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Financial Conduct Authority

13 March 2025

Dear Sir/Madam,

Re: EMA Response to FCA Discussion Paper DP25/1 – Regulating Cryptoasset Activities

The Electronic Money Association (EMA) is the trade body representing electronic money issuers, alternative payment service providers, and crypto asset service providers (CASPs). Our members include leading payment institutions, crypto services firms, and e-commerce platforms operating across the UK and Europe.

We welcome the opportunity to contribute to the FCA's Discussion Paper DP25/1 on regulating cryptoasset activities. Our response reflects the operational realities of our members and aims to support a proportionate, internationally aligned framework that fosters responsible innovation while managing risks.

We would be grateful for your consideration of our comments and proposals.

Yours sincerely,

Dr Thaer Sabri
Chief Executive Officer
Electronic Money Association

EMA RESPONSE

General Comment

We support the FCA's objective to establish a regulatory framework that promotes consumer protection, market integrity, and sustainable innovation in the UK cryptoasset sector. Many of our members welcome greater regulatory clarity and recognise that responsible oversight is a prerequisite for institutional adoption and long-term growth.

We are concerned however that a number of the proposals outlined in the discussion paper may introduce significant operational and financial burdens for firms, particularly smaller or early-stage businesses. A more nuanced approach may encourage competition, reduce the risk of consolidation, and encourage innovation. We therefore urge the FCA to adopt a risk-based and proportionate approach, aligned where possible with international frameworks such as MiCA, FATF, and IOSCO.

Chapter 2 – Cryptoasset Trading Venues

Question 1: What are the operational and practical challenges of applying the suggested trading, market abuse, and other requirements to authorised overseas firms operating branches in the UK? Are there alternative approaches that could equally mitigate the risks?

Applying UK-specific trading, market abuse (MARC), and conduct rules to UK branches of overseas firms could create significant operational hurdles and costs for such entities when operating in the UK. Global platforms will need to address UK-specific system requirements for order routing, surveillance, and reporting, potentially fragmenting global liquidity pools. Navigating dual UK and home-state regulations, especially for market abuse, can lead to conflicting obligations and duplicative costs. We recognise the benefit of UK specific regulation where this cannot be synchronised with more global standards, or where the latter are absent.

A potentially more pragmatic approach, which could reduce these burdens, would involve greater reliance on comparable home-state regulation, based on robust equivalence assessments and comprehensive MoUs. For market abuse, focusing on international cooperation and outcomes, rather than mandating entirely separate UK monitoring systems, might prove more efficient while achieving similar regulatory aims. A phased implementation period would also help firms adjust systems and processes in a proportionate and orderly manner.

Question 2: What are the challenges and limitations of requiring the establishment of an affiliated legal entity for retail access to trading services by an overseas firm with a UK branch?

Requiring an affiliated UK entity for retail access introduces significant structural and cost burdens, particularly for firms where UK retail activity is a small part of global operations. Establishing and maintaining a separate legal entity involves legal, compliance, and governance overheads that may not be proportionate in all cases.

This approach could also lead to service fragmentation or deter entry by international firms, ultimately reducing competition and consumer choice. While we recognise the FCA's objective of ensuring clear regulatory oversight, we encourage a more flexible model — such as applying the requirement above a defined business threshold — to support UK market access while maintaining appropriate safeguards.

Question 3: What conditions should apply to the direct access of trading services of an overseas CATP with a UK branch?

Where direct access is permitted, it may be prudent to consider a requirement that UK branches operate under a clear and consistent regulatory framework. UK conduct rules could apply to key areas such as client onboarding, disclosures, and complaints handling to ensure a predictable standard of protection for retail clients engaging via the branch.

At the same time, conditions should remain proportionate. Firms operating from well-regulated jurisdictions should be able to rely on home-state rules where outcomes are equivalent, supported by cooperation agreements. Clear contractual terms and appropriate branch-level controls to monitor UK client activity — including market abuse safeguards — can help ensure that the regime strikes the right balance between investor protection and efficient access to international liquidity.

Question 4: What, if any, additional responsibilities should we consider for CATPs, to address the risks from direct retail access?

Where CATPs offer direct access to retail clients, additional responsibilities may be appropriate to ensure consumer protection in the absence of an intermediary layer. These could include clear pre-trade risk warnings and appropriateness assessments, calibrated to the complexity of the assets and services offered.

Firms may also provide accessible dispute resolution channels and offer educational materials to support retail users in understanding trading risks.

The application of the Consumer Duty in this context should be clarified, with expectations focused on supporting informed decision-making and fair outcomes — including, where relevant, setting appropriate default limits or restrictions for higher-risk products. This should not however hinder clients' autonomy, decision making, and their ability to take risk where this is their informed decision.

Question 5: How can CATPs manage the risks from algorithmic and automated trading strategies?

No comments.

Question 6: Do you agree that CATPs should have contractual agreements in place with legal entities operating market making strategies on their platforms? Are there alternative approaches that could equally mitigate the possible risks to market integrity?

