



connecting the future

Consultation Paper 25/25***

Application of FCA Handbook for
Regulated Cryptoasset Activities

Financial Conduct Authority

September 2025

Response from
The Payments Association

November 2025

Introduction

The Payments Association welcomes the opportunity to contribute to the FCA Cp 25/25*** *“Application of FCA Handbook for Regulated Cryptoasset Activities”*.

The community’s response contained in this paper reflects views expressed by our members and industry experts recommended by them who have been interviewed and who are referenced below. As The Payment Association’s membership includes a wide range of companies from across the payments value chain, and diverse viewpoints across all job roles, this response cannot and does not claim to fully represent the views of all members.

We are grateful to the contributors to this response, which has been drafted by Riccardo Tordera, our Director of Policy & Government Relations and Robert Courtnedige, Policy Adviser to the Board. We would also like to express our thanks to the FCA for their continuing openness in these discussions. We hope it advances our collective efforts to ensure that the UK’s payments industry continues to be progressive, world-leading, and secure, and effective at serving the needs of everyone who pays and gets paid.

Ben Agnew
CEO
The Payments Association

Our members views (comments to Chapters 1-5):

Our members are broadly supportive of the Financial Conduct Authority's (FCA) proposal to align the regulation of cryptoasset firms with existing financial services frameworks, reflecting the principle of "same risk, same regulatory outcome." We also support the extension of the Consumer Duty to this sector, ensuring consistent standards of consumer protection across financial products and services.

We acknowledge that certain cryptoassets may possess novel features that warrant specific regulatory consideration. However, the final rules should provide explicit guidance, supported by practical examples, to clarify which features are regarded as novel and how these will be treated under the new regime. This will help ensure consistency, transparency, and proportionality in regulatory implementation.

A number of our members, particularly those already authorised by the FCA, wish to emphasise the importance of an efficient and proportionate authorisation process. In particular, firms currently regulated for specific cryptoasset activities, as well as established financial institutions seeking to extend their permissions, should be able to obtain the necessary authorisations through a streamlined process. This will enable a smooth transition to the new framework while maintaining regulatory integrity and market confidence.

Our members have also expressed concern regarding the Information Commissioner's Office (ICO) draft guidance on the application of data protection requirements to Distributed Ledger Technologies (DLT). The proposed interpretation may pose practical challenges for firms seeking to develop and launch cryptoasset products for UK consumers. We therefore encourage greater alignment and cooperation between the FCA and the ICO to address these issues and promote regulatory coherence across regimes.

Finally, we believe it is essential that the regulatory framework provides clear, accessible distinctions between regulated and unregulated stablecoins and cryptoassets. Ambiguity in these definitions risks consumer confusion and potential harm. In particular, the regulations should clearly delineate between qualifying and non-qualifying UK stablecoins; between qualifying UK stablecoins used as payment tokens and those potentially classified as investment-like (RMMI); and between UK-issued and non-UK issued stablecoins. Such clarity will be critical to ensuring that consumers are properly informed and that firms can comply with confidence.

More specifically:

- 1. Do you agree that new cryptoasset activities defined in the SI (and as described as 'qualifying cryptoasset activities' in draft FCA Handbook rules) should fall under the category of 'designated investment business' for the purposes of applying relevant sections of the Handbook?**

Our members agree that new cryptoasset activities defined in the Statutory Instrument (SI) and described as "qualifying cryptoasset activities" should fall under the category of *designated investment business (DIB)* for the purposes of applying relevant sections of the FCA Handbook.

However, we caution against an overly broad interpretation that treats all cryptoassets as investments. Stablecoins, for instance, function primarily as payment instruments referencing fiat currencies and should not automatically be categorised as investments. The

designation should serve as a definitional mechanism to bring relevant activities into scope, not as an economic classification of the assets themselves.

The FCA should also clarify to firms already working under the aegis of the FCA's handbook how their existing controls can be applied to cryptoasset activities. Such guidance would support a more efficient and proportionate authorisation process, reducing unnecessary duplication and enabling firms to leverage established compliance systems.

To mitigate regulatory uncertainty, our members also emphasise the importance of clear, practical guidance on the classification of stablecoins, particularly for firms that operate across both traditional and cryptoasset markets. Consistent interpretation of these classifications will be critical to ensuring effective compliance and maintaining market confidence.

2. Do you agree with our proposal for applying high level standards to cryptoasset firms in a similar way they apply to traditional finance?

Yes, we agree with the proposal to apply high-level standards to cryptoasset firms in a similar way as they apply to traditional finance, but with proportional tailoring. Principles for Businesses, Threshold Conditions, and governance expectations should apply, but rules should reflect crypto-specific risks (DLT dependence, cybersecurity, token reserve transparency). Divergences from existing standards should only occur where there is clear evidence that the cryptoasset business model warrants a different treatment. A consistent baseline promotes market integrity and a level playing field across financial sectors.

