To:
Nikhil Rathi
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Via email: cp26-4@fca.org.uk

12 March 2026

Response to FCA Consultation Paper: Application of FCA Handbook for regulated cryptoasset activities - part 2 (CP26/4)

Coinbase Global, Inc. (together with its UK subsidiary CB Payments Ltd. and its other subsidiaries, **Coinbase**) appreciates the opportunity to respond to CP 26/4 (**the Consultation Paper**) published by the Financial Conduct Authority (**FCA**).

Coinbase is a trusted service provider of crypto trading, custody, and infrastructure. Founded in 2012 and publicly listed in the United States, we offer a secure and user-friendly interface for millions of verified retail and institutional investors globally. We are committed to building an open financial system and are doing so with the strongest regulatory compliance and security protocols available.

We welcome the opportunity to respond to this Consultation, which in general reflects a pragmatic and thoughtful approach to cross-cutting standards and international firms. The FCA should ensure that protections are appropriately focused on UK consumers, and obligations targeted to UK-based activity. This would allow the FCA regime to maintain a trusted domestic framework while supporting a well-functioning global cryptoasset ecosystem.

We look forward to continued productive engagement as the FCA prepares to finalise its regime.

Yours sincerely,

Tom Duff Gordon, Vice President,
International Policy, Coinbase

Keith Grose,
UK CEO, Coinbase

Introduction

Coinbase supports the FCA's publication of CP26/4 alongside Consumer Duty guidance in GC26/2. These proposals represent an encouraging development of the FCA's thinking and contribute to a comprehensive and generally proportionate regulatory approach.

In many areas this Consultation reflects the FCA's thoughtful and responsive engagement with stakeholders throughout the delivery of the Crypto Roadmap. In others, we believe that ambiguity on the treatment of international firms and the overall coverage of consumer protection rules requires further refinement to avoid duplication and to ensure requirements remain targeted at activity in the UK.

Below we set out areas of priority for consideration by the FCA:

- **We welcome the ability to operate trading platform activities from a branch, as this provides flexibility to ensure UK customers can benefit from global liquidity while being appropriately protected. To realise the benefits of a pragmatic approach to branch structures, the FCA must address ambiguity on the activity permitted within limited branch permissions.**

The FCA has taken a balanced approach to international firms. Noting that applications would be assessed on a case-by-case basis, the ability to operate a trading platform and conduct ancillary activities from a branch will allow UK customers to access high quality products while being appropriately protected. Furthermore, the proposal to allow firms to operate settlement wallets effectively without undermining the UK trust model, sets out a strong framework for compliance-focused international firms, and positions the UK competitively as a global destination for cryptoasset businesses – subject to changes to the UK's prudential framework.

In particular, we support the FCA's proposal that an overseas firm authorised to operate a UK CATP via a branch should, where appropriate, be able to obtain a restricted dealing-as-principal permission for matched principal trading on its own platform through that branch. However, it would be helpful for the FCA to allow limited enhanced flexibility in the application of the matched principal concept, recognising the operational realities of cryptoasset markets. In particular, the framework should allow for a degree of trade-order asymmetry and a limited level of justifiable market risk where necessary to facilitate efficient settlement and liquidity management in connection with orders executed on a CATP. Such flexibility would not undermine the neutrality of a CATP provided the activity remains strictly necessary to platform execution and does not involve 'pure' proprietary trading. We agree that any broader proprietary trading permission should instead sit in a UK-incorporated entity.

- **We believe prudential requirements should be focused on UK establishments to prevent duplicative and potentially conflicting regulatory coverage. For the same reason, consumer protection rules should be targeted to UK customers**.

Applying prudential requirements to branch-authorised trading platforms overseas would likely conflict with home state regulation (which must already be 'comparable' per the FCA's guidance) and double-count risk. An approach targeted to UK establishment-based activity would ensure that FCA prudential requirements are not inadvertently inclusive of the global operations of an overseas firm.

With regard to consumer protection rules in COBS and the Consumer Duty, extra-territoriality would likely conflict with rules in the home state of the customer. As the FCA notes, crypto markets operate across borders. To avoid duplicative or conflicting obligations the application of protections must be targeted to activity carried out in the UK for UK customers. We welcome the signal that the FCA intends to consult on removing business with non-UK customers from the scope of the Consumer Duty later this year, and believe this should extend to obligations set out more generally in COBS. This more targeted approach would be justified on the basis that an assessment of 'comparable regulation' by home-state regulators would be necessary as per FCA guidance. As formalised equivalence determinations may take time, the FCA should make pragmatic and case-by-case assessments, offering guidance on how these would be approached.

- **We welcome the disapplication of the Consumer Duty where tailored outcomes-focused rules exist in its place. However, there remains duplication within A&D and trading rules that must be rectified.**

Aligning standards between regulated sectors will build trust, and give consumers the confidence to engage with products and services that meet their needs. This includes ensuring that customers are provided products and services suitable for them and which support them in achieving their financial objectives. The Consumer Duty is generally a suitable tool to ensure outcomes-focused rules which are future proofed and avoid unnecessary prescription. However, the FCA should ensure that its targeted disapplications of the Consumer Duty consistently cover the areas where *alternative* outcomes-based rules have been proposed. This includes broader communications and access arrangements to CATPs, and the admissions and disclosure process for UK-issued qualifying stablecoins.

- **The implementation of the crypto regime makes the blanket application of the most stringent financial promotions requirements unjustifiable and reduces the competitiveness of the UK crypto regime; the FCA should - at a minimum - remove non-UK qualifying stablecoins, BTC, and ETH from the RMMI category to take effect at the same time as the crypto regime goes live in October 2027.**

We believe the FCA must provide a clear statement alongside its Policy Statements that it will implement changes to the financial promotions regime which, at a minimum, scope non-UK qualifying stablecoins, and established, well-understood cryptoassets including BTC and ETH, out of the RMMI categorisation. Given the comprehensive protections proposed across the upcoming FSMA regime, we believe this non-RMMI asset list should be broader if a risk-sensitive approach is taken. Indeed many of these assets are now accessible via exchange traded notes in traditional brokerage accounts, reflecting their maturity and broader market acceptance. In our answer to Question 16, we set out that the top 20 cryptoassets by market cap (excluding memecoins) exhibit lower volatility than US tech stocks, for example (which are not subject to the RMMI designation). We strongly believe these revisions should go live at the same time as the regime is implemented in October 2027.

- **While we welcome the ability to utilise a global settlement wallet, the strict 1% cap on UK client assets is too restrictive; a 3% limit would allow this model to function more effectively.**

We welcome the pragmatic approach the FCA has taken to support CATP branches operating a global settlement float outside of the UK trust structure. This benefits UK customers by ensuring greater access to global liquidity.

However we believe the 1% limit proposed by the FCA for UK client assets in the settlement wallet is too rigid and operationally challenging in a global liquidity model. The proposal from the FCA suggests that the 1% must be made up of no more than 1% of the total UK holdings of each individual crypto asset being offered for trading, but demand across assets is not uniform in crypto markets, and therefore sufficient liquidity may require proportionately higher volumes of certain cryptoassets over others. Similarly, price changes can cause unintentional deviations which a strict 1% ceiling offers no flexibility for.

An appropriately higher limit of 3% of the total cryptoasset value in the UK trust would ensure that minor price deviations or uneven demand among cryptoassets do not force assets to be pulled from the settlement wallet and cause significant liquidity issues to the detriment of customers.

- **We believe the approach taken to specified investment cryptoasset (SIC) safeguarding is appropriate in the short to medium term by aligning with requirements for qualifying cryptoassets. However, ambiguity in the FCA's classification of types of SICs must be clarified in perimeter guidance to deliver certainty to both cryptoasset firms and traditional firms seeking to pursue the benefits of tokenisation. In particular, clarity is important to ensure that**

tokenised securities which offer the same bundle of rights as traditional securities are not inadvertently treated differently from the underlying specified investments they represent, as this could undermine technological neutrality and create operational complexity for custodians safeguarding both forms of the same asset.

The general alignment of SIC safeguarding with cryptoasset safeguarding rules in CASS 17 supports a consistent approach and recognises the common technological considerations in relation to DLT. In the short to medium term, a common safeguarding framework across cryptoassets may provide a workable interim solution while tokenised securities markets continue to develop.

We understand the FCA has not yet set out perimeter guidance (PERG) for consultation, but believe the FCA's interpretive split between 'native' and 'non-native' SICs creates confusion in conjunction with the definition set out in the Cryptoasset Regulations. We believe that between the FCA's concepts of securities solely issued on a blockchain ('digitally native SICs') and cryptoassets that are 'backed' by traditional securities ('non-digitally native SICs'), are cryptoassets which *represent* an underlying security and offer the same bundle of rights. Unlike this clear rights relationship, a cryptoasset 'backed' by a traditional security may be a separate security from it, or a qualifying cryptoasset rather than a SIC. Clarifying this distinction will be important to ensure that tokenised securities that replicate the legal and economic rights of traditional securities are consistently classified as specified investments rather than inadvertently falling within the qualifying cryptoasset regime. The FCA must therefore revisit this interpretation when it consults on PERG to ensure a clear boundary.

Answer to specific questions

Summary

Question 1: Do you agree with our proposed approach on guidance for international crypto firms? If not, provide details. In particular, we would be interested in views as to whether any of our proposed rules in this CP should be applied differently to a UK QCATP which is authorised via a UK branch of an overseas firm, in relation to non UK users.

We welcome the FCA's provision of guidance on the approach to international firms. While the application of case-by-case assessments creates a level of uncertainty for firms which are determining whether to pursue authorisation through a branch, the Approach to International Cryptoasset Firms (AICF) provides helpful guidance on how exceptions to subsidiarisation requirements may work in practice, and how the FCA would determine its decisions under the Threshold Conditions. We address the detailed treatment of non-UK users of a branch-authorised UK QCATP in our responses to Questions 11 (FOS jurisdiction) and 15 (COBS territorial scope).

As noted in our response to CP25/40, we strongly support the ability for overseas firms to operate via a branch authorised as a UK CATP operator where they also have a UK incorporated entity. This is a pragmatic and innovative approach to ensuring access to good liquidity, a more competitive UK crypto market in which firms are able to do business, and the continued application of appropriate protections for consumers and the market. We appreciate the clarity provided in CP25/25 that SYSC 15A would not apply to branches of overseas firms, and confirmation in CP26/4 that Training and Competence rules would be subject to the same territorial scope as in other sectors.

