12 March 2026

SUBMITTED VIA SURVEYS

To whom it may concern,

Re: FCA CP26/4 on Application of FCA Handbook for regulated cryptoasset activities – part 2

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

Global Digital Finance (GDF) and the Crypto Council for Innovation (CCI) support the FCA's overarching objective of embedding regulated crypto markets within the existing Handbook architecture, rather than creating a parallel regime, and we consider much of CP26/4 to be directionally coherent with that aim.

Across this consultation, three cross-cutting themes underpin our response: perimeter clarity, proportionality, and regulatory consistency.

First, perimeter clarity is essential to avoid unintended extraterritorial effects. UK regulatory obligations, including the Consumer Duty, DISP, COBS and regulatory reporting requirements, should only apply to UK activity and UK consumers, consistent with FSMA's territorial and activity-based framework. Authorisation via a UK branch should not de facto result in wholesale application of UK Handbook requirements to non-UK users or global business lines absent a clear UK nexus. Clear guidance on mixed UK and non-UK models, particularly for QCATPs and stablecoin issuers, will be critical to ensure legal certainty and preserve international operability.

Second, proportionality must remain central to implementation. While we support the application of the core Handbook frameworks to cryptoasset firms where there is functional equivalence with traditional finance, these frameworks must be calibrated to reflect the diversity of crypto-native business models, including execution-only platforms, non-custodial models, and infrastructure providers. Blanket or premature extensions of requirements risk imposing unnecessary operational burden without commensurate consumer or market integrity benefit.

Third, regulatory consistency requires that cryptoasset activities be treated in line with established principles in comparable markets. In particular, we strongly challenge the continued classification of qualifying cryptoassets as Restricted Mass Market Investments (RMMIs) once firms are fully authorised and subject to prudential, conduct, safeguarding and Consumer Duty obligations. The original RMMI designation was introduced as an interim perimeter-control measure in an unregulated environment. Once the new regime is live, retaining enhanced friction-based marketing restrictions would place an unnecessary and unjustifiable burden on regulated cryptoasset firms, and place UK-authorised firms at a significant competitive disadvantage.

Overall, CP26/4 represents an important step in operationalising the UK's cryptoasset regime. With targeted refinements to strengthen perimeter clarity, proportional calibration, and consistency with established regulatory principles, the framework can support high standards of

consumer protection and market integrity while preserving innovation, competitiveness, and the UK's ambition to be a global hub for digital assets.

Responses to Consultation questions:

Chapter 1 – Summary

Question 1: Do you agree with our proposed approach on guidance for international crypto firms? If not, provide details.

a. In particular, we would be interested in views as to whether any of our proposed rules in this should be applied differently to a UK QCATP which is authorised via a UK branch of an overseas firm, in relation to nonUK users.

GDF and CCI broadly support the FCA's proposed approach to international crypto firms, including the proposed location policy guidance in Annex 4 and the use of Threshold Conditions (in particular effective supervision (Threshold Condition 2C) and appropriate resources (Threshold Condition 2D)) as the primary framework for assessing overseas business models. We also welcome the FCA's acknowledgement of the cross-border, digitally delivered nature of crypto markets and the need to avoid outcomes that unnecessarily fragment global liquidity or worsen execution quality for UK users. OBJ

At the same time, greater clarity is required for firms seeking to design viable hybrid or mixed-entity models ahead of the authorisation gateway. We recommend that the final guidance provide a clearer "decision pathway" and additional worked examples to improve legal certainty and supervisory predictability for firms with mixed UK and non-UK footprints.

In particular, international firms will need more operational clarity on:

- how the FCA will interpret the "carrying on regulated activities in the UK" and "by way of business" tests for digital services with globally distributed infrastructure;
- the FCA's expectations on UK "mind and management", including the minimum senior management and governance roles that must be located in the UK, and the minimum control functions that must be overseen and directed from the UK to support effective supervision; and
- the minimum level of information access, auditability, and supervisory cooperation the FCA will require from home state regulators (including where formal cooperation arrangements are not yet mature). OBJ

These points align with our previous consultation positions supporting proportionate approaches to international firms (including subsidiarisation where necessary to achieve effective supervision and mitigate UK harms), while emphasising the need for specificity in implementation to avoid perverse outcomes for UK competitiveness and consumers.

We also note that the consultation does not provide objective guidance on when the branch model or hybrid models might be available. The FCA's "comparable protections and requirements" test is open-ended and, as currently drafted, does not give firms sufficient certainty to evaluate the viability of a branch-based structure. We recommend that the FCA publish clear criteria setting out the factors it will consider when assessing the comparability of a home-state regime, including the scope of the home-state's conduct, prudential and custody rules, the availability of cooperation arrangements, and the quality of supervisory oversight. Further clarity on the parameters for when a branch-based CATP model is acceptable would be valuable for firms evaluating hybrid structures.

With regards to Q1 A, our view is that the FCA should avoid a general presumption that all UK Handbook obligations applicable to a UK QCATP must automatically apply on a fully extraterritorial basis to non-UK users solely because the QCATP is authorised through a UK branch. We note and welcome the FCA's recognition in CP26/4 that operating a CATP through a UK branch may, in specific circumstances, be consistent with effective supervision where this facilitates access to global liquidity and enhances execution outcomes for UK users.

The UK territorial scope of the regime for branch-authorised CATPs should be strictly limited to services provided to retail customers in the UK, any associated activity and UK consumers, and should not extend to non-UK activity conducted through the branch. Home state regulators may have significant concerns with the application of UK regulatory requirements to a legal entity predominantly regulated in their jurisdiction, and the need for express guidance on the limits of UK jurisdiction is therefore essential. However, where non-UK user activity interacts directly with UK user activity on the same venue (for example, through shared order books, matching, and settlement workflows), UK controls such as systems and controls, operational resilience, market-abuse surveillance and conflict-of-interest management, should apply to ensure UK outcomes are not undermined but those controls should not be extended to non-UK order flow.

We further note that the application of UK regulatory requirements to a branch of an overseas firm creates a potential conflict between home and host state rules. Where a firm is predominantly regulated by its home state, the imposition of overlapping or inconsistent UK requirements on the branch itself may create legal and operational complexity and raise concerns from home state regulators. One potential approach would be to apply core compliance obligations under the branch model to the UK subsidiary rather than the branch itself — for example, requiring the UK subsidiary to perform market abuse checks with respect to activity on the UK branch and to procure compliance, rather than imposing those obligations directly on the branch. This would maintain effective supervision while avoiding unnecessary conflict with home state regulation.

We also recommend that the FCA clarify that a CATP or intermediary should not be treated as a "manufacturer" of a cryptoasset solely by virtue of admitting it to trading. Manufacturer-style responsibilities, including product governance, disclosure and target-market assessments, should apply only where a firm has a direct role in designing or determining the features of the cryptoasset. Absent this, imposing manufacturer-level obligations on CATPs or intermediaries would be disproportionate and risk extending UK requirements extraterritorially across non-UK tokens and non-UK issuers.

We therefore recommend a differentiated approach:

1. *UK consumer and client protection requirements should apply on a strictly "services provided to retail customers in the UK" basis*

Rules and guidance that are specifically designed to protect UK retail consumers (including UK consumer communications, UK-specific disclosures, complaint handling expectations, and other "customer relationship" obligations) should only be applied to UK users. This reduces unnecessary extraterritorial reach and supports international operability, while ensuring UK users remain fully within the FCA's intended protections.

2. *Reporting and perimeter clarity: require operational segmentation, not duplication*

Rather than extending all UK obligations to non-UK users, the FCA should require robust operational segmentation and reporting that clearly distinguishes: UK retail, UK professional/eligible counterparties where relevant, and non-UK users; and identifies whether trades are services provided to retail customers in the UK, other activities provided in or to retail customers in the UK, or cross-perimeter interactions occurring on the same venue. This supports supervision and risk monitoring without importing UK requirements into non-UK business lines.

3. *Branch governance and accountability: strengthen "effective supervision" expectations for mixed-user venues*

For branch-authorised QCATPs with non-UK users, the FCA should emphasise (in guidance) the minimum governance, escalation, and information-access arrangements required for effective supervision, including the FCA's ability to obtain timely data and ensure rapid intervention where UK harms arise (including where systems, staff, or key infrastructure sit offshore).

4. *Avoid order book fragmentation*

Finally, the FCA should confirm (in guidance) that it does not expect firms to artificially separate order books or restructure globally efficient market models purely to avoid uncertainty about how rules apply to non-UK users, provided UK outcomes (consumer protection and market

integrity) are met. This is consistent with the FCA's own rationale for permitting branch-based models to facilitate access to international liquidity and better execution outcomes.

Overall, GDF and CCI considers it important that the final guidance clearly re-affirms the limits of the UK regulatory perimeter and avoids any implication that UK authorisation results in the FCA asserting general extraterritorial jurisdiction over non-UK activities or non-UK users. UK financial regulation is fundamentally territorial and activity-based. While the FCA may impose requirements necessary to ensure effective supervision and to prevent harm to UK markets or UK consumers, its jurisdiction is anchored in activities carried on in the UK, directed at the UK, or with a demonstrable nexus to UK regulatory outcomes.

In this context, GDF recommends that the FCA clarify explicitly that:

- UK rules apply to activities carried on in or from the UK, or which are services provided to retail customers in the UK in substance, rather than to a firm's global customer base as a whole;
- The presence of a UK branch should not, of itself, be taken to "UK-locate" activity conducted exclusively with non-UK users where there is no UK client, no UK marketing, and no UK harm pathway;
- The FCA introduces clear PERG guidance on the territorial scope of the UK regime given that the overseas persons exemption has not been extended to cryptoasset activities under the HMT SI and given the amendments to section 418 FSMA 2000 by HMT SI whereby regulated cryptoasset activities are deemed to be carried out in the UK under specific circumstances; and
- The FCA's supervisory interest in non-UK activity should be limited to circumstances where that activity has a direct and demonstrable nexus to UK regulatory outcomes, such as UK market integrity, UK financial stability, or UK consumer protection.

Absent such clarification, there is a risk that firms interpret the proposed guidance as requiring the application of UK Handbook obligations on a fully extraterritorial basis, which would be inconsistent with UK law, international regulatory comity, and the FCA's own longstanding perimeter framework.

Finally, we further note that extraterritorial application of UK conduct and consumer rules to non-UK users would be neither enforceable in practice nor aligned with international norms, and could place UK-authorised firms at a competitive disadvantage relative to non-UK firms accessing UK markets on a cross-border basis without UK authorisation. Such an outcome would also risk placing UK-authorised firms at a competitive disadvantage relative to firms accessing UK markets on a cross-border basis without UK authorisation.

Question 2: Do you consider that the SUP 3.3-3.8 should be extended to all cryptoasset activities? If not, explain why.

GDF and CCI support the FCA's objective of ensuring appropriate supervisory assurance, transparency, and auditability across regulated cryptoasset activities. In principle, we agree that the core concepts underpinning SUP 3.3–3.8 (including the use of skilled persons reviews, access to information, and the ability to require independent assurance) are relevant to crypto markets, particularly as firms scale and become more systemically important. We acknowledge the FCA's rationale for exploring the extension of SUP 3.3–3.8 to cryptoasset activities, particularly given the operational complexity of certain models, the use of distributed or cross-border infrastructure, and the need for supervisors to obtain timely assurance over systems, controls and safeguarding arrangements. These considerations are especially relevant as firms scale and where activities present potential harm pathways to UK users or markets.

However, we do not consider that SUP 3.3–3.8 should be extended to all cryptoasset activities in a uniform or immediate manner for the following reasons.

Proportionality and sector maturity

Cryptoasset activities encompass a wide range of business models, risk profiles, and levels of operational maturity. Applying the full suite of SUP 3.3–3.8 requirements across the board, without appropriate calibration, risks imposing supervisory expectations that exceed what is necessary to achieve the FCA's regulatory objectives, particularly for early-stage firms, non-custodial models, or firms with limited services or activities provided to retail customers in the UK.

In line with our previous consultation responses, we continue to support a risk-based and activity-specific application of supervisory tools, rather than a blanket extension across all cryptoasset activities.

In particular, activities such as operating a QCATP or safeguarding qualifying cryptoassets necessarily involve complex operational processes, reliance on third-party or group infrastructure, and technology-specific risks that may justify the targeted use of SUP 3.3–3.8 tools. By contrast, cryptoasset activities that do not involve custody, execution, or client asset handling may not require the same level of assurance. We therefore recommend that the FCA distinguish clearly between high-assurance activities and lower-risk models when determining the appropriate application of SUP 3 requirements.

Audit capacity and market readiness

In relation to audit and assurance specifically, GDF notes that there are practical capacity and readiness constraints within the audit market for cryptoasset firms. While audit quality and consistency are improving, the sector is still evolving, and there remains a limited pool of audit firms with the technical expertise, systems familiarity, and risk frameworks necessary to deliver assurance to the standard expected under SUP 3.3–3.8 across all crypto activities.

Extending these requirements prematurely, without transitional arrangements, risks:

- Creating bottlenecks in audit availability and supervisory reviews;
- Increasing costs without commensurate risk reduction, particularly for smaller or lower-risk firms; and
- Delaying authorisation or scaling for firms that are otherwise meeting core regulatory expectations.

We would therefore encourage the FCA to consider alternative mechanisms, such as allowing specialist cryptoassurance providers to be engaged under FCA-approved criteria, or enabling hybrid supervisory reviews during the transition period, to ensure assurance needs are met without creating bottlenecks in the authorisation pipeline.

Recommended approach

We recognise that SUP 3.3–3.8 provides the FCA with discretionary tools rather than fixed, standing requirements, and that these tools are intended to be deployed where warranted by risk. Any extension of these powers to cryptoassets should preserve this discretionary, risk-based character. We also note that the existing SUP 3 framework, including the flexibility under SUP 3.3.8R and SUP 3.5 to require skilled persons reviews, already provides a broad supervisory toolkit that can be applied proportionately where specific risks justify enhanced assurance. As such, we recommend that, if SUP 3.3–3.8 are extended to cryptoasset activities, the FCA should:

- Apply them proportionately, with differentiation by activity type, scale, and risk;
- Introduce phased or transitional implementation, particularly for audit and assurance-related expectations; and
- Provide clear guidance on supervisory prioritisation, including when skilled person reviews or enhanced assurance would be expected as firms grow, rather than at the point of initial authorisation.

Overall, we believe that this approach would better support orderly market development, improve supervisory outcomes over time, and align with the FCA's stated aim of facilitating innovation while maintaining high regulatory standards.

