

Bitcoin: A Strategic Opportunity

Bitcoin is a hard-capped monetary asset, one not issued by a nation state but accessible and usable by all individuals, companies and nations. It is decentralised both in its production and its governance, and is uniquely secure and reliable, with 99.9% uptime over 15 years. It has never been hacked or otherwise compromised. As an asset, a network, and the centre of an ecosystem of other businesses, its potential to drive innovation and economic growth makes it a critical component for the UK's financial future. However, current UK policies are **stifling this potential** and pushing opportunities offshore, while at the same time arguably **increasing the risk of the customer harm** that they are intended to prevent.

Apart from these financial considerations, Bitcoin and its network have unique properties both of censorship resistance and in relation to the integration of its infrastructure with national electricity grids that make it of exceptional importance for efforts as widely varied as humanitarian and activist efforts against authoritarian regimes and in stabilising increasingly important sustainable grids. The UK could, and should, lead in both of these sectors.

Critical Issues:

- **Misclassification:** The FCA currently ignores Bitcoin's distinct properties — decentralized, secure, and liquid — as it is currently treated in the same way as all other cryptoassets, many of which are high-risk speculative meme tokens.
- **Regulatory Burden:** Excessive FCA rules impose crippling compliance costs on UK businesses, driving them and their customers to unregulated offshore platforms and jurisdictions, and making the UK less attractive for inbound investment.
- **Tax Complexity:** Treating every Bitcoin transaction as a taxable event creates an impractical burden, discouraging adoption and innovation.

Policy Solutions:

- **Tailored Regulation:** Create a separate regulatory category for Bitcoin, recognizing its monetary nature, lower risk profile and unique value, easing the compliance burden on Bitcoin-only companies. It is not a 'restricted mass market investment' any more than the United States dollar is.
- **Tax Simplification:** Exempt small Bitcoin transactions from capital gains tax (or consider an exemption after a holding period), reducing barriers to use and boosting economic activity via increased spending and lending of Bitcoin in the economy.
- **Proportionate Approach:** Implement proportionate regulations that protect consumers while keeping Bitcoin businesses competitive, preventing the loss of innovation to offshore jurisdictions, and the risk of increasing customer harm that arises from driving those customers to offshore businesses.
- **Retail ETF access:** Exchange traded products can give a safe and regulated pathway to gain exposure to Bitcoin. The FCA currently forbids retail investors from using this safe and regulated pathway. This should immediately be changed.

Introduction

Bitcoin represents a transformative opportunity for the United Kingdom to establish itself as a global leader in the digital asset economy. However, the FCA's current classification of Bitcoin as a "restricted mass market investment" undermines this potential by imposing a one-size-fits-all regulatory framework that fails to account for Bitcoin's distinct characteristics, and does not recognise the demonstrable difference in risk profiles between a two-trillion dollar asset on the one hand and a closely-held meme coin on the other. A helpful analogy here is to consider a mega-cap tech company, such as Meta (Bitcoin, in this example), and compare and contrast this with a newly incorporated company with five shareholders (a meme coin). The law and the regulatory landscape rightly recognises that these two entities, while both being companies, have very different risk profiles, and they are treated differently as a result. The FCA must begin to do the same with the digital asset space.

This misclassification not only stifles market development but also increases risks for consumers, demonstrating a critical oversight in distinguishing the varied risk profiles of cryptoassets. At present, consumers new to the space are presented with a universe of thousands of coins, all of which - so the FCA tells them - are equally worthless. This includes both Bitcoin and every meme coin in existence, and the message this sends to consumers arguably puts them at great risk of harm were they to invest in a worthless meme coin rather than the digital asset equivalent of a blue chip company.

