SUBMITTED VIA SURVEYS

To whom it may concern,

Re: Financial Conduct Authority Discussion Paper: Regulating Crypto Assets

About Global Digital Finance (GDF) and Crypto Council for Innovation

GDF and CCI are the two leading global members' associations representing firms delivering crypto and digital assets solutions. Our members span the digital asset ecosystem and include the leading global crypto exchanges, stablecoin issuers, digital asset Financial Market Infrastructure providers, innovators, and investors operating in the global financial services sector. We also leverage the expertise of CCI's Proof of Stake Alliance (POSA) whose members represent all corners of the staking industry.

Together, our members share the goal of encouraging the responsible global regulation of crypto and digital assets to unlock economic potential, improve lives, foster financial inclusion, protect security, and disrupt illicit activity.

We believe that achieving these goals requires informed, evidence-based policy decisions realised through collaborative engagement between regulators and industry. It also requires recognition of the transformative potential of crypto and digital assets, as well as new technologies, in improving and empowering the lives of global consumers.

We support and encourage a comprehensive UK digital asset regulatory approach which is robust, proportionate, and pro innovation. Appropriate regulatory guardrails are crucial to ensure the continued growth of the UK ecosystem, to further attract the predominantly global industry, and to realising the goal of making the UK a digital finance hub.

The input to this response has been curated through a series of member discussions, industry engagement, and roundtables, and both GDF and CCI are grateful to their members who have taken part.

As always, we remain at your disposal for any further questions or clarifications you may have, and we would welcome a meeting with you to further discuss these matters in more detail with our members.

Yours faithfully,

Elise Soucie Watts – Executive Director, Board Member – GDF

Laura Navaratnam - UK Policy Lead, CCI

Response to the Public Consultations: Executive Summary

GDF and CCI are grateful for the opportunity to continue to engage with the Financial Conduct Authority (FCA) Discussion Paper (DP) on Regulating Crypto Assets as well as through their targeted roundtables and industry association engagement.

Overall, we are supportive of the aim of the proposals within the FCA DP Regulating Crypto Assets. GDF developed this response on behalf of our board and board advisors as part of our ongoing commitment to supporting the work of FCA DP Regulating Crypto Assets Consultation, as well as our shared mission to support the development of best practices and governance standards across the digital finance industry.

The following letter summarises the responses submitted in response to the below questions and highlights the key points of feedback that the board would wish to provide to FCA DP Regulating Crypto Assets Consultation. The executive summary concisely sets out our key points of feedback on the package of proposals, and the following sections set out the key survey questions responded to by the board. Our overarching feedback is as follows:

1. Uphold International Alignment and Proportionality

- The FCA should avoid regulatory divergence from global frameworks such as MiCA, IOSCO, and MAS by aligning UK crypto rules with international norms to maintain global competitiveness and reduce friction for cross-border firms. Divergent or overly prescriptive rules may deter international firms and hinder UK ambitions to be a global digital finance hub.

2. Reconsider 'Risk Neutrality' for Trading Platforms

- We recommend withdrawing the requirement for cryptoasset trading platforms (CATPs) to be structured as 'risk-neutral'. Instead, permit integrated business models that offer ancillary services (e.g., margin, credit, custody). Imposing 'risk neutrality' contradicts current global business models and would render UK branch models for overseas firms unviable.

3. Clarify Stablecoin Treatment and Exemptions

- We recommend confirming that using stablecoins for settlement (e.g., "stablecoin sandwich" models) is not considered intermediary activity, carve out stablecoins used in FX, retail payments, and internal transfers from cryptoasset dealing obligations, and exempt fiat-referenced stablecoins from pre- and post-trade transparency and best execution obligations. Stablecoins function primarily as payment tools rather than investment vehicles and thus require tailored treatment to avoid overregulation.

4. Maintain Flexibility in Execution Models

- We do not recommend imposing a blanket ban on discretionary trading models. Permit matched principal and discretionary execution with appropriate safeguards. Execution models like OTC, block trading, or hybrid systems support liquidity and market development. Flexibility is essential for institutional participation.

5. Refine UK Branch Requirements for Overseas CATPs

- We recommend avoiding mandating subsidiarisation for retail access and allowing equivalence-based exemptions and rely on home regulator supervision where appropriate. This would align with UK treatment of foreign banks and FinTechs and support the secondary growth objective.

6. Adapt Best Execution Rules to Market Realities

- We support implementing outcome-focused best execution rules with clear disclosure obligations, rather than strict MiFID-style frameworks. We do not support pricing checks across three UK venues; allow comparison with global venues. We specifically also recommend carving out principal trading with professional clients, OTC, DEX trades, NFTs, and internal conversions from prescriptive best execution rules. Fragmented liquidity, lack of consolidated data, and market immaturity can make a blanket approach to MiFID-style enforcement impractical and potentially harmful.

7. Clarify Settlement Definitions and Support Proportional Compliance

- We recommend distinguishing between legal and technical finality, but for final settlement rules which allow pre- or post-settlement compliance checks based on transaction risk. On-chain settlement varies significantly from traditional models. Regulatory approaches must recognise diversity in technical implementation.

8. Simplify Algorithmic Trading Oversight

- We recommend replacing the RTS 6-style requirements with principles-based obligations tailored to cryptoasset markets. Prescriptive TradFi controls in the context of CATPs are unworkable for decentralised, non-standardised venues. We believe that oversight should evolve with industry developments.

9. Address Market Making and Affiliate Trading

- We recommend permitting market making under contractual agreements but assess treatment of decentralised LPs. Specifically, we support allowing affiliates of CATPs to trade off-platform with appropriate controls in place such as disclosures and separate governance. These models support liquidity and are common in global crypto markets. Risks can be mitigated through transparency and separation of interests.

10. Enhance Data Standards and Transaction Reporting

- We support utilistaion of standard formats (e.g., FIX, ISO 20022) and identifiers (DTI, LEI) and believe it would be beneficial to adopt phased, proportionate approaches for retail data reporting. A common taxonomy and harmonised reporting frameworks are essential to ensuring efficiency and clarity as markets grow.

11. More Proportionate Staking Requirements

- We support staking providers being accountable for certain operational failures, but this cannot be uncapped - a strict liability standard, which would hold providers accountable for any loss, even in scenarios where risk is inherent and cannot be fully mitigated (e.g., correlated slashing events due to protocol-level or network-wide issues) is deeply problematic. We instead recommend focusing on risk disclosures, establishing enforceable operational risk management requirements, and using supervisory reviews and enforcement mechanisms to ensure adherence to best practices.

Introductory remarks

Global Alignment and Proportionality

We recognise and greatly appreciate the FCA's continued commitment to engaging with the crypto and digital assets industry through open consultations, roundtables, and early-stage discussion papers such as this one. These initiatives are a clear signal of the FCA's willingness to lead in shaping a thoughtful, forward-looking regulatory approach. The FCA has made important and welcome progress, particularly in setting out an ambitious and coherent regulatory Roadmap for cryptoasset activities, and in its continued and constructive engagement with industry on specific subject areas such as staking, custody, stablecoins, and market integrity.

However, a recurring concern in this Discussion Paper is the extent to which some of the - extremely well-intentioned and thoughtfully constructed - proposals appear to depart from international norms, introducing novel or bespoke regulatory requirements that risk creating unnecessary friction for firms operating across multiple jurisdictions and fragmenting global liquidity. In areas such as mandatory trading models, credit restrictions, and staking disclosures, the approach at times feels as though it is seeking to shape market structure or business models in advance of risk-based justification - moving beyond the traditional scope of regulatory intervention and potentially into market design.

By nature, digital finance is borderless and global. Many CCI and GDF members operate at a global level. For global exchanges (CATPs) in particular, with significant cross-border operations, we urge the FCA to consider at the outset how UK regulation can be made interoperable and be more competitive when compared against other Tier 1 jurisdictions (e.g., MiCA-compliant entities, MAS-regulated firms) and avoid friction and or duplication of licensing or compliance requirements. We support a proportionate, activity-based regime that reflects international norms and avoids prescriptive structures that could disadvantage international firms operating branches in the UK.

In some cases, this approach risks regulatory divergence from key global frameworks, including MiCA, emerging APAC and US regimes, and IOSCO's work. For a market as globally integrated as digital assets, such divergence could pose barriers to entry for international firms and undermine the UK's ambition to be a global hub for digital finance.

We encourage the FCA to continue its leadership role by reinforcing core regulatory principles, such as proportionality, technology-neutrality, and activity-based regulation, while maintaining alignment with international best practices. Specifically, we recommend that the FCA:

- Aligns UK regulation with international standards where possible to support global consistency and reduce unnecessary compliance burdens for cross-border firms.

- Focuses on managing real, demonstrable risks and outcomes, rather than prescribing preferred market structures or business models.
- Ensures that crypto is not held to a higher standard than equivalent activities in traditional finance without clear justification.
- Remains mindful of the UK's competitive position in a changing geopolitical context, recognising the importance of coherence, clarity, and international interoperability in attracting responsible innovation.

By doing so, the UK can continue to play a leading role in shaping global regulatory standards while fostering a robust and internationally competitive domestic market.

Risk neutrality

We are concerned that the FCA's proposals with respect to risk neutrality of CATPs are not consistent with the manner in which global CATP platforms are structured. Given the limited risk profile of global platforms' core spot trading operations, it is important to recognise that global platforms do not operate as risk-neutral financial market infrastructure, but as client service focused platforms enabling a range of different trading and custodial activities. Global platforms have developed a broad range of service offerings to their clients. While core services may involve spot trading relating to cryptoassets held in custody by the platform – and settled via off-chain ledger entry updates with minimal settlement risk – platforms may also offer a range of ancillary services including (but not limited to) pre-funding of client transactions, collateralised trading services and provision of credit/margin.

Providing these services in an integrated manner provides significant advantages to clients, providing them with a single unified trading platform and enabling clients to benefit from capital efficiencies when using their assets. Accordingly, restrictions on the ability for global platforms to provide these services would result in worse outcomes for customers.

Furthermore, it is unrealistic to expect that the operators of global platforms will adjust their global business models to become risk neutral entities to comply with UK restrictions on risk neutrality, meaning that imposing these requirements on the UK branches of overseas CATPs will make the UK branch model proposed by the FCA an infeasible route to accessing the UK market. This could detriment UK retail customers as in practice they will find that their access to global liquidity is likely to be significantly restricted leading to worse execution outcomes.

Instead of 'risk neutrality' we would encourage an approach that is risk-adjusted and proportionate. Throughout our response to the DP, we set out key areas where risk mitigation can be applied. We firmly believe that this approach will both meet regulatory objectives specifically that of good outcomes under the Consumer Duty, but also support growth of the crypto asset industry in the UK.

Stablecoin business models

We are concerned that many of the proposals, if applied without differentiation, could inadvertently hinder stablecoin innovation and utility.

We are also concerned that some proposals in DP25/1 may inadvertently depart from international norms, introducing bespoke requirements that risk creating friction for globally operating firms. To support the UK's ambition to be a global hub for digital finance, we encourage the FCA to prioritise proportionality, activity-based regulation, and international alignment, avoiding prescriptive rules that could constrain market development or diverge significantly from emerging global frameworks and best practices.