While formal agreements between CATPs and designated market makers can enhance clarity and enforceability, a rigid requirement may not be appropriate in all cases—particularly given the diversity of liquidity provision models in crypto markets, including informal or retail-driven activity.

Instead, CATPs could be made subject to principles-based obligations to identify, monitor, and manage behaviours consistent with market making, regardless of whether a formal designation exists. These could include:

- Maintaining transparent, non-discriminatory access for all participants;
- Implementing surveillance systems to detect manipulative or abusive practices (e.g., wash trading, layering);
- Setting out clear expectations and trading rules in their terms of service to govern liquidity provision behaviours;
- Disclosing any known affiliations between liquidity providers and the CATP.

Question 7: Is there a case for permitting discretionary trading practices for CATP operators? If so, how could the above risks be appropriately mitigated?

The EMA shares the view that CATPs should generally operate non-discretionary trading systems. Discretionary practices by the CATP operator could introduce significant conflicts of interest and risk discriminatory client treatment, undermining market integrity.

If any narrow exceptions for discretionary systems were considered (e.g., for specialist wholesale markets), mitigation would require transparency, strict usage criteria, and robust conflict of interest management. However, for most cryptoasset trading, particularly with retail offerings, a non-discretionary approach is preferable.

Question 8: Should firms operating a CATP be permitted to execute transactions on a matched-principal basis? If so, how could the above risks be appropriately mitigated?

No comments.

Question 9: Have we properly identified the risks from the operator of a CATP also being able to deal in principal capacity off platform? What is your view on these risks and whether it should be permitted or restricted for an operator of a CATP? If permitted, how should those risks be mitigated?

The FCA has identified specific risks when a CATP operator deals as principal off-platform, including conflicts of interest and potential market manipulation.

There may however be means of mitigating such risks, and setting a high bar for disclosure and for business practices. These benefit from exploration before a decision on restricting this activity altogether is concluded.

Question 10: What are the risks from an entity affiliated with the CATP trading in principal capacity either on the CATP or off the CATP? What additional requirements are necessary to mitigate these risks?

When an entity affiliated with a CATP trades in a principal capacity on the platform, there will be risks related to trading. These could include having information that could present an unfair advantage, potential conflicts of interest, and in extreme circumstances, market manipulation may be possible. Such risks will need to be managed and mitigated to avoid harm to clients and to the reputation of the platform.

These risks can be mitigated through for example legal and operational separation between the CATP and an affiliated principal trading firm. CATPs can ensure non-discriminatory access and information provision to all participants, including affiliates.

Question 11: What are the risks from admitting a cryptoasset to a CATP that has material direct or indirect interests in it? How should we address these?

Where a CATP or its affiliates have a material interest in a listed cryptoasset, there is potential for conflicts of interest. However, these can be addressed through clear disclosures under the A&D

regime, alongside strong internal policies to ensure admission standards and ongoing trading practices are not compromised.

Rather than prohibiting such listings, the focus should be on ensuring CATPs have effective controls in place — including governance arrangements, conflict management frameworks, and trading surveillance — to maintain market integrity and mitigate undue influence. Where these controls are demonstrated to be effective, such listings should remain permitted.

Question 12: Are there important reasons why the same entity authorised to operate a CATP should also be able to provide credit lines or financial accommodations to the CATP's clients?

No comments.

Question 13: Do you agree with our proposal to prevent CATPs from managing or internalising credit risks between counterparties trading on their platforms? If not, why not and how would you suggest the CATP manage these risks?

The principle of CATPs remaining neutral execution venues is supported, and industry practice generally supports avoiding the internalisation of counterparty credit risk. Taking on such risk could materially alter the risk profile of the platform and introduce prudential concerns.

However, some flexibility may be warranted for specific market models or asset types, particularly where immediate pre-funding is not practical. In such cases, risks should be mitigated through contractual allocation between participants, strong collateralisation standards, or the use of third-party credit intermediaries.

The overarching objective would be to ensure the CATP has clearly defined processes for trade completion, without itself becoming exposed to material credit risk. This can be achieved through a combination of pre-funding, robust settlement rules, and clear delineation of responsibility between counterparties.

Question 14: How should we interpret or define settlement for the purpose of CATP settlement rules? Would these rules be specific to CATPs or should they be extended to other trading activities?

For CATP settlement rules, "settlement" could be pragmatically defined as the point when a transaction is reflected in the client's account on the CATP's books, and the client has an unconditional legal claim to, and the ability to withdraw, the cryptoassets.

These rules would likely need to be CATP-specific initially, given cryptoasset transfer nuances (e.g., on-chain finality). Extending a crypto-specific definition to all traditional trading activities without significant adaptation could be problematic.

Question 15: Do you agree that CATPs should be subject to both pre-trade and post-trade transparency requirements? Are there any reasons we should consider pre-trade transparency waivers?

