The Economic Potential of Decentralisation

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STARTUP
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About Startup Coalition

The Startup Coalition, formerly the Coalition for a Digital Economy (Coadec), is an independent advocacy group that serves as the policy voice for Britain's technology-led startups and scaleups. Startup Coalition was founded in 2010 by Mike Butcher, Editor-at-Large of technology news publisher TechCrunch, and Jeff Lynn, Chairman and Co-Founder of online investment platform Seedrs. Startup Coalition works across a broad range of policy areas that matter the most to startups and scaleups: Access to Talent, Access to Finance & Regulation.

Executive Summary

The technological advances we will see over the next decade, and the UK's response to them, will define our future. We have the ability to completely transform our economy, and our economic outlook, if we seize the opportunities afforded to us. Whilst there is a huge amount of talk about new technological developments in the news, in Parliament and elsewhere, defining these opportunities is critical. This report is designed to do that for Crypto and Web3 – and to lay out a roadmap for how we fulfil our potential in this sector.

Crypto and Web3 is a hugely varied sector, and whilst the headlines may be more concerned with the price of Bitcoin, startups, protocols and other organisations are continuing to innovate and bring real-world improvements based on this new technology. Because of this, over the long term this sector has grown significantly – and across the world governments are waking up to it. Most significantly, the USA has moved at a blistering pace since the inauguration of President Trump, but our friends across the pond are not alone. Whether in Asia, the Middle East, or our neighbours in the European Union, governments are understanding the transformative nature of decentralised systems. Competing with countries across the world is now the UK's challenge – but what exactly is the opportunity?

Our research shows that, by 2035, distributed ledger technology firms could contribute £40bn to the UK economy.

This is a trend we are already beginning to see right now. Between 2017 and 2023, DLT businesses have grown by nearly a third annually, compared to just 5-6% for the IT services sector, and in 2024 were worth £7bn to the UK economy.

The UK is well placed to continue to benefit from the growth of Web3. In part, this is because of our strong tradition in financial services, and the continuing importance of the City of London globally. However, this is only one part of the UK's potential. Crypto and Web3 has the potential to revolutionise a number of key UK sectors: from music, film and other creative industries, to social media and verification in the age of AI.

We have a great footing to take advantage of Crypto and Web3, but our success is not guaranteed. Founders in the sector have told us that they consistently face hurdles – whether in the financial promotions regime, accessing banking services, or the struggles faced across the UK tech ecosystem with access to finance and sourcing the right talent. There is one more significant, and more fundamental issue they face though:

UK regulation is not equipped to handle decentralised systems.

The benefits and potential of Web3 stem from decentralisation – it's what defines it, and what makes it unique. If the UK is to benefit from the £40bn of economic potential the sector could offer in a decade's time, this urgently needs addressing. That's why this report proposes four key recommendations to ensure decentralised systems can succeed in the UK:

- **Develop frameworks for the new internet era:** Establish an objective and clear framework for measuring decentralisation, ensuring that protocols meet rigorous standards before being classified as such. Adapt and, where necessary, develop effective rules to accommodate and, as appropriate, promote decentralisation. This will provide regulatory clarity, foster innovation, and protect consumers.

- **Explicitly exclude airdrops from licensing and disclosure requirements:** In line with HM Treasury's proposed regulatory regime for cryptoassets, formally exempt airdrops from financial services licensing and disclosure requirements to avoid stifling innovation in early-stage crypto startups.

- **Tailor requirements for cryptoasset disclosures:** Calibrate disclosure requirements to the risks of cryptoassets, discerning between centralised and decentralised protocols, and protocols involving ongoing efforts versus those that do not.

- **Prevent market abuse:** In furtherance of the goals of the FCA's proposed Market Abuse regime, introduce a mandatory post-listing lock-up period for insiders to prevent market manipulation in systems that are not yet fully decentralised.

These are technical changes, mostly affecting financial services legislation and regulation. However, their effects will be so much wider. They can give Crypto and Web3 startups the ability to build decentralised systems, and bring this new way of operating to a huge variety of different sectors within our economy.

This is how the UK can secure that £40bn of potential economic contribution; and we believe that, especially with economic growth more important than ever, it's vital we do so.

Summary of Recommendations

As the UK strives to position itself as a leader in DLT and Web3, a comprehensive and forward-thinking regulatory framework is essential to balance consumer protection with innovation in decentralised systems. Our policy recommendations focus on creating clear definitions, promoting transparency, and ensuring fairness and consumer protection in the DLT sector. By establishing these foundational principles, the UK can foster innovation, encourage investment, safeguard users, and secure its status as a global hub for DLT-based technologies, while preserving market integrity.

- **Developing frameworks for the new internet era:** Establish a clear framework for objective control-based decentralisation, ensuring that protocols meet rigorous standards before being classified as decentralised. Adapt and, where necessary, develop effective rules to accommodate and, as appropriate, promote decentralisation. This will provide regulatory clarity, foster innovation, and protect consumers.

- **Explicit exclusion of airdrops from licensing and disclosure requirements:** In line with HMT's forthcoming regulatory regime for cryptoassets, formally exempt airdrops from financial services licensing and disclosure requirements to avoid stifling innovation in early-stage crypto startups. Airdrops are key to both supporting early growth, and are an important method of decentralising a protocol.