We respond directly to the FCA's questions below; however, we also observe a few potential consequences, for stablecoin-based activities, of the categorisation of qualifying stablecoins as qualifying cryptoassets, and therefore of the applicability of the proposed requirements around cryptoasset activities, which could negatively impact the use of stablecoins in a diverse range of use case. Specifically, we observe the potential for the following activities to be captured within the scope of cryptoasset intermediation:

- *Bilateral settlements of asset trades using stablecoins*
    - If a firm is arranging or facilitating a bilateral trade involving cryptoassets (especially if it acts as a broker, custodian, or matchmaker), this may be captured as arranging deals in cryptoassets or executing orders. However, if the use of stablecoins is simply as a settlement asset (i.e., they are used to pay for the trade, not traded themselves), this should be excluded, as there is no dealing activity in the stablecoin itself.
    - We recommend that the FCA clarifies that use of stablecoins as settlement rails does not constitute intermediary activity, unless the firm is actively arranging or executing the underlying asset trade.
- *On-chain FX*
    - On-chain, stablecoin-based Spot FX trades are viewed as cryptoasset exchange transactions and are explicitly in scope where one or both assets are qualifying cryptoassets. If a firm facilitates or intermediates these trades, especially on behalf of clients, it may be seen as dealing or arranging in cryptoassets.
    - We recommend that Spot FX-type stablecoin trades should be excluded or separately treated, aligned with non-MiFID FX treatment, as they mirror fiat FX activity, not investment.
- *Point-of-sale and retail payments*

- If stablecoin payments are not carved out, merchants or payment processors could be viewed as "dealing in qualifying cryptoassets" when they accept stablecoins in exchange for goods or services. This risk was also noted in our response to the HMT Draft SI on cryptoassets, under Article 68 RAO and related cryptoasset dealing definitions.

- We strongly urge explicit exclusion of payment acceptance and retail payments from intermediary activity scope. This is essential for supporting merchant adoption and wallet interoperability.

- *The "Stablecoin Sandwich" Model*

  - In this model, a user transfers funds (e.g., from their bank account) to a service provider, who uses a stablecoin for the internal transaction rails (e.g., to settle a purchase or transfer funds), and then off-ramps back to fiat at the recipient's end. The user only sees fiat in/out; the stablecoin leg is abstracted. This "stablecoin sandwich" model is at present the most common payments-related use case for stablecoins.

  - In this model, the internal transfer of stablecoins between the front-end providers (e.g., wallets, PSPs, infrastructure providers) could be interpreted as dealing in cryptoassets as principal or agent, arranging transactions in cryptoasset, or even executing orders if the conversion between fiat and stablecoin involves price selection (e.g., spread capture, routing logic). If the stablecoin movement is deemed to be on behalf of a customer, then a firm could be caught as an intermediary even if the user has no exposure to the cryptoasset itself.

  - This is highly problematic, as this model is economically and functionally a fiat payment; the stablecoin is a technical tool. The user is not making investment decisions and has no visibility or choice in the stablecoin leg. In particular, the user's experience is entirely in fiat and pricing transparency is effectively delivered through the fiat on- and off-ramps. Regulating this as a cryptoasset investment service would mischaracterise the activity, create unnecessary friction, and discourage innovation in efficient payment infrastructure.

  - We recommend explicit clarification that stablecoin sandwich models – where the stablecoin is used purely as a backend settlement mechanism with no end-user exposure – do not constitute cryptoasset intermediary activity under the proposed regime.

Consultation Question Responses

Chapter 2 – Cryptoasset Trading Platforms

1) What are the operational and practical challenges of applying the suggested trading, market abuse, and other requirements to authorised overseas firms operating branches in the UK? Are there alternative approaches that could equally mitigate the risks?

We are very supportive of the FCA's proposed approach to the authorisation of overseas firms operating CATPs via UK branches.

First, we support, as noted in the DP, that this is consistent with the FCA's previous approach to international firms. While we acknowledge that some specific challenges may be presented with regards to overseas firms, overall, we fundamentally believe that the branch/subsidiary model is a beneficial option to be provided to firms when considering how to best establish a presence in the UK. Firms can then work with the FCA to structure their business according to the specific activities they are conducting within the jurisdiction as well as their business model.

For our comments on how market abuse specifically should be applied to CATPs in general we would refer to our previous response to the FCA DP on Regulating cryptoassets: Admissions & Disclosures and Market Abuse Regime for Cryptoassets.

Overall, though, we would emphasise the importance of maintaining the FCA's historically pragmatic approach to international firms. We recommend the inclusion of equivalence-based exemptions or streamlined pathways for firms licensed in major global markets. For example, where foreign firms are supervised in jurisdictions with comparable regulatory frameworks and supervisory standards, we encourage the FCA to permit reliance on home-state oversight and avoid redundant reporting or structural obligations (e.g., enforced subsidiarisation). We believe that this would promote operational efficiency and support the UK's secondary objective of economic growth.

2) What are the challenges and limitations of requiring the establishment of an affiliated legal entity for retail access to trading services by an overseas firm with a UK branch?

While as noted in the DP that this may have a detrimental impact on the FCA's secondary growth objective, we are broadly supportive of the intent of the proposals set out. We strongly agree that is critical to ensure the appropriate safeguards for retail consumers, and also provide the means of recourse if necessary for the emergency scenarios.

However, we would note that this is currently inconsistent with the UK's approach to other types of international firms. As it stands, there are instead thresholds for what services can be provided to retail consumers and foreign bank branches can provide a range of services to retail consumers. If a bank crosses a threshold to engage in "material" retail business or systemically important wholesale activity it may then be required to subsidiarise.

While we appreciate the intent of the FCA's proposal, we would instead encourage an approach that aligns with treatment of foreign banks and other types of foreign FinTechs in the UK. As noted under Q1, we particularly recommend the inclusion of equivalence-based exemptions or streamlined pathways for firms licensed in major global markets. We believe this would be more aligned with the secondary growth objective, and the limits imposed by the threshold would also support the FCA's consumer protection objective. Customer onboarding and other client-facing functions are already appropriately managed in TradFi branch structures through direct application of UK regulatory rules under the supervision of the FCA and PRA – and a similar approach is possible for cryptoassets. This would also serve to reduce operational overhead and enable cost savings for UK clients.

Furthermore, given the increasing harmonisation of global requirements relating to cryptoassets and development of full regulatory regimes (such as MiCA in the EU), and absent any equivalency mechanisms, it is important that the FCA provide clear guidance on its expectations for the types of non-UK platform which would be able to access the branch structure, in order to provide certainty for firms seeking to utilise this option.

Additionally, an appropriate balance between home and host state requirements and obligations is required in order to ensure that global platforms are not prevented from seeking branch authorisation due to the potential impact and compliance cost of UK specific obligations. As a result, it is critical that UK specific requirements are interoperable with those of other equivalent jurisdictions and do not impose broad requirements on the non-UK business or activities of the global platform.

A further area where we believe that clarification would be is the regulatory status of the branch vs the subsidiary. We would note that we do not recommend an approach where both are mandated to be licensed as CATPs, as this is not a workable solution if the order book sits offshore in a non-UK entity.

Finally, the UK branch of the global platform should count as a permissible venue for best execution purposes, including in relation to requirements (a) for execution on a UK authorised venue; (b) to confirm pricing on UK-authorised venues; and (c) for the relevant cryptoasset to be admitted to trading on a UK authorised CATP in order for UK clients to trade in the asset. Again, this approach is critical to ensure that a UK branch can serve as a practical execution venue for client orders.

3) What conditions should apply to the direct access of trading services of an overseas CATP with a UK branch?

We support appropriate and proportionate conditions for direct access of trading services for overseas CATPs with a UK branch. For example, this could be conditional upon adequate supervisory cooperation agreements being in place between the FCA and the home regulator such as adoption of UK complaints/redress mechanics, PoRs and on-shore disclosures. We are also supportive of proportionate requirements for branches to maintain the necessary operational and compliance resources within the UK branch to ensure effective supervision and meet consumer protection objectives.

4) What, if any, additional responsibilities should we consider for CATPs, to address the risks from direct retail access?

We are broadly supportive of the proposed requirements as set out particularly with regards to disclosures. We would raise a couple points where we feel clarification may be beneficial:

- We believe that for controls and limits for each type of customer profile (e.g., professional investor vs not) this should be clearly defined and made clear to both supervisors and to consumers as to what the categorisation entails as part of clear disclosures.

- With regards to revoking rights and suspension, we would encourage clear guidance from the public sector to CATPs on when and why this type of action should be undertaken (e.g., in cases of market abuse). *Either* CATPs are acting on behalf of the public sector in these scenarios (which would need strong clarity on when/how/why such actions should be undertaken) *or* CATPs are acting on their own behalf in a self-regulatory manner in which case the FCA should still put in guardrails so that the actions are not arbitrary or anticompetitive.

5) How can CATPs manage the risks from algorithmic and automated trading strategies?

We strongly agree with the FCA that a different and more pragmatic approach to the operation of algorithmic trading and automated trading software is needed. Compliance with RTS 6 was a huge, multi-year and expensive undertaking for TradFi firms and the detailed requirements of RTS 6 are not suited to crypto. For example, there is no industry-wide standard for "algo tagging" or execution attribution. Testing environments are often not available or meaningful due to unique market microstructures, in particular for illiquid assets. RTS 6 requirements on real time monitoring will also be difficult for firms to comply with until the market develops appropriate technological solutions. Furthermore, to fully deploy RTS 6 controls, this may require substantial IT overhaul, raising both cost and complexity to the UK CATP.

We would favour algorithmic trading controls being subject to general principles-based systems and controls requirements, rather than the prescriptive RTS 6 requirements. This would allow industry, in collaboration with the FCA, to evolve its approach over time.

We also note that overseas principal trading firms (trading on UK CATPs) will often not be subject to RTS 6 style requirements, therefore care needs to be taken not to disincentivise such firms from establishing in the UK and instead accessing the UK market from offshore (outside the UK regulatory perimeter and the FCA's supervisory remit). There is a role for CATPs to play in ensuring that their rules do not create unfair trading conditions as between UK intermediaries that are subject to FCA rules around algorithmic trading, and non-UK intermediaries that are not subject to such standards.

6) Do you agree that CATPs should have contractual agreements in place with legal entities operating market making strategies on their platforms? Are there alternative approaches that could equally mitigate the possible risks to market integrity?

We are broadly supportive of this proposal, given that it would impose appropriate standards on all market makers/liquidity providers accessing UK CATPs (including non-UK firms that are not subject to FCA requirements), promoting fairness as between trading firms and orderly markets. We would note there may be challenges if the liquidity provider is decentralised. Different treatment may also be required depending on whether liquidity providers privileged data/API access. We would welcome further dialogue with the FCA as to what the more detailed requirements around such agreements should be.

7) Is there a case for permitting discretionary trading practices for CATP operators? If so, how could the above risks be appropriately mitigated?

We do not agree with a blanket prohibition on discretionary trading models for CATPs. While non-discretionary order book models may currently dominate cryptoasset markets, there are legitimate cases where discretionary protocols could support healthy market development, particularly for OTC-style execution, institutional block trades, or hybrid models akin to OTFs under MiFID II. For example, venues such as One Trading in the Netherlands operate under a discretionary model for crypto derivatives, illustrating that such models can be consistent with existing European regulatory frameworks and investor protections.

