July 31, 2025

Submitted via email cp25-14@fca.org.uk

To whom it may concern,

Re: FCA Stablecoin issuance and cryptoasset custody

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 for their members' input.

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 – Executive Director – GDF

Laura Navaratnam - UK Policy Lead, CC

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) Consultation Paper on FCA Stablecoin issuance and cryptoasset custody (referred to henceforth as the CP) as well as through their targeted roundtables and industry association engagement.

Overall, we are supportive of the aim of the proposals within the CP. GDF and CCI developed this response on behalf of joint membership as part of our ongoing commitment to supporting the work of the FCA in developing their overarching regulatory framework for crypto assets, as well as our shared mission to support the development of best practices and governance standards across the digital finance industry.

Introductory Remarks

The UK has a time-sensitive and significant opportunity to position itself as the global home for GBP-denominated stablecoin issuers. With a clear and coherent regulatory framework now within reach, the challenge lies in ensuring that the regime delivers robust protections for consumers and market integrity while remaining proportionate and internationally competitive. If the regime is overly rigid or misaligned with commercial and operational realities, there is a risk that issuers will choose to locate their operations elsewhere, dramatically reducing the oversight and control that the UK has over stablecoins issued in its own currency. A well-calibrated framework, that is anchored in clear standards, legal certainty, and practical implementation, will attract responsible innovation onshore, foster market confidence, and support the UK's broader ambition to become a leading hub for digital finance.

At this early stage of market development, we encourage the FCA to adopt a high-level, principles-based approach to the regulation of stablecoins. This would give aspiring issuers, operating in a nascent market, the flexibility to experiment and compete: an essential process in discovering viable business models and identifying emerging market structures. It would also allow the market and its activities to evolve in ways that cannot be predicted at this stage, while enabling proportionate and appropriate oversight of risks as they emerge. Such an approach has been successfully adopted by other regulators, balancing innovation with risk management in early-stage markets.

The risk to the UK in being overly prescriptive, and particularly in effectively locking in assumptions about business models too early, is two-fold. First, issuers and innovators may be disincentivised from launching in the UK and driven to issue offshore, resulting in a loss of regulatory oversight of GBP stablecoins specifically, as well as a broader loss in competitiveness

and commercial opportunity. Second, the specific risks anticipated in the current detailed proposals may not materialise as anticipated, or may be overtaken by new and evolving risks arising from changes in market structure and activity. A rigid regime will struggle to adapt quickly to such developments, leaving the FCA with a framework that is both commercially unattractive, insufficiently agile in the face of change, and ultimately ineffective in its stated goals of consumer protection and market integrity.

The FCA's consultations CP25-14 and CP25-15 together set out a comprehensive, risk-based regime for stablecoin issuance and crypto-asset custody. In practice, however, the proposed framework presents significant operational, financial, and structural hurdles for firms. The interplay between requirements on backing, redemption, and prudential standards, particularly capital requirements, risks creating disproportionately high barriers to entry. This could concentrate issuance within a small number of large incumbent financial institutions, reduce market competition, and potentially drive innovation offshore.

The Chancellor's Mansion House speech on 15 July 2025 outlined a clear ambition to "boldly regulate for growth", signalling that regulators should move beyond a solely risk-averse stance and actively enable innovation and investment. While the FCA's proposals were published prior to the speech, CP25-14 and CP25-15 do not appear to fully align with this direction. The consultations largely refine existing frameworks rather than advancing the kind of transformative, growth-oriented reforms anticipated in the speech. Without a shift toward a proportionate, principles-based regime that aligns with international approaches, there is a real risk that the UK will fall behind peer jurisdictions in regulatory competitiveness and undermine its ambition to be a global leader in responsible digital finance. Ensuring regulatory coherence across UK authorities is also critical. In particular, alignment between the FCA and the Bank of England will be essential to delivering a stablecoin regime that is both effective in safeguarding financial stability and workable for firms in practice.

Regulatory robustness and global competitiveness are not mutually exclusive. Many jurisdictions, including the United States through the recently passed GENIUS Act, have adopted proportionate and flexible regulatory frameworks that aim to preserve consumer protections while enabling innovation and market participation. The UK should ensure that its stablecoin regime is interoperable with such developments. Given the global nature of digital asset markets, divergence from peer jurisdictions risks creating regulatory friction, discouraging cross-border issuance of GBP stablecoins, and undermining the UK's stated ambition to be a world leader in digital finance. This is a one-time opportunity to shape a credible and internationally coherent framework. The UK cannot afford to get it wrong.

Key Considerations

Our overarching feedback can be summarised as follows:

1. ***Redemption vs. Conversion – Misaligned Assumptions*** - The FCA's proposals treat redemption at par, on demand and within T+1 as a standard daily practice. In reality, most stablecoin users exit via conversion through intermediaries, with redemption functioning as a guarantee of last resort. By treating the requirement for 100% of redemption requests to be met within T+1 as a BAU mechanism, the proposals risk concentrating liquidity risk at the issuer level and creating instability. The regime should reflect actual market structure by preserving redemption rights at par while calibrating timelines and volumes to stress scenarios, allowing conversions to remain the primary channel for routine exits.

2. ***Backing Asset Composition – Internal Contradictions*** - While the proposals permit a diversified pool of high-quality liquid assets to back qualifying stablecoins, the T+1 redemption requirement on 100% of backing assets undermines the benefits of asset diversification and compromises the economic viability of the model as in practice, even cash could struggle to meet this requirement in absolute. The question for the FCA is how to secure redemption certainty without eroding commercial sustainability. A more flexible redemption timeline or a tiered liquidity model would preserve consumer protection while enabling reserve portfolios that are both robust and commercially viable.

3. ***Statutory Trust – Legal Structure vs. Practical Operation*** - The statutory trust framework is intended to safeguard backing assets for coinholders, but the proposals in their current form create tension between legal form and operational reality. Prohibiting overcollateralisation within the trust and requiring shortfalls to be covered by issuer capital risks breaching the legal segregation the trust is designed to protect. The FCA needs to clarify how to maintain holder protection without introducing structural inconsistencies. Allowing modest overcollateralisation within the trust, alongside clear guidance on permissible temporary capital injections, would strengthen resilience while preserving legal integrity. Further, firms should be given the flexibility to adopt a non-statutory trust where this can achieve equivalent outcomes.

4. ***Custody and Operational Practicality – Ensuring Scalability*** - The FCA's custody proposals set high standards for safeguarding, record-keeping, and reconciliation, but their practical application to crypto-native models requires careful calibration. For example, omnibus wallet structures, real-time reconciliations, and attribution in the absence of complete Travel Rule data present genuine operational challenges. The question is how to uphold consumer protections while ensuring the rules are technically

and commercially feasible at scale. A principles-based approach that accommodates omnibus and segregated models, allows risk-tiered reconciliations, and leverages blockchain transparency would meet regulatory outcomes without creating unnecessary operational friction.

5. ***International Competitiveness – Avoiding Regulatory Isolation*** - The UK's ambition to be a leading hub for digital finance, and to support the development of a safe and sound ecosystem for GBP stablecoins, depends on a regime that is robust, proportionate, and internationally competitive. Overly prescriptive measures, such as rigid redemption and trust requirements, risk setting higher barriers to entry than regimes in jurisdictions like the EU, Singapore, or New York. This creates the risk that issuers will base operations offshore, with the UK losing both jurisdictional control over GBP stablecoin issuance and its commercial advantage. A principles-based framework that can be further developed as the market evolves, aligned with international peers, would support innovation while maintaining high standards of consumer protection.

Additional Areas for Consideration

Specific definition needed of 'money-like instruments'

Throughout CP 25-14, the FCA makes repeated reference to stablecoins as 'money-like instruments', e.g. that "[s]tablecoins are designed to be stable, money-like instruments" (para 1.15); and "we intend to regulate them [qualifying stablecoins] as money-like instruments rather than as investment products" (para 3.13). We note that there is no statutory or regulatory definition of the term 'money-like instruments'. The term is specifically used in conjunction with stated policy objectives with respect to the proposed regulatory framework for qualifying stablecoins. As such, it would be useful to have a clear definition of 'money-like instruments' and some guidance as to what would or would not constitute such an instrument. Such clarity could also help to inform a more detailed comparison of stablecoin risks and proposed regulatory mitigants versus those attached to other money-like instruments.

Clearer delineation of conversion vs redemption

CP 25-14 in several places seems to confuse the concepts of redemption and conversion. Both play important roles, but their economic function, and the risks and benefits associated with them, are fundamentally different.

Redemption involves a token being removed by the issuer from circulation and the corresponding backing assets being liquidated. It is a key tool in preserving trust and confidence in a given stablecoin, as it acts as a guarantee of last resort. The ability for a tokenholder to

redeem at par and on demand with the stablecoin issuer also gives rise to a natural balancing mechanism, should a stablecoin trade away from par on a secondary market, as an arbitrage opportunity will be created for market participants to exploit, which in turn will rapidly close that gap. Given this role, combined with the economic impact and operational cost of redemptions in practice, it is used sparingly. It is not, and should not be, the primary mechanism through which end users exchange tokens.

Conversion, by contrast, refers to the exchange of a stablecoin with an intermediary into another form of money via intermediaries or exchanges. Conversion has no economic impact to the issuer but forms a core part of the intermediary's business model, which is typically predicated on market making and liquidity provision. From the coinholders' perspective, what matters most under BAU conditions is the ability to seamlessly access and transact in the form of money that best suits their needs, both enabling and reinforcing the singleness of money in a future ecosystem that includes both traditional and new forms of digital money, including qualifying stablecoins. In existing stablecoin market structures, intermediaries play a key role in facilitating *conversion* requests from coinholders whilst minimising *redemption* requests to issuers.

It is important to recognise this distinction between conversion and redemption, and the role that each plays in maintaining trust and confidence in the stablecoin and its issuer. Failure to do so, and more starkly, treating redemption as the default (and preferred) exit route for all users, may lead to a regulatory framework which misdiagnoses the market risks and imposes an unnecessarily rigid solution on stablecoin issuers. By treating redemption as a BAU mechanism rather than a last resort guarantee, the proposals could concentrate liquidity risk on the issuer, increasing the likelihood of self-fulfilling runs. This overlooks the fact that conversion, rather than redemption, is the dominant mechanism through which users enter and exit stablecoins and that liquidity is managed by intermediaries. Enforcing rigid T+1 redemption requirements undermines this market structure where redemptions are relatively infrequent in the course of BAU, operationally intensive, and economically significant events. Further, these obligations exceed those placed on banks, despite stablecoin issuers lacking equivalent tools like central bank access and places the UK out of step with international regulatory approaches that do distinguish between these two functions.

A more proportionate approach would be to focus on ensuring reliable and orderly access to redemption in stress scenarios, while allowing flexible, risk-based timeframes, particularly where intermediated flows, AML checks, or asset liquidation constraints are involved. Such requirements should also be aligned with comparative frameworks and requirements in other jurisdictions, against which the T+1 proposal seems disproportionate, and misaligned to the FCA's technology-agnostic approach.