- **Tailored requirements for cryptoasset disclosures:** Calibrate disclosure requirements to the risks of cryptoassets. For cryptoassets of decentralised systems that *do not* involve ongoing efforts, require *only* that offerors provide network-centric disclosures to consumers based on publicly viewable and verifiable on-chain information. For cryptoassets of decentralised systems that *do* involve ongoing efforts, require *both* offeror network-centric disclosures as well as disclosures to mitigate the risks of information asymmetries stemming from continued contributor efforts. For cryptoassets of centralised systems, require traditional disclosures in line with the FCA's proposed Admissions & Disclosures Framework.

- **Preventing market abuse:** In furtherance of the goals of the FCA's proposed Market Abuse regime, introduce a mandatory post-listing lock-up period for insiders to prevent market manipulation in systems that are not yet fully decentralised. Legal restrictions on insider trading in the upcoming cryptoasset market abuse regime will protect the integrity of decentralisation.

What is Decentralisation?

Our economy, and society, has functioned through individuals interacting with intermediaries for as long as it has existed. When you bought a coffee this morning with your debit card, you interacted with the cafe through the intermediary of a bank. The person who served you will be paid by the cafe via the cafe's bank, and theirs. The artsy picture of your coffee you posted to social media is hosted online by a social media company, and those commenting used the same social media company to post their comments.

The vast majority of actions you take every day take place through intermediaries, and this is for two reasons: trust and convenience. When you paid for your coffee this morning the cafe had no way of knowing that you had the money to afford it – but they trust that if your debit card works you were able to pay for it. Similarly, a social media company makes it easy for you to interact with your friends, and even complete strangers, online, knowing that there are no chances of viruses, your data is protected to a certain extent from other users, and moderation standards, at least of some kind, exist.

Essentially what enables a simple interaction between two individuals or companies boils down to a simple axiom: **I don't trust you but we both trust this third party**. Our economy and society work this way because it has always been significantly easier to trust a few companies, or indeed the State, than it is to trust the plethora of individuals or companies you interact with on a daily basis. This means that a few firms or organisations within our society operate at the nexus of our daily lives. Considering the sum total of activity that takes place in society, this is a hugely powerful position for these firms to be in. In them power is centralised.

If a centralised firm is sufficiently powerful, it makes the rules - with often no route for an individual to appeal them. This has been a factor in our society for hundreds, or some would say thousands, of years because there has been no other way of operating. And whilst there has been huge benefits to these centralised firms, they also come with considerable downsides. A bank can unilaterally close a business' account, with essentially no recourse. A social media company can do the same, deplatforming users based on unaccountable decision-making. The money spent on in-game assets that aren't interoperable even between different versions of the same video game (released annually of course) simply means more profit for the large game companies. Apple, Microsoft and Google together make up over 85% of the webmail market.[1] If they decide to change their terms of service users are forced to just go along with it. **Whether it's banks, social media companies, or other big tech companies, in reality individuals have to take what they are given.**

This is not simply a consumer issue. Rules put in place by banks and other institutions that they have no incentive to change mean slower processing times and increased fees. The dominance of a few key players in the remittances market, for example, means considerable charges for those wishing to send money overseas, reducing efficiency and introducing hurdles that are often detached from appropriate regulation to reduce money laundering. If, as a firm, you are in the lucky position of being a powerful, centralised intermediary, the opportunities to cream off the top are endless.

[1] https://www.litmus.com/email-client-market-share

But now the problem of always needing centralised entities has been solved. Trustless, peer-to-peer interactions are now possible via Distributed Ledger Technology (DLT). **Decentralisation is now possible**.

Distributed Ledger Technology (DLT) is a digital framework for recording transactions that enhances transparency, security, and trust. Blockchain, by far the most popular type of DLT, stores data in encrypted, linked blocks, ensuring secure, tamper-proof transaction records.

Blockchains enable the removal of intermediaries or third parties across various sectors - from finance to digital identity, real estate, and even video games. Decentralisation brings the ownership of assets back into the hands of the individual.

This move to a decentralised way of operating is often described as Web3. Web3 is the next evolution of the internet, built on blockchains and designed to be decentralised and community-owned, creating a more open, user-centric world, and enabling trustless peer-to-peer transactions.

The vision of Web3 is for greater user-control and transparency. Unlike traditional systems, decentralised systems empower individuals directly through trustless, secure mechanisms like smart contracts. Transactions are ruled by a core set of rules, or consensus mechanisms, creating the conditions for tamper-resistant and trustworthy settlements.

And whether it's governments or private businesses across the globe, the world is waking up to the potential of decentralisation.

The Potential of Decentralisation

Contrasting with the issues outlined above with a world built on centralisation, decentralisation ensures that anyone globally can access services without the need for a value-extracting intermediary's approval. This has a number of significant implications:

- **Transactions become cheaper, faster, and more efficient:** Decentralisation dramatically reduces transaction fees and altogether eliminates the need for trading hours or other bottlenecks caused by intermediaries. This makes transactions faster across borders, whether transferring money or exchanging digital assets.

- **Lower barriers, increased competition:** Decentralised networks act as open, public infrastructure. Their neutrality and composability make them attractive to build on, reducing reliance on gatekeepers and making it easier for anyone to launch an internet-based business. These systems accelerate open source software development, and exponentially advance the pace of innovation.

- **Asset ownership is returned to consumers:** Assets are held directly by consumers in their digital wallets (akin to online versions of physical wallets in that users fully control their contents), instead of being held by companies who may mismanage them. For example, whereas most gamers today rely upon centralised providers to manage their assets in virtual worlds, and so

essentially “rent” these assets, in web3, gamers can truly own their digital items, moving them seamlessly from one virtual world to the next.

