12 February 2026

SUBMITTED VIA EMAIL TO: cp25-40@fca.org.uk

To whom it may concern,

Re: FCA on CP25/40: Regulating cryptoasset activities

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.

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

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

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

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

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

Yours faithfully,

Elise Soucie Watts – Executive Director – GDF

Laura Navaratnam – UK Policy Lead – CCI

Response to the Public Consultations: Executive Summary

GDF and CCI welcome CP25/40 as a significant and positive step towards establishing a comprehensive regulatory framework for cryptoasset activities in the UK. In particular, compared with DP25/1, the proposals demonstrate meaningful progress in terms of clarity, calibration and engagement with industry feedback. We especially welcome the FCA's clearer articulation of regulatory objectives, its increased reliance on outcomes-focused requirements, and its recognition of the global, technologically diverse and evolving nature of cryptoasset markets.

Across much of CP25/40, we support the FCA's direction of travel. However, our response identifies several areas where we believe further refinement is needed to ensure the regime delivers its stated objectives without creating unintended consequences for consumers, competition or the UK's international competitiveness.

A central concern relates to the treatment of cross-border liquidity and global operating models. While CP25/40 reflects progress in moving away from prescriptive assumptions, certain proposals, particularly around execution venue requirements, liquidity sourcing by principal dealers, and retail access restrictions tied to UK venue admission, risk fragmenting liquidity and reducing execution quality for UK clients. We are concerned that some of these measures go beyond both the letter and intention of the Treasury's Statutory Instrument and are difficult to reconcile with the FCA's own Approach to International Cryptoasset Firms (as outlined in CP 26/4), which emphasises proportionality, international alignment and case-by-case supervisory assessment rather than structural mandates. We strongly encourage the FCA to ensure consistency across these frameworks and to focus regulatory accountability on the UK-authorised gatekeeper, rather than indirectly ring-fencing liquidity by geography.

Relatedly, we believe greater use should be made of activity-based and outcomes-focused tests throughout the regime. This is particularly important for pre- and post-trade transparency, best execution, and retail asset restrictions. Applying venue-style transparency obligations or retail access limitations by reference to firm-level thresholds or UK admission alone risks capturing fundamentally different activities and business models, with limited consumer benefit. Aligning the cryptoasset regime more closely with established market-structure concepts, such as the distinction between venues and systematic internalisers, would support consistency, proportionality and effective competition.

We also highlight the importance of transitional arrangements and supervisory guidance, especially in relation to best execution and liquidity sourcing at go-live. CP25/40 introduces a comprehensive regime effectively "from cold", at a time when UK-authorised venues and liquidity pools will still be developing. Without explicit transitional flexibility, firms may be assessed against execution and diversification standards that are structurally unattainable in the

early stages of the regime, creating regulatory uncertainty without improving consumer outcomes.

In lending, borrowing and staking, we broadly support the FCA's strengthened focus on disclosure, consent, record-keeping and structural risk mitigants. However, we encourage further clarity to ensure that consent is meaningful rather than procedural, that disclosures focus on practical economic outcomes (particularly in insolvency and staking contexts), and that technical infrastructure providers are not inadvertently brought into scope. Clear guidance on liquid staking, validator arrangements and record-keeping expectations would further support consistent implementation.

Finally, while we welcome the FCA's efforts to assess costs and benefits, we are concerned that the cumulative and ongoing compliance burden arising from CP25/40 and related consultations may be understated, particularly for early-stage firms and stablecoin issuers. Greater clarity on how requirements scale by activity and size, and how prudential and conduct obligations interact in practice, would support proportionate implementation and reduce barriers to entry.

Taken together, we believe CP25/40 provides a strong foundation for a robust UK cryptoasset regime. With targeted refinements, particularly around cross-border liquidity, execution and transparency calibration, transitional arrangements, and cost assumptions, the framework can better achieve its objectives of consumer protection, market integrity, effective competition and international competitiveness, while reinforcing the UK's position as a leading global hub for responsible digital asset innovation.

Response to consultation questions

Cryptoasset Trading Platforms

Question 1: Do you agree with our proposals on location, incorporation and authorisation of UK CATPs? If not, please explain why not?

We broadly support the FCA's proposals on location, incorporation and authorisation requirements for UK cryptoasset trading platforms (CATPs), and we welcome the evolution from the exploratory framing in DP25/1 to the more concrete, calibrated approach set out in CP25/40. We also welcome the FCA's clear articulation of the gatekeeper role played by CATPs, and the clearer articulation of how obligations relating to systems and controls, conflicts management, and market integrity will apply in practice.

That said, some concerns raised in our response to DP25/1 remain relevant. While CP25/40 reflects progress in moving away from overly prescriptive assumptions about market-structure, there is still a risk that certain requirements, if applied rigidly, could inadvertently constrain globally integrated trading platforms or lead to unnecessary fragmentation of liquidity.

The cross-border nature of CATPs is explicitly acknowledged in IOSCO's 2025 Thematic Review, which identifies supervisory cooperation and information-sharing arrangements as central tools for effective oversight. A UK regime that supports coordinated supervision, rather than structural separation or the duplication of trading infrastructure, would align more closely with this global direction of travel.

This global emphasis on supervisory cooperation rather than structural separation is important in the CATP context. Requirements that mandate UK-specific execution environments risk creating unnecessary liquidity bifurcation and reducing consumer access to deep, competitive liquidity pools.

This global emphasis on supervisory cooperation rather than structural separation is important in the CATP context. Requirements that mandate UK-specific execution environments risk creating unnecessary liquidity bifurcation and reducing consumer access to deep, competitive liquidity pools.

We also note that the FCA's broader Approach to International Cryptoasset Firms (CP26/4, Annex 4) confirms that overseas firms may serve UK clients from outside the UK where risks can be appropriately managed, and that incorporation or subsidiarisation should not be applied as a default expectation. Annex 4 emphasises proportionality, international coherence and case-by-case assessment of factors such as scale, risk profile and the effectiveness of home-state regulation. We consider these principles highly relevant in the CATP context. Requirements that mandate UK-specific execution environments or that implicitly favour particular structural models (e.g., standalone UK venues) would go beyond the approach set out in Annex 4 and may not deliver superior outcomes for consumers. We therefore encourage the FCA to ensure

consistency between CP25/40 and CP26/4 Annex 4, which does not contemplate UK-specific execution venues unless justified by clearly evidenced risk.

Global CATPs typically operate unified order books, surveillance frameworks, risk systems and custodial technology infrastructure across jurisdictions. For safeguarding, in particular, UK customer funds can be protected by the governance layer of the custodial infrastructure and by the UK-based control of over the assets, and still the same SaaS infrastructure can be shared between the UK entity and the non-UK entity. Requirements that are not interoperable with these global systems risk increasing operational complexity without delivering proportionate consumer protection benefits. In particular, requirements that lead to artificial segmentation of order flow or duplication of trading infrastructure risk undermining effective competition by reducing liquidity depth and increasing spreads. A location or incorporation requirement that implicitly forces split liquidity or duplicated execution infrastructure would go beyond the Treasury's Statutory Instrument and would be difficult to reconcile with the FCA's own principles on proportionality and international firm supervision.

We therefore support the direction of travel in CP25/40 but encourage the FCA to continue refining the regime to ensure it remains proportionate, internationally aligned, and flexible enough to accommodate a range of legitimate CATP operating models, consistent with the FCA's secondary growth objective. Embedding proportionality into the application of location and incorporation requirements will also help ensure that UK consumers retain access to the deepest and most competitive liquidity pools while receiving strong regulatory protections. We note that the FCA is also consulting currently via 26/4 on some further outstanding handbook issues. We will engage in that consultation process separately. A proportionate approach will help ensure that UK consumers continue to benefit from competitive pricing and global market depth, while still receiving strong regulatory protections.

Question 2: Do you agree with our proposals on UK CATP access and operation requirements? If not, please explain why not?

We support the FCA's focus on enhanced protections for retail users and recognise the additional clarity provided in CP25/40 on retail-specific risks, including discriminatory trading practices, conflicts of interest, and consumer understanding. The FCA's use of consumer research to inform these proposals is welcome and provides a stronger evidential basis than was available at the DP25/1 stage.

However, several of the retail-directed proposals may, if applied rigidly, operate as indirect constraints on access to global liquidity. UK retail users today access cryptoasset markets primarily through large, internationally operated platforms. Measures that require UK-specific trading infrastructure, or modifications that are not interoperable with global systems, risk reducing consumer choice and could lead to poorer execution outcomes. The FCA's own

Approach to International Cryptoasset Firms (CP26/4 Annex 4) recognises that overseas firms may serve UK clients from outside the UK where risks can be appropriately mitigated, and that incorporation and onshoring requirements should be applied proportionately rather than by default. Ensuring consistency between CP25/40 and the principles set out in CP26/4 will be important to avoid unintended barriers to cross-border market access. As reflected in our responses to Questions 20–26, retail-focused protections are most effective when centred on disclosure, conflicts management and client understanding, rather than structural restrictions that may unintentionally reduce liquidity access. We therefore encourage the FCA to ensure that CP25/40 remains aligned with CP26/4 Annex 4, which does not envisage UK-specific execution venues unless justified by clearly evidenced risk.