Understanding the FCA's Position

The FCA classifies Bitcoin as a "restricted mass market investment," a category that imposes stringent requirements on businesses seeking to sell, market or advertise a relevant asset, and restricts retail investor access to them. As noted above, this blanket approach overlooks Bitcoin's unique attributes, which set it apart from the broader 'crypto' market:

- **Decentralization:** Bitcoin operates on a peer-to-peer network without a central authority, reducing risks associated with centralized mismanagement, malfeasance or failure. No small group of people can change the rules of the network, or tamper with the ledger of transactions.
- **Security:** Bitcoin's blockchain has remained uncompromised since its inception in 2009, a testament to its robust design. Even its closest competitor, Ethereum, was the subject of a compulsory chain roll back in 2016, and XRP (often touting itself as a potential banking partner) cannot locate the first 32,569 entries in its ledger. Bitcoin in this sense is genuinely unique, and is protected by a globally distributed network of nodes and miners that is likely now impervious even to an attack by a hostile nation state.
- **Liquidity and Stability:** With a market capitalization exceeding £1 trillion and deep trading volume, Bitcoin has unmatched liquidity. In more than fifteen years of operating, it has 99.9% uptime, and has had continuous uptime for the whole of the past decade. This is unmatched by any other network in computing history.
- **Store of Value:** Recognized globally as "digital gold," Bitcoin's capped supply of 21 million coins is widely understood as being an easily communicable reason for its appeal.

The qualities above contrast sharply with many cryptoassets, which are often centralized, speculative, and lack Bitcoin's liquidity or track record. The FCA's failure to differentiate these risk profiles has had profound consequences for the UK market.

Damage to the Market

The FCA's classification of Bitcoin and failure to distinguish it from the wider market has caused significant harm to the UK's Bitcoin ecosystem, stifling growth and innovation:

- **Excessive Regulatory Burden:** Bitcoin-focused businesses face complex compliance requirements, including disproportionate marketing restrictions, originally designed for higher-risk assets. These rules increase operational costs, deterring startups and driving established firms offshore. Additionally, UK banks frequently withhold or prevent the free movement of customer funds to and from exchanges - since it is lawful to buy and hold Bitcoin in the UK, such actions appear so disproportionate that in many cases it is hard not to view them as part of a deliberate attempt to stifle the industry here.
- **Competitive Disadvantage:** UK companies struggle to compete with international peers operating under more proportionate regimes. For instance, the EU's Markets in Crypto-Assets (MiCA) framework better distinguishes between asset types (a welcome differentiation for example between Bitcoin and stablecoins, which it appears as though the FCA may be beginning to consider), offering a clearer path for Bitcoin businesses. At present, however, regulators in the EU, the US, the UAE, Hong Kong and Singapore all seem to have a better understanding of Bitcoin and the digital asset market in general than does the FCA.
- **Innovation Stagnation:** High compliance costs and regulatory uncertainty discourage investment in Bitcoin infrastructure, such as custody solutions or payment systems - both by domestic businesses and by inbound investors or companies. This stifles the development of a domestic Bitcoin economy, undermining the UK's potential to lead the world in this space, despite the protestations of successive governments about the UK as a 'crypto hub'. Globally, the UK is a 'crypto' laughing stock, and very far from being a hub in any recognisable sense of the word.

The market impact is clear: by treating Bitcoin as a high-risk asset, homogenous with all other digital assets, the FCA's approach continues to suppress economic activity and weakens the UK's position in a rapidly evolving sector that in other circumstances we would have been well-placed to lead.

Increased Risk to Consumers

Far from protecting consumers, the FCA's misclassification paradoxically heightens their exposure to harm. By imposing strict controls on regulated Bitcoin businesses attempting to operate lawfully in the UK, the FCA's policies will be likely to drive activity to unregulated offshore platforms, where oversight is minimal. We saw this happen in real time in the case of FTX - an offshore exchange, nevertheless accessible to US and UK citizens, and the perpetrator of the most egregious fraud since Bernie Madoff. Bitcoin Policy UK has previously provided evidence to the APPG, demonstrating those businesses that have withdrawn from or are unable to operate in, the UK, while at the same time flagging the rampant marketing in the UK of worthless meme coins, together with evidence from the FCA itself stating that it is powerless to prevent such marketing efforts. Such

clumsy regulation actually increases the risk of fraud, loss, and exploitation—precisely the outcomes the FCA aims to prevent.