Chapter 2 – Consumer Duty

Question 3: Do you agree with our proposals to apply Principle 12 and PRIN 2A to cryptoasset firms supplemented by nonHandbook guidance to clarify how the duty applies to cryptoasset activities?

GDF & CCI support the FCA's proposal to apply Principle 12 and PRIN 2A (the Consumer Duty) to authorised cryptoasset firms, supplemented by non-Handbook guidance clarifying how the Duty applies in the context of cryptoasset activities. We note that this proposal aligns with the FCA's ongoing work to clarify the scope of the Consumer Duty, including its commitments following the Mansion House reforms to ensure proportionality for wholesale-facing firms and to avoid unintended extraterritorial application. Embedding these principles into the cryptoasset context will be essential to delivering a coherent and workable regime.

We believe that this approach is consistent with our previous consultation responses, in which we have explicitly recommended the application of the Consumer Duty to authorised cryptoasset firms, supported by targeted guidance, rather than the creation of a bespoke or parallel crypto-specific conduct regime. Applying the Consumer Duty ensures that cryptoasset firms are held to the same outcomes-based, principles-driven standards as other authorised firms, supporting regulatory coherence and avoiding unnecessary duplication or fragmentation of conduct requirements.

We also agree that the Consumer Duty should not apply to professional clients or eligible counterparties, consistent with existing FCA perimeter principles. Given that many cryptoasset business models service both retail and institutional users, clarity on this distinction will be essential to avoid Duty-led duplication or the inadvertent extension of retail protections to wholesale activity.

We therefore welcome the FCA's use of non-Handbook guidance as the primary mechanism to clarify how the Duty should be applied in practice. Given the diversity and rapid evolution of cryptoasset business models, guidance is better suited than prescriptive rules to provide clarity on expectations while retaining flexibility. This approach allows the FCA to address crypto-specific considerations, such as novel product features, custody arrangements, or execution models, without constraining innovation or creating rigid requirements that may quickly become outdated.

For the purposes of the Consumer Duty, we also encourage the FCA to confirm that CATPs and intermediaries should not automatically be treated as manufacturers under PRIN 2A unless they design, create or materially shape the relevant cryptoasset. Execution-only platforms should

therefore not be expected to assume issuer-style duties under PRIN 2A.4–2A.11, such as product governance, fair value assessments, or identifying a target market, where they lack the ability to influence the features, risks or underlying economic characteristics of the cryptoasset. In this context, further clarity on how PRIN 2A's manufacturer–distributor framework applies to cryptoasset business models would be valuable. Given the prevalence of cross-border group structures, global liquidity models, and multi-entity operating arrangements, firms will need guidance on how to allocate responsibilities under PRIN 2A.4–2A.11, including product governance, information sharing, and monitoring of outcomes across distribution chains. This would help ensure the Duty is applied consistently without imposing obligations on entities that lack a meaningful ability to influence retail outcomes.

Consistent with our earlier responses, we also emphasise the importance of perimeter clarity. The application of the Consumer Duty should remain clearly scoped to services or activities provided to retail customers in the UK, consistent with FSMA's territorial and activity-based framework. The Duty should not be interpreted as extending UK conduct obligations to non-UK users or non-UK activities absent a demonstrable UK nexus, such as UK consumer interaction or a foreseeable harm pathway to UK markets. This distinction is essential to ensuring that the Duty remains proportionate and legally grounded while avoiding unintended extraterritorial effects.

Overall, we consider the proposed approach to be proportionate and well-calibrated, supporting good consumer outcomes while maintaining consistency with the wider UK conduct regime and facilitating the orderly development of regulated cryptoasset markets.

Question 4: Do you agree with our approach that the Duty will not apply to trading between participants of a UK QCATP?

GDF and CCI strongly support the FCA's proposed approach that the Consumer Duty will not apply to trading between participants of a UK Qualifying Cryptoasset Trading Platform (QCATP). A QCATP does not enter into a bilateral consumer relationship in respect of participant-to-participant trading, nor does it determine or materially influence the economic characteristics of the cryptoassets being traded. The Consumer Duty therefore does not meet its statutory threshold for application in this context.

This position is fully consistent with the established treatment of trading venues in traditional financial markets, where venue operators facilitate execution under transparent, non-discretionary rules and are not subject to retail conduct obligations for trading that occurs between market participants. We agree that the Consumer Duty should instead apply at the points where a QCATP does have a direct relationship with UK retail users, such as onboarding,

disclosures, custody, client communications, and any retail-facing features outside the execution workflow.

GDF and CCI consider it particularly important that this distinction is maintained for cryptoasset markets, where QCATPs are intended to perform functions analogous to regulated trading venues in traditional finance. Extending the Consumer Duty to trading between participants would risk blurring the boundary between venue operation and client-facing conduct, creating legal uncertainty and imposing obligations that venues are not operationally designed to meet.

We therefore welcome the FCA's clear articulation of this position. It provides important regulatory certainty, aligns crypto market infrastructure regulation with established market practice, and avoids unintended consequences that could undermine the development of deep, well-functioning UK trading venues.

Overall, GDF and CCI consider this approach proportionate, coherent, and well aligned with the FCA's objective of integrating cryptoasset markets into the UK regulatory framework in a consistent and internationally credible manner.

Question 5: Do you agree with our approach that the Duty will apply to all activities carried out in relation to UK-issued qualifying stablecoins, including activities relating to public offers and admissions to trading?

GDF and CCI broadly agree with the FCA's proposed approach that the Consumer Duty should apply to services provided to retail customers in the UK and/or activities carried out in relation to UK-issued qualifying stablecoins, including issuance, public offers, admissions to trading and ongoing interactions with UK retail users. Stablecoin issuers and associated service providers directly influence consumer outcomes through product design, disclosures, redemption arrangements, reserve management and communications. Applying the Duty in these areas is therefore consistent with its purpose as an outcomes-focused framework governing firm–consumer relationships.

We welcome the FCA's intention to supplement PRIN 2A with targeted non-Handbook guidance to clarify how the Duty applies to the specific characteristics of qualifying fiat-backed stablecoins. Additional clarity on fair value assessments, transparency of reserve arrangements, operationalisation of redemption rights, and customer communications will assist firms in implementing the Duty in a consistent and proportionate manner. Given the novel structural features of stablecoins, such guidance will be important to support supervisory certainty and good consumer outcomes without creating unnecessary duplication.

That said, further clarification is required in relation to the interaction between the Consumer Duty and the Admissions and Disclosures (A&D) regime. We understand that the Duty is dis-applied in respect of the A&D regime for cryptoassets generally, but not for UK-issued qualifying stablecoins. The rationale for this distinction is not clearly articulated. It also raises an important question as to whether the Consumer Duty is intended to impose a higher or additional standard beyond the detailed requirements already set out in the A&D rules, including the obligation to publish a Qualifying Cryptoasset Disclosure Document (QCDD) and associated website disclosures.

The accompanying Guidance Consultation does not provide concrete direction on how the Duty, including the cross-cutting rules, is intended to operate alongside the A&D framework. Greater clarity would be helpful. For example, does compliance with the prescribed QCDD disclosure requirements constitute sufficient evidence that an issuer has met its Consumer Duty obligations in respect of consumer understanding, or does the Duty imply an expectation that firms take additional steps to ensure that consumers have actively engaged with, or understood, the disclosures? Absent such clarification, there is a risk of regulatory layering and uncertainty.

Relatedly, the application of the Duty's "foreseeable harm" standard requires careful calibration in the stablecoin context. Where an issuer does not have a direct retail relationship and has no visibility over how an end-user intends to use a stablecoin — including where tokens are acquired or transferred through secondary markets — it is unclear how the issuer could reasonably take steps to prevent consumer outcomes arising from uses over which it has neither control nor insight. Guidance should therefore clearly delineate the boundaries of responsibility, particularly in decentralised or intermediary-driven distribution chains.

We also note paragraph 3.8 of the Guidance Consultation, which refers to "multi-step stablecoin redemptions" as a potential example of failing to act in good faith under the cross-cutting rules. It is important that this is not interpreted as capturing legitimate and proportionate KYC or AML procedures for direct redemption requests from individuals who are not existing customers. Robust identity verification processes are a necessary component of financial crime compliance and market integrity. Clarification that proportionate onboarding and verification steps do not, in themselves, constitute a breach of the Duty would provide important legal certainty.

At the same time, the application of the Consumer Duty should remain clearly anchored to the UK's territorial and activity-based regulatory perimeter. The fact that a stablecoin is UK-issued should not, in itself, create a Consumer Duty relationship with non-UK users where there is no UK retail interaction or reasonably foreseeable pathway to UK consumer harm. Maintaining this boundary is important to avoid unintended extraterritorial effects and to ensure that Duty obligations remain proportionate, enforceable and aligned with established principles of UK financial regulation.

We also note that the FCA has signalled a forthcoming consultation in H1 2026 on potentially narrowing the Consumer Duty's territorial scope. We welcome this consultation and urge the FCA to ensure that crypto-specific Consumer Duty guidance is not finalised until that review has concluded. If the Duty's territorial scope is subsequently narrowed, the crypto guidance may need to be recalibrated, and firms should not be required to implement obligations that are then changed shortly afterwards.

We also agree that the Duty should not extend to participant-to-participant trading on a UK cryptoasset trading platform solely because a UK-issued stablecoin has been admitted to trading. Admission to trading is a market infrastructure function, whereas the Consumer Duty is designed to apply to firms that design, manufacture, distribute or otherwise materially influence retail consumer outcomes. Preserving this distinction is consistent with the broader approach set out in CP25/25 and CP25/40 and supports the development of deep, well-functioning and internationally competitive UK trading venues.

Overall, we consider the FCA's approach to be proportionate and coherent, provided that (i) the interaction between the Duty and the A&D regime is clearly articulated, (ii) the scope of responsibility is appropriately calibrated to reflect the distribution model of stablecoins, and (iii) legitimate compliance processes such as KYC for redemption are not inadvertently characterised as inconsistent with the Duty's good faith requirement.

Question 6: Do you have any comments on our proposed guidance on how cryptoasset firms should comply with the Consumer Principle and three cross-cutting rules?

GDF and CCI broadly welcome the FCA's proposed guidance on how cryptoasset firms should comply with the Consumer Principle and the three cross-cutting rules. We support the FCA's decision to provide clarificatory guidance rather than introducing crypto-specific conduct rules, and we consider this approach consistent with the objective of integrating cryptoasset activities into the existing UK regulatory framework in a coherent and proportionate manner.

In previous consultation responses, we have emphasised that the Consumer Duty should apply to authorised cryptoasset firms, but that its application should be outcomes-based, technology-neutral, and supported by targeted guidance reflecting the characteristics of different crypto business models. We therefore welcome the FCA's effort to illustrate how the Duty's cross-cutting obligations, acting in good faith, avoiding foreseeable harm, and enabling and supporting retail customers to pursue their financial objectives, translate into crypto contexts.

In applying the cross-cutting rules, it will be important that the FCA recognises the diversity of cryptoasset activities. For example, the expectations placed on a retail-facing exchange offering

leveraged trading products will differ materially from those placed on a custody provider, an issuer of a UK qualifying stablecoin, or an infrastructure provider with limited direct retail engagement. Guidance should therefore continue to emphasise proportionality and the need to assess foreseeable harm by reference to the firm's actual role, customer base, and risk profile.

With respect to the requirement to avoid causing foreseeable harm, GDF and CCI reiterate our earlier position that harm assessments should be grounded in reasonably identifiable risks within a firm's control. Firms should not be expected to eliminate all investment risk inherent in cryptoassets, nor to protect consumers from ordinary market volatility where products are clearly disclosed and marketed appropriately. The Duty should not operate as a de facto suitability regime for non-advised trading models, nor should it inadvertently reclassify speculative investment risk as regulatory harm.

In relation to enabling and supporting customers to pursue their financial objectives, we consider it important that guidance distinguishes between firms that provide advisory or portfolio services and those that operate execution-only or non-advised models. Expectations should remain consistent with existing UK conduct architecture and avoid imposing implicit advice-like obligations on trading platforms or custodians.

We also note that clear perimeter guidance remains critical. As set out in our response to Q1 and Q3, the Consumer Principle and cross-cutting rules should apply to services provided to retail customers in the UK or activity involving UK retail consumers. The guidance should not be interpreted as extending UK conduct expectations to non-UK users absent a clear UK nexus.

Overall, GDF and CCI consider the proposed guidance to be directionally appropriate. Continued emphasis on proportionality, clarity of responsibility across the crypto value chain (including cross-border distribution chains), and consistency with existing financial services principles will be essential to ensure that the Consumer Duty enhances consumer outcomes without creating uncertainty, duplication, or unintended constraints on responsible innovation in the UK crypto market.

Question 7: Do you have any comments on our proposed guidance on application of the Duty's:

GDF and CCI broadly welcome the FCA's proposed guidance on the application of the Consumer Duty's four outcomes to cryptoasset activities. We support the FCA's use of guidance to clarify expectations in the crypto context, and we consider that, if applied proportionately and with appropriate recognition of different business models, the Duty can provide a coherent and flexible framework for retail-facing crypto firms.

(a) products and services outcome

With respect to the products and services outcome, we agree that firms should ensure products are designed to meet the needs of an identified target market and that governance arrangements are appropriate to the risks presented. However, we reiterate that cryptoasset markets include both retail-oriented products and execution-only access to inherently volatile assets. Product governance expectations should therefore distinguish between firms manufacturing structured or complex products and firms providing non-advised access to spot cryptoassets. The Duty should not operate as a mechanism for restricting consumer access to higher-risk assets where those risks are transparent and the product is functioning as intended. Clear articulation that market volatility alone does not indicate poor product governance would assist in avoiding uncertainty.

(b) price and value outcome

In relation to the price and value outcome, we recognise the FCA's focus on ensuring that charges bear a reasonable relationship to the benefits provided. In crypto markets, pricing structures can differ significantly from traditional finance, including trading fees, spreads, staking rewards, custody fees, and on-chain transaction costs. We encourage the FCA to clarify that value assessments should take into account the totality of the service provided, including liquidity access, security infrastructure, resilience, and technological functionality. It will also be important to avoid inadvertently treating market-driven spreads or blockchain network fees as firm-imposed charges where these are outside the firm's direct control. Proportionality will be key, particularly for early-stage firms and innovative service models.

