (i) issuing; and (ii) the custody of stablecoins issued in or from the UK. To that end, the Treasury intends to launch secondary legislation by early 2024 to bring those activities into the regulatory perimeter and the jurisdiction of the Financial Conduct Authority ("FCA").

- *Regulating the activities of the issuance and custody of UK issued fiat-backed stablecoins used in UK-regulated payment chains:* these requirements will apply regardless of the uses involved (for example payments, store of value or as a settlement asset) and to stablecoins backed in whole or in part by fiat currency that look to maintain a stable value by reference that currency. This definition of fiat-backed stablecoins will not be limited to single currencies or to particular currencies, but will not include algorithmic or crypto-backed stablecoins or commodity-linked tokens. While the rules will apply to stablecoins issued in or from the UK by persons authorised in the UK, the government and FCA will be talking to the industry on options for accommodating overseas stablecoins, potentially involving the FCA authorising the UK arranger of the payment using the overseas stablecoin.

New FCA rules will include requirements for the assets backing the stablecoins, as well as requirements for redemption rights and capital provisioning. The FCA will have the power to require that the backing assets are held within a statutory trust

on terms to be set out in the rules. Rules relating to the new custody activity will be based on the existing custody regime.

- *Regulating payments:* In parallel, the Bank of England will regulate systemic digital settlement asset (“DSA”) payment systems, the definition of which is intended to both include stablecoin arrangements and provide future regulatory flexibility. The Payment Systems Regulator will have similar powers and the PSRs will be amended to bring into scope: (i) mixed stablecoin payments (a combination of stablecoin and fiat payments within the payment chain); and (ii) pure stablecoin payments.
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