Specific consumer harms include:

- **Use of Unregulated Platforms:** Strict UK regulations push consumers to overseas exchanges lacking AML or know-your-customer (KYC) protections. For example, high-profile collapses like FTX demonstrate the dangers of unregulated offshore entities, yet the FCA's approach inadvertently encourages such customer migration.
- **Lack of Education:** The “restricted mass market investment” label implies uniform risk across cryptoassets, leaving consumers ill-informed about Bitcoin's comparative security and stability. Without clear guidance, retail investors may essentially equate Bitcoin with volatile meme coin scams.
- **Debanking Issues:** Banks frequently close accounts linked to Bitcoin activity, forcing users to rely on less secure alternatives in order to purchase digital assets. This practice, again documented by Bitcoin Policy UK, isolates consumers from the regulated financial system and represents a significant restriction of customer financial freedom.
- **No ETF access:** Perhaps worse than this, the FCA has determined that no retail investor may have access to any ETF product that gives exposure to Bitcoin or any other digital asset. Frankly, this decision is extremely questionable in the current environment, where the Bitcoin ETFs in the US are now the most successful ETF products in financial history, and represent a safe and simple way even for those who are less technologically adept to gain access to the asset.

The Case for Tailored Regulation

Bitcoin's unique risk profile demands a regulatory rethink. A tailored framework would address market and consumer harms while fostering growth:

- **Distinct Classification:** Establish a separate category for Bitcoin, recognizing its lower risk profile, developing monetisation, and unique role as a store of value.
- **Streamlined Compliance:** Reduce compliance burdens for Bitcoin-specific businesses, as currently required by the “restricted mass market investment” definition and the Financial Promotions regime, focusing oversight on higher-risk cryptoassets. This would lower costs, encourage domestic innovation, and keep activity within the regulated sphere.
- **Banking Clarity:** Issue explicit guidelines to prevent debanking of Bitcoin-related accounts, ensuring consumers and businesses can operate securely within the UK financial system.
- **ETF Access:** Lift the anachronistic and damaging ban on retail access to Bitcoin ETFs.

Tax Complications and Economic Barriers

The UK's tax regime could be easily simplified to encourage increased use of Bitcoin in the economy, and the development of new financial services products by UK firms:

- **Capital Gains Tax (CGT) Burden:** Every Bitcoin transaction triggers a CGT event, requiring meticulous tracking of gains—a daunting task for users and a deterrent to everyday use. Revising this would lead both to increased spending of Bitcoin in the economy (most economists agree that greater velocity of money is beneficial for economic growth) and would expand the development of new and innovative lending products; currently using Bitcoin as collateral would be likely to create a tax charge as the repo rules do not yet apply to digital assets.
- **Economic Stagnation:** Taxing Bitcoin sales discourages spending, reinforcing its perception as a static asset rather than a dynamic economic tool. This limits its contribution to UK commerce and innovation.

Proposed Solutions

A reformed tax and regulatory approach could mitigate these harms:

- **Exempt Small Transactions:** Introduce a CGT exemption for transactions below a threshold (e.g., £500), easing compliance for casual users and encouraging Bitcoin use.
- **Foreign Currency Status:** Treat Bitcoin as a foreign currency for tax purposes, eliminating CGT on transactions and aligning its treatment with its practical role.
- **Infrastructure Investment:** Support UK-based Bitcoin services (e.g., wallets, exchanges) to keep activity onshore and secure.
- **Collaborative Policy:** Engage industry, academia, and regulators to craft evidence-based rules, ensuring flexibility as Bitcoin evolves.

Conclusion

The FCA's classification of Bitcoin as a “restricted mass market investment” is a misstep that harms markets and consumers alike. By failing to distinguish Bitcoin's lower risk profile from other cryptoassets, it imposes excessive burdens on companies in the space, drives activity offshore, and increases consumer vulnerability. The evidence is clear: this approach stifles innovation, undermines competitiveness, and contradicts the UK's ambition to lead in digital finance.

We have not in this paper highlighted those humanitarian and infrastructure issues to which we referred in the executive summary. Nevertheless, we are able to provide evidence and further briefings on these issues upon demand.

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