In principle, both pre-trade and post-trade transparency are conducive to market integrity, fair access to information, and efficient price formation. These requirements are particularly important in ensuring retail users can assess market conditions and make informed decisions. However, applying these requirements uniformly across all cryptoassets and trading scenarios may not always be proportionate. Differences in liquidity, trading volumes, and participant profiles across tokens mean that a one-size-fits-all approach could inadvertently harm market functioning—especially by deterring liquidity provision in thinly traded markets.

Pre-trade transparency waivers could be appropriate in limited cases, such as block trades or illiquid pairs, provided they are subject to clear, objective thresholds and appropriate oversight. The framework should strike a balance between transparency and preserving market depth, especially as liquidity profiles across cryptoassets can vary widely.

Question 16: Which challenges may emerge for transaction data requirements if there is direct retail participation?

Direct retail participation on CATPs may introduce a number of challenges around transaction data, particularly relating to data protection, operational burden, and proportionality. Capturing and storing detailed transactional data at scale — especially if linked to identifiable retail users — raises compliance and privacy considerations under UK GDPR. Even where identifiers are pseudonymous, there is a risk of re-identification, which increases regulatory and ethical obligations for data security.

Operationally, the high volume and relatively low value of retail trades could make granular data collection disproportionately costly, particularly for smaller platforms. This could also create barriers to entry for new market participants. From a regulatory standpoint, it will be important to strike a balance: ensuring sufficient transparency and auditability, while allowing for reasonable thresholds, data aggregation, or de minimis exemptions where the marginal utility of detailed information is low. Clear guidance on minimum data elements and acceptable formats will also help CATPs standardise compliance.

Question 17: Are there preferred standards for recording transaction data?

We do not offer specific standards. Standards for cryptoasset transaction data should ideally aim for clarity, consistency, and regulatory utility without being overly prescriptive initially. Essential data includes unique trade IDs, asset identifiers, timestamps, price, quantity, order type, and anonymised client identifiers.

Industry efforts towards common data models or API specifications, drawing on adaptable elements from existing financial standards, would be beneficial. Alignment with emerging global best practices is also important.

Question 18: What opportunities and challenges do you see in trying to harmonise on-chain and off-chain transactions' recording and/or reporting?

Harmonising on-chain and off-chain transaction recording presents a valuable opportunity to create a more unified and transparent picture of market activity. For regulators, it could support more effective market surveillance, particularly in detecting abusive practices that span both trading venues and public blockchains. For firms, a harmonised framework could over time simplify certain compliance functions by aligning recordkeeping, reducing duplication, and enabling a consistent reporting architecture.

However, there are a number of challenges. On-chain data differs markedly from off chain data held by CATPs. On chain, data is structured according to the underlying blockchain protocol, it is largely pseudonymous and does not provide contextual details such as counterparty identity, trade intent, or linkage to contractual obligations. In contrast, off-chain data within a CATP includes client identity, order details, and trade metadata. Reconciling these two data types requires technical solutions to link on-chain addresses with off-chain user accounts, raising privacy and security concerns.

The volume and velocity of on-chain data — particularly on high-throughput networks — adds further complexity in terms of storage, processing, and filtering relevant records. There is also no industry-wide consensus on how to standardise this reconciliation across different blockchains and platform architectures.

A phased and proportionate approach may be appropriate, beginning with use cases where on-chain settlement directly follows off-chain execution. Early focus could be on defining core data fields and interfaces, potentially through industry collaboration, to enable optional alignment while managing risk and cost.

Chapter 3: Cryptoasset Intermediaries

Question 19: What practical challenges might firms face if they are required to comply with these order handling and best execution requirements? Are there any alternative approaches that would deliver the same or better order execution outcomes for retail and non-retail customers respectively? Please explain why they may be preferable.

The proposed order handling and best execution requirements in the Discussion Paper present several practical challenges, particularly for firms operating in cryptoasset markets. The obligation to take "all sufficient steps" to achieve the best result — considering price, costs, speed, and likelihood of execution — assumes a level of market transparency and access to comparative data that may not yet exist consistently across crypto trading venues.

Smaller firms or those relying on limited venue connectivity may find it especially difficult to evidence best execution in the absence of standardised market data feeds or consolidated tape equivalents. Unlike traditional markets, crypto markets operate across a broad and heterogeneous set of venues, often with inconsistent pricing, latency, and reliability, which makes comparative analysis and post-trade review challenging.

For retail clients, a more practical alternative might be an outcomes-focused approach that emphasises clear disclosures, consistent execution policies, and ongoing review of execution arrangements — assessed through the lens of the Consumer Duty's "fair value" and "good outcomes" standards.

For non-retail clients, particularly professional or institutional clients, a more principles-based approach may be appropriate — for instance, permitting firms to agree bespoke execution arrangements, provided these are clearly documented and disclosed.

Overall, a phased or proportional approach may be needed, supported by crypto-specific execution guidance that reflects current market realities while encouraging the development of tools and standards to support fuller implementation in future.

Question 20: What benefits and risks do you see with the proposed guidance requiring firms to check the pricing for an order across at least 3 UK-authorised trading platforms (where available)?

