UK Finance

Financial Conduct Authority's (FCA) 'Application of FCA Handbook for Regulated Cryptoasset Activities' consultation paper (CP25/25) [Chapters 1-5 and Annex 2]

UK Finance response

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This is UK Finance's response to Chapters 1-5 and Annex 2 of the Financial Conduct Authority's (FCA) '*Application of FCA Handbook for Regulated Cryptoasset Activities*' Consultation Paper (CP25/25). The document was submitted to cp25-25@fca.org.uk.

1: Executive summary

In summary, our members support:

- *The general approach to apply COBS, SYSC (including operational resilience requirements), and SM&CR to cryptoasset-related activity.*
- *The FCA working closely with HM Treasury to publish further articulation and clarity regarding why UK stablecoin issuance will be regulated from a conduct of business perspective under COBS, when the direction of travel appears to be that stablecoins are seen more akin to a means of payment than an investment asset.*
- *The FCA holding detailed product/compliance workshops with industry specialists to help firms understand how they will operationalise requirements across the stablecoins and cryptoasset regulatory framework*.

1.1: Opening remarks

Our members continue to strongly support the FCA's adoption of *'same risk, same regulation*' and the consequent application of appropriate parts of the FCA Handbook. The FCA's proposals to apply operational resilience requirements, financial crime guidance and ESG obligations are all strongly supported. We support and recognise the FCA's hard work in developing a rigorous regulatory framework, and in proposing the extension of the regulatory perimeter to cover crypto.

Our members recognise the importance of establishing a regulatory framework which balances consumer protection, maintains financial stability, creates a level playing field with other parts of the regulated market, and promotes growth in the cryptoassets industry. Combining all of these considerations is a complex task, and we stand ready to support the regulators.

Giveni that complexity, our members are concerned that the relatively short period that has been provided for responses, has constrained firms' abilities to reflect on the proposals and provide meaningful responses that can add real value to the consultation process. This is something we raised in our responses to the FCA's summer 2025 crypto consultations[1]. Our members share the FCA's objective of ensuring that there is a robust regulatory regime which reflects some of the novelties of the cryptoassets regime while still introducing a fair

[1] UKF: UK Finance's response to the FCA's: CP25/14 and CP25/15.

system. Regulated cryptoasset firms will need to comply with numerous equivalent conduct requirements as exist in traditional finance. In order to help understand risks that the FCA perceives with cryptoasset-related activities, it would be helpful to receive further explanation of the FCA's thinking as to why decisions have been made to carve-in/out specific sourcebook provisions. For example, as we outline in our response to question 2, in our view; further detailed policy thinking is needed for firms to understand why the FCA is proposing to disapply specific PRIN principles.

Some members are concerned about the material risk arising from the FCA's approach to consulting on discrete issues in isolation; this approach limits the industry's (both trade associations and individual firms) ability to contribute to the new cryptoassets regulatory regime holistically. There are numerous examples in this consultation of an approach being proposed that is subject to separate, ongoing work, for example in relation to the Senior Managers and Certification Regime (SM&CR), which is dependent on what is being proposed in the FCA's 'Senior Managers and Certification Regime review' consultation (CP25/21) and HM Treasury's consultation on reforming the regime[2].

As we get closer to the FCA's Crypto Roadmap's Q4 2026-Q1 2027 implementation date, we would encourage the FCA to arrange more technical forms of engagement (such as workshop style sessions) with industry experts, and in particular compliance and product specialists, to understand the operationalisation of the requirements.

Our members would also appreciate greater articulation of the FCA's thinking regarding the conduct of business-related risks it perceives are posed by stablecoin issuers. On the one hand, it appears that HM Treasury has approached the regulation of stablecoin issuance more akin to payment services and the issuance of electronic money, and the FCA in this consultation notes in numerous places (for example at paragraph 7.25, and 37 and 43 of the Cost Benefit Analysis) that stablecoins play a growing role as a means of payment[3]. However, on the other hand, the FCA's proposed approach is to require such stablecoin issuers to be subject to the Conduct of Business (COBS) sourcebook, one which applies primarily to, and is geared toward, the specific risks of the investments industry. Clarity as to why HM Treasury and the FCA believe that COBS is the most appropriate regime for stablecoin issuers (as opposed to a regime more closely aligned with that of payment service providers and electronic money issuers) will be essential in helping the industry prepare for regulation.

