



Crypto  
Council for  
Innovation

12th February, 2026

SUBMITTED VIA EMAIL TO: [cp25-42@fca.org.uk](mailto:cp25-42@fca.org.uk)

To whom it may concern,

**Re: FCA on CP25/42: A prudential regime for cryptoasset firms**

**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

CP25/42 sets out a comprehensive prudential framework for cryptoasset firms, including minimum capital requirements, a range of activity-based K-factors, and additional requirements relating to trading activity, counterparty exposure, concentration risk, governance, and disclosure. GDF and CCI support the FCA's objective of ensuring that cryptoasset firms operating in the UK are subject to robust, risk-sensitive prudential standards, and we welcome the continued engagement with industry on the design of the regime.

However, taken together, the proposals in CP25/42 represent one of the most capital-intensive prudential frameworks for cryptoasset firms globally. In particular, the cumulative effect of multiple K-factors layered on top of the Permanent Minimum Requirement (PMR) materially differentiates the UK approach from that adopted in other major jurisdictions and risks positioning the UK as a cost-of-capital outlier.

A central concern relates to the scale and calibration of the proposed capital requirements, particularly for firms that trade as principal or provide institutional liquidity. As set out in detail in our response, the net cryptoasset position (K-NCP) requirement is likely to be the binding constraint for many such firms. The proposed 40% and 100% capital charges, combined with operationally complex asset categorisation criteria, risk materially overstating market risk for mature and liquid cryptoassets, creating cliff-edge effects, and discouraging authorised liquidity provision within the UK regulatory perimeter.

More broadly, the framework creates a potential economic asymmetry for non-retail-facing firms. In practice, non-UK firms may be able to access UK markets on a cross-border basis without FCA authorisation, while UK-authorised firms would be subject to significantly higher capital requirements as a condition of operating domestically. This risks distorting competition between UK-authorised and non-UK firms, discouraging firms with material balance sheets from establishing or maintaining a UK presence, and ultimately undermining supervisory objectives by pushing trading activity offshore rather than bringing it within the FCA's oversight.

The proposed approach also represents a point of divergence from international comparators. Under the EU's MiCA framework, cryptoasset service providers (other than certain stablecoin issuers) are generally subject to prudential requirements based on PMR or a proportion of fixed overheads, without an equivalent stack of activity-based K-factors. As currently calibrated, the UK regime risks becoming materially more expensive than EU, US, or APAC alternatives, raising questions about long-term market attractiveness and alignment with the UK's ambition to be a leading hub for digital finance.

While recognising that the FCA has committed to a K-factor-based prudential architecture, we encourage the FCA to consider carefully the aggregate capital impact of the framework and the potential unintended consequences for firm location decisions, market structure, and regulatory

perimeter outcomes. In particular, we reiterate concerns previously raised in response to CP25/15 regarding the appropriateness of K-factors that scale linearly with issuance. Since the publication of CP25/15, the Bank of England has set out proposals for systemic sterling stablecoin issuers that do not include issuance-linked capital requirements, suggesting an opportunity for closer alignment between the FCA and the Bank's approaches.

Throughout this response, GDF and CCI therefore focus on targeted refinements to calibration, operability, and proportionality, aimed at ensuring that the prudential regime supports financial resilience and orderly wind-down, without unnecessarily constraining authorised business models or incentivising activity to move outside the UK regulatory perimeter. We would welcome continued engagement with the FCA to test calibration, explore transitional or smoothing mechanisms where appropriate, and ensure that the final framework delivers on both prudential and competitiveness objectives.

## *Response to consultation questions*

### *Question 1: Do you agree with the proposed PMR for the various activities that cryptoasset firms will need to comply with?*

We broadly support the FCA's objective of introducing clear, accurate, and proportionate Permanent Minimum Requirements (PMR) calibrated to the prudential risks of different business models. In this context, we encourage the FCA to consider whether additional differentiation within the "dealing as principal" category may be appropriate, particularly for firms operating risk-neutral or fully collateralised models that do not take proprietary balance-sheet exposure. Greater granularity would help ensure that PMR operates as a genuinely risk-sensitive tool rather than a uniform capital floor for heterogeneous activities. We would also welcome greater transparency on the calibration of the PMR levels, including the prudential assumptions underpinning the thresholds, to ensure the proposed floors are proportionate and evidence-based.

Given the UK's commitment to remain internationally competitive, it would also be helpful to test PMR calibration against emerging international frameworks, including MiCA, to avoid inadvertently incentivising firms to locate balance-sheet activity outside the UK regulatory perimeter. This is particularly important given the cumulative effect of PMR alongside multiple activity-based K-factors, which in aggregate could result in disproportionately high capital requirements for certain business models. It would therefore be helpful for the FCA to clarify that PMR is not intended to become the binding capital requirement where risks are already captured more precisely through activity-based measures.

We additionally suggest that the FCA consider appropriate transitional arrangements for firms migrating from the AML-registration regime into authorisation, to reduce the risk of market disruption and support an orderly adjustment to the new prudential framework. This is especially relevant given the operational step-change required to implement prudential capital, liquidity, and governance processes that do not currently exist under the AML-registration regime.

Finally, as PMR levels can influence market structure, ensuring that capital floors do not unintentionally limit entry or reduce diversity among liquidity providers would support both supervisory objectives and the long-term resilience of the UK cryptoasset ecosystem.

### *Question 2: Do you have any views on the operational risk K-factors we are proposing for cryptoasset firms?*

GDF and CCI welcome the FCA's continued refinement of the prudential framework for cryptoasset firms and support the objective of ensuring that operational and financial crime risks are appropriately capitalised. We recognise the FCA's intention to better align capital requirements with the distinctive risk profile of cryptoasset activities, including client asset exposure and financial crime considerations. We also encourage the FCA to ensure that K-CCO,

K-CTF and K-CCS operate in a manner that is clearly non-duplicative, given the potential for overlap across order-handling, trading-flow and custody-related exposures.