The FCA's rationale for introducing this prohibition does not cite specific regulatory risks arising from discretionary trading. Importantly, existing regulated discretionary venues are already subject to rules ensuring fair treatment, transparency, and non-discrimination. The role of regulation should be to set clear standards and outcomes, not to prescribe or pre-empt preferred market structures. We urge the FCA to remain technology- and model-neutral and instead focus on ensuring appropriate risk controls and disclosures, regardless of execution model. We believe that the focus for regulating discretionary trading should be on transparency, accountability, and fair access. We would also support the view that it may be permissible under proportionate and appropriate governance conditions such as pre-defined and publicly disclosed criteria for discretion, audit trails for decision-making, and ensuring no preferential treatment of affiliated parties.

8) Should firms operating a CATP be permitted to execute transactions on a matched-principal basis? If so, how could the above risks be appropriately mitigated?

Yes, we would support permitting matched-principal trading, and propose the FCA allow off-platform principal trading with appropriate guardrails. This is vital for:

- Supporting liquidity provision;
- OTC block trades; and

- Reducing slippage for institutional clients.

Of course, we would also note that we support this provided there are robust controls to manage conflicts of interest. We would suggest that these could include pre-trade disclosure of principal status, clear delineation of client versus proprietary trades, and periodic review by independent compliance functions.

9) Have we properly identified the risks from the operator of a CATP also being able to deal in principal capacity off-platform? What is your view on these risks and whether it should be permitted or restricted for an operator of a CATP? If permitted, how should those risks be mitigated?

Beyond the restriction that a CATP operator is not permitted to trade in principal capacity on its own platform under any circumstances, which is justified, as a direct conflict of interest, the remaining risks that the FCA has identified we believe to be overstated. Further, the FCA's suggested mitigation measure that a group which contains a CATP must establish a separate entity in order that that group may deal as principal is, with a proper understanding of the internal functioning and governance of a corporate group under common ownership, in practice ineffectual from a risk mitigation perspective, and will simply serve to increase costs for market participants and, ultimately, the consumer. Instead, we would suggest that risk mitigants can include mandatory disclosures of principal status, strict conflict policies, separate order routing logic for proprietary and client trades, and independent compliance review.

10) What are the risks from an entity affiliated with the CATP trading in principal capacity either on the CATP or off the CATP? What additional requirements are necessary to mitigate these risks?

The risks have already been clearly identified by the FCA, and the prohibition on principal trading on a CATP's own exchange is well justified. Further restrictions, however, would risk regulatory overreach and we would note similar concerns to those raised in question 9, noting that an affiliate trading in principal capacity particularly off-platform can lead to better liquidity and pricing for the end-consumer, subject to appropriate safeguards in place.

11) What are the risks from admitting a cryptoasset to a CATP that has material direct or indirect interests in it? How should we address these?

This is a common industry practice, and we see no justification for additional measures in this area, particularly where CATPs are already prohibited from trading as principal on their own exchanges. A CATP with an interest in a token is typically motivated to ensure its success, support its adoption, and demonstrate its value to users. In this context, the interests of the CATP and tokenholders are aligned.

For example, we would note that a number of large CeFI offer native tokens on their exchange. Whilst there may be potential issues relating to fair market pricing, self-dealing, source of demand queries (organic or incentivised), there are equally strong mitigating processes which can be employed (e.g., transparent market making rules, audits of trading activity, segregation of issuer/trading infrastructure).

If any additional measures were needed, we would recommend implementing disclosures where a CATP does have a material or indirect interest. Noting that transparency, along with the alignment of the interests of the CATP and tokenholder should be appropriate to mitigate risks.

12) Are there important reasons why the same entity authorised to operate a CATP should also be able to provide credit lines or financial accommodations to the CATP's clients?

As noted in the DP itself, there are compelling reasons why a CATP may do this. Chiefly:

1. Improved Market Liquidity (boosts trading volumes;
2. Operational Efficiency; and
3. Competing with global exchanges that already offer integrated credit and trading services may be difficult without similar capabilities.

We would propose that allowing CATPs to extend credit lines may be appropriate in some circumstances if strict firewalls and credit risk controls are enforced. These should mirror practices in traditional exchanges, including credit assessments, transparency, and capital adequacy safeguards.

13) Do you agree with our proposal to prevent CATPs from managing or internalising credit risks between counterparties trading on their platforms? If not, why not and how would you suggest the CATP manage these risks?

We do not agree regarding the proposal to prevent CATPs from managing or internalising credit risks between counterparties trading on their platforms. In this instance, we are concerned that a prohibition is a blunt instrument and not justified here as a risk mitigant. We believe that the risks can be adequately managed with (i) risk modelling, stress testing, and continuous monitoring, (ii) obtaining sufficient margin, setting appropriate position limits, and implementing automatic liquidation systems, and (iii) holding sufficient capital reserves.

As discussed above, global platforms do not operate as risk-neutral financial market infrastructure, but as client service focused platforms enabling a range of different trading and custodial activities. Requiring UK CATPs to act as risk neutral market infrastructure could lead to worse outcomes for UK retail customers and calls into question to efficacy of the branch model, given that operators of global CATPs are not typically structured as risk neutral entities.

14) How should we interpret or define settlement for the purpose of CATP settlement rules? Would these rules be specific to CATPs or should they be extended to other trading activities?

We would note that for CATP settlement there are many diverse mechanisms at play, and 'finality' may look different than how it presents in traditional markets. We believe it will be important to clarify the distinction between legal and technical finality. Crypto asset settlement models can range from centralised ledger updates to direct on-chain transfers, each with different levels of control, timing, and legal clarity.

We would propose the below table as an initial high-level taxonomy for consideration of the nuances of CATP settlement:

Settlement Type	What it is	Implications for Settlement Finality Obligations
Internal (Off-Chain) Book Entry	Updates to internal platform ledgers without blockchain interaction	Finality is deferred; users rely on the platform's reconciliation and solvency.
On-Chain Settlement (Direct Transfer)	Transactions executed directly on blockchain between public addresses	Finality is immediate and irreversible; lacks standardized authorization.
Smart Contract-Based Atomic Settlement	Transfers occur only if conditions on both sides are met	Enforces DvP; if logic is sound, finality is reliable and secured.
Custodial Net Settlement	Bulk transfers after netting obligations between clients	Finality delayed; requires strong operational controls and trust in the custodian.
Cross-Chain (Bridged) Settlement	Assets moved between blockchains via bridges or wrapped tokens	Finality fragmented; legal and operational risks depend on bridge integrity.
Fiat-Leg (Hybrid On/Off-Chain)	One leg settles via fiat rails, the other via crypto networks	Asynchronous; reconciliation and liability must span multiple systems.

While the mechanisms are diverse, we would purport that on-chain settlement, when coupled with a risk-based, proportionate approach to settlement regulation can not only comply with traditional regulatory requirements, but also enhance meeting regulatory objectives setting a new high standard for settlement across the financial services industry.

We would not advocate for an approach that requires a blanket approach implementing all compliance checks at the outset (e.g., Travel Rule, sanctions screening, customer consent). Requiring these to be completed before broadcasting a transaction could create latency and bottlenecks and we would note that real-time trading environments, especially for low-risk transactions, rely on speed and automation. Implementing full pre-settlement checks per transaction could also risk slowing down matching and execution, especially if checks are duplicative (e.g., already done at onboarding or deposit stage).

Instead to achieve settlement objectives, we would first note that legal finality is not static or binary but instead it varies on jurisdiction of parties, nature of instrument (crypto, fiat, derivatives), platform structure (principal vs agency). Without FCA-prescribed criteria for "legal finality," any additional guidance the FCA implements may become ambiguous and inconsistently applied across the industry. In the first instance if the FCA does issue guidance we recommend that the FCA distinguish between "legal finality" and the "technical finality" of blockchain transactions within its settlement rules for CATPs. We also recommend that the FCA support CATPs implementing pre- or post-settlement controls depending on transaction characteristics and platform model.

We believe that this approach will preserve the regulatory benefits of blockchain-based settlement—such as transparency, auditability, and immutability while also embedding proportionate and risk-adjusted safeguards necessary to protect users, uphold compliance, and maintain market integrity.

15) Do you agree that CATPs should be subject to both pre-trade and post-trade transparency requirements? Are there any reasons we should consider pre-trade transparency waivers?

While we support the aim of enhancing market integrity, we would urge caution in applying pre- and post-trade transparency requirements to CATPs without first presenting evidence of their effectiveness in traditional finance. The real-world benefit of these requirements in TradFi remains unclear, and it is also unclear whether the intended benefits would materialise in the context of global, disintermediated cryptoasset markets. Crypto must not be held to a higher standard than traditional markets, particularly when many CATPs operate cross-border and serve a wide range of asset types, including less liquid and illiquid tokens that would warrant pre-trade waivers under any proportionate framework. Rather than replicating legacy market infrastructure, it may be more appropriate to rethink what transparency should look like for a crypto-native venue, recognising the global, fragmented nature of liquidity and the very different information needs of participants. A rigid approach without waivers risks distorting incentives and entrenching inefficiencies.

Stablecoin-specific considerations

In particular, we strongly believe that qualifying stablecoins should be exempted from the proposed pre- and post-trade transparency requirements for CATPs. These requirements were developed with investment-focused, price-volatile assets in mind, a profile that does not align with the fundamental characteristics or intended uses of stablecoins.

Qualifying stablecoins are not designed for investment or price appreciation. Rather, they serve as digital representations of fiat currency, issued and redeemed at par, with their value maintained through full backing by high-quality liquid assets. This means that for most use cases (such as payments, FX conversions, on-chain settlement, and intra-day liquidity management) there is no meaningful price discovery. Trades involving such assets are not conducted for the purpose of arbitraging price, but rather for their utility in facilitating rapid and final transfer of value.

Transparency frameworks that are designed to inform market participants about price formation or liquidity conditions for speculative assets provide little to no value in this context. For regulated stablecoins that are trading consistently at or around par, pre-trade transparency risks being misleading (e.g., if a posted price deviates slightly from par), while post-trade transparency would merely generate duplicative or irrelevant data about routine, non-volatile transactions. Worse, the overhead of complying with such requirements may discourage trading venues from listing stablecoins altogether, depriving the market of access to a vitally needed digital settlement instrument.

We therefore urge the FCA to adopt a clear and functional exemption for fiat-referenced stablecoins from both CATP and intermediary transparency requirements, grounded in their par-value structure, utility-oriented function, and economic behaviour. This will ensure that the regulatory framework supports the safe and efficient use of stablecoins without imposing unnecessary burdens that are not aligned with the risks or realities of how these assets are used.

16) Which challenges may emerge for transaction data requirements if there is direct retail participation?

Challenges may include ensuring consistency in data granularity, data privacy, and the real-time transmission of data across fragmented platforms. We would suggest a phased approach with standardised APIs and common data dictionaries.

17) Are there preferred standards for recording transaction data?

Yes, we strongly support the utilisation of already widely adopted industry standards such as FIX and ISO 20022 for recording data. This should be complemented by other best practices in data governance such as the use of digital token identifiers (DTIs) and Legal Entity Identifiers (LEIs).

18) What opportunities and challenges do you see in trying to harmonise on-chain and off-chain transactions' recording and/or reporting?

We do not see clear improved financial regulation benefits. Challenges can include:

- time-stamping consistency;
- oracle reliability;

- Interoperability;
- Technical complexity, with regards to both:
    - Cost of implementation and compliance;
    - A dependence on yet another third-party tool to map the transactions; and
- Privacy concerns for clients.

Chapter 3 – Cryptoasset Intermediaries

19) What practical challenges might firms face if they are required to comply with these order handling and best execution requirements? Are there any alternative approaches that would deliver the same or better order execution outcomes for retail and non-retail customers respectively?

