Global Blockchain Business Council (GBBC): Response to FCA CP25/15 – A Prudential Regime for Cryptoasset Firms

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).

General Remarks

GBBC welcomes the opportunity to respond to the FCA's Consultation Paper CP25/15 on the proposed prudential regime for cryptoasset firms. We support the FCA's objective of developing a regulatory framework that ensures financial resilience, promotes market integrity, and enables responsible innovation. As the UK moves to bring cryptoasset service providers into scope under FSMA, we agree that capital and liquidity standards will be an important part of establishing confidence and supervisory oversight.

Against this backdrop, GBBC has identified several areas within the proposed framework where further clarification, calibration, or simplification may be warranted. This high-level view outlines four core concerns that emerge in the sections that follow:

1. Complexity

The regime, as currently drafted, introduces overlapping capital and liquidity requirements (PMR, FOR, K-factors, BLAR, ILAR, FX), each grounded in identifiable risks, but collectively forming a dense and operationally burdensome framework. The cumulative interaction of these layers may undermine clarity and practical implementation, particularly for decentralised or crypto-native firms operating outside traditional prudential templates.

2. Proportionality

The proposals draw heavily from MIFIDPRU, but without equivalent tiering, exemptions, or adjustments suited to smaller firms, early-stage projects, or token-based models. Across several components — including FOR deductions, ILAR liquidity buffers, and FX risk charges — the absence of proportionate scaling mechanisms may result in obligations that exceed the actual risk exposure of many firms.

3. Competitiveness

The overall capital burden and compliance costs introduced by the regime could diminish the attractiveness of UK authorisation, particularly where alternative pathways such as the overseas issuer framework offer more proportionate or internationally harmonised treatment. The requirement to maintain multiple segregated capital buffers under CP25/14 and CP25/15 compounds this challenge and may deter firms from establishing operations under the UK regime.

4. Goldplating

The regime appears to apply the most conservative interpretations of legacy regulatory frameworks to a sector that is structurally distinct and still evolving. While prudential caution is appropriate in some areas, this degree of overextension risks suppressing innovation and limiting the policy objectives of responsible growth and competitiveness.

This response identifies areas where the proposals could be clarified, simplified, and made more proportionate, without compromising prudential outcomes. GBBC remains committed to supporting the FCA's regulatory objectives and welcomes continued dialogue on the development of a prudential regime for the cryptoasset sector.

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

GBBC supports the FCA's objective of ensuring that cryptoasset firms are appropriately capitalised. However, our discussions raised concerns that the wholesale adoption of CET1, AT1, and T2 capital classifications introduces unnecessary complexity, particularly for firms with decentralised structures or crypto-native treasury models. These firms often operate without traditional equity structures, relying instead on governance tokens, decentralised treasuries, or protocol-based incentive mechanisms — all of which may not be adequately captured within existing regulatory capital definitions.

The reliance on legacy capital definitions may obscure key distinctions in risk profile, legal form, and funding logic across the sector. The current drafting of the regime may create disproportionately high barriers to entry for smaller firms, with few scaling mechanisms to address different business models.

GBBC would like to raise the concern that adopting a regime modelled on MIFIDPRU — which itself imposes significant complexity even on traditional firms —may not be appropriately calibrated for firms that are currently unregulated apart from AML registration. This could dissuade firms from entering the UK authorisation process altogether.

In particular, we note the risk that capital requirements may be applied across entire institutions, rather than being ring-fenced to cryptoasset activities, leading to excessive capital obligations unrelated to the actual risk exposure of crypto operations. The cumulative burden introduced by the proposed framework may ultimately reduce the attractiveness of seeking UK authorisation, especially where alternative regimes such as the overseas issuer framework offer more proportionate treatment.

Recommendation: GBBC encourages the FCA to consider proportional thresholds, provide further clarity on how requirements apply to mixed-activity firms, and narrow the interpretation of "control of supply" to avoid capturing non-discretionary governance or protocol-defined issuance models.

As tokenised forms of traditional equity or debt instruments become more prevalent, GBBC encourages the FCA to clarify how such instruments — where legally equivalent to conventional securities — will be treated under the capital framework. Simplified obligations for smaller or low-risk firms should also be considered.

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

GBBC agrees with the principle that firms should not be permitted to include in their own funds cryptoassets they issue or control. However, the interpretation of "control" in the context of decentralised or protocol-based systems raises significant uncertainty.

Where issuance is governed by smart contracts or community mechanisms, the risk of circular valuation may be limited or absent. In such cases, strict deduction rules could penalise legitimate governance participation or ecosystem-related holdings. For example, firms may hold native tokens as part of on-chain voting mechanisms or to provide liquidity — not for speculative or balance-sheet inflation purposes — and the deduction of such assets could create disproportionate capital treatment.

Recommendation: GBBC recommends that objective indicators of "control" — such as token concentration thresholds, voting rights, or smart contract permissions — be included to clarify when deduction applies. This would enhance predictability and reduce interpretive uncertainty, particularly for decentralised projects.

In line with legitimate business operations, GBBC encourages the FCA to consider exemptions or alternative treatments for cryptoassets held to facilitate trading, protocol access, or fee payments, where these do not pose capital risk and are fully disclosed.

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

We broadly support the principle of a risk-based own funds requirement. However, the layering of multiple capital metrics — PMR, FOR, and K-factors — creates a framework that is complex, operationally burdensome, and lacks the proportionality seen in MIFIDPRU. It is important to clarify that PMR and KFR include only the specific cryptoasset activity of a firm and exclude other business activity.

It was noted that CRYPTOPRU not only introduces new K-factors specific to crypto issuance and custody, but also applies a narrower approach to allowable deductions under FOR. Moreover, there are no clear exemptions or simplified requirements for smaller or early-stage firms.

