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Consultation Paper CP25/15: A Prudential Regime for Cryptoasset Firms

Coinbase Global, Inc. with its UK subsidiary CB Payments Ltd. (together, **Coinbase**) appreciates the opportunity to respond to Consultation Paper CP25/15: A Prudential Regime for Cryptoasset Firms (the **Consultation Paper**) published by the Financial Conduct Authority (**FCA**).

Coinbase started in 2012 with the idea that anyone, anywhere, should be able to send and receive Bitcoin easily and securely. Today, we are publicly listed in the United States and provide a trusted and easy-to-use platform that millions of verified users in over 100 countries rely on to access the crypto economy.

Coinbase supports the FCA's policy objectives of promoting economic growth and helping consumers through cryptoasset regulation. We believe the FCA's goal of designing a regime appropriate for the UK will help to provide the certainty that will allow firms to continue issuing, safeguarding, and using cryptoasset products and markets domestically rather than being forced to provide a restricted service to UK customers or driven offshore. In this response, we have set out areas in the FCA's proposals in the Consultation Paper (**Proposals**) that we believe merit further consideration and revision to deliver that result while still protecting consumers.

As a firm, we stand ready to assist the FCA as it designs the proposed new prudential regime and look forward to engaging with the FCA on this important topic.

Yours sincerely,

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Introduction

We appreciate the opportunity to respond to the Consultation Paper. Our response focuses on key areas where we believe refinement is necessary to create a regime truly consistent with the FCA's goals and its 2025-30 Strategy to support growth and help consumers.

- **Disproportionate Rules:** The FCA's proposed rules are more onerous than crypto standards in other major economies (like MiCAR) and the FCA's own existing investment firm prudential rules (MIFIDPRU) - and likely more punitive compared to the US regime - which will harm UK competitiveness and consumers.
- **Inappropriate Rules**. Locking cryptoasset firms into a very similar capital regime as investment firms does not capture the fact that such firms present less risk to the UK financial system and consumers should they fail than investment firms.
- **Outdated Capital Standards:** The proposed capital requirements favor traditional financial firms and disadvantage new players by including activity-based requirements not present in other jurisdictions and by potentially allowing unreasonable deductions from regulatory capital for holdings of onchain assets.
- **Hurt Smaller Firms:** By omitting distinctions for Small and Non-Interconnected (**SNI**) firms, the Proposals burden smaller, innovative businesses with standards designed for larger, more complex firms, hindering growth and market diversity.

To encourage innovation, facilitate consumer access to cryptoasset products, and ensure alignment with international standards, we recommend the FCA revise the Proposals to:

1. Create definitions and rules that differentiate SNI cryptoasset firms from others.
2. Refine the definitions of "stablecoin issuer" and "custodian" to avoid unintended regulatory burdens on smaller firms involved in basic crypto activities.
3. Consider the new US stablecoin legislation as a relevant international standard.
4. Remove activity-based capital requirements for non-stablecoin issuers and reduce the capital requirement for stablecoin issuers (K-SII) to 1% (like Hong Kong).
5. Introduce reduced capital requirements for SNI stablecoin issuers to encourage UK-based stablecoins and recognize the low risk of fully reserved stablecoins.
6. Recognize high-quality, liquid cryptoassets (like stablecoins and network tokens) in regulatory capital calculations without significant deductions.
7. Change how "fixed overheads" are calculated for crypto firms to account for variable costs such as network transaction fees, commonly called gas fees.
8. Not penalize firms for using third-party custodians, as this can reduce risk. The rules should recognize and credit the use of regulated, qualified custodians.
9. Allow a wider range of high-quality liquid cryptoassetsto count towards the Basic Liquid Asset Requirement (**BLAR**) to improve financial stability and flexibility.
10. Reconsider the Issuer Liquid Asset Requirement (**ILAR**) for stablecoin issuers, as it duplicates other risk management measures in FCA Consultation Paper 25/14.