Incorporating flexibility for international operating models would be consistent with the FCA's secondary growth objective, helping ensure UK consumers retain access to deep and competitive liquidity pools. We also caution that requirements leading to UK-specific execution environments could, in practice, create liquidity bifurcation between UK and global order flow, resulting in wider spreads and diminished execution quality for retail users. Retail protections should therefore focus on conduct, transparency, governance and conflicts management, rather than on structural assumptions that could inadvertently constrain execution quality. In particular, it will be important to avoid approaches that imply retail harm arises inherently from cross-border activity, rather than from inadequate disclosure, weak governance, or unmanaged conflicts. This is consistent with both evidence and regulatory precedent: cross-border access does not itself create poor outcomes where governance, disclosure and conflicts controls are effective.

A risk-based supervisory approach, supported by appropriate reporting and data-access requirements, would allow the FCA to oversee CATP conduct effectively without requiring firms to replicate global infrastructure for UK-only flows. This would also be consistent with the FCA's stated approach in CP26/4, which emphasises outcomes-based supervision rather than prescriptive structural mandates. These considerations also connect directly with the execution-venue requirements discussed in Question 11, where similar structural constraints could further limit firms' ability to provide competitive execution outcomes for UK clients.

We also do not support a blanket prohibition on discretionary trading models for CATPs. While non-discretionary order books may be prevalent in cryptoasset markets today, discretionary or hybrid execution protocols can play a legitimate role in supporting healthy market development, including for block trading, institutional workflows and other execution environments analogous to OTFs. The concerns cited in CP25/40 regarding CATP neutrality and investor confidence can be effectively addressed through clear expectations on transparency, non-discrimination, governance, and market-abuse controls. A prescriptive prohibition on discretionary models may unnecessarily restrict innovation and the development of more sophisticated liquidity mechanisms as the market evolves. A framework that remains model-neutral, with appropriate

guardrails applied consistently across execution types, is more likely to deliver proportionate mitigation of conflicts without constraining market development.

We would welcome further FCA guidance confirming that the supervisory assessment of execution models will remain outcomes-focused and technology-neutral, rather than dependent on predefined structural assumptions. Appropriate risk controls and disclosures, applied consistently across execution types, will better support user protection, competition, and market integrity than structural prohibitions. This approach also aligns with the FCA's broader objectives around market integrity, including surveillance and abuse-prevention expectations.

Question 3: Do you agree with our proposals on additional rules to protect UK retail customers? If not, please explain why not?

We broadly support the FCA's objective of strengthening protections for UK retail customers accessing cryptoasset trading platforms, and we welcome the clearer articulation in CP25/40 of the specific harms the FCA is seeking to address. The focus on discriminatory trading practices, conflicts of interest, and the informational asymmetries faced by retail users reflects a more targeted and evidence-based approach than that set out in DP25/1. We also welcomed the FCA's decision not to mandate a single prescription model for retail protection, which allows firms to tailor controls to their operational and business models within a clear regulatory framework. We agree that retail-specific protections should target the actual sources of consumer harm, including mis-selling, inadequate disclosures and unmanaged conflicts, rather than presuming that cross-border access or global operating models inherently create retail risk.

We note that several concurrent consultations, including CP26/4, will shape how the Consumer Duty applies in the context of authorised CATPs. We would welcome further clarity on the interaction between CATP-specific retail rules and the broader Consumer Duty requirements, to ensure firms can design coherent and proportionate compliance frameworks across their UK activities. Clear alignment between these regimes will help avoid unnecessary duplication, complexity, and interpretive uncertainty. In line with the principles set out in CP26/4 Annex 4, retail protections should be applied in a proportionate manner that does not implicitly require UK-specific operational structures or duplicated infrastructure unless justified by clear and evidenced risk.

The FCA's Approach to International Cryptoasset Firms (CP26/4 Annex 4) highlights the importance of proportionality and the need to avoid unnecessarily restrictive requirements that could limit cross-border market access for UK consumers. In this context, retail protections should focus on outcomes, such as fair treatment, transparency, effective disclosures, conflicts management, and market-integrity safeguards, rather than structural stipulations that could indirectly reduce access to global liquidity or limit execution quality for UK retail users. This is particularly relevant in the context of globally integrated CATPs, where imposing structural

restrictions on retail access could inadvertently reduce liquidity depth, widen spreads, and result in inferior execution outcomes.

We support differentiation in principle in the treatment of UK issued qualifying stablecoins for retail users. However, as noted in our response to CP 25/41, overly divergent or duplicative disclosure formats could create avoidable complexity for firms and may reduce, rather than enhance, clarity for retail users. We encourage the FCA to ensure that retail disclosures are consistent across related regulatory initiatives and avoid overlapping requirements that may diminish their effectiveness. Aligning disclosures across related initiatives will also better support the FCA's Consumer Duty outcomes of enabling retail clients to make effective, timely and properly informed decisions.

Question 4: Do you agree with our proposals to manage conflicts of interest and related risks? If not, please explain why not?

We broadly agree with the FCA's proposals to manage conflicts of interest and related risks and welcome the clearer, more calibrated approach set out in CP25/40 compared with DP25/1. The focus on documented governance arrangements, transparent disclosures, and proportionate systems and controls reflects a balanced appreciation of how conflicts arise in practice in cryptoasset markets. This proportionate approach is consistent with CP26/4 Annex 4, which emphasises that conflict-mitigation expectations should be risk-based and should not require structural separation unless justified by specific, evidenced harms.

We welcome the FCA's recognition that conflicts of interest in cryptoasset markets are often best mitigated through clear disclosures, information barriers, and robust oversight, rather than through mandatory legal entity separation. Structural separation can introduce significant operational complexity and cost, without necessarily improving consumer outcomes. The proposed requirements around documenting and disclosing relationships with market makers, incentive schemes, and other liquidity providers are constructive steps that support market integrity while preserving flexibility in business models. In our view, functional and operational separation, supported by governance, access controls, and transparent disclosures, can in many cases deliver the intended safeguards more effectively than formal legal-entity separation.

In particular, we support the FCA's decision not to prohibit principal dealing desks from operating within the same legal entity as a cryptoasset trading platform. This reflects a pragmatic and proportionate response to feedback on DP25/1 and appropriately aligns the cryptoasset regime with established approaches for multilateral trading facilities. Allowing principal dealing activity within the same entity, subject to clear controls and supervisory oversight, recognises how global platforms are commonly structured today while ensuring that retail clients receive robust and enforceable protections. IOSCO's 2025 Thematic Review

similarly identifies vertically integrated business models as a key regulatory consideration and highlights the need for appropriate governance, transparency, and conflict-management frameworks. The FCA's proposed approach is consistent with this direction of travel, placing emphasis on effective controls and supervisory oversight rather than categorical structural prohibitions. IOSCO's emphasis on governance-based conflict management rather than structural prohibitions further supports a proportionate UK approach that focuses on effective controls rather than mandating specific organisational forms.

We also agree that CATPs may issue their own tokens or admit to trading tokens in which they have a financial interest, provided there are clear, enforceable safeguards. In these cases, the focus should be on ensuring that conflicts are effectively identified, disclosed, and managed. Transparent admissions processes, clear separation between token-issuance and trading functions, and appropriate market-abuse controls will be central to maintaining market integrity and ensuring users understand the nature of any interests held by the platform. This approach ensures that token-related conflicts are addressed through governance and disclosure, without pre-emptively excluding legitimate token-issuance models that can operate safely under appropriate controls.

Overall, we support the FCA's balanced, outcomes-focused approach to conflicts, which addresses the relevant risks while allowing space for innovation and diverse operating models. This outcomes-focused approach is more likely to deliver consistently high standards of consumer protection across diverse operating models, while supporting the FCA's competition and innovation objectives.

Question 5: Do you agree with our high-level proposals on settlement? If not, please explain why not?

Our comments here relate to the settlement proposals, while noting that aspects of pre- and post-trade transparency discussed in CP25/40 affect settlement design in practice. Notwithstanding that the FCA intends to consult on a fuller set of proposed requirements for settlement in due course, we broadly agree with the high-level proposals as outlined.

We welcome the FCA's shift from the DP25/1 framing, particularly the decision to avoid imposing unqualified pre- and post-trade transparency requirements on CATPs. This reflects a more proportionate approach that better recognises the distinctive characteristics of cryptoasset markets. As we noted in our response to DP25/1, the evidential basis for TradFi transparency regimes delivering consistent benefits in all market contexts remains mixed, and it is important that cryptoasset markets are not held to higher or more prescriptive standards without demonstrable justification. As discussed further in our responses to Questions 17 and 18, transparency obligations must be calibrated to market structure and liquidity characteristics to ensure they complement, rather than undermine, effective settlement processes.

CATPs often facilitate trading in a wide range of asset types, including less liquid or episodically traded tokens. In traditional markets, such instruments would typically qualify for transparent pre-trade waivers due to the risk of information leakage, reduced liquidity provision, and adverse price formation. A rigid transparency framework for cryptoassets, without flexibility or waivers, may therefore distort incentives for liquidity providers, reduce execution quality, and entrench structural inefficiencies. Any transparency regime should be calibrated to the characteristics of the underlying assets and the global structure of the crypto market. This reinforces the importance of applying CP26/4 Annex 4 principles, ensuring that settlement obligations do not inadvertently require UK-specific infrastructure or constrain the ability of CATPs to access global liquidity pools where risks are otherwise well controlled. We caution against prematurely importing traditional settlement or transparency constructs absent clear evidence that such models are optimal for cryptoasset markets, given their global, continuously trading and heterogeneous nature.

