

APPG BLOCKCHAIN POLICY BRIEF ON THE "GOVERNMENT'S REGULATORY APPROACH TO CRYPTO-ASSETS AND CURRENCIES"



ALL-PARTY
Parliamentary
Group on
Blockchain

IN ADVANCE OF 7TH SEPTEMBER 2022
WESTMINSTER HALL DEBATE



LOCKCHAIN

2022 JULY



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APPG Blockchain Policy Brief for:

“Government's regulatory approach to crypto-assets and currencies”

Purpose: This policy briefing paper includes key discussion points for the Westminster Hall debate on the Government's regulatory approach to crypto-assets and currencies, taking place on the 7th of September from 09:30 till 11:00.

The following is output from APPG on Blockchain evidence sessions where stakeholders in the Blockchain space have been arguing these perspectives. Therefore, we believe that this is important information to be discussed.

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Definitions

Term	Definition	Example
Blockchain	A Blockchain is a distributed ledger made up of blocks that contain changes to the state of the ledger i.e., transactions. Groups of state changes are added to the ledger in the form of “blocks”. Typically, each block references the preceding block via the use of cryptographic techniques and the Blockchain represents the history of all the state changes ever made to the ledger.	Ethereum, Hyperledger Fabric, R3 Corda, Binance Smart Chain.
Distributed Ledger Technology (DLT)	DLT refers to the technological infrastructure and protocols that allows simultaneous access, validation, and record updating in an immutable manner across a network that's spread across multiple entities or locations.	Blockchain is the simplest and most common example of a DLT.
Cryptocurrency	A virtual/digital currency that runs on Blockchain technology.	Bitcoin (BTC), Ethereum (ETH), Litecoin (LTC), Avalanche (AVAX).
Central Bank Digital Currencies (CBDC)	Central Bank Digital Currencies (CBDCs) are digital tokens, similar to cryptocurrency, issued by a central bank. They are pegged to the value of that country's fiat currency.	Digital Euro, eCNY (Digital Yuan), Project Inthanon-LionRock (Hong Kong & Thailand).
Stablecoin	A cryptocurrency whose value is pegged to that of another asset (usually a fiat currency).	Tether (USDT), USD Coin (USDC), Binance USD (BUSD).

Non-Fungible Tokens (NFTs)	NFTs are blockchain-based tokens that each represent a unique asset like a piece of art, digital content, or media. An NFT can be thought of as an irrevocable digital certificate of ownership and authenticity for a given asset, whether digital or physical.	The Superbowl, Adidas and Dolce & Gabanna, have all released NFTs for their customers and fans.
Decentralised Finance	Decentralized finance (DeFi) offers financial instruments without relying on intermediaries such as brokerages, exchanges, or banks by using smart contracts on a blockchain.	Aave (AAVE) & Synthetix (SNX) are examples of DeFi companies.

Consideration Points

UK can become a global leader for Crypto technology

The UK has the potential to become a global hub for cryptocurrency technologies and be a driver for development. Crypto technologies are here to stay, therefore a definition of crypto, and how we want to see crypto in the UK is essential. This could be part of the recently introduced Financial Services & Markets Bill (20th July 2022), or in a bespoke piece of legislation.

Additionally, widespread stakeholder education is paramount to encourage further adoption of these technologies. Both consumers, financial institutions and policymakers need more information about the benefits of cryptocurrency and related technologies for the UK to be a global driver in this space.

Cryptopayment systems are a re-writing of financial rules

Cryptocurrency payment systems represent a new way to send funds and value all over the world and can be seen as a re-writing of financial rules. Cryptocurrency becoming a predominant form of payment in the UK is something that the APPG on Blockchain believe will happen without a doubt - it is an if, not a when.

Cryptocurrencies allow for efficiency. As they will re-write financial rules in the UK in terms of how we spend, pay, and invest, effective regulation must ensure the new systems are 'desirable'.

Cryptocurrency regulation will encourage adoption

A firm regulatory framework is required for more companies and brands to accept cryptocurrency as a form of payment. Additionally, a regulatory environment will protect the companies and brands as well as their consumers.

Increased confidence in the regulation around cryptocurrency will encourage more stakeholders to become involved in this space. This framework should be dynamic and continuously evolving to keep pace with changes within the whole financial services industry.

The current lack of regulation could be seen as a barrier for the development of the crypto industry in the UK, perhaps giving power to those that wish to operate outside of the law. Firm and importantly, clear, regulation will provide strength and allow for a dynamic and flourishing industry in the UK.

Increased use of stablecoins has led to Government acknowledgement

Stablecoins are a form of cryptocurrency that try to peg their market value to an external reference, for example a fiat currency (e.g., US Dollar). Stablecoins have increased dramatically in use and allow for improved access and competition within the payments space and financial services. Stablecoins have the ability to create structured information and allows for full-scale transparency and compliance. The UK Government released plans in April 2022 to introduce stablecoins into their payment's framework ¹, creating opportunities for stablecoin issuers and service providers to grow and operate in the UK. This can be done through regulation, encouraging adoption for the consumer, and making the conditions beneficial for those on the other side of the technology.

