

Consultation Paper title	Regulating Stablecoin Issuance and Cryptoasset Custody
Summary of intervention	Assessment of proposed rules for firms providing custody of cryptoassets, or issuing a stablecoin from the UK
Feedback date of issue	24/02/2025
CBA Panel reference number	CBAP-0003

CBA Panel advice

This document sets out the CBA Panel's advice to the FCA on the draft CBA of "Regulating Stablecoin Issuance and Cryptoasset Custody". The CBA was referred to the Panel on 3 February in accordance with section 138IA of the Financial Services and Markets Act 2023.

It should be noted that:

- The CBA Panel's review is intended as a high-level, independent, expert review of the draft CBA. It does not replicate FCA analysis and does not verify data used in it.
- The CBA Panel is not responsible for the content of FCA CBAs nor for certifying that they meet statutory obligations.
- The CBA Panel's review focuses on evaluating the evidence, analysis and methodology within the CBA rather than the underlying policy itself.

Main recommendations

The Panel makes the following high-level recommendations:

- **Treatment of uncertainty.** The CBA sets out clearly how markets for both stablecoin issuance and cryptoasset custody in non-UK jurisdictions are currently accessed by UK users on an unregulated basis. The proposed rules will provide for regulated markets for both activities within the jurisdiction of the UK. This injects a high degree of intrinsic uncertainty into the CBA, since it requires making predictions as to how both regulated, UK markets that do not currently exist, and competitor non-UK markets that do, will develop over time. Given this unavoidable uncertainty, the analysis would benefit significantly from including explicit sensitivity analysis under suitably broad ranges of assumptions for both:
 - The growth of the markets accessed by UK consumers under the proposed and counterfactual (no regulation) scenarios; and
 - The costs and benefits of particular regulatory options themselves.
- **Assessment of costs and benefits.** The analysis would benefit from a more comprehensive assessment of the costs and benefits generated by the proposals. Examples include potential benefits of increased competition for payment services that regulated UK stablecoin issuance might promote; and potential second-order costs associated with wider cryptoasset ownership that a regulated UK custody regime might bring.
- **Options analysis.** The CBA would benefit from an explicit quantitative evaluation of the costs and benefits of introducing alternative sets of rules, in addition to the useful qualitative assessment of different regulatory approaches currently included.

CBA Summary

Category	CBA Panel comments
The market	The CBA outlines the existing arrangements in the cryptoasset custody and stablecoin issuance market well and provides a clear understanding of the UK and global arrangements. The difficulty presented is in understanding how this market will develop over time based on scenarios with and without regulation.
Baseline and counterfactual	These markets are highly uncertain and should explicitly be treated as such. As described the baseline is that harms will continue for consumers accessing cryptoasset custody and stablecoin issuance outside the UK jurisdiction, with two major issuers continuing to operate from outside the UK.
Evidence and data	The CBA notes that surveys of interested parties in cryptoasset custodianship or stablecoins issuance were undertaken with a relatively light response rate; some academics were surveyed but there is no information on how many, whom and what the result was. The projections of regulation-induced demand for these markets should be better evidenced.
Assumptions	The baseline as described is based on several assumptions surrounding the number of existing custody firms and stablecoin issues increasing over time as a result of intervention. The Panel noted that assuming cryptoasset firms incur costs at a similar rate as traditional finance firms should be better evidenced and that the CBA should explore how critical this, and other assumptions are to the assessment. The assumption that 60% of losses consumers experience was due to failures should be better evidenced.
Uncertainty and risk	These markets are in their infancy which implies the status quo may not be the right counterfactual for the CBA. Many countries are grappling with implementing regulation in this space which may mean the attractiveness of the UK is difficult to assess currently. As a result, much of the assessment of costs and benefits could be regarded as having wide confidence intervals associated with them.
Wider economic impacts	The Panel advised that a more comprehensive assessment of wider economic impacts is merited, given the early stage of development of the technologies and markets involved. Examples include the potential wider economic impacts of using stablecoins for payment services, and the wider economic impacts of broader cryptoasset ownership.
Assessment of costs and benefits	The level of costs and benefits is entirely driven by assumptions on new players in the market, which is difficult to assess with certainty. The level of costs and benefits have not been properly tested via sensitivity testing - which with the level of uncertainty in this area, means there is not a broad enough assessment being undertaken.