GDF GLOBAL DIGITAL FINANCE

Crypto Council for Innovation

Submission Date: 13 April, 2026

SUBMITTED VIA EMAIL: cp26-8@fca.org.uk

To whom it may concern,

Re: FCA CP26/8: Quarterly consultation paper No. 51

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 realise the goal of making the UK a digital finance hub.

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

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

Yours faithfully,

Elise Soucie Watts – Executive Director – GDF

Laura Navaratnam – UK Policy Lead – CCI

Response to the Public Consultations: Executive Summary

GDF and CCI welcome the FCA's proposals in CP26/8 and are broadly supportive of the approach taken to extending the CASS framework to qualifying cryptoasset activities. Applying established client asset protections to this sector in a manner consistent with the treatment of equivalent traditional financial services activities is the right objective, and the proposals represent a meaningful step towards a coherent and workable regulatory framework for UK cryptoasset firms.

Our response identifies a number of areas where targeted clarification would materially strengthen the proposals. The most significant of these concerns the interaction between CASS 17 and technology vendors operating under multi-party computation or threshold signature schemes. As currently framed, the "ability to bring about a transfer of benefit" test risks inadvertently capturing MPC vendors within the sub-custodian perimeter, despite the fact that such vendors cannot act unilaterally to transfer client cryptoassets. This would create pressure on firms to structure their custody arrangements around regulatory uncertainty rather than around what is operationally and cryptographically most secure, and we encourage the FCA to address this explicitly in the consequential amendments process.

We also ask the FCA to provide further clarity in two areas that cut across multiple proposals. First, on the treatment of stablecoin backing assets, the lifecycle of funds moving through issuance and redemption processes requires clearer articulation, including when funds enter and exit the CASS 16 backing pool and how transitional balances should be treated, and we would also welcome confirmation of the treatment of designated backing funds accounts in insolvency scenarios. Second, on the scope of the CASS 8 mandate rules, the proposals raise important questions about when arranging or introducing business gives rise to full mandate obligations distinct from the concurrent obligations of appointed third-party custodians under CASS 17, which will affect a wide range of business models including brokers, aggregators, and wealth management platforms.

GDF and CCI remain at the disposal of the FCA for any further questions and would welcome the opportunity to discuss these matters in more detail with our members.

Responses to Consultation Questions

Question 2.1: Do you agree with our proposal to clarify that money held solely as backing assets for qualifying stablecoins would be subject to CASS 16 and not CASS 7, and that such money must be held separately from money protected under other chapters of CASS? If not, please explain why.

Yes, GDF and CCI broadly support the FCA's proposal to clarify that money held solely as backing assets for qualifying stablecoins should fall within the bespoke safeguarding regime set out in CASS 16 rather than the general client money rules in CASS 7. Clarifying that backing funds held in designated backing funds accounts are not client money for the purposes of CASS 7 therefore provides welcome legal certainty and ensures that these assets are governed by a regime specifically calibrated for the stablecoin issuance and reserve management model.

We also support the proposal to maintain the requirement that money subject to different CASS chapters be held in separate accounts, as is the case for other firms subject to CASS. Ensuring that funds safeguarded under CASS 16 are not co-mingled with client money protected under CASS 7 or other CASS chapters will help preserve the integrity of the safeguarding framework and provide greater clarity regarding the legal status of backing assets in insolvency scenarios or where a third-party bank holding the funds fails. In addition to this, we would welcome further clarity on the legal and supervisory treatment of designated backing funds accounts in stress or insolvency scenarios, including the treatment and priority of claims over backing assets where an issuer or relevant third-party bank fails. We also encourage the FCA to clarify the intended legal and prudential outcomes of such arrangements, including in relation to asset segregation and creditor hierarchy, and how these compare to existing safeguarding frameworks.

At the same time, we encourage the FCA to continue providing clear guidance regarding the practical mechanics for how stablecoin issuers will move money around, given issuance and redemption will involve different types of accounts and operational steps, while maintaining adherence with CASS 16, for example, clarity on how the FCA views the interaction between CASS 16 and CASS 17 so that firms do not end up with overlapping reconciliation, segregation or reporting requirements. This will be particularly important where firms perform both issuance and custody functions, or where third-party custodians are involved, so that the respective application and boundary between CASS 16 and CASS 17 is clear and does not create duplicative controls over the same assets or flows.

The backing pool is not static in practice, as funds are continuously moving through issuance and redemption processes. Further clarity would therefore be welcomed on when funds become CASS 16 backing assets, when they are temporarily outside the backing pool, and how transfers should be treated for segregation, reconciliation and record-keeping purposes. In particular,

clarification of the treatment of funds at each stage of the issuance and redemption lifecycle would be helpful, including when incoming fiat is regarded as forming part of the backing asset pool, when redeemed funds cease to be backing assets, and how short-lived transitional balances should be treated.