(c) consumer understanding outcome

Regarding the consumer understanding outcome, we support the objective of ensuring communications are clear, fair and not misleading, particularly given the technical complexity of certain cryptoasset activities. At the same time, disclosure expectations must remain workable. Crypto products often involve technical terminology that cannot be eliminated without loss of accuracy. The focus should therefore be on clarity and accessibility rather than simplification to the point of distortion. We also reiterate that disclosure should not evolve into an implicit suitability requirement for non-advised services. Firms should be required to explain risks clearly, but not to assess whether a retail consumer subjectively "understands" volatility in a manner that is impractical to evidence.

(d) consumer support outcome

> In respect of the consumer support outcome, we agree that retail consumers should be able to access timely and effective support, particularly in cases involving account access, safeguarding concerns, or complaints. Expectations should, however, reflect the operational realities of crypto platforms, including automated systems, 24/7 trading environments, and the global nature of infrastructure. Support standards should be proportionate to the firm's size and business model, and should not inadvertently impose requirements equivalent to full-service advisory firms where the business is execution-only.

Across all four outcomes, GDF and CCI emphasise the importance of clarity around allocation of responsibility across the crypto value chain. Issuers, trading platforms, custodians, intermediaries and infrastructure providers perform distinct roles. The Duty should apply in a manner that reflects the firm's actual function and degree of control over the relevant outcome, avoiding duplication or blurred accountability.

Overall, we consider the proposed guidance directionally appropriate. Continued emphasis on proportionality, clear delineation of responsibilities, and alignment with existing UK conduct principles will be essential to ensure that the Duty supports good consumer outcomes while preserving market access, innovation, and international competitiveness.

Question 8: Are there any areas where cryptoasset firms could benefit from additional guidance to better understand their obligations? Please provide examples.

1. Execution-only trading and the "financial objectives" cross-cutting rule. The obligation on firms to "enable and support retail customers to pursue their financial objectives" (PRIN 2A) must not be interpreted as requiring exchange operators to assess whether a customer should be making a particular trade. For execution-only platforms, this rule means: do not create operational barriers to accessing the service; provide accurate, timely trade confirmations; and do not exploit behavioural biases in the user interface design. It does not mean that a platform must intervene when a customer buys an asset that has fallen in value, or must assess the suitability of individual trades. Without explicit guidance on this, exchanges face an unacceptable risk that the Duty will be read as a back-door suitability requirement for non-advised services.

2. The fair value outcome and market-driven pricing components. The FCA withdrew its example from CP25/25 suggesting that keeping a percentage-based fee constant as asset values rise might breach fair value. This is welcomed. But the guidance remains incomplete. Three specific clarifications are needed: (a) maker-taker spreads arise from market liquidity conditions set by participants in the order book, not from a fee decision by the platform operator — they should not be characterised as "charges" by the firm for fair value assessment purposes; (b)

blockchain gas fees passed through to customers at cost do not constitute firm revenue and should not be treated as a firm-controlled cost component; (c) where a firm arranging staking retains a percentage of protocol rewards, the fair value assessment should consider the full economic value delivered to the customer (validator rewards, liquidity access, reduced operational complexity) rather than treating the retained percentage as a cost in isolation.

3. Identifying vulnerable customers in digital-only onboarding environments. Most cryptoasset firms onboard customers entirely through digital channels — apps, web portals, automated identity verification. They have limited ability to identify vulnerability characteristics that would typically be surfaced in face-to-face interactions. The FCA should clarify that: (a) firms are not expected to conduct in-person vulnerability assessments; (b) digital proxies such as failed appropriateness test patterns, dormant account indicators, or customer-initiated support contacts about financial difficulty are acceptable triggers for enhanced support protocols; and (c) the standard is one of reasonable effort proportionate to the firm's business model and customer interface, not a guarantee that every vulnerable customer will be identified.

4. Duty obligations in B2B2C crypto distribution chains. The FCA has not yet published final rules on how the Duty applies across distribution chains. In cryptoasset markets, typical chains include: a stablecoin issuer, a CATP operator that admits it to trading, an intermediary that distributes it to retail customers, and a custodian that safeguards it. Each plays a distinct role in the retail customer's ultimate experience. Guidance is needed on: which entity bears primary responsibility for each Duty outcome; whether a CATP operator that never contracts directly with retail customers nonetheless owes them Duty obligations through the admission process; and how firms should apportion responsibility in contractual arrangements with each other. Without this, firms will either duplicate obligations (accepting unnecessary regulatory risk) or disclaim responsibility inappropriately.

5. Foreseeable harm and DeFi-adjacent services. Where a regulated firm provides infrastructure that facilitates access to decentralised protocols — such as a non-custodial wallet interface, a cross-chain bridge, or a DEX aggregator — harm can arise from smart contract vulnerabilities, oracle failures, or protocol governance decisions that are entirely outside the firm's control. The FCA should confirm that the "avoid causing foreseeable harm" cross-cutting rule applies only to harm within the reasonable control of the authorised firm, and that protocol-level outcomes that arise from the fundamental operation of the decentralised technology do not constitute foreseeable harm attributable to the firm. Otherwise, regulated firms providing DeFi access will face open-ended liability for events they cannot prevent, creating a strong disincentive to offer these services through authorised channels.

Chapter 3 – Redress

Question 9: Do you agree with our proposal to apply the DISP 1 complaint handling requirements to all cryptoasset firms?

GDF and CCI recognise the importance of robust complaints handling arrangements and support the objective of ensuring that UK retail consumers engaging with regulated cryptoasset firms have access to clear, fair and effective processes for raising concerns. Aligning cryptoasset firms with the existing DISP 1 framework is, in principle, consistent with our broader position that crypto activities should be integrated into the UK's established regulatory architecture rather than subject to a parallel regime.

In our previous consultation responses, we have consistently supported the application of core conduct standards, including the Consumer Duty, to authorised cryptoasset firms, provided that such requirements are applied proportionately and with appropriate recognition of the diversity of business models within the sector. The same principle should apply in the context of DISP 1.

Cryptoasset firms encompass a wide range of activities, including retail-facing exchanges, custody providers, issuers, infrastructure providers, and firms operating predominantly with professional clients or non-UK users. A uniform application of DISP 1 to all cryptoasset firms, without differentiation, risks imposing requirements that are not commensurate with the level of consumer risk presented by certain business models.

Consistent with our earlier responses on perimeter and extraterritoriality, we emphasise that DISP 1 should apply with respect to services provided to retail customers in the UK and UK retail business. It should not be interpreted as extending UK complaints handling jurisdiction to non-UK users solely because a firm is authorised in the UK, nor should it capture firms whose activities are limited to wholesale or infrastructure functions with no direct UK retail interface.

We also encourage the FCA to clarify how DISP 1 interacts with the allocation of responsibilities across the crypto value chain. In particular, where multiple regulated entities are involved in a transaction, for example, an issuer, a trading venue and a custodian, it will be important to avoid duplication or uncertainty as to which firm bears primary responsibility for complaint resolution.

Subject to proportionate application and clear perimeter guidance, GDF and CCI consider the extension of DISP 1 to be broadly consistent with the FCA's objective of embedding cryptoasset firms within the existing UK regulatory framework in a coherent and internationally credible manner.

Question 10: Do you agree with the proposal to add requirements to the crypto sourcebook for stablecoin issuers to put in place contractual arrangements with third parties that carry out activities on their behalf?

GDF and CCI agree in principle with the proposal to require UK stablecoin issuers to put in place appropriate contractual arrangements with third parties that carry out regulated activities on their behalf. Given the importance of safeguarding, redemption, backing assets management, and operational resilience in the context of stablecoin issuance, clear contractual allocation of roles, responsibilities and oversight rights is an essential component of a credible regulatory framework.

This approach is consistent with our previous consultation responses, in which we have supported robust governance, accountability and operational resilience expectations for stablecoin issuers, particularly where critical functions are outsourced. Ensuring that issuers retain sufficient oversight and control over third-party providers is important to protect consumers and maintain confidence in UK-issued stablecoins.

However, we emphasise that any new crypto sourcebook requirements should be proportionate and aligned with existing UK outsourcing and operational resilience frameworks. Stablecoin issuers are already likely to be subject to broader expectations under SYSC and operational resilience rules. The introduction of additional contractual requirements specific to stablecoin activities should avoid duplication or creating a parallel outsourcing regime that is materially more burdensome than that applied to comparable firms in traditional finance.

In this regard, we note that the proposal appears to include specific requirements relating to complaint handling, including an expectation that third parties carrying out services "on behalf of" a stablecoin issuer must forward all complaints to the issuer. We understand that this would include complaints from all "holders" of the stablecoin, and not only from direct customers of the issuer.

Greater clarity is required on the scope of this obligation. In particular, it should be made explicit that commercial arrangements between an issuer and independent intermediaries, such as exchanges, wallet providers or payment firms that distribute or facilitate trading in the stablecoin, do not, in themselves, constitute the appointment of those entities to act "on behalf of" the issuer. Absent such clarification, there is a material risk of conflating issuer and intermediary responsibilities, leading to duplicative or overlapping complaint handling obligations.

This distinction mirrors the broader conceptual separation between redemption (a direct issuer function) and conversion or secondary market trading (an intermediary function). Just as conversion on a trading venue should not be characterised as redemption by the issuer, an

intermediary's direct customer relationship with its users should not automatically be treated as activity carried out "on behalf of" the issuer.

Without this boundary, the proposed approach could inadvertently require issuers to assume responsibility for complaints arising from activities over which they have neither contractual control nor direct visibility. This would create operational complexity, blur accountability lines, and risk undermining the clarity of the UK's activity-based regulatory model.

We also question whether the proposed complaint-forwarding requirement is necessary in light of existing DISP provisions, including DISP 1.7, which already set out rules regarding the handling and forwarding of complaints between firms. The FCA should clarify why reliance on the established DISP framework would not be sufficient, and how the proposed crypto-specific requirements improve consumer outcomes relative to existing mechanisms.

More broadly, the scope of third parties captured by the requirement should be clearly defined and risk-based. Stablecoin ecosystems may involve a range of service providers, including custodians, reserve managers, technology providers and other infrastructure firms, but the level of contractual detail and oversight expected should be calibrated according to the materiality and criticality of the outsourced function. A proportionate approach focusing on functions that are critical to redemption, backing assets integrity and operational continuity would be preferable to a blanket requirement covering all service relationships.

Finally, consistent with our previous comments on perimeter, requirements should apply in respect of activities conducted within the UK regulatory framework and should not inadvertently impose contractual or supervisory expectations on non-UK entities beyond what is necessary to ensure effective supervision and UK consumer protection outcomes.

Subject to proportionate calibration and clear alignment with existing outsourcing standards, GDF and CCI consider the proposal directionally appropriate and supportive of the credibility and resilience of UK-issued stablecoins.

Question 11: Do you agree that the Financial Ombudsman should consider complaints about all new cryptoasset activities carried out by all UK authorised firms? If not, are there specific activities it should not be able to consider complaints for?

GDF and CCI recognise the role of the Financial Ombudsman Service in providing redress to retail consumers and supporting trust in regulated markets. We therefore agree in principle that, where UK retail consumers engage with regulated cryptoasset activities carried out by UK-authorised firms, access to the Financial Ombudsman should form part of the overall consumer protection framework.

However, consistent with our previous consultation responses, we do not consider that the Financial Ombudsman's jurisdiction should automatically extend to all new cryptoasset activities carried out by all UK authorised firms without appropriate calibration.

First, the scope of FOS jurisdiction should remain anchored to UK retail consumer activity. It should not extend extraterritorially to non-UK users or to activity with no clear UK nexus solely because the firm is UK authorised. This is consistent with our broader position that UK regulatory obligations should apply to services and business provided to retail customers in the UK, rather than a firm's global activity.

Second, the diversity of cryptoasset activities warrants differentiation. Certain activities, such as wholesale market infrastructure services, proprietary trading, or services provided exclusively to professional counterparties, do not present the same consumer protection considerations that underpin the FOS regime. Extending FOS jurisdiction to such activities would risk misalignment with its core mandate and could create uncertainty as to how technical or market-structure issues would be assessed through a retail redress framework.

Third, in areas such as trading on UK Qualifying Cryptoasset Trading Platforms, it will be important to maintain consistency with the FCA's position that participant-to-participant trading is not subject to the Consumer Duty. FOS jurisdiction should not inadvertently recharacterise venue-level trading activity as a retail advisory or suitability issue where the firm is operating an execution-only model.

We also reiterate our earlier concern that the cumulative effect of extending FOS jurisdiction across all cryptoasset activities, without careful scoping, could create disproportionate exposure and legal uncertainty for UK-authorised firms relative to non-UK firms accessing UK markets on a cross-border basis. This would risk undermining the FCA's broader objective of supporting a competitive and internationally credible UK crypto regime.

Accordingly, GDF and CCI recommend that FOS jurisdiction apply to UK retail-facing cryptoasset activities where there is a clear consumer relationship and potential for individual redress, but that it should not extend to wholesale, infrastructure, or purely non-UK activity. Clear guidance on scope and allocation of responsibility across the crypto value chain will be essential to avoid duplication and unintended consequences.

Subject to appropriate perimeter clarity and proportionality, we support access to redress mechanisms as part of a coherent consumer protection framework for regulated cryptoasset activity in the UK.

Question 12: Do you agree that the Financial Ombudsman should not extend the voluntary jurisdiction to cover complaints about the proposed new cryptoasset activities?

GDF and CCI agree with the proposal that the Financial Ombudsman's voluntary jurisdiction should not be extended to cover complaints about the proposed new cryptoasset activities.

As set out in our response to Question 11, we support access to redress for UK retail consumers engaging with regulated cryptoasset activities carried out by UK-authorised firms, within the framework of the compulsory jurisdiction where appropriate. However, extending the voluntary jurisdiction would risk creating regulatory uncertainty and competitive distortion, particularly in a sector characterised by cross-border activity and mixed business models.

The voluntary jurisdiction has historically applied in limited circumstances and on a consensual basis. Extending it to new cryptoasset activities could result in UK-authorised firms facing broader redress exposure than non-UK firms providing similar services into the UK on a cross-border basis without authorisation. This would risk exacerbating competitive asymmetries and undermining the policy objective of supporting the development of a credible and internationally competitive UK crypto regime.

We also consider that extension of the voluntary jurisdiction would blur the perimeter between regulated and unregulated activity. Where activities fall outside the UK regulatory perimeter, it would not be proportionate or consistent with established principles to bring them indirectly within scope via an expanded redress mechanism.

