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Regulatory Update

U.K. Cryptoasset Sector—FCA Crypto Roadmap

The U.K.'s Financial Conduct Authority (**FCA**) has today published its high-level proposals for a major overhaul of the U.K.'s cryptoasset regulatory regime.

Whilst substantive rules have not been issued today, the FCA's Crypto Roadmap¹ provides useful insight into the areas and activities that the FCA will be consulting on over the next 18 months, with the full regime expected to take effect in 2026.

Next year will therefore be a critical time for all U.K.-based cryptoasset firms and non-U.K. cryptoasset firms looking to access the U.K. market.

The FCA's roadmap follows hot on the heels of a speech provided by the U.K.'s economic secretary, Tulip Siddiq, at the U.K.'s Tokenisation Summit last week. It demonstrates a willingness by the new U.K. Government to continue the work of the previous administration by transitioning the U.K.'s cryptoasset regulatory regime away from money laundering legislation focusing on financial crime to a holistic regulatory regime for the U.K.'s cryptoasset and digital asset sector.

Failure to bring forward legislation in this area risked the U.K. falling behind peer nations such as the EU, in which the Markets in Cryptoasset Regulation (**MiCA**) will come into force on 30 December 2024.

FCA Crypto Roadmap

The FCA is proposing a series of discussion papers early in 2025 on the new regime to be followed by consultation papers with developed rules.

Some key points from the FCA's Crypto Roadmap include:

- The new framework will closely resemble the framework for the securities trading sector with new requirements covering both organisational matters such as governance (and a new regime for individuals working in the crypto sector) as well as prudential rules and customer-facing rules.
- The U.K. Government and FCA are now proposing a single-phase Big Bang as opposed to the two-stage approach previously advocated whereby stablecoin regulations would come in first to be followed by a new CASP/VASP regime similar to MiCA.



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¹ <https://www.fca.org.uk/publication/documents/crypto-roadmap.pdf>

- The Government have also said that they will introduced regulations to make it clear that staking does not involve a regulated activity of operating a collective investment scheme.
- The Government has also said that they will not extend payment services regulation to the use of stablecoins.

The table below sets out the key publications to be issued. We include our initial commentary on each.

Timing	Action	Commentary
Q4 2024	<p>Discussion paper on:</p> <ul style="list-style-type: none"> ▪ Admissions and disclosures ▪ Market abuse 	<p>The new rules on admissions and disclosures may be of limited impact for firms operating in Europe given that MiCA rules on white papers and similar requirements are coming into force now. Therefore, there might be an existing body of disclosure materials for tokens being listed that could be leveraged. An exercise will need to be performed in relation to the delta between the FCA rules and MiCA and a process for complying put in place.</p> <p>Market abuse rules will require greater transaction monitoring and surveillance to be carried on with investment made in automated transaction monitoring tools.</p>
Q1/Q2 2025	<p>Discussion paper on:</p> <ul style="list-style-type: none"> ▪ Trading platform rules including location, access, matching, and transparency requirements ▪ Intermediation rules including order handling and execution requirements ▪ Lending rules including ownership, access, and disclosures ▪ Staking including ownership and disclosures ▪ Prudential considerations for cryptoasset exposures 	<p>Firms might need to review order execution processes for clients in order to comply with best execution rules. Crypto firms might typically use a limited number of execution venues but will need to ensure pricing and execution quality will match new rules (i.e., either using a broader range of venues or tools to validate that execution quality through existing venues is compliant).</p> <p>The terms of existing lending or staking products will need to be reviewed. It's also helpful that Tulip Siddiq's keynote speech at the U.K. Tokenisation Summit last week stated that the government will legislate to ensure that staking does not constitute a collective investment scheme.</p>
Q1/Q2 2025	<p>Consultation paper on:</p> <ul style="list-style-type: none"> ▪ Stablecoins – Backing assets and redemption requirements ▪ Custody – Recordkeeping, reconciliations, segregation of assets, and use of third parties ▪ Prudential – Introduction of a new prudential sourcebook, including capital, liquidity, and risk management 	<p>Stablecoin requirements are likely to be of more relevance to issuers of stablecoins than intermediaries, as we have seen under MiCA. At the U.K.'s Tokenisation Summit, Tulip Siddiq said that the stablecoin regime will be implemented at the same time as the rest of the regulatory regime, rather than in a phased approach.</p> <p>The new rules on custody are likely to be material given that the existing U.K. cryptoasset registration regime (under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR²¹)) has few requirements around custody processes. We can expect requirements modelled on the FCA's CASS (Client</p>

Timing	Action	Commentary
		<p>Asset Sourcebook) requirements for the custody of securities.</p> <p>Likewise, the imposition of prudential rules will mark a major shift from regulation under the MLRs. Currently, a firm will need to demonstrate solvency and a viable business model to the FCA (including providing on authorisation projected financials).</p> <p>If MiCA is followed then there will be at least insurance requirements and a minimum capital requirement, but the key point will be whether there are any activity-based capital requirements.</p>
Q3 2025	<p>Consultation paper on:</p> <ul style="list-style-type: none"> ▪ Conduct and firm standards for all Regulated Activities Order activities ▪ Systems and controls including operational resilience and financial crime ▪ Consumer duty ▪ Complaints ▪ Conduct of business rules ▪ Governance including the Senior Managers and Certification Regime (SMCR) 	<p>These areas will embed fair treatment obligations to customers.</p> <p>While firms registered under the MLRs need to demonstrate good governance, the MLRs are lacking detailed requirements and have few obligations that fall on individuals involved in registered crypto businesses.</p> <p>The introduction of the SMCR to the crypto sector will create new personal liabilities for management and other staff involved in crypto businesses.</p>
Q3 2025	<p>Consultation paper on:</p> <ul style="list-style-type: none"> ▪ Admissions and disclosures to follow up on the Q4 2024 DP ▪ Market abuse (as above) 	<p>As above.</p>
Q4 2025 / Q1 2026	<p>Consultation paper on:</p> <ul style="list-style-type: none"> ▪ Trading platforms, intermediation, lending, and staking ▪ Remaining material for prudential sourcebook Groups Reporting 	<p>As above.</p>
2026	<p>Final Rules Gateway Readiness leading to go-live</p>	<p>While 2026 seems some time off, the above illustrates that a considerable amount of work will need to be carried out in 2025 to bring firms into compliance.</p>

Impact and Takeaways

The U.K.'s new cryptoasset regulatory regime will develop at a fast pace. Both existing regulated firms and new U.K. market entrants or those servicing U.K. customers will need to follow the developments closely to understand the impact on their business and begin to proactively plan for the changes.

Whilst the FCA has not yet specified a transitional period, it is unlikely to be lengthy given the increasing uptake of cryptoassets in the U.K. market.



If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings lawyers:

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