

The Distributed Ledger

Blockchain, Digital Assets and Smart Contracts

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This client alert has been updated to reflect new developments.

UK Government Details Plans To Foster a Cryptocurrency and Fintech Hub

The UK government has unveiled its plans to position the UK as a leading global hub for cryptocurrencies and fintech.

John Glen, the Economic Secretary to the Treasury set out detailed proposals to support the development of the crypto market in the UK, including measures aimed at making the UK a more attractive venue whilst taking consumer protections into consideration.

The plan includes a number of significant proposals.

Stablecoin Framework

Following the Treasury's consultation on how to regulate stablecoins, designed to be asset- or fiat currency-backed to achieve greater price stability, Mr. Glen confirmed that the government would be legislating to bring certain stablecoins into the UK payments framework. The intention is that this will facilitate growth and expansion for issuers and providers and give confidence to the market that stablecoins are a recognised form of currency.

This is to be the first step in an expanded effort to bring a wider set of crypto activities within the UK payments framework.

Law Commission Consultation on DAOs

Decentralised Autonomous Organisations (DAOs) are organisations represented by rules embedded in a protocol that is transparent and controlled by the organisation members rather than by a central government. As a result, DAOs have faced uncertainty about their legal and operating status in certain jurisdictions. To examine this issue in the UK, the Law Commission will undertake a consultation on the legal status of DAOs, with the goal of putting the UK at the forefront of these conversations and creating the legal foundation for DAOs internationally.

Tax Treatment for DeFi and Crypto-Assets

Mr. Glen also announced a closer engagement with business on tax issues that may be causing some difficulties for decentralized finance (DeFi) and crypto-assets.

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The UK government does not believe the tax code will need much change, and there are already publications from HM Revenue and Customs (HMRC) on the capital gains tax treatment of crypto-assets. Mr. Glen did acknowledge that some issues remain to be ironed out regarding DeFi loans and staking (whereby a liquidity provider transfers the control of tokens to a DeFi lending platform and earns income as a result), given that HMRC's recent statements on DeFi had been criticised by some market participants. Crucially, the government also expects to include categories of digital assets within the list of allowed transactions for UK managers of offshore funds' portfolios, in order to eliminate doubt on the availability of the relevant UK tax exemption to such funds that trade in such assets.

UPDATE: This consultation began on 23 May 2022, alongside more informal discussions with key market participants in crypto trading and investing. HMRC will publish the results once the consultation ends on 18 July 2022.

FCA 'Sandbox'

This year, the UK Financial Conduct Authority (FCA) will also be launching the Financial Market Infrastructure Sandbox, which the chancellor announced in 2021. Sandboxes enable firms to test innovative ideas in the market with consumers. The aim is to allow firms to experiment and innovate in providing the services that underpin financial markets. In particular, Mr. Glen emphasised that "this will enable [firms] to test new technologies that could transform financial markets by delivering greater efficiency, improved liquidity, enhanced transparency and greater security."

Establishment of the Cryptoasset Engagement Group

Mr. Glen announced that the Cryptoasset Engagement Group, a newly formed group made up of senior representatives from the FCA, the Bank of England and key industry figures, will meet regularly to discuss the trajectory of the crypto-asset industry and how best to support the industry's growth.

Impact of the Announcements

Many have hailed the initiatives announced by Mr. Glen as a turning point for the UK crypto industry, with the proposals representing an opportunity for the UK to become a leading crypto hub. Ian Taylor, chief executive of CryptoUK, [welcomed Mr. Glen's announcements](#) and "the government's plans to be pro crypto innovation and its recognition of the opportunities and potential of the UK crypto sector." The [CEO of Innovate Finance, Janine Hirt, described it](#) as "a landmark speech setting out a vision for the UK to be the leading hub for technology that will transform payments, capital markets infrastructure and ESG assurance."

Though Mr. Glen's speech was well-received, industry leaders have cautioned that the true test will be the implementation of these proposals in the coming months. We will continue to report on developments as the government's program is rolled out.