Ensuring clarity in these areas will be important to support operationally efficient issuance and redemption models, while maintaining the integrity of the safeguarding framework.

Question 2.2: Do you agree with our proposal that the professional client opt-outs from the client money rules should not apply to money held in connection with qualifying cryptoasset activities? If not, please explain why.

We understand the FCA's objective of ensuring consistent safeguarding standards for client money associated with qualifying cryptoasset activities and recognise the importance of protecting client funds in the event of firm failure or operational disruption. In this context, we appreciate the rationale for seeking to apply the client money regime consistently across retail and professional clients.

The FCA's stated basis for disapplying the opt-out is that "the risks of harm do not differ materially between retail and professional clients" in the context of qualifying cryptoasset activities, and that disapplication is necessary to ensure consistency with the protections applying to client money under the proposed CASS 17 regime. However, CP26/8 would benefit from further explanation of the basis on which the FCA has reached that conclusion. Moreover, we note that the professional client opt-out currently exists within the broader client money framework for certain non-MiFID designated investment business (e.g., securities). This reflects a longstanding regulatory principle that sophisticated counterparties may, in some circumstances, prefer to rely on bespoke contractual arrangements rather than the statutory client money trust. Removing this flexibility specifically for qualifying cryptoasset activities would therefore represent a departure from the approach taken elsewhere within the CASS framework. If the FCA accepts, as a general matter, that certain professional clients are capable of assessing and contracting for alternative protections, it would be helpful for the FCA to more fully explain why qualifying cryptoasset activities warrant a different approach.

We acknowledge that this is already a narrow exemption in practice, and that the commercial incentive for firms to invoke it is limited given that CASS protections represent a genuine competitive differentiator for UK firms in institutional markets. However, qualifying cryptoasset activities may involve institutional trading venues, liquidity provision, or settlement flows between professional counterparties whose operating structures more closely resemble wholesale market models than retail brokerage. In this context, the key question is whether the proposed rules are calibrated to operate effectively across the full range of institutional business models

within scope, and whether they do so consistently with the approach taken to equivalent wholesale activity elsewhere in the CASS framework.

This is particularly relevant where firms act on a principal basis or facilitate trading between professional counterparties without holding client assets in a manner analogous to traditional retail brokerage models.

We therefore encourage the FCA to provide further guidance on how the client money rules are expected to operate in wholesale cryptoasset market structures. Such clarification would help ensure that the regime achieves its safeguarding objectives while giving institutional market participants the operational certainty they need to structure their businesses appropriately within the framework.

Question 2.3: Do you agree with our proposal to disapply the DvP exemption related to the use of a commercial settlement system, where the delivery obligation is in relation to a cryptoasset? If not, please explain why.

Yes, GDF and CCI support the FCA's proposal to disapply the DvP exemption where the delivery obligation relates to a cryptoasset at this stage. In the absence of recognised commercial settlement systems comparable to those used in traditional securities markets, it is reasonable to avoid reliance on an exemption that assumes the presence of robust settlement infrastructure capable of providing equivalent safeguards to client money protections.

At the same time, it will be important for the FCA to keep this position under review as market infrastructure evolves, particularly as the effect of the proposed amendment to CASS 7.11.14R is that the exemption is only available where the delivery obligation is in relation to "*a security that is not a cryptoasset*" (i.e., settlement involving specified investment cryptoassets, such as a tokenised equity or bond, would be excluded from the DvP exemption). In the long run, treating a traditional security differently from its tokenised equivalent can create inconsistent outcomes. Distributed ledger based settlement mechanisms and other forms of tokenised financial market infrastructure may, over time, develop features that provide comparable assurance around settlement finality, segregation, and operational resilience. Should such arrangements emerge, revisiting the availability of the DvP exemption could support more efficient settlement models while maintaining appropriate protections for client funds.

In particular, clarification of the conditions under which such systems could be recognised for the purposes of the DvP exemption would support regulatory certainty and future market development.

Question 2.4: Do you agree with our proposal to clarify that the alternative approach to client money segregation may apply, where appropriate, for client transactions involving qualifying cryptoasset activities? If not, please explain why.

Yes, GDF and CCI agree with the FCA's proposal to clarify that the existing alternative approach to client money segregation may apply, where appropriate, to client money associated with qualifying cryptoasset activities.

In practice, many cryptoasset business models involve high-volume, cross-border, and time-sensitive transactions, often operating across multiple currencies and on a 24/7 basis. In these circumstances, the alternative approach can provide important operational flexibility while continuing to deliver robust client money protections through the existing reconciliation and safeguarding requirements. Clarifying that the existing framework may be used in these contexts promotes consistency with traditional financial services activities that exhibit similar operational characteristics, without expanding the scope of the alternative approach beyond its current safeguards.