While the proposal aims to provide a simple and consistent benchmark for assessing best execution, mandating pricing checks across at least three UK-authorised CATPs may introduce unintended consequences, and we suggest a review of this approach.

Many cryptoassets may only be listed on one or two UK platforms, or no others. This will frustrate this obligation and may give rise to limited benefit. It could also result in a narrow execution strategy overly focused on UK venues, even where offshore platforms offer materially better liquidity or tighter spreads — ultimately delivering worse outcomes for clients.

Operationally, enforcing this rule could impose disproportionate burdens, particularly on smaller firms, and may risk creating a "checklist compliance culture" rather than supporting meaningful execution quality.

An alternative approach could be to focus on the principle: that firms take reasonable steps to secure the best outcome for the client based on available market data — whether domestic or international — with flexibility to adapt execution policies based on the asset, client type, and venue access.

Question 21: What benefits and risks do you see with the idea that best possible results should be determined in terms of the total consideration when firms deal with retail customers?

Using total consideration — price plus all associated costs — as the standard for determining best results is consistent with the FCA's intention to ensure fair outcomes under the Consumer Duty. It does support more transparent comparisons between execution options.

However, accurately and consistently calculating total consideration in crypto markets presents practical challenges. Network fees (e.g., gas fees) can fluctuate rapidly and vary by protocol, and fee structures across venues may not be directly comparable. The FCA may need to provide guidance on how to identify and aggregate these costs — including whether slippage, token conversion fees, or rebates are in or out of scope. This should ensure a more consistent approach.

A principles-based standard may be more appropriate initially, with illustrative examples of what must be included, rather than rigid prescriptions that may not reflect the fast-evolving nature of cryptoasset trading.

Question 22: Do you see any potential problems with the proposal to restrict intermediaries to offering regulated services for UK retail customers solely for cryptoassets admitted to trading on a UK authorised CATP?

Restricting intermediaries to offering retail services only for cryptoassets admitted on a UK-authorised CATP could severely limit asset choice for UK retail investors. This might drive them to unregulated offshore platforms, potentially reducing their overall protection.

This proposal could also stifle innovation if new assets cannot be offered by UK intermediaries until a UK CATP listing is secured. A more flexible approach, perhaps allowing access under strict conditions or enhanced risk warnings for assets meeting other criteria, warrants consideration.

Question 23: Are there any specific activities or types of transactions we should expressly carve out of our proposed order handling and best execution rules? If so, why?

No comments.

Question 24: What risks arise when specific instructions (for example, specifying which execution venue to use) from retail customers are allowed to override certain best execution requirements? How can these be mitigated?

Allowing specific retail client instructions to override best execution requirements poses risks: clients may lack expertise and could be influenced by misinformation, leading to poorer execution. Firms might also subtly encourage such instructions.

Mitigation includes requiring intermediaries to provide clear warnings about the potential negative consequences. Firms should not solicit such instructions. Even with specific instructions, firms should execute fairly within those parameters. Robust record-keeping is needed.

Question 25: Are there circumstances under which legal separation should be required to address potential conflicts between executing own orders and client orders?

While robust functional separation and internal controls (SYSC 10) are key, legal separation might be considered where an intermediary engages in very high-volume or high-risk proprietary trading in the same assets for which it executes substantial client order flow, especially retail.

However, mandating legal separation is a significant structural intervention with considerable costs. It should only be imposed if clear evidence shows functional separation and conduct rules cannot adequately manage conflicts in specific, well-defined scenarios.

Question 26: Are there any other activities that may create conflicts of interest and risks to clients if performed by the same intermediary? How can these be managed?

Yes, conflicts can arise where intermediaries perform multiple roles within the cryptoasset lifecycle — for example, providing research, promoting token offerings, or acting as a market participant while also facilitating client execution. These situations may lead to perceived or actual conflicts if not properly managed.

Such risks can be addressed through a combination of measures: clear and timely disclosure of any material interests, appropriate governance arrangements to identify and mitigate conflicts, and internal policies such as personal account dealing rules or information barriers where relevant. Importantly, the regulatory framework should allow firms to manage conflicts in a proportionate and risk-based manner, without unduly limiting legitimate business models that serve client needs.

Question 27: What benefits does pre-trade transparency provide for different types of market participants and in what form will it be most useful for them? Please provide an analysis of the expected costs to firms for each option if available.

No comments.

Question 28: What alternative solutions to the post-trade transparency requirements proposed above could mitigate the risks? Please provide an analysis of the expected costs to firms for each option if available.

No comments.

Question 29: Do you believe that certain cryptoassets should be exempted from transparency requirements? If so, what would be the most appropriate exemption criteria which would best balance the benefits from transparency and costs to the firms?

Yes, exempting certain cryptoassets from full pre-trade transparency, or allowing deferred post-trade publication, might be appropriate where liquidity is very thin. Forcing transparency on such assets could deter market making.

