**Appendix: United Kingdom Case Study**

In February 2023, the Bank of England announced a consultation on ‘Britcoin,’ a digital version of the pound.[[1]](#footnote-1) Ironically, this was also the name of the first ever Bitcoin-GBP exchange service, founded by a self-described anarchist revolutionary intent on replacing the traditional fiat currency system. The transition from Britcoin as a symbol of state resistance to state control encapsulates the regulatory journey of UK cryptocurrency markets. Like other jurisdictions, the market began in a state of pure illegibility, in which a small group of Bitcoin enthusiasts operated independently with neither demand for nor supply of state legibility. As new firms entered the industry, market demand for standardized rules grew as a means of legitimizing crypto and encouraging greater adoption by the public. The UK state was, however, slow to supply such standardization, leading to a prolonged period of contested illegibility. These calls from the industry would eventually be addressed – more than 10 years after the birth of Bitcoin – through the inclusion of cryptoassets in the UK’s scope of regulated activities. This state supply of standardization, a belated response to market demands, signaled a new phase of collaborative legibility. The end result is a UK market whose level of legibility sits between the US and EU, providing substantially more legal guidance than the former but not matching the level of specificity achieved by the latter.

*Phase 1: Pure Illegibility*

When Satoshi Nakamoto established the first block of the Bitcoin blockchain, often referred to as the ‘genesis’ block, they included a mysterious line of code referencing the British government’s response to the global financial crisis: “The Times 03/Jan/2009 Chancellor on brink of second bailout for banks.”[[2]](#footnote-2) Its inclusion provided a timestamp, but it also captured the ideological basis of Bitcoin as an alternative to the status quo financial system. Further, its focus on the bailout of London banks, in combination with Nakamoto’s use of British phrases and spelling conventions, fueled theories that he or she may be from the UK.[[3]](#footnote-3)

 Regardless of Nakamoto’s true identity, Bitcoin quickly garnered a community of British enthusiasts in its early days. Perhaps the most influential member of this group was Amir Taaki, once named as one of Bitcoin’s primary developers.[[4]](#footnote-4) Taaki, a hacker and self-described anarchist revolutionary, personifies the ideological origins of cryptocurrency. He pioneered the concept of a ‘dark wallet’ that increased the anonymity of transactions, and would later travel to Syria to fight against the Islamic State on behalf of the autonomous region of Rojava.[[5]](#footnote-5) Taaki also co-founded the first Bitcoin-GBP exchange service, Britcoin, in 2011, which would later morph into one of the earliest UK-based exchanges, Intersango.[[6]](#footnote-6) Though Taaki’s views do not necessarily represent those of all UK Bitcoin users, his commentary captured the generally low demand for legibility amongst the community in its early days. Taaki warned, for example, that the involvement of regulators and traditional financial players could ruin the project: “It could just end up as more of the same, if we’re not careful and we’re not vigilant.”[[7]](#footnote-7)

 State supply of legibility was equally low during this period. In 2013, the Chief Executive of the Financial Conduct Authority (FCA) briefly mentioned Bitcoin when discussing new forms of financial crime.[[8]](#footnote-8) Later that year during a House of Lords debate on drugs, Bitcoin would again be mentioned as a facilitator of the infamous Silk Road online marketplace.[[9]](#footnote-9) More notable was a meeting at 10 Downing Street on Bitcoin in which the FCA clarified that it does not regulate the cryptocurrency and made no commitments to doing so in the future.[[10]](#footnote-10) Their comments denied the standardization necessary for legibility. So too did HM Revenue & Customs while responding to an enquiry from an entrepreneur seeking to start an exchange, noting that there was no requirement to register with them under money laundering regulations.[[11]](#footnote-11) This state of pure illegibility would not last, however, as the UK state faced increasing calls for regulatory clarity.

 *Phase 2: Contested Illegibility*

Following a rapid growth in public interest, new UK-based cryptocurrency exchanges emerged in 2013 such as Bittylicious, Coinfloor, and CEX. With these new entrants came greater demand for regulatory clarity, personified by one UK exchange entrepreneur:[[12]](#footnote-12)

Unregulated businesses don’t usually cry out for regulation. But because we are unusual, and because we are dealing with people’s money, and because of all the scary stories around Bitcoin, we would like nothing more than to have a government authority looking into our accounts – especially [in light of the Mt. Gox collapse].

Not all members of the market would support the government looking directly into their accounts, but there was nevertheless a general push for oversight as a means of legitimization. HM Treasury took the first step in 2014 by calling for industry perspectives on regulation. Of the 80 responses, 80% agreed that regulation was desirable.[[13]](#footnote-13) One such respondent, Elliptic, noted: “We have to appreciate that from their point of view, policymakers are taking a risk by engaging with this sector, and we have a responsibility to support them by presenting a coherent view on what is needed to support our sector.”[[14]](#footnote-14) Their comments captured not just the dilemmas faced by the state, but also the need for the market to demand legibility with a unified voice. And, indeed, industry groups began to emerge, starting with the UK Digital Currency Association and later organizations such as CryptoUK and the UK Forum for Digital Currencies.