Application of UK requirements to the overseas entity / UK branch

However, we believe ambiguity remains on the treatment of branches under the FCA's proposed rules, and how *'comparable regulatory protections'* would be determined in an evolving international regulatory environment. In particular:

- To avoid double-counting risks and conflicting regulatory expectations, **the FCA should confirm that prudential capital and liquidity requirements will continue to apply at home-state level to the overseas CATP operator, and will not be replicated at UK branch level beyond any incremental buffers strictly necessary to address UK-specific risks**.

- Further clarity is required regarding the FCA's statement that authorisation applies to "the whole firm, including its UK and overseas offices." In our view, the FCA should avoid a presumption that FCA Handbook obligations applicable to a UK CATP automatically extend to the firm's entire global customer base, including non-UK users. UK financial regulation is fundamentally territorial in nature, and the mere presence of a UK branch should not, of itself, cause activities conducted exclusively with non-UK users to be treated as UK-regulated activity. Accordingly, **UK regulatory requirements should apply on a UK-facing basis, namely to activities carried on in or from the UK, or otherwise directed at UK users, rather than to a firm's global operations as a whole.**

- While we agree that home state regulation of an international firm is a relevant consideration, the FCA's proposal to require an authorised subsidiary alongside the branch should give additional comfort in absence of formalised equivalence. We therefore urge the FCA to focus on broad outcomes rather than a need for comprehensive or like for like alignment. The FCA approach suggests a case-by-case assessment would be made, but many firms will soon enter the accelerated authorisation process for the new regime on the basis of a CATP branch structure. If, at a later stage, the FCA determines that the structure is not available to them due to a perceived lack of supervisory equivalence, this could necessitate significant restructuring at a late stage, and this creates uncertainty for firms now, and potentially discourages investment in UK operations. **The FCA should set out how it would assess whether overseas regulation is 'comparable' in absence of formalised equivalence, to avoid undue subjectivity or unfair treatment, and a potential cliff-edge were such assessments to change.**

- Finally, it would be helpful for the FCA to clarify that appropriate resource sharing between a UK subsidiary and a UK branch within the same group structure should be permissible, provided that each authorised entity continues to meet the adequate resources requirement. This should include the ability to share personnel and infrastructure, including where appropriate senior managers performing SMF roles, subject to clear accountability and governance arrangements. Allowing proportionate resource sharing would support efficient group structures while maintaining robust supervisory oversight.

Scope of permitted branch activities

We consider that the branch framework should allow sufficient operational flexibility for a CATP branch to perform the core activities required to support global trading platform operations. Cryptoasset trading platforms operate as integrated global infrastructures, and overly narrow restrictions on branch activities risk creating fragmentation between the UK branch and the overseas platform, potentially reducing liquidity and execution quality for UK users.

In this context, it would be helpful for the FCA to confirm that a UK CATP branch may undertake certain ancillary activities necessary to support platform operation, including assuming limited, short-duration market exposure strictly for settlement or liquidity management purposes, and the operational interaction with the global order book and settlement infrastructure of the platform. These activities are operational in nature and do not undermine the principle that CATPs should remain broadly neutral market infrastructures.

We welcome the FCA's approach to 'settlement wallets' which will allow a small float to be held outside of the UK trust arrangement and therefore ensure that UK non-statutory trust structures do not conflict with the property and insolvency laws of the customer's home country. Although we believe this float should allow for greater than the 1% of assets per client and per asset type proposed, to ensure flexibility for small deviations.

We also welcome the indication that a UK CATP branch may obtain a restricted dealing-as-principal permission to undertake matched principal trading. However, the definition of matched principal trading should allow a degree of operational flexibility, recognising that in practice trade legs may not always be perfectly simultaneous and small, short-term exposures may arise in the course of settlement or liquidity management. In particular, the current formulation, which requires that the "facilitator" is "never itself exposed to market risk" and that both sides of the transaction are executed "simultaneously", may not fully reflect the operational realities of modern electronic markets and global order book models. We therefore encourage the FCA to clarify that limited and short-duration market exposure arising from execution sequencing, hedging latency, or settlement mechanics would not of itself disqualify a transaction from being treated as matched principal trading.

Similarly, the requirement that the facilitator makes no profit or loss other than a previously disclosed commission, fee or charge could benefit from clarification. In practice, CATP operators may operate a range of transparent fee models, including spread-based or blended pricing structures, provided these are disclosed to clients and do not undermine the neutrality of the platform. The FCA should therefore clarify that matched principal trading can accommodate reasonable flexibility in fee structures, provided firms maintain robust conflict-of-interest management, transparent pricing disclosures, and governance arrangements designed to ensure the platform remains operationally neutral rather than engaging in discretionary proprietary trading.

Provided such exposures remain strictly ancillary to platform execution, subject to robust risk controls for example in respect of conflict of interest management, and do not involve independent discretionary proprietary trading, they remain consistent with the FCA's objective that CATPs operate as neutral trading venues.

Treatment of non-UK customers

Applying UK rules uniformly to a branch in respect of its non-UK customers would risk friction with home-state regulations.

More broadly, we believe a localised compliance approach is justified in many cases. In particular:

- **The Consumer Duty should not be applied to non-UK customers because this would conflict with consumer protection rules of the customer's residence and firm's home-state jurisdiction.** Specific regulatory standards of 'fair value' and 'consumer understanding' will differ between jurisdictions. While we commit to providing good outcomes for our customers regardless of jurisdiction, regulation must not result in conflicting requirements being applied. We welcome the FCA's commitment to propose removing business with non-UK customers from the scope of the Duty later this year, and believe this must be confirmed for crypto activities prior to the gateway opening given it could affect location and structural considerations.

- **We strongly agree that the application of COBS should not extend to non-UK customers of a CATP authorised via a branch.** The branch structure the FCA is proposing to allow means that the global liquidity pool of an overseas CATP authorised through a branch would be deemed part of the 'UK CATP'. Applying COBS requirements to non-UK users of the CATP would mean applying UK regulation to an overseas firm's business with an overseas customer. This would likely duplicate and may conflict with requirements in the CATP's home jurisdiction (given a condition of branch authorisation is that 'comparable' regulation exists), and go beyond the intention of the crypto regime to protect UK-based activity. For example, UK-specific appropriateness questionnaires applied globally would risk disrupting onboarding for international customers and create regulatory duplication if the user has already completed a similar assessment in their home jurisdiction. We provide more detail on the disapplication of COBS in response to question 15.

- **We do not believe access to the Financial Ombudsman Service should cover complaints from non-UK customers.** We welcome the proposal to limit compulsory FOS jurisdiction to activities carried out from a UK establishment in line with other sectors. We believe the FCA should confirm this means activities carried out by an overseas CATP authorised through a branch would not be in scope of the FOS where there is no UK customer. In addition, while we understand that there is precedent for FOS jurisdiction extending to non-UK customers of a UK authorised firm, crypto activities are complex to 'locate' where they take place across borders. Relying on a 'from an establishment in the United Kingdom' scope for FOS coverage creates ambiguity for legal entities operating in multiple jurisdictions. An additional limitation confirming non-UK customers would not be in scope of FOS jurisdiction would ensure that international users do not utilise extraterritorial FOS jurisdiction to bypass their local dispute resolution mechanisms in favour of the UK system.

Territorial scope and overseas firms

The absence of an explicit overseas persons exclusion in the cryptoasset statutory instrument creates uncertainty as to when overseas firms may fall within the UK regulatory perimeter. In particular, ambiguity remains as to whether firms servicing only UK institutional clients may nevertheless be considered to be carrying on regulated activities in the UK, which could create legal uncertainty for both overseas firms and UK-authorised firms transacting with them, including potential challenges to agreements on the basis of a breach of the general prohibition. As the statutory instrument has now been finalised without introducing such an exclusion, it is therefore important that the FCA provide comprehensive PERG guidance on territorial scope, clarifying when overseas firms dealing solely with institutional clients or authorised intermediaries would be regarded as outside the scope of FSMA.

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

While we agree with the importance of high trust in the cryptoasset sector, we do not believe SUP 3.3-3.8 should be extended to all cryptoasset activities, but should be limited to those involving custody of client assets.

The FCA proposed in CP25/25 to apply requirements for mandatory external auditors (and the associated rights, duties, and FCA reporting lines under SUP 3) to stablecoin issuers and cryptoasset custodians. The primary justification for this is to protect against the systemic risk of missing client assets or financial mismanagement. Custodians and stablecoin issuers safeguard client assets. In contrast, an entity that solely arranges transactions or otherwise operates a non-custodial service does not. The UK audit market is constrained, and many cryptoasset firms have faced barriers in obtaining the services of a qualified auditor. Requiring every regulated crypto firm to appoint an auditor compliant with the FCA's standards would create an avoidable barrier to entry.

We therefore believe the application of SUP 3.3-3.8 should be limited to custodial activities where the protection of client assets justifies the coverage of an external auditor.

While the FCA states that a broader approach is taken in traditional finance, firms including traditional brokers and non-custodial intermediaries benefit from explicit exemptions under SUP 3 if they do not hold client money. Applying SUP 3.3–3.8 to non-custodial cryptoasset activities (including arranging deals or providing non-custodial staking services) would hold cryptoasset firms to a different standard than comparable sectors.

Consumer Duty

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

In general we agree that applying the Consumer Duty to cryptoasset firms is appropriate and we welcome the provision of the non-Handbook guidance set out in GC26/2. We support an outcomes-focused approach to acting in the interests of retail customers, and supporting them to achieve their financial goals. For a branch-authorised CATP in particular, it is vital that the Duty's scope is ultimately aligned with the territorial scope of the underlying regulatory regimes, so that the Duty applies to UK customers using the UK branch and UK subsidiary, but does not extend extraterritorially to non-UK users trading on the global order book.

As noted in response to question 1 we support the FCA's intention to consult on disapplying the Consumer Duty to non-UK clients, and believe the FCA needs to ensure that clarity on this position is provided for crypto firms prior to the authorisation gateway opening in September 2026.

Crypto markets are global and include both centralised intermediaries and decentralised services. We believe the FCA should explicitly confirm that the Consumer Duty does not require firms to take on responsibility for activity that occurs entirely outside of their regulated platform and outside of their control. The Duty should ensure firms act in their retail customers' best interests when they are providing services to them, rather than to impose an external obligation in respect of activity that consumers undertake entirely outside of the firm's control.