Exemption criteria should be objective and data-driven (e.g., average daily volume, order book depth). A tiered approach, classifying assets by liquidity with differing transparency obligations, could balance benefits with protecting liquidity in less developed markets.

Question 30: What would be the most appropriate exemption threshold to remain proportionate to the size of the firm while balancing the benefits from transparency and costs to the firms?

Exemptions or proportionality measures should be carefully calibrated to avoid disadvantaging smaller firms while still preserving market-wide transparency. Requiring identical transparency obligations from micro or low-volume firms as from major intermediaries may create undue burden, potentially stifling competition and innovation.

Rather than firm size alone, thresholds could be based on objective activity metrics — such as trading volume, number of trades, or client base — to ensure only firms with limited market impact qualify. Instead of a full exemption, a more proportionate approach might involve simplified reporting formats, extended publication timelines, or deferral options for smaller firms. This would help reduce compliance costs while still supporting the overarching goals of market transparency and integrity.

Question 31: What are the crypto-specific risks of opting retail customers up? How should these be managed and what additional guidance on how to assess the expertise, knowledge and experience of clients can we give firms to better mitigate risks of harm?

Opting up retail clients can offer benefits in crypto markets, such as enabling access to a broader range of products and services that may be appropriate for more experienced participants. However, the cryptoasset sector presents unique challenges — including heightened volatility, technical complexity, and rapidly evolving market dynamics — which may make it harder to assess whether a client truly meets the threshold for professional categorisation.

To manage these risks, firms could implement robust, crypto-specific assessments of client expertise. These would test understanding of topics such as blockchain functionality, wallet and private key management, and the risks associated with DeFi or leverage. The FCA could support consistency by setting expectations around the areas that should be covered, as well as the type of evidence firms should retain.

Ultimately, the process would strike a balance: enabling knowledgeable clients to access professional services while ensuring that the opt-up process is not used to bypass important retail protections, in line with the Consumer Duty.

Question 32: What are the benefits of having quantitative thresholds when opting clients up? How should we determine any quantitative threshold? What alternative rules or guidance specific to crypto should we consider?

Quantitative thresholds can provide an objective starting point for assessing whether a client has the experience or financial resilience to be treated as a professional. In the crypto context, however, traditional metrics — such as portfolio size or frequency of trades in regulated markets — may not translate meaningfully due to differences in market structure, asset volatility, and accessibility.

If quantitative criteria are adopted, they should reflect crypto-specific experience — such as a minimum volume or frequency of trading in cryptoassets over a sustained period. Nonetheless, such thresholds should not override the need for a thorough qualitative assessment of the client's understanding of key crypto-related risks, including custody, decentralised protocols, and market structure.

The FCA could consider tailored guidance for firms on designing crypto-specific opt-up frameworks, including mandatory comprehension assessments and clear record-keeping expectations. This would help ensure that quantitative indicators support, but do not replace, informed and outcome-focused client classification.

Chapter 4: Cryptoasset Lending and Borrowing

Question 33: Do you agree with our understanding of the risks from cryptoasset lending and borrowing as outlined above? Are there any additional risks we should consider?

The FCA's understanding of risks in crypto lending/borrowing is largely shared, covering loss of ownership, liquidity issues, counterparty risk, poor consumer understanding, platform token conflicts, margin calls, and lack of creditworthiness checks.

Additional risks that could be further emphasized include contagion from interconnectedness, and legal/jurisdictional complexities in asset recovery during global insolvencies.

We do however see clear use cases for lending in the crypto asset sector, as users seek access to liquidity by securing credit on assets that they do not wish to dispose of but are willing to use as security for the funds drawn. This could facilitate longer term investment in specific assets while providing holders liquidity when this is needed in the short term.

Question 34: Do you agree with our current intention to restrict firms from offering access to retail consumers to cryptoasset lending and borrowing products? If not, please explain why.

We understand the drivers for restricting retail access to cryptoasset lending and borrowing products, particularly in light of recent market failures and consumer harm.

However, a blanket, indefinite restriction could stifle innovation and prevent safe, well-designed retail offerings that seek to meet user needs in specific circumstances. See for example the use case outlined in our response to Question 33 above.

The framework should leave open the possibility of retail access where this is justified and appropriately controlled. Regulatory provisions — including those for transparency, consumer protection, risk disclosure, and prudential management could address regulatory objectives. A staged approach may also help test new models as they emerge.

Question 35: Do you agree that applying creditworthiness, and arrears and forbearance rules (as outlined in CONC) can reduce the risk profile for retail consumers? Could these be practicably applied to existing business models? Are there any suitable alternatives?

Applying creditworthiness and arrears/forbearance rules, as outlined in CONC, would strengthen consumer safeguards and help mitigate risks of unaffordable borrowing and poor outcomes in crypto lending markets. These protections are well understood in traditional finance and would bring consistency and trust to the retail crypto space.

However, practical implementation could be challenging for decentralised lending models. Adapting these rules to fit the operational realities of crypto — for example, by allowing proportional affordability assessments or alternative methods of evaluating creditworthiness — may be necessary to ensure feasibility without compromising protection.