- **Users can own their digital identities:** Individuals can control their digital identities directly on blockchain systems, reducing the risk of data breaches and misuse by third parties.
- **Protect individual freedoms:** Power in decentralised systems is broadly distributed among stakeholders, not concentrated in the hands of corporations. This limits the ability of any one entity to censor, control, or infringe on user rights.
- **Increased transparency and trust:** Transactions are available on publicly accessible blockchain ledgers, meaning every transaction can be seen and tracked.
- **Interoperability across systems:** Because decentralised systems are open source and in many cases operate according to interoperable technical standards, they can communicate seamlessly across global networks, enabling more efficient flows of information and assets.
- **Align incentives with users:** Decentralised systems can be designed to reward users and contributors more fairly. Unlike traditional web2 platforms that accrue value to companies and shareholders, web3 systems transmit that value back to the people who actually use and build them.

The first Bitcoin was mined in 2008[2] – and we are still at an early stage of blockchain technology. Today we are calling for the UK to recognise this technology’s potential, already acknowledged by private firms, investors, and governments elsewhere in the world, and to put in place the rules necessary to unlock the benefits of decentralisation.

Decentralisation is Growing

Today, decentralised systems are scaling to solve a wide range of real-world problems.

Montis Group: Applying Tokenisation to Equities

Montis Group are a financial services infrastructure provider, based in London. In 2023, as part of the FCA Sandbox, they successfully represented equities on the Hedera blockchain, in a process known as tokenisation. This innovation, rolled out more widely, would mean that the trading of equities, and potentially other traditional financial products, would not suffer the same limitations of long trade execution times and market opening hours currently seen in the market.

Elsewhere in the world, tokenised equities, and other securities, are one of the key growth areas in the intersection between decentralised technology and traditional financial services, with authorised providers established in the EU, and regulatory conversations ongoing in the USA. In the UK, the FCA’s

[2] https://cartwrightking.co.uk/articles/corporate-financial-crime/a-history-of-bitcoin-get-to-know-the-basics/

Digital Securities Sandbox now provides an opportunity to innovate in this area - but it's important that the decentralised technology that underpins tokenisation is also allowed to grow in the UK.

Decentralisation isn't limited to finance. It encompasses a wide array of applications, offering potential benefits in everything from the creative industries, to digital identity verification, video games, and property investment. Traditional institutions stand to gain by incorporating these elements - expanding their reach, tapping new markets, and reducing friction across industries.

Story Protocol: Revolutionising the Creative Industries

Story Protocol is transforming the creative industries with its new platform for storing value in an AI-driven world. Since the early days of the internet, creators and platforms have had an unspoken arrangement: creators supplied content, and platforms helped connect them to audiences. Musicians uploaded songs to gain fans, and artists shared images to build followings. This dynamic worked because it benefited both sides. But generative AI is disrupting that balance—AI-powered search engines now provide answers directly instead of driving traffic to creators, and social networks are increasingly dominated by AI-generated content.

Story Protocol, founded by an Oxford graduate, aims to address this shift by allowing creators to register their intellectual property and track how it is remixed or used across the internet. It enables creators and fans to register, find, and licence content, with customisable terms that foster community participation. Story also provides a legally-enforceable universal license that turns creative work into code and allows it to be tokenised on a blockchain.

HM Land Registry: Streamlining Home Purchases with Blockchain

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The UK's HM Land Registry has led the way in piloting the use of blockchain to simplify home purchases. Through the successful 'Digital Street' initiative, they cut delays and streamlined the process through trialling digital transfers of property ownership. Buyers and sellers used a simple mobile interface to track the home sale via blockchain, verify digital identities, and sign documents directly from their phones. This application of decentralisation shows how government services can make life events easier and more efficient for citizens.

Whilst this pilot used a centralised, permissioned blockchain, the principles of speed, efficiency and data security could easily be replicated for this, and similar activities, on a permissionless blockchain. Doing so would provide an additional layer of security and interoperability, as well as potentially reducing the level of resources necessary from a Government department to implement.

Starling Labs: Rebuilding Trust in Digital Media

Co-founded by the Stanford Department of Electrical Engineering and the University of Southern California Shoah Foundation, Starling Labs seeks to curb misinformation online by making data verifiable.

Its Starling Framework for Data Integrity achieves this by empowering individuals to verifiably capture, store, and authenticate online content. The Starling Framework is a process by which digital information is recorded and then "hashed" (passed through a cryptographic function) to produce a unique verifiable output. Hashes are stored on the decentralised network Filecoin, which requires that data providers prove that they hold the data they were tasked with storing, ensuring that the information is not altered or manipulated.

The Starling Framework can enhance public trust in digital information. For example, utilising this process, a policymaker could record a speech and then hash it, along with key metadata such as when and where the speech occurred, and store that digital fingerprint on a decentralised network. This hashed data could then be used by individuals to assess the veracity of the speech. Was it generated by an AI? Or was it recorded in the policymaker's office at the time that they attest it was?

Using the Starling Framework, users can verify the veracity of the speech. In the future, upgraded web browsers could be programmed to automatically query the decentralised network where these hashes are stored to authenticate the policymaker's claim. If implemented at scale, such a process could enhance public trust in government.

The Future of Gaming in EVE Frontier

Traditional gaming platforms are controlled by centralised authorities like gaming studios. This prevents users from owning in-game assets and truly controlling virtual worlds. Due to their decentralised nature, web3 games offer an alternative: empowering users to control their digital goods and collaboratively shape their virtual futures.

