Rt Hon Rishi Sunak
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

15 March 2021

Dear Chancellor,

On behalf of all members of CryptoUK, the UK's digital assets trade association, we welcome the positive work you and your colleagues are doing to support the fintech sector in the UK.

The crypto asset industry is a fast-growing sector, worth more than £1.7 trillion globally[1]. As an established global fintech centre, the UK is strategically well-positioned to leverage the government's legacy investment supporting innovation and existing dynamic talent pool to become a world leader in this new industry. According to Traxcn[2] over $15bn was invested last year in a total of 15,000 companies globally. However, the U.K. is currently missing out on a major opportunity in this capital growth, as the UK accounts for only 6% compared to 54% in the United States and 16% in China.

We are falling behind other countries for three reasons, which we are calling on you to address:

First, **the FCA Money Laundering Registration Regime for Cryptoasset Businesses (MLR)** commenced in January 2020. To date only 4 out of about 200 applications have been determined. Whilst our industry appreciates that all new regulatory regimes take time to embed, the industry is experiencing significant challenges with this regime, which run deeper than the issues made public by the FCA.

A large number of our members are seeking to be admitted to the register. The regime was meant to ensure crypto asset firms implement and adhere to financial industry standard anti-money laundering practices. However, the application process far exceeded this scope and endeavors to assess applicants against a higher standard more closely aligned to an full electronic money institution authorisation. Many of our members have reported undergoing what can only be described as an arduous process. Additionally, most of our members have received limited, and in many cases, no response at all from the FCA since submitting their applications. For some, more than 8 months have elapsed without a single response from the regulator.

One applicant stated that they submitted their application in the Summer of 2020 and still have not been assigned a case officer. Another applicant, who is on the temporary register

[1] Coin Market Cap
[2] Tracxn

and has had their application in for almost one year, confirmed that they were recently re-assigned a new case officer. This created a complete lack of continuity from their earlier dealing with their initial case officer and was likened to having to restart the application over again.

Additionally, we have received reports from firms experiencing delays on other license applications as a result of the MLR delay. One applicant confirmed that their EMI application was submitted 7 months ago but they have not received any feedback on this application as it is being considered in conjunction with an MLR application for the company's affiliated firm. They have not received any response on their MLR application (submitted 3 months ago) and they fear that their EMI application is essentially stuck in limbo as a result. We know from other members that the FCA has taken this approach of evaluating multiple licenses in tandem, however previously the FCA conducted their assessment within their statutory time limit, which no longer appears to be the case.

Based on the FCA's current guidance, cryptoasset businesses that were trading prior to 10th January 2020 must register with the FCA to continue to trade. Since that date all new businesses were required to register prior to 9 January 2021 and these firms can only commence trading once the application is approved. Existing businesses (grandfathered) were given an extension from the original 9 January 2021 deadline for their application to be approved, until the 9 July 2021 in the FCA's temporary registration regime.

The clock is again ticking as we approach the new July deadline, whereby existing firms legally have to cease trading. Additionally, hundreds of new businesses have been waiting for months to progress their applications, with staff and overhead costs mounting, as they cannot start trading and earning revenues until their application has been approved.

Our members have also received reports from current FCA staffers that the agency disbanded its crypto asset team last year. It is understood that FCA staff with years of experience gained working within the UK's Cryptoasset Task Force have been reassigned to various other departments, and that the Cryptoasset Authorisation Team is generally understaffed. Additionally, the few staff assigned to this task are without the crypto asset expertise previously gained by the original Cryptoasset Task Force members.

There is increasing fear amongst the community that the perceived high levels of risk the FCA have publicly stated for crypto asset firms has resulted in an extremely high bar for all businesses to achieve. There is also a concern that the assessment delays have been further exacerbated by a lack of subject matter knowledge by the assessors, which is required to consider these applications effectively. The MLR is an activities based regime and not that of a conduct based regime, with many experiencing the same requirements as if they were applying for an e-money licence, for example.

The FCA's 'high-risk' perception is in contrast to HMT's most recent National Risk Assessment, where the government found crypto assets to be of a medium risk level in terms of money laundering and terrorist financing.

The UK sits at the centre of the fintech landscape and enjoys a global reputation for fostering startups and innovation. The FCA has clearly demonstrated its ability to protect consumers by preventing money laundering and terrorist financing, whilst creating a regulatory environment where innovative firms can flourish.

However, in this instance, it is faced with unprecedented challenges. First, the regulator is faced with evaluating a rapidly evolving industry with which is unfamiliar against a comparison to traditional finance. Second, the regulator has received an overwhelming number of applications, which is a testament to the vibrancy of the UK's fintech and innovation heritage. It is understood that the FCA originally forecasted that 80 firms would apply for the MLR authorisation, and more than double applications were submitted.

In summary, there is growing concern that the current application process will only benefit a handful of larger organisations, who have the funding and runway to wait this process out, to trade in the UK. Given applications are not being assessed in a reasonable time frame, or being made unreasonably difficult, frustrations and fatigue will result in withdrawals, both voluntary and requested. These businesses will either leave the UK or cease trading. In both cases, this is a negative result for the UK economy and its fintech community. This goes against the government's mandate to promote and encourage competition and enabling innovation to thrive.

Secondly, **access to banking services** remains a critical impediment to industry growth. In our recent survey of crypto businesses, we found that 73% of crypto asset firms have been forced to open a bank account in another country due to complications with obtaining banking relationships in the UK. More than half of those who tried to open an account have been rejected, with most receiving no reason from the bank, despite Payment Services Regulations which require providers to give a reason for declining services to firms. This is in stark contrast to other advanced democracies such as the US, Germany and Switzerland.

Thirdly, we must **show the world that the UK is open for business and innovation** as a central element of the Government's Fintech Sector Strategy. Rather than simply being a regulatory challenge, the growth of crypto assets is an opportunity for the UK. With a progrssive attitude and a proactive approach, we have the potential to be a world leader.

For example, compare the 200 applications that the FCA received versus the circa 40 applications made to the AMF in France. Developers and innovators want to be in the UK because of the great work previously done by the government to champion innovation and securing the UK as a Fintech global centre.

These three actions would allow the UK to benefit not only from the innovation created within crypto assets and its evolving technology, but also through the fiscal contributions of inward investment, tax revenues and employment. Realising these benefits will require the government to take decisive action to improve the MLR application process, access to banking services and introduce and make a clear statement of the importance of cryptoassets to the UK's ambition to be the world's leading fintech hub.

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Yours sincerely,

Ian Taylor

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Chair, CryptoUK

CC Economic Secretary
Minister for Digital