12 February 2026

Financial Conduct Authority
12 Endeavour Square
London E20 1JN
Submitted by e-mail to: cp25-40@fca.org.uk

Dear Crypto Policy Team,

**RE: Consultation Paper CP25/40 – Regulating Cryptoasset Activities**

CFA Institute[1] and CFA Society of the United Kingdom (CFA UK)[2] welcome the opportunity to comment on the Financial Conduct Authority's (FCA) Consultation Paper CP25/40: *Regulating Cryptoasset Activities*. We commend the FCA's proactive and pragmatic approach to establishing a coherent regulatory framework for cryptoasset activities within the UK regulatory perimeter.

This comment letter reflects our shared commitment to promoting market integrity and investor protection, while recognising the importance of proportionate regulation that supports responsible innovation and orderly market dynamics.

We recognise that cryptoasset markets present distinct structural, technological, and behavioural risks that cannot always be addressed through direct transposition of existing financial services rules. At the same time, we appreciate the FCA's application of the principle of "same risk, same regulatory outcomes," and its approach of anchoring cryptoasset regulation within the broader financial conduct framework, rather than treating it as a separate regime.

Consistent with our broader regulatory engagement, we advocate for a holistic approach to policy design – one that is outcomes-focused, technologically informed, and responsive to market maturity. In our view, effective cryptoasset regulation should go beyond disclosure-

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1 With offices in Charlottesville, VA; New York; Washington, DC; Hong Kong SAR; Mumbai; Beijing; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program. For more information, visit www.cfainstitute.org or follow us on LinkedIn and X.

2 Founded in 1955, CFA UK is one of the largest member societies of CFA Institute, which serves nearly 12,000 members of the UK investment profession. Many of our members analyse securities, manage investment portfolios, advise on investments, or are in roles responsible for investment operations or oversight. Most of our members have earned the Chartered Financial Analyst® (CFA®) designation. All our members are required to attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct. For more information, visit www.cfauk.org or follow us on Twitter @cfauk and on LinkedIn.com/company/cfa-uk/

based mitigants and address structural conflicts, information asymmetries, and operational vulnerabilities that may not be readily apparent to retail participants. Where risks are not capable of being adequately mitigated through conduct requirements alone, restrictions on certain activities or client segments may be necessary to achieve desirable consumer protection outcomes.

Last but not least, we support the FCA's intention to phase implementation in line with market development to avoid regulatory fragmentation and support effective supervision. We also welcome the FCA's intention to consult further on additional aspects of the regime and to supplement principles-based requirements with targeted guidance.

## Relevant Publications and Comment Letters

CFA Institute and CFA UK have taken a keen interest in the development of digital finance and its policy implications. Our organization has released several pieces of research and comment letters related to this new field affecting capital markets, since 2021. We have consistently advocated for regulatory clarification and international convergence. Below is a list and links to those various pieces:

- *Cryptoassets: The Guide to Bitcoin, Blockchain, and Cryptocurrency for Investment Professionals*. January 2021.
- *Cryptoassets: Beyond the Hype – An Investment Management Perspective on the Development of Digital Finance*. January 2023.
- [Survey] *CFA Institute Global Survey on Central Bank Digital Currencies*. July 2023.
- *Valuation of Cryptoassets: A Guide for Investment Professionals*. November 2023.
- *An Investment Perspective on Tokenization — Part I: A Primer on the Use of Distributed Ledger Technology (DLT) to Tokenize Real-World and Financial Assets*. January 2025.
- *An Investment Perspective on Tokenization — Part II: Policy and Regulatory Implications*. May 2025.
- [Comment letter] *Response to FCA - DP25.1 — Regulating Cryptoasset Activities*. June 2025.
- [Comment letter] *Response to FCA – CP25/25 — Regulating Cryptoasset Activities Discussion Paper*. *and* *Response to FCA – CP25/25 — Regulating Cryptoasset Activities Ch. 1-5*. November 2025.
- [Comment letter] *Response to FCA – CP25/28 — Progressing Fund Tokenisation Part I*. *and* *Response to FCA – CP25/28 — Progressing Fund Tokenisation Part II.* December 2025.