Reframing Redemption

We question the FCA's regulatory assumption that mass redemption at par, on demand, within a T+1 timeframe should be a business-as-usual expectation for stablecoin issuers. This approach is out of step with international regimes (e.g. MAS, ESMA, GENIUS proposals) and, as per our observations above, conflates two distinct concepts: redemption and conversion. By treating redemption as the primary exit route for all holders, the FCA misdiagnoses the actual market risk and proposes a rigid solution that could undermine both innovation and the operational stability of qualifying stablecoins.

Redemption and conversion play fundamentally different roles in the stablecoin ecosystem. Redemption involves the return of stablecoins to the issuer for burning, with liquidation of the corresponding backing assets and return of proceeds. It has direct economic and operational implications for the issuer and is typically minimised in routine operations. Conversion, by contrast, is the exchange of stablecoins into other forms of money, whether bank deposits, other stablecoins, or in future retail CBDC, primarily facilitated by intermediaries and exchanges. Conversion has no economic impact on the issuer and is the dominant mechanism by which users enter and exit stablecoins.

In practice, redemption serves two complementary but limited purposes. First, it underpins conversion by giving secondary market participants the confidence to offer 1:1 exchange through arbitrage or market-making, knowing they can redeem at par if needed. Second, redemption acts as a last-resort mechanism in stress scenarios, preserving market confidence. It is not intended to operate as a continuous daily service for all holders. Imposing universal T+1 redemption risks distorting the issuer's role, over-engineering the regime, and concentrating liquidity risk where it is least sustainable.

The real regulatory concern is not liquidity under business-as-usual conditions but the ability to make coinholders whole in failure. A qualifying stablecoin backed 100% by high-quality liquid assets, such as short-term UK government debt, qualifying money market funds, or central bank reserves, can repay all holders in full over time, even if mass redemptions cannot be met instantly. For example, if assets are held in short-dated gilts maturing within six months, all coinholders can be made whole as those gilts mature, without requiring a disorderly liquidation. The FCA's current framing, by requiring all assets to be available for redemption at T+1, is inconsistent with the actual risk profile and with established principles in Basel III that caution against systemic fire sales.

Mandating universal T+1 redemption for all holders creates a structural vulnerability. It concentrates liquidity pressure on the issuer, creating the risk of a self-fulfilling run: under stress, large-scale redemption requests force rapid liquidation of assets, triggering market concern about the issuer's capacity to meet T+1 demands, which in turn accelerates withdrawals. A more resilient model is to allow liquidity to be dispersed across intermediaries and exchanges via

conversion, reserving direct redemption for a limited number of customers or stress scenarios. This reflects how liquidity risk is managed in other regulated financial markets.

We support the right to redeem at par for customers, but this right should be calibrated. Immediate redemption should apply in normal market conditions for a limited customer base, with longer timeframes permitted in stress events. For most holders, conversion, not direct redemption, should remain the default means of exiting a stablecoin. This approach maintains stability, preserves the singleness of money, and aligns with international best practice. By focusing on credible backing, transparent governance, and realistic redemption mechanics, the UK can design a regime that protects holders without imposing liquidity requirements that no other regulated institution could meet in either business-as-usual or stress conditions.

Response to Consultation Questions

1) Do you agree that the Consumer Duty alone is not sufficient to achieve our objectives and additional requirements for qualifying stablecoin issuers are necessary?

Yes, GDF and CCI agree that Consumer Duty alone is not sufficient. In particular we would highlight and support the additional objectives set out in the CP of growth, and also the evolution of the regulator itself. We believe that these will be critical in order for the FCA to support the broader ambition of the UK becoming a global leader in the digital economy. As set out in our response to the draft SI on regulating crypto assets, we firmly believe that the architecture of tomorrow's digital financial markets is being built, distributed ledger technologies - powered by cryptoassets - increasingly form the rails of the infrastructure that will underpin everything from payments to capital markets activity. A clear, proportionate, and forward-looking regulatory framework will be essential to ensuring that this innovation can thrive in a safe, trusted environment.

To achieve this potential, we firmly believe that the FCA must go beyond the objective of Consumer Duty and also aim to regulate stablecoins and custody in such a way that drives a healthy, competitive market across the whole of the digital finance ecosystem.

However, in implementing additional requirements for qualifying stablecoins, it is imperative that these are appropriate, proportionate, and competitive in comparison with other jurisdictional developments. We further expand on how these aims can be achieved throughout our response.

2) Do you agree that issuers of multi-currency qualifying stablecoins should be held to similar standards as issuers of single-currency qualifying stablecoins unless there is a specific reason to deviate from this? Please explain why? In your answer please include:

i. Whether you agree with our assessment of how multi-currency stablecoins may be structured, and whether there are other models.

ii. Whether there are specific rules proposed which do not work for multicurrency qualifying stablecoins, and explain why.

iii. Whether there are any additional considerations, including risks and benefits, we should take into account when applying our regulation to multi-currency qualifying stablecoins.

While we agree that consistent baseline standards should apply across fiat-backed stablecoins, we encourage the FCA to adopt a differentiated and proportionate approach to multi-currency stablecoins (MCSCs). These arrangements, typically backed by a diversified basket of fiat currencies, present unique operational and risk characteristics that may not be fully addressed under a single-currency regime.

MCSCs offer important financial inclusion and cross-border payment use cases, particularly in contexts where users may seek exposure to currency diversification or access to global markets. However, they also introduce additional complexities, including foreign exchange (FX) mismatch risk, reserve management across multiple jurisdictions, and potential legal fragmentation.

We therefore recommend that flexibility be embedded in the application of key requirements, such as redemption timelines, reserve composition, and reconciliation obligations, provided that equivalent standards of consumer protection, prudential soundness, and operational resilience are upheld.

It would be helpful for the FCA to clarify:

- Whether multi-currency models fall within the scope of the fiat-backed stablecoin definition.
- The application of redemption requirements to multi-currency stablecoins may be problematic for multi-currency stablecoins, as the value of the backing assets fluctuates with FX rates. The FCA could establish a specific time for determining the FX rate (such as the FX rate at the close of the local business day), and adjust the required redemption timelines accordingly.
- How reserve composition and valuation methodologies would be assessed across multiple currencies.
- Whether additional expectations would apply in relation to backing assets, segregation of reserves and FX risk management - in particular, allowing a wider variety of backing assets for multi-currency stablecoins, including FX derivatives for hedging FX risk, could enable better management of FX risk.
- The application of the reconciliation requirements to multi-currency stablecoins - FX rate fluctuations can make daily reconciliation of backing assets challenging, so longer timelines may be needed to account for FX volatility.
- The treatment of KYC/AML requirements in relation to cross-border issuance and redemption.

We believe these clarifications are necessary to ensure that the framework remains both future-proof and interoperable with evolving global approaches to stablecoin regulation, while supporting safe innovation in cross-border digital finance.

3) Do you agree with our proposals for requirements around the composition of backing assets? If not, why not?

While we agree with the objectives of the proposals around the requirements for the composition of backing assets, we also believe that for some specific requirements additional clarification is needed. Additionally, we believe some of the proposals to be disproportionate compared to the risk posed by stablecoins. Our suggestions below aim to provide specific feedback on how the requirements can be adjusted to both mitigate risks, and meet regulatory objectives, while also creating a competitive UK regime for GBP stablecoin issuers.

Clarification of 'fiat'

We note that in the draft SI Article 88G requires a stablecoin issuer to hold either fiat currency, or a combination of fiat currency and other assets, as backing for the issued tokens. However, we are concerned by the lack of a clear definition of what constitutes "fiat currency" in this context. It is not clear whether this is intended to mean central bank money (i.e., central bank reserves or physical cash), thereby excluding commercial bank deposits, or whether it is intended to cover both; however, the policy rationale is not articulated and remains unclear.

We are concerned by the arbitrary distinction created by the requirement that qualifying stablecoins must be backed, at least in part, by fiat currency, regardless of the quality or liquidity of other reserve assets. As noted in discussions with HM Treasury, this could lead to scenarios where a stablecoin fully backed by high-quality liquid assets (HQLA), including instruments recognised as cash-equivalent at present by the market and regulators, and used as such by regulated FMIs such as central counterparties (CCPs), would fall outside the regulatory perimeter, while another with a minimal and nominal (e.g. £1) fiat reserve could qualify. This undermines the coherence of the regime by disconnecting regulatory treatment from economic substance and prudential quality.

As the FCA now moves ahead with detailed requirements on backing assets, we would further note that using the requirement for a fiat component to backing assets - irrespective of materiality - as a gateway condition for qualification risks excluding credible, prudently structured stablecoins from the category of qualifying stablecoins, without clear policy justification. We encourage the FCA to work with HMT, to establish clarity that would enable issuers to assess equivalent forms of reserve quality in determining qualifying status. This could be agreed on a case-by-case basis as needed with the FCA when approving issuer models.

Proposed solution: In our response to the draft SI, we recommended that HMT provides additional clarity, ideally formally via the SI's Explanatory Note on what constitutes "fiat currency" for the purposes of the Article 88G provision. In due course, we also urged HMT to formally establish a single, statutory definition of "fiat currency" (which should cover both privately issued money, including but not necessarily limited to commercial bank money, and publicly-issued central bank money). This definition should be clear, technology-agnostic, and

future-proof, ensuring consistent interpretation across the broader UK financial services regulatory framework. Such a step would enhance regulatory coherence and support innovation by removing unnecessary interpretive risk.

We also recommended that HMT remove the requirement for a qualifying stablecoin to be backed in part by fiat currency. Should this be removed, we would welcome the FCA's discretion in assessing appropriately liquid backing assets for inclusion in a stablecoin's reserves.

Backing asset composition in light of T+1 redemption requirement

While we support the FCA's objective of ensuring that qualifying stablecoins are fully and prudently backed, the current proposals create internal contradictions that risk undermining the regime's effectiveness. Most notably, the requirement for T+1 redemption, i.e., the obligation to fulfil any valid redemption request by the next business day, effectively nullifies the flexibility and rationale behind the proposed regime for backing asset composition.

The FCA proposes a carefully designed framework allowing for a diversified pool of high-quality liquid assets (HQLA), including short-dated government gilts, MMFs, and reverse repos. However, if the redemption standard mandates, effectively, that *all* backing assets must be liquidated within one business day, then in practice, then any backing asset (including cash / demand deposits) would struggle to meet this requirement in absolute. A more coherent approach would require the FCA to either (a) relax the redemption timeframe to something more operationally realistic (e.g. T+3 or T+5, in line with other jurisdictions for which a redemption timeline is specified), or (b) allow for a tiered reserve model that distinguishes between assets held for immediate liquidity and those held for broader backing purposes under defined stress tolerances; this better reflects the approach taken for bank deposits and MMFs, for which there is a right to withdraw but this can be gated in limited circumstances. Without such adjustments, the current proposal risks creating a theoretical framework that is exceptionally elegant on paper but unworkable in practice.

