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UK regulatory approach to cryptoassets and stablecoins: consultation and call for evidence
1 Horse Guards Road
HM Treasury
London SW1A 2HQ

18 March 2021

By email: cryptoasset.consultation@hmtreasury.gov.uk

Dear Sir / Madam,

Financial Services Consumer Panel response to HM Treasury consultation on UK regulatory approach to cryptoassets and *stablecoins*.

The Financial Services Consumer Panel (FSCP) is an independent statutory body. We represent the interests of individual and small business consumers in the development of policy and regulation of financial services in the UK.

The FSCP supports HMT consulting on the broader regulatory approach to cryptoassets, including the new challenges to so-called *stablecoins*. *Cryptoasset* and *stablecoin* propositions may present significant harm to consumers, in the context of both consumer investments and payments.

In its response to the HMT Payments Landscape Review¹, the Panel highlighted several key principles that the market for payments should be guided by, including:

- Accessibility.
- Fairness and affordability.
- Reliability.
- Sustainability.
- Safety, security and consumer protection.
- Transparency.

It is essential that these principles are applied to emerging technologies in the same way they would be applied to regulated instruments used for the same purpose.

Regulators should nevertheless carefully consider how the perception of these propositions amongst consumers may change if they are subject to certain regulations. For instance, firms should not be able to promote their product through stating the firm is '*Regulated by the FCA*', to mislead and give the product more legitimacy through allowing it to sit under the halo that the use of the FCA name provides.

¹ https://www.fs-cp.org.uk/sites/default/files/final_fscp_response_hmt_payments_landscape_review.pdf

The Panel has identified several key issues for HM Treasury to consider:

- **Consumer protection:** It is essential that where certain propositions may achieve scale, risks to consumers are averted through appropriate regulation, on both conduct and prudential matters. The composition of assets underlying a *stablecoin*, how these assets are safeguarded, and the rights of the *stablecoin* holder to redeem these assets, may present significant risks to consumers who hold *stablecoins*.
- **Consumer understanding:** Consumer may be unable to distinguish between cryptoassets which offer different use cases, and between cryptoassets for payments and other payment instruments. However, in each case the overall risks to consumer may be different. HMT should consider the implications that increased choice and innovation have on consumers' understanding, bearing in mind that not all consumers are financially literate and the rise of '[meme investing](#)' on social media platforms where consumer choices can be heavily swayed by influencers. Terminology must be easy for consumers to understand and ensure they are not provided with a false sense of security.
- **Financial promotions:** The Panel supports HMT's separate proposal to regulate the promotion of cryptoassets. Advertising (including short-form adverts across social media platforms) must be transparent and accurately state the risks to consumers including whether or not the product is FSCS protected. The FCA's research note in 2020 showed that many potentially vulnerable consumers on low incomes have purchased cryptoassets.² Furthermore, regulated products should not be promoted using the fact that they are regulated to mislead consumers and make the product appear more secure than it is. We are also concerned about the targeting of these adverts using on-line tracking information for example that the consumer regularly gambles or has researched loan products.
- **International access:** The FCA's research note found that of those in the UK who bought cryptoassets through an online exchange, 83% used only non-UK based exchanges. HMT and regulators must carefully consider the territorial scope of proposed regulations, and how these regulations will be effectively supervised, to ensure all consumers are appropriately protected.

Yours faithfully,

Wanda Goldwag
Chair, Financial Services Consumer Panel

² <https://www.fca.org.uk/publication/research/research-note-cryptoasset-consumer-research-2020.pdf>