GDF GLOBAL DIGITAL FINANCE

Crypto Council for Innovation

06 March 2026

SUBMITTED VIA EMAIL: dp25-3@fca.org.uk

To whom it may concern,

Re: FCA Discussion Paper DP25/3 on Expanding Consumer Access to Investments

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,

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Laura Navaratnam – UK Policy Lead – CCI

Executive Summary

Given the breadth of issues covered in the Discussion Paper, this submission focuses on those areas most directly relevant to cryptoassets and digital asset markets, and where we consider there are material implications for regulatory coherence, proportionality and consumer outcomes as the UK cryptoasset regime becomes fully operational.

We have therefore provided substantive responses to the following questions:

- Question 1 (Digital Engagement Practices)
- Question 4 (Fractional investments)
- Question 10 (Additional inconsistencies and complexities in the framework)
- Question 12 (Priorities for reform of the retail investing framework)
- Question 13 (Consistency of financial promotion classifications)
- Question 14 (Effectiveness of financial promotion rules in enabling informed risk-taking)

Across our responses, five core themes emerge:

First, regulatory coherence as products move fully into perimeter. A number of classifications and restrictions introduced as interim safeguards when cryptoassets sat outside the regulatory perimeter risk becoming misaligned once firms are authorised, prudentially supervised, and subject to the Consumer Duty. We believe there is a strong case for reviewing and rationalising such measures to ensure regulatory signalling accurately reflects the protections in place.

Second, proportionality and avoidance of duplicative frictions. Where firms are subject to comprehensive governance, disclosure, safeguarding, prudential and conduct requirements, layering additional financial promotion frictions (including RMMI-style restrictions) may introduce unnecessary complexity without delivering commensurate consumer benefit. This risks undermining the FCA's objective of enabling informed risk-taking.

Third, focusing on outcomes. We support anchoring the evolving framework around consumer outcomes, consistent application of the Consumer Duty, and technology-neutral supervision, rather than relying on legacy product classifications that may not reflect underlying risk or regulatory status.

Fourth, transparency of legal rights and structural risk. In areas such as fractional and tokenised investments, we emphasise the importance of clearly distinguishing between direct legal interests and synthetic or intermediary-based exposure. Regulatory treatment should focus on

transparency of rights and risk allocation rather than assuming functional equivalence across structurally different models.

Fifth, competitiveness and clarity. As the UK positions itself as a global digital finance hub, it is important that the retail framework signals maturity, proportionality and regulatory confidence. Clear alignment between regulatory status, consumer protections and marketing rules will support both consumer understanding and international competitiveness.

Trading apps and digital engagement practices:

Question 1: To what extent does our regulatory framework – including using the Duty - mitigate the risks associated with DEPs while supporting their positive use?

GDF and CCI consider that the UK's existing regulatory framework, including the Consumer Duty, provides a strong and flexible foundation for mitigating the risks associated with Digital Engagement Practices ("DEPs"), while still allowing for their positive and innovative use.

As we have previously noted in our responses to IOSCO consultations on DEPs, finfluencers and copy trading, digital engagement practices are not static. They evolve rapidly alongside technology, platform design, and consumer behaviour. In this context, we strongly support the FCA's approach of leveraging existing regulatory tools and principles, rather than creating bespoke or overly prescriptive regimes that risk becoming obsolete or distorting innovation.

The Consumer Duty is particularly well-suited to this challenge. Its outcomes-focused, technology-neutral nature enables firms to assess and mitigate harms arising from DEPs, such as misleading prompts, behavioural nudging, or inappropriate gamification, by focusing on whether consumer communications are clear, fair and not misleading, whether products and services are designed with consumer outcomes in mind, and whether firms are actively identifying and addressing foreseeable harm.

Importantly, the Duty allows supervisors to look beyond the form of a digital engagement tool and instead assess its effect on consumer understanding, decision-making and outcomes. This principle-based approach supports proportionality and ensures that regulatory expectations can adapt as new engagement techniques emerge.

At the same time, the framework does not preclude the positive use of DEPs. When deployed responsibly, DEPs can enhance consumer engagement, improve financial literacy, and support better decision-making through clearer disclosures, interactive education tools, and timely information. We therefore welcome the FCA's recognition that DEPs should not be treated as inherently harmful but assessed in context.

Consistent with our IOSCO responses, we believe risks associated with DEPs can be most effectively addressed by first identifying the underlying regulated activity or product, and then applying existing conduct, marketing and disclosure requirements, including the Consumer Duty, to the associated engagement practices in a proportionate manner.

Overall, we consider that the current regulatory framework, supported by supervisory guidance and good-practice examples, is capable of both mitigating DEP-related risks and enabling innovation that delivers better consumer outcomes. Ongoing dialogue between regulators and

industry will be important to ensure consistent interpretation and to share learnings as digital engagement practices continue to evolve.

Fractional investments

Question 4: How do you think fractional investments should be treated under our rules?

CCI and GDF consider it important that the regulatory framework clearly distinguishes between different models of fractional investment, particularly in tokenised environments.