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

Yes we agree with this approach. UK QCATPs will have outcomes-focused rules applied under CRYPTO 6 which include specific treatment of trading involving retail consumers. As the FCA notes, this disapplication of the Duty is also consistent with the treatment of MTFs in traditional markets, reflecting the fact that both MTFs and CATPs operate as neutral multilateral trading systems that bring together multiple third-party buying and selling interests without acting as the counterparty to the trade.

While we understand this exclusion is intended to cover the activities subject to CRYPTO 6 trading rules, the FCA states the Duty would still apply to 'the communications and service provided to customers'. The continued application of the Duty to broader interactions with retail consumers could create complexity in delineating between activities subject or not subject to the Duty.

Moreover, the outcomes-focused rules in CRYPTO 6 apply more broadly than to the 'trading between participants' itself, and we believe the Consumer Duty should only apply to aspects of activity that are not subject to these. In particular:

- CRYPTO 6.2.1R requires trading rules which set criteria for 'ensuring fair and orderly trading on; and promoting fair and open access to, the UK QCATP'. The promotion of fair and open access to the CATP goes beyond trading between participants itself, and the FCA should confirm that this access would not also be governed by the Duty.
- CRYPTO 6.2.2R sets Consumer Duty-style requirements for the publication of operating rules in a manner that is 'easily accessible, non-discriminatory, comprehensible, fair, clear, and not misleading; and facilitates all users' understanding'. This sets outcome-based rules for broader communication with customers which would be duplicated by the Consumer Duty, but the FCA is currently proposing that the Duty would still apply to such communications.
- CRYPTO 6.2.3(4)R requires the provision of QCDDs prior to trading in a way that is 'easily accessible, non-discriminatory, comprehensible, fair, clear, and not misleading; and facilitates all users'. Again, this appears to be outside the direct activity of trading between participants, but shows communication with customers that is covered by specific outcomes-focused rules which the Consumer Duty would duplicate and risk conflicting with.
- CRYPTO 6.3.4R requires CATPs to identify and manage conflicts between its own interests and those of its users where this would have consequences for the 'sound functioning' of the CATP. The FCA should clarify that this important responsibility should be to fulfil the outcomes set out in CRYPTO 6, rather than the separate outcomes under the Duty.

The FCA should confirm that the disapplication of the Consumer Duty to trading between participants on a CATP extends to communications and service considerations which are ancillary to this trading activity, and which are similarly covered by outcomes-focused rules under CRYPTO 6.

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

In general we agree that the Consumer Duty should apply to activities carried out using UK-issued qualifying stablecoins, in alignment with the treatment of other cryptoasset activities, and to ensure that UK-issued stablecoins can be trusted assets which consumers have the confidence to hold and use. We believe the ability to offer rewards on stablecoins would similarly be consistent with the outcomes of the Duty, allowing firms to provide fair value to consumers and act in their interest.

However, we do not agree that the Duty should apply to the admissions and disclosure (A&D) regime for UK-issued stablecoins. For cryptoassets that are not UK-issued stablecoins, the FCA proposes to disapply the Duty to the designated activities set out in Regulation 7 (public offers of qualifying cryptoassets), and 8 (admission to trading on a qualifying cryptoasset trading platform) of the Cryptoasset Regulations. The carve outs are likely to apply to both the production of a QCDD and admission to trading. The FCA states this is because bespoke outcomes-focused rules are in place through A&D rules.

For UK-issued stablecoins, we do not consider that the position should be different. The draft rules and guidance in CRYPTO 2.5.8 to 2.5.15 set out very similar outcomes based rules on stablecoin disclosures as those applied to other QCDDs, including requirements for them to be clear, fair and not misleading, drafted with retail consumers in mind, using plain and intelligible language, and providing an appropriate level of detail. Given the FCA has deemed such outcomes-based rules as duplicative of the Consumer Duty for other cryptoasset disclosures, it is not clear why the same is not true here.

Moreover, for CATPs assessing a UK-issued stablecoin for admission, the draft rule at CRYPTO 3.8.4R prevents a fee being charged for the provision of further information, which is a restriction not imposed on CATPs when admitting other cryptoassets. If the Consumer Duty is applied to CATPs for admission decisions, ensuring the breadth of outcomes under the Duty are considered may be a significant undertaking. By its nature the Duty is less tailored to admission decisions than the bespoke rules the FCA has set out for the admission of other cryptoassets. Applying the broader and less precise obligations under the Duty to the only admission decisions under which a fee for further information provision cannot be levied, therefore appears misplaced.

This is especially important where a UK-issued qualifying stablecoin is to be admitted to trading on a branch-authorised UK QCATP, as the interaction between the CATP's A&D obligations and the Duty would otherwise become highly complex and risk undermining the streamlined, outcomes-based A&D framework the FCA is proposing.

We believe the FCA should therefore extend the Duty disapplication to UK-issued stablecoin admissions and disclosures, in line with the wider A&D regime.

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

We agree that firms should have a clear focus on supporting good outcomes for their retail customers, by enabling them to pursue their financial objectives, avoid foreseeable harm, and act in good faith. We generally support the proposed guidance, and believe the examples of good and poor practice offer helpful illustrations of how the cross-cutting rules could be implemented in practice.

However, in areas the FCA should explicitly distinguish between actions that are reasonably in the control of firms and those which are not. In regard to acting in good faith, we agree that firms should not exploit a customer's lack of understanding. The activity-specific rules the FCA has proposed will equip firms to ensure this. For instance, by requiring the availability of asset disclosures prior to purchase, and mandating client consent to access borrowing products. While we agree that in general, acting in good faith also includes avoiding features which could disadvantage customers, the examples given such as 'gas-fee surges at execution' risk capturing external factors outside of the firm's control. In a fast-moving market, gas or network fees will be variable and outside the direct control of the firm. Firms will need to communicate this potential risk to customers under broader FCA requirements when they access their services.

We believe that the effects of external market factors which have been communicated as potential risks, should be confirmed by the FCA as subject to the rule at PRIN 2A.2.6R - that firms will not have to rectify harm resulting from the inherent risk of a product that it was reasonably believed a consumer understood.

Question 7: Do you have any comments on our proposed guidance on application of the Duty's: (a) products and services outcome; (b) price and value outcome; (c) consumer understanding outcome; and (d) consumer support outcome?

We find the guidance proposed on the application of the Duty's outcomes helpful in most cases.

Products and Services Outcome

We strongly support the FCA's decision to rely on the Products and Services outcome rather than applying the prescriptive PROD rules. This outcomes-based approach is better suited to the nuances of cryptoasset products. While we welcome the guidance on manufacturer and distributor responsibilities, including where there may be no identifiable manufacturer, the guidance should explicitly confirm that firms acting purely as trading venues or custodians for these assets would be strictly classified as distributors. At paragraph 4.11 the FCA suggests that a firm could be a distributor of a cryptoasset and a manufacturer of the service they provide. Such firms cannot control the design, target market, or protocol-level changes (like forks or airdrops) of decentralised assets, so the guidance should ensure that they are not held liable as manufacturers for underlying protocol failures.

Price and Value Outcome

With regard to price and value, we welcome the confirmation in the guidance that expectations will be on the fees and charges that are directly in the control of the firm, rather than price movements or external changes which are not. Cryptoasset activities introduce new considerations for categories of products and services which do not have clear analogies in traditional finance, or where access has traditionally not been possible for retail customers. As a result, the requirement to carry out fair value assessments of products is important, but will also take time and significant resources to ensure assessments are thorough and adequate. We believe the FCA can make this process feasible and successful by:

- allowing fair value assessments to be combined across suites of products offered to UK consumers, following an approach to identifying 'similar products and services' similar to that suggested for grouped assessments of closed book products in paragraph 3.8 of FG22/5; and
- providing a reasonable transition period for firms to carry out assessments of existing products, to ensure continuity of service before and after authorisation.

Consumer Understanding Outcome

We agree that ensuring consumer understanding is important in cryptoasset markets. As the FCA notes, cryptoasset services can involve products which may be less familiar to some customers and which may involve technical features which are complex to explain.

The guidance should acknowledge the difficult balance between the Duty's requirement to communicate simply and the requirement to disclose features accurately. We recommend the FCA work with industry to identify plain-language methods of communicating complex mechanisms (like Layer 2 rollups or proof-of-stake consensus mechanisms) so firms can be confident in their disclosures and consumers have access to more consistently clear information.

We believe the FCA should explicitly clarify that firms do not need to provide a comprehensive explanation of every technical feature within their offering, just as consumers are not presented with a comprehensive breakdown of card scheme structures when opening a payment account. Rather, responsibility should focus on ensuring understanding of the key features which in the firm’s judgement allow their customers to make informed decisions.

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

We believe the territorial application of the Duty requires further guidance, given the position that non-UK customers would be covered by the Duty in the event that other FCA rules or onshored legislation applies on a wider territorial basis. At present, this includes rules related to many of the activities which could be carried out from a UK authorised entity. The FCA is proposing to consult on limiting the Duty’s scope to UK clients only, but it should set out clarity for cryptoassets prior to the application window opening, given this is a highly consequential scope position for determining the regulatory burden of authorisation and the legal structure through which to apply for it. For firms operating a branch-sub CATP structure, early clarity on how the FCA expects the Duty to apply across UK subsidiaries, UK branches and overseas entities within a group will be a key determinant of how they structure their UK presence.

Dispute resolution and compensation

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

We believe the application of DISP 1 is reasonable to ensure consistent standards across the industry. Formal complaints handling processes aid uniform outcomes and ensure all customers are treated fairly.

Critical to the proportionality of this proposal is whether non-UK clients trading on a CATP branch's global order book would have the right to trigger the UK DISP 1 process and refer cases to the FOS. Applying DISP 1 and FOS rights globally could introduce conflicting complaints processes overseas and invite forum shopping or arbitrage. We believe the FCA should limit the application of DISP 1 to complaints received from UK customers, and detail this concern in more detail in our response to question 11.

For a branch-authorised UK QCATP, we would therefore support an approach under which DISP 1 applies to complaints from UK clients of the branch and UK subsidiary, but not to non-UK users of the global order book whose complaints are better handled under their local regimes.

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

We agree with this proposal on the basis that third party provision does not dilute the responsibility of the authorised issuer to be responsible for compliance with FCA rules and obligations to customers. The addition of provisions for the passing of complaints from the third party to the issuer is therefore consistent with this objective.

