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**Re: DP23/4: Regulating cryptoassets Phase 1: Stablecoins**

The Crypto Council for Innovation (“CCI”), a global alliance of industry leaders in the digital assets space, appreciates the opportunity to provide feedback to the FCA on “Discussion Paper 23/4: Regulating cryptoassets Phase 1: Stablecoins” (the “Proposal”).

CCI members span the crypto ecosystem and include some of the leading global companies and investors operating in the industry. CCI members share the goal of encouraging the responsible global regulation of crypto to unlock economic potential, improve lives, foster financial inclusion, protect security, and disrupt illicit activity. Achieving these goals requires informed, evidence-based policy decisions realised through collaborative engagement between regulators and industry. It also requires recognition of the transformative potential of crypto in improving and empowering the lives of global consumers. CCI and its members stand ready and willing to work with the FCA to accomplish these goals and ensure that the most transformative innovations of this generation and the next are best allowed to flourish in the UK.

CCI members support and encourage a UK cryptoasset regulatory approach which is robust, proportionate and pro innovation. Appropriate regulatory guardrails are crucial to ensure the continued growth of the UK ecosystem, and to realising the Government's goal of making the UK a cryptoasset hub.

Further, CCI supports a mixed UK payments ecosystem. We believe that in a mature market like the UK, subject to appropriate regulatory guard rails, there is a role for many different cryptographically-based payment methods, which include central bank issued currencies, privately issued stablecoins and potentially other forms of asset-backed cryptoassets. Privately issued stablecoins can bring about many benefits to UK customers, including enhanced inclusion and access, reduced transaction costs and faster settlement speeds.

Against this backdrop and the important role stablecoins will play in a mixed payments environment, CCI is encouraged by the FCA's proposal to regulate this space. We would, however, further recommend that the proper balance be struck between regulation which works with the Government's competitiveness agenda, and regulation which stifles growth by being overly restrictive.

CCI believes that the proposed framework for stablecoins needs to be considered further through a competition lens, taking account of the FCA's competition mandate, its secondary UK competitiveness objective, as well as the Government's stated aim of becoming a global cryptoasset hub. Further, competition both within the UK and between the UK and other jurisdictions, for example European countries applying MiCA, should be given greater consideration. We are concerned that in some places, and as detailed in our answers, the regime is overly restrictive, thereby having a net negative impact on the overarching competition mandate. CCI also encourages the FCA to consider the requirements of the Bank of England ("BoE") - while we appreciate these proposals are aimed at systemic stablecoins and are therefore outside the purview of the FCA, many stablecoins will grow to be systemic over time rather than being designated as such from launch. In practice, stablecoin issuers may transition between FCA and BoE rules and therefore that transition, which currently we think would be challenging given the differing rather than just heightened requirements, must be smooth and achievable, otherwise stablecoin issuers may reconsider their UK operations. CCI firmly believes that the ambitions of the UK can be achieved without compromising market integrity, and without lowering protections for consumers.

CCI looks forward to continued engagement with the FCA as the policy process continues. To that end, CCI provides our comments to the Proposal regarding a number of topics and policy fronts as outlined in the request.

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**Q1: Should the proposed regime differentiate between issuers of regulated stablecoins used for wholesale purposes and those used for retail purposes? If so, please explain how.**

At this stage, CCI does not consider it necessary to design separate regimes for retail and wholesale stablecoin users, insofar as they both relate to payments and are both principle based. However, there could be a case, in due course, to consider revisions when considering payments versus settlement use cases.

**Q2: Do you agree with our assessment of the type of costs (both direct and indirect) which may materialise as a result of our proposed regime? Are there other types of costs we should consider?**

CCI agrees with the direct costs included, however notes that many of the firms to whom these rules will apply will currently be unregulated or only have an MLR registration. Such firms may have less familiarity with the regulatory processes, and will therefore incur additional direct costs by virtue of their falling within the regulatory perimeter, irrespective of the specificities of the rules that apply. Therefore, the costs as currently stated are likely to be an underestimation.