Unlike traditional gaming platforms, EVE Frontier puts user ownership front and centre. Using Web3 tools, EVE Frontier enables users to control their in-game future. In EVE Frontier players–rather than gaming companies–determine the narrative with the power to vote on the direction and events of the game with their digital wallets. Gamers own these voting rights, and are free to exchange their share of voting power to other characters. In turn, they can self-organise into corporations ("guilds") with their own cultures, politics, and economies and apportion voting power to members. In so doing, players enjoy direct ownership of and control over gameplay.

The gaming sector is a key part of the UK's creative industries, employing 47,000 people and bringing £7bn of value to the UK economy – more than the film and music sectors combined. Embracing the

future of gaming – via embracing Web3 – the UK can ensure that its gaming sector will continue to succeed.

On the Path

Decentralisation isn't binary – it exists on a spectrum, with projects at various stages of the journey. Decentralised systems generally begin centralised. Ethereum, for example, was launched by a small group of core developers, but its open-source code now enables a global community to contribute and vote on updates to its blockchain. This shift from centralisation to decentralisation is at the heart of how decentralised protocols operate, particularly in their early stages.

Many projects aspire to decentralise further, but a lack of regulatory clarity holds them back. Many traditional firms, including large banks and those in the gaming sector, are also interested in the benefits of decentralisation but lack the confidence to move forward due to the same regulatory uncertainty.

Increased scrutiny from most major jurisdictions including, until recently, the USA, forces cryptoasset firms toward centralisation to comply with traditional regulations – undermining the core benefits of decentralisation. High-profile failures such as the defunct centralised exchange FTX underscore the risks of centralisation, as well as the risks of leading global financial centres like the UK *not* providing clarity for new technologies and markets (and thereby pushing innovation offshore to jurisdictions with lower regulatory barriers).[3]

Some sectors within technology have previously suffered from new regulations being introduced that work to stymy firms' growth, force them to jump through hurdles that are unnecessary, or make it much harder to enter the market. This is not the issue facing decentralisation - though the effects are just as serious, and more fundamental. **Instead, the challenges for decentralised protocols stem from the fact that our regulation is designed to regulate centralised entities, and cannot promote, or indeed even accommodate, decentralised systems. That means the regulatory regimes do not incentivise entrepreneurs to pursue decentralisation and eliminate the very risks those regulatory regimes were intended to address.**

The majority of regulation in Financial Services, for example, centres on the activities of firms, and by extension those who are in control of these firms. With a decentralised system, however, these individuals do not exist, causing confusion and contradiction within existing regulation. For example, many traditional disclosure requirements exist to mitigate the risks of informational asymmetries stemming from the presence of a team of corporate managers (CEOs, Boards of Directors, and the like) in possession of "insider" information arising from their inherent control of such systems. Yet this risk is not present in the case of decentralised systems.

Consider, for example, the internet giant Meta. Meta's leaders can substantially affect the risk associated with owning a share of Meta stock and, therefore, disclosure requirements pertaining to, for example, a fiduciary's holdings, can be useful for consumers to assess the risks associated with owning a share of the company's stock.

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[3] https://bankruptcyroundtable.law.harvard.edu/2023/02/28/crypto-bankruptcy-series-ftx-bankruptcy-a-failure-of-centralized-governance-in-the-name-of-decentralized-cryptocurrencies/#:~:text=This%20means%20that%20FTX%E2%80%94a,issuing%20company%20or%20its%20subsidiaries.

This is not the case, however, with the decentralised network Ethereum. Because Ethereum is not controlled by any individual or group, consumers would not benefit from disclosures about the activity of any particular holder of the network's native cryptoasset ETH. As such, imposing traditional disclosure requirements on the Ethereum network would be incompatible with the goals of such disclosure requirements.

As such, as we recommend below, with respect to decentralised systems, disclosures should focus on network-centric information based on on-chain data. However, decentralised networks do warrant traditional disclosure requirements *if* they involve the continued efforts of developers that may present information asymmetries.

Therefore, we recommend calibrating disclosure requirements to the risks of particular cryptoassets. With respect to cryptoassets of centralised systems, regulators should mandate traditional disclosures in line with the FCA's proposed Admissions & Disclosures Framework. However, for cryptoassets of decentralised systems that *do not* involve ongoing efforts, we recommend requiring *only* that offerors provide network-centric disclosures to consumers based on publicly viewable and verifiable on-chain information. For cryptoassets of decentralised systems that *do* involve ongoing efforts, we recommend requiring *both* offeror network-centric disclosures as well as disclosures to mitigate the risks of information asymmetries stemming from continued contributor efforts.

Without such appropriately calibrated rules, the stiff penalties for breaking financial services rules, and the understandable desire for regulatory clarity, means that these projects are essentially forced to remain centralised. If they receive no regulatory benefit for mitigating the risks regulation is intended to address, they will simply not incur that cost.

Regulatory frameworks that objectively define what constitutes decentralisation, and create a path by which projects can pursue decentralisation, would empower firms - both digital asset companies and traditional businesses – to fully reap its benefits. These would look to include objective criteria for decentralisation and more equitable, transparent processes that verify that this is the case.

The Transition Towards Decentralisation

The transition from centralisation to decentralisation enhances transparency and empowers users. This process involves eliminating and relinquishing control over key decision-making processes.

The essential innovation of blockchain technology is that it can create systems that operate without individual intercession or centralised control. This goes beyond simply spreading ownership – it means doing away with all operational, economic, and governance control.