Context and Goals of the Consultation

Implementing the recommended changes would more strongly support the FCA's approach of basing the Proposals on its statutory objectives and its 2025-30 Strategy, which aim to:

- **Support growth:** By aligning with international standards and creating clear regulations for cryptoassets, the FCA wants to encourage innovation and investment in the UK, allowing UK firms to compete globally.
- **Help consumers:** The FCA wants to ensure consumers are well-informed, protected, and have access to products that meet their needs and are fairly priced.

However, the FCA also describes its intent to create a unified set of basic rules for all firms, with additional rules for specific sectors. As the largest prudential regulator in Europe, overseeing some 40,000 firms, the FCA believes this approach will lead to a shorter, less repetitive rulebook, a consistent approach across different sectors, easier navigation of rules, and rules that can be adapted for specific needs.

The result of this approach is prudential requirements that are excessively stringent - or "gold plated" - and exceed what is necessary to mitigate prudential risks. These requirements also systematically favor incumbent firms with diversified businesses across multiple sectors, which disproportionately benefit from a harmonized rulebook, over more specialized cryptoasset firms which will be covered by the new integrated prudential sourcebook (**COREPRU**) and the Cryptoasset Prudential Regime rules (**CRYPTOPRU**).

If implemented, we do not believe the Proposals will foster the level of growth needed for the UK to become a global leader in digital assets. Accordingly, the FCA should adjust its perspective and clearly prioritize its legal and strategic goals for the Proposals over its administrative goals when developing its revised Proposal. In particular, we believe the FCA should adjust its approach as follows:

- **Activity, Risk, and Regulatory Alignment:** Cryptoasset firms can be structured or operated in many different ways. Cryptoasset custodians generally operate differently from traditional banks and investment firms and should not be viewed through a banking/investment firm lens when it comes to prudential regulations. Cryptoasset custodians ordinarily do not operate as a fractional reserve bank or e-money issuer, for example, and have substantially different credit risk profiles. Formulaically applying traditional capital requirements is likely to produce disproportionately high capital requirements in some cases, which are inconsistent with the substantive risk profile of the firm, and do not recognize the fundamental structural differences of cryptoasset business models.
- **Capital Should Match Responsibilities:** A cryptoasset firm ordinarily holds assets for safekeeping primarily in the form of cryptoassets (e.g. BTC, ETH) and not in

fiat-based assets. Therefore, in our view (but subject to our responses to questions 1 and 2 below), holdings of cryptoassets should not be deducted from Common Equity Tier 1 (**CET1**) capital, because such a deduction would effectively mean that CET1 capital raised and invested in such assets would not contribute to meeting the minimum capital requirement that applies to the firm. Forcing firms to invest in pound sterling and traditional fiat-based assets to continue to meet regulatory capital requirements creates an unnecessary currency/basis mismatch and incurs higher operational costs. The FCA's prudential regime should be flexible enough to recognize high-quality, liquid cryptoassets as eligible investments in which the proceeds of capital issuance may be held for regulatory purposes without significant deductions unrelated to measurable risks of the assets themselves.

- **Avoid Duplicative Requirements for Stablecoins:** The forthcoming stringent requirements for the composition of backing assets, asset segregation, and custody of reserve assets being proposed separately by the FCA in its Consultation Paper 25/14 will address the primary risks associated with stablecoins. Additional prudential requirements would be duplicative and overly punitive should they exceed the higher of an appropriately calculated Permanent Minimum Requirement (**PMR**) and Fixed Overheads Requirement (**FOR**). For example, both the proposed 2% K-Factor for stablecoin issuance (**K-SII**) and ILAR substantially duplicate risk mitigation measures already substantively covered by requirements proposed in the FCA's CP 25/14 and lack independent justification. We suggest the FCA reconsider the proposed 2% K-SII rate for stablecoin issuers, referencing international comparators such as Hong Kong's 1% rate. The Hong Kong precedent demonstrates that lower rates can be consistent with safety and soundness objectives.