**Q3: Do you agree with our assessment above, and throughout this DP, that benefits, including cheaper settlement of payment transactions, reduced consumer harm, reduced uncertainty, increased competition, could materialise from regulating fiat-backed stablecoins as a means of payment? Are there other benefits which we have not identified?**

CCI agrees with the overarching benefits that could be realised via an appropriately regulated stablecoin market. However, an important aspect that the Proposal overlooks is that such benefits will only be realised if the regulatory framework is proportionate, and supports innovation in the stablecoin market. Punitive and/or excessive regulation without commensurate benefits will stifle the market, and be directly counter to the Government's stated objective of further establishing the UK a global cryptoasset hub. CCI respectfully encourages the FCA to ensure a level playing field with other payment instruments such as e-money and to only apply enhanced and proportionate regulatory requirements where the risks are sufficiently novel and/or justified for a more stringent approach.

**Q4: Do you agree with our proposed approach to regulating stablecoin backing assets? In particular, do you agree with limiting acceptable backing assets to government treasury debt instruments (with maturities of one year or less) and short-term cash deposits? If not, why not? Do you envision significant costs from the proposal? If so, please explain.**

CCI supports the policy rationale behind requiring a stablecoin issuer to constitute and maintain, on an ongoing basis and at all times, a reserve of backing assets equivalent to the circulating

supply of the regulated stablecoin. While undoubtedly a demanding requirement, managing the risks highlighted in section 3.4 is critical to ensure a well-functioning and robust stablecoin ecosystem in the UK.

However, we are concerned that when combined with the liquidity requirements, the proposal becomes disproportionately restrictive. There is not a sufficient case made in the Proposal as to why the risks associated with stablecoin backing assets are so acute as to warrant a different regulatory approach to other payment instruments like e-money. Therefore, we respectfully encourage the FCA to reconsider the Proposal in light of a more accurate reflection of the risks being mitigated. If the FCA wishes to still maintain the backing volume proposals, the CCI encourages it to broaden the composition of backing assets beyond short-term government treasury debt instruments, to also include other low risk, high quality, and highly liquid assets, such as those contemplated in the Proposal, which could be used in combination with short term treasuries. CCI believes this would more appropriately mitigate the risks without being unnecessarily restrictive on market development, including UK competitiveness.

CCI appreciates that this proposal does not extend to algorithmic stablecoins. However, we nonetheless would like to take this opportunity to underscore just how different such stablecoins are, and highlight that the application of such reserve asset requirements would effectively ban algorithmic stablecoins — the best of which operate through over-collateralization by exogenous collateral — and signal hostility toward web3 applications that rely on algorithms to develop products and services.

CCI is aware that the FCA views crypto asset-backed stablecoins as distinct from algorithmic stablecoins, but for the purpose of future regulatory consideration we include the following information about the benefits and risks of what are broadly considered algorithmic stablecoins by the industry. Algorithmic stablecoins have a number of highly beneficial characteristics. For example, because algorithmic stablecoins rely on assets that exist natively on a blockchain, they are generally free from off-chain counterparty risks that can arise from custodying assets with third parties, like banks. Without third parties, algorithmic stablecoins can achieve true decentralisation and provide users with alternative payment instruments. It is important to note that many of these benefits derive from the extent to which algorithmic stablecoins are decentralised in practice. To determine how decentralised an algorithmic stablecoin is, CCI advises regulators to evaluate whether it meets certain decentralisation thresholds such as that collateralization ratios cannot be changed in the absence of a decentralised governance process.

Any risks that may be posed in algorithmic stablecoins are distinct from those of other types of stablecoins and we hope that, in future rulemaking, stakeholders will calibrate rules accordingly. For example, the primary risk of algorithmic stablecoins is when such protocols do not have sufficient collateral to cover all outstanding stablecoins. However, over-collateralized stablecoins also exist and alleviate these issues. By ensuring that the protocol (i) always retains collateral in excess of outstanding stablecoins and (i) that such collateral is exogenous, over-collateralized

algorithmic stablecoins actually achieve a degree of safety commensurate with fiat-backed products.

Exogenous collateral consists of collateral external to the issuing system whose value is not dependent on the success or failure of the stablecoin protocol. As we have seen in real-world cases, over-collateralized stablecoins backed by exogenous assets have demonstrated a high-degree of resilience to market shocks, and have exhibited relatively low risk. Algorithmic stablecoins that require overcollateralization using high quality collateral like bitcoin and ether remained stable and functioned uninterrupted throughout the recent downturn. Examples include DAI,<sup>1</sup> RAI,<sup>2</sup> and LUSD.<sup>3</sup> While CCI recognizes that algorithmic stablecoins are not under consideration for this proposal, we appreciate this opportunity to provide a summary of just how different this category of stablecoins is, and why it will ultimately require unique treatment. We would encourage the FCA to consider studying these differences in stablecoin design in determining how each should be treated and welcome further opportunities to provide input.