We encourage the FCA to consider how the calibration of operational K-factors should reflect characteristics unique to cryptoasset markets, such as near-instant settlement, automated execution, and continuous real-time risk management, which materially reduce the duration and scale of operational exposures compared with analogous TradFi activities.

As set out in our previous response to CP25/15, we continue to encourage a K-factor framework that is risk-sensitive, avoids double counting, and reflects mitigating controls. In particular, we reiterate our earlier recommendations regarding calibration of K-SII to reflect risk mitigants and proportionality, and the need to revise K-QCS to avoid duplicative capital requirements where custody risk is already borne by regulated third-party custodians. We do not repeat those points in detail here, but please see [our full response to CP 25/15](#) for further details.

Beyond the proportionality concerns raised in our CP25/15 response, we highlight a more fundamental issue: an issuance-linked capital requirement is actively counterproductive for stablecoins because it prevents supply from responding to demand. When an issuer nears its capital-constrained issuance limit, the resulting artificial supply shortage risks either driving the secondary market price above the peg or triggering a loss of confidence in the stablecoin as a reliable settlement asset, both of which destabilise the peg and harm consumers. See also our response to Question 7 below regarding the effectiveness of the K-SII.

The K-SII requirement is also structurally anti-competitive: raising own-funds-qualifying capital is exceptionally difficult for early-stage issuers. Start-up investors typically demand preferential terms (such as liquidation preferences) that disqualify funding from CET1 treatment, and retained profits will not reliably reach 2% of issuance in the low-margin, early-growth phase. The practical effect is to favour established institutions with existing balance sheets over innovative UK entrants, contrary to the FCA's secondary competitiveness and growth objective.

We focus below on the newly proposed operational risk K-factors, K-CCO, K-CTF, and K-CCS:

### **K-CCO: Client Cryptoasset Orders**

We understand K-CCO is intended to cover operational risk arising from a firm handling client orders, including execution of orders on behalf of the client and reception and transmission of client orders. We agree these activities can generate BAU operational risk (including system outages, order-routing failures, erroneous execution, market disruption and client detriment) which can be managed with appropriate risk mitigants as well as relevant internal systems and controls. This includes automated reconciliation, pre-trade and post-trade controls, and internal matching architectures already recognised by the FCA as effective operational risk mitigants.

However, we encourage the FCA to refine K-CCO to ensure it is aligned to the operational risk drivers of the order-handling function, rather than becoming a broad proxy for firm size. In particular, there may be value in ensuring that K-CCO does not inadvertently become a linear throughput measure, but instead incorporates recognition of firms whose automated controls, reconciliation processes, and order-handling architecture measurably reduce operational loss potential.

Specifically, we encourage the FCA to consider:

- Whether additional differentiation is needed between firms whose role is primarily reception and transmission versus those undertaking more complex execution-related functions, given the materially different operational risk profiles involved; and
- Whether the calibration of K-CCO sufficiently reflects automation, straight-through processing, and control maturity, which can significantly mitigate the likelihood and impact of order-handling incidents.

This is especially relevant for firms whose role is limited to routing or transmission and who do not undertake execution-related functions that carry materially higher operational complexity.

Further worked examples illustrating the application of K-CCO across common agency and routing models (including execution via affiliated or third-party CATPs) would help firms interpret the framework consistently and design proportionate capital planning approaches.

### **K-CTF: Cryptoasset Trading Flow**

We understand K-CTF is designed to cover the operational risk relating to the value of trading activity conducted throughout each business day, including activity where a firm executes trades in its own name. We support the FCA's objective of capturing risks which can be associated with higher trading intensity, such as operational capacity constraints, incident frequency, and the potential impact of trading disruptions.

That said, we remain concerned that trading value alone may be an imperfect proxy for operational risk, particularly where firms operate highly automated, low-touch execution models with strong controls and limited manual intervention. Without further calibration, K-CTF may produce disproportionate capital outcomes for firms with high notional volumes but comparatively low operational risk.

We therefore encourage the FCA to:

- Provide greater clarity on the measurement of trading flow for different execution models and asset types;
- Consider how the effectiveness of operational controls and system design might be reflected, either through calibration or supervisory guidance, to ensure K-CTF remains risk-sensitive rather than purely size-based; and
- Assess whether the shorter settlement horizon typical of cryptoasset markets (often T+0) should be factored into calibration, given its impact on the duration of operational exposure.

### **K-CCS: Clients' Cryptoassets Staked**

We understand K-CCS is intended to cover the operational risk relating to the value of cryptoassets staked on behalf of clients, and that the FCA views the operational risk profile of staking platforms as resembling that of custodians (including risks such as cyber threats, reconciliation issues, and human error). We also welcome the avoidance of double counting via the K-QCS Exclusion. Furthermore, we note the proposed calibration of 0.04% of average CCS.

We recognise the FCA's position that staking activities give rise to ongoing business-as-usual operational risks. However, we would highlight several observations on the proposed design and calibration of K-CCS that we believe merit further consideration or clarification.

First, we encourage greater clarity on the risk that the 0.04% calibration is intended to cover. It is not clear from the consultation materials how this figure has been derived, nor whether it is primarily intended to address specific risks such as slashing, broader operational failures, or an aggregate proxy for multiple operational risk drivers. This distinction matters, as certain staking arrangements and protocols do not involve slashing at all, while others manage slashing risk through technical, contractual, or governance controls. Greater transparency on the underlying risk assumptions would help firms assess whether the proposed calibration is appropriately targeted and proportionate.

