

Cryptoassets Taskforce: Report Indicates Path Forward for UK's Cryptoasset and DLT Approach

Article By:

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In light of rapid developments in the market, the substantial potential of applications of distributed ledger technology (DLT), and growing evidence of the risks associated with cryptoassets; the Chancellor of the Exchequer launched the Cryptoassets Taskforce, comprising HM Treasury (HMT), the Financial Conduct Authority (FCA) and the Bank of England (BoE), in March 2018 as part of the government's Fintech Sector Strategy.

Their [report](#), now published, sets out proposals for the UK's policy and regulatory approach to cryptoassets and DLT in financial services. This follows the recently published [report](#) on cryptoassets by the House of Commons Treasury Committee. You can read our blog post on that report [here](#).

The report

The Taskforce has concluded that whilst there are examples of cryptoassets that are delivering beneficial innovation in financial services – for example, firms in the Sandbox have demonstrated that cryptoassets can be used to make existing processes cheaper and easier at small scale – we have yet to see if these tests can be scaled up. This conclusion has been echoed by Christopher Woolard (Executive Director of Strategy and Competition at the FCA) in his speech at The Regulation of Cryptocurrencies on 20 November 2018.

As such, the Taskforce considers that *“in many cases, the risks posed by the current generation of cryptoassets outweigh any potential benefits”*; and are of the view that *“the most immediate priorities for the authorities are to mitigate the risks to consumers and market integrity, and prevent the use of cryptoasset for illicit activity.”*

Although interest is growing, the UK is still a relatively minor exchange market for cryptoasset trading.

The Taskforce highlighted four inherent risks associated with the use of cryptoassets, mirrored in the earlier Treasury Committee report. These are:

- Risks of financial crime, where cryptoassets are used for illicit activity, such as money laundering and fraud, and cyber threats;

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- Potential threats to financial stability, which is not currently perceived as a major risk but may arise if the market grows and cryptoassets become more widely used;
 - Risks to consumers, who may buy unsuitable products, face large losses, be exposed to fraudulent activity, struggle to access market services, and be exposed to the failings of service providers, such as exchanges; and
 - Potential harm to market integrity, owing to manipulation, opaque practices, and other market abuse strategies, which may lead to consumer losses or damage confidence in the market.

Next steps

The Taskforce's immediate priority is to mitigate these risks. However the report does look further forward, considering that DLT, with further development, will have the potential to deliver benefits in both the financial services and other sectors.

The Taskforce has committed to a number of actions that will be taken by HM Treasury, the FCA and/or the Bank of England (in accordance with their remits) to further develop and implement the UK's policy and regulatory approach to cryptoassets and DLT. The actions to be taken by the authorities are as follows:

By the end of 2018:

- Consult on guidance for those cryptoasset activities currently falling within the regulatory perimeter (FCA);
- Consult on a potential prohibition of the sale to retail consumers of derivative products referencing certain cryptoassets (FCA); and
- Update on timing for the renewed 'Real Time Gross Settlement' service to be able to interface with innovative payment platforms, including those based on DLT (BoE).

By early 2019:

- Consult on changing the current regulatory perimeter to include cryptoassets with comparable features and explore how exchange tokens might be regulated (HMT);
- Implement the Fifth AML Directive with the potential to broaden the scope of the AML regime as it applies in the cryptoasset sector (HMT); and
- Issue revised guidance on the tax treatment of cryptoassets (HMRC).

Ongoing:

- Assess the adequacy of the prudential regulatory framework, including with international counterparts (PRA);

- Continue monitoring market developments and the risks to financial stability, as well as the UK's approach to these changes (HMT, FCA & BoE);
- Continue international engagement programmes (HMT, FCA, & BoE);
- Further develop experience with DLT applications and support to firms through the Regulatory Sandbox and Innovate initiative (FCA); and
- Explore the use of DLT to enable more accurate, efficient and consistent regulatory reporting (FCA), to support new financial services infrastructure (HMT) and for public sector use (various government departments), including through Field Labs.

The Taskforce will also convene every six months to consider developments and review the UK's approach.

Conclusions

Although the Taskforce's current outlook for existing cryptoasset benefits appears limited, the proposals for future development show a more positive horizon. The report and its ongoing and future proposals demonstrate the commitment of the authorities to promoting innovation in the crypto-space and aim to pave the way for the UK to simultaneously ensure adequate protection for consumers and support the development of the UK as a hub for cryptoassets and DLT.

One thing is clear, we can expect to see focus on the UK's approach to cryptoasset and DLT for the foreseeable future.

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