However, in our view the FCA needs to provide a tighter boundary for what would constitute a third party arrangement in scope of this requirement. Many firms carry out activities akin to the ‘offer’ or ‘redemption’ of an authorised stablecoin, but are in fact buying and selling stablecoins on the secondary market as an exchange activity. Such activities may be carried out at the request/application of an issuer, without being on the issuer’s behalf. In these instances it would be inappropriate for the FCA to require contractual arrangements which effectively bind secondary market activity to the rules in CRYPTO 2. This is important because a competitive UK stablecoin market requires issuers to have the confidence to operate, and other firms the confidence to distribute the stablecoin on the secondary market. If a broad range of secondary market actors were limited to the more restrictive issuance rules (such as being unable to handle client funds, and only exchanging stablecoins for money or other qualifying stablecoins), they would be less willing to support the stablecoin in their operations. If issuers were held liable for a broad range of secondary market activities, they would have less appetite to issue the stablecoin.

We believe the FCA should confirm that these requirements would apply only where an authorised issuer has expressly appointed another third party to specifically carry out one of the core issuance functions on its behalf.

We do not believe a commercial relationship between an issuer and a third party is itself sufficient to determine such an arrangement, if the third party is offering and exchanging the stablecoin in its own name and not, for instance, holding itself out as redeeming the stablecoin for the issuer or playing a role in managing the backing asset pool.

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

For firms carrying out activities for UK customers from a UK establishment, we believe the application of Financial Ombudsman Service (FOS) jurisdiction to the new cryptoasset activities is reasonable. FOS coverage will be positive for consumer trust and provide an important route to resolve complaints where firms have been unable to reach an agreement with customers.

We welcome the FCA's approach to apply the existing DISP territorial provision that limits compulsory jurisdiction to activities from an establishment in the UK. However, in the context of a branch-authorised UK QCATP, this formulation could unintentionally bring complaints from non-UK users of a global order book into scope simply because their trades are matched on the UK branch's platform. We do not believe that is the right outcome. In line with the FCA's broader direction of travel to focus its consumer-protection rules on UK customers, we would support a further limitation such that the FOS compulsory jurisdiction attaches to services provided to "clients in the United Kingdom", even where those services are performed from a UK establishment, and does not extend to non-UK users who have access to local dispute-resolution mechanisms in their home jurisdictions.

In line with the FCA's signalled approach to consider disapplying the Consumer Duty to business with non-UK clients, and to disapply COBS on a similar basis, we believe the

FCA should not apply FOS compulsory jurisdiction to services provided to non-UK customers.

In addition, while we generally believe it is appropriate for the FOS to consider complaints across the new crypto activities, the FOS should not uphold complaints relating solely to loss or disruption from market performance or blockchain-level failures, which are outside of the firm's direct control.

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

Yes we agree that there are no clear benefits to consumers or industry from the application of voluntary jurisdiction. The coverage proposed over activities from UK establishments is comprehensive under the compulsory jurisdiction. Additional rules would be unnecessary and risk ambiguity and inconsistency with the scope of the underlying FCA conduct rules.

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

Yes we agree that not extending FSCS coverage at this stage is proportionate. FSCS coverage can bring benefits of increasing consumer confidence in accessing products which are protected, however, there are notable operational challenges in introducing FSCS coverage to the cryptoasset sector:

- FSCS coverage relies on the reliable identification of eligible claimants in the event of firm failure. In global cryptoasset markets the extent and positions of potential eligible claimants would likely be highly variable. This makes a stable assessment of the coverage needed challenging, and could leave firms either significantly over-covered or under-covered through their levy, both of which would be negative outcomes.
- The value of cryptoassets can change quickly, leading to an additional risk that the funding provided differs significantly from the value of FSCS claims in a failure.
- It is too early to determine the likely size of the market and the distribution of actors within it. The FCA has noted in its Cost Benefit Analysis that there is uncertainty in the firm population prior to regime implementation. This removes the possibility of an adequate assessment of viability at this time.

As FSCS coverage is currently not applied in payments and e-money sectors, we do not believe the lack of FSCS coverage gives rise to unacceptable risk to firms or consumers, or mismatched expectations. Where client assets will be held under the proposed FCA regime, they would be subject to significant protections including trusts over UK-issued qualifying stablecoin backing assets, and safeguarded qualifying cryptoassets.

We agree that extending FSCS coverage would be disproportionate at this stage, and that this can be revisited over time, when costs can be better assessed.

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

Yes we agree. We believe the operational challenges and significant unknowns to applying FSCS to crypto activities are also relevant for SIC safeguarding, as a similarly nascent market in which regulation is still developing. Treating the safeguarding of SICs the same as the safeguarding of qualifying cryptoassets prevents the confusion of maintaining split frameworks for firms offering both services.

In the future, a technology agnostic approach to FSCS coverage may be more justified, but in the interim the proposed CASS protections that will apply to SICs offer a robust safeguarding regime that would give clear claims to customers if things were to go wrong, without a need to apply FSCS from day one.

Conduct of Business Sourcebook (COBS)

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

We believe COBS should not apply to non-UK retail and professional clients of an overseas QCATP operator authorised in the UK via a branch. We welcome the proposed disapplication of retail-appropriate COBS provisions to UK CATP's when they transact with professional clients, given their knowledge and experience, although as noted in our coinbase

response to CP25/36, we believe the proposed amendments to elective professional client assessment rules should support a reciprocal threshold with the US accredited investor certification, including a reduction to the proposed £10 million wealth threshold.

The requirement for a CATP operator to be authorised in the UK applies when it provides services to UK consumers or undertakes activities in the UK; it is therefore not the intent of the legislative remit to capture CATP services provided to overseas customers. Where the FCA agrees to authorise an overseas CATP operator, it states in its approach to international firms that it will ensure 'comparable' regulation in its home jurisdiction. This approach recognises that the FCA will not have a global reach, which is appropriate given regulatory frameworks are localised and will have inescapable differences in the detail of requirements, even if they align on broader outcomes.

It should therefore not be for UK regulation to enforce extraterritorial conduct standards related to an overseas firm's dealings with an overseas client, but for the regulatory framework of the client's local jurisdiction. There are several areas of COBS where the application to non-UK clients would create challenges or heavily disincentivising burdens:

- **Information disclosure requirements in COBS 2.2.1 and COBS 4 risk conflicting with disclosure requirements under non-UK regulatory regimes** and would add to the volume and complexity of information received by non-UK customers. This would also bring a significant burden to international CATP operators which may have to prepare multiple disclosures for their global client base and provision the same clients with multiple disclosures at the same stage in the customer journey.
- **Client categorisation under COBS 3 would conflict with categorisation frameworks in other jurisdictions.** If an overseas customer is offered services through the overseas CATP, this process and the availability of products should be governed by their home jurisdiction. Otherwise, the FCA's proposed new categorisation routes - which include a highly restrictive £10 million wealth assessment that we noted should be significantly lower in our response to CP25/36 - would conflict if local thresholds differ.
- **The FCA should explicitly confirm that COBS 6 would not apply to a UK CATP branch operating only under the limited safeguarding permission required to operate a settlement wallet.** Regardless of the application to UK or non-UK customers, in a 'branch-sub' model, assets may move to the branch CATP from the UK subsidiary for the purpose of settlement. If information under COBS 6 would be provided by the subsidiary, it would not be proportionate to require the same information from the CATP branch.
- **The application of client agreements under COBS 8 for non-UK clients would risk conflicts of law and introduce legal ambiguity regarding which jurisdiction's consumer protection laws would govern the client's relationship with the platform.** We believe it would be inappropriate to require UK-specific terms and

conditions to feature in agreements between the overseas entity and a non-UK client, where distinct local contractual law would likely apply.

- **Enhanced appropriateness assessments under COBS 10 would risk unnecessary frictions to international order flows and constitute unmanageable burdens for firms.** Non-UK clients who have already passed rigorous appropriateness or suitability tests in their home jurisdictions (e.g. under the MiCA framework) would be forced to go through additional assessments on their knowledge and experience. These assessments (which are proposed to be more comprehensive for crypto than under the existing COBS 11) are significant burdens for both firms and customers, and applied globally would be commercially damaging for firms and significant disincentives for clients to trade through regulated trading platforms.

We believe that consumer protection rules are designed to offer protections for UK consumers accessing UK regulated activities. Given the international nature of international CATPs authorised through a branch, as crypto regimes are developing at pace they are likely to be subject to a range of local requirements in their home jurisdiction (indeed this is a condition of FCA authorisation), and in the jurisdictions of overseas customers. Applying UK-specific COBS requirements to these overseas interactions would create a significant commercial cost to doing business in the UK. The FCA has taken significant steps to build a competitive and informed regime for cryptoasset trading platforms without compromising UK client protections. Applying COBS protections extraterritorially would undermine this approach.

In practical terms, applying UK COBS rules to non-UK users of a branch-authorised UK CATP would either require the platform to fragment its interfaces and onboarding journeys by geography, or to impose the most restrictive set of rules (including UK crypto financial promotion restrictions) globally. Either outcome would significantly undermine the benefits of the branch model envisaged in Annex 4 and would make it materially less attractive for high-quality international CATP operators to locate their primary liquidity pools in the UK.

We therefore strongly support a clear rule or set of guidance confirming that, while COBS applies in full to the branch's dealings with UK clients, it does not extend to non-UK users of the global order book.

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

We believe the FCA must provide a clear statement alongside its Policy Statements that it will implement changes to the financial promotions regime which at a minimum, scope non-UK qualifying stablecoins, and established, well-understood cryptoassets including BTC and ETH, out of the RMMI categorisation. Given the comprehensive protections proposed across the upcoming FSMA regime, we believe this non-RMMI asset list should be broader if a risk-sensitive approach is taken. We strongly believe these revisions should go live at the same time as the regime is implemented in October 2027.

With regard to the categorisation of cryptoassets into category A and B, we set out our concerns in more detail with this approach in response to CP25/42, including that the categories set the bar for category A too high considering the inherent dynamic nature of cryptoasset markets, and therefore provide limited ability to differentiate between the majority of cryptoassets. In any event we believe metrics designed to assess capital adequacy from a firm perspective are inappropriate as measures of consumer risk in the context of financial promotions. Separately in our answer below we set out that the top 20 cryptoassets by market cap (excluding memecoins) exhibit similar volatility to US tech stocks, for example (which are not subject to the RMMI designation).