Rather than rely on intermediaries, decentralised networks give users agency. By executing transactions automatically, transparently, and according to preset rules, they eliminate the need for trust in arrangements that might otherwise raise regulatory concerns. As a consequence, cryptoassets tied to decentralized networks do not create the same risks as centralised firms. For example, peer-to-peer decentralised networks used for transferring securities reduce reliance on traditional brokers and

exchanges. By removing trust-based intermediation, decentralised networks eliminate risks for consumers, and unlock the benefits summarised above.

Regulatory clarity in the UK is crucial to guide companies through this transformation, allowing them to take advantage of the potential benefits decentralisation offers. Many leading decentralised systems started as centralised entities and gradually shifted to decentralisation, demonstrating that firms can move along this spectrum at their own pace.

To make this transition, firms can begin by eliminating mechanisms of control that give rise to risks for users. Opening their source code to the public invites contributions from a global community of developers, fostering innovation and accountability while eliminating the risk that centralised entities gatekeep or otherwise restrict users. Further, adopting programmatic economic mechanisms that drive value to the native cryptoasset of such projects through the functioning of the network, projects can ensure that their cryptoassets are economically independent of any development company or other person. Additionally, firms that issue cryptoassets must effect a broad distribution of such assets in order to ensure that the system is not reliant on a single party or group to govern any mutable elements of the project. By taking these steps – and more – companies can unlock the benefits of decentralisation, positioning themselves to thrive in the rapidly evolving Web3 economy while maintaining compliance and protecting user interests.

Uniswap

Uniswap, founded by Hayden Adams in 2018, is the world's leading decentralised exchange, where users can trade tokens freely. Uniswap transitioned into a fully decentralised protocol, allowing users to vote on key decisions and relinquishing control to the wider community.

The platform is built on immutable smart contracts, meaning no one controls the code. Uniswap's governance is driven by UNI token holders, who can propose and vote on changes to the protocol. This decentralised model empowers users with full custody of their assets, transparent transactions via public blockchains, and global accessibility.

Why the UK?

Recent History

The UK has positioned itself as a leading hub for firms within the distributed ledger technology space. It has made steady progress in cryptoasset regulation, committing to a phased approach to legislation on cryptoasset regulation, starting with stablecoins and moving towards regulating issuance, custody, and exchanges. The government's 'digital securities sandbox' has also enabled firms and regulators to test and collaborate on the upcoming financial digital asset regime. Whilst this work has been far from perfect, with firms particularly finding issue with the overly-restrictive nature and 'one-size-fits-all' approach of the Financial Promotions regime, regulatory clarity has been welcomed.

This progress has fuelled investment and job creation, boosting business confidence. The combination of regulatory clarity and the historic financial power of the City of London has meant a significant number of crypto firms either base themselves, or have a significant presence, in the UK.

Where We Are

After a relatively quiet start from the Government, we have recently seen regulatory progress in the UK.

In late 2024 the FCA published their roadmap for cryptoasset regulation, beginning with a Discussion Paper on admissions, disclosures, and market abuse rules for Cryptoasset Trading Platforms (CATPs).[4] This coincided with the Economic Secretary to the Treasury's announcements setting out the Government's future approach to stablecoins, ruling them out of payments regulation, and clarifying the exemption of staking for validation from rules governing Collective Investment Schemes.[5] Additionally, the Government has taken a key step by introducing legislation that legally classifies digital assets, including cryptocurrencies and digital art, as personal property.

Most recently, a draft SI has been published by HMT laying out their approach to cryptoasset regulation via legislation,[6] alongside an FCA discussion paper on a wide range of topics including trading platforms, intermediaries, staking, lending and borrowing, and decentralised finance.[7] Significantly, both of these documents recognise that some systems can be truly decentralised and therefore require a different approach in regulation, though neither the thresholds by which a system could be considered truly decentralised, or the approach they need from regulation, are expanded upon.

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[4] https://www.fca.org.uk/publication/discussion/dp24-4.pdf

[5] https://www.gov.uk/government/speeches/keynote-address-at-the-tokenisation-summit-uk-government-approach-to-tokenisation-and-regulation

[6] https://www.gov.uk/government/publications/regulatory-regime-for-cryptoassets-regulated-activities-draft-si-and-policy-note

[7] https://www.fca.org.uk/publications/discussion-papers/dp25-1-regulating-cryptoasset-activities

Whilst this progress was welcomed, and these steps are positive for the sector, they cannot be described as ambitious. The FCA's roadmap expects all policy statements for the regulation of cryptoassets to be published in 2026. Furthermore, this timeline does not account for delays caused by a lack of parliamentary time or changing strategic priorities from the Government, both of which have already delayed regulatory work thus far. Compared to the recent progress seen in the USA in particular, outlined below, this is a race the UK risks losing. Furthermore, whilst regulatory clarity is often a positive, it is important for it to be based on the right objectives, priorities, and assumptions.

The Potential

> Distributed Ledger Technology firms in the UK could create **£40 billion** in value for the economy by 2035, driving tech sector expansion and creating jobs.
>
> This surge will be driven by DLT innovation across industries as diverse as social media, the creative industries, and finance, savings from stablecoins, the rise of AI-powered smart contracts, and new revenue streams for artists through blockchain-based platforms.

DLT businesses are currently valued at £7 billion, and are set to quadruple in the next decade. Our analysis highlights that between 2017 and 2023, DLT businesses have grown by nearly a third annually, compared to just 5-6% for the IT services sector. This surge in growth among such firms shows no signs of slowing, positioning this technology as a key driver of future economic success.