Regulators must think about how regulation of stablecoins and decentralised finance (DeFi) will have a follow-on effect to more traditional financial institutions. It would be a mistake to regulate with broad generalisations about stablecoins, as it is such an ever-changing area with a variety of stablecoins (e.g., Tether (USDT), Binance USD (BUSD)) currently on offer.

Central Bank Digital Currency implementation is enlarging

Central Bank Digital Currencies (CBDCs) are digital tokens, issued by a central bank, that are pegged to a state's fiat currency (e.g., Pound Sterling). Our lifestyles are becoming increasingly digital, and smartphones are crucial to how we live our lives; banks, governments and financial institutions are realising that the technology driving digital currencies can greatly benefit society.

CBDC implementation is increasing worldwide. China have released the 'Digital Yuan' (eCNY), and there are pilots taking place in the Euro System. CBDCs allow for transparency within the ledger, therefore it is easy to see who owns what and how much, allowing for more efficient collection of tax revenues, through a digital footprint. CBDCs allow for a direct connection from the central bank to the citizen, in a way that cash payments do not. It has been stated by some APPG Blockchain expert speakers that every country should have a CBDC, and even a global hegemonic CBDC has been proposed. There are many opportunities in this space.

Non-Fungible Tokens are financial securities with the aim of decentralising power

A non-fungible token (NFT) is a financial security consisting of digital data stored in a blockchain. NFTs have a major to play a part in funding lots of investment projects, particularly in the creative industry (movies, digital art, club memberships). The aim of NFTs

¹ <https://www.gov.uk/government/speeches/keynote-speech-by-john-glen-economic-secretary-to-the-treasury-at-the-innovate-finance-global-summit>

is to decentralize the concentration of power in the industry and spread revenue in a more equitable way. However, the drawback here is that NFT usage is still in a 'wild west' scenario, producing fast adoption in markets where there are limited norms or standards. Examples of NFT usage can be seen in royalties, revenue management, distribution and claims of authenticity. The adoption of NFTs is on a fast trajectory and already has created wealth for some individuals.

References

This briefing paper is based upon the following meetings:

- **APPG Blockchain - Cryptocurrency & Payments: The Current State of Affairs:** 22nd June 2022 – Committee Room 10, House of Commons
Speakers:
 - Richard Ells, Director, CEO & Founder, Electroneum
 - Amélie Arras, Marketing Director, Zumo / Winner of 2017 'The Payments Race'
 - Sean Kiernan, CEO, Greengage
 - Marcus Sotiriou, Crypto Analyst, GlobalBlock
 - Giles Swan, Head of European Policy, Blockchain.com

- **APPG Blockchain - Central Bank Digital Currencies & Stablecoins: Assessing a New Monetary Paradigm:** 27th October 2021 – Virtual House of Commons
Speakers:
 - Commissioner Hester M. Peirce, Commissioner, U.S. Securities and Exchange Commission (SEC)
 - Christian Catalini, Co-Creator & Chief Economist, Diem Association)
 - Natacha Valla, Dean, Sciences Po's School of Management and Innovation and Former Deputy Director-General for Monetary Policy, European Central Bank
 - Rhomaios Ram, CEO, Fnality International
 - Jonny Fry, Advisor, Stratis Platform

- **The Metaverse & Creative NFTs:** 16th June 2022 – Boothroyd Room, Portcullis House
Speakers:
 - Alexander Amartei, Arabian Camels, Saga City
 - Mila Lolli, NFT UK Founder
 - Gordon Lee, Founder, Joker Charlie Club
 - Anna Stoilova, Co-founder Rogue Fox Guild
 - Ali Dato & Nino Meriano, Corporate Comics
 - Seyi Awotunde, Chief Visionary Officer at Deliciae
 - ARTJEDI1, Visual and NFT artist, ARTJEDI
 - Karina Abramova, Cultural Changemaker & Environmental Artist
 - Ameer Ali & Ericka SIMON, KIP Engine

Future Meetings

Below is a list of APPG Blockchain evidence meetings for 2022/23.

To become a Parliamentary member of APPG Blockchain email us at: appg-blockchain@biginnovationcentre.com.

- 13th September 2022: **Sustainability & Climate Change**
- 15th November 2022: **Cybersecurity, Privacy & Fraud: New Opportunities or New Risks?**
- 21st February 2023: **Blockchain as a Service (BaaS): Commoditising Blockchains**
- 4th April 2023: **Decentralised Finance: A New Paradigm for the Banking Sector**
- 21st June 2023: **Health**
- 12th September 2023: **Trade Finance & Smart Intelligent Contracts**
- 21st November 2023: **Blockchain Use-Cases: State-of-Art Industry Trends & Blockchain Forecast**

APPG Blockchain Officers & Secretariat

- **Chair:** Martin Docherty-Hughes MP
- **Vice Chairs:**
 - The Earl of Lindsay
 - Viscount Waverley
 - Stephen Metcalfe MP
 - Kevan Jones MP
- **Secretariat:** Professor Birgitte Andersen, CEO & Co-Founder, Big Innovation Centre
- **Rapporteur:** George Farrer, Communications Assistant, Big Innovation Centre