Please refer to our response to Q13 for further detail on our challenges to the T+1 redemption requirement.

Expanded Backing Assets

We are supportive of the requirement for issuers to notify the relevant authorities before expanding the backing asset pool. However, we would also encourage the FCA to establish a clear, fair, and transparent process with regards to review and approvals. Requiring issuers to notify the FCA before expanding backing assets is reasonable, provided the process remains proportionate and focused on ensuring sound risk management practices are being undertaken by the issuer. The FCA should avoid setting unnecessarily high hurdles, being overly prescriptive in

defining such a risk management practice or applying the regime in a way that deters sensible innovation or denies reasonable requests without clear justification.

4) Do you have any views on our overall proposed approach to managing qualifying stablecoin backing assets? Particularly: i) the length of the forward time horizon; ii) the look-back period iii) the threshold for a qualifying error.

We support the FCA's objective of ensuring robust liquidity risk management by stablecoin issuers and agree that tools such as minimum on-demand deposit requirements (ODDR) and contingency funding plans (CFPs) can support orderly redemptions under both normal and stressed conditions.

However, we are concerned that the proposed approach risks becoming overly prescriptive and operationally burdensome, particularly in the context of the proposed T+1 redemption requirement. The framework appears to assume that 100% of coinholders may seek to redeem on any given day and that issuers must pre-position sufficient liquid assets to meet such redemptions within a one-day window. This creates an unrealistic baseline that is inconsistent with how liquidity is managed across other regulated sectors, including banking and funds.

Under this construct, the proposed BACR (backing asset composition ratio), DRA (daily redemption amount), and CBAR (core backing asset requirement), alongside complex mechanisms such as forward-looking error margins and automatic look-back adjustments, become less effective tools of proportional risk management and instead function as rigid buffers against a theoretical worst-case scenario. A well-capitalised issuer holding high-quality liquid assets (HQLA) may still fail to meet the proposed standards simply due to the inability to convert all assets into cash within 24 hours.

In addition, we recommend removing the proposed two-tiered system for backing assets and instead adopting a single list of approved high-quality asset types, such as central bank deposits, short-dated government securities, and other low-risk instruments. This would simplify compliance, reduce operational friction, and align with international norms without compromising prudential standards.

We recommend that the FCA move toward a more principles-based liquidity framework, consistent with international regulatory trends. This should empower issuers to design internal liquidity risk models informed by:

- Redemption analytics and historical trends.
- Business model.
- User base concentration and behaviour.

- Market volatility and seasonality.
- Product-specific redemption mechanics.

Such internal frameworks could set forward-looking liquidity buffers, reviewed periodically.

5) What alternative ways would you suggest for managing redemption risk, which allow for firms to adopt a dynamic approach to holding backing assets?

It is arguable, in our view, that large-scale redemption requests no longer fall within the bounds of BAU operations, but instead reflect stress conditions more akin to recovery or resolution scenarios. In a well-functioning market where stablecoins are widely used and trusted, redemptions at this scale would typically only arise in response to a fundamental loss of confidence, external shock, or systemic event. Treating such events as part of day-to-day liquidity planning imposes an unrealistic operational burden on issuers and risks distorting reserve composition in ways that undermine long-term viability. A proportionate framework should therefore distinguish clearly between BAU redemption expectations, where issuers should be able to meet a defined and reasonable volume of redemptions promptly, and exceptional scenarios, which should trigger contingency plans or supervisory engagement, rather than being implicitly priced into daily reserve management. This approach would align more closely with established financial resilience frameworks and international practice.

While we support strong redemption rights to underpin trust in stablecoins, we encourage the FCA to consider a more scalable framework that enables both operational realism and capital efficiency. In particular, allowing a defined tier of highly liquid but interest-bearing instruments, within clear risk parameters, could reduce over-reliance on unremunerated central bank deposits and support issuer sustainability.

We would appreciate clarification however that issuers will continue to be permitted to use the yield generated from backing assets to fund commercial partnerships and incentivise users, as they do in line with established business models and market incentives today, provided that this yield is not contractually attached to the stablecoin itself and where this does not constitute the payment of yield or interest on the stablecoin itself. This ensures the stablecoin continues to be treated as a money-like instrument rather than an income-generating investment. For example, issuers could use yield to offer discretionary benefits such as transaction fee discounts, cashback, or ecosystem integrations—without granting stablecoin holders any rights to returns or interest.

This approach is consistent with international practice, including in the US, where regulated issuers commonly deploy backing asset revenue to support adoption and platform growth. It enables sustainable business models under a fully backed regime, without compromising user protection or prudential soundness. Importantly, it also helps ensure UK-based stablecoin issuers

are not placed at a commercial disadvantage relative to firms operating under more flexible regulatory frameworks abroad.

We support the FCA's objective of ensuring that qualifying stablecoin issuers manage redemption risk prudently and can meet 1:1 redemption demands under both normal and stressed conditions. However, the current proposals may benefit from greater flexibility and alignment with established liquidity management principles. Such alternative approaches could include:

Clarification of what constitutes BAU vs. stress scenario

A clear distinction should be drawn between redemption volumes that are reasonably foreseeable under normal conditions and those that indicate a market stress event or loss of confidence. A more proportionate framework would separate day-to-day redemption expectations from exceptional stress scenarios. For example, regular fluctuations in redemptions could be managed through dynamic reserve practices, while significantly higher or sustained volumes should prompt contingency planning or supervisory engagement. To prevent a cliff effect or panic triggers, this approach should be supported by clear messaging and proportionate oversight.

However, we acknowledge a downside to this approach: setting a hard threshold may unintentionally create a cliff-edge effect. If market participants believe that a different regulatory regime or outcome will be triggered once redemptions cross a specific line, this could perversely accelerate redemptions and contribute to a loss of confidence. This highlights the importance of pairing any threshold-based approach with clear messaging, flexible supervisory oversight, and well-designed contingency frameworks to avoid self-fulfilling panic dynamics.

Clearer delineation between redemption and conversion

As outlined previously, it is crucial that this regulatory framework distinguishes between redemption (i.e., a last resort backstop in which coinholders can return stablecoins directly to the issuer to be removed from circulation with associated backing assets liquidated) and conversion (i.e., the BAU exchange of stablecoins for other forms of money, facilitated by intermediaries). In well-functioning stablecoin ecosystems, most users engage in conversion, not redemption. Intermediaries such as exchanges and liquidity providers act as buffers, smoothing redemption flows and concentrating issuer-facing redemption activity among a smaller number of professional counterparties. Regulatory expectations should reflect this structure, focusing on orderly issuer redemptions in normal conditions, while recognising that conversion enables liquidity and confidence even where direct redemption is infrequent. In practical terms, this means that the prescribed regulatory outcome should be that users are able to realise the par value of their stablecoin at any time, and this could be delivered by redemption (either by the issuer itself or a third party, subject to outsourcing rules) or conversion (facilitated by a market intermediary or again by the issuer itself).

Additional tools to support redemption integrity

In addition to the above framing, we recommend the FCA consider the following tools to support redemption integrity in a more scalable and commercially viable way:

- *Redemption Liquidity Coverage Ratios (LCRs)* – Allow firms to size liquidity buffers based on recent peak redemption volumes (e.g. over a 3- to 5-day period) rather than static thresholds. This aligns with Basel III-style models and permits calibration to issuer-specific behaviours.
- *Weighted Liquidity Buckets* – Permit backing asset portfolios that mix cash, government securities, and high-quality short-term instruments using liquidity weightings. This avoids forcing inefficient reserve allocations and supports portfolio resilience.
- *Internal Liquidity Models (ILMs)* – Enable larger or systemic issuers to adopt supervised internal models to simulate redemption scenarios and calibrate buffers dynamically, subject to model governance and supervisory challenge.
- *Redemption Management Protocols* – Allow firms to pre-notify and implement time-limited redemption throttles or queues under extreme market stress, with FCA oversight. These tools should be disclosed ex-ante and reserved for exceptional conditions.
- *Enhanced Transparency and Real-Time Liquidity Reporting* – Encourage high-frequency disclosure of reserve and redemption metrics (e.g. via APIs, dashboards, or on-chain attestations) to reinforce market discipline and supervisory visibility.

Adopting such tools would maintain strong user protections while avoiding the commercial distortions and operational rigidity of a one-size-fits-all regime. It would also support greater international alignment with frameworks under MiCA, MAS, and NYDFS, which permit outcome-based redemption models without prescribing inflexible mechanics.

6) Do you think that a qualifying stablecoin issuer should be able to hold backing assets in currencies other than the one the qualifying stablecoin is referenced to? What are the benefits of multi-currency backing, and what risks are there in both business-as-usual and firm failure scenarios? How might those risks be effectively managed?

We applaud the FCA considering the future evolution of the ecosystem and given recent developments, we encourage the FCA to provide flexibility for qualifying stablecoin issuers to hold backing assets in currencies other than the one to which the stablecoin is referenced, subject to appropriate transparency, risk management, and prudential safeguards.

The proposed framework primarily addresses single-currency, fiat-backed stablecoins. However, there is growing market interest in multi-currency stablecoin models (MCSCs), typically structured around a defined basket of sovereign currencies, which may offer several important benefits such as:

- Diversification of currency risk, reducing reliance on a single monetary system.
- Greater utility in cross-border use cases, especially where end-users operate across multiple jurisdictions.
- Improved access and financial inclusion in non-dollar economies.
- Support for global trade and programmable payment instruments that require broader currency exposure.
- Monetary sovereignty, particularly for issuers operating outside dominant reserve currency zones.
- Product innovation, enabling differentiated offerings within a regulated perimeter.

That said, we acknowledge that multi-currency backing arrangements may introduce additional complexity and risk, including:

- Foreign exchange (FX) volatility and potential misalignment between backing asset value and redemption price.
- Valuation and reconciliation challenges in calculating net asset value (NAV) across currencies.
- Operational burden in maintaining diverse liquidity pools and ensuring timely redemption in local currency terms.
- Lower consumer understanding, particularly around the meaning of “par” value and redemption expectations.
- Stress scenario complications, where FX markets may become illiquid or volatile.
- Legal and regulatory fragmentation, especially where backing assets span multiple jurisdictions with differing standards for segregation, control, and audit.

To enable innovation while preserving financial stability and user confidence, we recommend the FCA consider publishing additional guidance or implementing a tailored framework for MCSCs that includes:

1. **Clarification on scope**: whether MCSCs qualify as fiat-backed stablecoins under the regime and, if so, how the reference to "par" value should be interpreted and disclosed to users in multi-currency contexts;
2. **Flexible backing asset composition rules**: permitting currency baskets where underlying assets are appropriately liquid and low volatility, subject to dynamic risk assessment;
3. **Targeted disclosure requirements**: including real-time transparency of FX exposures, currency weights, and rebalancing mechanisms;
4. **Proportional redemption and liquidity expectations**: that reflect the practical realities of FX conversion and settlement, including the ability to tier liquidity buffers based on concentration and geography; and
5. **Enhanced governance and internal controls**: particularly around rebalancing, stress testing, and communication to users regarding potential FX impacts on redemption.