Our members have also noted that the Information Commissioner's Office (ICO's) draft guidance for the application of data protection requirements to Distributed Ledger Technologies (DLT)[4] may make it challenging for firms to launch cryptoasset products in the UK. We would welcome further engagement between the authorities (HM Treasury, FCA,

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[2] See UK Finance's response **here**.
[3] We would encourage HM Treasury to work with both the FCA and BoE to ensure this is tackled effectively. This connects back to wider points we have raised in previous consultation responses regarding the importance of HM Treasury leading the parameters/carve-ins/outs, and design of the Cryptoassets Order.
[4] ICO: **ICO consultation on draft guidance on Distributed Ledger Technologies**. We also raised these concerns in our response to the ICO's consultation.

Bank of England, ICO, and the Department for Science, Innovation and Technology) on this topic.

1.2: High-level principles[5]

Our members have formulated a set of high-level principles which have underpinned our response to the detailed questions set out. These principles also help us ensure our thinking across the regulatory framework is consistent.

- **Ensuring safe, resilient and secure products for retail and wholesale users:** Users should feel confident using regulated cryptoassets and stablecoins and feel they have the necessary information and support needed.
- **Creating a pro-growth environment for digital assets and money:** We recognise HM Treasury and the regulators' work to build a regulatory framework that is as internationally competitive as possible to ensure the UK's regulated stablecoin and cryptoasset market supports the government's growth mission. UK Finance members recognise there is an opportunity for the UK to become established as a market-leading hub for cryptoassets and digital finance, particularly where we can leverage the longstanding role of London as a leading financial centre. Striking a balance within the regulatory framework so that the UK attracts international investment and does not push activities to other jurisdictions is critical to job and value creation for the UK economy. The FCA should aim to support the international competitiveness of UK-based businesses, such as stablecoin issuers. This must not, however, come at the expense of customer safety or financial stability.
- **Avoiding unintended consequences for established markets:** Wherever possible, we are seeking to ensure that requirements for the emerging stablecoin and cryptoasset ecosystem do not unintentionally undermine or cut across well-established and well-regulated market practices and procedures that exist today. This will also help to ensure that traditional market participants can enter into this space (e.g. as custodians). Regulatory design should not, whether by intention or effect, impose liability on the most highly regulated party where that party does not control the relevant risk. Responsibility should rest with the actor best positioned to manage the risk, regardless of the regulatory pathway.
- **Clear definitions and taxonomy:** We continue to advocate for clear definitions and taxonomy. We have made further specific points on this in our response to HM Treasury's draft Cryptoassets Order.
- **Sufficient time for industry to review detailed proposals:** We are at an important juncture in the development of a new regulatory regime for cryptoassets and stablecoins. However, given the importance for the UK economy and for consumers

[5] These are the same high-level principles as applied in UK Finance's response to Chapters 6-7.

in establishing a regulatory regime that supports growth and adequately protects consumers, we firmly believe that sufficient time is needed for consideration and review of the detailed FCA proposals once they are published. Whilst we recognise the demands on the FCA to establish a regime as quickly as possible, we believe longer term damage could be done by not allowing stakeholders the time they need to consider detailed proposals.

2: Response to Chapters 1-5 and Annex 2

2.1: Chapter 1: Summary

Question 1: Do you agree that new cryptoasset activities defined in the SI (and as described as 'qualifying cryptoasset activities' in draft FCA Handbook rules) should fall under the category of 'designated investment business' for the purposes of applying relevant sections of the Handbook?

Yes, our members generally agree that the new cryptoasset activities defined in the draft SI should fall under the category of designated investment business (DIB) following the principle of *'same risk, same regulation*' .

Our members support leveraging the established Handbook machinery to the greatest extent practicable, where it is appropriate to do so, given the rules are familiar and it would be more efficient. Using the DIB classification as the conduit to apply cross-cutting standards would promote consistency, supervisory clarity, and speed of implementation.