We would agree with the FCA that the principle of best execution is important, however would also caution that the detailed TradFi requirements around best execution will be difficult to define and apply in crypto asset markets due to liquidity fragmentation, market immaturity and lack of data. Instead, we would suggest that firms and regulators should consider a phased approach, potentially starting with more principles-based guidance rather than prescriptive rules, with the possibility to introduce more detailed guidance as the market matures and the quality of data increases. We believe this would be a beneficial way forward that would avoid obstructing liquidity development while seeking to mitigate risks. We would highlight the following practical challenges which exist with regards to order handing and best execution for crypto asset markets:

1. Decentralised Trading Models and Non-Traditional Order Books

- Many cryptoassets might trade on decentralised exchanges (DEXs) or OTC desks that do not use traditional order books. These platforms do not route orders in the conventional sense, making it hard to apply rules that assume the existence of a centralised venue or best price benchmark.
- Best execution relies on identifying the 'best venue' for price, speed, and likelihood of execution. On DEXs, pricing is governed by automated market makers (AMMs) and on-chain liquidity pools, which vary per protocol. This can make it challenging to determine a unified “best price,” and routing to a better venue may not be technically possible.

2. Global Fragmentation of Liquidity

- Crypto trading is highly fragmented across hundreds of venues globally. There’s no consolidated tape or standard market data feed as exists in traditional markets.

- We would note that this presents a challenge as firms may not have visibility across all venues to determine best price or execution conditions especially as currently there are no MiFID-like obligations or existing global infrastructure to benchmark against. Orders split across venues may face latency or slippage, and firms may not be able to justify execution quality in the same way that this is done in traditional markets.

3. Lack of Common Order Types and Trade Reporting

- Crypto trading can at times not conform to traditional standardised order types (limit, market, IOC, etc.) and post-trade transparency.

- This may be a challenge for firms to ensure 'fair treatment' in the traditional sense of orders when order logic differs across venues. Without trade reporting or timestamping, it may also be challenging to demonstrate in the same manner as in TradFi whether one client's order was treated more favourably than another's.

4. Lack of Defined Benchmarks for Execution Quality

- Best execution depends on being able to measure outcomes against benchmarks (price, speed, cost). In crypto, there are not clear benchmarks in the traditional sense or consistent cost disclosures, especially across jurisdictions.

- Without standardised benchmarks, firms cannot reasonably demonstrate that they delivered best execution in the same manner as is done in TradFi. At this stage in market maturity many firms rely on internal pricing models, which may not be aligned across firms or jurisdictions.

We welcome that the FCA explicitly recognises that applying MiFID-style best execution and order handling rules to crypto is not straightforward, and that expectations will need to be tailored to reflect different market structures, the varied types of venues, fragmented liquidity, and operational and technical constraints.

Additionally, we do not think that best execution obligations should not generally be applied to firms dealing in qualifying cryptoassets as principal with professional clients (in particular in quote driven markets), where the firm is the direct counterparty to clients, where clear pricing is presented to clients before they place an order. Liquidity sourcing should remain at the firm's discretion. This is in line with the FCA's well established approach to best execution in TradFi, where there is a rebuttable presumption that best execution does not apply to professional clients.

As potential solutions to some of the challenges outlined above, we propose the following approaches to order handling and best execution requirements:

- Outcome-focused obligations (e.g., "fair and transparent execution") rather than MiFID-style prescriptions;

- Requiring firms to disclose execution policies clearly and monitor outcomes;
- Future development of a development of a UK consolidated tape or reference benchmark for certain highly liquid tokens; and
- Differentiating between centralised platforms and DEXs in rulemaking (which is discussed further under the DeFi section).

Stablecoin-specific considerations

Applying MiFID-style order handling and best execution rules to stablecoin transactions may not be appropriate or proportionate. Stablecoin transactions are often not "orders" in the traditional sense, particularly when the stablecoin is used for payments, collateral, or settlement. Additionally, best execution frameworks assume price competition and variability, which is not relevant for par-value stablecoins.

We therefore recommend that the FCA limits any best execution obligations to activities in cryptoassets in which there is a genuine price discovery component.

20) What benefits and risks do you see with the proposed guidance requiring firms to check the pricing for an order across at least 3 UK-authorised trading platforms (where available)?

We acknowledge that there may be some benefits to this approach, and that it is based on tested principles in TradFi market. Potential benefits (if successfully implemented) could include improved execution standards, greater price transparency, enhanced market integrity, and encouragement of the use of UK authorised venues.

However, we have concerns about implementing these requirements at this stage in the evolution of crypto asset markets. Specifically, we are concerned that this proposal may risks unintended poor consumer outcomes, especially for:

- Tokens not listed across 3 UK venues;
- Larger trades where offshore depth is essential;
- Tokens where better prices can be obtained outside UK venues; and
- High volatility periods where latency matters.

First, as set out above there is currently fragmentation of global liquidity in addition to limited venue choice at this stage in the UK's crypto asset market growth. Not all tokens will be listed across three venues which will force firms to compare to a limited sample set. This may not reflect global best practice or liquidity pools.

Second, we would note that excluding global price discovery also presents a real challenge and may result in adverse outcomes. As many liquid trading venues will be offshore at this stage of the market mandating only UK authorised platforms would ignore better prices abroad. This could then inadvertently lead to inferior execution for large trades or less liquid tokens in particular. Furthermore, there is a risk that requiring this across UK venues only may inadvertently create arbitrage opportunities that malicious actors can exploit, particularly if domestic prices diverge from global norms. This could have the unintended consequence of increasing volatility and reducing efficiency in less liquid UK markets.

Furthermore, this requirement is impractical for stablecoins, which are designed such that (and will in future be regulated to ensure) they maintain a fixed price. Checking against three venues for "best price" provides little benefit and may introduce inefficiencies. For stablecoins used in payments or cross-platform settlement, the focus should be on liquidity availability and speed, not price discovery.

Overall, while we agree with the aim of the proposals to maintain high standards of execution and good consumer outcomes, we would suggest the following adjustments may be more appropriate for this stage of market maturity:

- Allowing non-UK venues to be included in the pricing check if they meet equivalent high governance and compliance standards in their pricing benchmarks or are registered in other jurisdictions with suitably similar regimes;
- Setting standards for price justification and outcome testing, rather than hardcoding the number of venues; Encouraging the development of a consolidated crypto price feed or benchmark index (especially for widely traded tokens); and
- The FCA should also consider outcome-based obligations (e.g., requiring firms to disclose pricing policies and evidencing price fairness through post-trade data analysis or composite benchmarks).

Finally, we note that the requirement would be particularly ill suited to non-retail clients who can be expected to properly understand the risks associated with trading on non-UK venues. For the non-retail sector, we think appropriate disclosure of a firm's approach to pricing and liquidity sourcing would provide an appropriate level of consumer protection and transparency.

21) What benefits and risks do you see with the idea that best possible results should be determined in terms of the total consideration when firms deal with retail customers?

This approach may benefit less sophisticated customers, as the quoted price reflects all associated costs. However, more sophisticated users may prioritise speed of execution (or other execution factors) over marginal price differences. There are also practical challenges in pricing, given dynamic fees, slippage, and the limited number of venues from which data can be sourced—compounded by the inherent trade-off between speed and cost. An exclusive focus on cost could inadvertently harm market functioning, as CATPs may favour venues with lower fees even if they offer reduced liquidity or higher volatility.

Furthermore, while a concept of total consideration may be useful where fees, slippage, and spread are relevant to customer outcomes, in the case of stablecoin purchases, the primary concern is 1:1 convertibility and prompt settlement – not marginal cost differentials. The application of total consideration requirements to stablecoin-based activities could therefore introduce confusion and complexity for retail clients. We therefore suggest the FCA clarify that "total consideration" is only meaningful in contexts with material price variability and provide guidance on how stablecoin transactions should be treated differently.

22) Do you see any potential problems with the proposal to restrict intermediaries to offering regulated services for UK retail customers solely for cryptoassets admitted to trading on a UK authorised CATP?

We see the potential for significant issues with the proposal to restrict intermediaries from offering services to UK retail customers unless the cryptoasset is admitted to trading on a UK-authorised CATP. This departs from established practice in traditional finance, where intermediaries routinely deal in financial instruments that are not traded on venue (non-TOTV) and where OTC markets play a legitimate and critical role, especially for less liquid assets. This approach also fails to account for global liquidity realities. Imposing such a restriction in crypto markets not only risks being disproportionate, but also raises serious questions about enforceability. We have serious concerns that in practice, it could:

- Force delistings of many globally recognised tokens;
- Undermine competitiveness of UK-authorised firms; and
- Drive UK consumers away from regulated intermediaries and into opaque, unregulated channels - including informal OTC desks and peer-to-peer Telegram groups - undermining the very objectives of consumer protection and market integrity.

We would advocate that a more nuanced, risk-based approach is needed, one that reflects the realities of market structure and the role of intermediaries in supporting safe access to liquidity across a broad range of assets.

23) Are there any specific activities or types of transactions we should expressly carve out of our proposed order handling and best execution rules? If so, why?

In assessing the proportionality and practical application of order handling and best execution requirements under DP25/1, we recommend that certain crypto-specific transaction types be explicitly carved out or subject to alternative regulatory treatment. These include:

- **Transactions executed via decentralised protocols (DEXs)**
    - Why: non-discretionary, user-directed nature and reliance on automated market makers (AMMs)

- Alternative Treatment: disclosures around expected slippage and execution logic would be more appropriate than prescriptive execution standards.

- **Over-the-counter (OTC) and principal-to-principal transactions** (particularly for professional clients)
    - Why: we specifically believe these should be exempted from quote sourcing obligations as they are typically negotiated bilaterally and often in less liquid instruments where more limited data is available. Professional clients are also able to "shop around" and do not typically rely on intermediaries for best execution.
    - Alternative: firms should instead be required to disclose their approach to execution, and where relevant demonstrate fair market pricing through post-trade assessments or reference pricing methodologies where available (e.g., for more liquid instruments).
- **Internal wallet conversions or treasury swaps**
    - Why: we believe these should not be subject to order routing or best execution
    - Alternative: firms should clearly disclose applicable spreads.
- **Staking, delegation, or other forms of protocol-level participation**
    - Why: these are not trading activities
    - Alternative: they should be carved out entirely from order handling obligations.
- **Peer-to-peer (P2P) and escrow-facilitated transactions**
    - Why: they are often used for fiat on/off ramping, are bilateral in nature and not suitable for standardised execution rule.
    - Alternative: they should instead be governed by clear AML, fraud prevention, and transparency obligations.

We also want to make a larger point about the Technology Functions associated with the use of certain types of crypto assets. For purposes of this letter, Technology Functions include a transaction or other activity in which a token is transferred or otherwise used on a protocol in accordance with its design as an integral part of the operation of that protocol. FCA should specifically exclude or exempt the use of crypto assets in a Technology Function from the order handling and best execution rules and make clear that participation in one or more Technology Functions does not constitute an activity requiring registration as a CATP or other regulated entity type.

The intrinsic features represented by Technology Functions often involve network security and allocation of resources on the protocol, both of which are core to the functioning of the technology. These usages are for the functionality of the network. They are not the provision of financial services. FCA has a long history of excluding these types of infrastructure activities from the regulatory perimeter and from the activities of a regulated financial services firm. There is no reason to change these standards simply because crypto assets are involved.