The FCA's own Approach to International Cryptoasset Firms (CP26/4 Annex 4) also emphasises proportionality and the need to avoid imposing requirements that inadvertently restrict cross-border access or necessitate duplicative infrastructure where risks can be managed through oversight, reporting and governance measures. We encourage the FCA to maintain this approach as it develops more detailed settlement rules.

We therefore support the FCA's direction of travel and encourage a continued focus on proportionate, flexible and outcomes-oriented transparency and settlement requirements that reflect the realities of global cryptoasset liquidity and avoid replicating legacy market-infrastructure assumptions. A flexible framework will also better accommodate emerging settlement models, including those that are native to blockchain infrastructure, while ensuring the FCA retains the tools it needs to oversee market integrity and operational resilience.

Cryptoasset Intermediaries

Question 6: Is any further guidance on best execution required? If so, what additional guidance can we provide to clarify the scope of and expectations around best execution?

We agree that clear expectations around best execution are essential for market integrity and consumer outcomes. However, we believe further guidance is required, particularly on how best execution obligations should apply during the initial implementation period and in the context of the evolving liquidity conditions that will exist as the new regime takes effect. In our view, the scope of best execution should be interpreted in a manner that recognises the relationship between execution quality and the availability of authorised execution venues at go-live. Best execution obligations should not assume liquidity conditions that will only emerge once the market has matured under the new regime. In particular, there is a risk of mismatch between supervisory expectations and the operational realities that intermediaries will face at go-live. The

consultation rightly highlights the risks associated with intermediaries relying on a limited number of liquidity sources. However, under the proposed execution and routing constraints, most notably the requirement to execute via UK-authorised trading venues, intermediaries will not have a realistic ability to diversify liquidity sources from day one. This is especially relevant where UK venues are not yet fully operational, fully authorised, or able to offer meaningful depth of liquidity at launch. This challenge is closely related to the execution-venue proposals discussed in Question 11, where similar structural constraints could limit intermediaries' ability to source diverse liquidity during the early stages of the regime.

This creates a potential tension: firms may be exposed to regulatory scrutiny for concentrated liquidity sourcing at precisely the stage where regulatory constraints limit their ability to diversify execution venues. Without explicit transitional flexibility, firms could be deemed non-compliant with best execution standards despite acting reasonably within the boundaries of the new framework.

We therefore consider that additional FCA guidance is needed to clarify how best execution expectations should be interpreted during an implementation and bedding-in period. This guidance could include, for example:

- Recognition that UK cryptoasset liquidity conditions will develop over time as authorisations conclude and market participation broadens, and that early-stage liquidity constraints should not be treated as supervisory failings.

- Confirmation that, during a defined transitional period, reliance on a narrower set of authorised liquidity sources may be acceptable where firms can demonstrate appropriate governance, monitoring, and a plan to expand access as the market matures.

- Clarification of how firms should evidence "all reasonable steps" to achieve best execution where structural market constraints temporarily limit venue optionality, including what constitutes reasonable due diligence, monitoring, and comparison processes in a transitional environment.

This clarification would not weaken best execution standards but would ensure that firms are assessed against conditions that reflect the practical realities of the market at the point of regime commencement.

A proportionate transitional approach would also support the FCA's secondary growth and competitiveness objective by ensuring that UK consumers can continue to access high-quality execution outcomes while the domestic market develops meaningful liquidity. A proportionate application of best execution, consistent with CP26/4 Annex 4, would recognise that

intermediaries may temporarily rely on a narrower set of liquidity sources where structural constraints arise from the authorisation timeline rather than firm choice.

We also strongly encourage the FCA to consider formal transitional arrangements across the CP25/40 regime. Precedents in other regulatory frameworks such as MiCA and IFPR, demonstrate that significant new requirements, covering capital, disclosures, market structure and operational controls, were introduced with phased implementation measures to support orderly transition and prevent disproportionate disruption. Given that CP25/40 introduces a comprehensive regulatory framework for cryptoasset firms effectively "from cold", we believe it is proportionate and appropriate for corresponding transitional arrangements to apply across key areas, including best execution, liquidity provision, disclosures, and prudential requirements. Such an approach would support market stability, enable firms to build compliant operating models sustainably, and ultimately strengthen consumer outcomes. This approach would also support the FCA's secondary growth and competitiveness objective by enabling UK consumers to access competitive execution outcomes during the early stages of market development.

Absent transitional guidance, firms could be assessed against liquidity conditions that are structurally unattainable at launch. This would generate regulatory uncertainty without delivering additional consumer protection benefits.

Question 7: Do you agree with our proposed guidance (including the exemptions proposed) to check at least 3 reliable price sources from UK-authorised execution venues, such as a CATP or principal dealer (if available)? If not, please explain why not?

Overall, we agree with the aim of the guidance in order to maintain high standards of execution and good consumer outcomes.

We in particular welcome the clarification that this guidance would not apply to the issuance and redemption of liquid staking tokens,wrapped tokens, and other cryptoassets that may perform a similar function, and UK-issued qualifying stablecoins. These instruments are not traded on open markets in the same way as other cryptoassets, and a requirement to compare against three UK venues would provide limited value and could introduce unnecessary inefficiencies.

However, we have concerns about the proposed guidance. As noted in our response to DP25/1, mandating checks against at least three UK-authorised venues risks producing unintended outcomes where the UK market is still at an early stage of development, with limited venue choice and fragmented liquidity. Many tokens will not be listed across three UK venues at go-live, and requiring firms to compare only a constrained domestic sample may not reflect the most reliable or competitive sources of price discovery.

This issue is particularly acute for:

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

Restricting the comparison to UK-authorised venues only may, in practice, exclude reliable global prices that better reflect prevailing market conditions. This could lead to inferior execution outcomes for retail users, especially where tokens are thinly traded domestically or where domestic pricing diverges from global norms. There is also a risk that such divergence could create arbitrage incentives and increase volatility in UK-specific order books.

To mitigate these risks, we encourage the Financial Conduct Authority to refine the guidance in two ways:

- First, allow firms to reference non-UK venues in the pricing check where those venues meet equivalent standards of governance, operational integrity, and market-abuse controls, or are regulated in jurisdictions with comparable oversight frameworks. This would support execution quality without undermining the FCA's objectives; and
- Second, consider an outcomes-based formulation, in which firms disclose their pricing policies, maintain robust governance and monitoring, and evidence price fairness through post-trade analysis or composite benchmarks. This approach would align with the FCA's emphasis on transparency, proportionality, and market-integrity outcomes, without unintentionally constraining the ability of firms to access reliable global liquidity.

Overall, we support the FCA's objective but consider further refinements necessary to ensure that the pricing-source requirement promotes, rather than inadvertently diminishes, execution quality for UK consumers.

Question 8: Regarding the general disclosure requirements when firms serve retail or professional clients, what changes or additions may help client understanding?

We do not have specific concerns with applying COBS 16A.3 but would encourage the FCA to provide further guidance in clear language on how these requirements should apply in the context of cryptoasset markets. Consistent guidance on scope, content, prominence and layering of disclosures would help ensure firms adopt a coherent approach and support comparability across the market.

In particular, further clarity would be helpful on:

- How disclosures should be tailored to different client types, particularly where the same product may serve both retail and professional clients but with different expectations under the Consumer Duty.

- How firms should present risks that are unique to cryptoassets, including volatility, liquidity considerations, and market-structure differences, in a way that remains proportionate and avoids excessive length or duplication.
- How dynamic or event-driven information should be updated and communicated, given the 24/7 nature of cryptoasset markets and the possibility of material changes outside the operating hours of traditional financial markets.

We also encourage the FCA to ensure alignment between disclosure expectations in CP25/40 and related initiatives, including CP25/41 and CP26/4, so that firms can implement a single, consistent disclosure framework across interconnected obligations. Clarity and consistency across these regimes will improve client understanding and reduce the risk of fragmented or duplicative disclosures.

Question 9: Do you agree with the proposed specific pre-trade disclosures to clients by principal dealers? If not, please explain why not? Do you have any suggestions that can make these disclosures more effective?

We support this proposal and agree that clear pre-trade disclosures by intermediaries dealing as principal are an appropriate and proportionate safeguard for both retail and professional clients. Requiring firms to present a firm, executable price, the period for which that price is valid, and any applicable fees or charges provides clients with meaningful transparency at the point of decision-making. This approach reflects how principal, quote-driven models operate in practice and avoids imposing venue- or routing-based execution concepts that are not suited to these models.

We also support the flexibility to allow execution at a different price in genuinely exceptional circumstances, such as periods of extreme volatility, provided this is tightly constrained and subject to the client's explicit consent for the specific order.

To maximise effectiveness, we suggest that the Financial Conduct Authority consider providing additional guidance on how firms should communicate the duration of quote validity and the circumstances in which a price may be withdrawn or updated. Clear expectations on presentation, timing and record-keeping would promote greater consistency across firms and help clients understand the implications of trading on a principal basis.

We believe that this proposal appropriately reflects how principal dealing operates in practice, enhances transparency, and delivers strong client protection outcomes without imposing unnecessary or ill-fitting execution requirements.

Overall, the proposals enhance transparency, support informed decision-making, and provide strong client-protection outcomes without imposing requirements that are misaligned with principal-dealing market structure.

Question 10: Do you agree with the proposed client order handling rules? If not, please explain why not?

We agree with the client order handling rules in CRYPTO 5.6. The proposed requirements reflect well-established and appropriate principles of prompt, fair, and orderly handling of client orders, and provide a proportionate framework for managing conflicts between client orders and a firm's own trading interests.