Moreover, the FCA references that it has considered international regulatory approaches (such as the EU's MiCA and regulations in Singapore and Hong Kong) and its existing rules when formulating the Proposals. However, based on our reading of the Proposals, we believe the FCA is drawing upon the EU's MIFID standards, as reflected in the Markets in Financial Instruments Directive and related prudential requirements (**MIFIDPRU**), as a primary benchmark for CRYPTOPRU requirements. This approach is taken without sufficiently adjusting these for the substantively different and more appropriate points of comparison in the EU's Markets in Crypto-Assets Regulation (**MiCAR**) and comparable prudential frameworks in other jurisdictions. As explained in more detail below, the FCA's proposed approach consistently raises capital requirements beyond those that apply in jurisdictions like the EU, harming the competitiveness of the UK in the cryptoassets sector.

Finally, the FCA has not referenced the existing standards now being introduced in the United States as a point of comparison. Following the adoption of the Guiding and Establishing National Innovation for US Stablecoins Act (the **GENIUS Act**), the FCA should consider the updated US requirements as relevant international standards when revising the Proposal. The GENIUS Act establishes federal licensing and prudential requirements, capital, liquidity, governance, and reserve standards, for payment stablecoins. If the UK wants to attract cryptoasset investment and innovation, it must align or compete with the rules coming out of other major jurisdictions. We encourage the UK to work closely with the US in this regard.

Specific Features of the Proposal

We believe the Proposals, as currently constituted, are excessively stringent and exceed what is necessary or appropriate to mitigate prudential risks. This approach carries several potentially detrimental implications for both consumers and the UK's competitive standing in the global market.

First, the Proposals selectively omit key provisions found in the MIFIDPRU framework. Specifically, they do not include a regime for SNI firms as exists in MiFIDPRU. Consequently, for SNI firms the proposed CRYPTOPRU requirements are inherently more conservative than their MIFIDPRU counterparts. This contradicts the FCA's stated aims of establishing a consistent cross-sectoral regulatory approach and developing adaptable rules. Furthermore, this structural conservatism would disproportionately burden SNI cryptoasset firms, compelling them to adhere to prudential standards that are designed for non-SNI firms. Such an outcome would likely lead to market dominance by a smaller, less diverse cohort of larger firms, thereby stifling innovation, impeding growth and competition, and ultimately harming consumers by offering them fewer choices.

Second, while the Proposals draw upon the EU's MIFID standards, reflected in MIFIDPRU, as a primary benchmark for CRYPTOPRU requirements, the EU's MiCAR standards and comparable prudential frameworks in other jurisdictions are clearly more appropriate points of comparison. Notably, the Proposals incorporate an activity-based capital requirement that scales with the firm's operations, a feature absent from MiCAR standards. Additionally, the Proposals' activity-based requirement for qualifying cryptoassets safeguarded (**K-QCS**), set at 0.04% of the average qualifying cryptoassets safeguarded, also lacks an equivalent within MiCAR. Any future activity-based requirements arising from subsequent K-factor calibrations in forthcoming FCA consultations would only exacerbate this divergence from comparable international standards.

Third, the Proposals' alignment with MIFIDPRU requirements concerning the permissible composition of capital instruments inherently favors established financial institutions that have access to Additional Tier 1 (AT1) and Tier 2 (T2) instruments. This inadvertently disadvantages new economy firms, which typically have limited access to traditional capital markets but greater access to capital resources funded or invested in onchain forms, such as stablecoins, network tokens, and other cryptocurrencies. The lack of specific recognition of these onchain resources as qualifying capital investments in the

FCA's Proposals, and the lack of assurance that such assets will not be deducted from CET1 capital, as, for example, "intangible assets" or "qualifying holdings outside the financial sector," increases financial risk by effectively forcing firms to hold capital in pound sterling and traditional fiat-based capital investments and creating unnecessary currency/basis mismatch and higher operational costs. The FCA's prudential regime should be flexible enough to recognize high-quality, liquid cryptoassetsas eligible investments in which the proceeds of capital issuance may be held for regulatory purposes without significant deductions unrelated to measurable risks of the asset itself.

Finally, the Proposals in CP25/15 are also significantly dependent on portions of the related FCA consultation paper CP25/14, particularly:

- **Definition of Safeguarding Assets**: Safeguarding arises if a party "has control" of covered stablecoins or cryptoassets, which as defined may arise from holding or controlling all or part of the means of access to the asset on behalf of another.
- **Definition of Stablecoin Issuer**: As proposed, this term would include parties with roles issuing, redeeming, or maintaining the value of covered stablecoins, including as part of an issuing arrangement.