The new Labour government has a unique opportunity to position the UK as a global leader in digital assets and decentralised technologies. As a world leader in financial services, the UK already has a solid foundation, and by embracing decentralisation, it can further its legacy of innovation. Decentralisation offers the potential to redefine industries, creating a more open and equitable digital economy that could solidify the UK's role as a global financial powerhouse and technology leader.

By advancing DLT and blockchain technologies, the UK can maintain its standing on the world stage in financial innovation. The expansion from purely traditional, centralised systems to a world where decentralised alternatives are available would democratise access to services, improve transparency, and increase efficiency across sectors. This would ensure the UK continues to lead in an increasingly digital, interconnected global economy.

The UK's influence extends beyond its own borders. With its strong regulatory reputation and ample soft power, the UK has the ability to shape global financial standards. By crafting clear, forward-thinking policies on decentralisation, the UK can encourage other nations to adopt similar frameworks, applying equivalence regimes to its regulations. This will not only solidify the UK's leadership but also create a ripple effect that could make decentralised systems a global standard.

Embracing decentralisation isn't just about adapting to new technologies – it's about setting the stage for sustainable growth and job creation. Historically the UK led in the development of traditional financial services, and has been a world leader in the Fintech sector. As the world moves towards a decentralised future, the UK is in a prime position to nurture innovation, attract investment, and cultivate the next generation of tech leaders and companies. This is a pivotal moment for the nation to leverage its strengths and revolutionise the future of technology and finance, whilst benefiting from the economic growth that would accompany it.

However, we are not the only country with the ability to harness this potential. Other countries are moving further, faster, and there is the risk the UK is left behind.

Our Competitors

The UK has always maintained a global approach when it comes to its economy, leveraging its leadership in technology and finance to stay at the forefront of innovation. However, the race to dominate the rapidly growing decentralisation space is intensifying, and other countries are moving ahead with greater speed. The UK risks losing its advantage as a world leader, as competitors adopt clearer regulatory frameworks and more welcoming policies for digital asset firms.

There has been strong international interest in the DeFi and digital asset space, with countries like Singapore and the UAE making significant strides in providing regulatory clarity, attracting investment, and establishing themselves as global hubs for decentralised finance. As discussed below, the USA has dramatically shifted its own approach, advancing comprehensive market structure and stablecoin legislation. If the UK does not accelerate its progress, it could fall behind.

To maintain its leadership, the UK must develop active, clear, and balanced regulatory regimes in this space.

The European Union: Pioneering Regulatory Clarity, for Better or Worse

The European Union's Markets in Cryptoassets Regulation (MiCA) marks a significant step towards harmonising cryptoasset regulation across its member states. MiCA aims to provide greater legal certainty, fostering growth within the industry by offering clear definitions, protections for investors, and transparent rules for firms. The regulation also addresses key areas like stablecoins, creating clarity for both businesses and consumers.

MiCA's framework is promising for the future of decentralisation, as cryptoasset services provided in a fully decentralised manner are exempt from its scope. The regulation's treatment of cryptoassets which are unique and non-fungible, which are also out of scopeA, has been perceived positively by the sector. However, it is still unclear if, and if so how, the European Union will regulate decentralised systems. While MiCA offers some much-needed regulatory clarity, its more restrictive measures may ultimately challenge the flexibility needed for continued innovation in the sector.

In Crypto and Web3 regulation, similarly to other areas within technology policy, the European Union has taken the mixed blessing of first-mover status. Whilst this provides advantages, including regulatory certainty for firms, and whilst some of the most damaging original proposals such as transaction limits on non-custodial wallets were scrapped, the UK has the ability to learn the lessons, both good and bad, from the European Union's approach.

The United States: A Turbocharged Approach

The election of President Trump meant an inevitable break from previous US policy in a wide variety of areas, but not many have been as stark as on Crypto and Web3.

Under the Biden administration in particular, the Securities and Exchanges Commission (SEC) pursued a regulation-by-enforcement approach, levying billions of dollars in fines against companies involved in digital asset markets.[8] This policy was combined with a lack of progress on an actual regulatory framework for DLT-based assets. The relationship between the previous administration and the sector was adversarial, undermining consumer protection and hampering innovation.

In contrast, even before his election President Trump pledged to make the USA the "crypto capital of the planet".[9] Shortly after his inauguration, he announced an Executive Order titled Strengthening American Leadership in Digital Financial Technology.[10]

This Executive Order prioritised:

- The establishment of the President's Working Group on Digital Asset Markets (the Working Group) within the National Economic Council to propose a Federal regulatory framework governing the issuance and operation of digital assets, including stablecoins.
- The Working Group is also tasked with contemplating provisions for market structure, oversight, consumer protection, and risk management.
- Reinforcement of the rights of individuals to interact with public blockchain networks, to participate in mining and validating, and to deploy code
- Measures to promote the growth of U.S. dollar-backed stablecoins
- Protection of crypto and Web3 firms' access to banking services

The Trump Administration's commitment is backed up by leading bipartisan legislators in both chambers of Congress, with Senator and Chairman of the Subcommittee on Digital Assets Lummis (R-WY) asserting that, when it comes to stablecoin legislation, "We just can't wait anymore," and the House Financial Services Committee's ranking Democrat Maxine Waters (D-CA) calling a stablecoin bill "long overdue."

These calls for action have foreshadowed tangible legislative progress. This month, the CLARITY Act, which would establish a comprehensive market structure framework, passed both the U.S. House Agriculture and Financial Services Committees with bipartisan support. Meanwhile the GENIUS Act, which would lay out a comprehensive framework for stablecoins use in the U.S., passed the U.S. Senate with broad bipartisan support.