An example illustrates the point: operating a validator node on a blockchain does not constitute acting as a custodian, such that a broker or CATP operating the node does not engage in providing custody services. For this reason, FCA should make clear that Technology Functions are infrastructure activities, not intermediary services.

24) What risks arise when specific instructions (for example, specifying which execution venue to use) from retail customers are allowed to override certain best execution requirements? How can these be mitigated?

It is well established that best execution obligations do not apply where a client provides specific instructions. The associated risks are clear: execution risk, the possibility that the client is acting on incomplete or inaccurate information, or that they are improperly incentivised—such as selecting a venue based on perks or other benefits. However, provided customers are appropriately warned and accept these risks, and robust disclosure requirements are in place, this should be permissible. Consideration could also be given to implementing a mechanism for identifying and flagging plainly irrational trades.

25) Are there circumstances under which legal separation should be required to address potential conflicts between executing own orders and client orders?

See response to Q9. For firms dealing in qualifying cryptoassets as principal, no legal separation should be required as a matter of course. One size will not fit all, and it should be up to each firm to demonstrate that it is able to properly manage conflicts of interest without legal separation (which would be extremely costly and should be treated as a last resort).

26) Are there any other activities that may create conflicts of interest and risks to clients if performed by the same intermediary? How can these be managed?

GDF and CCI would note that given the rapidly evolving nature of the business models of crypto asset intermediaries, it is likely that new potential conflicts may arise in the future. Therefore, principles-based requirements around conflict of interest are appropriate. We are therefore supportive of the FCA's recommendation that firms conduct an analysis as set out in 3.44.

To manage conflicts effectively, firms should adopt a multi-layered, proactive approach. This begins with robust internal identification and assessment processes that continuously evaluate potential conflicts

across all business activities. This exercise must be iterative and embedded within the firm's governance framework, supported by clear documentation and escalation procedures.

Transparency and disclosure are also essential components of conflict management. Prior to service engagement, clients must receive clear and comprehensive disclosures outlining material conflicts of interest and the mechanisms the firm uses to manage them. Internal governance arrangements must be underpinned by comprehensive policies and procedures. These include a board-approved conflicts of interest policy subject to regular review; robust information controls to limit inappropriate internal information flows (e.g., 'Chinese Walls'); strict rules on staff personal account dealing; and fair allocation frameworks for services such as staking and lending.

Senior management must retain clear accountability for the identification and oversight of conflicts. This requires clear role delineation, oversight structures, and ownership of conflict-related controls at the executive level. Independent control functions must be empowered to monitor, assess, and test the effectiveness of the firm's conflict management arrangements. These control functions should operate with sufficient independence and resources to carry out their responsibilities effectively.

Finally, firms must ensure alignment with overarching regulatory principles, including strict adherence to FCA Principle 8 (Conflicts of interest) and, where applicable, the Consumer Duty, which requires firms to act to deliver good outcomes for retail clients, avoid foreseeable harm, and support clients in achieving their financial objectives.

27) What benefits does pre-trade transparency provide for different types of market participants and in what form will it be most useful for them? Please provide an analysis of the expected costs to firms for each option if available.

We believe strongly that intermediaries (in particular those not dealing with retail clients) should not be subject to MiFID style pre and post transparency requirements. Doing so would represent a significant departure from other international regimes (e.g., under MiCA only exchanges are subject to transparency obligations) and raise competitiveness issues for the UK, in particular given UK intermediaries will be in competition with non-UK (non-retail) firms accessing the UK market on a cross border basis.

For firms dealing on a principal basis, publicly disclosing pricing may expose proprietary strategies or create opportunities for frontrunning, particularly in illiquid or volatile markets. Additionally, in a nascent and fast-moving asset class like cryptoassets, price formation is often fragmented across multiple venues, and publishing indicative prices may be misleading or fail to reflect execution realities.

Imposing blanket pre-trade transparency obligations such as requiring public quote publication, would introduce significant operational and compliance costs, particularly for firms that do not operate order books or run public-facing trading infrastructure. For such firms, the cost of building and maintaining compliant systems would outweigh the marginal transparency benefit, especially where the firm already offers clear bilateral pricing to its clients.

In this context, we encourage the FCA to adopt a proportional approach: intermediaries should be required to disclose their approach to pricing but not be subject to MiFID style transparency requirements.

28) What alternative solutions to the post-trade transparency requirements proposed above could mitigate the risks? Please provide an analysis of the expected costs to firms for each option if available.

Intermediaries should not be subject to MiFID style transparency requirements. We would note that, depending on the FCA's final policy positions, trading in liquid tokens and retail trading more generally (where the potential benefits of transparency are most likely) is likely to be on UK CATPs, therefore imposing transparency requirements on intermediaries would be duplicative. Trading outside UK CATPs is therefore more likely to involve large/block trades and illiquid tokens, which are ill suited to blanket transparency requirements.

29) Do you believe that certain cryptoassets should be exempted from transparency requirements? If so, what would be the most appropriate exemption criteria which would best balance the benefits from transparency and costs to the firms?

We agree that it would be appropriate to exempt certain cryptoassets from standard transparency requirements, or to apply tailored provisions, particularly where assets are extremely illiquid or at an early stage of trading, as well as large/block trades. These reflect similar exemptions and deferral provisions in the TradFi transparency framework. To ensure the regime remains proportionate and avoids distorting the relevant markets, any such exemptions should be grounded in objective, risk-based criteria—centred on market liquidity metrics—to ensure that transparency obligations are applied where they are most effective, without imposing undue burdens in cases where they may hinder market development. We would note that under the wholesale markets review, various transparency requirements are being rolled back - demonstrating the difficulties of calibrating any exemptions and avoiding the transparency regime from distorting markets and/or resulting in disproportionate burdens. We are of the strong belief that the crypto market is not sufficiently mature, and there is insufficient data, to properly calibrate the necessary exemptions and thresholds that would be required in order to avoid market distortions. This supports the exclusion of intermediaries from pre and post trade transparency obligations, in particular if exchanges will be subject to such obligations.

For stablecoins designed to maintain a fixed value against a referenced currency, pre- and post-trade transparency provides minimal benefit to market participants and may create misleading signals about volatility or trading interest. We therefore also recommend that the FCA include clear exemptions or waivers for qualifying stablecoin trading pairs, or where stablecoins are used as the base asset in FX or settlement scenarios. The objective should be to ensure that transparency rules promote informed market functioning, not produce redundant or distorted information where the asset is regulated such that it maintains a stable value. Please also refer to our response to Question 15, which sets out our rationale on this in more depth.

30) What would be the most appropriate exemption threshold to remain proportionate to the size of the firm while balancing the benefits from transparency and costs to the firms?

As noted above, our view is that intermediaries should not be subject to pre and post trade transparency requirements.

If such requirements are applied, we would support a high exemption threshold such that only firms posing systemic risk to the orderly functioning of markets would be captured. This is essential to supporting a diverse and competitive UK market, enabling innovative smaller firms to operate viably, and avoiding the imposition of compliance costs that may be disproportionate to the risk such firms present or the marginal transparency benefits they contribute. Proportionality in transparency requirements is also key to ensuring that regulatory obligations do not create undue barriers to entry or accelerate market concentration. We would not that via HMT's open cross border access policy (which we support), an implicit assumption has been made that all firms accessing the non-UK retail market on a cross border basis (regardless of their scale of trading activity in the UK) do not require any UK regulation at all - therefore any threshold for requiring UK based firms to comply with onerous transparency requirements (that do not exist in the UK's main competitor jurisdictions for trading intermediaries that are not exchanges) will likely have significant competition implications. There should therefore be a suitably high bar for applying them.

We acknowledge that identifying a single, universally appropriate exemption threshold is challenging in the absence of detailed market-wide data on the size and activity of UK-based cryptoasset intermediaries. A one-size-fits-all exemption threshold risks being either too low to offer meaningful relief or too high to ensure a level playing field. Ideally, a threshold would be based on a firm's activities, based on factors such as size, trading volumes, business model, and the nature of the cryptoassets they support. However, given the lack of data available, we believe it would be extremely difficult to calibrate a proportionate and fair approach that could be applied uniformly.

However, we propose a set of guiding principles and criteria to support the FCA's efforts. Thresholds should be designed to exempt firms for whom full transparency requirements would represent a disproportionate compliance burden relative to their market impact, while ensuring that sufficient market data continues to be captured from the most systemic firms.

Primary quantitative thresholds might include annual transaction volume or value, measuring the total scale of cryptoasset activity undertaken on behalf of UK retail clients, and annual revenue derived from regulated cryptoasset intermediation. These metrics can provide a strong proxy for the size and impact of a firm's operations and, if appropriately calibrated, could help distinguish firms whose activities are unlikely to materially affect overall market transparency outcomes.

Additional or alternative metrics may be considered, such as the number of active UK retail clients, particularly where revenue or transaction volume data may be difficult to apply across certain business models. Further, where cryptoasset intermediation is a minor or ancillary part of a firm's broader business

model, qualitative considerations could justify exemptions or reduced requirements to avoid disproportionately burdening firms with limited crypto exposure.

We also encourage the FCA to consider a tiered or phased approach to thresholds. Rather than applying a single cut-off, firms could fall into three broad categories: those eligible for a full exemption; those subject to reduced requirements (e.g., longer deferral periods for post-trade reporting or simplified pre-trade obligations); and those subject to the full suite of requirements. This graduated model would allow for more nuanced application of proportionality while maintaining the integrity of market transparency.

The benefits of transparency, such as improved price discovery, enhanced market integrity, and better consumer outcomes, must be weighed against the operational burden placed on smaller market participants. For firms with non-systemic individual market impact, the marginal transparency benefit may not justify the significant investment required to build and maintain reporting infrastructure. Fixed costs associated with real-time trade reporting, quote publication systems, and data connectivity are often similar across firms, meaning smaller entities face proportionally higher burdens. Without exemptions, these firms may struggle to comply, choose to exit the market, or refrain from entering altogether, thereby undermining innovation and consumer choice. This is a particular risk given that as long as firms were not dealing with retail clients, they would be able to have essentially unlimited access to the UK market without FCA authorisation.

In setting exemption thresholds, the FCA should adopt a data-driven approach, informed by ongoing engagement with industry and market intelligence collection. Definitions of relevant metrics such as "transaction volume" or "cryptoasset intermediary revenue" should be clear and consistently applied across firms. Additionally, we recommend establishing a formal mechanism to review the thresholds on a regular basis (e.g., every two to three years) to ensure they remain fit for purpose as the market matures. A self-certification process, supported by FCA oversight and verification powers, could be employed to operationalise these thresholds efficiently.

Overall, we believe that a flexible, risk-based exemption framework is more likely to support innovation without compromising market integrity. However, we would like to reiterate our strongly held view that it would be disproportionate to impose pre and post trade requirements on smaller firms which do not pose a systemic risk.

31) What are the crypto-specific risks of opting retail customers up? How should these be managed and what additional guidance on how to assess the expertise, knowledge and experience of clients can we give firms to better mitigate risks of harm?

Under the current UK regulatory framework, "retail client" is a residual category that captures all clients who do not meet the MiFID definition of "per-se" professional clients (which encompasses both authorised financial institutions and large undertakings). This includes not just individual consumers, but also a wide range of corporates and institutions. The MiFID opt-up mechanism was designed primarily to allow sophisticated entities, such as local authorities or corporate treasurers,

to access professional status where appropriate, subject to clearly defined quantitative and qualitative criteria. For non-MiFID business, a qualitative test is applied, under which the firm undertakes an adequate assessment of the expertise, experience and knowledge of the client that gives reasonable assurance, in light of the nature of the transactions or services envisaged, that the client is capable of making his own investment decisions and understanding the risks involved.