## Summary of Key Positions

### Cryptoasset Trading Platforms

- Q1 – We support the requirement for a UK-incorporated legal entity for CATPs serving retail clients. We recommend additional clarification regarding cross-border insolvency treatment, supervisory coordination with home-state regulators, and the threshold for determining substantive UK presence.

- Q2 – We support the proposed non-discretionary execution rules and the principles-based approach to algorithmic trading. We recommend the development of crypto-specific guidance addressing blockchain-level operational resilience risks.

- Q3 – We support the QCDD gating requirement for retail client access. We recommend that the FCA consider behavioural safeguards designed to mitigate disclosure click-through habituation, particularly in the context of repeat transactions.

- Q4 – We do not support permitting principal dealing within the same legal entity as a CATP operator at this stage. The resulting conflicts of interest are structural and cannot be sufficiently mitigated through conduct safeguards alone. We recommend an initial prohibition, with a future thematic review when MAR regime and supervisory capabilities have matured.

- Q5 – We support the high-level settlement framework. We recommend further clarification regarding settlement finality, asset segregation during the settlement cycle, and the circumstances under which withdrawal restrictions may be imposed.

### Intermediaries

- Q6–Q7 – We support the imposition of best execution obligations without carve-outs, as well as the proposed "three sources" guidance for principal dealers. We recommend additional guidance on assessing execution quality in fragmented crypto markets.

- Q8–Q9 – We support the proposed disclosure requirements. We recommend standardised terminology for capacity disclosure (principal versus agent) and full all-in cost transparency, including spreads in addition to explicit fees and commissions.

- Q10–Q12 – We support the proposed client order handling requirements, the obligation to execute on regulated venues, and the admission to trading requirement linking retail access to UK CATPs with A&D-compliant QCDDs.

- Q13 – We support functional separation between proprietary trading and client execution. We recommend that the FCA articulate explicit minimum standards for functional separation and require legal separation where functional measures demonstrably fail to manage conflicts effectively.

- Q14 – We support the proposed restriction on payment for order flow without carve-outs. PFOF creates inherent conflicts between intermediary revenue models and client execution quality, which are amplified in fragmented crypto markets.

- Q15–Q16 – We support the proposed personal account dealing rules, settlement requirements placing ultimate accountability on intermediaries, and transaction recording obligations.

### Transparency, Record-Keeping and Reporting

- Q17 – We support the proposed pre- and post-trade transparency requirements. We recommend the adoption of standardised data formats to enable cross-venue aggregation and effective MAR surveillance.

- Q18 – We support the proposed revenue-based methodology for determining the pre-trade transparency threshold, which provides a proportionate and risk-sensitive approach.

- Q19 – We support the proposed transaction recording and client reporting requirements. The clear allocation of recording responsibility in transactions involving both a CATP and an intermediary is welcome and supports supervisory clarity.

### Lending and Borrowing

- Q20 – We do not support permitting retail client access to cryptoasset lending and borrowing at this stage of market development. While the proposed disclosure and consent safeguards represent sound practice, they do not sufficiently mitigate structural risks, and insufficiently understood stress transmission dynamics between crypto and traditional financial markets. We recommend restricting access to professional clients, and conducting a future review contingent on demonstrable market maturity.
- Q21–Q24 – We support the prohibition on lending or borrowing proprietary tokens issued by the firm, the proposed record-keeping requirements ensuring collateral traceability, mandatory over-collateralisation, and negative balance protection for retail clients.

### Staking

- Q25 – We support the proposed disclosure and express prior consent requirements for retail staking clients. We particularly support a per-event consent model rather than blanket upfront consent, given the material variation in staking risks across protocols, lock-up arrangements, and slashing exposures.

- Q26 – We support limiting the disclosure and consent requirements to retail clients. Non-retail clients possess the capacity to independently assess staking risks.

- Q27 – We support the proposed record-keeping requirements for regulated staking firms, which are necessary to facilitate effective supervision.

### Decentralised Finance

- Q28 – We support applying the proposed rules and guidance to DeFi activities where a clearly identifiable controlling person exists, consistent with the principle of "same risk, same regulatory outcome." The principal implementation challenge lies in identifying and evidencing control, particularly where governance is exercised through token-based voting, foundation structures, or multi-signature arrangements. We encourage the FCA to provide targeted guidance on indicators and thresholds for determining control.