However, our members also stressed that the FCA should work closely with HM Treasury to provide more consideration as to how appropriate it would be to include UK-issued stablecoin related activities in the DIB definition. Members felt it potentially odd to place stablecoin providers into the DIB classification given the longer-term policy direction to treat stablecoins as a means of payment, and not as speculative investments. Applying this classification to UK stablecoin issuers also would not necessarily achieve the *'same risk, same regulatory outcome'* objective given that stablecoins have a considerably lower risk profile compared with unbacked cryptoassets.

If the FCA's proposal for stablecoin issuance is to be adopted as set out in the consultation, we would strongly recommend the FCA build in a recalibration mechanism to revisit the classification for stablecoins once the associated payments regime (including the Bank of England's forthcoming systemic stablecoins consultation) is further advanced.

2.2: Chapter 2: High Level Standards and supervision

Question 2: Do you agree with our proposal for applying high level standards to cryptoasset firms in a similar way they apply to traditional finance?

Our members generally agree with the FCA's proposal for applying the high-level standards to cryptoasset firms. The clear, uniform standards in PRIN, COND and General Provision (GEN) are foundational to market trust.

One area where our members disagreed with the FCA's approach was regarding the disapplication of certain FCA Principles to Cryptoasset Trading Platforms (CATPs). Our members did not agree with the proposals to disapply Principles 1 (*Integrity*), 2 (*Skill, care and diligence*), 6 (*Customers' interests*) and 9 (*Customers: relationship of trust*) to transactions entered into on a CATP by its members[6]. In particular, the comparison the FCA draws between CATPs, and multi-lateral trading facilities (MTFs) is not necessarily appropriate.

Members of MTFs tend to be sophisticated and it is generally not the case that retail customers have direct access to MTFs. In order to access an MTF, retail customers need to engage the services of a broker who would be subject to the FCA Principles CP25/25 is proposing to disapply. By way of contrast, retail customers have, to date, been able to directly access the trading services of CATPs without engaging an intermediary party, meaning that under the FCA's proposals they could be subject to a lesser level of protection and consideration. Following these points, it is important the FCA clearly outlines its thinking on how MTFs are different from CATPs regarding all forms of direct retail client access, and how the FCA's approach to PRIN, COND, GEN and other CATP-related requirements (including disclosure documents) will look to address risks appropriately (particularly market manipulation).

Additional guidance on client categorisation and market abuse risks in retail accessible CATPs would also be welcome[7].

Our members agree with the disapplication of principles 6 (*Customers' interests*) and 9 (*Customers: relationship of trust*) for professional clients given their higher level of sophistication and given their position is more comparable to that of a member in an MTF[8].

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[6] Paragraph 2.10.
[7] Something we raised in our response to the FCA's '**Regulating Cryptoassets: Admissions & Disclosures and Market Abuse Regime for Cryptoassets**' discussion paper (DP24/4).
[8] This connects to the '*Cryptoasset* Intermediaries' section within UK Finance's response to the FCA's '**Regulating cryptoasset activities**' discussion paper (DP25/1).

We also agree with the FCA's proposal to apply the GEN to cryptoasset firms as they perform an important role in ensuring consumers are not misled and that there is transparency around regulatory status.

Some members raised the issue that it is challenging to apply PRIN in a decentralised context where customers are trading between each other, and therefore the position regarding responsibility for such activity. In a decentralised context, we believe it would be appropriate for relevant decentralised-specific disclosures to apply to ensure customers are aware of the risks. Where such disclosures are provided prior to a transaction taking place, liability for any loss should not fall on any of the regulated parties subsequently facilitating the transaction[9].

Question 3: Do you agree with our proposed application of the existing SUP rules (except SUP 16) to cryptoasset firms?

Our members agree with the application of the existing SUP rules to cryptoasset firms. Our members did, however, flag that SUP 11 (*Controllers and close links*) should apply to cryptoasset firms, given the previously stated intention within the HM Treasury Consultation Paper "*Improving the effectiveness of the Money Laundering Regulations*" to apply the Financial Services and Markets Act 2000 (FSMA) change in control regime to cryptoasset firms. We would welcome clarity on this point.

We would also note that the FCA has outlined its intention to consider the reporting requirements for cryptoasset firms under a separate consultation paper and as such have not asked for input regarding the application of SUP 16 (*Reporting requirements*).