We believe that the qualitative test (i.e., which already applies to designated investment business that is not MiFID business) is the appropriate one for crypto. The MiFID quantitative thresholds are ill suited to crypto, where the investor profile is often different from TradFi - there are often highly experienced and sophisticated individuals in the sector who may not meet the MiFID quantitative thresholds but are capable of properly understanding the risks associated with crypto and should not be shut out of market participation. Opt-up pathways should be guided by clear, crypto-specific criteria when assessing knowledge and experience. This might include familiarity with key concepts such as custody models, on-chain settlement, and validator dynamics in staking, as well as the governance arrangements that underpin investment decisions. By focusing on consistent regulatory outcomes and appropriately calibrated thresholds, the regime can support both market integrity and broader participation in digital asset markets.

32) What are the benefits of having quantitative thresholds when opting clients up? How should we determine any quantitative threshold? What alternative rules or guidance specific to crypto should we consider?

The benefit theoretically afforded clients of having a quantitative threshold when opting up is primarily one of certainty and consumer protection.

However, such quantitative thresholds are often inadequate in practice (see above). It would be more appropriate for such thresholds to be framed as factors or indicators for firms when making their assessment as to whether to opt up a retail client, rather than as hard minimum requirements.

Chapter 4 – Cryptoasset Lending and Borrowing

33) Do you agree with our understanding of the risks from cryptoasset lending and borrowing as outlined above? Are there any additional risks we should consider?

With respect to cryptoasset borrowing, we agree that volatility and margin calls present potential risks but consider these to be best addressed through clear disclosures and consumer education rather than prescriptive restrictions. Unlike traditional unsecured credit, crypto borrowing is typically collateralised (often over-collateralised) meaning the borrower must already hold the relevant assets in their wallet, which inherently limits the risk of overextension. As such, the relevance of conventional creditworthiness

assessments in this specific scenario is reduced, and any regulatory response should reflect the distinct nature of collateralised borrowing in crypto markets.

34) Do you agree with our current intention to restrict firms from offering access to retail consumers to cryptoasset lending and borrowing products? If not, please explain why.

We do not support a blanket restriction on retail access to cryptoasset lending and borrowing products. These services are not inherently complex or leveraged, and where lending is fully collateralised or borrowing occurs within conservative loan-to-value (LTV) limits, the associated risks can be effectively managed. A more proportionate approach would uphold the principle of *caveat emptor*, supported by targeted safeguards such as clear disclosures, upfront consent for automatic collateral top-ups, the ability for consumers to set parameters or exit positions, and transparent, comprehensive risk warnings.

In traditional finance, securities lending provides retail investors with an opportunity to earn additional income from held assets. We would advocate for a similar approach in crypto, with requirements for firms to secure high-quality liquid collateral from borrowers when lending client assets, and to ensure informed consent from clients before doing so. Regulation should reflect the nature of the product and the sophistication of the user, enabling safe access under appropriate conditions rather than defaulting to prohibition.

35) Do you agree that applying creditworthiness, and arrears and forbearance rules (as outlined in CONC) can reduce the risk profile for retail consumers? Could these be practicably applied to existing business models? Are there any suitable alternatives?

We agree that applying CONC-style rules on creditworthiness, arrears, and forbearance to cryptoasset borrowing would be inappropriate and disproportionate. These products are fundamentally different from the traditional, unsecured consumer credit arrangements that CONC was designed to regulate. Imposing a framework intended for an entirely different context risks creating artificial obligations and box-ticking exercises that offer little benefit, complicate compliance for firms, and ultimately constrain consumer choice.

Instead, a more effective approach would be to develop a bespoke framework tailored to the unique features and risk profile of cryptoasset borrowing. This could include a phased implementation to observe how market participants respond and to assess the impact on product availability. In many cases, existing safeguards—such as risk warnings, dynamic leverage based on client assessments, robust over-collateralisation, margin call protocols, and clear user interfaces displaying position health—may already provide sufficient consumer protection without the need for prescriptive credit-style rules.

36) Do you agree that the proposed restrictions for collateral top ups would reduce the risk profile for retail consumers? Are there any suitable alternatives?

While the proposed restrictions on collateral top-ups may reduce risk, we believe a more flexible and consumer-centric alternative would be to allow clients to pre-set limits or parameters for automatic collateral management. This approach gives consumers meaningful control over their risk exposure without introducing unnecessary friction or delay in fast-moving markets. For example, users could define thresholds at which positions are automatically closed or collateral is added, avoiding unexpected liquidations while ensuring the firm is not exposed to undue risk by waiting for real-time consent. This model respects consumer autonomy aligns with existing crypto borrowing practices and provides a practical safeguard that can be transparently communicated at the point of onboarding.

37) Do you consider the above measures would be proportionate and effective in ensuring that retail consumers would have sufficient knowledge and understanding to access cryptoasset lending and borrowing products?

Yes, we broadly support the proposed measures as a means of ensuring that retail consumers have sufficient knowledge and understanding before accessing cryptoasset lending and borrowing products.

However, it is important that these measures are applied in a proportionate and flexible manner. For example, it may be disproportionate to apply the same level of scrutiny or friction to small, low-risk lending arrangements as to larger or more complex products. Similarly, a distinction should be made between new users accessing cryptoasset lending for the first time and experienced customers with a track record of engaging with similar services. The nature of the product itself is also relevant—fully collateralised lending poses different risks than undercollateralised or algorithmically managed structures, and the associated requirements should reflect those differences.

Overall, the regime should be designed to ensure consumer understanding without imposing a one-size-fits-all model that could restrict access to appropriate products or stifle innovation. A proportionate, risk-based approach that recognises the diversity of both products and users would be more effective in achieving the intended consumer protection outcomes.

38) What benefits do platform tokens provide to consumers?

Many of the key benefits of platform tokens have been curtailed by the FCA's ban on incentives to invest, including enhanced yield, reduced transaction fees, tiered rewards, and preferential access. However, some remain, such as allowing holders to influence the governance of the token project, and relatedly they incentivise building online communities, providing greater confidence for users where platform token reserves are transparent, and greater liquidity and thus lower spreads, they also benefit consumers as they offer operational resilience for the exchanges that issue platform tokens.

39) How can conflicts of interest be managed for platform tokens to reduce the risk profile for retail consumers?

Please see our response to Question 11. Platform tokens are distinct in that a CATP with an interest in a token is typically incentivised to ensure its success—demonstrating a strong value proposition, supporting widespread adoption, and maintaining user confidence. In this context, the interests of the CATP and tokenholders are aligned, not in conflict.

40) Do you consider that if we are to restrict retail access to cryptoasset lending and borrowing, an exemption for qualifying stablecoins for specific uses within the cryptoasset lending and borrowing models would be proportionate and effective in reducing the level of risk for retail consumers?

While we recognise the intent behind a potential exemption for qualifying stablecoins, the broader proposal to restrict retail access to cryptoasset lending and borrowing, whether stablecoin-based or otherwise, is out of step with international approaches and risks further isolating the UK market. The UK is a relatively small market, and regulatory frameworks that diverge significantly from global norms risk reducing market participation and driving activity offshore. Rather than introducing novel and untested restrictions, the focus should be on aligning with international standards and enabling safe retail access through proportionate, globally consistent rules. Stability and risk mitigation can be achieved through well-designed disclosures, transparency requirements, and robust conduct standards, without resorting to bespoke restrictions that may have unintended consequences.

Chapter 5 – Restrictions on the Use of Credit to Purchase Cryptoassets

41) Do you consider that implementing restrictions on the use of credit facilities to purchase cryptoassets would be effective in reducing the risk of harm to consumers, particularly those who could be considered vulnerable? Are there alternative approaches that could equally mitigate the risks?

We do not believe that a blanket restriction on the use of credit facilities to purchase cryptoassets would be an effective or proportionate way to reduce consumer harm. In many cases, credit has already been extended to the consumer, and imposing limits on how it is used is both impractical and easily circumvented—for example, through cash advances or credit transfers to current accounts. Such restrictions are unlikely to be enforceable in a consistent or meaningful way and risk adding unnecessary complexity without delivering the intended protections.

We note the FCA's observation that the proportion of consumers using credit cards or other credit facilities to purchase cryptoassets has doubled between 2022 and 2024. However, this figure may overstate the scale of risk. It presumes that all users are reliant on the credit function, rather than recognising that many

consumers use credit cards for convenience, cashback, or enhanced fraud protection. Further, it also overlooks a key structural constraint - many UK banks restrict or block crypto-related transactions from current accounts, even where the exchange is regulated. In this context, consumers often turn to credit cards as one of the only viable payment methods, not necessarily out of financial vulnerability but due to limited practical alternatives. A blanket ban on use of credit would restrict consumers' legitimate choice of payment method while providing limited additional protection, being easily circumvented through cash advances or credit transfers.

We strongly encourage a more nuanced approach. Rather than blunt prohibitions, more effective and proportionate safeguards could include enhanced disclosures, targeted financial literacy initiatives, and greater oversight of lending practices that genuinely pose a risk of consumer overextension—across all asset classes, not just crypto.

Chapter 6 – Staking

42) Do you agree that firms should absorb retail consumers' losses from firms' preventable operational and technological failures? If not, please explain why? Are there any alternative proposals we should consider?

We support the FCA's aim of fostering a secure, transparent, and competitive market for cryptoasset services in the UK. In particular, we welcome the regulator's attention to validator operations and staking—a vital area for market integrity, user protection, and innovation. That said, we are concerned about several proposals that may unintentionally undermine staking services in the UK without corresponding benefits to consumer protection.

While we support the outcome of protecting retail consumers, we underscore the need for this to be done via appropriate and proportionate measures. Firms offering staking services should be responsible for implementing robust operational resilience frameworks and clear consumer disclosures. However, requiring firms to absorb all losses in every scenario relating to a third-party provider, which appears to be what the DP is suggesting in paragraph 6.13, will lead to perverse policy results with not necessarily better outcomes for consumers.

The FCA's existing operational resilience framework, as outlined in SYSC 15A, mandates that firms identify important business services, set impact tolerances, and ensure they can remain within these tolerances during severe but plausible disruptions. It does however recognise that not all disruptions can be entirely prevented, especially those arising from complex supply chains and third-party dependencies. Furthermore, the FCA's guidance emphasises the need for firms to take "reasonable steps" to manage operational risks rather than requiring absolute liability.

We therefore consider it to be grossly disproportionate to require a higher bar for third party staking providers than those in the broader financial system, particularly given the risk profile.

Instead of the currently proposed approach, we would advocate for balanced regulation which would require compensation only where firms failed to meet clearly defined, preventable obligation. We feel this would be more proportionate while also harmonised with existing frameworks for safeguarding client assets. We respectfully offer the following additional feedback for consideration:

Operational Failures and Slashing Liability

The proposal to make staking providers liable for "avoidable" operational failures—especially those resulting in slashing—raises serious concerns. As currently framed, this appears to approach a strict liability standard, which would hold providers accountable for any loss, even in scenarios where risk is inherent and cannot be fully mitigated (e.g., correlated slashing events due to protocol-level or network-wide issues).