Maintaining a clear distinction between compulsory jurisdiction for regulated services and activity provided to retail customers in the UK and non-extension of the voluntary jurisdiction provides greater legal certainty and aligns with our broader position that regulatory obligations should be anchored to clear UK nexus and authorisation status.

Accordingly, GDF and CCI support the FCA's proposal not to extend the Financial Ombudsman's voluntary jurisdiction to the proposed new cryptoasset activities.

Question 13: Do you agree with our approach to not extend FSCS coverage to new regulated cryptoasset activities and all types of qualifying cryptoassets?

We agree with the proposal not to extend FSCS coverage to regulated cryptoasset activities, including stablecoin issuance and custody. While extending FSCS protection could offer additional reassurance to retail consumers, it would also introduce significant additional levy costs for issuers and custodians, which would ultimately be passed on to end users. This would

risk increasing the cost of participation in regulated crypto markets without clear evidence that the underlying risk profile justifies such intervention.

We also note that FSCS protection does not currently apply to e-money. Given the functional similarities between certain stablecoin models and e-money, we do not consider there to be a sufficiently strong risk-based justification at this stage to depart from the existing approach.

That said, we recognise the important role that FSCS coverage can play in building consumer confidence, particularly as markets mature and retail participation grows. It may therefore be appropriate for the FCA and HM Treasury to keep the question of FSCS coverage under review as part of any broader post-implementation assessment of the regime, particularly if market structure, firm models or risk characteristics evolve over time.

Question 14: Given that the move of Specified Investment Cryptoasset (SIC) safeguarding from Article 40 to Article 9N may remove it from the scope of FSCS protection, do you agree with our approach to SIC safeguarding even though it may give rise to potential inconsistent outcomes, for example, safeguarding a traditional share would fall within FSCS scope, while safeguarding its tokenised equivalent would not?

Under the current regime, safeguarding and administering specified investments under Article 40 of the RAO falls within the scope of the Financial Services Compensation Scheme as "designated investment business." This means that if a firm safeguarding tokenised equities or bonds fails, retail clients can claim FSCS compensation of up to £85,000 on their losses. Under the FCA's proposals, the safeguarding of those same tokenised assets will migrate from Article 40 to the new Article 9N framework. Article 9N safeguarding is not currently within the FSCS scope. The result is that the tokenised version of an asset that currently attracts FSCS protection will, post-migration, lose it — solely because the asset sits on a blockchain rather than in a traditional securities account.

The inconsistency in FSCS coverage between a traditional security and its tokenised equivalent is not a necessary consequence of the new framework — it is a policy choice that can be remedied. The FCA has the power under FSMA to make rules extending FSCS coverage to new regulated activities. It should exercise that power to bring Article 9N SIC safeguarding within FSCS scope, in the same way that Article 40 safeguarding and administration currently attracts coverage.

If the FCA is not willing to extend FSCS coverage immediately, it should at minimum: (a) confirm that the existing FSCS coverage for Article 40 safeguarding of SICs will remain in force until Article 9N has been expressly extended by FCA rules to attract equivalent coverage — that

is, there should be no gap in protection during the transition; and (b) commit to a specific timetable for consulting on extending FSCS coverage to SIC safeguarding, with a target of no later than 2028.

The FCA's stated reasons for not extending FSCS coverage to qualifying cryptoassets more broadly — uncertainty about market size, firm failure risk, appropriate levy levels — do not apply with the same force to SIC safeguarding, which involves assets with well-established market values, existing custodial infrastructure, and counterparties that are largely institutional.

We are concerned that this inconsistency could significantly limit the development of the UK tokenised securities market, placing the UK at a material disadvantage internationally relative to jurisdictions that treat tokenised and traditional securities equivalently for investor protection purposes.

Chapter 4 – COBS

Question 15: What is your view on whether COBS generally (subject to COBS 1 Annex 1 carve-outs) should apply to non-UK retail and professional clients of a UK QCATP operator that is incorporated overseas and authorised via a UK branch?

If COBS applies in its full form to all users of the branch-authorised platform, including non-UK users from Singapore, Dubai, New York and elsewhere, then the UK branch model requires the operator to comply with UK conduct rules for its entire global user base. That is commercially impossible and legally incoherent — those non-UK users have no connection to the UK regulatory framework and the FCA has no mandate to protect them. Faced with that outcome, firms will rationally avoid seeking UK branch authorisation and instead route UK consumers through non-UK venues, reducing consumer protection rather than enhancing it. The FCA would be defeating its own policy.

In our view, the application of the COBS rules to a UK branch should be tiered as follows:

Tier 1 — Rules that should apply to all users of the UK venue: Market integrity rules (prohibition on market manipulation, inside dealing, spoofing), non-discriminatory execution requirements, and platform-level personal account dealing obligations. These protect the integrity of the venue itself, which is inherently shared across all participants. It makes no sense to apply these only to UK users because a manipulative order entered by a non-UK user causes market harm to UK users, however, these rules could reasonably apply to the UK subsidiary rather than the branch itself to avoid a conflict between the home and host state rules of the branch, as discussed further above.

Tier 2 — Rules that should apply only to services provided to retail customers in the UK and UK relationships: COBS 4 financial promotions rules, COBS 8 client agreement requirements, COBS 10 appropriateness assessments, COBS 6 information disclosure requirements, and COBS 3 client categorisation rules. These protect individual consumers in the context of their direct relationship with the firm. A firm marketing to UK consumers must meet UK promotional standards. The same firm marketing to Singaporean consumers does not — and should not be required to apply UK financial promotion rules to communications that are not directed at UK persons, have no UK nexus, and are not subject to FCA jurisdiction.

Tier 3 — Rules that should apply only where there is a UK nexus: Consumer Duty obligations. These apply to "retail market business" — a concept that is inherently a service provided to UK customers in the UK. The FCA has itself proposed to disapply the Duty to non-UK customers in its forthcoming consultation. The branch context is exactly where this principle should be confirmed explicitly.

Question 16: Do you have any views on what qualifying cryptoassets should be assessed as Category A or Category B qualifying cryptoassets? If so, please provide details.

Position on Financial Promotions (COBS 4)

The Financial Promotions ('FinProms') regime is an important facet of regulation, and its overarching objective of ensuring promotions are fair, clear and not misleading serves as a cornerstone of robust consumer protection. This framework is essential for maintaining trust and integrity in financial markets by setting mandatory standards for how firms communicate with potential and existing customers about financial products and services.

As such, GDF and CCI do not dispute the application of FinProms requirements to regulated cryptoasset firms generally speaking.

However, we do not agree with retaining the Restricted Mass Market Investment ('RMMI') categorisation for qualifying cryptoassets, and the enhanced frictions that come with this designation, once the new regulatory regime is fully in force. In our view, maintaining the RMMI designation in this context would be inconsistent with the logic of perimeter expansion, insufficiently justified on a risk basis, and misaligned with the FCA's approach in comparable regulated markets.

The RMMI categorisation for qualifying cryptoassets sends a negative signal to consumers, which discourages participation, undermines confidence in digital assets and prevents legitimate market growth. Requirements such as the 24-hour cooling off period, risk warnings and appropriateness assessments creates friction during the onboarding journey. These measures

hinder investment without a clear link to consumer outcomes. Consumer outcomes are better served through financial education. Eliminating the RMMI categorisation would support firms in playing a role in providing educational tools to support consumers with decision-making.

A continued RMMI designation would require a fresh and transparent justification as this would not simply represent a continuation of the status quo. The framework should reflect the risk as experienced by consumers within regulated distribution models, rather than assessing cryptoassets as if they were accessed directly and without intermediation.

Our position on removing the RMMI designation rests on four core points.

1. The classification of cryptoassets as RMMI was a temporary measure to address the consumer risks associated with the unregulated nature of cryptoassets. The regulated status has changed, and the categorisation must reflect that.
2. The assertion that "the risk to consumers of purchasing qualifying cryptoassets remains high" remains unsubstantiated and does not account for the significant risk mitigation effects that the new crypto regime will have on consumers.
3. The FCA has maintained that their concern relates to risk in the underlying asset. However, consumers are not accessing the asset directly, they are using a regulated intermediary such as a custodian or exchange. Regulatory attention in traditional finance focuses on distribution with the acknowledgement that this materially alters the real-world risk to consumers. Focusing solely on the characteristics of the underlying cryptoasset represents a significant departure from how risk is treated in existing UK markets.
4. A continued RMMI designation would require a fresh and transparent justification as this would not simply represent a continuation of the status quo. The framework should reflect the risk as experienced by consumers within regulated distribution models, rather than assessing cryptoassets as if they were accessed directly and without intermediation.

<u>1 - Temporary nature of RMMI categorisation</u>

The original classification of cryptoassets as RMMI was introduced as a prudent interim measure at a time when cryptoasset activity largely sat outside the FCA's regulatory perimeter. In that context, the FCA had limited supervisory visibility and no direct control over many firms promoting cryptoassets to UK consumers. Heightened marketing restrictions were therefore justified as a temporary safeguard to mitigate consumer risk in the absence of authorisation, prudential requirements, conduct standards, and disclosure obligations.

We would note in particular that in past FCA statements, including in CP22/2 as well as PS23/6 it was explicitly stated that these measures were intended to be temporary, and aimed to mitigate risks while crypto assets fell outside of the regulatory perimeter.[1]

That context will materially change under the new regime. Soon, firms issuing qualifying stablecoins, safeguarding qualifying cryptoassets and specified investment cryptoassets, operating qualifying cryptoasset trading platforms, intermediating, or offering staking services will be directly authorised and supervised by the FCA. They will be subject to governance requirements, prudential standards, safeguarding and custody rules, operational resilience obligations, detailed disclosure requirements, and the Consumer Duty.

Once these controls are in place, the original rationale for applying RMMI as a blunt perimeter-control mechanism falls away. The FCA will have direct supervisory and enforcement tools to address poor communications, misleading promotions, weak governance, or inappropriate targeting of retail consumers. In that environment, retaining RMMI-style restrictions would be at best redundant, and at worst represent unnecessary and disproportionate requirements on regulated cryptoasset firms.

2 - The assertion that consumer risk "remains high" requires clearer justification

The consultation states that "the risk to consumers of purchasing qualifying cryptoassets remains high". However, it is not accompanied by evidence demonstrating why the comprehensive regulatory framework now being introduced would be insufficient to mitigate those risks.

Volatility and price risk are not unique to cryptoassets. Many regulated investments are high risk. The FCA's traditional approach has not been to restrict marketing solely because an underlying asset class is volatile, but rather to regulate distribution, disclosures, suitability (where applicable), governance, and financial promotion standards to ensure consumers understand the risks and are treated fairly.

Additionally, in considering whether consumers are able to take informed risks, it is also important to recognise the interaction with the Consumer Duty, in particular the Consumer Understanding outcome. The Duty requires firms to equip retail customers with information that

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[1] *See CP22/2 noting "These risks are currently unmitigated as cryptoassets fall outside the financial promotion regime." https://www.fca.org.uk/publication/consultation/cp22-2.pdf and PS23/6 "We are not proposing to apply the Consumer Duty to unauthorised MLR-registered firms communicating their own promotions at this point.* ***The exemption that grants the FCA rule making powers over MLR registered cryptoasset businesses in relation to financial promotions was intended to be a temporary and narrow exemption.*** *The Government has recently consulted on bringing a wide range of cryptoasset activities within the FCA's remit. The Government intends to remove this exemption when the wider crypto regime comes into force, as cryptoasset firms will be authorised and therefore able to communicate their own promotions without the need of an exemption." https://www.fca.org.uk/publication/policy/ps23-6.pdf*

enables them to make effective, timely and properly informed decisions. That objective cannot be achieved if regulated firms are unduly constrained in how they communicate risk information and educational content.

The current RMMI framework limits the scope for firms to provide structured, in-depth educational materials through the digital channels consumers actually use. CCI member polling data indicates that 39% of under-35 crypto investors rely on AI tools when making investment decisions. In that environment, restricting authorised firms' communications may not reduce risk; it may instead divert consumers toward unregulated or lower-quality sources of information.

A proportionate regime should therefore support supervised firms in delivering clear, accessible and comprehensive educational content,including through modern communication channels such as social media, so that consumers can genuinely understand volatility, custody risk and other relevant factors. Enabling informed participation under regulatory oversight is more consistent with the Consumer Duty than relying primarily on friction-based marketing restrictions.

If the FCA considers that cryptoassets present a uniquely residual risk even once fully regulated, it should clearly articulate:

- What specific consumer harms remain unmitigated under the new regime;
- Why existing Handbook requirements (including COBS, SYSC, prudential rules, safeguarding, and the Consumer Duty) are insufficient to address them; and
- Why enhanced RMMI restrictions are the least intrusive and most proportionate mechanism available.
- Absent that analysis, the continued classification risks appearing precautionary rather than evidence-based.

3 - Focusing on the "underlying asset" mischaracterises how consumers access crypto

We also caution against reasoning that only UK-issued stablecoins should be excluded from RMMI because other qualifying cryptoassets involve "unregulated underlying assets."

For the vast majority of UK retail consumers, exposure to cryptoassets occurs through FCA-regulated intermediaries: exchanges, custodians, and other authorised firms acting as the primary on- and off-ramps. Once these entities are regulated, the FCA will oversee market conduct, custody arrangements, safeguarding, disclosures, governance, operational resilience, and financial promotions.

In traditional finance, regulatory focus is directed at the authorised firm distributing or arranging access to an asset, on the basis that regulation of the intermediary materially alters real-world

consumer risk. The FCA does not typically apply enhanced marketing restrictions solely because the underlying asset itself is not independently regulated.

Applying a different logic in the crypto context, once the intermediary is authorised and subject to the full regulatory framework, risks inconsistency with established regulatory principles.

4 - A continued RMMI designation would require a fresh and transparent justification

If the FCA is minded to retain RMMI classification for regulated cryptoasset firms, including the application of enhanced requirements for direct offer financial promotions, such as the 24-hour cooling-off period, this should not be treated as a simple continuation of the status quo.

The regulatory perimeter will have fundamentally shifted. Firms will be authorised, supervised, and subject to a comprehensive regime. In that context, maintaining RMMI constitutes a new policy choice that should be explicitly justified.

This would require:

- A clear articulation of the specific residual risks the FCA believes remain;
- An explanation of why those risks cannot be adequately mitigated through existing and newly introduced Handbook requirements;
- A robust cost–benefit analysis recognising the operational and commercial burden of RMMI restrictions; and

An assessment of how the approach aligns with the FCA's secondary objective of international competitiveness and growth.