## Concluding Remarks

We appreciate the FCA's continued leadership in developing a comprehensive regulatory framework for cryptoasset activities. CP25/40 marks a significant step towards achieving regulatory clarity and strengthening market integrity.

We believe that a balanced and holistic approach – one that leverages international cooperation and regulatory convergence, embraces technological innovation, and establishes stringent yet proportionate safeguards – is essential to ensuring that the UK remains at the forefront of financial innovation while fostering a secure and trustworthy cryptoasset market for all participants.

Given the rising cryptoasset ownership among UK retail investors and the inherent risks associated with these assets, our comments across the relevant sections of this Paper are grounded in our commitment to investor protection and market integrity. We emphasise that the two are inseparable: effective conduct regulation in cryptoasset markets is not merely a consumer protection issue, but a systemic one. Weak governance, poor disclosure, or inadequate redress mechanism risk undermining confidence across the wider financial system. In this context, we encourage the FCA to continue close coordination with the Bank of England and HM Treasury to ensure coherence across prudential, conduct, and market surveillance frameworks.

On decentralised finance and virtual assets more broadly, we have published two comprehensive reports focused on the development of tokenisation processes: "An Investment Perspective on Tokenization — Part I: A Primer on the Use of Distributed Ledger Technology (DLT) to Tokenize Real-World and Financial Assets" and "An Investment Perspective on Tokenization—Part II: Policy and Regulatory Implications." We invite you to refer to these for detailed analysis and recommendations.

Finally, we encourage continued dialogue and collaboration between regulators and market participants to ensure a seamless implementation of the proposed measures, together with any necessary adjustments arising from this Paper.

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Thank you for your consideration of our views and perspectives. We would welcome the opportunity to meet with you to provide more details. If you have any questions or seek further elaboration of our views, please contact Mr. Olivier Fines, Head of Advocacy and Policy Research at CFA Institute, at olivier.fines@cfainstitute.org.

Sincerely,

**CFA Institute**

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## Detailed Response

Set out below our comments for consideration.

### Question 1: Do you agree with our proposals on location, incorporation and authorisation of UK CATPs? If not, please explain why not?

We support the FCA's proposal requiring UK retail customers to have a relationship with a UK legal entity. This is an appropriate step to strengthen supervisory perimeter and accountability.

However, we have concerns regarding the proposal to permit combined UK subsidiary and branch structures. In our view, such arrangements introduce legal and supervisory considerations that should be addressed in the FCA's forthcoming guidance.

- Cross-border insolvency risk: Where a UK branch operates alongside a UK subsidiary within the same group, the legal relationship between the two entities - and between their respective client bases - requires clarity, especially in an insolvency scenario. We recommend the FCA require ring-fencing of UK retail client assets within the UK subsidiary, with prohibition on commingling with branch-held assets.

- Supervisory coordination and home-host conflicts: Branch authorisation extends certain UK regulatory requirements to the wider overseas entity. This creates a risk of supervisory gaps where the home regulator does not apply equivalent standards. We recommend the FCA only permits branch structures where the home jurisdiction maintains equivalent standards for CATP operation.

- Substantive UK presence: There is a risk that branch structures could be used to dilute or circumvent the policy intent of requiring a UK legal entity for retail-facing activity. To mitigate this, we recommend the FCA set minimum expectations for substantive UK presence, including senior management physically located in the UK with decision-making authority over UK retail activities.

- The question of the responsible entity is also important to mention. Depending on the structure of cryptoassets, the decentralised nature of their format and/or underlying network may complicate the identification of an issuing entity or responsible entity. Hence why it will be of the essence to require a strong UK presence for CATPs who will permit the trading of such instruments to UK-based clients, such that the regulatory nexus can remain integral.

**Question 2: Do you agree with our proposals on UK CATP access and operation requirements? If not, please explain why not?**

We support the FCA's principles-based approach to CATP access and operation requirements, which appropriately tailors traditional finance concepts to cryptoasset market characteristics.

***1) Execution and market access***

- We support the requirement for non-discretionary execution rules with no exemptions by transaction type. The requirement that order placers remain identifiable is essential for market abuse detection and cross-platform information sharing under MAR.
- We also support disapplying best execution for on-platform trades, while preserving best execution obligations for intermediaries when selecting venues and routing orders.