Where CONC-equivalent frameworks are not directly applicable, any alternative approach could be outcomes-focused and aligned with the Consumer Duty, ensuring that lending remains appropriate, risks are understood, and customers are supported through repayment difficulties.

Question 36: Do you agree that the proposed restrictions for collateral top ups would reduce the risk profile for retail consumers? Are there any suitable alternatives?

No comments.

Question 37: Do you consider the above measures would be proportionate and effective in ensuring that retail consumers would have sufficient knowledge and understanding to access cryptoasset lending and borrowing products?

The proposed consumer understanding measures (express consent on ownership transfer, renewed consent, appropriateness assessments, key features document) could significantly improve retail consumer knowledge if robustly implemented. They appear proportionate to the risks.

Effectiveness will of course be proportionate to implementation: KFDs must be clear, and appropriateness assessments meaningful.

Question 38: What benefits do platform tokens provide to consumers?

Platform tokens (PTs) can provide consumers with practical benefits within a trading ecosystem, such as fee discounts, enhanced functionality (e.g., staking rewards, access to premium features), or participation in governance. They may also align user and platform incentives by allowing users to share in the platform's growth.

However, these benefits should be clearly distinguished from purely speculative use. Risks arise when PTs are promoted primarily as investment products, especially where the CATP retains control over the token's supply, pricing, or listing decisions. To deliver meaningful consumer benefit, the utility of PTs must be transparent, non-misleading, and supported by robust governance and disclosure frameworks that mitigate conflicts of interest and ensure fair treatment of users.

Question 39: How can conflicts of interest be managed for platform tokens to reduce the risk profile for retail consumers?

To manage these conflicts, CATPs could implement clear governance frameworks that separate the functions responsible for listing and promoting the token from those that oversee trading and consumer protection. Independent oversight, transparent disclosures about the CATP's interest in the token, and clear explanations of the token's purpose and risks are key. Platforms should also avoid preferential treatment of their own token versus others and ensure fair market access and pricing.

Additional measures, such as limiting PT use in high-risk activities (e.g., collateral for margin), and stress-testing token economics, can further reduce the retail risk profile. Ultimately, any use of PTs must be framed within a robust conduct regime that prioritises fair value and good outcomes for retail clients.

Question 40: Do you consider that if we are to restrict retail access to cryptoasset lending and borrowing, an exemption for qualifying stablecoins for specific uses within the cryptoasset lending and borrowing models would be proportionate and effective in reducing the level of risk for retail consumers?

Yes, there should be little reason to restrict lending qualifying stablecoins (QS) — particularly those issued by FCA-authorised firms under the future stablecoin regime. Stable coins reflect the fiat currency that they are issued against and should not therefore be treated differently. The additional functionality that is specific to distributed ledger products could then be utilised by customers borrowing or lending such assets.

There is of course no price volatility and access to the underlying fiat currency is always available through redemption mechanisms. Such provisions would be welcome.

Chapter 5: Restricting the use of credit to purchase cryptoassets

Question 41: Would restrictions on the use of credit facilities to purchase cryptoassets be effective in reducing the risk of harm to consumers, particularly those vulnerable? Are there alternative approaches that could equally mitigate the risks?

Restrictions on the use of credit facilities to purchase cryptoassets may be appropriate in certain circumstances, particularly in relation to vulnerable retail customers. The volatility of some cryptoassets may crystallise or amplify losses and could contribute to financial distress. There should however be an opportunity for responsible borrowing to take place, where the risks are more limited or the customers are informed.

A complete restriction is not a proportionate solution. Alternative approaches could include requiring firms to carry out affordability checks before offering credit for cryptoasset purchases or limiting the types of credit (e.g. excluding payday loans). Additional measures, such as strengthened disclosures and risk warnings when credit is used, could also support consumer understanding and help reduce harm without a full ban.

Chapter 6: Staking

Question 42: Do you agree that firms should absorb retail consumers' losses from firms' preventable operational and technological failures? If not, please explain why? Are there any alternative proposals we should consider?

While consumer protection is key, a blanket rule for firms to absorb *all* losses from "preventable operational and technological failures" could create significant, unpredictable liabilities for firms. "Preventable" needs precise, narrow definition, with clear safe harbours for firms meeting all regulatory and best practice standards. Otherwise, service viability or costs could be impacted.

A balanced approach might involve robust prudential requirements for operational risk capital, alongside clear standards of care and due diligence, rather than strict liability for all such events. This would still hold firms accountable for negligence but provide more operational certainty.

Question 43: Do you agree that we should also rely on the operational resilience framework in regulating staking, including the requirements on accountability?

The FCA's operational resilience framework (SYSC 15A) may be relevant and important for regulating staking services. Staking's reliance on technology and operational processes makes the framework's requirements for identifying important services, setting impact tolerances, and testing resilience crucial.

