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Paradigm’s response to FCA CP25/40—Regulatory Cryptoasset Activities

Paradigm welcomes the opportunity to respond to the Financial Conduct Authority’s (FCA) consultation paper [CP25/40](#) on regulating cryptoasset activities.

Paradigm is a research-driven crypto investment firm that funds companies and protocols from their earliest stages. Our comments reflect our position as an investor and partner to firms spanning intermediaries, brokers, dealers, custodians, and protocol operators.

Paradigm has previously [welcomed](#) the U.K. government’s ambition to make the country a leading center for innovation in decentralized finance: in particular, advocating for an approach towards proportionate risk-taking, objective standards on decentralized activity, base-layer neutrality to support blockchains’ growth, and opportunities for competitive harmonization between the U.S. and U.K. CP25/40, alongside CP25/41 and CP25/42, marks an important step toward a permissive, outcomes-based regime that covers trading, intermediation, lending, staking, and DeFi.

We are encouraged by the FCA’s intent to move away from prescriptive, TradFi-style models in earlier discussion papers, toward more tailored rules that recognize crypto’s specific market structures. In this response, Paradigm focuses on five areas: location requirements and entity structures for U.S. and international firms, the FCA’s approach to trading and intermediation, plans for lending and borrowing, staking, and DeFi.



Location requirements

Paradigm supports the FCA's recognition that many in-scope firms will be international groups and that U.K.-facing activity can, in principle, be carried on through either a U.K. subsidiary or, in some cases, a U.K. branch. This acknowledges that major trading platforms and intermediaries operate global liquidity pools and are already subject to home-state supervision, often in the U.S.

We urge the FCA to avoid de facto requirements to on-shore entire trading and risk books where U.K. flows are one part of a global venue stream. Excessively rigid location expectations risk fragmenting liquidity, increasing costs for U.K. users of crypto products, and weakening the U.K.'s competitive position against jurisdictions that permit more integrated cross-border access for professional clients.

We recommend the FCA clarify that, where risk management and client-protection arrangements already exist, U.K. branches may provide access to global order books without requiring a separate U.K. trading stack. Group-level risk management, governance, and prudential resources should be recognized where an international group is supervised under an equivalent regime, reducing duplication of capital and control structures. Paradigm urges the FCA to use its next consultation on international firms' treatment to support permissive and competitive access by global firms to the U.K.

Trading and intermediation

We welcome the move away from blanket prohibitions on listing proprietary tokens or rigid exchange models toward a more nuanced framework built around transparency and market-integrity outcomes. We recognize that the FCA has sought to adapt familiar securities-market concepts to cryptoasset trading platforms (CATPs) and intermediaries in the U.K., while reflecting the specific features of tokenized markets. It is critical to competitiveness and growth that CATPs be allowed to list a broad range of tokens (including, where appropriate, their own tokens), subject to clear disclosure and due diligence requirements, rather than categorical bans. Listing standards should be designed to make it easier for exchanges to list tokens in a workable fashion, rather than create additional regulatory barriers just because they exist in other areas. There is no reason to put up another fence next to Chesterton's Fence just to create symmetry.

Revised proposals on CATPs' responsibilities for admissions, order handling, conflicts, and market surveillance can help anchor market integrity, but these must be calibrated proportionately and applied in a way that does not effectively prohibit certain business



models. It is important that agents and principal dealers can operate with appropriate conflict management tools so that U.K. venues can compete with leading global exchanges. We recommend that the FCA use its final rules and guidance to confirm that a range of trading and intermediation models will be permissible. There is no one-size-fits-all rule for trading and intermediation models in tradfi, and there should not be a single rule for them in crypto either.

Internationally, regimes such as MiCA and Singapore's crypto markets frameworks have sought to create space for both central-limit-order-book models and more bespoke OTC venues, with responsibility for market integrity sitting at the platform level rather than being hard-wired toward a narrow model. We encourage the FCA to align with this approach.

Lending and borrowing

Paradigm supports the FCA's decision not to import the U.K.'s consumer credit regime wholesale into crypto lending and borrowing, and instead to design a bespoke framework for cryptoasset lending and margin financing. This reflects the diversity of lending and borrowing structures in crypto markets, many of which are closer to secured financing between sophisticated parties than to retail credit products.

The proposed requirements for disclosures, client consent, and recordkeeping can serve as appropriate safeguards when retail users are involved. However, there is a risk that unduly prescriptive rules on collateral types, rehypothecation, and use of proprietary tokens could inadvertently constrain institutional lending markets and push activity offshore.

