GBBC EMEA Working Group

Response to HM Treasury's call for evidence regarding the Financial Services Growth & Competitiveness Strategy.

About us:

GBBC is the largest leading industry association for the blockchain technology and digital assets community. Launched in Davos in 2017, GBBC is a Swiss-based non-profit, with more than 500 institutional members, and 301 Ambassadors across 117 jurisdictions and disciplines. The organisation is dedicated to furthering the adoption of blockchain technology by convening regulators, business leaders, and global changemakers to foster collaboration and advance dialogue to create more secure, equitable, and functional societies.

Introduction

GBBC welcomes the initiative to set a 10-year growth plan and open call for evidence "UK Financial Services Growth & Competitiveness Strategy". GBBC members, given their active involvement and engagement in the development of new forms of digital money are well qualified to contribute to the discussion around these topics and stand ready to assist with the formulation of the Strategy.

Rather than respond to each individual question, and given the interconnectedness of the questions, we set out below our observations and recommendations with particular regard to the fact that our members are financial services and fintech firms focusing on not only traditional financial services but also innovation and technology and operating in a regulated or soon to be ecosystem.

High-level thoughts

We fully support the objectives outlined in the call for evidence but believe it is important for the Government to take a holistic view and understand that these objectives do not operate in silos but rather within a wider ecosystem where the tax regime, ease of access to labour, the regulatory environment and many other factors collectively impact the decision on whether a firm will decide to locate is business in the UK.

Global Competition is Growing: It is clear that many countries are seeking to attract new players in the financial services ecosystem. Other countries are at this time offering clearer regulatory frameworks to encourage firms to move to their jurisdiction. And they are moving at pace. For example, the Middle East is seen as more welcoming for firms to provide services in virtual assets.

Reputation Matters: Many applications are rejected or withdrawn. This reputation, in our view, stops firms from considering the UK as the right choice. Perception plays a big role. If businesses perceive the process will as difficult, they will not engage.

Skilled Workforce is Crucial: Hiring skilled workers is a top priority for all firms. Jurisdictions with easier access to talent attract more businesses. The UK needs to make it simpler for firms to find the right people.

Informed Risk Taking: Regulators can support responsible, informed risk-taking by designing more accessible and flexible sandboxes with proportionate rules that scale with the level of activity and risk, allowing firms to experiment and grow in a controlled environment.

Regulatory Barriers

Clear and Predictable Rules

- Businesses need clear and predictable frameworks in which to operate and in the rapidly evolving virtual assets ecosystem they need clarity and certainty in a timely manner. Whilst we welcome the clarity given by the FCA in the recently published crypto roadmap, we are concerned that the timelines for moving forward will continue to place the UK at a disadvantage given that the stablecoins papers from the FCA and the Bank of England are now nearly a year old. Uncertainty means that firms are hesitant to invest or fail to do so.

Authorisation Processes for New Firms

- We are particularly concerned about the long approval times in the UK with firms often waiting months or more for authorization. Compare this with EU countries like Poland that approve virtual asset crypto businesses in a few weeks.

  In the UK, firms must spend heavily before their applications are reviewed. They need to be almost fully operational, which includes hiring staff and setting up infrastructure. This often leads to firms unnecessarily exhausting their funding before gaining approval. This is not sustainable.

  The UK's approach feels disconnected in that the UK government talks about supporting financial services and innovation. But the regulatory process does not match these goals and businesses see a gap between the UK's ambitions and how it handles authorizations. This makes the UK less competitive.

Our Recommendations:

- **Rebuild Trust:** Improve the UK's reputation by streamlining processes and communicating changes clearly.
- **A Phased Approval:** A phased or conditional approval system could help. Firms could start small while working toward full compliance. This would lower upfront costs and risks.
- **Support for Startups:** Proportionate obligations for new businesses. This could include flexible requirements during the setup phase.
- **Clear Timelines:** Set deadlines for each step of the authorisation process. This would give businesses more certainty.
- **Learn from Competitors:** Study what works in 'faster' jurisdictions like the Middle East and Asia, and adapt those practices to the UK.