The framework's accountability requirements are also helpful for ensuring clear responsibilities within staking firms for managing operational risks. This proactive approach could reduce preventable failures.

Question 44: Do you agree that firms should have to get express consent from retail consumers, covering both the value of consumer's cryptoassets to be staked and the type of cryptoassets the firm will stake, with each cryptoasset staked by the consumer requiring its own consent?

Yes, express consent from retail consumers prior to staking is appropriate and necessary to ensure informed decision-making. Given the varying risk profiles, lock-up conditions, and reward mechanisms across different cryptoassets, consumers should understand what they are committing to.

Requiring consent to cover both the type and value of assets to be staked provides clarity and protects against misuse. While obtaining separate consent for each cryptoasset may increase friction, it ensures transparency and reinforces consumer control—especially important where terms differ significantly. However, firms should be allowed to implement streamlined mechanisms for ongoing consent where assets are staked under consistent terms, provided consumers can easily withdraw consent at any time.

Question 45: Do you agree that firms should provide a key features document as outlined above to retail consumers? If not, please explain why? What other means should be used to communicate the key features and risks of staking to consumers?

Providing a key features document to retail consumers may be a proportionate and effective way to communicate the essential terms and risks of staking. Given the technical complexity and evolving nature of staking models, a concise, standardised disclosure can help retail consumers better understand lock-up periods, slashing risks, validator selection, rewards, and withdrawal rights.

The effectiveness of such a document is enhanced by clarity and accessibility. Firms could be encouraged to avoid overly technical language and consider layered disclosures—presenting key points upfront with more detail available for those who wish to delve deeper. Complementary methods such as in-app prompts, FAQs, and short explainer videos can further improve comprehension and consumer engagement, especially for mobile-first platforms.

Question 46: Are there any alternative proposals we should consider to minimise the risks of retail consumers' lack of understanding leading to them making uninformed decisions?

Beyond KFDs and express consent, mandatory, well-designed "knowledge and understanding" tests specific to staking could further minimise risks of uninformed retail decisions. These should assess comprehension of key staking risks.

Standardised risk warnings for different staking products based on their risk profiles could also help. Cooling-off periods post-consent might allow consumers to reconsider. Guidance on marketing to avoid overemphasis on rewards versus risks are also important.

Question 47: Do you agree that regulated staking firms should be required to segregate staked client cryptoassets from other clients' cryptoassets? If not, why not? What would be the viable means to segregate clients' assets operationally?

There is merit in requiring some form of segregation of staked client cryptoassets, particularly to support clear record-keeping, reduce client confusion, and improve recoverability in the event of firm failure or disputes. It can also help mitigate cross-liability risks where different clients are exposed to different validator or protocol risks.

That said, the technical feasibility and cost of full on-chain segregation varies by protocol. For example, certain blockchains may not allow for granular staking at the individual wallet level, especially where pooled staking is the norm. Mandating strict on-chain segregation in such cases could restrict market access or lead to unintended concentration effects.

A proportionate approach may be to require functional segregation — clear off-chain records mapping each client's staked assets and entitlements, supported by operational controls, internal ledgers, and auditability — rather than technical segregation in every case. Where on-chain segregation is possible and commercially viable (e.g., via sub-wallets or smart contract structures), firms should be encouraged to implement it, particularly where retail clients are involved. Disclosure of the method used should be required to support transparency and consumer understanding.

Question 48: Do you agree that regulated staking firms should be required to maintain accurate records of staked cryptoassets? If not, please explain why?

Yes - regulated staking firms should maintain accurate, complete, and up-to-date records of all client cryptoassets staked. This is fundamental for consumer protection, operational integrity, and regulatory oversight.

Records should detail client ID, asset type/amount, staking date, validator details, rewards, penalties, and asset status. This ensures correct reward distribution and allows orderly asset return.

Question 49: Do you agree that regulated staking firms should conduct regular reconciliations of staked cryptoassets? If not, please explain why? If so, what would be the appropriate frequency?

Yes, regular reconciliations of staked cryptoassets are essential to ensure firms maintain accurate records of client entitlements and uphold asset safeguarding standards. Reconciling internal ledgers with blockchain data and validator node records helps firms promptly detect discrepancies, mitigate operational risks, and maintain trust in the staking process — especially where assets are pooled or staked via third parties.

The appropriate frequency of reconciliation may depend on the scale and complexity of the firm's operations. In many cases, daily reconciliations would represent good practice, particularly where client assets are actively being staked, unstaked, or rewards are accruing. However, a risk-based approach could be adopted: high-frequency or high-value staking operations may warrant daily checks, whereas smaller, less active portfolios might justify less frequent (e.g., weekly) reconciliations, provided they remain robust and well-documented.

The key is that reconciliations are conducted consistently, discrepancies are investigated promptly, and the firm's approach is subject to appropriate governance and oversight.

Chapter 7: Decentralised Finance (DeFi)

Question 50: Do you consider the proposed approaches are right, including the use of guidance to support understanding? What are the effective or emerging industry practices which support DeFi participants complying with the proposed requirements in this DP? What specific measures have you implemented to mitigate the risks posed by DeFi services to retail consumers?