In practice, no provider will be able to bear this kind of uncapped liability, particularly on networks where slashing is probabilistic, sometimes correlated, and often outside the provider's control. This approach could significantly reduce or eliminate UK participation in validator markets.

A more effective regulatory strategy would be:

- **Risk disclosure**: Ensure providers clearly and consistently disclose slashing and operational risks to clients.

- **Risk management standards**: Establish enforceable operational risk management requirements (e.g., technical redundancy, monitoring, governance).

- **Supervisory tools and enforcement**: Use supervisory reviews and enforcement mechanisms to ensure adherence to best practices rather than defaulting to a liability model that assumes full indemnification.

Capital Requirements for Operational Risk

We also caution against imposing rigid capital requirements to cover potential slashing or other operational failures. Determining the correct level of capital is highly complex, particularly given the volatility and protocol-specific nature of staking risks. More critically, staking yields are often modest, and additional capital burdens could eliminate the economic viability of many provider models—especially for smaller or independent operators.

Instead, we encourage the FCA to explore proportional and risk-based approaches, such as:

- Operational resilience assessments;
- Insurance or coverage pools for shared risks; and
- Differentiated treatment for institutional vs. retail-facing services.

43) Do you agree that we should also rely on the operational resilience framework in regulating staking, including the requirements on accountability?

Yes, we support the application of operational resilience standards to staking, as ensuring the continuity and reliability of services is critical to maintaining market integrity, protecting consumers and maturation of the UK staking ecosystem. However, we believe that these measures should be proportionate to the size, business model, and complexity of the firm. Applying a one-size-fits-all approach could impose undue burdens on smaller or more specialised operators, potentially stifling innovation, and competition. For example, as noted above, having capital requirements to cover the potential liability for operational risk would be challenging. In addition to the difficulty of determining the right level of regulatory capital, it would destroy the economics of staking for most service providers. Instead, a tiered or risk-based framework would be more effective in promoting resilience without compromising the growth of this nascent market.

44) Do you agree that firms should have to get express consent from retail consumers, covering both the value of consumer's cryptoassets to be staked and the type of cryptoassets the firm will stake, with each cryptoasset staked by the consumer requiring its own consent?

We remain supportive of clear, informed consent mechanisms. In the context of staking as a service, the service provider or intermediary should ensure that the user consents to either direct or liquid staking where applicable and should not stake a user's assets without such user's affirmative action or consent.

45) Do you agree that firms should provide a key features document as outlined above to retail consumers? If not, please explain why? What other means should be used to communicate the key features and risks of staking to consumers?

Yes, we agree that firms should provide a key features document with risks and disclosures. As the FCA rightly notes, users of Staking Services face risks that are largely technical in nature. Elsewhere we have suggested that some of the information that is relevant to a user of Staking Services may include:

- Disclosure of Applicable Risks and Terms. These may include but are not limited to slashing risk, obligations of the service provider, and legal rights of the staker.

- Technical Details. Disclosure should be provided on how the protocols function so that users understand how the staking mechanics work.

- Transparency of Fees. A service provider should provide users with a clear fee schedule and other relevant terms and conditions that outline exactly how much of the user's rewards the staking provider receives as a service fee.

- Unstaking and Withdrawal Details. Disclosure should identify the process by which staked assets are unstaked and clarify any delay in receipt of the staked assets and final rewards, as applicable.

- Smart Contract Code Audits. Stakers should be provided with links to audit reports on the relevant code and details on any bug bounty program.

46) Are there any alternative proposals we should consider to minimise the risks of retail consumers' lack of understanding leading to them making uninformed decisions?

In order to ensure retail consumers have the information they need to make informed decisions around staking, we would suggest the below subset of CCI's Proof of Stake Alliance (POSA's) Industry Principles for Staking. These are suggestions for providers or developers of staking services to ensure their products are marketed and structured appropriately:

- Focus on Operational Staking Posture and Processes Instead of the Ability to Earn Enhanced Rewards — Marketing should be factual. A service provider should not market a user's ability to earn "enhanced" rewards in excess of protocol rewards or claim to have a competitive advantage outside what is earned natively from the protocol.

- Use Accurate Terminology and Refrain from Investment Advice — A service provider should not make any recommendations as to whether or not a market participant should purchase a particular digital asset. The service provider also should make no representations to market participants as to potential appreciation in the value of the staked digital asset. Service providers and/or those providing marketing materials on behalf of public protocols should avoid using words such as "interest" or "dividend," which may be confused for their financial meanings. POSA suggests the use of more accurate terminology such as "Block Reward" or "Staking Reward."

- Focus on Providing Access to the Protocol & User Ownership of Staked Assets — A service provider should focus on its service of providing access to the protocol and highlight that the user is and remains the owner of the underlying staked asset (plus any staking rewards).

- Do Not Manage or Control Liquidity for Users Without Transparency — A technical service provider should not determine or manage the amount of a user's staked assets to provide users with liquidity without disclosing the manner in which it is done. Each user should be able to determine the exact amount of their tokens that are staked.

- Do Not Provide Guarantees on the Amount of Rewards Earned — A service provider should not provide any guarantees or make any commitments to users as to the amount of staking rewards to be earned from a given protocol pursuant to the service relationship. The service provider should provide clarity surrounding the fees for their own technical services, but also make clear that the provider has no control over the overall staking reward rate for the applicable proof of stake protocol, as such rate is determined by the protocol itself. Service providers may note an estimated

reward rate based on historical experience but should make clear that rewards are determined by the protocol, which the service provider has no control over and may change over time for various reasons. The provider should also make clear that rewards are distributed in the native token of the protocol and that there can be no assurance of the value of that asset relative to any other crypto asset or fiat currency.

- Engage in Ministerial or Clerical Efforts to Protect Users. A service provider should be permitted to engage in ministerial or clerical efforts to protect users. For example, arranging for and publishing security audits of the source code of the protocol or obtaining insurance or other coverage to protect users against slashing losses are potential actions that should be considered ministerial.

47) Do you agree that regulated staking firms should be required to segregate staked client cryptoassets from other clients' cryptoassets? If not, why not? What would be the viable means to segregate clients' assets operationally?

We would welcome clarification on the FCA's expectations regarding client asset segregation in staking contexts. If the intent is to ensure that staked client assets are segregated from unstaked client assets, that is both reasonable and achievable. Other jurisdictions like Canada for example, have already implemented such safeguards.

However, as currently phrased, it appears the FCA may expect each client's staked assets to be segregated from all other clients'—a standard that is operationally infeasible given how most proof-of-stake protocols function.

We urge the FCA to distinguish between:

- Segregation of client vs. firm assets (and between staked vs. unstaked assets)—important and practical.

- Segregation between individual client's staked assets—generally infeasible and inconsistent with how proof-of-stake blockchains work.

48) Do you agree that regulated staking firms should be required to maintain accurate records of staked cryptoassets? If not, please explain why?

We support the FCA's proposal and agree that staking firms would be required to maintain accurate records of staked cryptoassets.

49) Do you agree that regulated staking firms should conduct regular reconciliations of staked cryptoassets? If not, please explain why? If so, what would be the appropriate frequency?

We agree that regulated staking firms should conduct regular reconciliations of staked cryptoassets, as part of sound operational risk management and client asset protection frameworks. Accurate reconciliation helps ensure transparency, detect errors or anomalies, and maintain trust in staking service providers.

However, the reconciliation process must be appropriate to the technical characteristics of proof-of-stake blockchain networks and the nature of staking services, which differ significantly from traditional financial custody or fund management.

Blockchain transparency already enables real-time tracking. Most staking arrangements are on-chain and publicly verifiable. This differs from traditional finance, where reconciliation is often needed to match off-chain records between custodians and intermediaries. Accordingly, reconciliation in staking contexts should not duplicate what is already observable via protocol data.

In addition, we would want to be sure that reconciliation standards are proportional to business model and risk.

- For **direct staking providers**, reconciliation should ensure internal records of client holdings match the actual staked balances on-chain, including any earned rewards, and that appropriate controls are in place for unstaking.
- For **custodial staking providers**, reconciliation should also confirm that staking activity does not compromise client asset protections (e.g., unauthorized delegation or mingling of funds).
- For **liquid staking or decentralized protocols**, the operator may not have access to full client identity records, and a different approach to reconciliation—perhaps using token supply audits—would be warranted.

In terms of the frequency of reconciliation, we recommend daily to weekly automated checks of on-chain balances against internal records (depending on volume and system maturity), formal monthly reconciliation reports, reviewed by compliance or internal audit, and annual third-party audits or assurance reports as part of ongoing regulatory oversight.

Ultimately, reconciliation standards should be risk-based, technologically informed, and proportional, rather than applying a uniform model borrowed from traditional finance.

Chapter 7 – DeFi

50) Do you consider the proposed approaches are right, including the use of guidance to support understanding? What are the effective or emerging industry practices which support DeFi participants complying with the proposed requirements in this DP? What specific measures have you implemented to mitigate the risks posed by DeFi services to retail consumers?

We broadly agree with the FCA's approach to DeFi, and in particular support the treatment of decentralisation as a spectrum, acknowledging that within that spectrum, different aspects could present different degrees of centralised control. The decision to exclude DeFi arrangements from the scope of regulated activities where the entity, business, or persons behind are not undertaking a financial regulated activity is a proportionate and pragmatic step and reflects the operational reality of decentralised systems while leaving space for a more nuanced regulatory approach to evolve as supervisory understanding matures. Overall, as set out in our response to the IOSCO DeFi consultation as well, we support having the focus of rules and regulation start to apply where financial intermediation starts, and following on from that point how to address associated consumer/market harms.

We would also suggest a clarification that integrations with decentralised venues (e.g., smart routing via AMMs) within CEXs/CATPs should not subject the full exchange to DeFi-specific requirements. Such integrations are common in hybrid exchange models and offer consumer benefit.

With this in mind, we also would support the FCA's approach of introducing guidance at a later stage when the market sufficiently matures. However, should the FCA choose to go down that route, we would recommend a second phase of consultation and engagement with industry to determine what the regulatory principles or guidance could underpinned by - also aligned to global process such as IOSCO's DeFi work.

The DeFi ecosystem continues to advance rapidly, and models are evolving in ways that don't fit neatly into traditional models of regulation. Given the UK is keen to position itself to capitalise on the benefits of decentralisation in the future evolution of financial markets, any future regulatory framework that the UK chooses to develop should remain flexible, and principles based, focusing on the actual risks while being agnostic to the underlying technology.

As the FCA in due course considers a framework for DeFi, we encourage it to apply a control-based decentralisation approach. Specifically, the amelioration of trust dependencies with respect to a blockchain network and its cryptoasset is made possible by the fact that such systems are capable of decentralisation—i.e., operation absent human intervention and control. Whoever controls a system (a company, a blockchain system, etc.) controls the risks associated with that system and can unilaterally affect or structure its risk. For example, the officers and directors of Apple control the company's direction and can unilaterally change the risks associated with holding a share of Apple stock. Where blockchain systems are controlled, they are subject to many of the trust dependencies of centralised and intermediary-based arrangements, which the new UK cryptoasset regulatory regime is intended to address. Control thus negates the essential purpose and promise of blockchain technology and undermines any justification for

the limited or tailored application of the new cryptoasset regulatory regime. But where blockchain systems are not controlled—taking into account operational, economic, and voting control—they are not subject to the trust dependencies that typical centralised and intermediary-based arrangements give rise to and, therefore, the application of the new cryptoasset regulatory regime to them should be limited or tailored accordingly.

