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U.K. FinTech and Financial Services - Bitcoin to the Scalebox; the U.K. Government Announces Plans to Boost the FinTech Sector and to Develop a Digital Pound

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On Monday, 19 April 2021, at U.K. Fintech Week, Rishi Sunak announced proposals to enhance and maintain the U.K.'s infrastructure around its FinTech regime, from establishing a new Task Force—which will explore the possibilities of a Central Bank Digital Currency—to regulatory support and reforms to help the growth of FinTech firms across the U.K. The focus of the address was to develop a “*more open, greener, and more technologically advanced financial services sector*”.

The speech flagged three key developments:

- A new FCA “scalebox” and Centre for Finance, Innovation and Technology to boost growth;
- Development of a U.K. CBDC; and
- Additional plans for capital markets reform.

The Chancellor's announcement follows the publication of the Kalifa Review (the “Review”) by the Treasury on 26th February 2021, which recommended a strategy and delivery model for the U.K. to maintain its position as a leading jurisdiction in which to establish and grow a FinTech business. We covered the output of the Kalifa Review in detail in our earlier [Stay Current](#).

Some of the key measures recommended in the Review, as well as in the recent Listing Review published in March this year include: (i) amendments to U.K. Listing Rules to make the U.K. a more attractive location for IPOs; (ii) improvements to tech visas to attract global talent; (iii) the creation of a “Scalebox” to provide additional support to growth stage FinTechs; and (iv) the creation of a Centre of Finance, Innovation, and Technology (a “CFIT”) to strengthen national coordination across the FinTech ecosystem to boost growth.

The Review highlighted the need to transition the U.K. from being a global leader in FinTech start-ups to also being an attractive proposition to scale up such businesses, and it seems clear that the Chancellor is keen to apply such recommendations. The announcement comes in addition to the 2021 budget, which introduced a new ‘scale up’ visa stream that will allow skilled people with a job offer at a recognised U.K. ‘scale up’ to qualify for a fast-track visa without sponsorship or third-party endorsement. The government is expected to publish detailed plans on how to take forward the recommendations in the Review and the Listing Review (see below) in the near future.

Sandbox to Scalebox - Support for growing firms

The Chancellor's speech recognised the need for FinTechs to be supported in scaling their businesses. This represents a development from the current focus on the start-up phase through the Sandbox. As well as taking forward the development of a Scalebox, the Chancellor announced plans to launch the second phase of the existing Sandbox.

In order to help FinTech firms scale up, the Financial Conduct Authority (the "FCA") will introduce a package of measures designed to help start-ups with new propositions, which will be known as a "Scalebox". It is not yet clear what specific measures the Scalebox will include in practice and what the criteria will be to participate in it, but the aim is to enhance the Regulatory Sandbox already in place since 2016, which "allows businesses to test innovative propositions in the market, with real consumers". The review suggests that the Scalebox would look to introduce measures to support regulated firms specifically in the growth phase.

Sandbox tests have been popular amongst start-ups, and the FCA's model has been replicated in numerous other jurisdictions. The FCA have confirmed that 137 firms have now passed through the Sandbox. The main focus of the current regulatory Sandbox is to provide firms with:

- the ability to test products and services in a controlled environment;
- reduced time-to-market at potentially lower cost;
- support in identifying appropriate consumer protection safeguards to build into new products and services; and
- better access to finance.

In his address, the Chancellor announced a second phase of the digital sandbox that focuses on encouraging firms to test concepts that tackle sustainability and climate change-related challenges to assist with its focus in achieving the Government's net zero targets. Previous sandbox projects have provided support for technology firms, such as those developing products that promote access to finance for small and medium sized enterprises, as well as technologies which aim to prevent fraud, to name just a few.

FIT for FinTech

The Chancellor confirmed plans to establish a Centre for Finance, Innovation and Technology (a "CFIT"). CFIT will "work closely with regional hubs to identify and address sector challenges in support of fintech growth across the U.K.", which follows the recommendation in the Review that the CFIT should head up a data-led approach to maintain a national FinTech database that could be easily accessed. It remains to be seen how a CFIT will operate, but its establishment will be received as a positive step in keeping the considerations of regional and national FinTech bodies in mind when the Government assesses next steps for the regulatory framework of the industry.

Bitcoin!

The Chancellor announced the establishment of a new Taskforce that aims to encourage collaboration between the Treasury and the Bank of England in exploring the possibility of a new U.K. central bank digital currency (a "CBDC"), which would exist alongside cash and bank deposits. No decision has yet been made on whether to introduce a CBDC in the U.K., but this seems almost inevitable, given developments in other jurisdictions and the growth of private sector cryptocurrencies.

The Bank of England has already been working on proposals for a U.K. CBDC and issued a Discussion Paper on this topic in March 2020; in addition, it followed up on this with a statement issued on 19

April 2021. The Bank's statement announced the creation of a CBDC Engagement Forum and a CBDC Technology Forum. The former forum will engage senior stakeholders on non-technology issues, whereas the latter is intended to gather input on all technology aspects of CBDC from a diverse cross-section of expertise and perspectives.

Reforms to listing and capital markets

Following the findings in the Listing Review led by Lord Hill and published in March this year, the Government has made commitments in relation to all of the recommendations in the report that were addressed to it, including to report annually to Parliament on the state of the City, and to undertake a fundamental review of the U.K.'s prospectus regime. A review of the prospectus regime ties in well with the stated aims of making it easier for firms to scale up in the U.K., where a more streamlined listing regime certainly would be well received for those looking to expand through listing.

The Government has committed to consulting on changes to its prospectus regime this summer to ensure that Listing Rules are not overly burdensome, but still maintain high standards of corporate governance, shareholder rights, and transparency. The consultation aims to explore aspects of forward looking information when raising capital, which investors specifically wanted to see. One recommendation in the Listing Review maintained that forward looking information could be more easily facilitated by amending the liability regime for issuers and directors, meaning that liability under FSMA could now be adjusted to allow directors of companies to publish and stand behind their forward-looking models. It appears that this suggestion will now be explored.

There will also be an assessment of how preemptive rights issues can be streamlined for existing shareholders through the use of technology, another measure recommended by the Listing Review. This aims to address the efficiency issues of retail investors who, due to lack of information about existing holders and self-certification requirements, have typically struggled to fully exercise their rights in relation to issuances. It appears there will now be a review into prospectus requirements, as well as a deeper look into how offers to retail investors are managed going forward.

Aside from the Listing Review, there is also mention that the wider capital markets regime will be consulted on in the summer, with hints that the share trading obligation and double volume cap currently in place as a result of onboarded EU legislation could be abolished. The aim here would be to encourage competitiveness, but also deliver on a new rulebook that is fair.

Conclusion

These plans have been positively received in the FinTech space and from financial institutions more widely. The City of London Corporation Policy Chair Catherine McGuinness stated that "*[t]his is a vital step if we are to maintain the competitiveness of a sector which has a huge role to play in driving the post-pandemic recovery across all sectors of the economy, not only financial services*".

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