In sum, while we wholeheartedly support regulation that prevents stablecoin issuers from taking on unreasonable amounts of risk, we believe that policymakers can protect users without such restrictive requirements. And they can do this by enacting narrowly tailored collateralization requirements that allow for the development of safe software code but prevent overly risky projects.

**Q5: Do you consider that a regulated issuer's backing assets should only be held in the same currency as the denomination of the underlying regulated stablecoin, or are there benefits to allowing partial backing in another currency? What risks may be presented in both business-as-usual or firm failure scenarios if multiple currencies are used?**

CCI encourages the FCA to contemplate permitting backing assets to be held, at least in part, in other currencies. This could increase the chances of stablecoins becoming commercially viable as assets in another denomination may yield a higher return without exhibiting a greater risk of loss.

**Q6: Do you agree that regulated stablecoin issuers should be able to retain, for their own benefit, the revenue derived from interest and returns from the backing assets. If not, why not?**

CCI is supportive of this proposal. Allowing the retention of interest from the backing assets will improve the commercial proposition for stablecoin issuers, and mean they do not need to look to charge transaction fees for example as an alternative, thereby supporting the growth of a stablecoin ecosystem in the UK. Further, permitting interest retention does not pose a destabilisation risk.

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<sup>1</sup> See MakerDAO, <https://makerdao.com/en/>.

<sup>2</sup> See Reflexer, <https://reflexer.finance/>.

<sup>3</sup> See Liquity, <https://www.liquity.org/>.

Ultimately, we agree that the market should decide what the most successful model for stablecoin issuers is rather than the regulator having to make such a determination.

**Q7: Do you agree with how the CASS regime could be applied and adapted for safeguarding regulated stablecoin backing assets? If not, why not? In particular: i. Are there any practical, technological or legal obstacles to this approach? ii. Are there any additional controls that need to be considered? iii. Do you agree that once a regulated stablecoin issuer is authorised under our regime, they should back any regulated stablecoins that they mint and own? If not, why not? Are there operational or legal challenges with this approach?**

CCI is concerned that the reconciliation requirements, particularly the requirement for a firm holding regulated stablecoin backing assets to maintain daily reconciliations of assets on a real-time basis, may be impractical. While appreciating that this requirement is in part driven by the volatility of the cryptoasset market, that volatility is also what makes constant recalibration challenging. Volatility in a particular backing asset may be indicative of broader market forces, rather than being indicative of a specific risk with that asset. Further, these market fluctuations can be sizable, but are quick to readjust, often within the course of the trading day. This could result in unnecessary micro-adjustments being constantly made, which will only incur cost and delay on the part of the issuer with no notable impact on the policy outcome. CCI recommends the FCA consider a lower frequency reconciliation requirement.

**Q8: We have outlined two models that we are aware of for how the backing assets of a regulated stablecoin are safeguarded. Please could you explain your thoughts on the following:**

- **Should regulated stablecoin issuers be required to appoint an independent custodian to safeguard backing assets?**
- **What are the benefits and risks of this model?**
- **Are there alternative ways outside of the two models that could create the same, or increased, levels of consumer protection?**

CCI does not consider it necessary to mandate that a regulated stablecoin issuer appoint an independent custodian to safeguard backing assets. Both models set out in the Proposal have associated risks and benefits, and the appropriateness of the model will also depend on the issuer, for example its size, complexity and range of other activities it might be conducting. While we agree that the policy outcome of protecting investors needs to be maintained, we believe that this could be achieved through appointing a third party custodian, in conjunction with ensuring appropriate governance and asset segregation.

**Q9: Do you agree with our proposed approach towards the redemption of regulated stablecoins?**

CCI agrees with the need to regulate redemption generally in order to protect investors but to also grow confidence in the market.