There is a material difference between:

- Tokenised funds or securities issued within their original legal structure, where the token represents a direct legal or beneficial interest in the underlying asset; and
- Third-party tokenised arrangements that provide synthetic, contractual or derivative-style exposure created by an intermediary.

In a retail context, this distinction is particularly significant. Third-party fractional models may introduce additional counterparty, structural and operational risks that are not present where a token represents a direct property or fund interest. These exposures should not be presented or treated as economically or legally equivalent to direct holdings of the underlying asset.

Accordingly, we consider that regulatory treatment should focus on ensuring transparency of legal form and risk allocation, rather than assuming functional equivalence across structurally different models.

Clear identification of the token, the underlying asset, the issuing entity and the nature of the exposure is essential to delivering good consumer outcomes. In this regard, robust token identification standards can support consistent differentiation between:

- Tokens representing a true property or fund interest; and
- Tokens representing contractual, synthetic or derivative exposure.

Standardised, machine-readable identifiers, such as ISINs, LEIs, and DTIs, may assist firms and supervisors in accurately categorising tokenised products, calibrating disclosures and ensuring appropriate product governance. Such tools can enhance the clarity of financial promotions and help mitigate the risk that retail consumers assume fractional tokenised exposures carry identical risk characteristics to the underlying asset, where structural, counterparty or technology-related risks may in fact differ.

We would encourage the FCA to ensure that any approach to fractional investments remains proportionate, technology-neutral and focused on transparency of rights and risks, rather than imposing blanket restrictions that may unintentionally constrain legitimate innovation in tokenised capital markets.

How we can rebalance risk through our regulatory framework

Question 10: Are there other inconsistencies and complexities in our regulatory framework not discussed in the previous chapter which are creating barriers to consumers taking informed investment risk?

Yes, in addition to the issues already identified in DP25/3, we consider that a number of legacy classifications and overlapping conduct requirements may unintentionally risk introducing unnecessary complexity and friction, which may undermine the FCA's objective of supporting consumers to take informed investment risk, particularly as new asset classes and business models are brought fully within the regulatory perimeter.

DP25/3 rightly highlights the importance of regulatory coherence, clear communication of protections and their limits, and the avoidance of unnecessary frictions that do not materially improve consumer outcomes. In our view, these considerations are especially relevant as cryptoassets, including qualifying stablecoins, transition from an interim, out-of-perimeter regime into full FCA authorisation and supervision.

1. Retention of interim classifications as products move fully into perimeter

Several elements of the current framework, including the classification of certain cryptoassets and crypto-linked instruments as Restricted Mass Market Investments (RMMIs), were introduced as prudent and proportionate safeguards at a time when these products and activities sat outside the FCA's regulatory perimeter.

However, as UK-issued qualifying stablecoins and other cryptoasset activities are brought fully within perimeter under FSMA, the continued application of these interim classifications risks layering additional complexity on top of comprehensive authorisation, conduct, prudential, and disclosure requirements. This may obscure, rather than clarify, the true nature of consumer protections and the risks consumers are being asked to assess.

In line with DP25/3's emphasis on helping consumers understand both risk and regulatory protections, we believe that retaining legacy classifications once products are fully regulated may

inadvertently signal a level of risk that is inconsistent with the underlying safeguards now in place.

2. Potential misalignment between product purpose and regulatory signalling

We are particularly concerned that the ongoing classification of certain in-perimeter products as RMMIs may distort consumer understanding and decision-making.

For example:

- **Foreign Issued Stablecoins**: we remain concerned that the proposed ongoing classification of foreign issued stablecoins as RMMIs, irrespective of their regulatory treatment or supervisory outcomes in their home jurisdiction, may introduce complexity and risk signalling that is not fully aligned with the FCA's broader consumer access objectives. As the UK regime becomes operational, consumers may struggle to distinguish between product risk and jurisdictional origin, particularly where foreign issued stablecoins exhibit comparable reserve backing, redemption rights, and governance standards.
- **Regulated crypto-linked instruments such as cETNs:** are already subject to the UK's established framework for securities and derivatives, including prospectus and listing requirements. Aligning them with regimes designed for currently unregulated cryptoassets risks conflating fundamentally different risk profiles and regulatory statuses.

In this case, regulatory signalling that is not well aligned with product design and regulatory oversight may deter consumers from engaging with products in ways that are inconsistent with DP25/3's objective of enabling informed risk-taking.

3. Application of consumer safeguards designed for higher-risk investments

DP25/3 recognises that certain regulatory "frictions", such as financial promotion restrictions and appropriateness assessments, can play an important role in protecting consumers, but also notes the need to ensure such frictions are proportionate and targeted.

In this context, further clarity would be valuable on the extent to which safeguards such as cooling-off periods or appropriateness assessments are intended to apply to products that are not marketed or designed as investments, particularly in the case of foreign issued stablecoins. Where such requirements are retained, greater transparency around the specific risks they are intended to mitigate would support both firm compliance and consumer understanding.