We are commenting separately on CP25/14. Our key observation on CP25/14 for the purposes of CP25/15 is that, depending on how these terms are interpreted and how affected firms operate, they may subject smaller firms involved in on- and off-ramping and equivalent processes not traditionally associated with stablecoin issuance or cryptoasset custody to prudential regulation by the FCA. It could also lead to unjustifiably higher system-wide capital and liquidity requirements based on the flow of assets through those firms rather than more reasonable measures of the stock of stablecoins issued or assets safeguarded.

While the FCA may consider the Proposals will only apply to larger stablecoin issuers and custodians, in practice the effects may be far more widespread. The FCA must act to prevent this potential unjust outcome by revising the definitions and/or by adopting appropriate clarifying interpretations that ensure smaller firms that do not carry out the full range of activities that are normally associated with stablecoin issuance are not unduly burdened.

Questions Posed in the Consultation Paper

Chapter 3 - Own Funds - definition and composition of capital

Question 1: Do you have any comments on our proposals for the definitions and types of, and deductions from, regulatory capital that CRYPTOPRU firms should use to calculate their own funds?

Question 2: Do you have any views on our proposed requirements for deductions from CET1 capital, in particular cryptoassets held by firms which they have issued or are in control of the supply of?

Locking crypto-asset firms into a very similar capital regime as investment firms does not capture the fact that cryptoasset custodians present much less risk to the UK financial system and consumers should they fail than investment firms. Investment firms, with their often mismatched asset/liability structure, risk disorderly failure. However, this is substantially less true for both stablecoin issuers and cryptoasset custodians that do not provide banking and/or MiFID investment services. It follows that in order to meet the FCA's secondary growth and innovation objectives, without jeopardising the FCA's primary objectives, a more tailored definition of, and regime for deductions from, capital must be developed for cryptoasset firms. This definition should reflect the lower risk to the system should a crypto custodian fail, thereby achieving the FCA's stated objectives of supporting economic growth and helping consumers.

The FCA can accomplish this by scaling down the rules in COREPRU for cryptoasset firms and allowing CRYPTOPRU firms to meet a greater amount of the requirements with non-equity forms of loss absorbing resources. For the avoidance of doubt, the FCA should also amend the Proposals to include cryptoassets more clearly in relevant definitions of eligible assets in which the proceeds of capital issuance may be invested without deduction from CET1 capital, as, for example, "intangible assets" or "qualifying holdings outside the financial sector."

We note the proposed deduction of intangible assets from CET1 capital in COREPRU 3.3.21R. However, it is important that COREPRU make clear that cryptoassets should not be deducted from CET1 capital if they are accounted for as intangible assets. In our view, deduction of cryptoassets from CET1 capital on this ground would not only be inappropriate but it would also mean that any separate FCA rules on deduction of cryptoassets from CET1 capital would serve no practical purpose.

Our understanding of the policy underlying deductions of assets from capital is that the assets concerned should be assets that are likely to have no value on the failure of the firm. We are concerned that the proposed deduction requirements in COREPRU 3.3.36R do not respect that policy because they do not give credit for cryptoassets that might be expected to retain some value if the firm fails. The rules would be more consistent with that policy if they referred expressly to cryptoassets that are likely to have no value on the failure of the firm.

In our view, cryptoassets may be considered for the same deductions as traditional financial assets to the extent equivalent concerns exist, with the haircut for cryptoassets based on a balance between the measurable liquidity features of the asset and consistency with comparable asset categories.

Separately, we note (with reference to the comment at the end of Annex A to the draft COREPRU and CRYPTOPRU Instrument in CP 25/15) that the FCA intends to consult on amendments to the definition of 'trading book' in a separate consultation. At present, the trading book is a concept that applies to MiFIDPRU firms. If it is the FCA's intention to extend it to cryptoasset firms, then we would request that the FCA reconsider the appropriateness of COREPRU 3.3.40R to such firms.