We particularly welcome the focus on fair sequencing, accurate recording and allocation, and the safeguards around aggregation and partial execution. These provisions strike a sensible balance between protecting clients from unfair treatment and allowing firms sufficient operational flexibility to manage orders in fast-moving and often fragmented cryptoasset markets. The explicit recognition that otherwise comparable orders may not always be capable of sequential treatment, depending on order characteristics, or execution channels or technical routing constraints, is especially helpful in reflecting real world practical execution realities.

To support consistent implementation, we encourage the Financial Conduct Authority to provide further clarity on how firms should document and evidence the rationale where orders are not treated sequentially, or where execution quality considerations justify alternative prioritisation. Clear expectations in this area would help ensure consistent supervisory outcomes while preserving the necessary flexibility to respond to market conditions.

Overall, we consider the proposed client order handling framework to be proportionate, robust, and well aligned with both established regulatory principles and the operational characteristics of cryptoasset intermediation.

Question 11: Given the overall location policy established by the amendments to section 418 of FSMA set out in the Cryptoasset Regulations, do you agree with our proposed execution venue requirement? If not, please explain why not? What changes do you propose?

We are concerned that the proposed execution venue requirements go unnecessarily beyond the Treasury Statutory Instrument in two key ways.

Firstly, where a client is being serviced by a UK agency broker/arranger, the SI requires the transaction to be executed on a UK authorised exchange or principal dealer. Noting that the FCA uses an undefined term on this point instead of "*UK qualifying cryptoasset execution venue*",

making it difficult to fully interpret the policy intent, we believe it goes beyond the SI drafting in restricting the scope of principal dealers which brokers can route orders to, to single dealer platforms or liquidity providers. We are not clear on what the policy rationale for this is, as it is not dealt with in the discussion section of the CP, which appears to show any principal dealer as an acceptable order execution venue (as per the scenario 2 diagram on page 36). Furthermore, given that the principal dealer needs to be authorised in any case under the SI, the consumer protection objective of ensuring the UK authorised firm is acting in the right capacity is already met.

Secondly, we understand that the FCA is requiring principal dealers not to systematically/ predominantly source liquidity from an affiliate trading venue not authorised by the FCA (i.e., an overseas trading platform). This would have the effect of preventing a UK principal dealing firm acting on a MPT basis to intermediate access to offshore liquidity and it may also go beyond this (as even if a firm is not acting on a purely MPT basis, it cannot "*systematically*" source liquidity from offshore and although this is not defined, it could impact dealing in principal against UK customers from inventory and then managing liquidity on a daily/periodic basis with an offshore firm, for example). Again, we are not clear on what the policy rationale for this is. It is plausible that this has been proposed to prevent MPT and similar structures circumventing territorial scope provisions in the SI, given that they facilitate access to liquidity on non-UK authorised venues. However, it is not clear that this is the policy objective of the SI, as opposed to ensuring there is a fully UK authorised entity acting as an onshore execution venue pursuant to CATP or principal permissions. Provided this is the case, it is unclear to us what additional consumer protection is provided by requiring a UK principal dealer to in turn source its own liquidity in its non-client facing capacity from a UK regulated firm or an unaffiliated offshore counterparty. Typically, from a best execution perspective this restriction could cause a detriment to UK consumers because there are often significant pricing efficiencies where a firm sources liquidity from an affiliate, particularly where it is accessing large pools of global liquidity, as is the case for many of the global platforms. While there are legitimate best execution concerns around single sources of pricing, it is unclear to us why this could not be dealt with under the best execution rules which are expressly extended to MPT (CRYPTO 5.4.5G) so would generally apply in this sort of scenario (assuming the liquidity is being sourced from off-shore on a MPT base).

In addition, we are concerned that restricting UK-authorised principal dealers from sourcing liquidity from affiliated global platforms may lead to materially worse execution outcomes for UK clients. Global cryptoasset liquidity is concentrated across a small number of deep, internationally integrated order books. Preventing UK firms from accessing that liquidity through affiliated arrangements risks fragmenting order flow into shallower domestic pools, which in turn may result in wider bid-ask spreads, increased slippage and reduced execution certainty, particularly for larger trades or during periods of market stress. This creates a clear tension with the best execution obligations set out in CP25/40 and with the Consumer Duty's emphasis on fair

value and good outcomes, as firms may be prohibited from accessing the very liquidity sources that would otherwise enable them to achieve the best possible result for clients.

We also note that the proposed restriction represents a material divergence from emerging international approaches, including under the EU's Markets in Crypto-Assets Regulation (MiCA). Under MiCA, regulatory accountability, conduct and prudential obligations are placed squarely on the authorised crypto-asset service provider facing the client, including responsibility for best execution and conflicts management. MiCA does not seek to ring-fence liquidity by geography or prohibit access to third-country liquidity pools where this supports client outcomes. Aligning the UK approach more closely with this model, by regulating the UK gatekeeper robustly while permitting access to global liquidity under clear supervisory conditions, would better support consumer outcomes, effective competition and the UK's international competitiveness. Given this, we offer three suggested amendments to the proposals.

1. Subject to point 2 below, we ask that the FCA clarifies the drafting of the rule at CRYPTO 5.2.2R to make clear they are referring to "*UK qualifying cryptoasset execution venue*", which we assume is the intention.

2. The FCA's restriction that firms performing agency execution/RTO can only execute orders through principal dealers that are single dealer platforms or liquidity providers would potentially cause uncertainty given that these terms are undefined. Furthermore, the SI already ensures that any trades are executed on a fully UK authorised platform dealing in appropriate capacities, and the agency arranging intermediary is subject to best execution requirements. Therefore, this restriction potentially causes additional confusion for a firm trying to get pricing and venues for clients with no material advantages and should not be retained. Alternatively, if the FCA is minded to retain this restriction, it would be helpful if it could be clarified that this is not intended to restrict firms from executing on a UK authorised principal dealing firm, provided that they are comfortable that principal dealer is going to be capable of executing orders in accordance with best execution (including consideration of whether use of the principal could give rise to settlement risk/not be able to satisfy relevant orders).

3. In relation to the restriction on sourcing liquidity from an unauthorised affiliate, again this goes significantly beyond the SI. We struggle to understand the policy rationale for this given that there will be a principal dealer in the chain as a UK authorised venue under supervision.

   We also find it difficult to reconcile this restriction with the principle of "same risk, same regulatory outcome", particularly when compared with established practice in traditional financial markets. Under MiFID II and UK MiFIR, investment firms are permitted to

execute client orders on third-country venues, including group affiliates, where this supports best execution, subject to appropriate governance, conflicts management and supervisory oversight. There is no equivalent blanket prohibition on routing orders to non-equivalent or affiliated venues. Applying a materially more restrictive approach in cryptoasset markets, without clear evidence of differentiated risk, risks holding crypto intermediaries to a higher standard than comparable securities brokers, despite facing similar execution, conflict and market integrity considerations.

Furthermore, best execution requirements in the SI already deal with a firm principal dealing with a single execution venue (CRYPTO 5.4.30G) and we expect that prohibiting such arrangements may actually undermine best execution. If the intention is to avoid set-ups of UK authorised agency brokers routing orders offshore to their affiliated global exchange, we note that if a firm has an onshore principal dealer, the FCA already has full regulatory oversight and powers on matters such as conduct, best execution, conflicts of interest and client protection requirements, and there is a substantive principal dealing firm in the UK responsible for relevant trades as the counterparty. To the extent that the FCA has concerns (e.g., around COI arising due to sourcing from an affiliate), these could be addressed through existing rules and would be subject to FCA oversight during the application process.

In this context, we also note the FCA's stated concern that UK-authorised firms should not operate as pass-through entities that simply route orders to unauthorised offshore venues. We agree with this objective, but do not believe the proposed restrictions are necessary to achieve it. Where a UK-authorised principal dealer is the execution venue, that firm is subject to full FCA authorisation, supervision and enforcement powers, including in relation to conduct, best execution, conflicts of interest and client protection. As part of the authorisation and ongoing supervisory process, the FCA is able to scrutinise how offshore liquidity is sourced, the role of affiliates, and whether arrangements are being used to circumvent the territorial scope of the regime. In our view, this supervisory approach is a more proportionate and targeted means of addressing these concerns than imposing categorical restrictions on how UK principal dealers source liquidity in their non-client-facing capacity.

We note that the FCA has suggested, including in CP26/4, that branch structures could provide a pathway for firms to address concerns around offshore liquidity sourcing. While we agree that branch models may be appropriate in principle, we do not consider this to be a viable or scalable mitigant in the near term for much of the market. Access to branch permissions is contingent on assessments of regulatory comparability and equivalence in a firm's home jurisdiction. In practice, many of the deepest global cryptoasset liquidity pools are located in jurisdictions that are unlikely to be deemed comparable to the UK regime at the point of implementation. This creates a practical sequencing challenge, whereby firms are constrained from accessing affiliated

liquidity while also being unable to bring that liquidity onshore through a branch, leaving limited commercially viable options during the initial phases of the regime.

Question 12: Do you agree with our proposed restrictions on the cryptoassets in which an intermediary can deal or arrange deals for a UK retail client? If not, please explain why not?

We appreciate the FCA's revised position on this proposal to include exemptions for tokens that have subsequently been withdrawn from admission and for UK-issued qualifying stablecoins.