Second, we note that operational risk can vary materially across staking models. Staking arrangements differ significantly in their degree of delegation, validator selection and oversight, slashing risk management, governance arrangements, and technology stack. In this context, a single flat calibration may not fully reflect meaningful differences in operational risk exposure. We therefore encourage the FCA to consider whether additional guidance, or a limited set of risk-sensitive modifiers, could be introduced so that K-CCS more accurately reflects variations in operational responsibility and risk profile across different staking models, without undermining simplicity or comparability. In addition, where multiple regulated firms participate in a staking chain, there may be benefit in ensuring that the capital framework clearly allocates responsibility to the entity that is operationally exposed, so that prudential requirements do not

accumulate in a way that exceeds the underlying risk. This would support consistency with the FCA's objective of avoiding double-counting across K-factors.

Third, we agree with the FCA's position that firms should not be able to reduce their K-CCS exposure simply by appointing a third-party provider, given the continuing responsibilities associated with third-party selection, oversight, and client protection. However, we recommend that the FCA provide clear worked examples illustrating how K-CCS should be calculated across common delegation and sub-delegation structures. This would help firms apply the requirements consistently in practice and avoid duplicative or unclear capital outcomes across the staking value chain.

Fourth, we encourage the FCA to consider whether reliance on a pure cash reserve is the most effective mechanism for mitigating the risks K-CCS is intended to address. In particular, where the value of staked cryptoassets fluctuates, a fixed cash reserve may not track the underlying exposure it is meant to cover. In other regulatory regimes, alternative or complementary safeguards such as insurance, guarantees, or other risk-transfer mechanisms are sometimes permitted to protect client interests. Clarifying whether, and in what circumstances, such mechanisms could play a role alongside cash reserves would be helpful, particularly for larger or more complex staking operations.

Ensuring that firms can deploy risk-transfer mechanisms that demonstrably mitigate operational exposures could also reduce the likelihood of capital requirements becoming a binding constraint in ways that do not enhance client protection.

Overall, GDF and CCI support the FCA's direction of travel in introducing K-CCO, K-CTF and K-CCS as crypto-specific operational risk metrics. We encourage targeted refinements and supporting guidance to ensure these K-factors are (i) aligned to operational responsibility and risk drivers, (ii) proportionate across business models, and (iii) avoid unintended gaps or inconsistencies. We would welcome further engagement with the FCA, including through calibration testing and worked examples. Ensuring that these operational K-factors remain proportionate and risk-reflective will also help maintain the UK's competitiveness relative to other jurisdictions developing crypto-specific prudential regimes.

*Question 3: Do you have any views on our proposals for positions in the trading book, including the definition, management and additional value adjustments?*

GDF and CCI welcome the FCA's proposals to clarify the treatment of positions in the trading book for cryptoasset firms and recognise the objective of ensuring that trading-related risks are appropriately governed and capitalised. We support the FCA's intent to draw on established

principles from the UK prudential framework while adapting them to the specific characteristics of cryptoasset markets.

That said, we have several observations on the proposed definition, management expectations, and the application of the additional valuation adjustment (AVA), where further clarification and calibration would support proportionate and consistent implementation.

### **Trading book definition and scope**

We note the FCA's expectation that, in general, positions in qualifying cryptoassets should be recorded in the trading book. While we understand the rationale for this approach, we are concerned that, if interpreted too broadly, it could capture positions that are not held with trading intent, such as holdings for treasury management, operational liquidity, settlement facilitation, or other non-trading purposes.

We also encourage the FCA to clarify the treatment of short-term positions arising solely from settlement timing, client facilitation, or automated inventory balancing. These positions may arise as a mechanical feature of 24/7 market operations rather than from trading intent, and clear guidance would help avoid unintended inclusion in the trading book where the underlying risk is operational rather than market-driven.

We therefore encourage the FCA to provide additional guidance or worked examples clarifying when positions may appropriately be treated as non-trading, and what evidence or documentation firms should maintain to support such classification. This would help ensure that the trading book definition remains aligned with economic intent and risk profile and avoids disproportionate governance and capital impacts for positions that do not give rise to trading-related risk.

### **Management and governance expectations**

We note the proposal to apply trading book management requirements consistent with MIFIDPRU and relevant UK CRR principles, including controls around assignment, monitoring, and valuation. We support the importance of robust governance and clear internal controls.

However, cryptoasset markets operate on a continuous, 24/7 basis, and we encourage the FCA to clarify how expectations such as "daily" monitoring and control should be interpreted in this context. In this context, it may be helpful for the FCA to recognise that many cryptoasset firms deploy continuous, automated risk-management tooling, which can provide more granular and timely oversight than traditional end-of-day processes. Acknowledging such models within supervisory expectations would support proportionality and reflect the operational realities of crypto markets. Clear supervisory guidance on how firms should operationalise these requirements in always-on markets would reduce ambiguity and help firms design proportionate, effective control frameworks without unnecessary operational burden.

### **Additional value adjustment (AVA)**

We understand the proposal to apply an AVA of 0.1% of the base value of trading book positions, deducted from CET1, and recognise the FCA's objective of providing a simple and consistent approach to valuation uncertainty. However, we would welcome further clarity on the underlying basis for the 0.1% calibration

That said, we note that a flat-rate AVA may be insufficiently risk-sensitive across a wide range of cryptoasset instruments and trading models. In some cases, it may overstate risk for highly liquid, well-priced positions with strong valuation controls, while in others it may understate valuation risk for more volatile or illiquid assets. The importance of clear guidance on the application of proposed exclusions (including for qualifying stablecoins and offsetting positions), and on how firms should assess whether valuation changes affect CET1 in practice would be helpful in this regard.