However, we note that the next business day requirement may not always be practicable if the markets that reserve assets are being liquidated in don't operate that quickly. We encourage the FCA to consider a slightly longer time horizon, or link redemption to the markets in which the assets are being redeemed (which would have the added advantage of potentially making redemption less than networking day in certain scenarios).

CCI supports the proposal to allow for temporary suspension of redemption in certain circumstances. As the FCA contemplates this further, we encourage a flexible, review based approach rather than a mandated suspension window.

**Q10: What proof of identity, and ownership, requirements should a regulated stablecoin issuer be gathering before executing a redemption request?**

*No comment at this time.*

**Q11: Do you agree with our approach to the Consumer Duty applying to regulated stablecoin issuers and custodians? Please explain why.**

While CCI agrees conceptually with the application of the Consumer Duty to regulated stablecoin issuers and custodians, we would welcome additional clarity on what 'good outcomes' means specifically in the context of stablecoins. For example, CCI urges the FCA to clarify that a retail customer losing money would not automatically be a breach of the Duty. We note the government's proposal to pursue a proportionate approach which would not impose full, uncapped liability on the custodian in the event of a malfunction or hack that was not within the custodian's control.

We also welcome additional clarity on the application of the Duty more broadly, given it can apply to any firm that can have an impact on consumer outcomes. Specifically, we welcome additional guidance on how direct an impact this needs to be in the context of regulated stablecoin payment chains.

**Q12: Do you consider that regulated stablecoins should remain as part of the category of 'restricted mass marketed investments' or should they be captured in a tailored category specifically for the purpose of cryptoasset financial promotions? Please explain why.**

CCI members have observed many challenges in implementing the financial promotions regime, much of which relates to the broad territorial scope, and the enhanced requirements of section 21 approvers who are now effectively required to perform proxy AML/KYC checks on unregulated entities.

Notwithstanding these challenges, CCI remains supportive of the underlying policy rationale of regulating financial promotions, as more robust advertising will result in more trust in the UK ecosystem, allowing for its continued growth.

However, CCI does not support the categorization of regulated stablecoins as 'restricted mass marketed investments' and the application of the same requirements as all other unregulated cryptoassets. A key aspect of the policy rationale for categorising cryptoassets generally under this heading is their unregulated status, making them inherently more risky for consumers to interact with in the absence of a robust regulatory framework. The enhanced Fin Proms requirements can be thought of as a temporary intervention to manage certain direct consumer risks in the absence of FCA authorisation and regulatory oversight, which is a much higher bar. Therefore, by bringing stablecoins within the FSMA perimeter, stablecoins are immediately differentiated with other, unregulated cryptoassets and subject to the rigour of FCA supervision, meaning the 'temporary' protections afforded by an enhanced FinProms categorization can fall away as they are replaced by a broader and more robust set of requirements.

In summary, CCI does not believe it is proportionate or necessary to apply heightened scrutiny to the promotion of regulated stablecoins and urges the FCA to accordingly adjust its risk categorisation downwards. We also would like to take this opportunity to underscore the existing challenges that CCI members face with implementing the existing Fin Proms requirements and we would welcome additional guidance on this point generally.

**Q13: Should individual client wallet structures be mandated for certain situations or activities (compared to omnibus wallet structures)? Please explain why.**

CCI supports the Proposal to continue to permit firms the use of omnibus wallets to safeguard clients' cryptoassets, provided that clients' ownership rights are preserved at all times, and that such wallets are subject to robust recordkeeping.

**Q14: Are there additional protections, such as client disclosures, which should be put in place for firms that use omnibus wallet structures? Are different models of wallet structure more or less cost efficient in business-as-usual and firm failure scenarios? Please give details about the cost efficiency in each scenario.**

*No comment at this time.*

**Q15: Do you foresee clients' cryptoassets held under custody being used for other purposes? Do you consider that we should permit such uses? If so, please give examples of under what circumstances, and on what terms they should be permitted. For example, should we distinguish between entities, activities, or client types in permitting the use of clients' cryptoassets?**

*No comment at this time.*



**Q16: Do you agree with our proposals on minimising the risk of loss or diminution of clients' cryptoassets? If not, please explain why not? What additional controls would you propose? Do you agree with our proposals on accurate books and records? If not, please explain why not.**

*No comment at this time.*

**Q17: Do you agree with our proposals on reconciliation? If not, please explain why not? What technology, systems and controls are needed to ensure compliance with our proposed requirements?**

*No comment at this time.*

**Q18: Do you consider that firms providing crypto custody should be permitted to use third parties? If so, please explain what types of third parties should be permitted and any additional risks or opportunities that we should consider when third parties are used.**

CCI supports the use of third parties (sub-custodians) as these are important in global custody models. While we appreciate the risks that the FCA is concerned with, particularly around governance and controls, we agree that due diligence requirements would mitigate these risks while also realising the advantages brought about by sub-custodians and the commensurate economies of scale benefits, including more choice, lower cost and potentially greater protections for investors.