At the same time, the SEC has dropped a number of cases against companies involved in digital assets[11] and launched a Crypto Task Force that has published an ambitious Request for Information signalling an openness to stakeholder feedback and a commitment to developing an effective regulatory regime for crypto.

This is a hugely ambitious program and much of the potential rests in regulatory detail.. However, it is clear that the intention of the Trump administration is to make up for what it perceives as lost time under

[8] https://www.sec.gov/securities-topics/crypto-assets
[9] Reuters, 14 November 2024, 'Bitcoin rises above $90,000 on Trump euphoria' https://www.reuters.com/business/finance/bitcoin-rises-above-90000-trump-euphoria-2024-11-13/
[10] https://www.whitehouse.gov/presidential-actions/2025/01/strengthening-american-leadership-in-digital-financial-technology/
[11] https://www.bloomberg.com/news/articles/2025-03-19/ripple-s-garlinghouse-says-sec-dropped-landmark-crypto-case

the previous administration. Indeed, at a recent Crypto Summit held at the White House, President Trump called for a crypto bill to be on his desk before August.[12]

The power and influence of the USA worldwide, and its existing economic power, means that other countries, including the UK as outlined above, are accelerating their regulatory work, and concentrating more on their global competitiveness in the sector.

The UK can no longer rely on US delays and negative regulatory action to boost its own competitiveness, and so needs to combine both regulatory clarity with a forward-thinking approach.

Singapore: A Global Leader in Digital Asset Innovation

Singapore has established itself as a major global hub for digital asset investment, leveraging its reputation as a pro-business financial centre. The city-state's openness and welcoming stance toward distributed ledger technology (DLT) firms have made it an attractive destination for businesses in the digital asset space. Its favourable tax laws, including exemptions for certain digital tokens, further incentivise investment, drawing in both startups and established firms.

The early establishment of the nation's regulatory framework compared to international competitors has provided clarity to DLT firms while maintaining strong consumer protections. The Monetary Authority of Singapore (MAS) has introduced comprehensive regulations, including a stablecoin regime.[13] These measures provide much-needed clarity, fostering business confidence to posture Singapore as a nation at the forefront of the digital asset revolution.

United Arab Emirates: A rising global power in digital assets

The UAE is rapidly positioning itself as a key player in the global digital asset market. As the nation diversifies its economy away from oil, it has shifted focus toward finance and technology, creating a fertile environment for digital asset growth.

The UAE's forward-thinking approach extends beyond traditional finance, with comprehensive regulations covering decentralised autonomous organisations (DAOs) and virtual assets. The tax-free zone within Dubai's Financial Centre offers additional incentives for investment and job creation. By extending its traditional finance regulations to encompass digital assets, the UAE has quickly built a strong reputation as a leader in both finance and technological innovation.

[12] https://fortune.com/crypto/2025/03/07/donald-trump-crypto-summit-bitcoin-reserve-digital-asset-stockpile/
[13] https://sumsub.com/blog/singapore-crypto-regulations-all-you-need-to-know/

Fulfilling the UK's Potential

Developing A Decentralisation Framework

A clear and precise decentralisation framework is crucial if the UK is to establish itself as a global Web3 hub while safeguarding consumers. The UK's recent move to define the legal status of cryptoassets highlights the significance of a solid legal framework for Web3 technologies, and both the draft SI from HMT, and the FCA's recent discussion paper, referred to the concept of a system that is truly decentralised.

Decentralisation, however, isn't a simple on-off switch, firms can operate with varying degrees and types of control. To unlock the full potential of decentralisation for society, legislation must set clear thresholds that recognise the level of decentralisation based on the degree to which the system is controlled. By creating a robust legal framework, the UK can support the growth of decentralised technologies, attract investment, and solidify its position as a global leader in the Web3 and DLT economy.

Recommendation 1 – A Consultation on a Decentralisation Framework

Startup Coalition urges HMT to launch a comprehensive consultation on how decentralisation can be integrated into the UK's legislative and regulatory frameworks. As decentralisation becomes a pivotal feature of emerging technologies, it is critical to define decentralisation in practical, measurable terms based on the degree to which a system is controlled. This consultation should focus on establishing clear, precise legal and technical definitions for key characteristics of decentralised systems, such as governance structures, transparency requirements, and the use of permissionless blockchains. It must also reflect the rapidly changing technology of the sector, as well as the wide range of views that those within the sector hold as to the form decentralisation would take, as well as what threshold would be appropriate to recognise it.

Whilst this should be an open conversation though, we have an approach we would endorse when thinking about this important question.

Our Approach to Defining Decentralisation

Whilst defining decentralisation in law should be a collaborative approach with the entire sector, we are proposing six crucial definitions to guide UK legislation on decentralisation:

- **Open:** The system's codebase should be publicly available and freely accessible, allowing anyone in the UK or globally to inspect, audit, and contribute – supporting transparency, innovation, and trust.
- **Economically sovereign:** The economic mechanisms (e.g. token incentives) should function independently of any single company, developer, or issuer – ensuring sustainability and resistance to centralised economic control.