2.3: Chapter 3: Senior Management Arrangements, System and Controls (SYSC)

Question 4: Do you agree with our proposal to require cryptoasset firms to follow the existing requirements in SYSC 1, 4 – 7, 9 – 10, and 18 in the same way as existing FCA-regulated firms (or existing DIBs)?

Our members agree with the general application of SYSC 1 (*Application and purpose*), 4 (*General organisational requirements*), 5 (*Employees, agents and other relevant persons*), 6 (Compliance, internal audit and finance crime), 7 (*Risk and control*), 9 (Record keeping), 10 (*Conflicts of interest*) and 18 (*Whistleblowing*) to cryptoasset firms.

This is an area where there are good reasons to apply a level playing field between investment firms and certain types of cryptoasset firms, given the similar risk profile – the

[9] This links back to the '*Avoiding unintended consequences for established markets*' high-level principle.

FCA should provide concrete, methodical and well communicated justifications for departing from the *'same risk, same regulation*' principle. We would welcome more granular insight from the FCA as to its reasoning behind its proposed approach for how cryptoasset firms are treated under SYSC chapters referred to above.

While noting the above, our members feel the FCA has not provided a sufficiently rigorous justification for classifying qualifying cryptoasset and qualifying stablecoin firms as '*other firms'* under SYSC, rather than as '*common platform'* firms. The first important task is to divide the different types of firms that will fall under these categories: for example, in the medium-long term a stablecoin issuer could pose a greater level of systemic risk as compared to an arranger of deals in cryptoassets. Furthermore, there appears to be a lack of clarity as to whether all cryptoasset firms will be treated as '*other firms*' under SYSC from the outset. Paragraph 3.5 states that cryptoasset firms "*will generally be classified*" as other firms in SYSC, and the corresponding proposed Handbook text drafting in Annex C of the *Cryptoassets: Conduct of Firm Standards Instrument* provides no further clarity as to whether there may be circumstances in which a cryptoasset firm will not be considered as an 'other firm'.

Regarding CATPs, there was consensus from members that (while perhaps not *currently* posing the same level of systemic risk as certain *'common platform firms'*) equating their risk profile to consumer credit firms is possibly downplaying the potential these firms have to scale in the future following the implementation of the FSMA regulatory framework. Accordingly, categorising these firms as '*other firms*' under SYSC may make sense now, but this should be continually reviewed by the FCA on the reasons outlined above.

Question 5: Do you agree with our proposal to apply the existing SM&CR regime to cryptoasset firms, taking into account various parallel consultations on the broader SM&CR regime to ensure consistency? If not, please explain why.

Yes, our members were in agreement that the existing SM&CR regime should be applied to cryptoasset firms. The existing regime provides a tested framework for accountability. It was also noted that that the SM&CR rules are technology agnostic so in principle should apply to cryptoasset firms without the need for any significant modification.

There was general consensus from members that no additional senior management functions or prescribed responsibilities specific to cryptoasset firms should be required. Our members also supported the FCA's intention to maintain alignment with ongoing SM&CR reforms and to use modification by consent if elements are shortly to be rescinded.

Paragraph 3.50 states that provision 1A.3 of the Client Assets (CASS) sourcebook will not apply to cryptoasset custodians, it will not be possible for them to certify individuals under the CASS oversight FCA certification function. However, for firms that CASS 1A.3 does apply to, the certified individual is responsible for the firm's overall compliance with CASS. Our expectation is therefore that the certified individual would have responsibility for CASS with respect to both traditional custody and cryptoasset custody. We request that the FCA confirm that the certified individual described in CASS 1A.3.1R – CASS 1A.3.1AR would also have responsibility for compliance with CASS 16-17 where applicable. This will ensure clear accountability and swift resolution in the event of insolvency.

Question 6: Do you agree with the proposed categorisation for enhanced cryptoasset firms, such as the threshold for allowing cryptoasset custodian firms to qualify as enhanced? Should we consider other ways to categorise cryptoassets firms as enhanced?

Our members were in agreement with the FCA's proposal for categorisation of enhanced cryptoasset firms, although would note that to fully opine on this point, would need visibility of the proposal within the future consultation paper where FCA has committed to set out how they will categorise cryptoasset firms as '*Enhanced*' under SM&CR.