However, as we highlighted in our response to DP 25/1, we continue to see the potential for significant issues with the proposal to restrict intermediaries from offering services to UK retail customers unless the cryptoasset is admitted to trading on a UK-authorised CATP. This departs from established practice in traditional finance, where intermediaries routinely deal in financial instruments that are not traded on venue (non-TOTV) and where OTC markets play a legitimate and critical role, especially for less liquid assets. This approach also fails to account for global liquidity realities. Imposing such a restriction in crypto markets not only risks being disproportionate but also raises serious questions about enforceability. We have serious concerns that in practice, it could:

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

Given the volume of assets currently traded by UK retail users, immediate implementation would require extensive delisting by intermediaries, creating operational disruptions and potential detriment.

We are also concerned that this proposal is fundamentally inconsistent with established practice in traditional financial markets. UK retail clients are routinely able to access non-UK instruments - for example, US-listed equities or ETFs - through UK-authorised intermediaries, even where those instruments are not admitted to trading on a UK venue. In those cases, consumer protection is achieved through intermediary obligations relating to disclosure, suitability, best execution, and conflicts management, rather than through mandatory venue admission.

Applying a materially more restrictive approach to cryptoassets risks holding the sector to a higher standard than traditional finance without clear justification and may lead to worse outcomes for consumers rather than improved protection.

Moreover, by artificially limiting the range of assets that UK-authorised intermediaries can support, the proposal risks displacing retail demand into less transparent and less regulated channels. Where consumers are unable to access widely recognised tokens through regulated firms, they are more likely to turn to informal peer-to-peer networks, messaging platforms, or offshore services that sit outside the FCA's supervisory perimeter. This would directly undermine the FCA's objectives of reducing financial crime, improving consumer protection, and building trust in the regulated cryptoasset market.

We therefore recommend that the FCA consider a more nuanced approach that focuses on the characteristics and risk profile of the cryptoasset itself, rather than relying solely on venue admission as a proxy for suitability. This could include allowing intermediaries to deal or arrange deals for retail clients in cryptoassets that meet defined baseline standards (for example, around disclosure, governance, and market integrity), even where those assets are primarily traded on well-regulated non-UK venues or through established OTC markets. A risk-based, asset-focused approach would better support effective competition, improve consumer outcomes, and strengthen the UK's attractiveness as a regulated market, by enabling authorised firms to meet consumer demand safely, rather than pushing that demand elsewhere. Such an approach would also far better reflect the globally integrated nature of cryptoasset liquidity, while still maintaining strong safeguards for retail clients.

Question 13: Do you agree with our proposed approach to addressing conflicts of interest during order execution when a firm is engaged in proprietary trading? If not, please explain why not?

We broadly agree with the FCA's proposed approach to addressing conflicts of interest during order execution where a firm is engaged in proprietary trading, and we support the underlying objective of ensuring that client interests are appropriately protected and that execution decisions are not distorted by a firm's own trading incentives.

We note that the FCA has retained its previous wording regarding 'at a minimum'. We are supportive of functional separation where it is implemented proportionately, including separate governance structures (where practicable) - however, we continue to have notable concerns about mandating legal separation.

Relying on such blanket prohibitions as mandatory legal separation or outright restrictions on proprietary trading alongside client execution, where the risks can be effectively mitigated through proportionate controls, will simply serve to increase costs for market participants and, ultimately, the consumer. In practice, such requirements risk increasing operational complexity and costs without delivering commensurate consumer protection benefits, particularly for firms with well-established governance and control functions.

We encourage the FCA to maintain a principles-based, outcomes-focused approach that allows firms to demonstrate how conflicts are managed in a way that delivers good client outcomes. In our view, effective mitigants may include clear pre-trade disclosure of when a firm is acting in a proprietary capacity, policies governing order handling and trade allocation, segregation of trading decision-making, independent oversight by compliance and risk functions, and post-trade monitoring to identify patterns that could disadvantage clients.

Additionally, we caution the FCA against using 'at a minimum' language. Firms should be reviewing their internal risks and the effectiveness of existing controls and applying appropriate additional mitigants as warranted by the residual risk. Using this language may inadvertently drive firms and supervisors to assume more prohibitive controls like legal separation are effectively more appropriate, irrespective of the underlying risk profile and effectiveness of existing mitigants. As such, the focus should be on outcomes, rather than specific organisational arrangements, that support consistent supervisory expectations and help firms design proportionate, risk-based conflict-management frameworks that meet the FCA's objectives without unnecessary fragmentation of business models. We therefore encourage the FCA to retain the principle-based approach proposed and avoid mandating legal-entity separation.

Question 14: Do you agree with our proposed approach to PFOF? If not, what carve outs do you consider necessary and why?

We broadly agree with the FCA's approach to payment for order flows, particularly in relation to UK clients. Given the fragmented and global nature of cryptoasset markets, PFOF can exacerbate conflicts of interest, distort order-routing incentives, and undermine confidence in execution quality.

However, we encourage the FCA to ensure the approach is tightly scoped and proportionate, so that it targets harmful practices without capturing arrangements that do not raise the same risks. In particular, clarity would be welcome that only remuneration arrangements which influence order routing or execution decisions constitute PFOF in substance. Commercial or operational arrangements that do not affect execution outcomes, and where firms remain fully accountable for best execution, should be clearly excluded.

Question 15: Do you agree with the proposal to apply personal account dealing rules to cryptoasset intermediaries? If not, please explain why not?

We broadly agree with the proposal to apply personal account dealing rules to cryptoasset intermediaries, as this is an important and well-understood tool for managing conflicts of interest and maintaining market integrity. Applying comparable standards to those that already exist across regulated financial services would promote consistent expectations and support confidence in the sector.

That said, we encourage the FCA to ensure the rules are applied proportionately and are appropriately calibrated to crypto-specific business models, including 24/7 markets and the prevalence of technology and infrastructure roles. Clear guidance on scope and practical application will be important to avoid unnecessary compliance friction while still achieving the underlying policy objective.

Question 16: Do you agree with our proposed requirements on intermediaries around settlement arrangements, where applicable? If not, please explain why not?

Noting that to the FCA intends to consult further on settlement rules later this year, broadly we agree with the high-level proposals as outlined.

We encourage the FCA to continue to apply these requirements in a proportionate and technology-neutral manner, recognising the diversity of settlement models in cryptoasset markets. In particular, guidance that distinguishes between legal and technical settlement finality, and that allows flexibility around pre- and post-settlement controls based on risk and business model, would help ensure the framework is workable in practice without undermining the efficiency benefits of crypto-native settlement mechanisms.

Proposals applying to Cryptoasset Trading Platforms and Intermediaries

Question 17: Do you agree with our proposed pre-and post-trade transparency requirements for UK CATP operators and principal dealers? If not, please explain why not?

We support the FCA's objective of improving market integrity and confidence through appropriately calibrated transparency, and we welcome the clearer articulation in CP25/40 of how transparency obligations would apply to different market participants. In particular, we agree that pre- and post-trade transparency is an appropriate and necessary feature of UK CATP operators, given their multilateral, price-forming role in the market.

Where CATPs aggregate liquidity, display executable prices to multiple participants, and act as gatekeepers to market access, transparency obligations can meaningfully support price discovery, enhance confidence, and promote fair and orderly markets. Applied proportionately and with appropriate waivers, such requirements are consistent with the FCA's objectives of effective competition and improved consumer outcomes.

However, we do not agree that the same transparency obligations should apply automatically to firms dealing as principal, particularly where their activity is bilateral, episodic, or not systemically price-forming. Principal dealing in cryptoasset markets encompasses a wide range of business models, many of which do not function in practice as trading venues or make a

continuous contribution to public price formation. Applying venue-style transparency requirements to all principal dealers risks conflating fundamentally different market roles.

We therefore consider that transparency obligations for principal dealers should be activity-based and should apply only where a firm's principal dealing activity is systematic and venue-like in nature; that is, where it regularly and continuously makes prices available to the market and plays a material role in price formation, for example, measured by proportion of quote volume, or execution share. This approach is consistent with established market structure principles under MiFID II, including the treatment of systematic internalisers, and provides a well-understood and internationally coherent framework for calibrating transparency obligations.

We welcome the FCA's recognition that qualifying stablecoins should be excluded from both pre- and post-trade transparency requirements where they are exchanged for fiat or for other UK-based qualifying stablecoins. Stablecoins are designed to maintain a fixed value and are primarily used for payments, settlement, and liquidity management rather than speculative price discovery. Applying transparency regimes designed for volatile investment assets risks generating misleading signals and unnecessary costs without delivering corresponding benefits to consumers or market integrity.

Finally, for the transparency regime to work effectively, clear and consistent token identification is critical. Lack of a standardised reference identifier for pre- and post-trade data will limit its usability for market supervision purposes. We therefore encourage the FCA to consider defining the Digital Token Identifier (DTI) within transparency reporting, to support unambiguous instrument identification and a more robust cryptoasset identification code in trade reports. Use of the DTI for cryptoasset identification would improve data quality, cross-venue comparability, and regulatory usability, while aligning with the FCA's proposed approach to cryptoasset disclosures.

Question 18: Do you agree with our proposed methodology for determining the pre-trade transparency threshold? If not, please explain why not? What other methodology do you suggest?

We agree that pre-trade transparency is appropriate for UK CATP operators, irrespective of firm size, where those platforms operate multilateral trading models that contribute directly to price formation. CATPs aggregate liquidity, display executable prices to multiple participants, and play a gatekeeper role in market structure. In that context, pre-trade transparency can support more efficient price discovery and enhance confidence in market integrity, provided it is calibrated appropriately by asset liquidity and trading model.