The upcoming cryptoasset regime negates the need for Fin Prom restrictions for certain assets

We believe that the financial promotions regime requires significant reform, and that this should apply at the point of crypto regime implementation in October 2027, rather than over a longer time horizon. The 24-hour cooling off periods, marketing restrictions, and rigid categorisations of clients are increasingly unjustifiable to apply in an indiscriminate way to all qualifying cryptoassets, particularly where their risk profiles differ.

Under a regime with comprehensive disclosure requirements, redress protections, robust safeguarding rules, Consumer Duty application, and broader consumer protection measures, the risk assessment for cryptoassets that determined the RMMI classification will not look the same. We believe the FCA must reform its approach, given the frictions created under the financial promotions regime are not proportionate when consumers access cryptoassets through FCA-authorised firms with comprehensive obligations to act in their interest.

The Fin Prom regime is an extremely onerous crypto consumer protection regime which places the UK in a far more restrictive position than other key jurisdictions, including the

EU, US, and Singapore. We therefore believe financial promotions reform to disapply the RMMI status from non-UK qualifying stablecoins, BTC, and ETH at a minimum should occur now, to ensure a successful transition to and growth in the new regime.

Risk profile of cryptoassets

It is not risk-sensitive to apply the same highest-risk label to an EU-regulated stablecoin, Bitcoin, and a newly issued memecoin. Such risk warnings lose impact when applied in an indiscriminate way across all assets.

We also note that the top 20 tokens by market capitalisation (minus meme coins) have similar levels of volatility to US tech stocks which are not restricted as RMMIs. Qualifying cryptoassets should not, therefore, be treated as RMMIs once the new cryptoasset regime is in effect, as this would have a chilling effect on the UK market compared to other jurisdictions, and make the UK a more difficult place to scale high quality offerings.

Moreover, cryptoassets offered to the public in the UK will need to be admitted to trading on a regulated UK CATP. As a result they will be tradeable on a UK venue and therefore demonstrate liquidity unlike other RMMIs. Such assets will also be subject to an admissions and disclosure regime which will ensure consumers have sufficient information.

In our view this justifies a broader recalibration to remove many more qualifying cryptoassets from the RMMI category. At the very least, the Fin Prom regime should be updated so that mature and more widely used cryptoassets such as BTC, ETH, and certain stablecoins are not designated as RMMIs. The market in these assets has matured significantly since their original classification. BTC and ETH specifically have similar levels of volatility as mid cap equities.

Prudential categorisations do not reflect consumer risk

The categorisation in CP25/42 is designed for capital and liquidity adequacy for the purpose of prudential requirements, in an attempt to ensure firms have enough capital to survive market shocks, counterparty failures, or operational disruptions. It inherently looks at risk from the perspective of the firm. Financial promotions rules are designed to protect retail consumers, considering risks, information asymmetry, and product complexity. An asset which does not meet the prudential-focused thresholds under CRYPTOPRU for category A, may be a widely understood, transparent product with risks and benefits which are clear to consumers. We therefore do not believe the categorisations as drafted should be used to model potential adjustments to the financial promotions regime.

Instead, we believe the FCA should reassess financial promotions in the context of the protections applied under the new regulatory regime, which were not in place in October 2023 when financial promotions rules came into force for cryptoassets.

We believe that the calibration of cryptoasset categorisation places a significant weight on long-term stability which is not demonstrable for the majority of cryptoassets. In particular, three years of stable operational history and a volatility below 5% over 12 months are incredibly stringent measures which we believe will exclude most cryptoassets from being classified as category A even where they may be products which are suitable for retail clients and where regulation will ensure clear disclosures of risk.

We believe if such a categorisation is nonetheless deemed necessary, the FCA should focus explicitly on extreme volatility over the last 12 months, and whether the asset is listed on a UK CATP, for the purpose of determining category B assets.

Reclassifying the RMMI status for qualifying stablecoins

We welcome the FCA's proposal to reclassify UK-issued stablecoins to ensure they are not subject to the most stringent financial promotion requirements applicable to RMMIs. This reflects the protections that would be in place to protect the value of the stablecoin and the rights of holders to redeem at par.

It is vital that the financial promotions regime is sensitive to risk. We do not believe categorising all other (i.e. non-UK issued) qualifying stablecoins as RMMIs achieves this. While we understand that the definition of qualifying stablecoins is broad, it also includes stablecoins issued under other issuance regimes which ensure full backing and a right to redeem at par value. Even in absence of formal equivalence regimes at this time, the significant difference in risk profile between a qualifying stablecoin regulated for its issuance overseas, and a speculative, volatile unbacked cryptoasset is sufficiently clear to make a reclassification overdue.

It does not make sense for a globally systemic, highly liquid, and heavily audited overseas stablecoin to be treated as a high-risk investment. This dilutes the impact of risk warnings and risks consumer distrust in the regulatory framework. A better approach is to apply a more flexible standard that does not apply a broad brush restriction across a diverse asset class.

While we agree that the regulatory treatment of a stablecoin in the UK should be clear to consumers, the provision of this information is possible outside of an RMMI classification. An example of this comes through the proposed requirement for the status of a non-UK qualifying stablecoin to be disclosed in a QCDD.**

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

For UK customers, we believe the application of express consent, appropriateness testing, and client understanding provisions are reasonable. These proposals will help to ensure that clients are provided with clear information and products that fit with their understanding and objectives. We welcome the operational flexibility to allow firms to integrate the specific lending and borrowing appropriateness assessment into the general qualifying cryptoasset assessment.

We believe transitional relief for existing clients prior to the commencement of the regime would be important to ensure continuity of service and avoid unnecessary disruption to existing customer relationships, particularly where firms have already undertaken comparable appropriateness assessments under current regimes

The proposal to convert COBS 10 Annex 4G into a rule - mandating questions covering at least the 12 matters it outlines - risks implementing a rigid 'tick-box' compliance exercise rather than a risk-based assessment. Requiring a minimum of 12 distinct topics risks user fatigue within a long onboarding journey, which could lead to inaccurate assessments of genuine understanding. There is also a risk that highly prescriptive questioning may incentivise form-over-substance compliance, where the focus shifts to satisfying formal requirements rather than meaningfully assessing whether the client understands the risks of the product.

We believe the FCA should maintain a consistent approach with other sectors and apply COBS 10 Annex 4G as guidance. Firms should be allowed to design dynamic, risk-based assessments tailored to their services and their customers.

The FCA states that the appropriateness test adds a 'necessary friction which seeks to ensure that clients understand the risk associated with investing in cryptoassets'. However this highlights that frictions designed to ensure client understanding of risk are duplicated throughout the consumer journey, making an individually proportionate requirement part of an increasingly disproportionate approach to ensuring consumer understanding. Across onboarding, appropriateness testing, disclosures, and financial promotion requirements, firms are already required to provide extensive risk information, and additional layers of friction risk reducing rather than improving consumer comprehension.

In particular, a comprehensive approach to appropriateness testing - including the upgrading of guidance applied in other sectors to a *rule* for crypto - makes the frictions imposed by the wider financial promotions regime set out in COBS 4 extremely difficult to justify. As a priority for regime implementation, the FCA should remove the blanket 'RMMI' classification applied to all cryptoassets and therefore disapply the rigid prohibitions on incentives to invest, the 24-hour cooling off period, and risk warnings that do not distinguish between crypto products with different risk profiles. A more proportionate and risk-sensitive classification would better reflect the diversity of cryptoasset products and allow consumer protections to be targeted where risks are greatest. At a minimum, this reclassification should occur for qualifying stablecoins and established, widely understood assets including Bitcoin and Ethereum.

SM&CR Tiering

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

We agree that the proposed thresholds (£65bn in the backing asset pool as a three-year rolling average for stablecoin issuers, and £100bn in client assets and safe custody assets for custodians) map appropriately to traditional CASS Large metrics, ensuring larger firms bear the burden of the Enhanced regime.

While we generally believe these metrics are helpful, and will provide a more stable and predictable method of tiering than more complex calculations of customer base or operational resilience vulnerabilities, it is important to ensure that these thresholds are reviewed over time. While they appear appropriately calibrated to capture the largest firms at present, growth in the market over time may require upward adjustment to ensure there is sufficient differentiation among firms with varying market exposure levels.

Avoiding cliff-edge risks for stablecoin issuers and custodians

In addition, it is important that the FCA and Bank of England work together to clearly set out how tiering under SM&CR aligns with or is affected by thresholds for systemicness set by the Bank of England for providers in stablecoin payment systems (including stablecoin issuers and custodians). While the Bank has not set out rigid thresholds for systemicness, the FCA should work with the Bank to provide guidance in the upcoming dual-approach document, as to how a systemic designation would affect SM&CR coverage, to avoid cliff-edge risks for firms.

Training and Competence

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

We support the application of the TC Sourcebook to cryptoasset activities. Ensuring appropriate skills, knowledge and expertise among employees servicing retail clients is important to ensure that the services offered by cryptoasset firms are high quality and customers are supported effectively.

We welcome the proposal to align with the treatment of dealing securities by refraining from mandating specific crypto-related qualifications. As the FCA notes, it would be challenging to apply an objective threshold in this regard while the professional training market is developing.

The proposed application of TC rules to employees 'directly involved in advising retail clients' is the correct approach, but the FCA should clarify the territorial scope. We understand that via TP Appendix 2.1, TC in the case of an overseas firm authorised via a branch would be applied in respect of employees who carry on activities from an establishment maintained by the firm in the United Kingdom.

We agree that limiting TC requirements to employees carrying out activities from a UK establishment is an appropriate limitation, but we do not believe it would be proportionate to apply TC rules to employees who are only serving non-UK retail clients of the overseas firm. Therefore the FCA should confirm that TC rules will apply only to employees carrying on activities from an establishment in the UK, *where they are directly involved in advising UK retail clients*.

Regulatory Reporting (SUP 16)

Questions 20-25: Application of regulatory returns

We agree with the application of SUP 16 reporting requirements which aligns with other financial sectors. The baseline metrics proposed for each of the cryptoasset activities are reasonable, and we believe that in general the FCA has focused obligations on information that is necessary to report. This includes the quarterly reporting of complaints and active (including vulnerable) clients, which is a proportionate way to monitor risk.

We strongly support the phased approach, which offers an opportunity for templates to evolve based on the development of activity and increased availability of market data. This also reduces the operational burden on day 1 of the regime, allowing requirements to build over time to make their accuracy more likely.

Supplementary data collections

We agree that supplementary data collections are helpful to inform the FCA's work, and recognise that reporting needs will change over time. The FCA must ensure that any additional returns do not present unnecessary burdens for firms that are disproportionate to the benefits of the data provision. We welcome the FCA's commitment to consult on any further changes in this regard.