**Q19: Do you agree with our proposals on adequate governance and control? If not, please explain why not? What (if any) additional controls are needed to achieve our desired outcomes? What challenges arise and what mitigants would you propose?**

*No comment at this time.*

**Q20: Should cryptoasset custodians undertaking multiple services (eg brokers, intermediaries) be required to separate custody and other functions into separate legal entities?**

Please see our comments in Q21.

**Q21: Are there any practical issues posed by requiring cryptoasset exchanges to operate a separate legal entity for custody-like activities?**

CCI recognises the risks outlined in the Proposal, and supports the need to protect customer assets and effectively manage conflicts of interest. In particular, ensuring bankruptcy remoteness and guarding the issuer's assets against other liabilities are integral to the functioning of, and trust in, stablecoin issuers. However, we do not believe that legal separation

is the only, or indeed best, way to achieve this, and agree with the FCA that there are alternatives that can provide equivalent levels of protection.

CCI also does not believe that the FCA has sufficiently outlined why such a restrictive requirement is appropriate in this context, or indeed why it would be successful at mitigating the harms outlined. We note in paragraph 5.52 that the principle of 'same risk, same regulatory outcome' is quoted, yet we note where similar risks occur elsewhere in the financial system, they are managed through enhanced disclosures, third party oversight or vertical segregation, for example. The Proposal lacks a comprehensive explanation of why, in the context of stablecoin custody, the risks are demonstrably not the same, thereby justifying a different approach and outcome.

As a general matter, CCI would also encourage the FCA to consider the ways in which vertical integrations have the potential to empower consumers with greater choice and opportunity, while fostering overall efficiency and transparency. Further, it allows regulators to achieve much better oversight of the cryptoasset market via regulated exchanges; something which would become much harder with mandated disintermediation. These proposals appear to assume vertical integration only adds risk, which is not the case.

CCI encourages the FCA to consider alternative tools, such as enhanced disclosures or vertical segregation, to better manage conflict of interest risk while not stifling development of the UK stablecoin market.

**Q22: What role do you consider that custodians should have in safeguarding client money and redemption? What specific safeguards should be considered?**

*No comment at this time.*

**Q23: Do you agree that our existing high-level systems and controls requirements (in SYSC) should apply to the stablecoin sector? Are there any areas where more specific rules or guidance would be appropriate?**

CCI agrees with the Proposal to apply SYSC to regulated stablecoin issuers and custodians. We underscore the importance of proportionality when applying SYSC to ensure that the barriers to entry are commensurate with the risks, and do not negatively impact competition.

**Q24: Do you agree with our proposal to apply our operational resilience requirements (SYSC 15A) to regulated stablecoin issuers and custodians?**

*No comment at this time.*

**Q25: Do you agree with our proposal to use our existing financial crime framework for regulated stablecoin issuers and custodians? Do you think we should consider any additional requirements? If so, please explain why.**

CCI is supportive of robust, comprehensive frameworks to target and eradicate financial crime across the whole digital assets ecosystem. By encouraging a safe, legitimate environment for all cryptoasset activity, regulators both in the UK and globally can help build trust, thereby allowing growth of, and further competition within, the ecosystem.

CCI further agrees that using the existing financial crime framework is a sensible place to start. As further policy detail is developed, this framework may need to be amended in certain places to ensure the policy outcomes are met in the specific context of stablecoins. For example, ensuring that AML/KYC checks are happening in practice at on and off ramps, and that transaction monitoring and other surveillance required of firms takes account of the underlying technology.