Future of Financial Services:

We see the future of financial services as follows:

- **Adoption of AI**
  - As AI technologies develop further, they will drive efficiencies and automation across financial services, changing the way operations, customer service, fraud detection, and risk management are conducted. Thus, the industry will need to adapt to AI-driven solutions by balancing innovation with ethical considerations and regulatory requirements. Understanding the broader implications of AI in financial decision-making and compliance frameworks will be critical to providing timely and successful responses from financial institutions and regulators.
- **Tokenization of Real-World Assets**
  - The tokenisation of assets enabled by DLTs, including real estate, commodities, and securities, will transform markets because of its utility in enhancing liquidity and accessibility. Based on current trends in its use cases, tokenization will enable fractional ownership, improve settlement times, and increase transparency in asset management.
- **Legacy Platform Migration**
  - Transitioning from outdated systems to modern platforms is key but will be challenging for many firms. This, together with achieving interoperability between new technologies and existing infrastructure will require substantial investment and planning. The complexity of migrating to newer, scalable solutions may act as a bottleneck for innovation.
- **Broader Embrace of Technology**
  - The adoption of emerging technologies in financial services will accelerate, building on trends from the past two decades. Financial institutions will need to focus on continuous technological innovation, supported by government policies encouraging research and development. Interoperability between different platforms and systems will become increasingly important in streamlining operations and enhancing customer experiences.
- **Decentralization of Financial Services**
  - Advances in technology will change the way individuals and companies conduct business, transact and use financial products.

This will reduce the importance of traditional financial hubs, enabling firms to operate globally without being tied to specific locations. Decentralized systems will challenge existing regulatory frameworks, requiring updates to address cross-border transactions, data security, and compliance in a much more globalised environment.

- **Evolving Regulatory Frameworks**
    - Regulation will need to evolve to keep pace with technological advancements, particularly in areas such as AI, tokenization, stablecoins, and decentralized financial ecosystems. The challenges related to jurisdictional boundaries, open borders and consistent rules for decentralised, global operations will need to be addressed by governments and regulators in order to support their ecosystems and their competitiveness.
- **Focus on Interoperability**
    - As the pace and adoption of new technologies increase, it will be crucial to ensure compatibility between emerging technologies and existing financial systems. Standards for interoperability will need to be developed and enforced to support seamless integration and operation.
- **Government Support for Innovation**
    - The development of financial services will rely on government backing through policies, funding, and infrastructure. To encourage startups and established firms to experiment and develop new technologies, the government will need to create a favourable environment and incentives essential for maintaining competitiveness.

Policy pillars

We agree with the policy pillars but see the following gaps or areas for further consideration:

- **Taxation as a Competitive Factor**
    - High taxation rates in the UK deter investment and are a significant factor in the country's competitiveness. For this reason, it should be explicitly recognized as part of the broader regulatory environment or added as a distinct focus area in regulatory strategies.
- **Holistic Ecosystem Perspective**

- The policy pillars must account for the interconnected nature of the financial services ecosystem. Factors such as the overall ease of doing business, cost of living, infrastructure, and access to global markets and talent play a role in firms' location decisions and competitiveness.

- **Competition Dynamics**
  - The pillars should directly address the competitiveness of the UK's financial services sector both vis-a-vis other jurisdictions and internally. This should encompass developing a more agile regulatory process, supporting startups, and reducing barriers to entry for smaller firms.
- **Alignment with Sustainability Goals**
  - While the pillars aim to position the UK as a leader in sustainable finance, we recommend putting greater emphasis on ESG integration and support for green innovation.

Competition

We detail below our thoughts on competition.