The control-based decentralisation framework is consistent with the new UK cryptoasset regulatory regime. This part of the new regime is intended to address the risks that arise from the involvement of intermediaries in financial services, including, in particular, the risks to market integrity and users arising from intermediary discretion, lack of transparency, and conflicts of interests, and the risk of loss of users' cryptoassets from entrusting their safekeeping to third parties. These risks arise because intermediaries have control over processes or systems that affords them the ability to act in a way that may undermine market integrity or be contrary to the interests of users, have control over users' cryptoassets that exposes clients to the risk of the intermediary dealing with the cryptoassets in a way that results in clients losing their cryptoassets, or otherwise hold themselves out as acting in a fiduciary capacity for third parties. Because intermediaries have control, they must be trusted to act in the right way, even if they have incentives not to. Intermediary regulation therefore attempts to ensure this by incentivising behaviour that delivers desirable outcomes for markets and users and disincentivising non-compliance (via regulatory sanctions). However, where financial activities can be conducted by users on a peer-to-peer basis via systems that are not controlled by any person or group of persons under common control, these risks simply do not arise, and so the application of the same financial regulation designed to address them is not necessary or appropriate.

The FCA should therefore use a control-based decentralisation framework to appropriately limit the applicability of the new UK cryptoasset regulatory regime to blockchain systems where reduced or eliminated trust dependencies mitigate the risks the new regime is intended to address either in part or entirely. Such a framework would not only be helpful for tailoring the applicability of the forthcoming A&D and MARC regimes to different types of cryptoassets, it should also form the basis for determining when activities undertaken by or in connection with decentralised blockchain systems will not trigger intermediary regulation for network participants or other relevant persons.

We are keen to reiterate however, that decentralisation does not only bring with it novel risks - it also introduces significant mitigants over the inherent risks associated with a highly intermediated financial system. For example, removing intermediaries and facilitating P2P relationships reduces counterparty risk, settlement and run risks. While this in turn also means there is not always an "easily identifiable entity to oversee operations" as stated in paragraph 7.8, if the risk which the FCA is concerned about are ultimately attributed to the presence of that intermediating entity in the system, the lack of such an entity should be viewed as a risk mitigant rather than a risk enhancer.

Further, DeFi participants are already implementing measures that reflect a responsible approach to consumer risk. For example:

- Projects often adopt a phased approach, starting with central oversight when the protocol is initially deployed, and then reducing administrative privileges as it stabilises, ensuring it can be both resilient and eventually autonomous.

- Open-source codes make real time public audits common practice, allowing users to evaluate the risks directly.

- Responsible developers will include clear risk disclosures (including warnings around volatile assets) on user interfaces and may also disable access to high-risk geographies to maximise consumer understanding.

Given the complexity of the ecosystem, while we support the introduction of guidance over rules at this stage, we are also concerned that attempting to implement even high-level principles too quickly may only serve to create confusion and have a chilling effect on the UK DeFi ecosystem. We therefore urge the FCA to consider running the DeFi work on a different trajectory to the broader topics discussed in this Discussion Paper.

Conclusion

51) We consider these potential additional costs to firms and consumers in the context of the potential benefits of our proposed approach, set out earlier in Chapter 1. In your view, what are the costs of these different approaches? Can you provide both quantitative and qualitative input on this?

Expected Costs of the Proposed Regulatory Framework

The introduction of new regulatory requirements across a wide range of cryptoasset activities—including trading platforms, intermediaries, lending and borrowing, staking, credit, and decentralised finance (DeFi)—will inevitably impose a variety of direct and indirect costs on firms. These costs may vary considerably depending on the scale, complexity, and business model of the firm, but are likely to include significant financial, operational, and strategic implications.

Direct Costs

Firms will face material compliance and legal costs as they seek to understand, interpret, and implement new regulatory obligations. This includes engaging legal counsel, compliance consultants, and potentially hiring or training specialised personnel. Adapting internal policies and procedures, building compliance systems, and undertaking ongoing monitoring and reporting activities will represent a recurring operational expense. These costs may be particularly burdensome for firms where cryptoasset activities represent only part of the broader business model or where the UK regime diverges significantly from other jurisdictions, requiring bespoke internal adaptation.

Technological upgrade costs will also be substantial. Firms will need to develop and maintain systems to support enhanced asset segregation, reconciliation, operational resilience (aligned with SYSC 15A), and key features documentation. Requirements such as express consent mechanisms and risk disclosure frameworks may necessitate software development, hardware investment, and integration with third-party systems. For some firms, individual compliance features—such as real-time reconciliation tools or automated document generation systems—could each involve significant upfront and maintenance expenditure.

Operational costs are expected to rise as firms expand teams in compliance, legal, risk management, and customer support. Additional staff will likely be required to manage new processes, address client queries related to disclosures or rights, and conduct more intensive due diligence and monitoring. Internal efficiency may also decline temporarily as staff adapt to new frameworks and workflows, necessitating comprehensive and ongoing training programmes.

New prudential requirements—particularly capital adequacy rules designed to mitigate operational risks or staking-related losses—will result in further costs. Firms will need to allocate and retain capital that might otherwise be used for investment or expansion. This requirement may prove especially challenging for smaller firms or new entrants with limited access to external capital, potentially affecting market competitiveness.

Firms may also face increased reliance on external third parties, such as auditors, legal advisors, and specialist technology providers, to support regulatory compliance. These services carry both cost and oversight obligations, as managing and monitoring third-party risk becomes an increasingly important internal function.

Indirect Costs

Beyond the direct financial implications, firms will need to consider broader strategic impacts. While a strong regulatory framework can enhance market integrity and consumer confidence, prescriptive or inflexible rules may deter innovation. Firms could become more cautious in developing or launching new products, particularly if regulatory approval processes are perceived as complex or slow. In fast-moving markets, this may delay time to market and reduce the UK's attractiveness as a hub for cryptoasset innovation.

There is also a risk that increased compliance costs—particularly where not proportionately applied—may reduce market diversity. Smaller firms may be unable to absorb the costs of implementation, leading to consolidation or market exit. This could, in turn, reduce consumer choice and competition within the UK market.

While some of the increased operational costs may be passed on to consumers, for example through higher fees or lower rewards, these must be balanced against the long-term benefits of increased consumer protection, greater institutional trust, and more sustainable business models. Nonetheless, regulatory

design should remain mindful of cost pass-through risks, particularly in areas with significant retail engagement.

If not considered carefully, the broader economic cost could be a chilling effect on innovation in digital money infrastructure, especially for use cases that improve efficiency in payments, digital finance, wholesale and international finance.

Stablecoin Specific Costs

If stablecoins are subject to full CATP and intermediary rules designed for speculative trading, this could result in:

- Significant compliance burdens and associated costs for firms facilitating stablecoin-based payments or settlement.
- Increased costs for cross-border FX and real-world asset settlement using stablecoins.
- Reduced willingness of institutions to support stablecoin-based rails due to uncertainty over execution obligations.

52) Do you agree with our assessment of the type of costs (both direct and indirect) and benefits from our proposals? Are there other types of costs and benefits we should consider?

We broadly support the FCA's assessment of the types of costs that the proposed regulatory framework will entail and agree with the articulation of its core policy objectives. The principal benefits of the regime are rightly identified as enhancing consumer protection, increasing market integrity, fostering consumer confidence, and providing clarity for firms operating within the UK cryptoasset ecosystem.

A clear regulatory framework can play a vital role in reducing the risks of fraud, scams, and operational failures, while also supporting informed consumer decision-making. By mandating greater transparency and fairness, the regime contributes to the development of a more orderly and trustworthy market environment. Clarity in regulatory expectations also helps firms mitigate compliance uncertainty and supports more consistent standards of conduct. These improvements can bolster confidence among consumers and investors, thereby promoting greater participation in the regulated digital asset space.

The framework can also facilitate institutional adoption by establishing standards of risk management and compliance that align with institutional expectations. In turn, this can support the growth of responsible innovation in the sector. Furthermore, a robust and well-designed regime has the potential to strengthen the UK's international competitiveness, provided it is proportionate, innovation-friendly, and aligned with global norms. A balanced regulatory approach can help position the UK as a reputable and attractive jurisdiction for investment, talent, and cross-border cryptoasset activity.

In assessing the broader economic implications, we encourage the FCA to take into account several additional costs and benefits. Regulatory divergence, where the UK framework departs significantly from existing or emerging international regimes (e.g., the EU's MiCA or other G20 approaches), can increase the cost and complexity of compliance for firms operating across multiple jurisdictions. Without a clear rationale for divergence, such misalignment could create duplication of effort, legal uncertainty, and operational inefficiencies. Ongoing supervisory fees will also constitute a direct cost, particularly for smaller firms, and should be transparently communicated and proportionately structured.

Firms may face opportunity costs as resources are diverted from innovation, product development, and market expansion to meet new compliance obligations. These trade-offs should be recognised when calibrating rulemaking and implementation timelines. Equally, disproportionate regulatory application to activities with low inherent risk such as stablecoins can introduce both unnecessary costs and market distortion.

We caution against the blanket application of market conduct rules, designed to mitigate the risks of highly volatile or speculative cryptoassets, to stablecoin infrastructure used primarily for payments and settlement. Imposing transparency and reporting requirements designed for trading environments onto these instruments could result in redundant and costly systems, reduce their utility for merchants and platforms, and create legal and regulatory uncertainty. This may inadvertently suppress the use of on-chain, fiat-denominated stablecoins for legitimate economic activity, undermining both innovation and efficiency in digital payments.

Indirectly, such misalignment risks diminishing the UK's competitiveness in digital finance. Realising the benefits of the proposed framework depends on tailoring obligations to the economic function and actual risks posed by specific activities, rather than applying a uniform approach based solely on asset classification. Proportionality and outcome-based regulation remain essential principles in achieving this balance.

At the same time, the framework has the potential to generate longer-term benefits not only for the cryptoasset sector but also for the broader economy. Regulatory clarity can catalyse the growth of a UK-based RegTech ecosystem, driving innovation in compliance tools and creating new commercial opportunities. It may also encourage deeper collaboration between traditional financial institutions and digital asset firms, expanding access to new markets and services. A reputable and well-regulated environment can further support talent attraction and retention, reinforcing the UK's status as a global financial and technology hub. Finally, by promoting resilience and sound practices, the regime can help reduce systemic risk as the cryptoasset sector continues to grow and integrate with the wider financial system.

53) How do you see our proposed approach to regulating these activities affecting competition in the UK cryptoasset market?

If applied rigidly, the current proposals risk creating an uneven playing field that disadvantages:

- Stablecoin issuers relative to e-money or payment firms;
- UK-based platforms relative to offshore competitors;
- Regulated venues that wish to offer settlement using stablecoin; and
- More efficient and cost-effective trading and settlement of Spot FX in stablecoin pairs.

Tailoring the regime to support payment and settlement-focused stablecoins would improve competitive neutrality and attract responsible innovation.

54) Are there any additional opportunities, including for growth, we could realise through a different approach to regulating these activities?

Yes. The UK could:

- Explicitly recognise regulated stablecoins as a legitimate form of digital settlement asset
- Enable their use in regulated market infrastructure (e.g., exchanges, MTFs, tokenised asset venues).
- Support cross-border interoperability by adopting proportionate, use-case specific rules.

A differentiated regulatory framework for fiat-referenced stablecoins would position the UK as a global leader in digital money infrastructure, encourage responsible adoption, and unlock efficiency gains across the financial system.