The proposed thresholds, including Assets Under Management (AUM)style metrics adapted for stablecoin backing assets and custody exposure, are sensible. That said, classifications should reflect actual market footprint and risk. We therefore support the FCA's plan to introduce crypto-specific reporting to inform Enhanced categorisation and recommend a review point to validate thresholds once more robust data is available.

Question 7: Do you agree with our proposal to extend the application of SYSC 15A to cover all cryptoasset firms, including FSMA-authorised firms carrying out qualifying cryptoasset activities? If not, please explain why.

Yes, our members support the FCA's proposal to extend SYSC 15A to all cryptoasset firms. This aligns with the '*same risk, same regulatory outcome*' principle ensuring equivalent protections and resilience measures apply to both traditional financial services and crypto activities.

Members who already hold cryptoassets within their Important Business Services (IBS) have successfully integrated these activities into existing operational resilience frameworks without identifying fundamental incompatibilities. Our members therefore do not support introducing additional or enhanced operational resilience requirements for cryptoasset activities beyond those already applicable to equivalent traditional financial services activities.

Our members continue to advocate for operational resilience frameworks to evolve in an integrated manner across all financial services activities, rather than through parallel or divergent frameworks for specific sectors.

Additionally, crypto SYSC 15A compliance should be considered as part of any potential future review of the FCA's operational resilience sourcebook to ensure crypto operational resilience measures remain up to date with any future evolving regulatory approaches in traditional finance.

Question 8: Do you agree with our proposal that the use of permissionless DLTs by cryptoasset firms should not be treated as an outsourcing arrangement? If not, please explain why.

Yes, our members broadly agree with the FCA's proposal. This reflects the practical realities of permissionless DLTs and the limited ability of firms to exercise control over decentralised network infrastructure.

Firms using permissionless DLTs cannot enforce contractual terms on decentralised validators or node operators, making it impossible to meet traditional outsourcing

requirements such as audit rights or service level agreements. Attempting to impose such requirements would create compliance obligations that firms cannot fulfil.

However, our members still welcome that regulated cryptoasset firms utilising permissionless blockchains would be required to comply with other SYSC 15A provisions, including evaluating internal operational controls. While our members support question 8's approach, it is still important that customers of regulated cryptoasset products receive the same quality of service as both cryptoassets on public permissioned blockchains, or traditional finance assets. On this point, as raised in our response to the ICO's DLT guidance consultation[10], we would welcome further engagement across the authorities regarding the challenges and opportunities involved in regulated firms' utilising permissionless blockchains.

Critical Inconsistency - Paragraph 4.5

Paragraph 4.5 creates confusion by suggesting firms should consider "*delegating crypto assets to network of third-party validators or operators under formal outsourcing arrangements.*" This contradicts the position established in question 8.

UK Finance requests the FCA clarifies paragraph 4.5 to distinguish between**:**

- Centralised: Where a firm delegates to a single service provider managing validators (traditional outsourcing may apply).
- Decentralised: Where a firm delegates to a decentralised network of independent validators (should not be treated as outsourcing).
- Without this clarification, firms face impossible expectations to establish formal outsourcing arrangements with decentralised validator networks.

Question 9: Do you agree with our proposal to require cryptoasset firms to follow the same financial crime framework as FSMA-authorised firms? If not, please explain why.

Yes. We are in agreement with the proposal and believe that a common framework for financial crime prevention is important for the continuing trust of UK consumers and businesses in financial services. Given the unknown level of financial crime risks that may arise and the industry wide upskilling in this area, we expect that regulation of cryptoassets requires more engagement from the regulators, particularly regarding the implementation of controls. The framework may therefore need to adapt and evolve over time as we learn more about cryptoassests and how they interact with the rest of the financial system.

Cryptoasset firms in the UK have been subject to the UK anti-money laundering regime by virtue of their registration under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (the MLRs) since 10 January 2020 and should continue to be so, reflecting the money laundering risks associated with the crypto industry.

[10] See *Section 1.1* of this response.