To ensure a flexible approach, the FCA should consider how technology can support a greater range of permitted data formatting and methods of production, to allow firms to align the provision of data to the FCA with the methods and formats they already use, rather than adjusting to rigid formatting requirements.

In addition, providing firms with sufficient lead time will result in higher quality data submissions, especially where data elements are introduced that are not readily available within existing systems. We therefore encourage the FCA to continue to work constructively with industry to provide a clear direction of travel and early signposting of changes as the reporting regime develops.

Safeguarding reporting

While we believe the *content* of safeguarding regulatory returns is reasonable, the frequency of reporting is insufficiently differentiated. As the FCA notes, monthly reporting from all cryptoasset safeguarding firms regardless of size deviates from traditional CASS tiering and would impose disproportionate burdens on smaller firms. While such firms will be new to UK crypto safeguarding regulation, this is also why it is important to ensure that reporting requirements do not constitute a barrier to entry which limits the diversity of the UK market.

As with all other sectors, rules must be sensitive to market exposure risks and firm size. An example of where the FCA has taken this approach for crypto is in the market abuse regime where differentiation between firm obligations is proposed for onchain monitoring and cross-platform information sharing.

If more frequent reporting is nonetheless deemed necessary for all firms, the FCA should look to its approach to complaint reporting as an example of how more frequent reporting than in other sectors can be balanced by comparatively less detailed reporting requirements. The same approach could be taken here, with the FCA requiring quarterly detailed safeguarding reports from smaller firms, supplemented by headline-only reporting on a monthly basis.

Prudential reporting

We welcome the iterative approach taken to prudential returns and believe the FCA must work closely with firms to design a reporting framework that ensures a balanced approach.

Nonetheless, as set out in our response to CP25/42 we have significant concerns with the proportionality of the proposed prudential regime, and in particular the K-factors proposed across cryptoasset activities. A balanced approach to reporting would be undermined by outsized and punitive underlying capital charges, and we believe the FCA must urgently revise these proposals. Alignment with the EU's approach to prudential requirements, which applies fixed overhead and permanent minimum requirements without scaled K-factors, would help the FCA to avoid a gold-plated approach that lacks risk sensitivity and risks the offshoring of cryptoasset business to the detriment of UK competitiveness and growth.

Safeguarding client cryptoassets

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

In general we agree with the application of CASS 17 to custodial staking in conjunction with the staking rules set out in CP25/40, and to CATP operators where safeguarding is carried out other than for the operation of a global settlement wallet. This ensures a consistent treatment of client assets where they are safeguarded across activities, and should unlock greater confidence to access a wider range of products and services which meet consumer needs. When considering the broader rules applied to a given activity, the FCA should ensure these recognise the strong protections CASS 17 applies. These protections help to reduce the risk profile of crypto safeguarding and staking activities, and make blanket risk warnings under the financial promotions regime less appropriate.

We provide detail on areas of clarity and enhancements that the proposed regime could benefit from below.

Means of access

Further clarification would be helpful in circumstances where firms may have "means of access" to cryptoassets without actually holding them. In particular, the safeguarding framework should avoid inadvertently capturing firms that merely control or facilitate access to cryptoassets (for example through mandate arrangements or key-management services) but do not hold the underlying assets. In distributed operations custody models, such as key-sharding or MPC arrangements, multiple operators control necessary, but insufficient key shares for cryptoasset operations.

Relatedly, certain CASS 17 obligations may be difficult to apply where a firm controls but does not hold the underlying cryptoasset key material. For example, requirements relating to safeguarding client rights in the event of custodian insolvency or minimising loss may not be proportionate where the firm's role is limited to access management or execution of delivery instructions rather than custody. Control should be strictly limited to persons with the means to bring about a transfer of the cryptoasset. Greater clarity around what constitutes "control" or "means of access" therefore would be helpful to ensure the safeguarding framework remains operationally workable.

Lastly, sub-custody arrangements also require further clarification. Many cryptoasset custody models rely on chains of custodians and sub-custodians, including arrangements where the primary firm does not directly hold private keys but instead instructs a third-party custodian or key-management provider. Without clarification, firms that merely issue instructions to a sub-custodian could be treated as having "means of access" and therefore as safeguarding client cryptoassets. This would risk unintentionally capturing a wide range of intermediaries within the safeguarding regime. While we recognise that certain aspects of the safeguarding perimeter are determined by the finalised Cryptoasset Regulations, further clarification in FCA rules or guidance would help ensure the regime operates coherently in practice and confirm that firms acting solely under mandate arrangements, or instructing entities that hold or control private keys on behalf of clients, are not themselves treated as holding or controlling those assets for the purposes of CASS 17.

Non-statutory trust structure

The proposed requirement to use a non-statutory trust structure for safeguarded cryptoassets also raises questions. Unlike the traditional client asset regime under CASS 6, which does not mandate a trust structure for all custody arrangements, CASS 17 appears to require one. It is not clear that a trust is always the most appropriate or effective legal mechanism to achieve insolvency protection for clients, particularly where alternative structures can deliver similar outcomes. This divergence from the established CASS 6 approach may also create confusion where firms safeguard both specified investments and cryptoassets within the same operational framework.

Practical challenges may also arise for firms operating internationally, particularly where trust structures are not recognised in the relevant jurisdiction, or where sub-custodians operate in jurisdictions with different property law frameworks. The approach to international cryptoasset firms acknowledges these challenges but provides limited detail on how they will be addressed in practice.

Lending and borrowing

We agree that applying CASS 17 to lending arrangements would be disproportionate. We welcome the recognition that the rules proposed for lending specifically under CP25/40 provide the core protections required and ensure clients have the knowledge and experience, and have provided the express consent required, to have understood the risks without the coverage of CASS 17.

With regard to cryptoasset borrowing, we do not believe it is necessary to restrict the title transfer of collateral other than where the customer is doing so to discharge their debt to the firm.

This proposed restriction diverges from current market practice and could inadvertently worsen consumer outcomes, because holding collateral provides revenue generation opportunities for firms which can also benefit onward liquidity in the market. Firms could still provide clients with a right to their assets, and could be restricted from the riskiest of collateral re-use activities (e.g. very high risk reinvestment) without unfairly restricting low-risk revenue opportunities (e.g. staking and lower risk lending) that could still be subject to express prior consent of the customer. Significantly restricting revenue opportunities could risk higher costs being passed to consumers. Further guidance will also be helpful on how the safeguarding regime interacts with collateral arrangements, security interests and title transfer collateral arrangements, particularly given the proposed exemption for TTCAs in non-consumer contexts.

Trading platform float models

We welcome the pragmatic approach the FCA has taken to support CATP branches operating a settlement float outside of the UK trust structure, subject to limits on client assets, a clear right of return, and express prior consent. We also agree it is proportionate to disapply CASS 17 rules from both the settlement wallet and the CATP operations more broadly where safeguarding is carried out within a restricted settlement permission. This recognises that broader safeguarding protections are applied to custody for purposes other than settlement, and that the efficient operation of the settlement wallet requires assets to be held outside of the trust so they can be held with non-UK customer assets. This benefits UK customers by ensuring greater access to global liquidity.

However we believe the 1% limit proposed by the FCA on a per asset and per client basis for UK client assets in the settlement wallet is too rigid and operationally challenging in a global order book model. The proposal from the FCA suggests that the 1% must be made up of no more than 1% of the total UK holdings of each individual crypto asset being offered for trading, but demand across assets is not uniform in crypto markets, and therefore sufficient liquidity may require proportionately higher values of certain cryptoassets over others. Similarly, price changes can cause unintentional deviations which a strict 1% ceiling offers no flexibility for. In many cases, the operational disruption of pulling assets out of the settlement wallet due to minor deviations is unlikely to be justified by a proportional reduction in client risk. If the volume of assets in the global settlement wallet is too low, at times of market stress this could cause significant liquidity issues to the detriment of customers.

While we agree that in general only a small proportion of client assets needs to be held in a settlement wallet at any one time, a 3% limit would allow this model to function effectively, where a 1% ceiling currently challenges viability. With clear client consent, and the continued regulation of the CATP branch for its trading activities, we believe this constitutes a minimal increase in risk for a significant benefit to order execution quality and liquidity through a well-functioning global settlement wallet.

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

We agree that segregation of client versus firm assets should form a core element of any custody regime for crypto assets, to ensure only appropriate use (and avoidance of misuse) of client assets, and to ensure bankruptcy remoteness. We also agree that firms should have the ability to hold an operational surplus of firm assets within the same trust as client cryptoassets to (1) support customer business, (2) cover costs incurred from omnibus wallets, and (3) receive fees denominated in the form of the crypto for which it was earned.

We believe this aligns appropriately with a similar provision at CASS 6.2.6, which contemplates the use of firm funds in customer accounts in limited circumstances, for example where this is necessary for operational or compliance purposes. More broadly, the proposed approach supports the FCA's objective of protecting client ownership rights while recognising the operational realities of cryptoasset custody models, including the need to manage reconciliation tolerances and operational buffers within distributed ledger environments.

We support the FCA's approach of not mandating a maximum percentage of firm assets that can be held within the same trust as client cryptoassets. Usually, this number would be less than 3% of the total omnibus wallet balances. However, this number can vary significantly based on the type of services provided. The amounts needed for typical retail activity are quite low, and may be significantly higher for activity that entails services provided to institutional clients such asset managers and market makers, whose trade flows are more complicated. For example, at Coinbase, we offer Prime Financing products that enable trade execution with delayed settlement for assets held in cold storage. Moreover, and in practice, firms may need to maintain a practical operational buffer to address reconciliation differences, settlement timing issues and other operational risks inherent in blockchain-based custody systems.

We believe that with the appropriate safeguards around these de minimis balances the FCA is proposing, including the subordinated claim of the firm within the trust, the flexibility to maintain a surplus will be a significant benefit to the provision of cryptoasset safeguarding services. In addition, further clarification would be helpful regarding how the concept of "class of cryptoasset" should operate in practice when determining operational surplus and segregation arrangements. Many custody models safeguard multiple assets using shared wallet infrastructure, and overly granular classification requirements could create unnecessary operational complexity without improving client protection outcomes. A proportionate approach that allows firms to determine classes based on technological characteristics, custody arrangements and risk profile would help ensure the framework remains operationally workable.