Absent such justification, we believe the continued application of RMMI restrictions would be disproportionate and internally inconsistent with the stated objectives of creating a mature, scalable UK regime for digital assets.

Market participants should be afforded a clear and transparent opportunity to comment on any decision to retain RMMI classification in a fully regulated environment. The move from an unregulated to a regulated perimeter is not merely a technical shift; it warrants a fresh policy assessment.

Timeline

A further consideration relates to the timing of any decision on the continued application of the RMMI classification. Given that the new cryptoasset regime represents a fundamental shift from an unregulated to a fully authorised and supervised market, it is important that the appropriate categorisation of qualifying cryptoassets is resolved prior to commencement of the regime.

Maintaining RMMI restrictions at the point of implementation, even with the possibility of revisiting the issue at a later stage, would leave firms operating under a framework that reflects the risk assumptions of the pre-regulatory environment rather than the reality of a regulated market. This would create unnecessary operational and commercial burden for authorised firms at the very moment they are transitioning into the new regime and investing in compliance with the FCA's full suite of prudential, conduct and safeguarding requirements. For these reasons, we believe it to be vital that the FCA reaches a clear policy position on the RMMI classification of qualifying cryptoassets as part of the current rulemaking process, so that the regime can commence on a coherent and proportionate basis.

Question 17: Do you agree with our proposals on express consent, appropriateness testing, and strengthening retail clients' understanding? If not, please explain why not? If there is an issue of timing or cost in relation to our proposals on appropriateness assessments and express consent, including as they apply to existing clients, please share details.

No comment.

Chapter 6 – SM&CR Tiering Question

18: Do you agree with our proposals to introduce thresholds for becoming an SM&CR Enhanced firm for authorised stablecoin issuance firms and authorised cryptoasset custodians? If not, please explain why.

We broadly agree with the FCA's proposed thresholds for stablecoin issuance firms and authorised cryptoasset custodians, and recognise the policy objective of ensuring that firms of a certain scale are subject to enhanced regulatory expectations. In principle, a threshold-based approach provides a pragmatic way to distinguish between smaller, non-systemic firms and those whose activities may give rise to wider prudential or financial stability considerations.

However, the consultation does not sufficiently explain how the 'Enhanced' categorisation is intended to interact with the Bank of England's systemic stablecoin framework, and what practical differences there would be between the two, or whether in reality it would be an empty set.

We also note that for non-crypto sectors, the FCA has been explicit about its baseline assumptions regarding the proportion of firms affected by enhanced firm categorisation, citing coverage of around 1% of the relevant market. We believe this 1% should also be a guiding principle for the cryptoasset market, however an equivalent benchmark or assumption does not

appear to be set out in this consultation paper. It is therefore unclear what baseline the FCA is working from in assessing how many cryptoasset firms are expected to fall within scope of the 'Enhanced' proposals, or whether a comparable proportion of firms is assumed. This lack of clarity makes it difficult to assess proportionality or to compare the impact of these proposals against existing regulatory frameworks.

We also note that the cost-benefit analysis does not appear to account for the incremental impacts of the Senior Managers and Certification Regime at all, notwithstanding that the proposed regime would bring many cryptoasset firms within its scope for the first time, with potentially material governance, resourcing and ongoing compliance implications.

Chapter 7 – Training and Competence

Question 19: Do you agree with our proposals to apply the TC Sourcebook to certain cryptoasset activities similar to the existing approach for traditional finance? If not, please explain why?

GDF and CCI support applying the TC Sourcebook where there is a clear functional equivalence between cryptoasset activities and traditional regulated activities. A consistent standards framework is appropriate where risks and client interfaces are genuinely comparable. However, the FCA's proposals require further clarification to ensure the regime is proportionate, operationally feasible and aligned with the structure of crypto-native business models.

1. **The competent-employee rule provides the baseline, but competence in crypto cannot be assumed**

All UK-authorised firms are already subject to the *competent-employee rule* in SYSC, which requires individuals to possess the skills, knowledge and expertise necessary to discharge their responsibilities. We agree this is a reasonable baseline if applied proportionately.

However, competence for cryptoasset activities cannot be equated with traditional financial markets experience. The FCA should not assume that staff in traditional firms automatically possess the expertise required to operate cryptoasset products and infrastructure safely.

Crypto activities require knowledge of:

- blockchain consensus mechanisms and settlement behaviour
- smart-contract execution and associated failure modes
- custody models (hot, warm, cold, MPC) fundamentally different from securities custody

- staking, slashing, MEV and other blockchain-native risks
- tokenomics and governance structures with no analogue in traditional markets

These are not optional technicalities, they are central to consumer protection, operational resilience, market integrity and risk management.

At the authorisation gateway, the FCA must explicitly consider whether firms, and especially traditional financial institutions entering the sector, *actually meet* the competent-employee rule, FIT and PRIN standards for the crypto activities they propose to carry on.

This expectation should be stated clearly in the final rules.

2. **TC qualifications should apply only where there is a clear, justified, functional equivalence**

We agree that where a crypto activity is functionally similar to a TC-governed traditional activity, for example, providing financial advice on cryptoasset investments, the corresponding TC qualification requirements (e.g. UK QCF Level 4) may appropriately apply.

However:

- designation must not be indiscriminate
- the FCA must map crypto activity to specific TC roles, rather than applying TC holistically
- qualification requirements must be risk-based and clearly justified
- equivalence must reflect the *actual nature* of the service, not superficial similarity

Without a functional mapping, applying TC risks both over-reach and gaps in consumer protection.

We therefore encourage the FCA to publish a crypto-to-TC activity mapping, identifying where the TC applies and why, and where it clearly does not.

3. **The FCA must acknowledge the cost, capacity and lead-time implications of introducing crypto-specific qualifications**

If the FCA intends that certain crypto activities require formal TC qualifications, it must recognise that:

- qualification providers (CISI, CFA, CII, academic institutions, etc.) may not yet have the capability or commercial incentive to design crypto-specific qualifications;

- creating an FCA-recognised qualification that meets the Appropriate Examination Standards (AES) involves syllabus development, accreditation, material development, exam delivery infrastructure, and market adoption.
- realistically, this requires a multi-year lead time before candidates can reasonably complete the qualification process;
- the cost to firms and individuals will be material, particularly if qualifications need to be developed from scratch without existing economies of scale.

For these reasons, if the FCA introduces TC-mandated qualifications for specific crypto activities, it must:

- set out a transition period of at least three years,
- assess the market capacity for qualification provision, and
- provide cost–benefit transparency on the implications for firms and retail customers.

Applying qualification requirements before a viable provider ecosystem exists would create unavoidable non-compliance.

In summary, GDF and CCI support the FCA's objective of aligning competence standards across activities that pose similar risks. However, for the TC Sourcebook to be applied proportionately and coherently:

- the FCA must acknowledge that TradFi experience does not equate to crypto competence;
- TC qualifications should be imposed only where functional equivalence is clearly established;
- any qualification requirements must account for the time, cost and capacity constraints in the UK qualifications market;
- the FCA must ensure firms can demonstrably satisfy the competent-employee rule at the gateway, particularly where crypto expertise is essential.

Subject to these clarifications, we agree that TC can be an appropriate mechanism for supporting high standards of conduct and professionalism in UK crypto markets.

Chapter 8 – Regulatory Reporting

Question 20: Do you agree with our proposed application of the existing regulatory returns to qualifying cryptoasset firms?

Yes, we agree with the proposed application of existing regulatory returns to qualifying cryptoasset firms, and consider this a sensible and proportionate approach. Leveraging established reporting frameworks should help promote consistency, supervisory comparability, and regulatory familiarity for both firms and the FCA, while avoiding the need to design an entirely new reporting regime at this stage. Provided the FCA remains open to calibrating the scope and frequency of returns to reflect the specific risk profile and business models of qualifying cryptoasset firms, we believe this approach can support effective supervision without imposing unnecessary or duplicative reporting burdens.

Additionally, we have noted some ambiguities in SUP16.34 Regulatory Reporting Guidance which we would appreciate further clarity on.

- Firstly, Chapter 8, paragraph 8.15 says that the FCA proposes to ask "all qualifying cryptoasset firms, other than those with only a permission for issuing qualifying stablecoin" to provide quarterly data on the total number of active clients and active retail customers with characteristics of vulnerability.

  However, in Annex 6, SUP 16.34.6R (3) and (4) says "except for firms issuing qualifying stablecoin".

  The latter excludes all firms with a permission to issue qualifying stablecoin, while the former limits it to those with only that permission. We do not believe this was the FCA's intention.

- Secondly, in the draft legal instrument 16.34.9R (a-d) uses the definition QCATP, while (e) uses "CATP" yet there doesn't appear to be a definition for UK CATP in the glossary definitions.

- Thirdly, in Annex 6 SUP 16.34.12R- the text in the Metric column says "The total number of clients that do not fall under the categories in **(a) and (b)** with at least one active qualifying cryptoasset staking arrangement with the firm.

  However, we note that the guidance says:

  The total number of clients that do not fall under the categories in SUP 16.34.12R(**1) and**

(2) with at least one active …

This error is replicated in the draft legal instrument on p. 256 of the PDF in SUP 16.34.12R (3).

- Fourthly, in Annex 6, SUP 16.34.10 R (2)(b) says "the total value of completed fiat to qualifying cryptoasset transactions orders executed or received and transmitted for execution by the firm;"

  This is ambiguous - "transactions orders executed" is unclear - is there missing punctuation between "transactions" and "orders"?

  Similarly in SUP 16.34.10R (3)(b) it says "the total value of completed fiat to qualifying cryptoasset transactions **the executed or received and transmitted for execution by the firm**;

  It is not clear what this means.

- SUP 16.34.4R sets firms "Operating a qualifying CATP" on a quarterly reporting schedule.

  However, Annex 6, p. 140 of the CP (the guidance notes) states that "All firms authorised for operating a qualifying cryptoasset trading platform are required to submit the following information to the FCA **on a monthly basis.**"

Question 21: Do you agree with our phased approach to introducing regulatory returns for qualifying cryptoasset firms?

Yes, we agree with the FCA's proposed phased approach to introducing regulatory returns in phases over the first 2-3 years of the regime. A staged implementation is a proportionate way to build supervisory visibility while allowing firms sufficient time to develop the necessary systems, controls and data quality processes, particularly given the novelty of the regime and the diversity of business models in scope. We also consider that a phased approach reduces the risk

of early reporting being overly burdensome or misaligned with firms' actual risk profiles, and supports more meaningful engagement between the FCA and industry as the reporting framework is refined in practice.

Question 22: Do you agree with the proposed approach for:

a. Stablecoin issuance

We agree broadly with the approach. To facilitate consistent reporting, the FCA may benefit from issuing further specific instructions on how to interpret the required data elements. For example, the requirement to report revenue "directly linked to issuance", which is stated to also include redemption fees but not income generated on reserve assets, is potentially ambiguous without a clearer understanding of the FCA's rationale for requesting this reporting metric. Regarding the requirement to report the number of "delayed" redemptions, CP25/14 guidance would suggest that "delayed" redemptions are to be reported based on the prescribed T+1 timeframe - we refer to our previous consultation feedback with regards to redemption timelines.

At the same time, reporting requirements should remain proportionate and aligned with the specific risk profile of fiat-backed stablecoin models. In particular, firms will require clarity on the precise definitions of key reporting metrics (for example, circulating supply, issued tokens, and redeemed tokens), particularly where tokens may move between custodial wallets, exchanges, and on-chain addresses without a direct interaction with the issuer. Clear definitions will help ensure that reporting is consistent across firms and accurately reflects the economic reality of the stablecoin model.

It will also be important that reporting expectations are coordinated with the wider stablecoin framework, including the prudential and safeguarding requirements proposed elsewhere in the regime. Where firms are already providing reserve and redemption information through other regulatory disclosures or supervisory engagement, duplicative reporting should be avoided.

Subject to these clarifications, we consider the proposed reporting approach to be proportionate and supportive of the FCA's supervisory objectives.

b. Operating a Qualifying Cryptoasset Trading platform

GDF and CCI broadly agree with the FCA's proposed approach to regulatory reporting for firms operating a Qualifying Cryptoasset Trading Platform (QCATP). Given the central role that trading venues play in price discovery, liquidity formation and market integrity, it is appropriate for the FCA to receive regular data on trading activity, client participation and operational metrics.

However, the reporting framework should reflect the global and technologically distributed nature of cryptoasset trading platforms. In particular, many QCATPs operate unified order books serving both UK and non-UK users. Reporting requirements should therefore focus on activity involving UK users or UK-facing services, rather than requiring firms to report global trading activity unrelated to the UK regulatory perimeter. Clear guidance on how firms should identify and report UK-relevant activity would help ensure consistency across firms while avoiding unnecessary reporting burdens.

It will also be important that reporting expectations remain proportionate and compatible with existing market surveillance, transaction monitoring and operational resilience frameworks already implemented by trading platforms. Where firms already maintain robust internal monitoring systems, the FCA should seek to leverage existing data outputs where possible to minimise duplication.

Subject to these considerations, we consider the proposed approach to be broadly proportionate and supportive of effective supervision of UK trading venues. Consistent with the FCA's territorial regulatory framework, reporting obligations should focus on activity carried on in or from the UK, or otherwise involving UK clients, rather than requiring firms to report global activity that has no clear nexus to UK regulatory outcomes.

c. Dealing and Arranging (intermediation)

GDF and CCI broadly agree with the FCA's proposed approach to regulatory reporting for firms carrying on dealing or arranging activities in relation to qualifying cryptoassets. Intermediation functions play an important role in facilitating access to cryptoasset markets and it is reasonable for the FCA to have visibility over client activity, transaction flows and operational scale in order to monitor potential consumer protection and market integrity risks.

However, the reporting framework should recognise the diversity of intermediation models operating in the cryptoasset ecosystem. Firms may act in different capacities, including as brokers, introducing firms, order routers, or intermediaries facilitating access to third-party trading venues. Reporting requirements should therefore focus on the activity that the firm actually performs and the aspects of the transaction over which it has direct control or visibility. Firms should not be expected to report on trading or custody activity conducted by third-party platforms where they do not have reliable access to the relevant underlying data.

As with other parts of the regime, it will also be important to ensure that reporting expectations remain proportionate and aligned with the UK regulatory perimeter. Reporting should relate to UK-facing activity involving UK clients, rather than requiring firms to report global activity unrelated to UK regulatory outcomes.