The FCA's intention to apply existing regulatory outcomes to DeFi is sensible in principle, but practical implementation is complex. Clarity through high level guidance will be essential to help firms understand how traditional requirements apply in decentralised contexts — especially where control, governance, and accountability may be shared or non-traditional.

Industry practices are evolving. Examples include smart contract audits, use of multisig or DAO governance for key decisions, and clear interface-level warnings about protocol risks. Some access providers apply their own due diligence frameworks before supporting DeFi protocols, and others are experimenting with layered disclosures and educational modules to improve user understanding.

However, the inherent permissionless nature of DeFi limits how far intermediaries can mitigate risks. Ongoing engagement with industry will be critical to develop proportionate regulatory approaches that encourage responsible innovation without imposing controls beyond firms' operational remit.

Chapter 8: Conclusion

Question 51: We consider these potential additional costs to firms and consumers in the context of the potential benefits of our proposed approach, set out earlier in Chapter 1. In your view, what are the costs of these different approaches? Can you provide both quantitative and qualitative input on this.

The proposed regulations could impose substantial additional costs on firms operating in the UK. Quantifying these precisely is difficult, as they will vary by firm size and activity. Direct costs may include IT development, hiring additional staff, regulatory application fees, and external audits. For example, implementing robust market surveillance or best execution systems could represent significant initial and ongoing expenditure.

Qualitatively, firms may face increased administrative burdens and longer product development times. Smaller firms might find these costs disproportionately high, potentially creating hurdles to entry. While benefits like consumer protection are clear, a detailed cost-benefit analysis for specific proposals, considering impacts on smaller entities, will be crucial.

Restrictions on offering certain products may also drive UK users to seek equivalent products elsewhere, perhaps with little or no oversight. A proportionate and calibrated approach is therefore preferable.

Question 52: Do you agree with our assessment of the type of costs (both direct and indirect) and benefits from our proposals? Are there other types of costs and benefits we should consider?

The FCA's assessment provides a reasonable starting point, identifying direct costs (e.g., systems upgrades, compliance resourcing) and broader benefits like improved consumer protection and market integrity.

However, additional costs could be considered — notably the potential for *innovation drag* if the regulatory framework is too rigid for emerging business models. There is also a risk that divergence from regulatory regimes in other major jurisdictions (e.g., the EU, US, Singapore) may create friction for cross-border firms, raising operational complexity and discouraging investment in UK operations.

On the benefits side, the framework could lead to greater institutional participation and improved access to traditional financial infrastructure (such as banking and insurance), which are often contingent on clear regulation. There may also be downstream benefits from increased regulatory engagement, including better standards across DeFi, tokenisation, and custody solutions — areas not yet fully developed but critical to the sector's long-term viability.

Question 53: How do you see our proposed approach to regulating these activities affecting competition in the UK cryptoasset market?

While the clarity of the proposed framework is welcome and may benefit established firms, we are concerned that the overall regulatory burden could significantly disadvantage smaller firms and new entrants. Compliance with a broad set of new requirements — including detailed systems, governance, and reporting expectations — may impose disproportionately high costs on early-stage or specialist providers, leading to barriers to entry.

This could result in market concentration, favouring the development of larger, well-capitalised firms that can dominate the space. This may impact innovation, diversity of business models, and consumer choice. It also risks driving some firms to locate operations outside the UK, particularly if other jurisdictions adopt more proportionate or phased regulatory approaches. In the long term, this could erode the UK's competitiveness as a global hub for digital asset innovation.

To mitigate this, the FCA could consider tailored implementation timelines, clearer scope guidance for small firms, and more accessible engagement pathways (e.g., extended sandbox or scale-up regimes) to ensure the regime supports a competitive, innovative, and diverse market.

Question 54: Are there any additional opportunities, including for growth, we could realise through a different approach to regulating these activities?

Yes, there are meaningful opportunities for growth if the UK takes a more flexible, outcomes-based approach to cryptoasset regulation. A framework that prioritises core regulatory objectives — such as market integrity, consumer protection, and financial crime prevention — while allowing firms more latitude in how they achieve those outcomes could foster greater innovation and attract a broader range of market participants.

Opportunities could include:

- **Enhanced sandbox and scale-up support:** Expanding the Digital Sandbox and launching a "regulatory scale-up regime" for firms moving from proof-of-concept to market could support growth while preserving oversight.

- **Phased implementation:** Introducing tiered or transitional pathways to full authorisation could lower barriers for start-ups and allow time to meet more complex compliance requirements.
- **Recognition of decentralised models:** Developing guidance on responsible engagement with DeFi, DAOs, and new token issuance models would position the UK as a global leader in regulatory innovation.
- **International coordination:** Prioritising mutual recognition and regulatory equivalence with key jurisdictions would reduce friction for cross-border operations and enhance the UK's competitiveness as a global crypto hub.