A well-calibrated approach would enable the UK to accommodate future innovation in digital money while maintaining high regulatory standards, consistency with global frameworks (such as MiCA, MAS, and NYDFS), and clear protections for end-users.

7) Do you agree that qualifying stablecoin issuers should hold backing assets for the benefit of qualifying stablecoin holders in a statutory trust? If not, please give details of why not.

GDF and CCI support the principle that backing assets should be held for the benefit of stablecoin holders and agree that a statutory trust can offer a strong legal framework to underpin this. We believe that this structure offers a robust legal framework to support clear ownership, improve investor protection, and facilitate effective insolvency arrangements. However, we note that certain aspects of the draft rules require further clarity to ensure legal certainty and operational viability for firms.

Specifically, the draft rules do not clearly indicate whether beneficiaries (i.e., the stablecoin holders) would have a right to any income generated by the backing assets held on trust. In most trust arrangements, beneficiaries are typically entitled to such income unless expressly excluded. However, under the proposed regime, stablecoin issuers are prohibited from paying interest to stablecoin holders, raising uncertainty as to how income or capital appreciation on backing assets should be treated.

We recommend that the FCA and Bank of England clarify the intended treatment of any yield, income, or appreciation derived from backing assets. This includes:

- Whether such income is to be retained by the issuer or must be segregated in some other way.
- Whether the prohibition on interest extends to the distribution of yield in kind or other forms of return to holders.
- Whether any such income is treated as part of the statutory trust or excluded from it.

Clarifying these points is essential to ensure legal certainty and to avoid unintended regulatory consequences, such as the characterisation of backing asset returns as financial benefits that could bring stablecoin arrangements within the scope of deposit-taking or other regulated activities.

We also encourage regulatory alignment with equivalent regimes in other jurisdictions—such as the treatment of income under the U.S. OCC's guidance on stablecoin reserves, or the approach taken under MAS's proposed stablecoin regime to support international consistency and minimise opportunities for regulatory arbitrage.

8) Do you agree with our proposal that qualifying stablecoin issuers are required to back any stablecoins they own themselves? If not, please provide details of why not.

We agree that qualifying stablecoin issuers should be required to fully back any stablecoins they have minted and are holding in their own treasury prior to distribution. This aligns with the principle that all issued tokens, regardless of whether they have yet been distributed, represent potential redemption liabilities, and must therefore be backed on a 1:1 basis. Allowing issuers to exclude treasury-held coins from the backing requirement could create a loophole, enabling them to underfund reserves while still appearing compliant. This would introduce inconsistencies in reserve ratios and potentially undermine market confidence. Requiring all minted coins to be backed also ensures transparency, integrity, and parity with respect to treasury management across the stablecoin lifecycle.

Additionally, we would welcome the FCA clarifying explicitly that temporary intra-day holdings or operational balances held by the issuer for settlement or liquidity management purposes are not in scope of the 1:1 requirement, provided they do not distort total supply or redemption liabilities.

9) Do you agree with our proposal to require third parties appointed to safeguard the backing asset pool to be unconnected to the issuer's group?

We support the FCA's objective of ensuring robust safeguarding and operational separation between issuers and custodians of backing assets. However, we caution against a blanket prohibition on affiliated or intra-group custodians, which may be unnecessarily restrictive and misaligned with established financial sector practice.

In many regulated sectors, including under EMIR, MiFID, AIFMD, and banking resolution frameworks, it is common for firms to rely on intra-group entities for custody or asset servicing functions, subject to appropriate ring-fencing, governance, and oversight. A complete prohibition would exceed international regulatory norms and may reduce operational efficiency without a commensurate gain in risk mitigation.

We recommend that the FCA adopt a proportionate, risk-based framework that permits intra-group custodians in certain circumstances particularly where:

- The custodian is a regulated entity within the same corporate group as the issuer;
- Custody is provided through a diversified, multi-custodian model; or
- The issuer itself is a regulated custodian, subject to separate governance and supervisory arrangements.

Permitting such models would help preserve the UK's attractiveness as a jurisdiction for stablecoin issuance under the broader innovation and competitiveness objectives articulated in the Edinburgh and Mansion House reforms. Rigid structural rules that require duplicative infrastructure may discourage global firms from offering products in the UK, even where equivalent or superior safeguards are already in place within a group structure.

Benefits of Allowing Intra-Group Custodian Models

1. Alignment with Global Precedent and Practice: Intra-group custodianship is an accepted model across several financial regimes, provided operational independence and fiduciary responsibilities are upheld. Prohibiting such arrangements in the context of fiat-backed stablecoins would diverge from international norms and create barriers not justified by incremental risk.

2. Operational Efficiency and Risk Reduction: Integrated custody arrangements allow firms to leverage group-wide infrastructure for wallet management, KYC/AML monitoring, audit, and incident response. These functions may be more resilient than outsourced models, particularly where third-party custodians lack the same visibility into issuer operations. Operational risk can be mitigated through functional independence, robust internal controls, and independent governance functions, such as compliance and audit.

3. Supervision and Transparency Supervisory integrity can be maintained through regulatory tools such as:

- Functional separation between the custody unit and other group operations;
- Independent fiduciaries or directors on the board of the safeguarding entity;
- Full audit trails and books-and-records access for the FCA; and
- Tailored reporting requirements to monitor custody resilience and manage conflicts of interest.

4. Avoiding Market Concentration and Exit Risk: An outright ban may reduce the pool of available custodians, increase barriers to entry, and concentrate risk in a limited set of external providers. In a failure scenario, this could amplify systemic risk. A diversified model, which includes regulated intra-group custodians, may improve overall market resilience.

5. Legal Safeguards Can Be Achieved Without Prohibiting Group Affiliation: If the FCA's primary concern is safeguarding client assets in the event of firm failure, this can be addressed through:

- Statutory or contractual trust structures, with clearly defined ringfencing;
- On-chain and off-chain asset segregation, codified in legal agreements;
- Strong recoverability standards that do not depend solely on custodian affiliation.

Recommendation

Rather than impose a categorical restriction, we recommend that the FCA permit intra-group custodianship models where appropriate safeguards are in place. This includes situations where custodians are independently regulated, functionally separated, and subject to conflict of interest monitoring. We firmly believe that a principles-based framework rather than one focused strictly on structural independence, would better align with international best practice, preserve UK competitiveness, and maintain high standards of operational and prudential integrity.

10) Do you consider signed acknowledgement letters received by the issuer with reference to the trust arrangement to be appropriate? If not, why not? Would you consider it necessary to have signed acknowledgement letters per asset type held with each unconnected custodian?

We believe that requiring signed acknowledgement letters from each unconnected custodian per asset type introduces an unnecessary burden that may not be commercially reasonable in

practice. While we support appropriate documentation to evidence the trust arrangement, this level of formality risks creating operational friction, particularly where custodians operate across multiple jurisdictions or are subject to differing legal requirements. A more proportionate approach could rely on clear contractual terms and recordkeeping, without mandating signed acknowledgements in every instance.

11) Do you agree with our proposals for record keeping and reconciliations?

We agree with the FCA's observation that stablecoin issuers "will not necessarily know who owns each coin" and that it is therefore appropriate for issuers to record the number of stablecoins minted rather than maintain client-specific records. This reflects the operating model of stablecoins, where issuers typically maintain records of direct customers for issuance and redemption, while public blockchains provide transparent, real-time data on token holdings across wallets. This inherent transparency, together with reconciliation of issued tokens and the value of backing assets, offers advantages over traditional commercial bank deposits and should be the focus of regulatory expectations. The frequency of backing asset valuations will depend on information from third-party custodians or fund managers, which may be outside the issuer's control, but daily reconciliations should be achievable in practice. We note as well that it may be helpful in future for the FCA to provide further guidance or clarifications as needed with regards to the valuation methods for different backing asset classes, to ensure consistency in application of the rules.

12) Do you agree with our proposals for addressing discrepancies in the backing asset pool? If not, why not?

We agree that discrepancies in the backing asset pool, be they excesses or shortfalls, must be addressed promptly and transparently to maintain trust in the stablecoin and uphold the 1:1 backing principle. However, the FCA's proposals, as they currently stand, introduce structural inconsistencies and, in some cases, undermine the very trust framework they are intended to preserve. Specifically, the requirement to remove any excess value from the backing pool within one business day, while simultaneously mandating that issuers top up any shortfall using their own liquid resources, effectively prohibits overcollateralisation within the trust while demanding capitalisation outside of it. This risks pushing issuers toward proprietary capital management strategies or risk-bearing side activities just to meet their obligations: an outcome that is both economically inefficient and counterproductive to long-term stability.

More fundamentally, these proposals conflict with the statutory trust structure at the heart of the regime. A statutory trust is designed to safeguard client assets by legally separating them from the issuer's own funds. Using issuer capital to meet redemptions, or to plug shortfalls in the trust, undermines this legal separation and introduces ambiguity around coinholder rights and operational responsibilities in the event of insolvency. The trust framework should not function as a workaround for rigid redemption requirements, nor should it prevent prudent risk management practices such as modest, transparent overcollateralisation. On the contrary, allowing a buffer within the trust would enhance resilience and reduce the need for external capital interventions, while preserving legal clarity for coinholders.

We also question the rationale behind the FCA's concern that issuers could exploit knowledge of shortfalls by trading against the market. This concern misunderstands how the redemption and arbitrage mechanisms underpin stablecoin price stability. In a properly functioning regime, arbitrage opportunities, created when secondary market trading deviates from par and enabled via the requirement for redemption at par, help preserve the stability of the stablecoin and maintain par value in secondary markets. These risks are best managed through disclosure and governance safeguards, not by banning overcollateralisation or forcing the artificial extraction of excess value.

Finally, we would also welcome clarification that where issuers wish to voluntarily use surplus capital to meet temporary mismatches or intraday settlement flows, that this is permissible, so long as it does not undermine the legal integrity of the trust.

Overall, a more coherent and workable approach would allow limited overcollateralisation within the trust, ensure timely and proportionate responses to genuine discrepancies, and avoid requiring firms to build unsustainable business models around ad hoc injections of capital from outside the trust.

13) Do you agree with our proposed rules and guidance on redemption, such as the requirement for a payment order of redeemed funds to be placed by the end of the business day following a valid redemption request? If not, why not?

GDF and CCI welcome the FCA's objective of ensuring timely redemption of qualifying stablecoins to promote trust, reliability, and consumer protection. However, we consider the proposed requirement for redemption of stablecoins to be processed within one business day to be disproportionate. Additionally, this standard exceeds international norms and, in our view, may introduce operational, liquidity, and other unintended risks without commensurate consumer benefit.

While we support the FCA's objective of ensuring redemption at par, we encourage clarity around the operational distinction between "conversion" (i.e., swapping into another token or asset within the same platform) and "redemption" (return of fiat value to off-ramp). Recognising these as separate processes is important for accurately assessing operational timelines and liquidity risk.