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

We agree with the exemptions proposed. As set out in our response to question 27, we believe additional flexibility would ensure good outcomes for clients and viability for firm business models, without introducing unacceptable risks while recognising that certain aspects of the safeguarding perimeter are determined by the finalised Cryptoasset Regulations:

- The float model should support 3% rather than 1% of client assets being removed from the trust for the purpose of operating a settlement float. This would provide the flexibility to manage price-change driven minor deviations without significant operational disruption, and allow UK customers to more reliably access global liquidity for improved order execution and settlement efficiency. In global order book models, demand across cryptoassets is not uniform and prices may move quickly, a slightly higher threshold would provide a practical operational buffer without materially increasing client risk.

- Collateral through a cryptoasset borrowing service should be permitted to leave the trust with a client's express consent, to ensure that low-risk revenue generation opportunities can be utilised by firms which in turn prevent a forced increase in service cost or interest rates for consumers. As in the CATP float exemption, firms could still provide a right of return, and could be limited away from the highest risk onward lending of collateral if deemed appropriate through prudential limits, governance controls and express client consent mechanisms. Allowing proportionate flexibility would also help avoid unintended increases in service costs or borrowing rates for consumers.
- For a branch-authorised QCATP, applying the same trust exemptions flexibly to both the settlement float and qualifying cryptoasset borrowing collateral would allow firms to design globally consistent models for collateral and settlement, while maintaining clear rights of return and robust prudential safeguards at group level. This is particularly important for internationally integrated trading platforms, where settlement and collateral management processes operate across global liquidity pools. A proportionate approach would therefore support the FCA's objective of facilitating access to global liquidity while maintaining appropriate client asset protections.

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

We agree that record-keeping requirements should only extend to assets held on trust. While a broader set of assets may be subject to a contractual right of return, this is not the same protection as a trust to which detailed recordkeeping is appropriate. Moreover, the operational reasoning for disapplying the trust in the cases the FCA proposes similarly justifies disapplying recordkeeping rules, for instance as a result of the global settlement wallet containing a mixture of UK and non-UK customer assets.

As noted in our response to CP25/14, we believe the proposed records are reasonable and it is appropriate for them to be maintained for each client. However, further clarity would be helpful where firms may have "means of access" to cryptoassets without actually holding them. Although the FCA has clarified that the requirements apply to firms safeguarding client cryptoassets as trustee, the underlying issue remains that certain operational arrangements may involve control or facilitation of access without custody. In such cases, applying detailed client asset recordkeeping requirements may be disproportionate where the firm's role is limited to access management or the execution of delivery instructions rather than holding the assets.

We support the FCA's proposal to permit firms to rely upon onchain records to help meet its record keeping requirements. However, this new technology should not result in additional record keeping requirements for crypto firms compared with traditional financial services firms. Therefore, onchain records should provide an additional layer of useful information to comply with the existing record keeping requirements under CASS. We welcome the clarification that 'independent' from the relevant DLT in the context of recording requirements still allows for a combination of onchain and off-chain records if a firm deems this suitable. We agree that records should not solely be maintained using the same DLT through which the assets are safeguarded.

Further clarification would also be helpful regarding the meaning of "independent" recordkeeping. Paragraph 9.51 of the CP explains that firms must maintain their own records rather than rely solely on a public DLT, but it would be useful to confirm that this does not prevent firms from using blockchain data as part of their reconciliation and recordkeeping framework. In practice, many custody models will rely on a combination of onchain data and internal systems to create the firm's client-specific records.

Finally, clarification is required for sub-custody arrangements. Many cryptoasset custody models rely on chains of custodians and sub-custodians, and firms that merely instruct a third-party custodian or key-management provider should not be treated as responsible for maintaining the full client asset record where they do not themselves hold the cryptoassets. Clear guidance in this area would help ensure that recordkeeping obligations align with the entity that actually safeguards the assets.

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

We agree that custodians should be required to regularly perform internal reconciliations – covering in particular offchain transactions – to ensure accuracy of the internal ledger and to identify and resolve any discrepancies that arise. The standards applied should track those required of traditional financial firms – the internal ledger should keep track of internal customer holdings (i.e. what is ledgered to the individual customer accounts) and transaction history, and the reconciliation process should ensure that the sum of the internal ledger equals the sum of funds reflected for the omnibus addresses on the blockchain. In practice, this approach appropriately mirrors the principles underpinning reconciliation requirements under CASS 6 while recognising the additional transparency provided by onchain records.

We agree that reconciliation requirements should be daily, consistent with existing standards in traditional finance, rather than on a real-time basis as proposed in DP23/4. The FCA's revised proposals appropriately reduce some of the more prescriptive elements previously consulted upon and therefore represent a more operationally workable approach.

However, certain elements of the framework appear to diverge from the approach taken in CASS 6 in ways that may create unintended operational challenges. In particular, the proposals do not appear to reflect the flexibility contained in CASS 6.6.54R(3), under which a firm may take into account whether another party is responsible for a shortfall. Under the proposed rules, a firm appears to be required to remedy any shortfall within 24 hours even where the cause of the shortfall lies with a third party, such as a sub-custodian or infrastructure provider. This may not always be operationally feasible and could place firms in the position of temporarily funding shortfalls arising from factors outside their control.

Relatedly, the proposals do not appear to replicate the flexibility under CASS 6.6.54R(2)(b), which allows firms to use their own money or other assets to address reconciliation differences where appropriate. Providing similar flexibility within the cryptoasset regime could allow firms to resolve discrepancies more efficiently while maintaining full client protection.

Finally, while we note that the FCA has removed certain detailed client reporting requirements compared with earlier proposals, it may be helpful to consider whether a proportionate de minimis threshold should apply to reporting shortfalls to the FCA. In practice, reconciliation processes may identify minor and temporary discrepancies arising from timing differences between onchain and internal records, and requiring immediate regulatory notification in all such cases may not always be proportionate.

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

Yes we agree with the key management and security approach the FCA has proposed. As in our response to CP25/14, we agree that the responsible safeguarding of the means to access cryptoassets is a crucial function of a custodian. We welcome the limitation of this requirement to the assets held under trust, to ensure alignment with the perimeter of broader CASS 17 rules. This is consistent with the approach discussed in our responses to Questions 27 and 30, where we noted the importance of ensuring that safeguarding and related operational obligations apply to firms that actually hold client assets as trustees.

Further, we support the additional guidance provided in regard to ‘means of access’, including for arrangements where cryptographic keys are divided into ‘shards’. It is important that the threshold for control is clear, so guidance confirming that requirements apply to firms in possession of the requisite degree of control to bring about a transfer of the benefit of the cryptoasset is welcome. As noted in our response to Question 27, however, further clarification may be helpful to ensure that firms which merely facilitate access to cryptoassets, such as those operating mandate arrangements, key-management services, or sub custody instruction models, are not inadvertently treated as having “means of access” where they do not in fact hold or control the assets. In distributed custody models, including MPC or key sharding arrangements, multiple entities may have partial access to private keys, and the rules should ensure that only the entity with the effective ability to transfer the asset is treated as exercising the relevant level of control.

We also note, as highlighted in our response to Question 30, that many custody arrangements involve chains of custodians and sub custodians. The private key management requirements should therefore operate in a manner that clearly allocates responsibility to the entity that actually holds or controls the keys, rather than inadvertently extending those obligations to intermediaries whose role is limited to issuing instructions or facilitating access. This would help ensure that the framework remains operationally workable while maintaining robust security standards for cryptoasset custody.

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

As noted initially in our response to CP25/14 we believe the ability to appoint third parties for cryptoasset custody is an important flexibility to allow for high quality safeguarding which can leverage a greater range of expertise and distribute risk away from a single point of failure. This is also crucial for supporting global custody models where sub-custody is carried out within the group of the FCA-authorised firm. Due diligence and the continued coverage of the trust will ensure that the use of third parties does not dilute the protections applied to client assets and the claim customers have over them.

We welcome the additional clarification that appointing third parties is not necessary, but is an option if it can be demonstrated to not increase the risk of loss. This flexibility for a range of secure models will help to future-proof the FCA regime and allow firms to innovate with safeguarding models that function best for them and their customers. For the same reason, allowing safeguarding chains with due diligence also delegated adds further confidence that the growth in complexity or scale of crypto safeguarding operations can be responded to through appropriate delegation without diluting the coverage of CASS protections.

Safeguarding specified investment cryptoassets

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

In general we agree with the proposal to apply the CASS 17 framework – including rules on protecting clients' ownership rights, private key management and the appointment of third parties – to SIC custodians, together with the relevant SYSC and SUP provisions. A single, technology-neutral custody regime for digital assets can provide clearer and more consistent protections, and helps firms build coherent operating models and control frameworks across qualifying cryptoassets and SICs. In our view, it is important that these rules remain outcomes-based, so that different custody architectures (for example, multi-party computation, hardware security modules and varying hot/cold storage mixes) and third-party arrangements can be accommodated where firms can demonstrate robust governance, segregation, resilience and incident-response arrangements. As noted in our earlier comments on the SIC regime, aligning SIC safeguarding with the broader cryptoasset custody framework under CASS 17 can provide a workable interim framework that reflects the technological characteristics of distributed ledger systems, particularly where those characteristics are not addressed under CASS 6.

We note, however, that the current classifications of a specified investment cryptoasset brings together two distinct use cases: (i) onchain native instruments that exist only on a distributed ledger with no offchain equivalent; and (ii) cryptoassets which are 'backed' by traditional securities. We recognise that legal concepts and market practice are still evolving, but do not believe that 'backing' by traditional securities is sufficiently defined. We believe this second 'non-native' category of SICs could be better articulated as those which *represent* an underlying security and offer the same bundle of rights. It is not clear from the current articulation whether 'non-native' SICs as defined by the FCA captures only these representations offer the same bundle of rights as the underlying security, or a broader range of cryptoassets that are separate from the securities they are 'backed' by and typically offer economic exposure, but not the full bundle of rights. The latter may well be qualifying cryptoassets rather than SICs as per Treasury legislation.

Given the differences in economic and legal structure, we believe the FCA should, in guidance, explain more clearly how it interprets the token perimeter, and how it expects CASS 17 obligations to apply across the sub-categories of SICs. The FCA should commit to keeping these custody expectations under review as the market

matures. In particular, forthcoming perimeter guidance will be important to clarify the boundary between tokenised securities that constitute specified investments and cryptoassets that merely reference or are backed by traditional securities but constitute separate instruments. Clear perimeter guidance will help ensure that firms can determine consistently whether an instrument should fall within the SIC framework or the qualifying cryptoasset regime.