- **Limited Success in Banking Competition**
  - Efforts aimed at increasing competition in the banking sector, such as the promotion of neo-banks and e-money institutions, have faced notable challenges. Barriers to entry for new banks remain high, particularly in terms of the difficulty of establishing clearing relationships with the Bank of England and competing with established banking groups on an equal footing. Therefore, despite regulatory initiatives, the environment is still heavily skewed in favour of established players.
- **Open Banking Challenges**
  - Open Banking, a key competition remedy, has struggled to gain traction in the UK. Adoption has been slow, with limited impact on increasing market dynamism or offering consumers tangible benefits. It provides an example of the broader challenge of implementing initiatives aimed at structural changes that account for the complexities of the financial ecosystem.
- **Reliance on Industry Funding**
  - As the industry undergoes rapid technological change, a major challenge in fostering competition is the heavy reliance on the industry to fund key infrastructure projects, such as payment architectures. In other jurisdictions, like India, government or central

bank involvement in funding has driven meaningful competitive advancements.

- **Gaps in Infrastructure**
    - The UK's payments infrastructure is not considered fit for purpose to support enhanced competition. Previous initiatives like the architecture overhaul stalled due to funding and implementation challenges. The lesson learnt must be implemented as we move forward under the National Payments Vision.

Supporting innovation and the adoption of new technology

Innovation and Sandboxes

The full realisation of the potential of digital UK gilts and innovation in financial services will depend on the creation of an inclusive environment which supports startups and emerging technology providers. While initiatives like the Digital Securities Sandbox are commendable, their scope–limited to FMIs or entities intending to become FMIs –constrains the breadth of innovation.

Adoption of new technologies

We detail below our members' views on the adoption of new technologies.

- **Lack of Trust in Challenger Firms**
    - In our view, regulators show a preference for established firms, often favouring them to develop new business lines under familiar governance structures, rather than supporting startups or challengers. This lack of trust leads to limited support for new firms, creating significant barriers for smaller, innovative companies. This is reflected *i.a.* in the approach to participation in sandbox initiatives.
- **Restrictive Sandbox Frameworks**
    - Initiatives like the Digital Securities Sandbox are overly restrictive, requiring participants to meet the same supervisory standards as established market infrastructures, such as CSDs. This limits access for smaller firms or startups that lack the resources to meet these requirements, defeating the sandbox's purpose of fostering innovation. As new and emerging technologies underpin the digital transformation in this space, excluding fintechs and technology providers from participating or offering their solutions for testing within the DSS restricts the sandbox's potential. Expanding access to allow these entities to collaborate and test

their offerings would not only promote a more dynamic and diverse ecosystem but also accelerate the development of robust, scalable solutions which can then be used by the industry. The unnecessary limitations to the framework can be easily overcome by allowing diverse participants to contribute, thus allowing the sandbox to become a hub for innovation.

- **One-Size-Fits-All Approach to Regulation**
  - Regulatory frameworks are applied uniformly to all participants, regardless of their size, scope, or risk exposure. This creates unnecessary burdens for smaller players testing low-risk innovations.
- **Limited Flexibility in Regulatory Support**
  - There is little adaptability in allowing firms to scale their operations incrementally while complying with proportionate regulatory requirements. Firms testing small-scale or low-value activities face the same regulatory hurdles as those operating at full scale, creating inefficiencies and stifling growth.

Recommendations for Improvement

In order to overcome the challenges related to technological adoption identified above, we suggest the following:

- **Build Trust in Startups**
  - Regulators should work more closely with challenger firms, providing tailored guidance and support to help them navigate the regulatory landscape. This will foster an ecosystem where startups can grow without facing disproportionate oversight from the outset.
- **Increase Flexibility in Sandbox Design**
  - Allow firms to participate with regulatory requirements that scale proportionately to their activities, such as low or no rules for testing small transactions and create a tiered system of requirements, escalating only as firms grow in scale and risk exposure.
- **Encourage Risk-Taking in Controlled Environments**
  - Design sandboxes to enable meaningful experimentation by lowering entry barriers and creating frameworks that support calculated risk-taking. Use value or activity-based thresholds to determine regulatory requirements.
- **Shift to an Incremental Rule Application**