We also encourage the FCA to consider how rigid redemption timing requirements could interact with systemic or platform-wide stress events. Most global regimes allow for reasonable flexibility in such instances, and we believe codifying narrowly defined exceptions would support orderly market behaviour and consumer confidence. In particular, the assumption that all reserve assets, even highly rated government securities, can be liquidated instantly at scale during market stress may not hold in practice. A measured redemption framework that reflects real-world liquidity dynamics would preserve resilience while upholding consumer protection goals.

We also observe that the requirement for T+1 redemption of stablecoins, meaning a payment instruction must be made the next business day following any valid redemption request, effectively nullifies the proposed regime for backing asset composition. As discussed above, if in practice even the most liquid high-quality assets (e.g., short-term gilts) cannot be reliably liquidated at scale within a one-day window without exposing the issuer to material liquidity and market risk, then the implication is that, irrespective of a framework that theoretically encompasses a broad range of backing assets, issuers would be forced to hold a significant proportion of reserves in overnight deposits. The outcome and net effect is to undermine diversification, push up capital costs, and erode the economic viability of the stablecoin model - particularly in the context of other jurisdictions' requirements and the business models that can be supported and sustained in compliance with these.

The FCA's suggestion that redemption requests could be met using other funds (e.g. an issuer's own funds account) is also unworkable within the proposed statutory trust structure. We note that the requirement for a statutory trust over the backing asset pool legally precludes the mixing of trust assets and issuer funds. Using issuer funds to meet redemptions would breach this separation and risk violating the trust framework altogether. Moreover, routinely relying on issuer own-account capital to plug liquidity gaps makes no commercial sense and is antithetical to the idea of a fully-reserved, redemption-at-par instrument. A statutory trust should provide legal certainty to coinholders, not serve as a loophole for reconciling structurally unworkable redemption timelines.

The combined effect of unrealistic redemption timing, structural inconsistencies with the trust model, and a lack of international alignment is to create a regime that is operationally

unworkable, economically unsound, and commercially uncompetitive. Other global regulatory regimes also take a more pragmatic approach:

- *Global regulatory precedent:* Across other jurisdictions, redemption expectations are typically structured around principles of timeliness, proportionality, and prudence rather than prescriptive timeframes:
    - United States (NYDFS & proposed federal legislation): Issuers such as Circle and Paxos, operating under NYDFS supervision, are required to maintain full backing and clear redemption rights, but no fixed one-day redemption timeframe is mandated. The emphasis is on honouring redemptions promptly, subject to operational realities. The GENIUS act similarly avoids rigid redemption windows.
    - European Union (MiCA): The Markets in Crypto-Assets Regulation mandates that issuers of e-money tokens (EMTs) must offer redemption at par value at all times, but it does not impose a specific one-business-day deadline. Redemption must be "prompt," but firms retain flexibility, particularly in relation to the composition and liquidity profile of backing assets.
    - Middle East (ADGM): While the ADGM framework requires robust redemption processes, they do not prescribe fixed deadlines. Instead, the focus is on safeguarding arrangements, disclosure of redemption rights, and ensuring holders' ability to exit under fair and orderly conditions.
    - Singapore: The MAS consultative framework (Oct 2022) for single currency stablecoins outlines the need for prompt and orderly redemption but allows issuers flexibility in how to meet this obligation, considering their asset liquidity profile.
- *Operational and KYC/AML considerations:* The FCA's requirement fails to account for real-world frictions in redemption processes, particularly for retail holders:
    - Many retail holders will redeem via intermediaries (exchanges and other off-ramps) who must first verify identity, validate ownership, and conduct AML checks. This intermediated flow introduces legitimate delays that are not under the issuer's direct control.
    - The proposed definition of "valid redemption request" does not clarify whether a redemption is considered valid once the user initiates it, once they have completed onboarding, or once verification is completed. Without this clarity, the one-day

requirement could become operationally unworkable or lead to perverse incentives to reject or delay redemption validation.

Examples of where T+1 is Unfeasible

1. *Market Stress or Liquidity Crunch* - In high-stress scenarios (e.g. a sudden depegging event or systemic banking disruption), even highly liquid assets such as short-term government bonds or central bank reserves may experience redemption bottlenecks. T+1 redemptions could force asset fire sales, exacerbating volatility and undermining consumer protection.

    a. We reiterate as well the observation from issuers that T+1 redemption at scale is only feasible in a dollar or dollar- pegged currency environment (e.g. such as Hong Kong), as only US Treasury markets are sufficiently deep and liquid to support backing asset liquidation at scale without moving the market price in such a way as to result in issuer (and hence coinholder) shortfalls. This would not be possible from an operational perspective in the UK gilt market, given the comparatively small size of the market for short-term gilts and its relative sensitivity to large-in-size trades.

2. *Large-Scale Redemption Requests* - For systemic or high-volume stablecoin issuers, sudden redemption spikes - for example, following regulatory news or platform outages - may exceed pre-funded liquidity buffers. Meeting all redemptions within a one-business-day window could incentivise over-collateralisation or inefficient reserve holdings (e.g. holding all reserves in cash), which conflicts with broader prudential and efficiency objectives.

3. *Backing Asset Liquidation Through Third-Party Banks or Intermediaries* - Some issuers may rely on third-party intermediaries such as banks or broker / dealers for liquidation of backing assets. These intermediaries may impose processing times that are outside the issuer's direct control, making guaranteed T+1 redemption timelines difficult to uphold consistently.

4. *Time-Zone and Holiday Disparities* - A T+1 requirement anchored to the UK business calendar does not account for global user bases. For instance, a redemption request submitted on Friday afternoon UK time by a user in Asia may not be processed until Tuesday (due to time zone differences and weekend banking closures).

5. *Multi-Currency Stablecoin Structures* - Issuers of multi-currency stablecoins (e.g. backed by USD, EUR, GBP) may need to manage FX conversions and liquidity buffers across several markets. Where redemptions are made in a different currency than the asset

backing (e.g. USD-backed stablecoin redeemed in GBP), real-time access to FX liquidity may not be guaranteed within 24 hours, especially during periods of volatility.

Proposed Solution

GDF and CCI recommend that the FCA considers a more risk-based and internationally harmonised approach, including:

- Aligning redemption timeframes with global best practice principles (i.e., requiring timely redemption while allowing operational flexibility).
- Introducing volume-based redemption tiers (e.g. treating redemption requests exceeding 20–40% of reserves as extraordinary events and subject to a longer redemption timeframe).
    - The FCA could consider allowing issuers to apply proportionate redemption tiering based on daily redemption volumes. For instance, redemption requests exceeding a material proportion of backing assets (e.g. 20–40%) could be treated as exceptional, permitting a longer redemption timeframe in line with prudent liquidity management and comparable to stress safeguards in other regulated financial products.
- Extend the redemption timeline - should the FCA wish to adopt a single maximum redemption timeline, perhaps the most pragmatic solution is to simply extend the permitted redemption timeline to five business days (T+5). This would immediately reduce pressure on reserve liquidity requirements, enable more diverse and commercially viable backing asset portfolios, and bring the UK regime into closer alignment with emerging international regulatory standards with respect to redemption timeframes. It would also allow for safer, more orderly redemption processes and minimise the need for artificial liquidity buffers or rigid modelling requirements.

The UK's goal of fostering trust and reliability in stablecoins is shared across the industry. Ensuring redemption processes are robust, predictable, and grounded in economic and operational realities will be essential to achieving this aim.

Overall, while we support strong redemption rights to underpin trust in stablecoins, we urge the FCA to reconsider the overly rigid requirement of one day redemption. The proposed approach risks imposing excessive liquidity pressures on issuers and diverging from international standards. A more pragmatic and proportionate framework, reflecting actual redemption processes and global regulatory alignment, would better serve both market integrity and consumer protection, while also supporting the FCA's competition and growth objectives.

14) Do you believe qualifying stablecoin issuers would be able to meet requirements to ensure that a contract is in place between the issuer and holders, and that contractual obligations between the issuer and the holder are transferred with the qualifying stablecoin? Why/why not?

In our view, this requirement is conceptually misaligned with the fundamental characteristics of qualifying stablecoins, specifically their nature as bearer instruments. By design, a stablecoin is transferable peer-to-peer without the involvement or knowledge of the issuer. Imposing a requirement that a direct contractual relationship must exist between the issuer and every holder, and that such a contract must automatically transfer with the coin, would be legally and operationally unworkable. It effectively undermines one of the core features that gives stablecoins their utility and efficiency as a new form of digital money.

While we support the FCA's intention to ensure that holders have a clear and enforceable claim on the issuer for redemption, this does not require a direct contract with each holder. In other parts of the financial system, such as with bearer securities or physical cash, the rights and obligations associated with the instrument exist without the need for the issuer to enter into bilateral contracts with every end user. In fact, if qualifying stablecoin issuers were required to KYC and onboard every downstream holder to establish and maintain individual contracts, it would create immense friction, cost, and complexity, likely requiring issuers to build operational capabilities exceeding those of the UK's largest banks (given the cross-border reach of stablecoins).

Instead, the regulatory regime should acknowledge the intermediated market structure through which stablecoins are typically distributed and redeemed. The issuer can maintain a contractual relationship with its direct clients (exchanges, brokers, PSPs, and other intermediaries), and rely on a statutory framework, such as the proposed trust-based claim mechanism, to provide coinholders with a clear legal right to redeem at par, even in the absence of a bilateral contract. This would preserve legal clarity and consumer protection without sacrificing the core functionality and scalability that make stablecoins viable - and attractive - in the first instance.

Another viable mechanism, which does not require a direct "contract" with every coinholder, would be to rely on clear redemption policies. For example, alongside the proposed trust-based claim mechanism, issuers could implement redemption policies that set out a direct route for coinholders to redeem with the issuer (subject to reasonable conditions) in cases where the coinholder cannot, or chooses not to, convert their stablecoins through an intermediary. This would provide coinholders with a clear legal right to redemption at par, without imposing unworkable contractual onboarding requirements on every downstream holder, and would align with the practical realities of stablecoin market structures.

15) Do you agree with our proposed requirements for the use of third parties to carry out elements of the issuance activity on behalf of a qualifying stablecoin issuer? Why/ why not?

Yes, we are supportive of the requirements as proposed and believe it strikes the right balance between flexibility and the appropriate supervisory objectives.

However, we would also request that FCA provide additional clarity on how cross-border issuance and delegation will be treated under the UK regime, particularly where global stablecoin structures involve regulated entities in multiple jurisdictions. This will be critical for maintaining international competitiveness and passporting equivalence.

16) Do you agree with our proposals on the level of qualifications an individual needs to verify the public disclosures for backing assets? If not, why not?

Yes, we believe that these are the appropriate qualifications. However, we believe 'independence' could be further defined and specified. We welcome that the FCA has indicated that the independent review could be combined with other types of auditing, however if this were the case, we would welcome further specificity on how these reviews would interact. We defer to colleagues at the ICAEW who we understand are providing more feedback on this specific point.