 Following HM Treasury’s consultation, the UK government committed to applying AML regulations to digital currency exchanges and working with the British Standards Institution to develop voluntary best practices surrounding consumer protection.[[15]](#footnote-15) The UK bitcoin community’s response was largely positive, with one entrepreneur noting, “The government has a real chance here to legitimize the sector.”[[16]](#footnote-16) AML rules are, however, narrowly designed to tackle specific types of financial crime. They do not afford the legitimization offered by full-scale regulatory regimes featuring standardized approaches to licensing, conduct, marketing, and other matters. The FCA is primarily responsible for providing such standardization in the UK, but they exhibited a continued reluctance to do so during this period. Despite a rapid proliferation of cryptocurrency exchanges and service providers whose activities closely resembled traditional finance, the FCA had issued no guidance by 2015 beyond reiterating that they do not regulate Bitcoin.[[17]](#footnote-17) The Authority would soon announce a ‘regulatory sandbox’ in which firms can apply to test innovative products on real customers with the FCA’s approval.[[18]](#footnote-18) But they would double-down on their hand-off approach to blockchain in 2016, noting that, despite apparent regulatory and consumer issues, “…the FCA is yet to take a stance until its application is clearer.”[[19]](#footnote-19)

 The FCA’s hesitancy persisted even through the ICO boom of 2017. Despite issuing a stark warning to the public, the Authority could only advise that some ICOs *may* fall within the scope of regulation but that this would have to be assessed on a case-by-case basis.[[20]](#footnote-20) The FCA delved into the minutiae of these possibilities in a report on blockchain, but would only commit to further examination to “determine whether or not there is a need for regulatory action…”[[21]](#footnote-21) David Geale, Director of Policy at the FCA, provided more insight into the drivers of this hesitancy while giving oral testimony to the House of Commons. In addition to poor data quality, he noted concerns about defining the agency’s regulatory perimeter to avoid a situation in which “…consumers may think they are operating in a regulated space when they are not.”[[22]](#footnote-22) This response prompted numerous members of the House Committee to criticize the FCA, Bank of England, and HM Treasury for moving too slowly, best summarized by Labour MP Wes Streeting:[[23]](#footnote-23)

In January, Facebook and Google decided to ban cryptocurrency adverts. The question is this: why is Facebook, a private company, having to lead the way when it comes to regulating the advertisement of crypto assets? Do you agree with the criticism that has been levelled in this context that regulators are asleep at the wheel while private companies are getting on with it?

Representatives of each agency naturally pushed back against such criticism. But when asked more specific questions about the regulatory status of digital currencies, they could only share that they have formed a taskforce to study the matter further and would report at a later date.[[24]](#footnote-24) State supply of legibility remained, in other words, low.

 Market demand, on the other hand, was only rising. While providing evidence to the same House Committee from a private industry perspective in 2018, the managing director of trading platform eToro lamented the lack of regulatory clarity: “It is a missed opportunity here in the UK…[exchanges] would be happy to be regulated.”[[25]](#footnote-25) The CEO of Coinfloor, one of the oldest UK exchanges, corroborated that the lack of regulation was discouraging participation by institutional investors and making it harder to obtain insurance.[[26]](#footnote-26) These rising demands could only go unheeded for so long. The FCA and other agencies would gradually introduce standardization from 2019 onwards, representing an aggregate shift toward collaborative legibility.

*Phase 3: Collaborative Legibility*

The UK state’s first substantive supply of market legibility was facilitated through the Cryptoassets Task Force’s 2018 report.[[27]](#footnote-27) This report obligated the FCA, Bank of England, and HM Treasury to complete a number of actions to clarify the regulation of cryptocurrencies, including transposing the EU’s 5AMLD. The FCA would soon issue its own guidance in 2019, in which it clarified the scope of its regulatory perimeter and outlined its expectations surrounding marketing, consumer protection, authorization, and other matters.[[28]](#footnote-28) These advancements in policy would ultimately lead to the 2023 UK Financial Services and Market Act, which, more than 10 years after the first Bitcoin exchange was established, formally incorporated cryptoassets into the scope of regulated activities subject to direct oversight.[[29]](#footnote-29)

 This state supply of legibility represented a belated catch-up with market demand. Industry members had, by this point, long been participating in the policymaking process, often through industry associations. Some ideological purists were still present; the aforementioned Amir Taaki called for a ‘DarkTech’ renaissance in 2019 to obtain leverage against the government.[[30]](#footnote-30) But such thought was now constrained to a small minority greatly outnumbered by a rapidly rising group of market participants seeking regulation as a means of legitimization. Notably, even the UK DeFi community, who often incorporate cryptocurrency ideals of non-centralized governance into their blockchain projects, has also been actively engaging with policymakers.[[31]](#footnote-31) Thus despite prolonged hesitancy on the supply-side, the UK market is now firmly in a state of collaborate legibility.

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1. Bank of England (2023). [↑](#footnote-ref-1)
2. Davis (2011). [↑](#footnote-ref-2)
3. Subsequent analysis has, however, indicated the simultaneous use of American spelling conventions, suggesting other possible origins or evidence that Nakamoto actually represented multiple individuals (Ungeared 2020). [↑](#footnote-ref-3)
4. Herrmann (2015). [↑](#footnote-ref-4)
5. Butter (2017). [↑](#footnote-ref-5)
6. Intersango (2012). Intersango would later be embroiled in controversy, with one co-founder accusing another of stealing millions of dollars of users’ Bitcoins (Norman 2023). [↑](#footnote-ref-6)
7. Evening Standard (2014). [↑](#footnote-ref-7)
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