We would welcome confirmation that firms operating omnibus account structures or pooled client money arrangements in connection with cryptoasset trading systems may rely on the alternative approach, where the relevant requirements are met, including the ability to demonstrate accurate and timely reconciliation of individual client entitlements, and appropriate segregation of client money from firm funds.

Question 2.5: Do you agree with our proposal to clarify that money arising from, or in connection with, the safeguarding of client cryptoassets should be treated as client money, including where a firm appoints a third party to safeguard those client cryptoassets? If not, please explain why.

GDF and CCI support the FCA's proposal to clarify that money arising from, or in connection with, the safeguarding of client cryptoassets should be treated as client money under CASS 7, including where safeguarding functions are performed by a third party appointed by the firm. This approach is consistent with the established treatment of cash flows arising from safe custody assets in traditional financial markets, where dividends, interest, or sale proceeds associated with client assets are appropriately captured within the client money regime. Extending this principle to cryptoasset custody promotes regulatory coherence and helps ensure that any fiat proceeds connected to safeguarded cryptoassets benefit from the same segregation and protection standards. We also support the proposed rule requiring third parties safeguarding cryptoassets on behalf of a firm to deposit any such money into the firm's client bank account, as this helps maintain clear accountability and supervisory oversight.

For clarity and operational certainty, it would be helpful for the FCA to confirm that this requirement applies where money is actually received or controlled by the firm or its appointed third party. In many cryptoasset models, rewards or other proceeds may accrue directly on-chain to client-controlled wallets without the firm ever receiving or holding fiat funds. Clarifying the boundary between on-chain distributions and money received in connection with safeguarding activities would help ensure the rule operates proportionately while maintaining the intended client protection outcomes. In particular, GDF and CCI would welcome clarification that staking rewards do not constitute money "arising from, or in connection with, the safeguarding of client cryptoassets" within the meaning of the proposed CASS 7.14.5G and CASS 7.14.6AR and therefore are not within scope of the client money rules. This is because such rewards arise from protocol-level validation or participation in network consensus mechanisms, rather than from the safeguarding function itself, and may accrue directly to client-controlled wallets without the firm receiving or controlling fiat funds.

Question 2.6: Do you agree with our proposal to clarify that references to designated investments in the CASS 7.16.22E evidential provision for the individual client balance calculation should be read as including qualifying cryptoassets? If not, please explain why.

Yes, GDF and CCI agree with this proposal. The individual client balance calculation serves a critical reconciliation function, ensuring that the aggregate of client-specific balances is reconciled against the firm's total client money resource. Excluding qualifying cryptoassets from the scope of the CASS 7.16.22E evidential provision would create an anomalous gap in that framework: firms holding client money in connection with cryptoasset activities would be unable to rely on the standard methodology that applies to equivalent activities involving designated investments, thereby undermining the consistency the FCA is rightly seeking to achieve across the regime.

We also note that this clarification is consistent with the broader approach taken in this consultation, which applies established CASS principles to cryptoasset activities where those activities are functionally equivalent to regulated activities in traditional markets. The individual client balance calculation is a procedural mechanism rather than a substantive protection in its own right, and its extension to qualifying cryptoassets does not raise the policy concerns that may arise in other contexts where the asset characteristics of cryptoassets differ materially from designated investments.

We would, however, welcome confirmation from the FCA that firms can satisfy the reconciliation methodology through outcomes-based approaches appropriate to their operating model. In particular, firms using distributed ledger based record-keeping or operating under multi-party custody arrangements should not be required to adopt record structures designed for

traditional securities infrastructure, provided the core objective of accurate and timely individual client balance verification is achieved. This is consistent with the technology-neutral approach we have advocated elsewhere in this response.

We also encourage the FCA to confirm that firms may rely on blockchain state and cryptographic verification methods as part of this process, where these provide an equivalent or higher level of assurance than traditional reconciliation approaches.

Question 2.7: Do you agree with our proposal to make clarificatory amendments to CASS 8 for cryptoasset firms? If not, please explain why.

It would be helpful for the FCA to clarify how the mandate framework in CASS 8 interacts with non-custodial staking models. In many proof-of-stake networks, firms may operate validator infrastructure or coordinate delegation while clients retain exclusive control over withdrawal or transfer keys at the protocol level. In such arrangements, the firm does not have the ability to transfer, withdraw, or otherwise bring about the movement of client cryptoassets. The firm's role is therefore operational in nature rather than constituting authority over client assets. We encourage the FCA to confirm that validator operation or delegation services which do not confer withdrawal authority should not be regarded as creating a mandate for the purposes of CASS 8. Clarifying this distinction would help ensure that the mandate framework remains appropriately targeted at arrangements where firms can exercise genuine control over client assets. This distinction is particularly important to avoid inadvertently bringing within scope a range of technology providers or infrastructure participants whose role is limited to facilitating network participation, rather than exercising control over client assets.