- **Distributed:** Any changes to the system must require broad consensus – no person or entity under common control, whether UK-based or otherwise, should hold enough governance power to unilaterally make changes to the system.
- **Automated:** The system must operate without intercession, executing transactions and processes based solely on transparent, pre-defined rules embedded in code. No entity or individual under common control should have unilateral authority to override or alter these rules.
- **Unrestricted and unbiased:** Access to and use of the system should be open to all—no person or group, including those within UK jurisdiction, should be able to restrict or gate participation or functionality. The system should also not include hard-coded privileges or permissions that grant special rights to certain actors. This ensures fair treatment of all users and use-cases, with no ability actors to discriminate.
- **User-controlled:** Users must retain full control over their digital assets.. The system should not require reliance on intermediaries for custody.

Enabling Decentralisation and Protecting Consumers

Recommendation 2 - Making Airdrops Possible

Airdrops – the distribution of tokens to specific users for free or nominal consideration, are a powerful tool for Web3 protocols. Protocols will undertake airdrops for a variety of reasons, including rewarding early adopters of the protocol and incentivising users to perform specific tasks such as participating in an online community. Most importantly, airdrops are a key tool by which projects decentralise. By distributing tokens in a broad and equitable manner, projects can ensure that no single party or group controls the system.

Startup Coalition strongly advocates for airdrops to be formally exempt from financial services licensing requirements. Imposing the UK's strict licensing framework on these initiatives would be overly burdensome for startups, stifling innovation and undermining decentralisation. The Startup Coalition appreciates that HM Treasury has already signalled its intent to do so, writing in its Response to the consultation on the *Future financial services regulatory regime for cryptoassets* that "[...] exemptions would [...] be expected to include offers of free cryptoassets (via airdrop or similar distribution mechanism)." The UK should formally exclude airdrops from certain provisions of the Regulated Activities Order by promulgating legislation that will include exemptions on the anticipated prohibition on making a public offer.

To support the growth of Web3, **Startup Coalition recommends that airdrops be explicitly exempted from the UK's forthcoming cryptoasset regulations, ensuring startups can innovate and pursue decentralisation.** Disclosure requirements in the UK aim to address information asymmetry between issuers and investors. However, in the case of airdrops, tokens are distributed for free (or for a very small fee in order to update the relevant blockchain, sometimes referred to as a 'gas fee'), meaning investors aren't exposed to the financial risks associated with traditional investments. Applying the same disclosure rules to these distributions would unnecessarily burden decentralised protocols and stifle innovation.

Recommendation 3 - Calibrate Disclosure Rules for Cryptoassets of Decentralised Systems

Startup Coalition urges that the disclosure requirements for cryptoassets of decentralised systems be calibrated to their risks. Where decentralised systems have eliminated the forms of control discussed above and do not involve the continued efforts of contributors, their associated cryptoassets do not pose the risks that the FCA's proposed admissions and disclosures are designed to address. Therefore, requirements for such assets should be limited to onchain data that allows the offeror to meet such obligations. This would both enable consumers to access necessary information while preserving decentralisation. However, systems that are decentralised but do involve continued efforts may pose risks and, therefore, should be required to provide issuer-centric disclosure obligations akin to those that the FCA is currently contemplating.

Recommendation 4 - Ensure Consumer Protection by Reforming Market Abuse Rules

To prevent market abuse, it's crucial to address the risk of insiders using privileged information prior to full decentralisation. Founders and staff, for example, could accumulate large amounts of tokens and manipulate the market, undermining the very benefits of decentralised networks. Examples that have been seen within the sector often rely on a 'dump', where those who have large numbers of tokens sell their entire, or the majority, of their holdings, taking advantage of the current price but essentially crashing the market due to an oversupply of the token relative to market demand.

Startup Coalition thus calls for a mandatory post-listing lock-up period to restrict insider trading on UK platforms, ensuring insiders can't exploit their position. We strongly urge legal restrictions on 'insiders' in the upcoming cryptoasset market abuse regime to protect the integrity and openness of the UK's decentralisation space.

Economic Analysis

Economic analysis by Public First, commissioned by Startup Coalition, estimates that the blockchain economy could create £40bn of economic value for the UK economy by 2035.

This consists of:

- The direct economic activity of companies in the blockchain economy (including NFTs and DeFi)
- Transaction savings from the greater use of stablecoins
- Potential value of blockchain enabled AI agents and smart contracts
- Additional revenue to creators from blockchain based UGC platforms

Methodology

Direct economic activity:

We draw on data from Datacity on current revenue of companies in the blockchain economy, using ONS input-output revenue to GVA multipliers for Information Services to convert this into GVA. We then use a S-curve model to project forward market growth, using as a guide previous patterns for business internet adoption and recent growth rates in neobanks.

Stablecoins:

We draw on UK Finance's data on the current total volume of card transactions in the UK, projecting this forward to 2035 based on OBR growth assumptions. After reviewing current average card fees, we then conservatively assume stablecoin payments mechanisms can save around this fee per transaction.

AIxCrypto and Smart Contracts:

We used an LLM to classify over 17,000 tasks in the economy based on the US O*NET database and the extent to which they involve financial transactions or contracting, which could be automated through the combination of AI agents and blockchain. We then hand label the narrower subset of tasks to distinguish how important payment value is to them, and calculate a weighted proportion for each occupation. We then use a crosswalk to convert to UK based data, use ASHE data on wage bill to work out total potential labour saving and apply conservative assumptions for overall adoption and productivity improvements by 2035.

Blockchain based UGC platforms:

We use Business of Apps data to estimate global revenue for UGC platforms, PWC Global Media and Entertainment Outlook data to extrapolate out UK share. We project forward likely growth to 2035, and then combine with a standard estimate of labour elasticity of demand to work out to what extent lower fees from a blockchain based network will encourage additional creators to enter the market.

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