We also note that certain trading models, including those that maintain largely inventory-neutral positions or operate within narrow bid-offer spreads, may face valuation uncertainty that is materially different from directional or illiquid exposures. It may therefore be helpful for the FCA to consider whether the AVA framework can recognise instances where valuation uncertainty is demonstrably limited by model design.

We therefore encourage the FCA to provide worked examples illustrating AVA calculation across common cryptoasset trading book profiles, including interaction with other capital requirements applicable to trading activity, to support consistent and proportionate application.

As part of this, further clarity on how AVA interacts with offsetting positions, hedged exposures, and market-risk capital requirements would help firms avoid duplicative adjustments that do not reflect actual valuation uncertainty.

Overall, GDF and CCI support the FCA's direction of travel in strengthening the prudential treatment of cryptoasset trading activities. We encourage further clarification and targeted guidance to ensure the trading book definition, management expectations, and AVA framework are aligned with trading intent, operational realities of 24/7 markets, and proportionality across business models. We would welcome continued engagement with the FCA on these points, including through worked examples and supervisory dialogue.

Ensuring that these elements remain proportionate and clearly scoped will also support the UK's competitiveness by providing a trading book framework that aligns with the economic substance of crypto market activity while maintaining robust prudential outcomes.

*Question 4: Do you have any views on the categorisation of cryptoassets, particularly on the conditions attached to a cryptoasset being included in category A? Do you agree with the proposed capital charges for each category under our net cryptoasset position (K-NCP) proposals?*

GDF and CCI are concerned that, as proposed, both the categorisation framework and the calibration of capital charges under K-NCP are likely to create significant challenges for firms that trade as principal or provide institutional liquidity in the UK. These impacts are likely to be most acute for market makers and liquidity providers operating on UK-authorized CATPs, with potential knock-on effects for market liquidity, price formation, and overall market quality.

We consider that the proposed capital charges of 40% for Category A cryptoassets and 100% for Category B cryptoassets are set at levels that risk making authorised principal trading commercially unviable in the UK. By way of comparison, under the standardised approach for equity market risk, a single-name equity position would typically attract total capital of around 16% of exposure. Even allowing for higher volatility in cryptoasset markets, the magnitude of the proposed K-NCP charges raises questions as to whether the calibration appropriately reflects the economic risk of mature, liquid cryptoassets, or whether it materially overstates market risk relative to comparable traded instruments.

In particular, the calibration appears to assume a holding-period and risk-horizon that do not reflect the continuous hedging, offsetting, and liquidation practices used by firms engaged in liquidity provision. Recognising these dynamics would help ensure that K-NCP capital more closely aligns to actual exposure rather than nominal gross inventory.

We are also concerned that the operational design of the Category A eligibility criteria may result in an excessively narrow population of qualifying assets, particularly in the early stages of the UK regime. Several of the proposed conditions rely on UK-specific trading data and rolling quantitative metrics that may be difficult to evidence, monitor, and maintain in a consistent and auditable manner. As a result, cryptoassets that are widely traded and liquid on a global basis may nonetheless fail to qualify as Category A, defaulting to Category B treatment and triggering a 100% capital charge.

Specifically, we note the helpful provision in 4.9.34G(2) "However, where such data is not available (for example, because the cryptoasset has not yet been traded on a UK QCATP for a 12-month period), a firm may use other reliable sources of data". We would welcome clarification that:

- Where 12 months of UK QCATP trading history is unavailable, this provision would include offshore data and is not limited to data from a regulated market.
- Trading data derived from a firm's previous MLR-registered activity or its global affiliate order book constitutes a 'reliable source of data' for the purposes of 4.9.34G(2). This ensures that highly liquid assets (like BTC/ETH) do not default to Category B (100%

capital charge) simply because the specific UK legal entity is newly authorised under FSMA.

Additionally, it may be helpful for the FCA to consider whether reliance on jurisdiction-specific liquidity and trading-venue metrics could lead to divergence between UK classifications and the global liquidity profile of widely traded cryptoassets. Allowing a degree of recognition for credible global data sources could reduce fragmentation and improve the operability of the categorisation framework.

In addition, the requirement for immediate reclassification where any Category A condition ceases to be met risks creating cliff-edge and potentially procyclical outcomes. In periods of market stress, assets could move rapidly from Category A to Category B, resulting in abrupt increases in capital requirements at precisely the point when liquidity provision is most valuable. This dynamic may incentivise firms to withdraw liquidity or reduce inventory in stressed conditions, with adverse implications for market resilience. This risk may be particularly pronounced for firms that maintain inventory to meet continuous liquidity obligations, where abrupt reclassification could require rapid de-risking that is operationally difficult and potentially destabilising for market functioning.

Finally, we note that the calibration of K-NCP appears to be based on conservative holding-period assumptions that may not fully reflect the risk management practices of market makers and principal trading firms, including continuous hedging, rapid inventory turnover, and tightly governed risk limits. A framework that better reflects these dynamics would be more likely to meet the FCA's stated objective of avoiding a "zero-failure" regime, while still ensuring that firms are well capitalised and able to wind down in an orderly manner if required. We encourage the FCA to consider whether calibration should differentiate between intraday exposures and end-of-day open risk, as many principal trading firms operate models with minimal residual overnight positions. Treating these exposures equivalently may overstate market risk relative to the firm's actual risk horizon.

