Global Blockchain Business Council (GBBC): Response to FCA Consultation Paper CP25/25 (Part II)

About us:

Global Blockchain Business Council (GBBC) is the trusted non-profit association for the blockchain, digital assets, and emerging technology community. Founded in 2017 in Davos, Switzerland, GBBC comprises more than 500 institutional members and 284 Ambassadors across 124 jurisdictions and disciplines.

GBBC furthers adoption of blockchain and emerging technologies by engaging regulators, business leaders, and global changemakers to harness these transformative tools for more secure and functional societies.

GBBC industry verticals: Financial Services, Global Commerce/Supply Chain, and Commodities, underpinned by AI, digital identity, governance, hardware, infrastructure, policy, regulation, and security.

GBBC initiatives: BITA Standards Council (BITA), Food for Crisis, Global Standards Mapping Initiative (GSMI), International Journal of Blockchain Law (IJBL), InterWork Alliance (IWA), and U.S. Blockchain Coalition (USBC).

Introduction

The Global Blockchain Business Council (GBBC UK) welcomes the opportunity to respond to the Financial Conduct Authority's Consultation Paper CP25/25 (Part II). We support the FCA's objective of bringing cryptoasset activities within the FSMA perimeter through a coherent, outcomes-based framework that aligns with established UK regulatory standards.

Part II covers several foundational elements of the new regime—high-level standards, governance and SYSC, operational resilience, outsourcing, and financial-crime requirements. These chapters determine how crypto firms will operationalise FSMA obligations in a digitally native environment, and how existing FCA principles should adapt to hybrid on-chain/off-chain models.

Our response focuses on areas where additional clarification, proportionality, or sequencing would support effective implementation, particularly for firms entering FSMA authorisation for the first time. We also highlight where international coherence with regimes such as MiCA and DORA will be important to avoid fragmentation and ensure cross-border operability.

GBBC's comments build on our engagement under CP25/14 (Stablecoins and Custody) and CP25/15 (Prudential Regime), recognising that these elements must function together as a single, consistent regulatory system. We welcome ongoing dialogue with the FCA as this framework is refined.

Consultation Questions:

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

GBBC supports the FCA's proposal to bring cryptoasset activities within the Designated Investment Business (DIB) category under FSMA. This approach creates structural coherence by embedding crypto within the existing regulatory architecture rather than creating a bespoke "crypto rulebook."

The main challenge is interpretive. Without clear cross-referencing, firms risk inconsistent or duplicative application of overlapping modules across CP25/14, 15, and 25. To address this, the FCA should provide a concise mapping annex clarifying which Handbook provisions apply to each regulated activity.

We also suggest a terminology clarification around how *staking* is described between the DIB definition and the list of regulated activities, to maintain interpretive consistency at authorisation.

In relation to custody and conduct overlap, the FCA should emphasise core safeguarding outcomes—full-reserve protection, reconciliation, and segregation of client assets—rather than procedural replication.

Handled carefully, the DIB classification can achieve both coherence and clarity: a single supervisory language for crypto, anchored in outcomes rather than paperwork.

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

We support extending the FCA's High-Level Standards to cryptoasset firms. The issue is not whether the Principles apply, but how they are interpreted and evidenced in hybrid, partly decentralised environments.

Several Principles—particularly those addressing market integrity, diligence, and customer treatment—require contextual interpretation when activities are automated or executed on-chain. The FCA should therefore provide short, targeted examples showing how firms can demonstrate compliance where processes are technology-driven.

Further clarity is also needed on intermediary chains and algorithmic execution: how accountability should flow across multiple regulated entities and what standards apply when decision-making is delegated to automated systems. Establishing expectations for algorithmic governance under SYSC would provide predictability without adding rule volume.

In essence, the Principles remain the right foundation. The challenge is translating them into digital-asset reality through concise, high-signal guidance that illustrates good practice without restating first principles.

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

GBBC supports extending the SUP framework to cryptoasset firms (excluding SUP 16 returns). Effective supervision depends on proportionate, timely incident reporting; over-reporting would obscure genuinely material events.

A short materiality steer—anchored in business-service impact—would ensure consistency. For instance, notifications should be triggered by events materially impairing withdrawals, custody, or client data integrity. Illustrative examples such as chain halts, validator failures, or major contract errors would guide consistent judgment.

Aligning these triggers with Operational Resilience standards will further streamline compliance and prevent firms from filing the same information through parallel channels.

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

GBBC supports the application of SYSC governance rules to cryptoasset firms, provided implementation remains proportionate. Governance is non-negotiable, but it must scale sensibly with the size and complexity of the firm.

To make compliance practical, the FCA could publish a non-binding "good-practice" reference note illustrating how SYSC expectations translate to crypto-specific contexts such as validator oversight, key-management, or smart-contract deployment. Such examples would reduce interpretive friction while maintaining flexibility for innovation.

The FCA should also provide early visibility of related policy initiatives—for example, any upcoming consultations on conflicts-of-interest or training-and-competence—so firms can plan integrated governance frameworks rather than re-engineering them piecemeal.

Where a crypto subsidiary sits within a larger authorised group, group-level governance that demonstrably achieves equivalent control outcomes should satisfy SYSC requirements. This approach would align with the FCA's proportionality principle and minimise redundant bureaucracy.

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

We support extending the SM&CR to cryptoasset firms, as accountability is the foundation of effective conduct. However, sequencing and clarity are essential to avoid operational churn.

Given that HM Treasury is currently consulting on possible SM&CR reforms, firms face uncertainty about potential duplication of effort. The FCA could mitigate this by indicating which SM&CR elements are settled and which may evolve, or by aligning implementation with the final Treasury timetable.