**Q26: Do you agree with our proposal to apply our existing Senior Managers and Certification Regime to regulated stablecoin issuers and custodians? In particular:**

- **Should we apply the current SMR and requirements to issuers and custodians of regulated stablecoins? Are there additional SMFs or requirements needed to capture the nature of regulated stablecoin business services?**
- **Should we create additional criteria to determine when the ‘enhanced category’ of the regime should apply to regulated stablecoin issuers and custodians?**
- **Should we apply the current certification functions and requirements to regulated stablecoin issuers and custodians? Are there any additional functions needed to capture the nature of regulated stablecoin issuers and custodians business services? iv. Do you agree that we should apply the existing Conduct Rules to regulated stablecoin issuers and custodians?**

As a general matter, CCI welcomes additional guidance in due course on the territorial application of the SMCR. Particularly at the SMF level, taking into consideration the global nature of many cryptoasset businesses, ensuring the Duty of Responsibility is executed appropriately may be challenging.

CCI supports maintaining the criteria of the existing ‘enhanced category’ of the SMCR for the purposes of its application to regulated stablecoin issuers and custodians.

CCI believes that the SMCR is sufficiently broad, with in-built proportionality, meaning it has been able to be applied to the entire population of FCA regulated firms with minimal amendments since its adoption. CCI does not consider regulated stablecoin issuers and custodians, insofar as the types of roles that such firms employ, to be sufficiently different from other FCA regulated entities so as to warrant new certification functions. Otherwise put, CCI believes the existing certification rules can be applied with minimal amendment.

CCI supports the application of the Conduct Rules to regulated stablecoin issuers and custodians.

**Q27: Do you agree with our consideration to apply our Principles for Businesses and other high-level standards to regulated stablecoin issuers and custodians? Are there any particular areas you think we should apply detailed rules regarding information disclosure to (other than those for backing assets set out in Chapter 3)?**

*No comment at this time.*

**Q28: Do you do you consider that we should design more specific conduct of business rules to regulated stablecoins issuers and custodians? In particular what approach should we take to applying rules on inducements and conflicts of interest management to regulated stablecoin issuers and custodians?**

*No comment at this time.*

**Q29: Do you agree that the dispute resolution mechanisms provided in traditional financial services (ie the application of the DISP sourcebook and access to the Ombudsman Service) should be applied to the business of regulated stablecoin issuers and custodians? Have you identified any gaps or issues in relation to dispute resolution? Please explain.**

*No comment at this time.*

**Q30: Do you agree that the FCA should not be proposing to extend FSCS cover to the regulated activities of issuing and custody of fiat-backed stablecoins? If you do not agree, please explain the circumstances in which you believe FSCS protection should be available.**

At this time, CCI agrees that the FSCS is not extended to cover issuance and custody. While extended coverage could help protect consumers, and may also mean that certain aspects of the proposed stablecoin regime could be less stringent, it would also impose additional costs onto issuers and custodians, which in turn would ultimately be borne by consumers. Additionally, FSCS protection does not currently cover E-money, and we do not currently believe there is sufficient justification, based on the risks, to deviate from this model.

CCI does however appreciate the role that FSCS can have in reassuring customers, which as the stablecoin market grows, may play an increasingly important role. It might therefore be appropriate for the FCA to reconsider FSCS in the context of any broader future reviews.

**Q31: Do you agree with our proposed prudential requirements for regulated stablecoin issuers and custodians?**

CCI agrees broadly with the prudential requirements. However we do question whether, if the proposal to maintain 100% of reserve assets to cover outstanding liabilities is maintained, there is the need for heightened capital buffers given the reduced risk profile.

As an overarching comment, CCI supports prudential requirements which are akin to investment firms rather than to banks, as we consider this to be a more appropriate benchmark based on the risk profile.

**Q32: : Do you agree with applying existing CASS rules on post-failure treatment of custody assets to regulated stablecoin issuers and other firms holding backing assets for regulated stablecoins, as well as CASS pooling events?**

*No comment at this time.*

**Q33: Do you agree with our thinking on how the CASS rules can be adapted for returning regulated stablecoin backing assets in the event of a firm failure or solvent wind-down?**

*No comment at this time.*

**Q34: Do you agree with the proposed overall approach for post-failure trading? If not, is there anything else that should be considered to make the approach more effective? If so, please explain. Are there any arrangements that could avoid distribution of backing assets in the event an issuer fails and enters insolvency proceedings?**