Paradigm would encourage the FCA to distinguish clearly between mass-retail lending/borrowing products and professional or wholesale arrangements, with more flexible rules for the latter where both parties are sophisticated and appropriately regulated. We also recommend that the FCA ensure the treatment of collateral, margin, and liquidity management for lending and borrowing is compatible with practices in major international centers, so that U.K.-regulated firms are not disadvantaged in cross-border flows.

In the E.U. under MiCA, and in jurisdictions such as Singapore and the UAE, regulators have generally focused on risk disclosure, segregation of client assets, and leverage controls, rather than prescribing specific collateral compositions for professional markets. A similar outcome-based approach in the U.K. would support the development of safe, yet competitive, lending and borrowing activity.

Staking

We welcome the CP25/40's proposals on staking, but believe they do not go far enough. The FCA's proposals to require explicit client consent, clear explanation of protocol and



counterparty risks address consumer protection concerns without assuming that staking is inherently unsuitable.

However, other countries are more flexible on staking services being available to customers. Comparatively, leading jurisdictions abroad are converging on a model where regulated firms can offer staking services, either directly or via white-label validator models, subject to disclosure and conflict management, rather than blanket bans. That is broadly the direction in Singapore and the UAE and is reflected in ongoing policy debates in the U.S.

In this context, we recommend that the U.K.'s staking framework differentiate appropriately between retail mass-market products and institutional or professional services, so that the latter are not subject to retail-style constraints that could make UK offerings uncompetitive. The interaction between staking, custody, and prudential rules must also be managed in a way that does not unduly penalize U.K.-regulated firms compared with providers operating under MiCA or other regimes. The U.K. should look abroad at how other jurisdictions are approaching this issue and replicate their approaches to align with the burgeoning global standards.

DeFi

Paradigm has long argued that DeFi has the potential to transform traditional finance by cutting costs, increasing transparency, and improving efficiency. In-house [research](#) has shown that a sizable majority of TradFi institutions are already exploring DeFi-based solutions, even as regulatory uncertainty slows adoption. In this context, Paradigm welcomes the FCA's decision in CP25/40 to avoid a separate, technology-specific DeFi perimeter and instead apply outcomes-based standards wherever there is a responsible "controlling entity". We believe this is the likely direction of U.S. market structure legislation on DeFi as well, and that this approach will become the global standard over the next few years.

To drive clarity and innovation, we recommend that the FCA further articulate a definition of "decentralization", using technical, objective criteria. This should include the absence or strict limitation of privileged administrative keys, transparent and on-chain governance processes, auditable and well-documented upgrade mechanisms, and sufficiently decentralized validators or nodes so that no single actor (or colluding group) can control protocols. A firm, protocol, or activity that meets those criteria could be treated differently from one that is effectively centralized behind a single entity, even if both run on similar base-layer technology. We want to encourage the creation of protocols that are not under the control of an individual or small group but are truly governed collectively by the myriad entities that hold some of the governance tokens. This is the model that will allow DeFi to truly be the global trading commons that was visualized in early [DeFi white papers](#).



A flexible, principle-based, and technologically informed approach to DeFi that is focused on functional control, market-integrity outcomes, and verifiable technical properties rather than labels would allow the FCA to supervise genuine risks without stifling institutional-scale DeFi.

From Paradigm's perspective, some of the most important opportunities for the U.K. lie in wholesale and institutional DeFi, for example, using smart-contract protocols for liquidity provision, collateral management and post-trade processes, and integrating DeFi rails with tokenized securities and funds. We recommend that the FCA ensure that on-chain wholesale trading and settlement use-cases are not inadvertently constrained by a framework designed primarily for B2C applications. This would help position the U.K. as a leading jurisdiction for scalable DeFi development and integration into traditional finance.

Transatlantic Taskforce

Finally, as we have called for before, the FCA should prioritize deeper industry collaboration as it finalizes this framework. Paradigm welcomed the [announcement](#) of the U.K.-U.S. Transatlantic Taskforce for the Future of Markets during the State Visit last year. As its recommendations are prepared before April, we recommend the FCA draw on industry expertise when agreeing shared decentralized priorities, explore further the opportunities of a 'transatlantic sandbox' for crypto activities entering each market, and seek to enable a path for mutual equivalence between the U.S. and U.K.'s regimes.

Paradigm looks forward to continued engagement with the FCA as it advances its crypto regulatory framework.

We would welcome the opportunity to discuss these issues in more detail with FCA staff, including around the April IMF–World Bank meetings in Washington D.C., and as the FCA develops its forthcoming consultation on international firms and location policy.

Please otherwise contact Justin Slaughter, Paradigm's VP of Regulatory Affairs (justin@paradigm.xyz), with any questions or follow-up discussions.

Sincerely,

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