Taken together, we encourage the FCA to reconsider both the calibration and the operability of the K-NCP framework. In particular, we recommend materially lowering the proposed capital charges, simplifying the Category A eligibility conditions, and introducing appropriate safeguards or transition mechanisms to avoid cliff-edge effects. Without such refinements, the proposed framework may create a structural disincentive for firms with significant balance-sheet or liquidity-provision functions to operate within the UK perimeter, potentially reducing diversity in liquidity provision and affecting market depth on UK-authorized venues. These refinements would preserve prudential safeguards while supporting liquidity provision, market quality, and the UK's competitiveness as a location for authorised cryptoasset trading activity.

*Question 5: Do you have views on our framework for calculating cryptoasset counterparty default requirements (K-CCD) for cryptoasset firms? Are there any transactions that you think would give rise to counterparty credit risk but are not covered by our proposed rules?*

GDF and CCI welcome the FCA's proposal to introduce a dedicated framework for counterparty default risk applicable to cryptoasset firms and support the objective of ensuring that exposures to counterparties are appropriately captured within the prudential regime. We recognise the FCA's intention to adapt established counterparty credit risk concepts to the specific characteristics of cryptoasset markets.

However, we believe that the principal challenges raised by the proposed K-CCD framework relate to scope and coverage, rather than the overall direction of travel. In particular, there is a risk that certain crypto-native exposures may be either imperfectly captured by traditional counterparty credit constructs or, conversely, captured in a way that overstates their economic risk.

### **Scope of counterparty default risk in cryptoasset markets**

Cryptoasset markets often generate counterparty risk through operational and structural dependencies, rather than through explicit credit extension. Many exposures arise in pre-funded or fully collateralised contexts, where loss crystallises only if a counterparty failure coincides with operational, legal, or safeguarding breakdowns. While these scenarios can give rise to loss, they do not always align neatly with traditional notions of counterparty default.

In this context, it would be helpful for the FCA to clarify how exposure value should be determined where counterparty risk is economically limited by design, such as through continuous settlement, real-time netting, or automatic close-out mechanisms. In these cases, the effective loss horizon may be materially shorter than assumed under traditional counterparty credit models.

We therefore encourage the FCA to clarify that K-CCD is intended to capture genuine counterparty default risk, rather than serving as a proxy for broader market structure or operational resilience risks that are more appropriately addressed through other elements of the prudential and supervisory framework.

In fully pre-funded, DvP-equivalent, or custody-segregated arrangements, the firm is not exposed to counterparty non-payment, and it would therefore be helpful for the FCA to confirm that such arrangements do not give rise to K-CCD exposure in the conventional credit-risk sense.

### **Treatment of trading venues, CATPs and intermediaries**

We note that K-CCD applies to exposures to cryptoasset counterparties, including trading venues and intermediaries. In practice, cryptoasset firms may have concentrated exposure to a limited number of venues or CATPs due to liquidity, market access, or technological constraints.

We encourage the FCA to clarify how K-CCD should be applied where:

- Trading activity is fully pre-funded;
- Client assets are segregated or otherwise protected through insolvency arrangements, as well as segregation through trust arrangements; and
- Exposure duration is intraday or otherwise short-lived.

Without such clarification, there is a risk that K-CCD overstates counterparty default risk in circumstances where loss-given-default is limited and where firms have minimal ability to reduce exposure through diversification.

When reviewing the proposed exposure value methodology, we encourage the FCA to consider whether a differentiated approach is appropriate for fully pre-funded or collateralised arrangements where the counterparty does not hold customer balances and where exposure is limited to the operational period before settlement finality. Treating these arrangements as if they involve uncollateralised credit extension may overstate exposure value relative to the economic reality.

We would also welcome clarity on whether potential future exposure multipliers, designed for derivative contracts, are intended to apply to pre-funded spot transactions, as applying PFE to arrangements where exposure does not vary with market movements may materially overstate economic risk.

### **Boundary with custody, safeguarding and operational risk frameworks**

We also note potential boundary issues between K-CCD and other prudential requirements, including custody-related capital (such as K-QCS) and operational risk K-factors. Certain failure scenarios, particularly those involving the insolvency of a service provider, could be captured across multiple K-factors, leading to cumulative capital outcomes that are not proportionate to the underlying risk.

We therefore suggest that the FCA consider identifying the primary loss driver for a given failure scenario, with other prudential requirements applying only where they address distinct and non-overlapping risks. This would help avoid cumulative capital charges that exceed the actual loss potential associated with a single counterparty or service provider default.

We encourage the FCA to articulate more clearly how K-CCD is intended to complement, rather than duplicate, these other requirements, and to confirm that supervisory judgement may be applied where aggregate capital outcomes appear misaligned with economic exposure.

We also note that, in cryptoasset markets, firms may have limited optionality in choosing counterparties due to liquidity concentration or technological interoperability constraints. It would therefore be helpful for the FCA to clarify how K-CCD should apply where concentration reflects structural market features rather than discretionary risk-taking.

Overall, GDF and CCI support the FCA's introduction of a counterparty default risk framework for cryptoasset firms. We encourage the FCA to focus on providing greater clarity around the scope of K-CCD, particularly in distinguishing counterparty default risk from operational and structural dependencies inherent in cryptoasset market infrastructure. Clear guidance and worked examples would help ensure the framework is applied in a proportionate, risk-aligned manner across different business models.

*Question 6: Do you have any views on the proposed framework for calculating concentration risk requirements (K-CON)?*

We generally support the FCA's proposed framework for calculating concentration risk requirements (K-CON) and agree that appropriately calibrated concentration limits play an important role in mitigating counterparty risk and supporting market resilience. That said, we believe a small number of targeted refinements would materially improve the proportionality and risk-sensitivity of the regime.

First, we do not consider that exposures to appropriately regulated stablecoins, including stablecoins issued under equivalent third-country regimes, should be included within exposure calculations to a group of counterparties for the purposes of K-CON.