Chapter 4 - Own funds requirement

Question 3: Do you have any comments on our proposed overall approach on the Own Funds Requirement (OFR), and the detailed provisions of the specific components: (i) PMR, (ii) FOR, (iii) K-SII, and (iv) K-QCS?

Question 4: Do you have any views on the items to be deducted from total expenditure when calculating the FOR, are there any others that may be relevant for cryptoasset firms and if so, why?

The proposed approach of requiring crypto firms to hold the greater of three different sets of requirements is overly conservative and complicated. This will likely result in minimum requirements for smaller firms that are difficult to meet, thus reducing the innovation that smaller firms bring to the market. For example, the OFR treats SNI cryptoasset firms differently than SNI investment firms are treated under MiFIDPRU. Under MiFIDPRU, SNI firms only need to consider PMR or FOR, and non-SNI firms need to evaluate PMR, FOR, and KFR. However, under the Proposals, all cryptoasset firms, regardless of size, must assess their minimum capital requirement against PMR, FOR, and KFR. By omitting distinctions for SNI firms, the Proposals burden smaller, innovative crypto businesses with standards designed for larger, more complex firms, hindering growth and market diversity.

We do believe the PMR and the FOR have merit as capital measures focused on the core need of requiring a firm to have sufficient resources to establish and conduct ongoing operations and to cover wind-down expenses. However, the K-SII and K-QCS are non-risk sensitive and calibrated in a manner that runs counter to the FCA's growth objectives by not accurately reflecting the relevant characteristics of stablecoin issuers and cryptoasset custodians. In particular:

- In the case of stablecoin issuers, the proposed 2% K-SII bears no relation to the duration or risk characteristics of the assets backing the relevant stablecoin, and thus functions more like an inflexible burden on the issuer than a true risk mitigant. This result is even more pronounced when the proposed definition of “stablecoin issuer” includes all parties with roles in issuing, redeeming, or maintaining the value of covered stablecoins, including as part of an issuing arrangement, thus potentially multiplying the distorting effects many times over.

  - We suggest the FCA reconsider the proposed 2% K-SII rate, referencing international comparators such as Hong Kong’s 1% rate. The Hong Kong precedent demonstrates that lower rates can be consistent with safety and soundness objectives.
  - The FCA should also introduce a reduced <1% capital requirement for SNI stablecoin issuers/consortium members to the extent they are not otherwise excluded from prudential requirements altogether by appropriate amendments or interpretations of applicable definitions. This would encourage the development of domestically oriented GBP-denominated stablecoins and clearly differentiate fully reserved stablecoins from the liabilities of fractional reserve banks and e-money issuers, which have substantially different risk profiles.

- In the case of cryptoasset custodians, the operational risks of the custodial business do not scale proportionately with the value of the assets custodied, making K-QCS a fundamentally flawed proxy for sizing a capital buffer. Rather than creating a capital requirement as volatile as the assets custodied, the FCA should instead focus its efforts on establishing supervisory practices that ensure firms size their ongoing fixed overhead expenditures appropriately to maintain stability even as asset prices fluctuate over the course of a complete business cycle.

The definition of “fixed overheads” should also be adapted for crypto-native businesses. For example, network transaction fees, commonly called “gas fees”, and staking related costs are highly variable and directly tied to onchain activity. The current definition does not provide clarity on how to treat these expenses that are unique to cryptoasset firms. The FCA should provide specific guidance clarifying that costs of this kind should be deducted from the FOR calculation.

Question 5: Do you agree with our proposal that the value of qualifying cryptoassets appointed by or to a third party custodian for the purposes of safeguarding must be included in the measurement of QCS? If not, how else would you suggest that the risk of potential harm from the use of third parties is mitigated?

We respectfully disagree with this proposal, as it appears to disincentivize firms from employing a risk-mitigating strategy by providing no credit for the safeguarding of assets by another entity. When a firm appoints a regulated custodian with a more favorable operational risk environment than its own, that firm is actively transferring and mitigating operational risk. The framework should give credit for the use of a regulated, qualified custodian to reflect the reduced risk profile associated with appointments of this kind. This is particularly true given that, under the definition proposed by the FCA, “safeguarding” arises if a party “has control” of covered stablecoins or cryptoassets. This control,as defined, may arise from holding or controlling all or part of the means of access to the asset on behalf of another (e.g., one or more cryptographic keys).