*No comment at this time.*

**Q35: : What challenges arise when stablecoins are returned to consumers, particularly with respect to their entitlements? Do you foresee the need for additional protections to facilitate the prompt return of regulated stablecoins to consumers or otherwise reduce harm in firm failure (eg introducing distribution rules within CASS for cryptoassets, strengthening wind-down arrangements, or a bespoke resolution regime)? If so, please explain.**

*No comment at this time.*

**Q36: Do you agree that this approach to integrating PSR safeguarding requirements and custody requirements will secure an adequate degree of protection for users of stablecoin payment services?**

*No comment at this time.*

**Q37: Do you agree that the custody requirements set out in chapter 5 should apply to custody services which may be provided by payment arrangers as part of pure stablecoin payment services?**

*No comment at this time.*

**Q38: Are there additional risks or opportunities, not considered above, of different stablecoin payment models that our regulation of payment arrangers should seek to tackle or harness?**

*No comment at this time.*

**Q39: What are the potential risks and benefits of the Treasury's proposal to allow overseas stablecoins to be used for payments in the UK? What are the costs for payment arrangers and is the business model viable?**

CCI applauds the FCA for contemplating overseas stablecoins in its regulatory regime. Such an innovative, forward leaning approach, which is more advanced than those being contemplated by other jurisdictions, will encourage a well functioning, innovative stablecoin market in the UK. We broadly agree that the approach of requiring overseas issuers to enter the UK market via a payment arranger appears to be a more proportionate approach than requiring direct onshoring and FCA authorization. However, we do note that this will depend on the requirements of the payment arranger and the approved stablecoin issuer; any regime should not result in an unlevel playing field which either favours or disfavors overseas issuers.

While we appreciate that these proposals are early stage, there are areas we would seek further clarity on in due course:

- The role of payment arrangers. It is not clear exactly which firms the FCA envisages would perform such a role. Further, could a single payment arranger act on behalf of multiple stablecoins being used in the UK?
- Liability of payment arrangers. Given the critical nature of these firms in allowing overseas stablecoins to be used in the UK, it is crucial that liability is laid out transparently and proportionately. We note, and are supportive of, the FCA clarification that a payment arranger would not be responsible for an approved stablecoin failing to maintain its peg. However, liability will need to be expanded upon beyond this, and how this relates to the requirements under the Consumer Duty. Regulation should be mindful of balancing the need for appropriate due diligence and capability within the payment arranger, with an overly burdensome regime which ultimately results in disproportionate costs being imposed onto the stablecoin issuer, which are in turn borne by the customer, and will not lead to further competition in the UK stablecoin market.
- Further details on the rules and/or requirements which the FCA would consider to be adequate for the purposes of equivalency. This is essential to ensure a level playing field and therefore avoiding risk being introduced into the system via regulatory arbitrage.

**Q40: What are the barriers to assessing overseas stablecoins to equivalent standards as regulated stablecoins? Under what circumstances should payment arrangers be liable for overseas stablecoins that fail to meet the FCA standards after approval, or in the case where the approval was based on false or incomplete information provided by the issuer or a third party?**

From the detail in the DP, we believe there to be some relevant comparisons between the role of payment arrangers and that of S21 approvers with unregulated/unregistered cryptoasset firms. CCI encourages the FCA to consider lessons learned from that regime, and to apply them in the context of stablecoins. While cryptoasset firms have welcomed S21 approvers as a route to be able to legitimately market to UK customers, our members have experienced varying practices within those approvers and the degree/rigour with which they apply requirements to the cryptoasset firms for whom they approve promotions.

For example, members have observed that while firm/DeFi front ends which are not registered in the UK are not directly subject to UK AML/KYC requirements (notwithstanding their 'home' jurisdiction requirements), in practice are being subjected by third-party approvers to stringent AML/KYC requirements. At best, this approach is proving extraterritorial and uncompetitive, at worst, the blanket application of existing AML/KYC requirements simply cannot be adhered to because of the nature of the DeFi business. Such an unintended policy consequence could have ramifications for many firms considering their UK business, and indeed contemplating pausing/withdrawing activities from the market as a result.

While we appreciate that the Fin Proms regime is still in its infancy, we urge the FCA to consider its approach to payment arrangers with knowledge of relevant implementation feedback.