Subject to these clarifications, we consider the proposed approach to be broadly proportionate and supportive of effective supervisory oversight of cryptoasset intermediation activities.

d. Cryptoasset Staking

We agree that activity-specific regulatory reporting for cryptoasset staking is justified. Staking introduces operational, technological and economic characteristics that differ from other cryptoasset services, and the FCA is right to seek visibility over the scale of staking activity, the risks borne by firms and clients, and the potential implications for safeguarding and operational resilience. However, we consider that the proposed approach would benefit from greater calibration to reflect the diversity of staking models in the market.

In particular, the reporting framework should be tiered to reflect (i) the level of retail exposure, (ii) whether the firm operates a custodial or non-custodial staking model, and (iii) the scale of the activity. Without such differentiation, smaller validator operators or firms providing limited staking services may face compliance obligations designed for large exchange-scale intermediaries. The principal risk is that the framework over-generalises across fundamentally different staking models, which operate with distinct risk profiles and operational structures.

First, we encourage the FCA to ensure that any consumer-focused reporting metrics are proportionate to the firm's client base. For example, where a firm provides staking services solely to institutional clients, or operates infrastructure-level validator services without retail participation, requirements to report on retail vulnerability characteristics would not be meaningful and would introduce unnecessary compliance burden.

Second, the proposed reporting of the value of staked assets should be carefully designed to account for the volatility of cryptoassets. Mark-to-market valuation of staked assets may introduce significant fluctuations in reported values that do not reflect changes in underlying exposure or operational risk. We therefore encourage the FCA to clarify the intended valuation methodology and to consider whether alternative approaches, such as reporting both unit quantities and indicative value, would provide more stable and informative supervisory data.

Third, if firms are required to report slashing events or losses associated with staking, greater clarity will be required on how such events should be defined and categorised. In particular, it would be important to distinguish between losses arising from protocol-level slashing mechanisms and those resulting from operational failures by the validator operator. These scenarios have different supervisory implications and should not be conflated in reporting requirements.

Finally, we note the potential for duplication if staking-specific reporting requirements are layered on top of existing safeguarding and regulatory reporting obligations. Where staking involves client assets already captured within safeguarding reporting under CASS 17, there is a

risk that firms may be required to report the same exposures through multiple channels, including under SUP 16.34.12R. We encourage the FCA to review the interaction between these frameworks to ensure that the reporting regime remains coherent and avoids unnecessary duplication.

e. Cryptoasset Lending and Borrowing

GDF and CCI broadly agree with the FCA's proposed approach to regulatory reporting for cryptoasset lending and borrowing activities. Given the potential consumer protection and prudential considerations associated with these models, including maturity transformation, collateral management and counterparty risk, it is appropriate for the FCA to have visibility over key metrics such as outstanding lending volumes, collateralisation practices and client exposure.

However, the reporting framework should recognise that lending and borrowing models in the cryptoasset ecosystem vary significantly. Some firms operate centralised lending programmes, while others facilitate bilateral or platform-based arrangements with differing levels of firm intermediation. Reporting expectations should therefore be calibrated to the role that the firm actually performs and the degree of control it exercises over the relevant lending activity.

It will also be important for the FCA to provide clear definitions for key reporting concepts, including what constitutes "lending" and "borrowing" activity for reporting purposes, particularly where arrangements involve staking-like features, liquidity provision or other yield-generating mechanisms that may not align neatly with traditional lending constructs.

Subject to these clarifications, we consider the proposed reporting approach to be proportionate and supportive of effective supervisory oversight of cryptoasset lending and borrowing activities.

Question 23: Do you agree with our approach to qualifying cryptoasset safeguarding reporting?

Yes, we broadly agree with the FCA approach here, notwithstanding our comments on ad-hoc information requests noted in question 25 below.

However, to ensure reporting is truly consistent and unambiguous, the FCA should consider firms requiring use of ISO 24165 EDTG DTIs to identify asset classes in SUP 16.34.7R. Ticker names are not reliable identifiers across multiple blockchains. This would ensure industry-wide consistency and eliminate the ambiguity inherent in tickers like 'WBTC,' which can represent numerous unique implementations. Mandating a global standard would reduce operational complexity while facilitating the FCA's wider objectives of technologically-led data collection.

Question 24: Do you agree with our approach to cryptoasset complaint and active client reporting?

We do not agree with the proposed approach to complaint and active client reporting, in particular the proposal to require quarterly reporting for qualifying cryptoasset firms.

The FCA notes that quarterly reporting is proposed on the basis that the requirements are less detailed than those under DISP and that more frequent data collection is necessary to provide sufficient oversight of a sector that is new to regulation. However, the consultation does not clearly articulate why a more frequent reporting cadence is required than that applied to other regulated firms, nor why the existing six-monthly DISP reporting framework would be insufficient to meet the stated supervisory objectives.

In practice, this approach risks being disproportionate, particularly given that qualifying cryptoasset firms will be applying these complaint handling and reporting requirements for the first time, alongside a wide range of new regulatory obligations. More frequent reporting imposes additional operational and compliance burdens, including systems build, governance review and internal validation processes, which may not be justified in the absence of evidence that cryptoasset firms present materially higher or more rapidly evolving complaint-related risks than comparable firms subject to DISP.

We would therefore encourage the FCA to reconsider the proposed quarterly cadence, or at a minimum to provide a clearer justification for the divergence from existing complaint reporting frameworks. Aligning cryptoasset complaint reporting with the established six-monthly DISP timetable would better reflect the principle of proportionality, support smoother implementation of the regime, and avoid unnecessary complexity at an early stage of regulation, without undermining the FCA's ability to monitor emerging risks.

Question 25: Do you agree with our proposed approach to supplementary data collections?

We agree that there is value in allowing the reporting framework to evolve as supervisory understanding deepens.

That said, it is important that supplementary data collection requests are issued in a clearly proportionate and risk-based manner. Ad-hoc data requests can be significantly time- and resource-intensive for firms, often requiring manual intervention, bespoke analysis, and senior oversight, particularly where they fall outside established reporting processes. We therefore encourage the FCA to be mindful of cumulative burden, to provide adequate notice and clarity of purpose for any supplementary collections, and to engage closely with firms to ensure that the

scope and frequency of these requests are targeted, justified, and aligned with the specific supervisory outcomes being sought.

Question 26: Do you agree with our approach to prudential reporting?

We strongly support the principle that prudential regulatory reporting is a core component of effective supervision, and we agree that the FCA should have timely visibility over firms' capital and liquidity positions in order to identify emerging risks and take proportionate action. However, as described in paragraphs 8.20–8.22, the proposal does not yet constitute a sufficiently defined or consultable framework for prudential reporting.

At present, there is no clarity on the structure, frequency, calibration, or scope of the proposed returns, beyond a high-level indication of potential data categories. An approach that relies on iterative development through ad-hoc or evolving data requests creates material uncertainty for firms, makes forward planning and system build-out difficult, and risks imposing significant operational burden without appropriate consultation or cost-benefit assessment. Prudential reporting is inherently resource-intensive, particularly where data must be extracted, validated, and reconciled across finance, risk, and compliance functions, and cannot reasonably be implemented on an open-ended or informal basis.

We therefore do not consider it appropriate for a permanent prudential reporting regime to be introduced primarily through non-rule-based or supplementary data collections. While limited piloting or transitional data gathering may be useful in the early stages of a new regime, firms require a clear, stable, and formally consulted-upon reporting framework once the regime is live. This is particularly important given the interaction with the prudential requirements proposed in CP25/42 and the need for firms to invest in systems and controls that are proportionate to the FCA's expectations.

We would encourage the FCA to commit to consulting, in due course, on a defined set of prudential returns, including their scope, frequency, thresholds, and intended supervisory use, supported by an accompanying cost-benefit analysis. In the interim, any iterative or supplementary data requests should be clearly limited in scope, proportionate, time-bound, and subject to ongoing engagement with industry to avoid duplicative or unnecessary reporting burdens.

Chapter 9 – Safeguarding client cryptoassets

Question 27: Do you agree with our proposed approach to applying CASS 17 in these scenarios? If not, why not, and please describe any scenarios we may not have considered.

We recognise the FCA's intention to provide clarity on how CASS 17 will operate in the context of cryptoasset business, and we support the objective of ensuring robust client asset protection. However, we consider that the consultation paper does not yet provide sufficient precision to give firms confidence in how CASS 17 will operate across the full range of crypto custody and execution models used in practice.

In particular, the consultation scenarios appear to assume relatively straightforward custody arrangements in which a firm directly holds client cryptoassets. In practice, many firms operate layered hot/warm/cold infrastructure, layered models involving omnibus wallets with internal sub-ledgers, outsourced or overseas sub-custodians, hybrid models with pooled liquidity and delayed settlement, and hybrid agency/principal execution flows. The application of CASS 17 requirements such as segregation, control, daily reconciliation, and acknowledgement letters becomes significantly more complex in these models.We would welcome more explicit guidance on how CASS 17 applies in circumstances where safeguarding functions are delegated or where control is shared across entities within a group or with third parties to ensure consistent supervisory expectations.

We are also concerned that the requirement to safeguard qualifying cryptoassets as trustee is a material departure from the approach taken with respect to the safeguarding of other non-monetary assets in CASS 6 and this may cause significant legal uncertainty with respect to certain custody models. For example, under a number of custody models a firm may fall within the scope of the Article 9O specified activity of safeguarding qualifying cryptoassets without holding the cryptoasset itself, for example in relation to certain MPC arrangements where it does not hold all key shards, or where it has a contractual obligation to deliver cryptoassets under a title transfer arrangement. However, under English Law, a trust requires the trustee to have a proprietary interest in the trust property but this may not be the case with respect to these models, meaning that it will not be workable to hold the relevant cryptoassets as trustee. Similarly, it is not clear how the requirement to hold the cryptoassets as trustee would be compatible with sub-custody models where the master custodian or sub-custodian may be located in a jurisdiction which does not recognise a concept of trusts.

Rather than applying a strict requirement to safeguard qualifying cryptoassets as trustee, we would recommend aligning the approach in CASS 17 to that in CASS 6 which requires custodians to put in place appropriate arrangements to safeguard clients' ownership rights but without requiring the assets to specifically be held in trust. This would preserve flexibility for

firms to put in place appropriate safeguarding arrangements to meet the custody model in question.

Similarly, greater clarity is required in relation to title transfer and collateral-type arrangements. Where cryptoassets are transferred on a full title transfer basis (for example in certain institutional or margining contexts), it should be clearly articulated whether, and to what extent, CASS 17 is disapplied. Under CASS, safeguarding duties are typically triggered where a firm has control of client assets. In crypto settings, a firm may not have unilateral signing authority (e.g., MPC shared-key schemes), have only episodic access (e.g., cold-storage with time-locked procedures), or rely on third-party key shards or threshold-signature infrastructure. The consultation does not sufficiently address whether and how CASS 17 applies where a firm has partial, conditional, or non-exclusive control. Absent clear delineation, firms may face legal uncertainty as to whether segregation, reconciliation and disclosure obligations continue to apply, and how these interact with contractual recharacterisation risk in an insolvency.

We welcome the FCA's proposal to permit CATPs to operate a limited "float" by holding up to 1% of client cryptoassets outside the trust to facilitate off-chain settlement. This is a pragmatic recognition that efficient execution on CATPs requires pre-positioned liquidity, and a zero-tolerance trust requirement would either prevent efficient execution or force all settlement on-chain, which is not viable at current throughput levels. However, the 1% figure appears arbitrary and the consultation does not explain the evidential basis for this level and we would recommend that the FCA considers implementing a more dynamic calculation to avoid any cliff-edge risk on days where there are significant settlement needs (for example, in times of market volatility).

Staking reporting should reflect differentiated business models. Cryptoasset staking encompasses materially different operational models, including:

- Non-custodial delegated staking (where the firm does not hold client assets);
- Custodial pooled staking (where client assets remain safeguarded under CASS 17);
- Institutional validator-only models (with no retail exposure); and
- Liquid staking or derivative-token structures.

Applying a single reporting template across these models risks over-collection of data that is not risk-relevant. We recommend that staking reporting:

- Distinguish clearly between custodial and non-custodial models;
- Require reporting of staked assets only where the firm has safeguarding obligations;
- Clarify whether staking rewards form part of safeguarded client assets for reporting purposes;
- Clarify treatment of slashing events (protocol-level vs operational failures); and

- Avoid duplicative reporting of staked assets already captured under safeguarding returns.

We further recommend that value-based reporting distinguish between principal staked, accrued but unpaid rewards, and assets in unbonding periods.

We also consider that further analysis is needed in relation to staking and other protocol-level functionality. In many staking models, cryptoassets are not transferred in legal ownership terms but are instead locked at the protocol level and rendered temporarily inaccessible. The safeguarding analysis in these circumstances is nuanced: loss of access is a function of protocol design rather than firm discretion. It would be helpful for the FCA to clarify explicitly whether cryptoassets that are staked in this manner remain subject to CASS 17 throughout the staking lifecycle, and how firms are expected to treat rewards, unbonding periods and temporary illiquidity for reconciliation and reporting purposes. Because firms cannot control certain aspects of protocol design, the FCA should clarify how responsibility and reconciliation expectations apply when assets are inaccessible due to blockchain-level constraints rather than firm actions. The FCA should clarify how slashing events are to be treated for CASS purposes. In particular:

- Whether protocol-level slashing constitutes a safeguarding shortfall;
- Whether slashing attributable to validator misconfiguration is treated differently from protocol-driven penalties;
- How temporary reductions during unbonding periods should be reconciled; and
- Whether firms are expected to top-up protocol-level losses from capital.

Absent this clarity, firms may face uncertainty as to whether blockchain-native risk is being treated as a safeguarding failure.

Insolvency mechanics also warrant further consideration. The effectiveness of CASS 17 ultimately depends on how assets are identified, reconciled and returned in a firm failure scenario. Given the use of hot and cold wallets, distributed ledger records, and potentially overseas infrastructure, the FCA may wish to expand on its expectations regarding daily reconciliations, shortfall allocation, and evidential standards in an insolvency context. We encourage the FCA to articulate supervisory expectations for evidential standards, daily reconciliations, shortfall allocation methodologies, and return-of-assets processes in an insolvency scenario involving DLT-based assets. Without such clarity, firms may adopt divergent interpretations, undermining the objective of consistency.

In relation to daily reconciliation, we consider that a one-size-fits-all daily frequency, while appropriate for hot and warm wallet custody, may be disproportionate for cold-storage assets that are not moved for extended periods. We recommend that the FCA adopt a tiered approach: daily reconciliation for hot and warm wallets, and less frequent periodic reconciliation for cold storage, provided that automated monitoring flags any unexpected movements.