***2) Systems, controls, and transparency***

- We support the requirement for adequate systems and controls and transparent publication of platform rules. We recommend FCA guidance addressing crypto-specific operational risks, including:
    - blockchain network congestion and transaction delays,
    - chain reorganisations or forks affecting executed trades, and
    - contingency arrangements for blockchain-related failures.

***3) Market making and incentives***

- We support the proposal not to mandate formal contracts with all market makers, recognising the developmental stage of cryptoasset markets. Where incentive schemes exist, we support the requirement to document and disclose them. We recommend that CATPs also publish periodic effectiveness assessments, such as:
    - committed vs. actual uptime
    - spread consistency, and
    - quote responsiveness during volatile periods
- We support the associated monitoring and record-keeping requirements.

***4) Algorithmic trading***

- We support the principles-based approach to algorithmic trading and the proposed disclosure requirements. Meanwhile, further guidance is needed on “thresholds and limits commensurate with the nature of the platform’s business”. To avoid competitive pressures eroding control standards, we recommend that the FCA clarify baseline expectations for:

    - order-to-trade ratios
    - circuit breaker calibration for highly volatile cryptoassets
    - kill switch capabilities, including whether they must operate across multiple trading pairs simultaneously
    - minimum testing requirements before algorithms access live platforms

*5) Market abuse (MAR)*

- We support the MAR obligations and emphasize that effective MAR implementation depends on neutral CATP operators, reinforcing our concern in Question 4 about conflicts from principal dealing.

**Question 3: Do you agree with our proposals on additional rules to protect UK retail customers? If not, please explain why not?**

We support the FCA's proposals to protect retail customers accessing CATPs directly, particularly the QCDD gating requirement and withdrawal procedures. Meanwhile, we recommend strengthening certain aspects.

***QCDD access and gating***

We strongly support requiring CATPs to restrict retail access to cryptoassets admitted with a QCDD and to direct users to the QCDD prior to order placement. This gatekeeping function is essential given retail clients' direct platform access without intermediary protection.

***Fungibility determination***

We support the requirement for CATPs to determine fungibility and maintain appropriate QCDDs. To promote consistency across platforms, we recommend that the FCA:

- provide guidance on fungibility assessment methodology,
- require CATPs to publish their fungibility determination criteria, and
- clarify whether CATPs can reasonably rely on technical specifications or are expected to undertake independent analysis

***Withdrawal of admission***

We support the advance notice requirements for withdrawal of admission, which protect retail investors from being stranded in illiquid positions. We also support requiring CATPs to publish withdrawal criteria, enabling market participants to assess the robustness of platform governance.

***Consumer understanding and Consumer Duty***

We support the application of Consumer Duty expectations to CATPs serving retail clients. However, further clarity is needed on the interaction between disclosure-based protections (QCDD) and outcome-based obligations under the Consumer Duty. In particular, we recommend the FCA clarify that:

- Compliance with QCDD requirements does not in itself satisfy Consumer Duty obligations, and
- CATPs remain responsible for assessing whether their product offerings deliver good outcomes for retail customers,

**Question 4: Do you agree with our proposals to manage conflicts of interest and related risks? If not, please explain why not?**

We understand the FCA's rationale for permitting principal dealing by CATP operators and the proposed safeguards. However, we do not consider that the proposed mitigants adequately address the structural conflicts arising from principal dealing within the same legal entity as a CATP operator, particularly for retail-serving CATPs.

While the proposed simultaneous execution and no-spread requirements mitigate immediate transaction-level pricing risk, they do not resolve the underlying conflicts embedded in the operating model:

- Informational asymmetry: CATP operators possess commercially sensitive and non-public information, e.g., order flow characteristics, client identity, timing patterns, by virtue of their platform operation function. An affiliated principal dealing function inherits an unavoidable informational advantage that cannot be effectively neutralised through execution rules alone.

- Surveillance neutrality: A CATP operator that also engages in principal dealing cannot credibly exercise independent oversight over its own trading activity. This conflict undermines the objectivity and effectiveness of the proposed MAR regime.