More broadly, it may be helpful for the FCA to distinguish between counterparty concentration that reflects genuine credit exposure and concentration that arises mechanically from market structure or settlement flows. In the latter case, concentration may not correspond to meaningful loss-given-default and could be more appropriately addressed through operational or settlement-risk controls rather than counterparty credit requirements.

Where a stablecoin is subject to robust regulatory requirements (including high-quality reserve backing, segregation of assets, and trust or equivalent legal arrangements in favour of coin holders), the economic exposure of the intermediary is to the underlying eligible reserve assets rather than to the issuer as a counterparty in the traditional sense. Including such positions within counterparty concentration calculations risks overstating risk and does not accurately reflect the legal and economic structure of regulated stablecoins. We therefore encourage the FCA to clarify that exposures to appropriately regulated stablecoins may be excluded from counterparty group calculations, or otherwise subject to differentiated treatment.

Second, we believe the component of the K-CON requirement arising from the K-NCP element should be subject to a cap, such that the resulting capital charge cannot exceed 100% of the value of the relevant coin position. We also encourage the FCA to consider whether K-CON should differentiate between intraday concentrations arising from liquidity provision and end-of-day

open risk. Many principal trading firms operate models that cycle inventory continuously, meaning that observed concentration may not represent a persistent credit exposure.

Absent such a cap, there is a risk of outcomes in which firms are required to hold capital in excess of their full exposure, which would be disproportionate and inconsistent with the underlying objective of concentration risk mitigation. While we recognise that introducing a cap would add some complexity to the K-CON calculation, we consider this a reasonable and proportionate adjustment to avoid economically irrational outcomes and ensure alignment with broader prudential principles.

Providing clarity in this area is particularly important given that cryptoasset liquidity is often concentrated on a small number of venues, and firms may have limited discretion to diversify counterparties without incurring market-quality or execution-related detriment. A proportionate approach to such structural concentration would support both prudential objectives and the competitiveness of UK-authorised trading activity

Taken together, these refinements would preserve the intent of the K-CON framework while better aligning capital requirements with actual risk drivers, supporting consistency with international approaches, and avoiding unintended disincentives to the use of appropriately regulated stablecoins within the UK market.

*Question 7: Are our expectations of firms regarding the overall risk assessment sufficiently clear? If not, which areas could benefit from further clarification?*

GDF and CCI welcome the FCA's intention to embed the overall risk assessment at the centre of the prudential framework for cryptoasset firms and agree that a holistic, forward-looking assessment of firm-specific risks is an appropriate supervisory tool. We also recognise the FCA's efforts to align this approach with existing UK prudential concepts, including the Overall Financial Adequacy Rule.

That said, we believe there are several areas where additional clarification or supporting guidance would help promote consistent interpretation and proportionate implementation across the sector.

### **1) Meaning and calibration of “material harm” in a crypto context**

First, further clarity on the meaning and calibration of “material harm” in a cryptoasset context would be helpful. The overall risk assessment is framed around identifying risks that may cause material harm to consumers, counterparties, or markets, but firms would benefit from clearer indicators of how the FCA expects materiality to be assessed across common cryptoasset scenarios, such as operational outages, wallet compromise, settlement failure, failed staking

redemptions, market disruption, or client asset shortfalls. Without additional guidance, there is a risk of inconsistent thresholds and divergent practices across firms.

Firms would also benefit from clarity on how assessments of material harm should be prioritised, particularly where multiple harms may arise simultaneously or where second-order effects (for example, liquidity withdrawal following a CATP outage) could exceed the immediate operational impact. Providing guidance on how firms should sequence and weight different harm channels would support more consistent and risk-aligned assessments.

## **2) How to translate the assessment into the own funds and liquid assets “threshold requirements”**

Second, firms would benefit from greater clarity on how the outcomes of the overall risk assessment are expected to translate into their own funds and liquid assets threshold requirements used to monitor compliance with OFAR. In particular, it would be helpful to understand how firms should evidence the link between identified risks or stress scenarios and any resulting capital or liquidity add-ons, especially where the underlying risks are operational or non-financial in nature.

It would also be helpful for the FCA to clarify that the ORA is not intended to override or duplicate the binding K-factor requirements, and that any resulting threshold adjustments should remain proportionate and grounded in clearly identifiable residual risks.

Finally, it would also be useful for firms to understand how the FCA expects them to document circumstances in which the overall risk assessment indicates that no additional own-funds or liquid-asset add-ons are warranted. This is particularly relevant where K-factor requirements already act as the binding constraint, and where further capitalisation may not enhance resilience relative to the firm’s actual residual risk profile.

## **3) Expectations for stress testing, recovery and wind-down planning for different crypto models**

Third, while we support the inclusion of business model planning, stress testing, and recovery and wind-down planning within the scope of the overall risk assessment, further guidance on supervisory expectations for different cryptoasset business models would be valuable. Illustrative examples of severe-but-plausible stress scenarios for common activity types, such as CATPs, brokers or agents, principal trading firms (including lending and borrowing), and staking providers, would help firms calibrate their approaches appropriately and avoid both under- and over-engineering.

Given the limited availability of long-run historical data for certain cryptoasset activities, firms would also benefit from guidance on the extent to which supervisory expectations for stress

testing should rely on proxies, scenario-based analysis, or forward-looking expert judgement rather than traditional statistical models. Clear parameters for acceptable methodologies would help ensure proportionate, consistent outcomes across firms with differing data maturity, including when distinguishing clearly between firm-specific risks appropriate for the ORA and broader market-wide stresses that are already addressed through activity-based K-factors or systemic safeguards.