17) Do you agree with our proposals for disclosure requirements for qualifying stablecoin issuers? If not, why not?

Yes, we are supportive of the disclosure requirements and would encourage the FCA to leverage them further as a supervisory tool to meet regulatory outcomes. This is particularly applicable with regards to redemption. We believe that a similar approach to disclosures around redemption, in line with those seen in other jurisdictions, would offer greater flexibility while still meeting the FCA's consumer protection objectives.

Further to this point, we would also note that we see clear benefits in adopting ISO 24165 Digital Token Identifiers (DTIs) as a standard reference for qualifying stablecoin issuer disclosure requirements. Standardised identifiers can reduce confusion, improve data quality, and support effective supervision as the market evolves.

A DTI is a standardisation tool designed to improve transparency and consistency across markets, not to alter the underlying structure or issuance of existing tokens. It enables clear identification without requiring tokens to be restructured or reissued, supporting interoperability and regulatory reporting without disrupting current business models.

18) Do you agree with our view that the Consumer Duty alone is not sufficient to achieve our objectives and additional requirements for qualifying cryptoasset custodians are necessary?

Yes, we believe that it should not only be the Consumer Duty which covers the requirements, but also the FCA's broader objectives around growth as well as their aim to support responsible innovation. Custody is a critical part of the digital asset ecosystem, and we believe that the requirements will shape how the ecosystem is able to grow and scale. Our recommendations in response to the following questions aim to support all of these regulatory objectives and support the FCA in their aim of developing a future proof regulatory framework for crypto assets.

19) Do you agree with our proposed approach towards the segregation of client assets? In particular:

Yes, GDF and CCI support welcomes the FCA's proposals regarding the safeguarding of client qualifying cryptoassets. We agree with the overall objectives of what has been proposed and support efforts to increase trust, transparency, and legal clarity in the UK crypto custody framework. Below are our responses to the sub-questions:

i. Do you agree that client qualifying cryptoassets should be held in non-statutory trust(s) created by the custodian? Do you foresee any practical challenges with this approach?

Overall, we support the FCA's proposal to require qualifying client cryptoassets to be held in non-statutory trusts created by the custodian. This approach helps establish clear legal separation between client assets and the custodian's own assets, thereby offering an important layer of client protection—particularly in the event of insolvency. However, we would highlight several potential practical challenges with implementation that merit further consideration:

1. **Cross-Border Harmonisation:** Many cryptoasset custodians and exchanges operate globally, often using distributed custody models that span multiple jurisdictions. Imposing a UK-specific non-statutory trust requirement may necessitate legal restructuring of wallet arrangements or the establishment of UK-specific custody entities. This could result in significant operational complexity and raise the risk of inconsistent legal treatment across jurisdictions.
2. **Client Communication and Transparency:** The imposition of a non-statutory trust framework will require clear and accessible client disclosures. Firms must ensure that clients understand the implications of having their assets held under a non-statutory trust, including the rights afforded to them and the legal protections available. Additional

consumer education and standardised disclosures may be helpful in promoting transparency and minimising confusion.

3. **Legal Certainty and Interpretation:** While non-statutory trusts can provide effective client asset segregation, their treatment in insolvency proceedings may still be subject to judicial interpretation, particularly given the novel nature of cryptoassets as a property class. Additional FCA guidance on the circumstances under which a statutory trust may be required, or future consideration of a statutory framework for cryptoasset custody, could help promote greater legal certainty and industry confidence.

   Furthermore, we encourage the FCA to ensure coherence in the legal treatment of client assets across different regulated functions, including issuance and custody. Where different forms of trust structure (e.g. statutory vs non-statutory) are applied to similar safeguarding objectives, firms and clients may encounter inconsistency in their legal rights, particularly in cross-border insolvency scenarios. A consistent principles-based approach would better support legal certainty and international interoperability.

We would welcome ongoing engagement between the FCA and industry stakeholders to ensure that any legal trust structures for cryptoasset custody remain operationally viable and are appropriately harmonised with global custody models.

ii. Do you have any views on whether there should be individual trusts for each client, or one trust for all clients? Or whether an alternative trust structure should be permitted.

We recommend that the FCA adopt a flexible, risk-based approach to the structuring of trusts for client cryptoassets. The regulatory framework should accommodate both omnibus and individual trust models, allowing firms to select the structure that best aligns with their operational model and client profile provided that robust controls around recordkeeping, reconciliation, and client asset attribution are in place.

In most cases, particularly for retail clients, a single omnibus trust structure is operationally efficient and proportionate. This model enables effective wallet management on-chain, supports scalability for platforms with high user volumes, and reduces unnecessary fragmentation of custody arrangements. It also allows for clear delineation of client rights through detailed internal records and regular reconciliation procedures.

For institutional clients or those holding significant balances, firms may opt to offer segregated trust arrangements on a discretionary or contractual basis, where operationally feasible and supported by the legal framework. This tiered approach enables customisation of custody models without mandating impractical one-size-fits-all requirements.

A rigid obligation to establish individual trusts for every client, particularly in the context of exchanges or custodians with millions of users, could create substantial scalability challenges, increase operational risk, and undermine the efficiencies offered by distributed ledger technology.

We therefore propose that firms be permitted to determine the appropriate trust structure (individual or omnibus) based on their business model and client segmentation, subject to meeting clear regulatory standards for client asset protection, recordkeeping, and transparency.

iii. Do you foresee any challenges with firms complying with trust rules where clients' qualifying cryptoassets are held in an omnibus wallet?

While the use of omnibus wallets is a well-established industry standard and offers significant operational efficiencies, particularly in the context of blockchain-based custody, there are several compliance and legal challenges that firms may encounter in ensuring alignment with trust rules:

1. **Attribution Risk:** The effective operation of omnibus wallets depends on firms maintaining precise internal records that can attribute specific cryptoassets to individual clients at all times. This necessitates the implementation of robust accounting systems, frequent reconciliation (ideally daily), and independent auditing to safeguard against commingling risk or record discrepancies.

   It is worth noting that the current reality of crypto transactions presents unique challenges for accurate attribution that differ significantly from traditional finance:

   - Unlike traditional payments, which settle through multiple authorisation steps that facilitate reconciliation, crypto transactions are natively settled unilaterally by the agent that controls the private keys of the originating wallet, creating an inherent authorisation gap
   - Travel Rule obligations begin to address this missing information layer by requiring counterparty data exchange, but implementation remains fragmented across the industry
   - According to Notabene's 2025 State of Crypto Travel Rule Report[1], 61.6% of firms report that either none or only a small portion of incoming transactions include the required Travel Rule data
   - Without complete counterparty information, maintaining the precise attribution records required for omnibus wallet compliance becomes operationally difficult and potentially unreliable

[1] https://notabene.id/state-of-crypto-travel-rule-compliance-report

2. **Insolvency Risk:** In the absence of bespoke statutory provisions for cryptoasset custody, assets held in omnibus wallets may be at risk of being treated as part of the custodian's estate in an insolvency proceeding, especially in jurisdictions where the trust structure is not clearly defined or recognised. This reinforces the need for a legally robust trust framework and cross-jurisdictional clarity on the treatment of custodial cryptoassets.
3. **Legal Recognition in Cross-Border Contexts:** The trust-based treatment of assets held in omnibus wallets may not be uniformly recognised across all jurisdictions, particularly where trust law does not apply or is interpreted differently. This could pose challenges to asset recovery and client protections in cross-border insolvency or enforcement scenarios.

To address these risks, we recommend that the FCA explicitly confirm the acceptability of omnibus wallet structures under the proposed trust regime, subject to firms being able to demonstrate the following:

- Daily reconciliations of client holdings.
- Accurate and up-to-date internal recordkeeping systems.
- Robust procedures for handling transactions with incomplete or missing counterparty information.
- Clear policies for managing attribution uncertainty when Travel Rule data is unavailable.
- Appropriate governance, operational controls, and oversight procedures.

We believe that such confirmation would provide firms with needed regulatory certainty, while also ensuring that the safeguards around client asset protection remain robust and effective across custody models.

iv. Do you foresee any challenges with these rules with regards to wallet innovation (e.g. the use of digital IDs) to manage financial crime risk?

We recognise the FCA's intention to ensure that custody frameworks and financial crime controls remain robust in the context of emerging wallet technologies. However, several potential challenges may arise in aligning these rules with ongoing innovation in wallet design, particularly as it relates to digital identity integration and programmability:

1. **Technology Compatibility and Legal Certainty:** Novel wallet structures, such as identity-linked smart wallets, account abstraction frameworks, and programmable wallets, may not yet fully align with traditional models of trust formation or client asset attribution. This could create uncertainty around the legal status of assets held in such wallets, and whether they meet the criteria for qualifying as client assets under a non-statutory trust.

2. **Chain-Agnostic Implementation Challenges:** The integration of digital identity tools may be more feasible on certain blockchains (e.g. permissioned, or modular networks) than on others. This could constrain custodians' ability to provide consistent financial crime controls across all supported networks and may create uneven client experiences or regulatory coverage.
3. **Privacy and Data Protection Considerations:** While the integration of digital IDs into wallet structures can enhance financial crime prevention, it also raises complex questions regarding data privacy, lawful processing, and compliance with applicable frameworks such as the UK GDPR. Striking the right balance between transparency and individual privacy rights in crypto-native environments will require careful design of KYC, wallet monitoring, and access control systems.

To support continued innovation while upholding regulatory objectives, we recommend that the FCA adopt a technology-neutral approach to wallet regulation. We believe that this should include:

- Recognition that multiple forms of wallet infrastructure may be used to meet the required standards for custody, segregation, and financial crime controls;
- Ongoing dialogue between the public and private sector to assess how evolving wallet technologies can be integrated into compliant custody models; and
- Clear guidance on the application of trust, attribution, and asset protection principles to emerging wallet formats, particularly those involving programmable features or identity linkage.

Such flexibility will help ensure the UK remains a leading jurisdiction for crypto innovation while maintaining high standards of consumer protection and market integrity.

20) Do you agree with our proposed approach towards record-keeping? If not, why not? In particular, do you foresee any operational challenges in meeting the requirements set out above? If so, what are they and how can they be mitigated?

Yes, we largely support the proposed record-keeping approach and recommend firms should use a DTI at a minimum to ensure consistency and accuracy.

Relying only on names or internal codes risks confusion when similar labels are used for different tokens. The global DTI standard provides a unique reference that avoids these issues.