- Price formation integrity: When venue operators trade as principal, the integrity of price discovery is impaired. Order book depth, spread behaviour, and liquidity signals are distorted across other market participants, irrespective of whether individual trades meet formal execution fairness requirements. This risk is particularly acute in cryptoasset markets, where liquidity is fragmented, market depth is shallow relative to traditional venues, and the MAR surveillance infrastructure is untested.

- Difficulty in supervising group-level information barriers: Permitting affiliate access and trade on the CATP compounds these risks. In practice, effective segregation of information, incentives, and decision-making across group entities is difficult to evidence, monitor, and enforce, particularly within complex international group structures common in the cryptoasset sector.

- Operational continuity risk: Principal positions expose the CATP operator's position to significant capital volatility, which may impair the continuity of critical market services and infrastructure in the CATP. The FCA recognises at CP25/40 paragraphs 2.74–2.76 that financial exposure can undermine platform stability; the capital volatility inherent in proprietary cryptoasset trading presents a comparable risk.

- Supervisory feasibility: A conduct-based regime permitting same-entity principal dealing requires the FCA to continuously monitor information barrier effectiveness, execution practices, and surveillance independence across each CATP operator — at a time when the FCA is simultaneously standing up an entirely new supervisory framework for cryptoassets. A structural prohibition is inherently simpler and more cost-effective to supervise.

For these reasons, we consider that the conflicts arising from principal dealing are structural rather than behavioural, and therefore not necessarily amenable to mitigation through conduct-based safeguards alone at this stage of market development.

We therefore suggest a phased approach: starting with prohibition that provides a clean starting point that allows information barriers and supervisory capabilities to develop without being immediately tested by the most acute conflicts of interest. Following a defined period of operation, the FCA should conduct a thematic review assessing the maturity of the market and adequacy of supervisory tools and data available to the FCA. On the basis of that review, the FCA could then consider relaxing the prohibition, subject to appropriate safeguards.

**Question 5: Do you agree with our high-level proposals on settlement? If not, please explain why not?**

We support the FCA's high-level approach to settlement, including flexibility for firms to internalise settlement or arrange it externally. Given settlement's critical role in investor protection, we recommend that the FCA prioritise clarity on three areas in the H1 2026 consultation.

- Settlement finality: The definition of settlement as an "unconditional transfer… either on the blockchain or in an authorised firm's internal ledger" requires further clarification, including what constitutes on-chain finality across different blockchain protocols given varying reorganisation risks.

- Asset segregation and insolvency protection: Settlement arrangements interact directly with client asset protection. We recommend that the FCA clarify, in the forthcoming CASS 17 consultation, segregation requirements for client assets pending settlement and client priority in insolvency during the settlement period.

- Client understanding and withdrawal restrictions: Settlement-related harm frequently arises through delayed or restricted withdrawals. We recommend requiring explicit disclosure of:
    - expected settlement timeframes by cryptoasset and network,
    - circumstances under which withdrawals may be delayed or restricted,
    - availability of real-time settlement status tracking, and
    - client recourse in the event of settlement failure.

**Question 6: Is any further guidance on best execution required? If so, what additional guidance can we provide to clarify the scope of and expectations around best execution?**

Yes. While we support the FCA's proposed best execution framework, further guidance would be valuable to clarify the scope of and expectations around best execution in cryptoasset markets, particularly given fragmented liquidity across venues:

- How firms should evidence having taken "all sufficient steps" where relevant liquidity is dispersed across multiple UK and non-UK venues,

- Whether execution policies are expected to specify quantitative weightings for execution factors (such as price, speed, and likelihood of execution) or whether qualitative descriptions are sufficient, and
- Appropriate levels of disclosure to retail clients, including whether simplified summaries of execution policies and factors are expected.

**Question 7: Do you agree with our proposed guidance (including the exemptions proposed) to check at least 3 reliable price sources from UK-authorised execution venues, such as a CATP or principal dealer (if available)? If not, please explain why not?**

We support the proposed guidance, and welcome the clarification that the "three sources" expectation operates as an execution policy standard assessed over time, rather than a per-transaction requirement.

We support the flexibility of relying on available UK venues where fewer than three can execute an order. Firms should document their rationale for venue selection and to demonstrate ongoing monitoring for new venues as market coverage develops.