Finally, we encourage the FCA to consider more explicitly cross-border and sub-custody arrangements, particularly where cryptoassets are held with non-UK entities or infrastructure providers. Clear guidance on reliance on third parties and the standard of due diligence expected will be essential to ensure that the regime remains proportionate while maintaining high standards of client protection.

Question 28: Do you agree with our proposed approach to protecting clients' ownership rights, including the approach to the operational surplus and class of cryptoasset? If not, why not?

We strongly support the FCA's objective of ensuring that clients' ownership rights are clear, legally robust, operationally coherent, and enforceable in stress and insolvency scenarios. As we set out in our response to CP25/14, trust-based structures can provide an effective mechanism for achieving legal segregation and safeguarding client interests.

However, the detailed design of the framework will be critical. Our previous submission highlighted the importance of avoiding structural inconsistencies between legal form and operational reality, particularly where trust arrangements are used to safeguard assets while firms are simultaneously required to manage shortfalls or surpluses outside that structure. If the treatment of operational surplus or discrepancies results in artificial extraction of value from a safeguarding pool, or requires issuer capital to be routinely injected to correct technical mismatches, this risks undermining the clarity and integrity of the ownership rights the trust is intended to secure.

In our view, a proportionate approach should:

- Permit limited and transparent operational buffers within the safeguarding structure where this enhances resilience and reduces the need for ad hoc capital injections to address routine timing or reconciliation differences.
- Clearly distinguish between genuine client asset surpluses and operational timing mismatches (e.g. intraday settlement differences), including temporary differences arising from blockchain settlement cycles or intraday flows, so that firms are not required to treat mechanical or protocol-driven variances as economic surpluses
- Ensure that the legal characterisation of different classes of cryptoasset reflects their economic function and custody model, rather than imposing rigid categorisations that may not align with how assets are held or controlled in practice.

We also reiterate the importance of coherence across issuance and custody regimes. Where different forms of trust (statutory vs non-statutory) or different ownership constructs apply to economically similar safeguarding objectives, this can create avoidable uncertainty for clients and insolvency practitioners. A consistent, principles-based articulation of ownership rights across asset classes would better support legal certainty and international interoperability.

In addition, the consultation paper appears in places to conflate the concepts of segregation and holding on trust. The FCA should ensure that the rules distinguish clearly between these concepts to avoid creating operational confusion and interpretative uncertainty for firms and insolvency practitioners. Effective segregation of cryptossets is entirely possible without those assets being held in trust, as reflected in CASS 6, and in our view the CASS 17 rules should focus on protection of customers' ownership rights through requiring effective segregation, rather than through mandated use of trust arrangements which are not suitable for all custody models.

The definition of "same cryptoasset class" in draft guidance 17.1.5G may create unintended operational constraints for firms involved in certain staking arrangements. Specifically, that wrapped tokens and liquid staking tokens would not fall within the same class as the relevant underlying cryptoasset. While we understand the policy intent behind this approach, namely to ensure clear segregation and avoid ambiguity in insolvency scenarios, it may have significant implications for the practical operation of staking services.

In many staking models, client assets are deposited in their native form (for example, ETH), staked at the protocol level, and may be represented by a liquid staking token that reflects the staked position and associated rewards. These tokens are economically linked to the underlying asset but constitute a distinct cryptoasset product. As a result, under the proposed definition they would not be treated as falling within the same class as the underlying asset.

This distinction becomes particularly relevant in the context of the proposed operational surplus mechanism in paragraph 9.41. Where a firm is required to maintain an operational surplus within the client asset trust, the surplus must be composed of the same cryptoasset class as the client assets held in that trust. In staking arrangements involving liquid staking tokens, this could prevent firms from using the underlying cryptoasset as an operational buffer for positions represented by the liquid staking token (or vice versa). In practice, this may limit the ability of firms to manage operational requirements associated with staking, such as validator denomination thresholds, rounding, or temporary imbalances arising from the staking and unbonding lifecycle.

The result may be the need for more complex trust structures or duplicated operational buffers across different asset forms, even where those assets are economically linked through the staking

process. This could increase operational complexity and capital lock-up without necessarily improving consumer protection outcomes.

We therefore encourage the FCA to consider whether additional guidance may be appropriate in relation to staking arrangements, particularly where certain staking arrangements result in underlying asset being represented by a receipt token as part of a single service lifecycle. Clarifying how the operational surplus framework should apply in these circumstances would help ensure that the safeguarding regime accommodates the practical mechanics of staking while continuing to provide robust protection for client assets.

Overall, we agree with the direction of travel but encourage refinement to ensure that the operational surplus framework reinforces, rather than complicates, clear client ownership and the legal protections that underpin it.

Question 29: Do you agree with our proposed approach to exempting firms from holding cryptoassets on trust in certain scenarios? If not, why not?

As discussed further above, we agree that a blanket requirement to hold cryptoassets on trust may not be appropriate in all circumstances.. In our view, the CASS 17 rules should not mandate that the cryptoassets are held in trust but rather should take an outcomes-focussed approach which is aligned with the requirement to put in place appropriate arrangements to safeguard customers' ownership rights in cryptoassets but not mandate the specific legal mechanism for achieving this.

In addition, as we have previously noted, clarity around what constitutes "control" and "safeguarding" is essential to ensure that the regime captures firms that exercise meaningful custody functions, while avoiding disproportionate application to service providers that do not have discretionary access to client assets . Where a firm does not hold, or cannot independently exercise, the means of access to transfer the benefit of a cryptoasset, imposing a trust requirement may be legally artificial, operationally unnecessary and legally unworkable.

However, if the CASS 17 rules maintain the requirement for assets to be held in trust, any exemption framework must be carefully calibrated. If drafted too broadly, exemptions could enable firms performing economically equivalent custody functions to structure around trust obligations, thereby weakening client protection and creating competitive distortions. If drafted too narrowly, custody models that are not consistent with a trust requirement would be unworkable, We therefore recommend that exemptions be grounded in clear, functional criteria, including: (i) whether the firm has unilateral control over private keys or other means of access; (ii) whether the client retains a proprietary claim over the asset at all times; and (iii) whether the

firm's insolvency would expose the client to pooling risk or loss of segregation in the absence of a trust structure.

A proportionate, function-based exemption framework would ensure that trust obligations fall on firms that genuinely hold assets on behalf of clients, while enabling innovation and operational flexibility for models that do not pose equivalent safeguarding risks.

Question 30: Do you agree with our proposed approach to recordkeeping requirements, including only applying them to client cryptoassets held on trust? Please explain your answer and indicate whether this approach would create a gap in consumer protection.

We agree with the proposed approach to apply the enhanced record-keeping requirements only to client cryptoassets held on trust. Where assets are held on trust, accurate, granular and auditable records are essential to evidence beneficial ownership, support effective reconciliation, and enable clear and orderly distribution of client assets in the event of insolvency. Targeting the requirements in this way is proportionate and aligned with the underlying legal and safeguarding risks.

We do not believe that this creates a material gap in consumer protection. In arrangements where assets are not held on trust, the risk profile stems from the nature of the legal relationship itself, rather than deficiencies in recordkeeping. In those cases, consumer protection is more appropriately delivered through:

1. clear disclosure explaining the legal basis on which assets are held and the consequences for client rights;
2. governance and operational requirements ensuring that firms manage client positions transparently and consistently; and
3. broader consumer protection obligations that mitigate risks unrelated to ownership structure.

Provided firms maintain records sufficient to evidence the client relationship and meet their general regulatory obligations, and provided the distinction between trust and non-trust models is clearly and consistently communicated to clients, the FCA's approach strikes an appropriate balance between consumer protection, operational feasibility and proportionality.

However, we note that the proposed requirement for records to be maintained independently from the relevant DLT and not supplemented by blockchain records may cut across the efficiency benefits of DLT-based infrastructure and require firms to abstract data from the underlying ledger unnecessarily. DLT has the potential to unlock new benefits in reconciliation and recordkeeping and we would urge the FCA to engage further with industry on how recordkeeping and

reconciliation is currently being undertaken, to ensure that this requirement does not inadvertently undermine existing practices or hinder innovation in this space.

Finally, we also recommend strengthening the identification standard applied to each class of cryptoasset. Proposed CASS 17.5.14R(1)(b)(iii) refers to "the name of each class of cryptoasset" in shortfall notifications. Given that multiple token implementations may share identical names or tickers, reliance on name alone may not provide sufficient precision. We therefore recommend explicitly requiring use of the Equivalent Digital Token Group (EDTG) DTI to support supervisory consistency and reduce operational ambiguity for defining "class".

Question 31: Do you agree with our proposed approach to reconciliations, topping up shortfalls and removing excesses? If not, why not?

We support the policy objective underpinning the proposed approach. Robust and regular reconciliation of backing assets against outstanding stablecoins is fundamental to maintaining confidence in the regime, particularly given the requirement for redemption at par and the prohibition on passing reserve losses through to token holders.

However, greater precision is required as to what constitutes a "shortfall". It would be helpful to distinguish clearly between a genuine structural deficit in backing assets; (ii) temporary operational or settlement timing mismatches (for example, where subscriptions or redemptions are in flight); and valuation-driven movements arising from mark-to-market fluctuations in otherwise high-quality and short-duration assets.

Absent this distinction, firms may be required to "top up" positions that do not represent an actual risk to redemption capacity, particularly where reserve assets are held within a statutory trust structure and are subject to prudent liquidity management.

We recommend that the FCA distinguish clearly between (i) safeguarding failures attributable to firm error or misconduct, and (ii) protocol-level outcomes inherent to blockchain operation. In staking and other protocol-interactive activities, balances may be reduced due to slashing events or network-level penalties that arise from validator behaviour defined within protocol rules. Such events should not automatically be characterised as safeguarding shortfalls unless they arise from a breach of the firm's operational obligations.

Absent this distinction, there is a risk that blockchain-native economic outcomes are treated as firm-level custody failures, which would mischaracterise the allocation of risk inherent in staking arrangements.

The FCA should also clarify the treatment of assets subject to protocol-imposed lock-up or unbonding periods. During such periods, assets may be temporarily inaccessible or subject to delayed settlement mechanics, but this does not necessarily indicate a deficit in safeguarding. Reconciliation frameworks should therefore accommodate protocol-driven timing differences and avoid triggering automatic shortfall remediation obligations where assets remain verifiably attributable to clients on-chain but are temporarily illiquid.

We further recommend that shortfall remediation obligations be calibrated to avoid requiring routine capital injections in response to transient or valuation-based discrepancies. Where differences arise due to blockchain settlement latency, fee adjustments, rounding mechanics, or mark-to-market valuation fluctuations, firms should be permitted to resolve discrepancies through operational reconciliation processes rather than immediate capital top-ups.

In staking contexts, additional clarity is required as to whether accrued but unallocated rewards form part of the safeguarded asset pool prior to distribution to individual clients. Firms should not be required to treat pending or protocol-accruing rewards as reconciled client entitlements until such rewards are deterministically allocated or credited in accordance with client agreements.

Question 32: Do you agree with our proposed approach to private key management and security? If not, why not?

GDF and CCI support the FCA's objective of ensuring robust and proportionate standards for private key management and security. Private keys remain foundational to the safeguarding of cryptoassets, and weaknesses in key management have historically been a significant source of consumer harm. We therefore agree that enhanced and clearly articulated expectations are appropriate for firms undertaking custody or other activities involving control of client cryptoassets.

It is essential, however, that the regulatory approach remains technology-neutral and outcomes-focused. In practice, firms employ a wide range of key-management architectures, including hardware security modules (HSMs), multi-party computation (MPC), threshold-signature schemes, smart-contract-based controls, segregated and omnibus wallet structures, and hybrid operating models. Prescriptive requirements tied to a particular technical model risk excluding secure and widely adopted innovations, or incentivising firms to adopt suboptimal structures purely for compliance reasons.

The framework should therefore focus on core safeguarding outcomes: (i) risk based access controls, and transaction authorisation policies, including effective separation of duties,

multi-factor and multi-person authorisation processes, (ii) resilience against single points of failure, (iii) strong monitoring and auditability, and (iv) clearly documented governance arrangements. These outcomes can be achieved through different technical architectures, and the regime should provide both guidance to a tangible level, and accommodate the diversity of the technology choices provided firms can evidence that the intended safeguards are met.

We also encourage the FCA to recognise the security and operational benefits of modern cryptographic approaches, including MPC and threshold-based signing. These models are increasingly standard across the industry and are deliberately designed to eliminate single points of compromise. In many cases, they achieve protections that meet or exceed those offered by traditional key-sharding or HSM-based arrangements.

The framework should additionally reflect the operational realities of hot, warm and cold wallet infrastructure, including latency considerations, liquidity management requirements and protocol-level constraints. Similarly, where firms support staking or other protocol interactions, key-usage patterns may differ materially from traditional custody flows, and supervisory expectations should accommodate these functional distinctions while preserving safeguarding outcomes.

For completeness, it is important to distinguish between validator signing keys and withdrawal or transfer keys. In many staking arrangements these keys serve distinct functions at the protocol level. Validator signing keys enable participation in consensus and the validation of blocks, but they do not confer the ability to transfer, withdraw, or otherwise bring about the transfer of client cryptoassets. Withdrawal authority remains solely with the delegator through separate withdrawal or transfer keys controlled at the protocol level.

In non-custodial staking arrangements, firms may therefore operate validator infrastructure and control validator signing keys without having the ability to move client assets. In such models, the firm does not exercise unilateral control over client cryptoassets and should not be regarded as safeguarding client cryptoassets for the purposes of CASS 17. Regulatory expectations relating to private key management should therefore be calibrated accordingly.

In particular, validator keys should be understood primarily as presenting an operational resilience risk rather than a custody risk. While robust security and governance arrangements remain important, requirements designed for keys that enable the transfer of client assets should not automatically be applied to validator infrastructure where the firm lacks withdrawal authority.

Alignment with the broader operational resilience and outsourcing frameworks is also important to avoid duplication or conflicting requirements. Where key-management functions are delegated to specialist third-party providers, expectations should clearly articulate due diligence, oversight

and contractual responsibilities, while remaining compatible with the technical design of no-single-point-of-failure models.

In particular, many arrangements intentionally distribute cryptographic materials such that no single entity, including the regulated firm or the service provider, ever possesses a complete private key. Instead, third-party technology vendors may hold non-controlling (effectively non-independently-usable) key shares or participate in threshold-signing schemes, with signatures generated collaboratively through MPC or comparable protocols. In such models, neither party is technically capable of reconstructing or exporting a full private key, because a full private key simply does not exist under BAU. It does exist in a recovery and service outage scenario - see below.