In addition to this, we also highlight several operational challenges and offer suggestions to ensure regulatory outcomes are met in a scalable and practical manner:

1. With millions of clients and a wide range of supported tokens and blockchains, maintaining real-time updates and daily reconciliations across all wallets presents a scalability challenge, especially during periods of extreme market volatility or high transaction throughput. The FCA may wish to consider permitting tiered or risk-based reconciliation models for lower-risk accounts (e.g. small, inactive holdings), similar to those used in traditional finance.
2. The emergence of Layer-2 networks, cross-chain bridges, and account abstraction models can make it operationally complex to maintain consolidated records and reconcile holdings. The FCA's rules should remain technology-agnostic and principles-based, allowing exchanges to adopt appropriate record-keeping mechanisms depending on the blockchain infrastructure used. A principles-based approach will also accommodate future innovations in custody models.
3. Clients' balances on the exchange are reflected in off-chain ledgers, while on-chain wallets often aggregate balances in omnibus structures. Ensuring robust attribution in these cases is critical but introduces mapping risks if ledger and blockchain data are not perfectly synchronised.

We note in particular the FCA's statement that records must be "maintained independently from the relevant DLT used by the firm and not be supplemented by records kept by third parties or on the blockchain" (para. 4.40). The scope of this requirement is unclear. It is not evident whether the FCA intends to mandate that firms maintain non-DLT records even where DLT forms the core of the internal ledger system, or whether the reference to "independence" relates specifically to avoiding sole reliance on a public chain. We would caution against prescribing a method of off-chain recordkeeping that is duplicative and potentially at odds with the efficiency and integrity benefits of DLT. Distributed ledger technology, by its nature, can support immutable, transparent, and real-time reconciliations, offering significant advantages over traditional off-chain systems. We therefore encourage the FCA to explicitly permit the use of DLT as a mechanism for reconciliation, particularly where on-chain auditability provides a real-time, tamper-evident record of client asset holdings.

21) Do you agree with our proposed approach for reconciliations? If not, why not? In particular:

i. Do you foresee operational challenges in applying our requirements? If so, please explain.

We are broadly supportive of the FCA's proposed approach to reconciliations and recognise the importance of robust client asset verification processes. However, we note several operational challenges that may arise, particularly at scale and across diverse blockchain environments:

1. **Volume and Complexity at Scale:** For large exchanges or custodians servicing millions of accounts and supporting a wide range of tokens, performing uniform reconciliations at a high frequency may be resource-intensive and operationally complex. We suggest allowing tiered reconciliation frameworks, where higher-value or higher-risk accounts are subject to more frequent checks, while lower-risk accounts follow standardised cycles.

   Furthermore, we would also note that the framework should account for the type of wallet structure (e.g. segregated vs. omnibus) as a factor which would warrant a different tier of reconciliation. While in TradFi the primary purpose behind conducting reconciliations is to ensure that securities held in omnibus accounts are matched to individual client records, this problem doesn't exist in the same way for a custodian operating fully segregated wallets. Thus, omnibus accounts may require more frequent reconciliations than fully segregated wallets.

   We also strongly recommend grace periods or materiality thresholds for minor discrepancies, provided these are transparently logged and promptly resolved, may further support operational resilience. These materiality thresholds should also be clearly defined for notification requirement, which should be quantitative, but may also include qualitative criteria (e.g. if it is known that a "shortfall" is due to a delay caused by on-chain traffic for example, irrespective of size/value firms should not be required report this).

   In line with this, we encourage the FCA not to be unduly prescriptive regarding the way reconciliation records or excess balances are stored or reported, provided the core reconciliation requirements are met. Allowing firms discretion in how they meet these outcomes would support innovation, reduce unnecessary operational burden, and better reflect the diversity of technology and business models in the sector.

   In addition, we encourage the FCA to explicitly permit the use of DLT as a mechanism for reconciliation, particularly where on-chain auditability provides a real-time, tamper-evident record of client asset holdings. This would align the framework with the technological capabilities of the sector and support innovation in compliance practices.

2. **Blockchain-Specific Considerations:** Not all blockchain networks offer the same level of infrastructure support for reconciliation. Certain protocols lack reliable APIs, precise timestamping, or standardised token interfaces. Moreover, smart contract vaults, Layer-2 environments, or cross-chain bridges may introduce finality delays or reconciliation

mismatches due to the asynchronous nature of these systems. Additionally, the reconciliation burden should account for multi-chain issuance structures and the asynchronous nature of L2 networks, which can make real-time wallet reconciliation technologically infeasible under certain conditions. Reconciliation requirements should therefore remain principles-based and risk-adjusted, rather than prescriptive or one-size-fits-all, to account for the technical constraints of different blockchain architectures.

Finally, we would also welcome clarity from the FCA regarding the definition of "business day" as applied to reconciliation timing. We understand this to align with CASS 6 definitions but recommend this be made explicit in the final rules.

ii. Do you foresee challenges in applying our proposed requirements regarding addressing shortfalls? If so, please explain.

Yes, we foresee several practical challenges in applying the proposed requirements for addressing shortfalls, particularly around the expectation that discrepancies be rectified immediately.

1. **Short-Term Operational Mismatches**: Temporary mismatches can occur due to a range of benign operational issues such as network congestion, stuck transactions, or delays in settlement finality. For example, a client deposit may be confirmed on-chain but not yet recorded in the internal ledger or vice versa. Strict requirements to resolve all shortfalls instantly may not always be feasible, particularly when remediation requires off-chain fund movement, fiat settlement, or coordination with third-party service providers. We recommend that the FCA consider a reasonable resolution window (e.g. 24–48 hours) for addressing immaterial shortfalls, supported by internal controls such as buffer balances or insurance mechanisms to ensure no client detriment during resolution.

2. **Asset Valuation and Peg Risks:** During reconciliation, discrepancies may appear where tokens are correctly accounted for in unit terms but show shortfalls when measured in fiat value, particularly in periods of high volatility or during stablecoin de-pegging events. We recommend that reconciliations prioritise token unit accuracy, rather than fiat valuation, to avoid misclassification of valuation-related differences as custody shortfalls.

We are broadly aligned with the intent of the proposed shortfall remediation requirements but encourage a more risk-sensitive and operationally realistic implementation framework.

22) Do you agree with our proposed approach regarding organisational arrangements? If not, why not?

We broadly support the FCA's intention to ensure robust organisational arrangements for cryptoasset custodians. However, we recommend a more flexible and proportionate approach that reflects the diversity of market participants, evolving technologies, and the global nature of the cryptoasset ecosystem. In particular, we highlight the following considerations:

1. **Proportionality and Phased Implementation:** While well-resourced exchanges may already operate sophisticated global structures, smaller firms or new market entrants may face challenges in implementing full-scale organisational frameworks from the outset. The FCA's approach should reflect the principles of proportionality, tailored to the size, complexity, and risk profile of the business, similar to existing expectations under the Senior Managers and Certification Regime (SM&CR). A phased or risk-adjusted implementation timeline could help ensure that compliance obligations remain achievable without stifling innovation or competition. We also note that the FCA and HM Treasury are consulting in parallel on reforms to the SM&CR. Given the overlap, we urge caution to ensure cryptoasset firms are fully considered in any redesign and are given appropriate timeframes to comply. There is a risk that misalignment between the regimes could create uncertainty for newly authorised firms or result in obligations that are ill-suited to the crypto sector.

2. **Cross-Border Consistency and Reciprocity Provisions:** Many firms providing cryptoasset custody operate internationally. Imposing UK-specific structural requirements could result in unnecessary duplication, operational inefficiencies, and friction with established global operating models. We recommend that the FCA recognise functionally equivalent overseas arrangements, and work toward reciprocal provisions at the outset, where firms can demonstrate that they meet or exceed the intended regulatory outcomes. This would support international regulatory coherence and help mitigate operational fragmentation.

3. **Technology-Neutral Design:** The regulatory framework should remain open to emerging custody technologies such as multi-party computation (MPC), account abstraction, and smart contract-based custody models. These innovations may not align with traditional definitions of organisational roles or physical infrastructure. We encourage the FCA to maintain a technology-neutral stance and to focus on core outcomes—such as safeguarding, access controls, and auditability—rather than prescribing specific organisational formats.

We would welcome further industry engagement to refine the implementation approach and ensure that organisational expectations remain proportionate, interoperable, and adaptive to evolving technologies.

23) Do you agree with our proposed approach regarding key management and means of access security?

We are broadly supportive of the FCA's proposed approach to key management and access security. We would set out the below which we developed based on our report, Digital Asset Custody Deciphered, as key areas of industry best practice:

"First and foremost, organisations providing custody tools and services must adhere to the highest standards of security and risk management. This includes "standard" best practice certifications such as ISO27001 (an international standard regarding information security) and specialist assurance reports such as SOCII. Similarly, organisations procuring such services should apply extreme caution and rigor in their assessment of vendor maturity and suitability.

In addition, organisations seeking to implement key management should consider their own capabilities and needs for key management and implement arrangements that address their needs. This includes implementation and design of strong key architecture features, including multi-layered security, high level encryption, and other similar offerings.

Specifically, organisations without operational or technical experience managing keys or managing the custody of financial assets are often better suited to at a minimum outsource some element of the design, development, implementation of the service or alternatively purchase services in which key management is partly (or fully) outsourced to specialist providers. These service providers need to undergo the same due diligence as described above. Those who do choose to outsource should determine who is liable for various actions during the lifecycle of custody, including facilitating transactions for clients.

Organisations implementing custody solutions should ensure critical decision-making processes (such as product or vendor selection) are staffed by practitioners with access to sufficient specialist expertise. These specialists can help evaluate technical options, determine preferred options, and evidence decision-making rationale such as vendor assessment questionnaires."

In addition to our comments on key management and access security, we would also note that we would provide the following report[2] as an example of best practice and key considerations for custodians given their important role in ensuring trust in the ecosystem. We would specifically propose that specific requirements should be made for best practice in operational resilience requirements for custody for all crypto asset intermediaries. This will ensure both consumer protection, and trust across the ecosystem given the critical role of custodians.

---

2 https://www.gdf.io/resources/digital-asset-custody-deciphered-a-primer-to-navigating-the-challenges-of-safeguarding-digital-assets/

While we appreciate that there will be an additional consultation on operational resilience, we would also highlight that with regards to digital custody specifically we believe further consideration should be given to cybersecurity. We would encourage guidance in support of global best practice for operational resilience and cybersecurity requirements with regards to all types of digital assets including stablecoins, tokenised equities, meme coins, or Bitcoin.

Overall, we believe that the cyber and operational resilience evaluation should be treated as an end-to-end system (as these assessments are in traditional finance markets). This could include:

- Secure key storage through reliance on advanced cryptographic technology;
- Requirements for risk-based transaction authorisation policies;
- Requirements for robust transaction processing safeguards such as transaction simulation, address white-listing, and reliance on confidential computing for transaction processing; and
- End-to-end cyber security with multiple layers of key custody security are in place creating effective checkpoints before a transaction is executed.

Consistent with the above excerpt from our report, we suggest the FCA consider strengthening its requirements, while remaining principle-based and technology neutral, as follows:

1. Full private keys, or controlling key shares, and means of access to qualifying cryptoassets are generated, stored, and controlled securely throughout their lifecycle, including risk-based transaction authorisation policies, relying on robust transaction processing safeguards, and on multi-factor transaction authentication.
2. Firms implement strategies to mitigate loss or compromise of the means of access to qualifying cryptoassets, including arrangements for secure back-ups residing with the controlling entity and end-to-end multi-layer software and hardware security security strategies
3. Firms must demonstrate appropriate reliance on security standards, internal audits and testing, and documented service level agreements governing any custody software, whether proprietary or third-party, used in the performance of the custody function.