We also ask the FCA to provide further guidance on the scope of the CASS 8 mandate rules as they apply to the "arranging" scenario contemplated by paragraph 2.32 of CP26/8, that is, where a firm arranges for another person to safeguard or administer client cryptoassets without itself holding or controlling those assets. The mandate rules in CASS 8, including record-keeping and internal control requirements, are proposed to apply to such firms in full. This has significant practical implications for a broad range of business models, including brokers, aggregators, and wealth management platforms, that refer or introduce clients to third-party custodians without directly holding client assets. It is not clear from the current proposals: (i) at what point a referral or introduction to a third-party custodian gives rise to full mandate obligations under CASS 8, as distinct from mere intermediation or facilitation; (ii) whether there is any threshold below which the mandate rules are not engaged; or (iii) how the CASS 8 obligations of the arranging firm interact with the concurrent obligations of the appointed third-party custodian under CASS 17, to avoid duplicative or conflicting compliance obligations in respect of the same client relationship. We ask the FCA to address these questions in its Policy Statement or supplementary guidance,

with a view to ensuring that the mandate regime is appropriately targeted and does not impose disproportionate compliance obligations on firms whose role in relation to client cryptoassets is limited to arrangement or facilitation. Clear delineation of these boundaries will be important to ensure that the mandate regime remains proportionate and aligned with the underlying risk of control over client assets.

Question 2.8: Are there any other consequential amendments to CASS required as a result of our proposed regime for cryptoasset activities and the proposed amendment to DIB? If so, please specify which CASS rules may need to be amended and why.

GDF and CCI identify a number of areas where consequential amendments to CASS would help ensure the regime operates coherently alongside the proposals set out in this consultation.

First, we believe that the FCA should address the interaction between the CASS 17 sub-custodian appointment provisions and technology vendors providing custody-related infrastructure, in particular firms operating under multi-party computation or threshold signature schemes. As noted in our response to FCA CP26/4, the current "ability to bring about a transfer of benefit" test in CASS 17 risks inadvertently capturing MPC vendors within the sub-custodian perimeter, despite the fact that such vendors cannot act unilaterally to transfer client cryptoassets. We are concerned that this potential capture is not fully addressed by the proposals in this consultation, and we encourage the FCA to use the consequential amendments process to introduce explicit drafting confirming that technology vendors whose role is limited to providing cryptographic infrastructure, and who do not have unilateral transfer capability, should not fall within the definition of sub-custodian for the purposes of CASS 17. Without this clarification, firms may face pressure to structure their custody arrangements around regulatory uncertainty rather than around what is operationally and cryptographically most secure.

We also encourage the FCA to ensure that the application of the "ability to bring about a transfer of benefit" test is interpreted in a manner that reflects actual control over client cryptoassets, rather than technical participation in key management, transaction validation, or governance processes. Without this clarification, there is a risk that a range of technology providers or infrastructure participants could be inadvertently brought within scope of the sub-custodian framework.

Second, we note that the amendment to the scope of Designated Investment Business to include qualifying cryptoasset activities may have unintended implications for the application of other CASS chapters beyond those specifically addressed in this consultation, including CASS 6 in relation to custody assets and the interaction between CASS 6 and CASS 17 where firms hold

both traditional securities and cryptoassets for the same clients. We encourage the FCA to confirm whether any consequential amendments to CASS 6 are required, or whether existing CASS 6 provisions are intended to operate alongside CASS 17 without amendment, so as to avoid interpretive uncertainty at the boundary between the two regimes.

Finally, we would also welcome clarification on how the CASS framework applies in cross-border custody arrangements, including where client cryptoassets or related functions are performed outside the UK as part of a global operating model. Clear articulation of how CASS 17 requirements apply in such contexts would support legal certainty and international operability. In addition, we encourage the FCA to ensure that any consequential amendments remain compatible with distributed ledger-based record-keeping models, and do not assume reliance on traditional off-chain account structures where equivalent or higher levels of assurance can be achieved through on-chain verification.

Third, we encourage the FCA to consider whether further clarification is required regarding the interaction between CASS 17 and existing outsourcing and operational resilience requirements. Cryptoasset firms frequently rely on third-party providers for wallet infrastructure, key management, and cloud-based services that are critical to safeguarding arrangements but do not constitute sub-custodians. Clear guidance on how such arrangements should be classified and supervised would help ensure consistency across the regulatory framework and avoid uncertainty as to the applicable requirements.