GBBC also raises the concern that FOR calculations could extend to the entire corporate group's operating expenses, rather than being ring-fenced to crypto-related activities. This could require firms to implement new accounting systems to segment expenditures, introduce additional compliance and reporting layers, and reassess their internal risk models — all of which may be disproportionate to the prudential risk being addressed.

Recommendation: GBBC encourages the FCA to explore graduated obligations based on firm size, activity level, or token liquidity, which would preserve prudential integrity while reducing entry barriers for early-stage or lower-risk firms and ensuring business model viability for large firms. A material increase could be defined as a 30% rise in FOR within the current year. Additionally, the proposed 2% K-factor for qualifying stablecoin issuance may be too high to meet the needs of both startups and scaled firms. In GBBC's analysis, there is a clear contrast between the CRYPTOPRU proposals and the capital framework established under the UK Payment Services Regulations. Stablecoin models were initially expected to fall under the payment services regime, which provides simpler and more intuitive capital requirements. By comparison, the CRYPTOPRU regime appears significantly more burdensome, despite addressing similar underlying functions in some cases.

GBBC further encourages the FCA to provide clear guidance on cryptoasset valuation standards, data sources, and frequency of updates — particularly for benchmark-dependent metrics such as K-QCS. Reliable, auditable valuation practices will be essential for consistency and supervisory oversight.

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

We caution against a prescriptive list as it is challenging to predict the full scope of covered items.

GBBC notes that MiFIDPRU permits deductions for exceptional or one-off expenditures. The CRYPTOPRU regime appears not to carry these over, which risks overstating a firm's wind-down cost base.

This may particularly affect crypto-native firms, which often face significant one-off infrastructure or audit costs associated with launch, onboarding, or smart contract upgrades. These costs are typically front-loaded and non-recurring but may materially inflate FOR if not deductible, resulting in inflated capital requirements that do not reflect a firm's actual ongoing cost base or wind-down needs. In turn, this may deter early-stage firms or decentralised networks from seeking authorisation in the UK.

We are of the view that the FCA has not provided a clear rationale for divergence from MiFIDPRU and it would be appropriate to apply, or restore the wider deduction categories. Greater clarity is also needed on how token-based or on-chain expenditures are to be treated.

Recommendation: We suggest allowing a certain amount of flexibility, rather than a prescribed list. GBBC supports including crypto-specific variable costs — such as on-chain gas fees, validator commissions, and usage-based cloud services — as allowable deductions under FOR, subject to adequate documentation. These costs scale directly with business activity and would not persist during an orderly wind-down.

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

GBBC agrees with the principle that firms remain responsible for safeguarding, even when custody is delegated. However, shared control via MPC, multi-signature arrangements, or smart contracts present challenges for measurement and attribution.

Recommendation: FCA should provide guidance on how to calculate QCS in shared-control environments, and offer illustrative examples for non-traditional custody models. Any capital treatment should be proportionate to the firm's operational risk and oversight role. Additionally, we believe it is necessary to clarify that only the value of qualifying cryptoassets are included in the measurement of QCS and not the outsourcing of other activities.

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

We are concerned that the BLAR requirement, as drafted, is unclear and overly restrictive. FCA's interpretation of eligible liquid assets appears to favour fiat deposits to the exclusion of tokenised equivalents.

While recognising prudential caution, we suggest that regulated stablecoins or tokenised government instruments could, under certain conditions, meet liquidity standards.

We are unclear on the scope of the FCA definition of "guarantees firms have to clients." and request further clarification.

Recommendation: We request the FCA to consider the use of regulated stablecoins or tokenised government instruments to meet liquidity standards. It is noted by some of our members that while it may not align with current FCA expectations, it should be considered as an area for further dialogue in exploring innovative but risk-managed treasury models.

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

It is unclear from the consultation how guarantees are intended to be treated under the BLAR framework. It is unclear whether the FCA refers to contractual financial guarantees, marketing representations, or another category of obligation.

Where guarantees represent legally binding liabilities to third parties, they should be reflected in liquidity planning. However, the interaction between this treatment and broader capital/liquidity requirements requires clarification.

Recommendation: FCA should clarify the scope of "guarantees" and confirm whether they must be fully backed by liquid assets. GBBC also encourages alignment with established principles under MiFIDPRU where appropriate.

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

We question the necessity of ILAR in its current form, given the existence of separate capital and liquidity requirements under CP25/14 and CP25/15. The layering of ILAR on top of the 5% cash redemption buffer for stablecoin is duplicative and potentially excessive.

The proposed structure may disincentive authorisation in the UK, particularly where alternative regimes offer clearer or more flexible treatment. When taken together, the redemption buffer, BLAR, and ILAR form overlapping safeguards that may be difficult to reconcile and unnecessarily capital-intensive for firms. If firms are required to maintain multiple pools of segregated liquidity for similar risk scenarios, this will result in inefficient capital allocation and reduce the attractiveness of the UK regime relative to jurisdictions offering more streamlined prudential frameworks.

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

We acknowledge that FX risk is relevant for stablecoins backed by foreign-currency assets. We do not believe that a specific capital charge is appropriate and caution against rigid or blanket charges that may unduly penalise legitimate multi-currency models.

Where not already addressed, we support a flexible and tiered approach to FX risk mitigation, combining options such as currency matching, hedging, or capital buffers based on the scale and structure of FX exposure with exemptions for firms using effective hedging or convertibility mechanisms.

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

GBBC recommends that any requirements regarding concentration risk should allow for flexibility, with monitoring expectations proportionate to firms' actual control and visibility.