However, we do not agree that pre-trade transparency should apply to firms dealing as principal solely on the basis of a firm-level revenue threshold. Applying pre-trade transparency to principal dealers is only justified where their activity is systematic, price-forming, and functionally equivalent to an organised trading venue, in line with the logic underpinning the systematic internaliser (SI) regime under MiFID II.

As we highlighted in our response to DP25/1, principal dealers in cryptoasset markets operate across a wide range of business models, many of which do not contribute meaningfully to public price formation. These include bilateral, request-for-quote, or episodic liquidity provision models, particularly for institutional or block trades. In such cases, mandatory pre-trade transparency can be actively harmful, reducing willingness to provide liquidity and worsening execution outcomes.

A firm-level £10 million revenue threshold is not an appropriate proxy for determining when principal dealing activity becomes sufficiently systematic to warrant pre-trade transparency:

- Revenue does not equate to systematic price formation. Firms may exceed the threshold due to custody, payments, staking, lending, or other non-price-forming activities, while engaging in limited or non-systematic principal trading.

- The threshold is misaligned with activity-based regulation. What matters for transparency is not firm size per se, but whether a firm is routinely making prices available to the market on a continuous or predictable basis.

- Applying transparency too broadly risks liquidity withdrawal. Forcing bilateral or episodic liquidity providers to publish quotes can expose proprietary pricing strategies, reduce participation, and widen spreads, undermining effective competition and consumer outcomes.

As we highlighted in our response to DP25/1, principal dealers in cryptoasset markets operate across a wide range of business models, many of which do not contribute meaningfully to public price formation. These include bilateral, request-for-quote, or episodic liquidity provision models, particularly for institutional or block trades. In such cases, mandatory pre-trade transparency can be actively harmful, reducing willingness to provide liquidity and worsening execution outcomes. Applying pre-trade transparency to non-systematic principal dealers would impose substantial technology and data-publication burdens disproportionate to their market impact. There is also a risk that firms may restructure business lines to avoid crossing arbitrary revenue thresholds, leading to commercially inefficient and unintended outcomes.

We therefore recommend a clearer distinction between CATPs and principal dealers, and a methodology for principal dealers that is explicitly activity-based and based on the undertaking

of price formation and execution activity in a systematic manner, drawing on well-established MiFID II precedents and concepts.

Specifically:

- *CATPs:* Pre-trade transparency should apply as a baseline requirement, subject to appropriate waivers and liquidity-based calibration, given their multilateral, price-forming role.

- *Principal dealers:* Pre-trade transparency should apply only where a firm's principal dealing activity is systematic, meaning that it:

    - Regularly and continuously makes firm quotes available to clients;
    - Accounts for a material share of liquidity in a given cryptoasset or market segment; and
    - Functions in practice as a venue-like source of price formation.

This mirrors the logic of the systematic internaliser regime, which recognises that bilateral trading should only be subject to pre-trade transparency where it becomes venue-like in nature. A broader application of pre-trade requirements to potentially any firm dealing in cryptoassets as principal creates inconsistencies between the treatment of traditional financial instruments and cryptoassets, and a disproportionate and difficult to justify burden on cryptoasset service providers.

This distinction also better supports the FCA's stated success measures. It ensures transparency enhances price discovery where it is meaningful, without deterring liquidity provision or increasing transaction costs. It aligns the UK regime with familiar international market structure concepts, reducing unnecessary divergence and encouraging global firms to operate from the UK. Finally, it focuses pre-trade transparency obligations on where they genuinely improve market visibility and price formation.

Question 19: Do you agree with our proposals for transaction recording and client reporting requirements for UK CATP operators and intermediaries? If not, please explain why not?

We broadly agree with the FCA's proposals for transaction recording and client reporting requirements for UK CATP operators and intermediaries and consider these proposals to represent a constructive and proportionate evolution, in response to industry feedback, from the approach outlined in DP25/1.

In particular, we welcome the FCA's decision not to require systematic reporting of individual cryptoasset transactions or STORs, and instead to rely on robust record-keeping obligations with supervisory access on request. This approach appropriately balances market integrity objectives with privacy, cybersecurity, and operational risk considerations.

We also support the proposed five-year record retention period aligned to existing COBS requirements, and the FCA's pragmatic decision not to mandate a single transaction data standard at this stage. The openness to industry-led standardisation, including the use of ISO 20022 where appropriate, reflects the current maturity of cryptoasset markets and avoids locking in premature or inflexible infrastructure choices.

The proposed client reporting obligations are similarly proportionate and broadly aligned with established MiFID practices. Requiring prompt execution confirmations, with the ability for clients to opt out, supports transparency and consumer confidence while avoiding unnecessary duplication. We particularly welcome the recognition that information already available on-chain need not be duplicated in client reports, provided clients can readily access it.

That said, we encourage the FCA to consider the following refinements to ensure the regime remains proportionate and effective in practice:

- *Activity-based proportionality:* As with other aspects of the regime, transaction recording expectations should be applied proportionately based on a firm's role and activity. CATPs, as venues, naturally warrant more comprehensive records, whereas non-systematic intermediaries engaging in episodic or bilateral activity should not face venue-equivalent burdens by default.
- *Coordination across reporting regimes:* We encourage the FCA to ensure coordination between transaction recording requirements and parallel obligations under MARC, the MLRs and CARF, to avoid duplication and unintended reporting creep through overlapping regimes.

- *Standardised cryptoasset identification:* The usability of transaction records and client reports will depend on clear and consistent cryptoasset identification. We encourage the FCA to consider defining the Digital Token Identifier (DTI) as the relevant cryptoasset identifier within order and transaction records and client reporting fields. The DTI would reduce ambiguity, improve data consistency, and also support alignment with other cryptoasset regulatory frameworks such as recording and reporting obligations under MiCA and CARF.

Cryptoasset Lending and Borrowing

Question 20: Do you agree with our proposals on strengthening retail clients' understanding and express prior consent? If not, please explain why not?

We broadly agree with the FCA's proposals to strengthen retail clients' understanding of cryptoasset lending and borrowing (L&B) services and to require express prior consent to key terms. We welcome the evolution from DP25/1, particularly the more operationally detailed requirements for service-specific information, disclosure of key contractual terms, and obtaining consent before the client is bound. In our view, these measures are directionally correct given the complexity of L&B services and the potential for significant consumer harm, and they should contribute to increased consumer confidence and trust in regulated firms.

That said, we encourage the FCA to refine the approach to ensure these requirements deliver meaningful understanding in practice and do not become a "click-through" exercise. In particular:

- *Consent should be meaningful and risk-specific.* We support express prior consent, but recommend that firms be required to obtain explicit opt-in for the key features that drive consumer risk - including transfer of ownership, rehypothecation or reuse of assets/collateral, deployment of assets to third parties or DeFi protocols, lock-ups/withdrawal restrictions, and any automatic collateral top-ups where relevant, rather than relying solely on a single blanket acknowledgement.

- *Insolvency outcomes and ownership transfer should be made central and prominent.* Retail harm in L&B has frequently crystallised through firm failure and unclear client claims. Disclosures should clearly explain who owns the cryptoassets at each stage, the client's status in insolvency, and how any safeguarding or trust arrangements apply (noting the FCA's forthcoming consultation on safeguarding).

- *Standardisation and comparability should be prioritised.* To support effective competition and consumer switching, and therefore the FCA's success metrics on competition and trust,we encourage the FCA to develop more standardised disclosure expectations (for example, a common template or minimum presentation format) so retail clients can compare offerings on core variables such as yield/APR, fees, withdrawal rights, rehypothecation, and liquidation mechanics.

- *Avoid unnecessary friction that could drive activity out of the regulated perimeter.* The FCA has rightly noted in CP25/40 that restricting retail access risks pushing consumers into unregulated channels. Similarly, if consent and disclosure processes become overly

burdensome or confusing, retail clients may migrate to offshore or informal alternatives, undermining consumer protection and market integrity objectives.

Subject to these refinements, we consider the proposals a proportionate step that should improve retail outcomes and support the development of a safer, more trusted UK market for regulated L&B services.

Question 21: Do you agree with our proposal to prohibit the use of proprietary tokens for L&B as outlined above? If not, please explain why not?

We agree with the FCA's conclusion that the use of proprietary tokens in retail cryptoasset lending and borrowing creates structural conflicts of interest and correlated risks that cannot be adequately mitigated through disclosure alone, and we therefore support the proposed prohibition for retail L&B services.

We note, however, that a different risk calculus may apply in professional-only contexts. In line with established regulatory practice across wholesale markets, the FCA could, in our view, consider permitting the use of proprietary tokens in L&B services offered exclusively to professional clients, subject to robust conditions around conflicts management, disclosure, governance, and prudential safeguards.

Any such conditionality would need to be tightly framed, including clear limitations on client categorisation, strong supervisory oversight, and explicit separation between retail and professional offerings.

We further note that prohibiting the use of proprietary tokens by L&B firms does not - and should not - necessarily preclude retail clients from accessing L&B services based on proprietary tokens offered by unaffiliated third parties, where such tokens are not issued or controlled by the L&B firm itself, and where all applicable consumer protection, disclosure, and prudential requirements are met.

This distinction preserves the FCA's core consumer protection objectives while avoiding unnecessary restriction of professional investor / wholesale market activity and supporting the UK's competitiveness as a location for regulated cryptoasset innovation.

Question 22: Do you agree with our proposed record-keeping requirements on regulated L&B firms? If not, please explain why not?