Depending on how these terms are interpreted and how affected firms operate, they may subject smaller firms involved in on- and off-ramping and equivalent processes not traditionally associated with stablecoin issuance or cryptoasset custody to prudential regulation by the FCA. It could also lead to unjustifiably higher system-wide capital and liquidity requirements based on the flow of assets through those firms, rather than more reasonable measures of the stock of stablecoins issued or assets safeguarded, net of such “double counting” effects.

Taken together, the FCA’s proposed approach would strongly favor larger, incumbent firms with vertically integrated custodial operations across multiple financial asset classes—but possibly less experience with cryptoassets specifically—over specialist firms with the deepest experience in cryptoasset custody. A better approach would encourage the development of a secure custody ecosystem in the UK based on operational excellence in cryptoasset custody, which would be a positive factor for consumer protection. For example:

- Establishing equivalent capital charges for cryptoasset custody operations regardless of whether they are conducted directly or by using a third-party custodian would correct the implicit cross-subsidy benefit custodial firms currently receive by not being subjected to duplicative capital requirements when they extend their operations into specialized sectors with which they have little experience.
- Revising relevant definitions of terms such as “safeguarding” and/or adopting appropriate clarifying interpretations would help to ensure that smaller firms are not unduly burdened when they choose to participate in a consortium business model that involves appointing and overseeing a specialist third-party custodian, directly or indirectly, for the purposes of safeguarding qualifying cryptoassets. The risks to the UK financial system are reduced rather than increased when choices of this kind are made effectively, and there is no risk-based justification for multiplying system-wide capital requirements potentially many times over based on business model choices of this kind.

Chapter 5 - Liquid Assets Requirement

Question 6: Do you agree with our proposals on the basic liquid asset requirement (BLAR)?

Question 7: As part of the BLAR, can you identify any circumstances where the provision of guarantees provided to clients by firms might apply to cryptoasset custodians or qualifying stablecoin issuers?

We support the concept of the BLAR and consider the levels for the BLAR set forth in the Proposals to be appropriate. We would, however, appreciate the FCA providing more information on the analysis it conducted to support the Proposals, including the calibration of the 1.6% guarantee factor, so we can comment appropriately on any revisions to these standards the FCA may propose in the future.

However, we consider the proposed set of qualifying core liquid asset types to be too restrictive. As noted above, we would support revising the Proposals to allow firms to incorporate more types of assets into their risk management processes, particularly "qualifying cryptoassets," "specified investment cryptoassets," "qualifying stablecoins," and other instruments that might otherwise be considered cryptoassets (like tokenized e-money or deposits).

We believe that in the case of the BLAR, doing so would both enhance financial stability—by reducing rather than increasing financial contagion channels between onchain and offchain assets and activities that would not otherwise exist but for the regulatory requirement—and recognize the substantial financial equivalence of certain types of assets—such as stablecoins and money market funds, and bank deposits and tokenized deposits. We note, for example, that the Proposals include units or shares in regulated money market funds in core liquid assets but not regulated stablecoins, a distinction we do not believe is justified. Revisions correcting inconsistencies of this kind would contribute to the FCA's goals of supporting economic growth and helping consumers by making the Proposals more forward-looking and durable.

Question 8: Do you agree with our proposals on the issuer liquid asset requirement (ILAR) to address price risk when government debt instruments are held in a backing pool (either directly, or indirectly in connection with certain funds and repo/reverse repo transactions)? If not, please explain why you do not agree with specific aspects and what alternative solutions would you suggest?