It would also be helpful for the FCA to clarify how ORA expectations should be adapted for 24/7 markets, including the design of stress scenarios and governance cycles that do not assume discrete trading sessions.

#### **4) Governance and sign-off mechanics**

Fourth, additional guidance on governance and sign-off expectations would support consistent implementation. In particular, clarification on what constitutes an adequate annual review cycle, and what types of developments would be considered “material changes” requiring interim reassessment (for example, onboarding new tokens, introducing new custody or staking arrangements, adding execution venues, or experiencing rapid growth), would reduce uncertainty for governing bodies.

#### **5) Group risk expectations, given no bespoke group regime**

Fifth, given the FCA’s decision not to introduce a bespoke group prudential regime, further clarity on expectations relating to group risk would be helpful. In particular, firms would benefit from guidance on how to assess and document intragroup dependencies, shared infrastructure, and treasury or asset flows within the overall risk assessment, and how reliance on group entities for key services should be reflected, where appropriate, in capital and liquidity planning. Additional clarity on how firms should assess concentration risk arising from dependence on intragroup service providers, such as technology infrastructure, liquidity hubs, or shared operational platforms, would further support consistent treatment of group risk within the overall assessment.

#### **6) Treatment of non-MiFIDPRU crypto firms vs MiFIDPRU investment firms**

Sixth, clarification on the interaction between the overall risk assessment framework for cryptoasset firms and the requirements applicable to MiFIDPRU investment firms would help reduce interpretive gaps, particularly for mixed-activity groups. Greater clarity on areas of expected equivalence, as well as any material differences in approach, would support more consistent group-level risk management and governance. This is especially relevant for firms operating shared risk, treasury, or operational functions across entities subject to different prudential regimes. Further guidance on how firms should ensure coherence between MiFIDPRU assessments and cryptoasset OFAR assessments, particularly where risk ownership

is shared or distributed, would reduce uncertainty and support effective group-level decision making.

## **7) Timing and status of the planned supporting guidance**

Finally, we note the FCA's intention to consult on non-Handbook guidance to support firms in applying the overall risk assessment. Firms would benefit from early clarity on the intended scope and format of this guidance, such as the use of templates, worked examples, scenario libraries, or minimum expectations by activity type, as this will materially influence implementation planning and resourcing.

## **8) Clarity on the interaction of Overall risk assessment, OFTR and K-SII requirements for Stablecoin issuers**

Further clarity would also be helpful on how the Overall risk assessment and subsequent Overall Financial Threshold Requirement (OFTR) is intended to interact in practice with the K-factor requirement for stablecoin issuance (K-SII). Where the K-SII is already directly linked to the value of stablecoins in issuance (set at 2%), it appears unlikely in practice that a successful UK regulated stablecoin issuer would identify additional risks through the overall risk assessment that would justify an OFTR materially above the issuance-linked K-factor. (However, please note we do not support the issuance-linked K-SII as discussed elsewhere.) This has important implications. If the capital requirement for stablecoin issuance is defined as a fixed percentage of the value of stablecoins in issuance, it is likely to represent the binding constraint in the prudential framework in most cases, irrespective of the outcome of the overall risk assessment. This risks reducing the assessment to a largely procedural exercise and, consistent with concerns raised previously in relation to CP25/15, raises broader questions as to whether an issuance-linked capital requirement is an appropriate proxy for prudential risk.

For UK-based GBP-denominated stablecoin issuers, the primary prudential risks associated with issuance typically relate to the quality of backing assets, segregation arrangements, liquidity management and redemption mechanics. These risks are already addressed directly through the proposals set out in CP 25/14 and CP25/15. Linking capital requirements to issuance volume double-counts risks that are already mitigated through these requirements, rather than reflecting the firm's residual risk profile, which is more likely to be operational and technological in nature.

We also note a structural concern: for stablecoin issuers, the loss-absorbing function of own funds capital serves no meaningful prudential purpose in relation to redemption risk. Unlike banks, where deposits are on-balance-sheet liabilities funded through the balance sheet, stablecoin redemption claims are met from trust-held HQLA backing assets that sit outside the issuer's balance sheet. Mandating additional own-funds does not create liquid assets available for redemption - the capital raised may be deployed in illiquid operational assets - and the issuer's balance sheet can grow or shrink without affecting the segregated backing assets or the ability to

honour redemptions. If the FCA's concern is to require the issuer to have some back-up liquid assets (beyond the HQLA, BLAR, and ILAR requirements!), a liquidity coverage ratio (requiring a minimum amount of liquid assets held on the issuer's balance sheet relative to issuance) would be a more suitable and less distortive intervention. But it would be disproportionate in light of the HQLA, BLAR, and ILAR requirements.

More broadly, further clarity on how the FCA distinguishes between issuance activities that resemble payment-system operations and activities that involve genuine credit intermediation would help align capital requirements with underlying economic functions. This distinction is important, as applying credit-style capitalisation to non-credit activities may reduce the risk-sensitivity of the framework.

Taken together, targeted clarification in these areas would help ensure that the overall risk assessment framework operates as an effective, proportionate, and risk-sensitive supervisory tool, while supporting consistent application across a diverse range of cryptoasset business models.