**Question 8: Regarding the general disclosure requirements when firms serve retail or professional clients, what changes or additions may help client understanding?**

Targeted enhancements would improve client understanding and enable meaningful comparability across firms:

- Clarity on capacity and counterparty relationship: Where firms act as principal, clients must clearly understand that the firm is their counterparty, not merely executing on their behalf. We recommend plain-language, transaction-level disclosure where firm capacity varies by order type, and explicit warnings where systematic internalisation occurs.

- All-in cost transparency: To enable meaningful comparison across firms, we recommend standardised cost disclosures showing itemized fee breakdowns using standardized categories. For principal dealers, separate disclosure of spreads embedded in quoted prices versus explicit fees.

**Question 9: Do you agree with the proposed specific pre-trade disclosures to clients by principal dealers? If not, please explain why not? Do you have any suggestions that can make these disclosures more effective?**

We agree with the proposed pre-trade disclosure requirements for principal dealers and recommend enhancements to prevent circumvention.

- Standardised quote status labelling: requiring principal dealers to label every pre-trade quote using standardised terminology (firm vs indicative). Any quote not explicitly labelled as "indicative" should be presumed firm and enforceable.

- Narrow definition of "exceptional scenarios": requiring firms must record and retain evidence of all instances where the exception is applied.

**Question 10: Do you agree with the proposed client order handling rules? If not, please explain why not?**

We agree. This principle is fundamental to preventing the prioritisation of proprietary trading at the expense of client execution, and hence key to investor protection.

**Question 11: Given the overall location policy established by the amendments to section 418 of FSMA set out in the Cryptoasset Regulations, do you agree with our proposed execution venue requirement? If not, please explain why not? What changes do you propose?**

We agree with the proposed execution venue requirement. This ensures retail clients benefit from the protections of the UK regulatory framework, including admission and disclosure (A&D) requirements, market abuse surveillance, and conduct standards.

We welcome the FCA's consideration of transitional arrangements and recommend a transition period of at least 12–18 months to allow UK-authorised venues to develop liquidity, intermediaries to establish execution relationships, and clients to transition existing holdings without being forced to trade into illiquid markets.

We also support the FCA's decision to rely on the A&D regime, rather than introducing separate product-specific requirements analogous to COBS 13 or 14.

**Question 12: Do you agree with our proposed restrictions on the cryptoassets in which an intermediary can deal or arrange deals for a UK retail client? If not, please explain why not?**

We agree with the proposed restrictions requiring cryptoassets offered to retail clients to be admitted to trading on a UK-authorised CATP with an A&D-compliant QCDD. We also support the asymmetric treatment following withdrawal of admission.

We recommend, in the meantime, that intermediaries be required to proactively notify affected retail clients where a cryptoasset they hold has had its admission withdrawn by all UK-authorised CATPs. While CATP operators have notification obligations, intermediaries that maintain the direct client relationship should have parallel obligations to ensure clients understand the implications for their holdings.

We consider the exemption for UK-issued qualifying stablecoins, given their separate regulatory framework, appropriate.

**Question 13: Do you agree with our proposed approach to addressing conflicts of interest during order execution when a firm is engaged in proprietary trading? If not, please explain why not?**

We agree with the proposal to require functional separation between proprietary trading and client order execution. Conflicts between proprietary trading and client execution are structural and persistent, particularly in volatile markets where incentives to prioritise proprietary positions intensify.

At a minimum, effective functional separation should include robust information barriers, independent governance, segregated remuneration, and independent surveillance.

We recommend that legal separation be required where:

- firms execute retail client orders in the same volatile cryptoassets actively traded by proprietary desks,
- group remuneration structures reward consolidated profitability, or
- supervisory evidence indicates that functional separation has failed in practice.

Functional separation should be treated as an outcomes-based safeguard rather than a procedural one. We therefore recommend that the FCA make clear that supervisory assessment will focus on demonstrable execution outcomes and the effectiveness of conflict controls in practice.

**Question 14: Do you agree with our proposed approach to PFOF? If not, what carve outs do you consider necessary and why?**

We agree. PFOF creates a structural conflict between client interests and intermediary revenue that cannot be mitigated through disclosure, client categorisation, or functional separation. While professional clients may be better able to monitor execution quality, they cannot eliminate the intermediary's economic incentive to prioritise routing payments over client outcomes.