As proposed, the ILAR requires qualifying stablecoin issuers to calculate the level of on-demand cash deposits they need to hold to account for price volatility in the backing asset pool. This ensures that if there is a shortfall, firms will then be able to promptly top up the backing assets pool to the 1:1 ratio by the end of the following business day. We understand these requirements would be over and above those for the issuer to maintain the 1:1 ratio directly, so ILAR would be explicitly duplicative of the operational requirements applicable to stablecoin issuers under the FCA's CP 25/14. We note that in paragraph 5.2 of CP 25/15, the FCA attempts to distinguish between the liquidity requirements of a stablecoin backing asset pool and liquidity requirements for the issuer of a qualifying stablecoin. However, we do not consider that this distinction is a meaningful one because we understand the former could in reality include a buffer to address potential falls in backing asset values in stress scenarios; hence our concern about duplication in the Proposals. Where such a buffer is maintained, cryptoasset firms should be permitted to deduct such a buffer from their ILAR.

In addition, only deposits that are immediately available without restrictions would be eligible to meet the ILAR requirement. In practice, this would mean the issuer would not earn interest on these funds, and the ILAR requirement would again function as an implicit additional cost for the issuer of the stablecoin. This opportunity cost would be over and above the direct risk-based requirements associated with maintaining the 1:1 ratio of the backing assets to stablecoins themselves, such as the On Demand Deposit Requirement, the Backing Asset Composition Ratio, and the Contingency Funding Plan (CFP).

We support the establishment of appropriate risk management standards for stablecoin issuers including liquidity requirements. But liquidity requirements that are explicitly duplicative of risk-based backing asset management standards being established separately under CP 25/14 have no place in the FCA's prudential regime. Rather than first encouraging stablecoin issuers to assume greater interest rate risk in their backing asset portfolios and then charging those risks back to issuers in the form of ILAR, the FCA should establish a single consistent view regarding the appropriate collateralization/ haircut/ related requirements necessary for stablecoins to function as intended and implement that view directly through the operational requirements that apply to stablecoin issuers. In such a regime, ILAR for stablecoin issuers would be limited to amounts necessary to support the Issuer's CFP. An ILAR that is overly conservative will only detract from the stated goals of the FCA by making the UK less attractive as a place to conduct cryptoasset business, reducing economic growth below potential, and harming consumers by limiting the choices of investments available to them.

We also would be grateful if the FCA would clarify that the maturity bands in the asset charges in CRYPTOPRU 6.1.11R relate to the remaining period to maturity of relevant assets and not to their maturity at issuance.

Finally, it would also be helpful if the FCA clarified the treatment of deposits that are not on-demand deposits in this framework. Where backing assets include such deposits, how should firms calculate their 'maturity' under CRYPTOPRU 6.1.11R? It would seem logical for the maturity band of such a deposit to be determined by reference to the shortest period of notice that the firm may give to withdraw the deposit, but we would be grateful if the FCA would confirm this.

Question 9: Do respondents consider that the foreign exchange risk for qualifying stablecoin issuers described in paragraph 5.22 needs to be addressed through minimum requirements, for example would a specific capital charge be appropriate?

We do not believe this is necessary. If our suggestion to reduce reliance on ILAR as described above is adopted, the relevant foreign exchange effects could be accounted for directly through the CFP. In the ILAR regime contemplated by the Proposal, hedging allowances for the relative exposures to stablecoins outstanding and backing assets held by multi-currency stablecoin issuers should minimize these effects. In either case, the presence of material additional foreign exchange risk would be a compliance gap best addressed by the FCA through the supervisory review and evaluation process.

Chapter 6 - Concentration risk

Question 10: Do you have any comments on the proposal for monitoring and control of concentration risk? Please provide suggestions for any specific clarifications that you feel may be helpful.

We support establishing reasonable core requirements for both stablecoin issuers and cryptoasset custodians to identify, monitor and control concentration risks. As noted above, we would support revising the Proposals to allow firms to incorporate more types of assets into their risk management processes, particularly “qualifying cryptoassets,” "specified investment cryptoassets,” “qualifying stablecoins,” and other instruments that might otherwise be considered cryptoassets (like tokenized e-money or tokenized deposits). Such changes would help to reduce risks overall, by (i) allowing blockchain-based capital assets to be deployed faster when needed, (ii) reducing basis risk between cryptoasset- and fiat-based financial markets, and (iii) reducing concentration risk specifically by increasing the number of investment options available to firms.