



Paradigm

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Paradigm’s response to FCA CP25/25—Application of FCA Handbook for Regulated Cryptoasset Activities

Paradigm appreciates the opportunity to comment on the Financial Conduct Authority’s (FCA) [proposed](#) regime for its Handbook’s application to cryptoasset and stablecoin activities in the U.K.

As a research-driven investor in next-generation crypto technologies, Paradigm invests in and supports early-stage startups and protocols across the crypto ecosystem. Our response reflects our position as an investor and partner to firms spanning intermediaries, brokers, dealers, issuers, custodians, and protocol operators.

Paradigm supports the U.K. government’s ambition to make the country a global center for digital innovation. Digital assets represent a natural extension of London’s leadership in fintech and financial markets. The Chancellor of the Exchequer is right to recognize digital assets’ role in economic growth as the FCA and the Bank of England work towards a competitive, outcomes-based regulatory framework that allows the sector to mature unimpeded.

We welcome an opportunity to discuss our views on these matters in greater detail with regulatory decision-makers as this regime is finalized over the coming months. Our response focuses on the areas we believe are vital to protect in the development of this regime: decentralized finance (DeFi), the future of stablecoins, and permissionless blockchains.

DeFi

In response to questions 2 and 10.

DeFi has the potential to transform traditional finance by cutting costs, increasing transparency, and improving efficiency. Our [research](#) shows that over two-thirds of traditional financial institutions are already exploring DeFi solutions. That said, the same research shows that regulatory uncertainty is the top issue impeding adoption, with 52% of TradFi firms



citing it as the main factor holding them back from deeper involvement in DeFi and blockchain technology.

To drive clarity and innovation, the FCA should define a standard for sufficient “decentralization” using technical, objective criteria—such as the absence of privileged administrative keys, transparent on-chain governance, auditable upgrade mechanisms, and decentralized validator nodes.

Such a standard is not easily determined, partly because decentralization is itself a concept more than a rigid standard; perfect decentralization may not exist any more than a perfect circle drawn on paper. A recent report by the CFTC’s Technology Advisory Committee noted that decentralization is a spectrum. As such, the FCA should make clear that protocols can be deemed decentralized as long as they exhibit some indices of decentralization, even if they are not.

A flexible, principles-based, and technologically informed approach will ensure that regulation keeps pace with innovation while maintaining market integrity. This approach would help position the U.K. as a leading jurisdiction for scalable DeFi development without stifling its growth.

Stablecoins

In response to questions 4, 5, 7, 8, 13, 26 and 27.

Stablecoins are becoming a global medium of exchange and settlement. Effective oversight should promote innovation, ensure interoperability across borders, and avoid unnecessary regulatory obstacles. Following the passage of the U.S. GENIUS Act, international harmonization of frameworks can best ensure consistent and open-source treatment within national frameworks, including the U.K.

Paradigm’s view is that major currency-backed stablecoins pose no greater conduct, prudential or stability risk than traditional fiat or electronic money. Thus, oversight should be proportionate to the risks involved, equivalent to other forms of exchange. Crypto does not need unfair special treatment, but it should not be singled out for special punishment either; instead, it needs a fair and level playing field so we can justly compete with traditional finance without unfair restraints on this new technology.

We support the FCA’s proposed outcomes-based approach; however, rules designed for traditional finance must be tailored to decentralized activity. Applying the FCA Handbook, Consumer Duty, or systems and controls frameworks (SYSC, COBS, PROD) without adaptation could impose impractical burdens, in areas such as “fair value” assessment, custodial liability, and distribution oversight.

In our view, not all these handbook rules are relevant to qualifying stablecoin and cryptoasset activities and should not apply while the sector matures and develops. The final regime should ensure firms can innovate confidently without fear of unclear compliance obligations.



We support the FCA’s proposal to exclude stablecoin issuers and custodians from the “common platform” designation and to exempt U.K. branches of overseas firms from operational resilience rules.

Permissionless blockchains

In response to question 8.

Paradigm strongly supports base-layer neutrality in approaching the regulation of blockchain-enabled [finance](#). We welcome the FCA’s acknowledgement that firms cannot be held responsible for the operational resilience of permissionless distributed ledger technologies (DLTs). Carving out such requirements from SYSC rules is both reasonable and necessary. Permissionless blockchains enhance transparency, trust, and global participation, and are key factors for scalable crypto innovation.

Transatlantic Taskforce

The FCA should prioritize deeper industry collaboration as it implements this framework. Continuous technical engagement and credible feedback channels will help ensure that regulation aligns with market realities. Encouraging voluntary industry initiatives such as open-source compliance tools would further strengthen trust and accountability.

Paradigm welcomes the U.K.–U.S. Transatlantic Taskforce for the Future of Markets [announced](#) during the State Visit. For this Taskforce to be successful, we recommend:

1. It draws on industry expertise when developing shared decentralized standards ahead of the Taskforce’s March 2026 recommendations.
2. Development of a previously proposed ‘transatlantic sandbox’ for crypto activities entering each market should form part of the Taskforce’s short-term actions.
3. Longer-term, the Taskforce should seek to enable a path for mutual equivalence between the U.S. and U.K.’s regimes.

We welcome an opportunity to inform the Taskforce’s work before recommendations on shared standards are published in March 2026.

Paradigm looks forward to continued engagement with the FCA as it advances its crypto regulatory framework. Please contact Justin Slaughter, Paradigm’s VP of Regulatory Affairs (justin@paradigm.xyz), with any questions or follow-up discussions.

Sincerely,

Justin Slaughter



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