    - Begin with minimal regulatory requirements and add rules gradually as firms prove their ability to handle greater complexity and higher volumes. This approach aligns regulatory oversight with actual business risk, allowing for innovation without compromising stability.
- **Broaden Accessibility**
    - Open sandbox participation to a wider range of firms, including those with smaller-scale, high-potential ideas. Ensure that entry is not limited to firms with extensive resources or pre-existing regulatory experience.
- **Align Practice with Intentions**
    - Focus on making innovation initiatives practical and effective, rather than merely symbolic. Regularly evaluate the impact of initiatives and adjust frameworks to better support innovation and technology adoption.

Transformative Technologies

We believe that blockchain and smart contracts (DLT) hold exceptional potential to revolutionize financial services. These technologies enable the creation of robust, interconnected ecosystems that are secure, interoperable, and efficient. Leveraging privacy-preserving, permissioned networks, DLT offers a foundation for enabling regulatory-grade innovations at scale, ensuring both operational integrity and market resilience.

Key Areas of Impact:

- **Tokenization of Real-World Assets**
    - Tokenization unlocks value by enabling fractional ownership, broadening market access, and improving liquidity. From real estate to commodities and bonds, tokenized assets can reduce settlement times, lower costs, and enable 24/7 trading, heralding a new era of financial inclusion and asset efficiency.
- **Capital Efficiency and Liquidity**
    - DLT improves capital efficiency by facilitating real-time visibility and optimization of assets. Smart contracts automate collateral allocation and management, potentially freeing up significant capital—estimated to be over $100 billion annually.
- **Flexible and Atomic Settlement**

    - The ability to settle transactions instantly or based on pre-defined conditions reduces counterparty risks and enhances operational agility. This flexibility is particularly impactful in volatile or cross-border trading environments.
- **Global Collateral Mobility**
    - Traditional systems constrain the effective use of collateral due to settlement restrictions and geographical silos. DLT-based solutions allow assets to remain at their source while being tokenized for global use. This approach unlocks trillions in potential marketable securities as collateral, eliminating settlement risks, enhancing liquidity, and reducing operational drag.
- **Operational Resilience and Interoperability**
    - By connecting fragmented financial systems, DLT fosters interoperability between market participants, reducing manual processes, mitigating risks, and enhancing scalability. The ability to securely share data while maintaining privacy is a game-changer for regulated institutions.
- **Market Efficiency and Cost Reduction**
    - Automating manual processes through smart contracts leads to lower operational costs, reduced reconciliation efforts, and minimized errors. This shift not only reduces costs but also improves accuracy and efficiency across the financial value chain.
- **Adoption of stablecoins**
    - The use of stablecoins in payments and adoption by "traditional" players like merchants in e-commerce. This will bring greater efficiencies to the marketplace.

Key Factors Driving Investment Location Decisions in the UK: A Ranked Perspective

In our view, the following are the three most important factors when making an investment location decision.

1. Regulatory & Market Access Leverage

- **Regulatory Value for Investment**: Assess the degree of “regulatory leverage” and whether UK frameworks provide tangible benefits for the firm’s specific business model. For example, the UK may offer simpler regulatory pathways compared to Paris or Lisbon for certain wholesale or institutional operations, whereas EU-based jurisdictions can grant immediate, broader market access to the entire bloc.

- **Wholesale Market Depth & Liquidity**: Consider the UK's strength in wholesale financial markets, derivatives, and funds, where London remains a global hub, providing deep liquidity and sophisticated counterparties. This makes the UK particularly appealing for institutional players and larger funds seeking global reach and sophisticated financial infrastructure.
- **Specialization by Sector**: While traditional financial services thrive due to advanced market infrastructure, fintech and crypto firms must weigh whether the UK's regulatory climate and market depth truly benefit their retail or technology-focused model. For crypto exchanges leaning towards retail clients, the UK offers a substantial user base and a supportive innovation environment.