We broadly agree with the FCA's proposed record-keeping requirements for firms offering L&B services and consider them to be a proportionate and constructive addition to the regulatory framework.

We welcome the FCA's focus on L&B-specific operational records that directly address the key risk areas in lending and collateralised activities, including errors in yield calculation, collateral management, asset reuse, and operational disruption. These measures appropriately complement existing COBS and client asset or safeguarding requirements, and will support effective supervision, orderly wind-down planning, and improved consumer outcomes.

Compared to DP25/1, this represents a positive shift towards strengthening operational discipline and internal controls. The approach is also consistent with established practice in traditional finance, where robust internal record-keeping and supervisory access are preferred to continuous transaction-level reporting for lending and collateralised activities.

We particularly support:

- The five-year retention period, which aligns with existing regulatory expectations.
- The requirement to maintain clear records of key terms and express client consent.
- The focus on daily tracking of yield, fees, and collateral, which is critical for both consumer protection and firm risk management.

We encourage the FCA to consider the following refinements to support effective and proportionate implementation:

<u>Privacy and data minimisation</u>
Given the sensitivity of some of the required data, including wallet addresses and records of operational losses, we encourage the FCA to provide clear expectations around pseudonymisation, data security, and minimisation, consistent with wider feedback submitted for DP25/1.

Blockchain technology introduces a level of transparency unmatched by traditional financial systems. This enables powerful traceability for investigations but also creates significant privacy risks when on-chain activity becomes linkable to real-world identities.

Blockchain-based transaction activity, by design, is transparent. When combined with off-chain identifiers, this transparency can create privacy and data-security risks if records are not

appropriately pseudonymised or segregated. We therefore encourage the FCA to provide clear expectations around data minimisation, pseudonymisation, and secure handling of any client-specific information contained within L&B operational records.

Proportional application

Record-keeping requirements should be applied in a manner proportionate to a firm's specific L&B business model, recognising that not all firms will engage in practices such as rehypothecation, asset reuse or deployment into third-party protocols.

Clarity on operational disruptions

Further guidance on what constitutes "operational disruptions" for the purposes of loss recording, including whether the term is intended to capture system outages, failed collateral transfers, delayed withdrawals, or other categories of operational events, to support consistent industry implementation.

Clarity on cryptoasset identification

As noted in our earlier responses, we encourage the FCA to consider how cryptoassets are consistently identified in L&B record keeping. The "type of qualifying cryptoasset" alone does not provide a stable or unambiguous reference to the cryptoasset itself. We therefore suggest recognising the Digital Token Identifier (DTI) as a means to identify relevant cryptoassets in any L&B activity within the text or as additional guidance for this field. A standardised, chain-agnostic identifier would improve clarity, data consistency, and long-term supervisory usability, particularly where tokens are pledged, transferred, or reused over time.

Coordination with other regimes

We encourage the FCA to continue coordinating with requirements under COBS, safeguarding rules, MARC, the MLRs, and CARF, so that record-keeping obligations are aligned and do not lead to duplication or inconsistent reporting expectations across parallel regimes.

Question 23: Do you agree with our proposals on additional collateral, mandatory over-collateralisation of retail clients' loans, and managing the limits/ levels of the loan? If not, please explain why not?

We broadly agree with the FCA's proposals on additional collateral, mandatory over-collateralisation of retail clients' loans, and the management of loan limits, including LTV ratios, margin call levels and liquidation thresholds. Taken together, these measures represent a significant and positive evolution from the approach outlined in DP25/1 and provide a more coherent and proportionate framework for mitigating retail harm in cryptoasset borrowing.

We welcome the FCA's decision to rely on structural risk mitigants - including mandatory over-collateralisation, calibrated LTV limits and negative balance protection - rather than applying CONC-style creditworthiness assessments that are ill-suited to over-collateralised cryptoasset borrowing. This approach better reflects the mechanics of over-collateralised borrowing and is more akin to established practice in margin-based or leveraged products, where credit assessments are less meaningful than collateral sufficiency, volatility modelling and real-time risk management. However, we note that over-collateralisation would prevent retail clients from taking leveraged positions at the portfolio level, as they could never borrow more than their posted collateral. This is a significant restriction compared to other markets, where controlled leverage is permitted with appropriate safeguards.

In particular, we support:

- The requirement that retail cryptoasset borrowing be over-collateralised, to a reasonable and proportionate extent.

- The obligation on firms to model and set appropriate LTV, margin call and liquidation levels based on asset volatility.

- The requirement for express consent and limits on the use of additional collateral.

- The introduction of negative balance protection, ensuring retail clients cannot lose more than the collateral they have expressly dedicated.

Together, these safeguards support proportionate protection for retail clients while preserving the operational viability of regulated L&B business models.

We encourage the FCA to consider the following refinements to support effective implementation:

- *Clarifying modelling expectations:* The requirement that margin calls or liquidation would not be expected to occur in the short term should be interpreted as an expectation of prudent, evidence-based calibration rather than an assurance of outcomes. Given the inherent volatility of cryptoassets, extreme market conditions may still trigger margin calls or liquidation even where modelling has been undertaken responsibly. In those cases, negative balance protection and calibrated limits provide an important additional safeguard.

- *Holistic assessment with prudential requirements:* Negative balance protection shifts tail risk to firms. Its effectiveness therefore depends on appropriately calibrated prudential requirements and orderly wind-down planning, as proposed underCP25/42. We

encourage the FCA to consider the L&B proposals and CP25/42 as a coherent package.

- *Asset-specific proportionality:* We support allowing firms to calibrate LTV and collateral requirements by reference to the characteristics and volatility, liquidity profile and market depth of the underlying cryptoassets rather than applying uniform limits across all assets.

- *Maintaining viable regulated offerings:* If requirements are calibrated too conservatively, there is a risk that retail clients will migrate to offshore or unregulated platforms, undermining consumer protection and market integrity objectives. We therefore encourage a proportionate approach that maintains the attractiveness of regulated UK offerings while delivering the intended consumer-protection outcomes.

Question 24: Do you agree with our proposals on negative balance protection? If not, please explain why not?

We agree with the FCA's proposal to introduce negative balance protection for retail cryptoasset borrowing. Ensuring that retail clients are not exposed beyond the collateral they have expressly dedicated to a cryptoasset borrowing arrangement is a clear and appropriate consumer protection measure. It provides an outcome that is similar to other leveraged products, such as contracts for difference, and offers important clarity to retail clients about the maximum extent of their potential losses.

We consider the introduction of negative balance protection to be more coherent than the application of consumer credit-style affordability or creditworthiness assessments to over-collateralised cryptoasset borrowing. It appropriately recognises the specific risk profile of these products while strengthening retail protections. That said, the effectiveness of negative balance protection is likely to depend on the wider regulatory framework within which it operates. In particular:

- Robust prudential requirements, liquidity management and orderly wind-down planning, as proposed in CP25/42, given that tail risk is explicitly transferred from retail clients to firms.

- These measures should operate alongside mandatory over-collateralisation, appropriate LTV, margin call and liquidation thresholds, and clear client disclosures, which together support balanced incentives and informed client decision-making.

- Clear guidance on the scope of loss absorption would assist retail clients in understanding how negative balance protection interacts with collateral arrangements and market-movement risks. .

Subject to these conditions, we consider the proposed negative balance protection to be proportionate, consistent with international best practice for leveraged products, and supportive of the FCA's objectives of consumer protection, market integrity and confidence in regulated cryptoasset lending and borrowing services.

Staking

Question 25: Do you agree with our proposal that regulated staking firms must provide retail clients with information on the firm and its staking service, and provide the key terms of agreement in relation to those services and obtain retail clients' express prior consent in relation to those terms each time cryptoassets are staked, as outlined in paragraphs 6.14-6.19? If not, please explain why not?

We remain supportive of clear, informed consent mechanisms and fully align with the FCA's emphasis on clear disclosures, express prior consent and proportionate record-keeping for regulated staking services. In the context of staking as a service, the service provider or intermediary should ensure that the user consents to either direct or liquid staking where applicable and should not stake a user's assets without such user's affirmative action or consent.

We support the FCA's proposal that retail clients should receive clear information about the transfer and return of cryptoassets and any associated rewards. In our view, this requirement should be understood as ensuring that firms explain, in a plain and comprehensible way, the operational staking and unstaking process, including how assets are delegated to the protocol, any bonding or unbonding periods, and how and when assets are returned following unstaking.

In this context, we consider it important to be clear that protocol-level staking does not involve a transfer of ownership of the cryptoassets being staked. Rather, the assets are locked at the protocol level and rendered temporarily inaccessible in order to support validation or delegation. The concept of "transfer and return" in disclosures should therefore be framed as operational steps, rather than as implying a legal or beneficial transfer of ownership. Additionally, we urge the FCA to ensure its guidance does not limit where validators engaged by a regulated firm may be located. Imposing such constraints could create unintended consequences for the functioning and security of staking services.

For rewards, we consider it appropriate for firms to disclose the mechanics of reward accrual and distribution, including payment frequency, how rewards are distributed, and any circumstances in which rewards may vary due to protocol level behaviour. Similarly, staking rewards are not

"returned" by the firm, but are generated and distributed on-chain by the blockchain itself, at a cadence determined by the protocol rules. Firms should therefore be expected to explain clearly that reward distribution is protocol-driven and automated, rather than controlled by the staking provider. Framing "transfer and return" in this operational sense avoids creating ambiguity or unintended implications around ownership or custody where none arise.