Equally important is clarifying what "reasonable steps" mean where firms rely on decentralised or external infrastructure. Senior managers cannot control consensus mechanisms or public networks, but they can evidence due diligence—such as network-risk assessments, validator-selection policies, or key-management oversight. Explicitly recognising this distinction would reinforce accountability while remaining realistic.

A stable, clearly scoped SM&CR implementation will anchor responsibility without creating uncertainty or unnecessary rebuild costs.

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

GBBC agrees that enhanced-scope categorisation should apply to larger or systemically significant cryptoasset firms. However, scale alone is not an adequate proxy for systemic impact.

The FCA should integrate qualitative factors—such as market interconnectivity, custody concentration, and reliance on shared infrastructure—into its threshold assessments. These criteria better capture where disruption could propagate beyond one firm.

Parity with existing practice could also be maintained by allowing core crypto firms to allocate the CASS-oversight certification to a suitably senior non-SMF manager, consistent with treatment in other financial sectors.

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

We support extending operational-resilience expectations to cryptoasset firms but note that scope and proportionality require careful calibration. Applying identical requirements to all firms—irrespective of scale or market importance—could exceed the FCA's own "same risk, same outcome" principle.

The FCA may wish to consider whether proportionality could be achieved by linking full SYSC 15A obligations to enhanced-scope criteria, while applying streamlined expectations to smaller or limited-impact entities. This would focus resilience resources where disruption would have market-wide or consumer consequences.

In parallel, FCA guidance should help firms translate resilience planning to decentralised environments—for example, how to define "important business services" when infrastructure is public or to test tolerances for chain halts, forks, or de-pegs. Operational resilience should be a framework for preparedness, not an exercise in uniformity.

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

GBBC strongly supports the FCA's confirmation that using a permissionless blockchain is not an outsourcing arrangement. This interpretation avoids an unworkable outcome and preserves the UK's innovation credibility.

The supervisory focus should remain on how firms use public networks—monitoring reliability, maintaining contingency plans, and communicating transparently with clients. Providing a concise definition of "permissionless DLT" in Handbook guidance would ensure a shared understanding across the industry.

A simple accountability checklist—monitor, plan, inform—would give firms and supervisors a consistent baseline for oversight without implying control over public infrastructure.

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

We support the application of the FSMA financial-crime framework to cryptoasset firms, coupled with guidance tailored to digital-asset risks. Parity of standards will strengthen market integrity; the missing piece is practical steer on application.

The FCA should develop crypto-specific typology notes in collaboration with JMLIT Crypto, addressing red-flag behaviours such as misuse of bridges, mixers, or privacy tools. Regularly updated, evidence-based examples will improve consistency of risk assessment and reduce over-compliance that drives activity offshore.

The goal should be a pragmatic balance—robust AML controls and proportional data expectations—supported by collaborative intelligence-sharing rather than duplicative reporting.

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

We welcome additional FCA guidance, provided it remains concise and example-led. The most effective format would be short "what good looks like" illustrations across key topics—custody, validator/oracle reliance, forks, and fair-value reasoning—rather than extensive narrative.

Guidance should also clarify intermediary responsibilities within chains of regulated entities, including who is expected to notify or act first in the event of disruption. Maintaining parity of reporting constructs with traditional sectors will further simplify compliance for multi-regulated groups.

Practical examples—rather than abstract restatements—will best translate principles into day-one readiness.

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

GBBC recommends that the FCA explicitly recognise multi-party computation (MPC), hardware-security modules (HSMs), and cryptographic audit logs as accepted good practice for digital-asset custody. These techniques collectively enhance resilience, integrity, and traceability—objectives that align directly with FCA standards.

Expectations should remain outcomes-based rather than technology-prescriptive, to allow innovation. On-chain traceability itself strengthens enforcement and detection; calibration of requirements should reflect this built-in transparency. Aligning guidance with NCSC and international cyber-resilience frameworks will ensure coherence across sectors.

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

We support extending ESG considerations to cryptoasset firms but caution against premature standardisation. At present, network architectures and methodologies vary significantly, and forcing comparability could lead to false precision.

The priority should be methodological transparency—requiring firms to disclose assumptions, data sources, and boundaries of analysis—rather than strict metric harmonisation. This approach produces credible information without implying equivalence where it does not yet exist.

The FCA could outline a future roadmap to revisit sustainability disclosures once international data (e.g., under MiCA) mature, preserving optionality for later alignment while maintaining a pragmatic, evidence-based approach today.

Question 28: ***Do you agree with our assumptions and findings as set out in this CBA on the relative costs and benefits of the proposals contained in this consultation paper? Please give your reasons.***

We support the FCA's cost–benefit conclusions in principle but believe transitional costs are understated, particularly for firms moving from MLR registration to full FSMA authorisation. The challenge is sequencing, not substance.

Without clear phasing across concurrent consultations, firms risk duplicating investment in overlapping systems. A consolidated implementation timeline and a post-implementation cost review following the first authorisation cohort would ensure proportionality while preserving policy intent.

This simple step would enhance credibility and demonstrate that the UK's regulatory approach is both rigorous and commercially practical.

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

GBBC agrees with the FCA's objectives but notes that the cumulative consultation load has become a significant planning challenge for firms. Conduct, prudential, and custody frameworks are advancing in parallel with partially overlapping scopes.

A single cross-consultation roadmap showing interdependencies, sequencing, and transition arrangements would materially improve compliance efficiency and support the FCA's own supervisory visibility. Reducing friction through coordination will help the regime achieve both high standards and high uptake, reinforcing the UK's position as a credible global hub for regulated digital-asset activity.