Absent this clarity, there is a risk that firms adopt overly conservative approaches that limit access or functionality without delivering commensurate consumer benefit.

4. Risk of a parallel, crypto-specific conduct regime

More broadly, we are concerned that the cumulative effect of crypto-specific classifications and overlays risks creating a problematic parallel conduct regime for cryptoassets in cases in which crypto assets are functionally the same as traditional financial instruments, even once they are fully authorised. While we agree that crypto-specific classifications are warranted where crypto assets function in a novel manner that eliminates risks associated with traditional financial assets, where crypto assets are effectively the same as traditional instruments, this proposal runs counter to DP25/3's emphasis on consistency across products and access channels where risks and protections are comparable.

We continue to recommend that the Consumer Duty serve as the primary conduct framework for authorised cryptoasset firms, supported by targeted, sector-specific guidance for novel business models (such as issuance, custody, and staking). This approach would support proportional supervision and reduce unnecessary complexity.

5. Need for review and recalibration as the regime becomes operational

To support DP25/3's objective of enabling informed consumer participation, we recommend that the FCA commit to reviewing classifications such as RMMI as the new cryptoasset regime becomes operational. This review could draw on evidence from authorised firms' conduct, product performance, and consumer comprehension metrics to assess whether additional restrictions remain justified under a Consumer Duty-based framework.

In our view, rationalising and simplifying the framework as cryptoassets move fully into perimeter would enhance regulatory clarity, improve consumer understanding of both risk and protection, and better support consumers in making informed decisions, while maintaining robust regulatory oversight.

Question 12: What do you see as the most significant priorities for how we approach the next steps of reforming the retail investing regulatory framework?

In our view, the next phase of reform should prioritise coherence, proportionality, and consumer understanding, while ensuring the framework remains adaptable as new products, technologies, and access channels continue to evolve.

DP25/3 rightly frames retail investing reform around enabling consumers to take *informed* investment risk, rather than either discouraging participation or relying on blunt risk classifications. We believe the following priorities are critical to achieving this objective.

1. Anchor the framework around outcomes, not product labels

The Consumer Duty provides a strong, technology-neutral foundation for retail investment regulation. As the framework evolves, reform should focus on how products and services affect consumer understanding, decision-making, and outcomes, rather than relying primarily on static product categories or legacy labels.

This is particularly important as new asset classes and delivery models, including digital assets, tokenised instruments, and new engagement tools, are brought fully within the regulatory perimeter. Applying the Duty consistently, supported by targeted guidance where necessary, will better future-proof the regime than creating parallel or asset-specific conduct frameworks.

2. Rationalise legacy classifications as products move into perimeter

A key priority should be reviewing and recalibrating interim measures that were introduced when certain products sat outside the FCA's authorisation and supervisory perimeter.

As new regimes go live, retaining legacy classifications or restrictions alongside full authorisation risks adding complexity and diluting regulatory signalling. Reform should focus on simplifying the framework so that regulatory status, consumer protections, and risk messaging are aligned and easily understood by consumers.

This review should be evidence-based and iterative, drawing on supervisory experience, market conduct, and consumer comprehension data as regimes mature.

3. Ensure regulatory frictions are targeted and proportionate

DP25/3 recognises that certain regulatory frictions, such as promotion controls, disclosures, and appropriateness checks, can support better consumer outcomes, but also highlights the need to ensure they are proportionate and clearly justified.

Going forward, reform should prioritise clarity on *why* specific frictions apply, what risks they are intended to mitigate, and how they interact with broader conduct obligations under the Consumer Duty. This will help firms design compliant products and journeys without adopting overly conservative approaches that unnecessarily limit consumer access.

4. Improve clarity around protections and their limits

A recurring theme in DP25/3 is the importance of consumers understanding not only the risks of investment, but also the protections that apply, and where those protections stop.

Reform should therefore prioritise clearer, more consistent communication across product types and access channels, particularly where regulatory status differs. This is essential to building consumer confidence and enabling meaningful comparison between products, rather than discouraging participation through complexity or inconsistent risk signalling.

5. Maintain ongoing dialogue and supervisory feedback loops

Finally, we believe successful reform will depend on continued engagement between the FCA, industry, and consumer stakeholders. As new frameworks are implemented, there should be structured opportunities to review outcomes, share good practice, and refine guidance based on real-world experience.

An iterative, outcomes-focused approach will help ensure the retail investing framework remains effective, proportionate, and aligned with the FCA's broader objectives of consumer protection, market integrity, and competition.

Financial promotion and distribution rules

Question 13: Are our financial promotion marketing categories consistently classifying investments based on their risk profiles? Please provide examples of where you see inconsistencies.

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 such as the 24-hour cooling off period 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, warning risks 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 three 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

[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

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 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.

<u>4 - A continued RMMI designation would require a fresh and transparent justification</u>

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.

Question 14: To what extent do our financial promotion rules achieve their aim of enabling informed risk-taking and mitigating harm? Are there ways they could be improved?

Please see our answer to Question 13 above.