However, it is important to note that possession of a complete key is not a sufficient proxy for control. It does not necessarily facilitate functional authority over the asset, including whether any actor other than the custodian can independently initiate or prevent a transaction, whether the custodian can recover signing capability if other participants become unavailable, and whether any other participant could independently reconstruct key material in a crisis scenario.

Overall, we support the FCA's direction of travel and its focus on strengthening private key management. A technology-neutral, outcomes-based framework will maintain high standards of client protection while allowing firms to adopt innovative, security-enhancing approaches as cryptographic infrastructure continues to evolve.

Question 33: Do you agree with our proposed approach to the use of third parties? If not, why not?

GDF and CCI broadly agree with the FCA's proposed approach to the use of third parties. We support a framework that ensures appropriate oversight, due diligence, governance and contractual clarity where firms outsource functions or rely on specialist providers. Given the operational characteristics of cryptoasset markets, a proportionate and outcomes-based approach is essential to maintaining high standards of consumer protection and market integrity while supporting responsible innovation.

We welcome the FCA's intention to align expectations with the existing SYSC outsourcing framework, the operational resilience regime and, where relevant, the Critical Third Parties (CTP) powers under FSMA 2023. This provides a coherent and familiar supervisory foundation. It is important, however, that the application of these frameworks appropriately reflects the structural features of cryptoasset activities.

Cryptoasset firms necessarily rely on a range of highly specialised third-party providers across custody and key management (including MPC and threshold-signing models), blockchain analytics and transaction monitoring, Travel Rule compliance, sanctions screening, infrastructure services such as node hosting and protocol-level support, market-support functions including liquidity provision and pricing/oracle services, and operational scaling functions such as customer support and digital-asset audit services. In many cases, these providers perform technical roles that regulated firms cannot feasibly replicate internally. Reliance on third-party expertise is therefore a structural feature of the sector rather than an exceptional risk event, and the regulatory framework should recognise this reality. Expectations should avoid inadvertently disincentivising the use of specialist providers that enhance security, compliance and resilience.

Many custody and infrastructure arrangements operate under cryptographically distributed or shared-control models, such as MPC or threshold-signing schemes, which are deliberately designed so that no single party, including the service provider, has unilateral control over client assets. Regulatory expectations that presuppose exclusive unilateral access, reconstructability of private keys, or traditional "single-controller" attestations may not be technologically compatible with these models. Instead, supervisory focus should remain on outcomes: effective governance and role segregation, demonstrable security controls aligned with the cryptographic architecture, operational resilience and continuity planning, the ability to evidence controls, clear allocation of responsibilities between parties, and the regulated firm's ultimate accountability for safeguarding outcomes.

A number of crypto-sector service providers operate highly standardised, multi-tenant platforms, for example analytics providers, Travel Rule infrastructure, API-based custody modules or node-as-a-service offerings. Such models may not support bespoke contractual provisions traditionally associated with large-scale financial-services outsourcing. The framework should therefore prioritise robust due diligence, ongoing monitoring, performance standards and contingency planning, rather than prescriptive contractual form. An overly rigid approach risks limiting access to high-quality global providers and could unintentionally drive activity offshore without commensurate consumer protection benefits.

We agree that regulated firms must remain fully accountable for compliance with their regulatory obligations, irrespective of outsourcing arrangements. Effective oversight frameworks, documented responsibilities, risk assessments and board-level accountability are essential. At the same time, the FCA should ensure that expectations are clearly delineated and do not create duplication or inconsistency when read alongside SYSC 8, the operational resilience regime, safeguarding requirements and the developing CTP framework. Greater clarity on interaction points would support consistent implementation across the sector.

Overall, we support the FCA's direction of travel. A technology-neutral, function-based and proportionate approach, focused on regulatory outcomes rather than structural assumptions, will maintain high standards of client protection while recognising the specialised, distributed and infrastructure-dependent nature of cryptoasset markets.

Chapter 10 – Safeguarding specified investment cryptoassets

Question 34: Do you agree with our proposed approach to applying CASS 17 rules on protecting clients' ownership rights, private key management and appointment of third parties, applying SYSC and SUP rules to SIC custodians and amending the application of SUP 3.10.4R(2)? If not, why not?

GDF and CCI broadly support the FCA's proposal to apply CASS 17 to firms safeguarding Specified Investment Cryptoassets (SICs). The FCA's updated definition of SIC custody, framed around a firm's ability, through any means, to bring about a transfer of the benefit of the cryptoasset on behalf of a client, represents an appropriate evolution from the existing Article 40 RAO and CASS 6 model. This broader definition captures the operational realities of cryptoasset custody, including arrangements where the firm may not hold a complete private key but nonetheless participates in a means of access, such as multi-party computation or threshold-signing schemes. This is a necessary adjustment, and one that CASS 6 is not able to accommodate.

However, we note a concern that the application of CASS 17 to SICs, rather than an adapted version of CASS 6, could create an imbalance between the treatment of traditional securities and their tokenised equivalents. If tokenised securities receive fundamentally different safeguarding treatment to traditional securities — including mandatory trust requirements, different shortfall provisions, and different third-party delegation rules — this is not consistent with the "same risk, same regulatory outcome" principle and could significantly restrict the market development of tokenised securities in the UK.

The FCA's stated justification for applying CASS 17 (i.e. that for many cryptoassets there is no external party such as a registrar, CSD or Digital Securities Depository that ensures legal ownership is accurately recorded) does not apply with the same force to SICs that represent tokenised versions of traditional securities. For these assets, such external parties would typically still exist and the ownership chain can be verified through established mechanisms.

We would therefore recommend that the FCA consider applying CASS 6 as the base framework for SICs, with targeted amendments to address areas that are specific to the digital nature of SICs, for example, by calling across the CASS 17 rules on private key management and

third-party delegation. This would ensure that tokenised securities receive treatment equivalent to their traditional counterparts while addressing genuine crypto-specific operational risks, and would better support the development of the UK tokenised securities market.

Question 35: Do you foresee challenges for firms currently safeguarding SICs and subject to CASS 6 when transitioning to CASS 17? Please explain why.

Yes. Although the number of firms currently safeguarding SICs is relatively small, GDF and CCI believe that the transition from CASS 6 to CASS 17 will introduce meaningful operational and legal challenges that should not be underestimated.

The most significant shift is the FCA's broader definition of SIC custody, which moves away from the traditional securities construct, where custody is evidenced through possession or control of certificated or dematerialised instruments, and towards a model in which any ability to bring about a transfer of benefit qualifies as custody. This means that some firms currently operating without trust-based safeguarding structures may now fall squarely within the CASS 17 perimeter due to their participation in shared-control models, MPC arrangements or other cryptographic access mechanisms. Firms will therefore need to adapt client contracts, trust arrangements, operational policies and internal controls to reflect this enlarged conception of custody.

Further challenges arise from the reconciliation requirements under CASS 17. These rules assume an auditable, insolvency-ready chain of entitlement, which may require firms to redesign wallet structures, re-map internal sub-ledgers, and re-evaluate how on-chain records, off-chain records and third-party infrastructure interact. This is a meaningful uplift from the current CASS 6 framework, which does not contemplate blockchain-native representations of specified investments.

Additional uplift will be required in relation to outsourcing and third-party oversight. Many SIC custodians rely on non-UK wallet infrastructure providers, MPC vendors, node operators, or cloud service providers. Under CASS 17 and SYSC, these firms will face enhanced expectations around due diligence, monitoring, contractual assurance and exit planning.

These challenges reinforce the need for a clear supervisory transition path and pragmatic implementation timelines. We therefore recommend that the FCA provide a transition period (for example, 18 months) from the publication of the final rules to enable firms to transition into the new regime.

Question 36: What are the potential use cases for and the rationale for SIC custodians to use these exclusions?

We believe that the exclusions proposed by the FCA serve a necessary and proportionate purpose within the safeguarding framework. Their primary rationale is to ensure that the regime captures only those scenarios in which a firm genuinely performs a custodial function, meaning that it has the ability, whether individually or jointly, to effect a transfer of the benefit of the SIC on behalf of a client.

There are several circumstances where this functional test will not be met. Some arrangements allow clients to retain exclusive access to the SIC, with the firm merely providing infrastructure, technology or execution routing; these models do not constitute custody in any meaningful sense. Similarly, title-transfer or collateral arrangements used in institutional financing or liquidity provision fall outside the safeguarding perimeter because the client does not retain a proprietary claim requiring protection under a trust.

Exclusions also play an important role in cases where the firm's interaction with the SIC is operational rather than custodial, for example, where the firm performs net settlement, facilitates token-based entitlements without holding transfer authority, or participates in on-chain governance without access to client assets.

In short, the exclusions ensure that the safeguarding regime remains properly focused on client-asset risks, rather than sweeping up business models that would not benefit from trust-based protection and may be inhibited by unnecessary regulatory burdens. We also emphasise that the rules and exclusions applicable to SICs should be aligned as closely as possible with those applicable to traditional securities. Any divergence in the scope of exclusions between traditional and tokenised versions of the same underlying asset would create an unjustified disparity that could hinder the development of the UK tokenised securities market and place the UK at a disadvantage internationally relative to jurisdictions that treat tokenised and traditional securities equivalently.

Question 37: Do you agree that rules applying to small AIFMs due to exclusions applying to UK UCITS and AIF managers should be extended to SIC and cryptoasset custodians under CASS 17? Please explain why.

Overall, we agree that extending these rules is appropriate, subject to proportionality and clarity around how the obligations interact with the technical features of SICs. The policy objective underpinning the UCITS and AIF regimes, that client assets requiring trust-based protection should be safeguarded under a consistent and robust custody framework, applies equally to SICs,

regardless of whether they are non-digitally-native representations of traditional instruments or digitally-native specified investments recorded directly on-chain.

Applying the same rules to SIC custodians promotes regulatory consistency and avoids creating a bifurcated regime in which economically similar custodial risks are treated differently depending solely on the issuance channel. It also provides continuity for insolvency practitioners and reduces interpretative ambiguity for firms operating across both traditional and digital asset classes.

However, the FCA should ensure that the requirements are calibrated for cryptoasset models and do not inadvertently import obligations that assume intermediated securities structures or centralised registries, which may be inappropriate for blockchain-native assets.

Question 38: Do you anticipate SICs being used for SFTs in future? If so, should the requirements in CASS 6 permitting the use of clients' safe custody assets for SFTs be applied? Please explain why. Cost Benefit Analysis

Overall, we believe that the potential for SICs to be used in securities financing transactions (SFTs) will depend on the pace of market development, but it is reasonable to anticipate that SFT use cases may emerge over time, particularly for non-digitally-native SICs that represent traditional securities, or for digitally-native SICs designed with standardised settlement and collateral features.

Should SFT activity develop, we agree that any permission for custodians to use client SICs in SFTs must be accompanied by safeguards equivalent to those in CASS 6. The principles underpinning those rules, clear client consent, robust disclosure, adequate collateralisation, and transparent treatment in the event of custodian default, are directly applicable to SICs, especially given the FCA's broadened definition of custody that emphasises the custodian's ability to effect transfers of the SIC's benefit.

However, the FCA should also consider crypto-specific factors that may affect the viability and risk profile of SIC-based SFTs, including settlement-finality characteristics, smart-contract execution risk, and protocol-level delays or failure modes. These considerations will need to be addressed before a mature and safe SFT market for SICs can develop.

Cost benefit analysis

Question 39: 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 support the FCA's objective of setting out a transparent and structured cost benefit analysis, and we recognise the difficulty of assessing impacts in a fast-evolving sector. However, we are concerned that the CBA, as currently drafted, does not accurately reflect the likely costs for firms implementing the new regime as it does not provide a sufficiently robust and consistent baseline of firms..

Firm population assumptions and internal consistency across consultations

We are concerned that the CBA significantly underestimates the number of authorised cryptoasset firms across the consultations.

Firstly, there seems to be some inconsistencies across the consultations regarding the number of firms. In CP25/40 (page 106), the CBA looks to refer to an estimated 170 firms entering the market with immediate effect. By contrast, CP26/4 (page 93) refers to 180 firms entering over a ten-year period, with fewer than 50 firms in year 1. It is unclear how these two projections relate to one another, whether they are based on the same modelling assumptions, or whether they reflect different definitions of "entry". The divergence is material for cost modelling.

Secondly, at present there are approximately 61 firms on the MLR register. Even if one assumed that only a proportion of these firms ultimately maintain full authorisation under the new regime, the starting population would logically need to include the existing registered base. The CP26/4 estimate of fewer than 50 firms in year 1 appears difficult to reconcile with that current baseline, unless the FCA assumes that a significant number of currently registered firms (and new firms will register under the MLRs between now and commencement, placing the number at higher than 61) will not transition into the new regime. If that is the case, this assumption should be made explicit, as it has implications for competition, market structure, and supervisory intensity.

Further, we understand from the FCA roundtable on February 13 that this figure also includes the anticipated number of existing regulated firms who will be applying for variation of permissions. This raises further concerns that the quoted number of firms is understated.

Finally, the CBA does not appear to factor in:

- Firms currently relying on the section 21 financial promotion exemption, who are likely to seek direct authorisations given the section 21 exemption will fall away after commencement.

- Overseas firms currently serving UK customers cross-border who may establish a UK presence in response to the gateway requirements.
- Firms that may be newly attracted to the UK once a comprehensive regime is in place.

We are therefore concerned that the predicted number of firms to whom the new regime will apply, both now and across a 10 year time horizon, is significantly lower than in reality. The absence of an accurate and clearly articulated firm population baseline creates two risks:

If the affected population is larger than assumed in CP26/4, the total industry cost of implementing all aspects of the new regime will be correspondingly higher. Without a reconciled population model, it is difficult to assess whether the regime as a whole is proportionate.

We encourage the FCA to:

- Clarify whether these are cumulative, overlapping or activity-specific estimates.
- Explain how the existing MLR population of 61 firms has been factored into the modelling.
- Set out how firms currently relying on section 21 approvers, as well as regulated firms applying for variation of permissions, have been included.
- Provide a consolidated estimate of total authorised firms across all regulated cryptoasset activities at steady state.

A transparent and unified firm population assumption is essential to ensure that the CBA reflects the true scale of the regime and allows stakeholders to properly assess proportionality.

Question 40: Do you have any views on the cost benefit analysis, including our analysis of costs and benefits to consumers, firms and the market?

We have no further comments on the CBA.