We also recognise that aligning SIC custody with the qualifying cryptoasset regime has consequences for how SICs compare to their offchain equivalents. In particular, as noted elsewhere in this consultation, tokenised instruments treated as SICs under CASS 17 would generally not benefit from FSCS protection, whereas the same exposure held in traditional custody under CASS 6 may be within FSCS scope. We support the FCA's decision not to extend FSCS at this stage, and have agreed that this is a proportionate position for crypto safeguards more generally. However, we encourage the FCA to acknowledge this divergence explicitly and to consider over time whether additional measures (for example, enhanced disclosures or a longer-term review of FSCS treatment for tokenised securities) are needed to avoid confusing or unjustified differences in protection between economically equivalent onchain and offchain holdings. As noted above, we consider that maintaining clarity around the classification and custody treatment of tokenised securities will be essential to ensuring that the development of tokenised capital markets in the UK proceeds in a manner that is both technologically neutral and operationally workable for firms.

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

We foresee a range of practical challenges for firms moving from safeguarding SICs under CASS 6 to the CASS 17 framework, although we consider these can be managed with appropriate guidance and transition arrangements. From an operational perspective, firms will need to adapt systems and controls to support crypto-specific concepts embedded in CASS 17, such as private key lifecycle management, onchain reconciliations and operational segregation between key generation, storage and use. Existing SIC custodians whose processes were designed around traditional securities custody may need to make material technology and process changes, even where the underlying economic risk of the instruments is comparable to offchain securities. As noted in our earlier comments on the SIC regime, this may create operational complexity where firms safeguard both traditional securities under CASS 6 and tokenised equivalents under CASS 17, despite the underlying instruments being economically identical.

Client documentation and contractual terms will also need to be updated to reflect the new trust arrangements, disclosures and rights under CASS 17 – including how clients' interests are represented onchain, how shortfalls or operational losses would be treated, and how third-party arrangements are structured. Where a firm safekeeps both traditional instruments and SICs, it will need to ensure that internal ledgers, on-chain positions and statutory trust records remain aligned across both regimes, which may require careful data migration and systems enhancements during the transition. In addition, as discussed in our responses to Questions 27, 30 and 32, custody models involving sub-custodians, key-management providers or distributed custody arrangements (such as MPC or key-sharding models) may require further clarification to ensure that responsibility for safeguarding, recordkeeping and key management is appropriately allocated to the entity that actually holds or controls the assets.

In addition, there is an important conceptual and client-facing challenge. Many existing CASS 6 custodians and their clients will be concerned that an instrument can move from a CASS 6 + FSCS framework to a CASS 17 framework without FSCS coverage purely because it is held in tokenised form, even where the underlying economic exposure is the same. We understand that some traditional players would prefer a straightforward extension of CASS 6 to tokenised securities rather than the application of a distinct crypto regime. As highlighted in our earlier comments on SIC classification, this may also create confusion where tokenised securities that offer the same bundle of rights as traditional securities are nevertheless subject to a different custody regime and investor protection framework.

We therefore encourage the FCA to recognise these concerns explicitly, to provide clear guidance on how firms should communicate these differences to clients, and to allow a reasonable implementation period so that firms can adjust systems, contracts and disclosures without disrupting service or undermining trust in tokenisation initiatives.

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

We see several legitimate use cases in which SIC custodians may rely on narrowly defined exclusions, while still delivering strong client protection and preserving the policy intent of the regime. One important category arises where a SIC acts as a tokenised representation of an instrument that is already subject to an established regulatory framework, for example, a fund unit or debt security issued and regulated in the traditional market, but held in tokenised form. In such cases, certain CASS 17 provisions that are tailored to instruments issued natively onchain (for example, detailed rules on native key generation or address management) may be redundant or inapplicable, because the primary risk and legal structure continue to be governed by existing fund or securities regulation. Targeted exclusions here can prevent duplication or misalignment with those regimes, while leaving core safeguarding outcomes intact.

Another use case concerns title-transfer collateral and financing arrangements. For some products, such as margin lending, securities financing or prime brokerage, clients may choose to transfer full title to SICs as collateral in exchange for robust contractual protections, over-collateralisation and prudent margin. Applying a trust-based safeguarding framework designed for client assets in all circumstances to assets intentionally transferred under title-transfer arrangements can be conceptually misaligned and operationally unwieldy. Conditional exclusions that allow firms to use familiar collateral structures for SICs, subject to explicit client consent, strong risk management and clear disclosures, can help ensure parity between tokenised and offchain financing markets.

Finally, intra-group and sub-custody chains provide a further rationale. Where a SIC custodian is acting solely as an intra-group sub-custodian, or where a UCITS/AIF depositary already bears primary responsibility to investors and appoints a crypto custodian as sub-custodian, some CASS 17 provisions may add little incremental protection relative to obligations already imposed upstream. In those cases, limited exclusions, combined with clear allocation of responsibilities, due diligence and ongoing oversight, can allow the entity best placed to manage the risk to do so, while avoiding unnecessary complexity or double-regulation arising from the breadth of the SIC definition.

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

We agree in principle that rules which currently apply to small AIFMs as a result of the exclusions for UK UCITS and AIF managers should be extended, in an appropriately calibrated way, to SIC and cryptoasset custodians within the CASS 17 regime. From an investor-protection perspective, it is important that clients do not face materially different safeguarding outcomes purely because their exposure to a fund or other specified investment is held in tokenised form rather than as a traditional security. Extending the relevant CASS 17 rules can help avoid regulatory gaps and ensure a consistent baseline of protections around segregation, record-keeping and governance across custodians, regardless of whether the assets are held onchain or offchain.

At the same time, proportionality and coherence with existing frameworks are essential. Many SIC and crypto custodians may be smaller, specialist providers whose role is to support fund structures where UCITS/AIF depositaries already carry primary responsibility vis-à-vis investors. The extension of small AIFM-related rules should therefore be designed to complement, rather than duplicate, those existing safeguards. We support applying the same underlying principles and outcomes that underpin the current small AIFM rules, while allowing flexibility in how operational requirements are met, and avoiding double-regulation where equivalent protections are already imposed under fund, prudential or conduct regulation. **This would help ensure that tokenised fund and securities structures can develop on a level playing field with their offchain equivalents, without imposing unnecessary friction on innovation.**

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

We do anticipate that SICs will be used for securities financing transactions (SFTs) in future, particularly as tokenisation of equities, bonds and fund interests progresses and institutional participation grows. The ability to lend, borrow, repo and otherwise finance tokenised instruments is likely to be important for liquidity, price discovery and efficient balance sheet management, mirroring the role of SFTs in traditional markets. In our view, it would be undesirable for an economically identical security to be freely usable in SFTs in offchain form but materially constrained once held in SIC form, purely due to regulatory design.

For that reason, we consider that, where SICs are subject to SFTs with appropriate client consent, the CASS 17 regime should provide a route equivalent to the CASS 6 provisions that permit the use of clients' safe custody assets for SFTs, subject to clear safeguards. In particular, clients should give explicit, informed consent to their SICs being used in SFTs, with transparent disclosure of the loss or modification of proprietary rights during the term of the transaction and the nature of their contractual claim. Firms should apply robust collateral, counterparty and concentration risk management, including prudent haircuts, margining and stress testing, and records should clearly distinguish between assets held on trust and assets that have been transferred under title-transfer SFTs, so that clients' positions can be identified and reconciled at all times.

We encourage the FCA to ensure that the treatment of SICs in SFTs preserves parity, as far as possible, with well-established offchain practices, while reflecting any additional risks specific to onchain settlement and custody. This will help avoid fragmentation between tokenised and traditional markets, support the development of healthy liquidity in SICs, and ensure that investors' expectations about how their assets can be used in financing transactions remain coherent across technological forms.

Cost benefit analysis

Question 39: Do you agree with our assumptions and findings as set out in this CBA on the relative costs and benefits of the proposals contained in this consultation paper? Please give your reasons.

We appreciate the FCA's provision of a CBA for these proposals. We also welcome the presentation of benefits in a qualitative way in this consultation, contrasting with the quantified but highly uncertain benefits put forward in previous crypto consultations. This new approach recognises uncertainty and prevents outsized assumptions from skewing the balance between costs and benefits.

In general we believe the costs set out are underestimated. This is particularly the case for familiarisation and initial implementation costs, which must involve for firms a broad analysis of interacting factors. This includes, for instance, understanding how conduct requirements in CRYPTO and COBS permit or restrict certain business models which lead to differing own funds outcomes under CRYPTOPRU.

In addition, while individual firm costs are understandably the focus of the CBA, there are macro costs which should be assessed. For instance, where requirements are likely to discourage (or encourage) certain firms to set up in the UK, costs related to offshoring of activity or lower growth in the UK cryptoasset market should be considered, including in the context of other jurisdictions' requirements.

We support the provision of trade-off analysis for decisions such as permitting the use of credit cards to purchase crypto, and not extending FSCS coverage. However, as with previous CBAs, the analysis provides limited grounds on which to assess different specific policy choices across key issue areas, or to justify why additional costs are necessary to achieve a greater increase in benefits. This includes, for instance, the various options for international firm regulation. The lack of UK establishment requirements in legislation brings the FCA's approach to authorising international firms in scope of the decisions to which the CBA applies. As noted by the FCA CBA Panel, international dynamics should be considered in greater depth, and we believe the counterfactual for the majority of activities - a more permissive approach that allows a branch - should be assessed in detail given the consequential impact this could have on rule coverage and the overall cost of meeting FCA requirements.

At present the CBAs delivered across the crypto roadmap treat positions largely in isolation. This is understandable given the iterative development of the regime, and we recognise that the FCA will set out finalised CBAs alongside its policy statements. We would urge the FCA at that stage to consolidate analysis at an overall entity and activity level, taking into account cross-cutting rules, activity-specific requirements, UK establishment costs, and costs for international firms based on areas of misalignment with other jurisdictions. This holistic assessment is vital to consider regime-wide effects and provide a baseline from which to assess the effectiveness of the regime post-implementation.

Both benefits and costs should be assessed at a regime level. Consumers are likely to interact with multiple services, many firms and groups will offer multiple activities, and the success of one area of the regime will influence others.

For instance, the strength of the UK principal dealer market will affect the depth of UK-based liquidity, which will in turn influence both the price and reliability of consumer trades, and the cost of business for other crypto firms offering services that utilise external liquidity.