2. Talent Pool & Industry Ecosystem

- **Skilled Workforce & Specialized Ecosystems**: The UK's established ecosystems in wholesale, derivatives, and funds create a strong talent pool, facilitating specialized hiring and business growth. Firms benefit from a concentration of professionals, service providers, and ancillary players who understand the complexities of global financial services.
- **Innovation & Crypto Adoption**: The UK's openness to digital assets and adoption of new financial technologies attracts global crypto and digital asset firms. A robust pool of retail investors, numerous wholesale crypto-related market participants (market makers, counterparties, brokers), and a generally tech-forward environment all help sustain and grow these firms.
- **Global Brands & Market Entrée**: Associating with prominent UK brands—such as sponsorships with top-tier sports teams (e.g., Manchester City) or partnerships with iconic British businesses—can enhance global brand visibility. This ecosystem advantage is especially relevant for firms that need international credibility and marketing leverage tied to the UK's global standing.

3. Operational & Cultural Environment

- **Taxation & Non-Regulatory Factors**: Tax regimes, quality-of-life considerations (e.g., housing, schools), and the general operating environment shape the long-term sustainability of a UK presence. These factors influence both cost structures and talent retention.
- **Complementary Jurisdictional Strategies**: Many firms maintain dual footprints—e.g., London plus Dublin, or London plus a Continental European city—to ensure the best of both worlds: the UK's global liquidity, brand alignment, and market sophistication, combined with easy access to the EU's single market.
- **Preserving the UK's Relevance**: While currently still attractive, especially in wholesale and innovative financial spheres, the UK must remain vigilant. Overly

complex or restrictive regulations, or a failure to keep pace with global market trends, could diminish its appeal and push firms to consolidate elsewhere.

Opportunities that the government should seek to advance through its international financial services relationships?

We detail below the opportunities we see as important for the government to advance.

Facilitating market access and reciprocity beyond the EU

- Seek beneficial bilateral or multilateral agreements that grant mutual market access, especially in regions where the UK can fill a gap left by limited EU engagement.
- Explore partnerships with jurisdictions that have streamlined frameworks (e.g., certain Middle Eastern financial hubs) where foreign firms report more open, proactive regulatory engagement—supporting cross-border activity and liquidity inflows.

Preserving and Expanding the Overseas Persons Exclusion (OPE) for Wholesale Markets

- Maintain and strengthen the OPE for wholesale financial activities, allowing overseas firms to engage in UK markets without triggering restrictive licensing obligations.
    - **OPE Function & Importance:**
        - **Enables Cross-Border Wholesale Business:** OPE allows overseas firms to engage in the UK's wholesale financial markets without triggering local licensing requirements.
        - **Legal Certainty for UK Firms:** By defining clear parameters for interacting with overseas participants, ensures UK firms can confidently transact with these entities, knowing they are not breaching domestic rules.
        - **Drives Liquidity and Market Depth:** The ease of market entry under OPE significantly expands the pool of participants, increasing liquidity and asset availability, which underpins London's status as a major global financial hub.
- Encourage international wholesale participants to trade and clear through London, thereby enhancing liquidity and depth in various asset classes.
- Differentiate between retail and wholesale markets in regulatory policy, ensuring that strict investor protections apply to retail, while wholesale

markets benefit from open, flexible access. Different proceedings for retail and wholesale - could be treated differently, and this is not leveraged currently.

Setting Global Standards and Attracting Global Talent

- Continue playing a key role in shaping international financial standards, reinforcing the UK's position as a mature, outward-looking, and sensible financial hub.
- Pursue policies that make it easier for global firms and talent to enter and operate in the UK, bolstering the country's reputation as a welcoming environment for innovation and international market participants.
- Leverage the UK's existing brand equity as a global financial centre, using open market policies to signal a commitment to fostering international growth and remaining a leading venue for cross-border trading and investment.