Given the current state of the UK common law on what constitutes criminal property, notwithstanding intermediate 'good faith' acquirers of such property, and the regulatory requirement for any financial crime systems and controls to be proportionate to the risk (not exhaustive), our members would strongly welcome guidance from the FCA as to:

- its expectations as to what a proportionate risk assessment is;
- how far up transactional chain cryptoasset firms should look;
- how to balance on chain indicators with off chain KYC; and
- the materiality thresholds for independent chain-analysis, helping firms understand where responsibility lies with issues occurring at different blockchain hop levels[11].

2.4: Chapter 4: Guidance on cryptoasset operational resilience

Question 10: Do you agree with the guidance set out in this document, and can you outline any areas where you think our approach could be clearer or better tailored to the specific risks and business models in the cryptoasset sector?

Yes, our members support the FCA publishing this guidance and welcome the use of scenarios illustrating how different cryptoasset firms should manage operational risks.

Question 11: Are there any emerging digital and cyber security industry practices or measures which we should consider when supporting cryptoasset firms complying with operational resilience and related requirements? Please elaborate.

International Regulatory Harmonisation

The most critical consideration is ensuring harmonisation with existing and emerging regulatory frameworks both domestically and internationally. The cryptoasset market is inherently global, and divergent cybersecurity requirements across geographies impose significant implementation complexity without commensurate risk management benefits.

Core and Cryptoasset-Specific Best Practices

UK Finance agrees the consultation identifies appropriate cybersecurity best practices (security assessments, encryption, detection capabilities, patching, backups, incident management, training). These are well-established fundamentals equally applicable to traditional financial services.

However, cybersecurity requirements should be principles-based, allowing firms flexibility to implement controls appropriate to their circumstances. Overly prescriptive technical

[11] We acknowledge the FCA may require the industry to support in developing guidance to this due to the highly technical nature of this issue.

mandates risk becoming outdated quickly. The FCA should focus on articulating clear outcomes while allowing firms flexibility in achieving them.

One member flagged Quantum technology as a potential emerging threat to firm operational resilience. HNDL (Harvest Now Decode Later) and other techniques are emerging which make the importance of integrating post-quantum cryptography into DLT technologies and any other technologies that they interact with increasingly important. Zero-Knowledge-Proof is an example of a cryptographic coding protocol whereby statements/information may be verified with another party without revealing any information beyond the truth of the statement itself. We would welcome further engagement with the FCA on this point.

2.5: Chapter 5: Business standards

Question 12: Do you agree with our proposal to apply the ESG Sourcebook to cryptoasset firms?

Yes, our members agree that the ESG rules applicable to all FSMA-authorised firms should also apply to cryptoasset firms, meeting the '*same risk, same regulation*' principle[12].

2.6: Annex 2: Cost benefit analysis

Question 28: 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.

Yes, we consider the CBA a useful starting point and recognise the inherent modelling challenges due to the existing unregulated nature of cryptoassets. Our members broadly agree with the assessment's direction of travel and with the proposition that net benefits are likely. Additionally, given the significant risk of regulatory arbitrage by non-application of the FCA's handbook, our members consider it likely that, were the FCA not to take this course of action, significant detrimental impact to existing firms and the UK economy as a whole is likely. We recognise that the analysis will require further work to determine which proposals contained in this consultation will or will not apply and the associated costs and benefits.

While cryptoasset-related harms and firm behaviours are still evolving, the FCA has taken a pragmatic approach by anchoring cost estimates in survey evidence and prior FCA CBAs; however, as the FCA itself notes, these assumptions carry material uncertainty given the small survey sample (10 responses) and the reliance on previous CBAs and Standardised Cost Model (SCM) produced with reference to traditional finance firms rather than cryptoasset firms. Therefore, the framework of the assumptions and findings are helpful, however, would benefit from additional technical engagement and expanded sampling.

[12] This also connects to UK Finance's response to question 10 of the FCA's '**Regulating cryptoassets – Admissions & Disclosures and Market Abuse Regime for Cryptoassets**' discussion paper (DP24/4).

Question 29: Do you have any views on the cost benefit analysis, including our analysis of costs and benefits to consumers, firms and the market?

Our members consider that the CBA appropriately captures the likely benefits to consumers (stronger regulatory protections and reduced financial crime with clearer redress), the front-loaded compliance costs for firms, and the broader market gains in trust and effective competition.