*Question 8: Do you have any views on our proposals for the public disclosure of prudential information, in particular on group arrangements and for firms that undertake dealing in cryptoassets?*

GDF and CCI support the FCA's objective of improving transparency around the prudential position of cryptoasset firms, including through disclosures relating to group arrangements and principal trading activities. We agree that appropriate public disclosure can support market discipline and supervisory objectives. However, we believe that further clarification and proportionality are needed to ensure that disclosures are decision-useful, comparable, and do not create unintended risks or excessive compliance burden. We set out the following areas where further clarification would be beneficial:

**Group arrangements and materiality**

We note that the proposed disclosure framework provides examples of both direct exposures (such as trading activity, intragroup lending, or guarantees) and indirect exposures (such as revenue reliance or dividend and cash upstreaming) but does not specify a materiality threshold. In the absence of clearer guidance, firms may struggle to determine the appropriate level of granularity where exposures are immaterial, contingent, or highly remote. We encourage the FCA to clarify how firms should assess materiality in this context, and whether high-level qualitative disclosure is sufficient where exposures do not pose a meaningful prudential risk.

The FCA may also wish to distinguish between financial exposures and dependencies arising from shared infrastructure or technology platforms within a group. These operational

dependencies may be highly relevant to resilience but do not necessarily translate into quantifiable financial exposures. Clarifying the expected level of disclosure in such cases would reduce uncertainty and promote more consistent reporting.

### **Indirect financial exposures**

Certain examples of indirect exposure, such as “reliance on group members for revenue generation,” are conceptually broad and may capture a wide range of benign commercial arrangements. Further clarification would be helpful as to whether narrative disclosure is sufficient in such cases, or whether quantified information is expected. We also encourage the FCA to distinguish between contractual or structural dependencies and more general strategic or potential reliance, to avoid over-disclosure of information that may not be relevant to a firm’s prudential risk profile.

It would also be helpful for the FCA to clarify how firms should treat indirect financial exposures that fluctuate significantly over time, for example due to changes in group revenue mix, evolving commercial arrangements, or variable utilisation of shared services. Without guidance on whether firms should disclose point-in-time or averaged assessments of such exposures, disclosures may become inconsistent or difficult to compare across reporting periods.

### **Dividend and cash upstreaming**

The proposals refer to disclosure of “expectations” regarding dividend or cash upstreaming within a group. We note that such expectations may be subjective, informal, or commercially sensitive. Clarification would be welcome as to whether the FCA expects disclosure only where there is a formal policy, obligation, or established practice, or whether forward-looking planning assumptions or informal group norms are also in scope.

### **Interaction with prudential add-ons**

We note that the FCA links group-related disclosures to the disclosure of any additional own funds or liquid assets held to address group-related harms. Further guidance would be helpful on how explicitly firms are expected to map identified group risks to specific capital or liquidity buffers, particularly where risks are low-probability, difficult to quantify, or primarily operational in nature. Without such clarification, firms may take divergent approaches, reducing consistency and comparability. In this context, clarity on the granularity of prudential analysis expected, for example, whether firms should map group-related risks to specific line items within capital or liquidity resources, or whether higher-level justification is sufficient, would help promote consistency across firms with differing group structures and risk profiles.

### **Commercial sensitivity**

Even where disclosures are framed at a high level, information relating to intragroup funding, guarantees, or revenue dependence may be commercially sensitive or potentially misleading if

taken out of context. We encourage the FCA to confirm that high-level descriptive disclosure is acceptable where more detailed information could be harmful or misinterpreted, provided the firm's prudential position is not materially obscured.

### **Comparability across group structures**

We also note that group structures vary significantly, ranging from tightly integrated groups with shared infrastructure and treasury functions to looser holding-company arrangements. Without additional guidance, disclosures may be technically compliant but not meaningfully comparable across firms. Further clarity on baseline expectations and illustrative examples would support greater consistency.

It may also be helpful for the FCA to clarify expectations in situations where non-UK parent entities are unable to provide certain information due to local legal, regulatory, or confidentiality constraints. Providing flexibility in how firms evidence group-level prudential information in such cases would support consistent outcomes without placing firms in conflict with overseas legal requirements. For example, where quantitative information cannot be produced on a comparable basis, we encourage the FCA to confirm that narrative disclosure will be acceptable.

### **Firms dealing as principal**

For firms that undertake dealing on own account, we encourage a proportionate approach to parent-level disclosures. In particular, requiring detailed disclosures relating to the ultimate parent's balance sheet or encumbered assets may be disproportionate where the cryptoasset entity is immaterial to the group or not economically dependent on the parent. Clarification would also be helpful on expectations where parent entities are based outside the UK and do not prepare accounts under UK-adopted IFRS, including whether narrative reconciliation would be sufficient.

We also note that certain disclosures relating to principal trading, such as measures of inventory turnover, hedging activity, or balance-sheet usage, may inadvertently reveal aspects of firms' trading strategies. Further clarity on how firms can meet disclosure expectations without compromising legitimate commercial confidentiality would support proportionate implementation.

In addition, further guidance on the scope of "encumbered assets" would support consistent application, including whether this term is intended to capture secured financing arrangements, collateral posted, liens, custody restrictions, or other limitations on asset use, and whether disclosure should be qualitative or quantitative.

### **Practical implementation**

Finally, we note the risk that, taken together, the proposed disclosures (including K-factors, threshold requirements, group information, and parent-level data) could become

compliance-heavy without necessarily improving decision-usefulness. Clearer templates, materiality guidance, and flexibility regarding the location and format of disclosures (for example, allowing a single consolidated disclosure pack published on a firm's website or within an annual report) would support more effective and proportionate implementation.

Firms could also benefit from clarity on whether, and in what circumstances, material changes to group arrangements or prudential position arising between reporting cycles would trigger the need for updated disclosures. Given the pace of change in cryptoasset markets, guidance on the FCA's expectations for interim or event-driven updates would support consistency and avoid unnecessary or duplicative reporting.

Clarity on how prudential disclosures interact with Consumer Duty and financial-promotion requirements would also be helpful, particularly to ensure that firms do not inadvertently create the impression of guarantees or protections that do not exist.