We are happy to elaborate on these further in the subsequent operational resilience consultation.

24) Do you agree with our proposed approach to liability for loss of qualifying cryptoassets? In particular, do you agree with our proposal to require authorised custodians to make clients' rights clear in their contracts?

We broadly support the FCA's proposed approach to liability, including the requirement for authorised custodians to clearly articulate clients' rights and protections within contractual agreements. Establishing clear liability parameters enhances transparency, strengthens market confidence, and provides a necessary baseline for investor protection.

We agree that custodians should be held liable for losses arising from breach of duty of care, negligence in safeguarding private keys or client assets, failure to follow lawful client instructions, inadequate reconciliation processes, or mismanagement of custody infrastructure.

However, it is equally important that liability frameworks reflect the operational realities and shared-risk nature of decentralised systems. We recommend that custodians not be held liable for risks that fall outside of their reasonable control, including but not limited to:

- Smart contract vulnerabilities associated with third-party tokens or protocols;
- Blockchain protocol failures or network-level disruptions; and
- Force majeure events or unforeseeable cyberattacks beyond industry-standard controls.

Furthermore, the FCA should provide clear guidance on the scope of permissible exclusions or limitations of liability—particularly in scenarios where:

- Custody arrangements involve the use of sub-custodians; and
- Clients opt into features that introduce additional risk (e.g. staking, lending, or yield-generating services).

A well-calibrated liability regime should strike a balance between holding custodians accountable for core safeguarding responsibilities, while acknowledging the limits of their control in decentralised and multi-party custody ecosystems.

25) Do you agree with the requirements proposed for a custodian appointing a third party? If not, why not? Do you consider any other requirements would be appropriate? If not, why not?

GDF and CCI welcome the FCA's recognition of the unique operational and technical landscape that digital asset custodians operate within, particularly in respect of third-party service provision and the potential reliance on external technology vendors. We broadly support the proposed requirements for custodians appointing third parties, particularly the emphasis on appropriate due diligence and ongoing oversight. However, we encourage the FCA to consider several clarifications and additions that we believe would support proportionality and resilience in the UK framework.

1. Clarification on the Interaction Between Safekeeping and Operational Resilience Requirements

We assume that risk management, in the context of custody and safekeeping, will be governed not only by the final custody rules but also by the operational resilience framework currently subject to further consultation. It would be helpful for the FCA to provide guidance clarifying which components of risk management will fall under the custody regime, and which will be governed by the broader operational resilience framework.

In our view, the key dimensions of risk management in digital asset custody can be grouped into four core areas:

- Access management (e.g. key controls, authorisation layers, multi-sig arrangements)
- Detection, response, and investigation management (e.g. monitoring, and incident response protocols)
- Business continuity (e.g. disaster recovery and service availability planning)
- Key management (e.g. secure generation, storage, and use of private keys)

The current proposals touch on some of these domains but could benefit from a further articulation, while remaining principle-based, of how firms should assess and implement controls across these categories. This would support a more consistent and resilient baseline across the sector.

2. Proportionality in Due Diligence Expectations for Third Party Providers

We support the FCA's acknowledgement that digital asset custodians are likely to depend on, and incorporate third-party technology providers into their business model, in particular for secure key storage, wallet infrastructure, or multiparty computation services. We agree that due diligence should be robust, but it should also be proportional and not disincentivise the use of high-quality, specialist vendors that may offer more secure and efficient custody solutions than in-house alternatives.

We recommend that the FCA include non-exhaustive guidance on acceptable due diligence practices for third-party appointments, with specific reference to:

- Technical security assessments.
- Audited SOC 2 / ISO 27001 certifications.
- Business continuity and exit planning.

This would provide clarity without being overly prescriptive and help ensure that firms are not discouraged from relying on reputable vendors due to regulatory uncertainty or excessive compliance burdens.

3. Consideration of Custodians as Critical Service Providers

Finally, as the sector matures, digital asset custodians themselves are increasingly emerging as critical service providers to other cryptoasset firms including exchanges, brokers, and token issuers. We recommend that the FCA consider, as part of its broader work on critical market infrastructure, how systemic custody providers might fall within this framework.

While we understand the primary focus of this CP is on the obligations of firms outsourcing to custodians, we encourage the FCA to also consider custodians as critical market infrastructure providers, and whether they may be captured in future iterations of the relevant regime, especially where they underpin multiple firms' key business lines.

While we are not recommending the FCA adopt the same approach as the EU under DORA we support a workable approach that enhances resilience while preserving innovation and competitiveness.

4. Clarity on the Custody Regulatory Parameter

We encourage the FCA to issue a Parameter Guidance once HM Treasury's *Regulatory regime for cryptoassets Draft SI* is finalised.

Specifically, we call for clarity on the language in on "Safeguarding of qualifying cryptoassets and relevant specified investment cryptoassets", Article 9O.

It can be made clearer that since "safeguarding" means "*circumstances in which a person ("C") has control of the cryptoasset through any means that would enable C to bring about a transfer of the benefit of the cryptoasset to another person, including to C",* then *"the means by which C may have control include"* **controlling** *"means of access, or part of the means of access".*

The objective here is to clarify that holding or storing part of the means of access which does not give the hosting service, for example a cloud provider, discretionary control over the assets or means of access to the assets does not constitute safeguarding.

26) Do you agree with our assumptions and findings as set out in this CBA on the relative costs and benefits of the proposals contained in this consultation paper? Please give your reasons.

While we support the FCA's objectives of robust consumer protection, market integrity, and building trust in the UK stablecoin ecosystem, we are concerned that the cost–benefit analysis (CBA) underestimates the cumulative impact of the proposed framework, particularly for new market entrants and UK-based issuers. Taken together, the requirements on redemption, backing asset composition, statutory trust, reconciliation, record-keeping, and disclosure create a capital- and operations-intensive regime with few transitional or proportionality measures. The assumption that firms can readily absorb or pass on these costs to end-users, especially in a globally competitive market, requires closer scrutiny.

The CBA acknowledges that operational costs will rise, but does not fully capture the commercial unviability that could result from specific policy interactions. For example, pairing T+1 redemption with strict limits on backing asset liquidity all but forces issuers to hold only overnight cash or deposits, undermining both returns and portfolio resilience. Likewise, the assumption that issuers can or should inject their own funds to address statutory trust shortfalls appears inconsistent with the principle of legal segregation of client assets. These design tensions risk deterring domestic issuance, constraining innovation, and shifting activity offshore, thus undermining the FCA's stated policy objectives.

We also note that the CBA appears to understate the compliance burden of implementing detailed, near real-time reconciliation, audit, and reporting at the scale envisaged. This will be especially challenging for digital bearer instruments such as qualifying stablecoins, which trade 24/7 across varied wallet structures and client interfaces. The uplift in governance, monitoring, and contractual oversight will be significant, and in many cases duplicative of existing regimes. For new entrants, smaller or innovative firms targeting niche or cross-border markets, this could result in disproportionate diversion of resources to compliance overheads rather than innovation, user protection, or financial resilience.

In summary, while we support the FCA's direction of travel and commitment to regulatory clarity, we urge the FCA to revisit its cost assumptions and consider more proportionate alternatives. These could include risk-tiered liquidity requirements, graduated redemption timelines, and operational safe harbours for non-material discrepancies. Without such adjustments, there is a risk of creating a regime that is comprehensive in scope but inaccessible in practice, limiting the UK's ability to position itself as a global leader in responsible digital money innovation.

27) Do you have any views on the cost benefit analysis, including our analysis of costs and benefits to consumers, firms and the market?

We welcome the FCA's effort to carry out a detailed cost–benefit analysis (CBA), but we are concerned that the cumulative costs to firms, particularly new UK-based issuers, are significantly understated. At the same time, the potential benefits to consumers and markets may be diminished if the regime proves commercially unviable. The CBA assumes 10 small issuers and no medium or large issuers, but the interlocking obligations across redemption, backing assets, statutory trust, reconciliation, and record-keeping impose substantial upfront and ongoing costs. These disproportionately affect smaller, innovative firms while favouring larger global players with established infrastructure and capital buffers, ultimately reducing competition and diversity in the UK market.

Non-Prudential Costs

The CBA estimates a one-off cost of £0.1m for familiarisation with non-prudential rules. This is significantly understated. In practice, firms will likely need to hire additional compliance and legal staff, review final rules with Boards, and implement new governance frameworks. Many will also need external legal advice, further increasing costs. Similarly, the CBA estimates a redemption cost of £14,000 for 10,000 requests (or £1.40 per request). This is unrealistic. The cost of an AML check alone - particularly for smaller firms that are unable to yet benefit from economies of scale - can exceed this figure. For institutional-only issuers, costs per redemption would be higher still. The infrastructure to support redemptions for non-customers, plus the resources needed to manage spikes in requests, will necessitate larger compliance teams than assumed at the level of a new market entrant. Even at a conservative 1% redemption rate, our members anticipate costs for a start-up could easily exceed £150,000.

Prudential Costs

The CBA estimates a one-off cost of £70k for understanding prudential rules, but the true figure is likely higher. Implementing these rules will require additional finance and risk management resources, including potential specialist hires or consultants. With respect to own funds, the CBA assumes a one-off cost of £514k and ongoing annual costs of £45k. However, realistic financial modelling, particularly with respect to institutional issuance, suggests actual requirements under the K-factor could be significantly higher, in some cases more than ten times the CBA's figure. This scale of capital demand could materially constrain business models, discourage new issuance, and reduce competition, undermining the policy goal of fostering innovation and growth.

The CBA cites wholesale settlement benefits as a positive outcome, but the example of an issuer with an SII of £40m does not align with transaction volumes or balances typically seen in wholesale settlement contexts. This raises questions over whether the projected benefits will be realised, given the own funds requirements that would apply.

Market and Consumer Impact

The intended consumer benefits - stronger protections, legal clarity, and trust - depend on the availability and adoption of UK-issued stablecoins. If the regime is too rigid or costly, then consumers will face fewer choices and reduced access to domestically regulated offerings, instead relying on offshore alternatives outside the UK perimeter. In such a scenario, the anticipated benefits may not materialise. From a market perspective, the UK risks creating a high-friction, high-cost regime relative to other jurisdictions. This could deter firms from launching GBP-referenced stablecoins in the UK or lead them to structure offerings elsewhere, undermining the UK's strategic objective of leadership in digital money.

We encourage the FCA to revisit the cost assumptions, introduce transitional and proportionality mechanisms, and take account of the specific commercial and technical realities of stablecoin models. A more calibrated approach, such as risk-tiered requirements, phased implementation, and operational safe harbours, would help maintain regime integrity while ensuring it remains accessible to a broad range of firms and delivers meaningful benefits to both consumers and markets.