We also welcome the FCA's focus on retail clients' access to cryptoassets and rewards during the staking period. We understand the intent of this requirement to be ensuring transparency around liquidity constraints and access limitations inherent to protocol staking, such as bonding and unbonding periods during which assets or rewards may not be immediately accessible. Clear disclosure of these constraints is important for managing consumer expectations and supporting informed consent. In protocol staking models, retail clients do not have access to their staked cryptoassets during the staking period, as those assets are locked at the protocol level. Where clients wish to regain access to their cryptoassets, this is achieved by unstaking, following which assets become accessible subject to any unbonding or waiting periods imposed by the relevant blockchain. Again, this process does not involve a transfer of ownership of the cryptoassets, but rather a temporary restriction on access driven by protocol mechanics.

However, we would encourage the FCA to clarify that references to the "implications of any transfer of ownership" should not be read as implying that protocol-level staking necessarily involves a legal transfer of ownership of cryptoassets. In many staking models, particularly non-custodial or delegated arrangements, clients retain beneficial ownership of their assets while granting limited protocol-level rights necessary to enable validation or delegation. We consider it important that disclosures focus on the practical and economic implications for the client, including control, access, and risk allocation, rather than suggesting a change in ownership where this is not the case.

In relation to firm failure, we consider it appropriate for disclosures to focus on operational continuity and access outcomes rather than ownership transfer. Regulated staking providers should be expected to maintain robust business continuity and disaster recovery arrangements to ensure that staking infrastructure continues to operate as designed, enabling clients to unstake and recover access to their assets. In some protocols, such as Ethereum, staking providers may be able to initiate emergency unstaking processes where necessary to support client access, subject to applicable protocol-level unbonding periods.

In addition, further clarification would be helpful to avoid unintended scope creep. In particular, it would be useful to make explicit that self-hosted wallets, user interfaces and other pure technology providers that do not control client assets, execution or rewards should not be treated as intermediaries, nor brought into scope solely by facilitating user interaction with staking functionality. Similarly, the concept of "making arrangements for staking" should be applied in a way that does not inadvertently capture non-intermediary technical infrastructure that does not intermediate, control or influence the staking outcome for the client. Clarifying these points would help preserve the intended focus of the regime on regulated staking service providers,

while remaining fully consistent with the FCA's consumer protection objectives.

We also consider that further guidance from the FCA would be helpful in relation to liquid staking models. In particular, additional clarity on how liquid staking providers are expected to be classified under the regime would support consistent interpretation and supervision, noting that paragraph 6.10 suggests such providers may be treated as intermediaries. Guidance would also be welcome on how record-keeping obligations are intended to apply once liquid staking tokens are issued and leave a regulated firm's environment, including where those tokens are subsequently transferred or used outside the firm's direct control. Clear guidance in these areas would support consistent supervision and help firms design workable compliance models in good faith, without undermining the FCA's consumer protection objectives.

Finally, we agree that it is proportionate for regulated staking firms to notify retail clients of any material changes to key terms, including any changes that may affect access to assets, reward mechanics, or risk profile. We also support the FCA's decision not to mandate a specific format for disclosures or key terms, as this affords firms appropriate flexibility to present information clearly and avoids unnecessary duplication, while still meeting the underlying consumer protection objective.

Question 26: Do you agree that our proposed information provision, key terms and express prior consent requirements should only apply to retail clients and not to non-retail clients? If not, please explain why not?

Yes, we agree with this approach.

Limiting the information provision, key terms and express prior consent requirements to retail clients is appropriate and proportionate. These safeguards are designed for consumers who may have less experience, knowledge or ability to assess complex product features, and they align with the FCA's broader consumer protection objectives, including the Consumer Duty.

Non-retail clients, including professional and institutional counterparties, are better placed to understand the nature of the services they are receiving, negotiate contractual terms, and assess associated risks. Applying retail-style consent and disclosure requirements to these clients would add operational friction without delivering meaningful additional protection. It may also place UK firms at a competitive disadvantage relative to other jurisdictions that take a more proportionate differentiated approach.

On this basis, we support the FCA's proposal to apply these requirements only to retail clients.

Question 27: Do you agree with our proposed record-keeping requirements on regulated staking firms? If not, please explain why not?

We agree with the proposed record-keeping requirements for regulated staking firms and consider them to be an important and proportionate element of the regime.

Clear and consistent record-keeping supports effective supervision, enables firms to evidence compliance with their regulatory obligations, and underpins good governance and operational resilience. In the context of staking, maintaining appropriate records, including around client instructions, delegation arrangements, validator selection, reward distribution methodology, and any protocol-level incidents such as slashing events are particularly important to ensure transparency and accountability.

We also support the FCA's apparent intention to apply these requirements in a technology-neutral and outcomes-focused manner. Flexibility in how records are maintained is essential given the diversity of staking models and the role of on-chain data. Allowing firms to rely on on-chain data where appropriate, supplemented by internal records that demonstrate compliance with regulatory obligations, will help ensure the regime remains both workable and proportionate.

DeFi

Question 28: Do you agree with our proposal to apply rules and guidance in chapters 2-6 and guidance to firms engaging in DeFi where there is a clear controlling person(s) carrying on one or more of the new cryptoasset activities? If not, please explain why not?

We broadly agree with the FCA's proposal to apply rules and guidance in Chapters 2–6 to DeFi-related activities where there is a clearly identifiable controlling person (or persons) carrying on one or more of the new regulated cryptoasset activities. Where identifiable actors exercise meaningful operational control in a manner that gives rise to intermediary-related risks, it is appropriate for regulatory obligations to attach to those actors in a manner that is proportionate to the risks they introduce.

However, we strongly caution against approaches that seek to infer control or accountability at the level of the underlying public permissionless ledger or protocol, where no entity exercises operational control over transactions or user cryptoassets and the intermediary risks that this regime is intended to address are therefore not present.

Public blockchains and DeFi ecosystems are highly diverse in their architecture, governance design, and operational characteristics. Treating DeFi as a single, homogeneous category, risks mischaracterising how these systems function in practice and obscuring whether intermediary-style risks arising from discretion, conflicts of interest, or custody of user assets are in fact present, and may lead to regulatory outcomes that are neither proportionate nor effective.

As such, we encourage the FCA to continue developing guidance that is outcome-focused and technology-neutral, emphasising the specific functions being performed and the nature of control exercised, and the actual risks posed to users.

Cost benefit analysis

Question 29: 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.

We welcome the FCA's efforts to assess the costs and benefits of the proposed regime and recognise the challenge of doing so across a wide-ranging and interrelated package of consultations. We also appreciate the FCA's intention to take a consolidated approach to cost assessment across CP25/40 and related papers.

That said, while we understand the rationale for this approach, we consider that some of the assumptions underpinning the cost benefit analysis may not fully reflect the practical implementation burden arising from the combined consultation package. In particular, CP25/40 does not appear to include explicit cost estimates associated with the implementation of the overall risk assessment and the ongoing calculation and maintenance of the Own Funds Threshold Requirement (OFTR), as further developed in CP25/42. These elements introduce recurring operational obligations which extend beyond initial authorisation and are not clearly reflected in the cost assumptions set out in the CBA.

We also note that the CBA assumes firms will review only a limited portion of CP25/40 (approximately 20 pages) for familiarisation purposes. In practice, firms are likely to need to engage with a much broader set of materials across CP25/40, CP25/42, CP25/15 and other related proposals in order to understand how requirements interact and apply to their specific business models. This suggests that familiarisation costs may be understated, particularly for smaller and early-stage firms with limited internal compliance resources.

We raise these points in the spirit of supporting a robust and proportionate framework and would welcome further refinement or clarification of the underlying assumptions to ensure the cost analysis fully captures the practical realities of implementation across firms of different sizes, activities and stages of development.

Question 30: Do you have any views on the cost benefit analysis, including our analysis of costs and benefits to consumers, firms and the market?

We broadly support the FCA's objectives in strengthening prudential standards and improving confidence in the regulated cryptoasset market, and we recognise the importance of ensuring that

the regime delivers clear benefits for consumers, firms and the wider market. We also welcome the FCA's focus on proportionality and effective competition as part of its cost benefit assessment.

From the perspective of firms and market entry, we consider that certain ongoing compliance costs may be more significant than reflected in the current analysis, particularly for stablecoin issuers and early-stage firms. Requirements relating to overall risk assessments and the calculation and maintenance of the Own Funds Threshold Requirement (OFTR) are likely to require sustained senior management involvement, specialist prudential expertise, scenario analysis, internal documentation, governance processes and periodic review. These represent continuing operational costs rather than one-off implementation efforts.

At the same time, for successful stablecoin issuers, the OFTR is unlikely in practice to be the binding prudential constraint. As outlined elsewhere in this response, capital requirements for stablecoin issuance are already directly linked to the value of stablecoins in issue through the applicable K-factor. In such cases, firms may incur significant recurring compliance costs associated with conducting risk assessments and calculating the OFTR without a commensurate impact on the level of capital ultimately required. This raises questions about whether the balance between compliance effort and prudential benefit is appropriately calibrated.

We therefore encourage the FCA to consider whether additional guidance, illustrative examples or indicative cost assumptions could be provided to support firms in assessing the operational and financial impact of compliance. Greater clarity on how these requirements are expected to scale by firm size, activity and stage of development would support proportionate implementation, reduce uncertainty for prospective entrants, and help ensure that the framework delivers its intended benefits without creating unintended barriers to entry or growth.