The FCA's proposed approach is therefore appropriate and consistent with the prohibition in traditional finance.

To prevent circumvention, we recommend that the FCA:

- define PFOF broadly to capture economic substitutes, e.g., rebates, liquidity provider incentive schemes, volume-based fee reductions, and affiliate payment structures;
- require disclosure of all order-routing arrangements involving economic benefits, even where firms consider them compliant; and
- supervise outcomes by analysing whether routing patterns correlate with venues offering payments or delivering poorer execution quality.

**Question 15: Do you agree with the proposal to apply personal account dealing rules to cryptoasset intermediaries? If not, please explain why not?**

We agree. Personal account dealing creates conflicts of interest and risks of misuse of client or inside information, which are equally present in cryptoasset markets.

**Question 16: Do you agree with our proposed requirements on intermediaries around settlement arrangements, where applicable? If not, please explain why not?**

We agree with the proposed settlement requirements for intermediaries and welcome the FCA's intention to consult further on settlement arrangements and the scope of the "temporary settlement" exclusion. We recommend further specification in the following areas:

- Coordination with CASS 17: Settlement arrangements intersect directly with client asset safeguarding. Clarification on segregation expectations for client assets held during the settlement period will be important.
- Accountability for settlement failures and client redress: Although intermediaries are required to maintain "adequate and robust arrangements", further clarity is needed on accountability where settlement fails:

    - intermediaries remain accountable to clients for settlement completion, regardless of whether settlement is internalised or outsourced,
    - clients retain effective recourse against the intermediary even where failures arise from blockchain network disruption and third-party service providers, and
    - adequate arrangements should include contingency funding, insurance, or equivalent mechanisms to remediate client losses arising from settlement failure.

**Question 17: Do you agree with our proposed pre- and post-trade transparency requirements for UK CATP operators and principal dealers? If not, please explain why not?**

We agree. Pre- and post-trade transparency is fundamental to effective price discovery and market integrity, particularly in fragmented crypto markets where information asymmetry between venue operators and participants is pronounced.

**Question 18: Do you agree with our proposed methodology for determining the pre-trade transparency threshold? If not, please explain why not? What other methodology do you suggest?**

We agree. The revenue-based methodology provides a proportionate approach that avoids imposing disproportionate costs on smaller CATPs while ensuring that venues with systemic significance meet higher transparency standards.

**Question 19: Do you agree with our proposals for transaction recording and client reporting requirements for UK CATP operators and intermediaries? If not, please explain why not?**

We agree. Five-year record retention with on-request FCA access provides a reasonable balance between supervisory utility and operational burden.

Clear allocation of recording responsibility where a transaction involves both a CATP and an intermediary is appreciated.

**Question 20: Do you agree with our proposals on strengthening retail clients' understanding and express prior consent? If not, please explain why not?**

We partially agree. While we appreciate the introduction of transaction-level disclosure and consent as necessary elements of the regime, we do not consider them sufficient to address the structural risks of cryptoasset lending and borrowing (L&B) for retail clients. We therefore recommend that the FCA consider restricting retail access to these products. In particular:

- Limits of disclosure for structural risk: Even where disclosures explain title transfer, unsecured creditor status, and rehypothecation, retail customers generally cannot assess platform creditworthiness, concentration risk, or contagion dynamics. Express consent does not remedy these information asymmetries. Repeated disclosures and consent prompts are also likely to become routine click-through steps in practice.

- Perimeter and substitution risk: The proposals apply to UK-authorised firms, while economically equivalent products remain accessible via offshore platforms and DeFi interfaces. Cross-border structures also complicate client recovery in failure scenarios.

- Market structure and stress transmission: Large-scale retail participation in leveraged and rehypothecation-based crypto L&B markets has uncertain but potentially material implications for:

    - Liquidity conditions and volatility amplification
    - Margin dynamics and procyclicality
    - Collateral reuse chains and leverage build-up
    - Transmission channels between crypto markets and traditional finance

    These interconnections – particularly through leverage, maturity transformation, funding dependencies, and collateral reuse – are not yet sufficiently mapped, quantified, or stress-tested.

    Under stress conditions, plausible dynamics include:

    - Rapid liquidity evaporation and disorderly deleveraging
    - Fire sales of cryptoassets and potentially traditional assets used as collateral
    - Amplified margin spirals and procyclical collateral calls
    - Counterparty contagion through funding and collateral linkages
    - Widespread retail detriment and confidence effects
    - Spillovers to regulated firms with indirect exposures
    - Strain on resolution and consumer protection frameworks if interconnections are underestimated

    These risks are structural features of the product design rather than conduct failures.

Meanwhile, we also acknowledge the evident retail appetite for these products, and we recognise the FCA's concern – reflected in the shift from DP25/1's original restriction proposal – that prohibiting retail access may push activity to unregulated or offshore providers.

We therefore recommend a phased approach, similar to our recommendation in Q4. On the basis of a future review contingent on demonstrable market maturity, the FCA could consider extending access to retail clients under appropriate conditions. This approach is consistent with the FCA's treatment of retail crypto derivatives and appropriately prioritises product suitability over disclosure adequacy.

*[For Question 21 to Question 24 -- While we maintain our recommendation in response to Question 20 to restrict retail access, the proposed safeguards are essential for professional client L&B activity, and would be even more critical should the FCA proceed with permitting retail access.]*

**Question 21: Do you agree with our proposal to prohibit the use of proprietary tokens for L&B as outlined above? If not, please explain why not?**

We agree. Using proprietary tokens as collateral or lending assets creates fundamental conflicts of interest. These conflicts cannot be adequately managed through disclosure or governance controls.

**Question 22: Do you agree with our proposed record-keeping requirements on regulated L&B firms? If not, please explain why not?**

We agree. Given the complexity of lending arrangements, record-keeping requirements must enable granular traceability of client assets and exposures, such as the location of assets throughout the lending chain, counterparty identity and concentration, and the reuse of collateral over time.

**Question 23: Do you agree with our proposals on additional collateral, mandatory over-collateralisation of retail clients' loans, and managing the limits/ levels of the loan? If not, please explain why not?**

We agree. We recommend the FCA specify standards for collateral valuation, including price sources, treatment of low-liquidity assets, and revaluation frequency.

We also support loan limit assessments, but recommend clarifying whether firms must consider borrowers' aggregate exposure across multiple platforms, not solely exposure with the individual firm.

**Question 24: Do you agree with our proposals on negative balance protection? If not, please explain why not?**

We agree. Further clarification would be helpful on whether firms are required to absorb losses arising from liquidation slippage during periods of high volatility. Given the potential for material gaps between trigger prices and execution prices in crypto markets, clarity on who bears this risk is important for the protection's effectiveness.

**Question 25: Do you agree with our proposal that regulated staking firms must provide retail clients with information on the firm and its staking service, and provide the key terms of agreements in relation to those services and obtain retail clients' express prior consent in relation to those terms each time cryptoassets are staked, as outlined in paragraphs 6.14–6.19? If not, please explain why not?**

We agree. We particularly support the requirement for express prior consent each time cryptoassets are staked, rather than a blanket upfront consent at onboarding.

**Question 26: Do you agree that our proposed information provision, key terms and express prior consent requirements should only apply to retail clients and not to non-retail clients? If not, please explain why not?**

We agree. Non-retail clients have the capacity to assess staking risks independently and negotiate bespoke terms.

**Question 27: Do you agree with our proposed record-keeping requirements on regulated staking firms? If not, please explain why not?**

We agree. Robust record-keeping is essential to support effective supervision.

**Question 28: Do you agree with our proposal to apply rules and guidance in chapters 2–6 and guidance to firms engaging in DeFi where there is a clear controlling person(s) carrying on one or more of the new cryptoasset activities? If not, please explain why not?**

We agree with the principle of "same risk, same regulatory outcome" for DeFi activities where a clear controlling person exists. However, the practical difficulty lies in identifying and evidencing control.

We encourage the FCA to develop specific guidance on the indicators and thresholds for determining control, and to keep this framework under review as DeFi governance models evolve.

**Question 29: Do you agree with our assumptions and findings as set out in this CBA on the relative costs and benefits of the proposals contained in this consultation paper? Please give your reasons.**

No comments.

**Question 30: Do you have any views on the cost benefit analysis, including our analysis of costs and benefits to consumers, firms and the market?**

No comments.