3. Do you agree with our proposed application of the existing SUP rules (except SUP 16) to cryptoasset firms?

We support applying existing SUP rules (excluding SUP 16 for now) to cryptoasset firms. The exclusion of SUP 16 (reporting requirements) is appropriate pending a separate consultation. SUP 16 data reporting can then be customised once metrics and taxonomy are better defined and industry feedback from the consultation is complete. Aligning supervisory approaches ensures consistency and regulatory familiarity for firms already subject to FCA oversight.

Some members recommend that the FCA consider the application of SUP 11 (Controllers and close links) to cryptoasset firms. This would align to wider AML controls and concerns being pursued by regulators and the industry.

4. Do you agree with our proposal to require cryptoasset firms to follow the existing requirements in SYSC 1, 4 – 7, 9 – 10, and 18 in the same way as existing FCA-regulated firms (or existing DIBs)?

We agree with the proposal to apply SYSC 1, 4–7, 9–10, and 18 to cryptoasset firms. These provisions reflect essential standards of governance, risk management, and record-keeping. We note that certain provisions such as those addressing senior management responsibilities and risk controls may require interpretative guidance tailored to crypto-native operational structures (e.g. key custody, validator dependencies).

A few members have suggested that classifying CATPs as 'other firms' under SYSC may not be appropriate. Given their higher risk profile, they consider that the classification of 'common platform' firms is a more appropriate category that better reflects their role and the risks that their customers will be exposed to.

5. Do you agree with our proposal to apply the existing SM&CR regime to cryptoasset firms, taking into account various parallel consultations on the broader SM&CR regime to ensure consistency? If not, please explain why.

We support the principle of extending the Senior Managers and Certification Regime (SM&CR) to cryptoasset firms, provided that proportionality is maintained. However, we highlight an inconsistency: Electronic Money Institutions (EMIs) and Payment Institutions (PIs) currently fall outside SM&CR. Given that many cryptoasset firms operate under EMI licences, applying SM&CR to these entities alone risks undermining the level playing field we have long advocated. The regime should therefore be calibrated to the risk profile and systemic significance of firms, not their licensing route.

6. Do you agree with the proposed categorisation for enhanced cryptoasset firms, such as the threshold for allowing cryptoasset custodian firms to qualify as enhanced? Should we consider other ways to categorise cryptoassets firms as enhanced?

Most members believe it would be premature to fix thresholds for categorising “enhanced” cryptoasset firms. The market remains nascent, and empirical data is insufficient to determine where in the proposed £1–100 billion range for custody assets is appropriate. They therefore recommend deferring the determination of thresholds until after the regulatory gateway opens and real-world market data becomes available. Additionally, customer type (retail vs wholesale) should be considered as a risk differentiator in defining enhanced firm status.

The categorisation methodology should incorporate additional risk differentiators beyond the raw value of assets under custody (AUC). Specifically, customer type (retail vs. wholesale) should be explicitly considered a significant risk differentiator in defining enhanced firm status.

A disconnect appears to exist between the proposed enhanced thresholds here and certain assumptions set out in earlier consultations, namely CP25/14 and CP25/15, particularly concerning stablecoin issuers. The £50 billion (or possibly £65 billion) AUM threshold for stablecoin issuers seems disproportionately high compared to assumptions made in previous Cost Benefit Analyses (CBAs). For instance, “Issuer 3,” a mature stablecoin issuer posited in the CBA to CP25/15, was assumed to have Stablecoin In Issuance (SII) of only £40 million. Given that backing assets must match SII 1:1, it is queried how any pure stablecoin issuer could, in the foreseeable future, approach the levels discussed in CP25/25.

Overall, some members are uncertain that this highly bespoke approach to cryptoasset firms’ categorisation is required. This bespoke approach, which comprises the disapplication of CASS 1A, the creation of a unique approach to designating firms as ‘Enhanced’, and the subsequent application of specific SM&CR requirements, risks providing opportunities for regulatory arbitrage and actively works against the established regulatory principle of ‘same risk, same regulation’.

7. Do you agree with our proposal to extend the application of SYSC 15A to cover all cryptoasset firms, including FSMA-authorised firms carrying out qualifying cryptoasset activities? If not, please explain why.

We agree with the proposal to extend SYSC 15A to all cryptoasset firms, including FSMA-authorised entities. Operational resilience is a foundational principle applicable to all

financial businesses. Crypto's dependency on DLT, custody systems, and third-party infrastructure makes operational resilience critical. Firms should identify important business services, test impact tolerances, and plan for node, bridge, or oracle failure. Given the distributed and technology-heavy nature of crypto operations, resilience planning is particularly vital.

8. Do you agree with our proposal that the use of permissionless DLTs by cryptoasset firms should not be treated as an outsourcing arrangement? If not, please explain why.

We support the FCA's proposal that the use of permissionless DLTs shouldn't be treated as outsourcing. Treating public blockchains as outsourced providers would impose impractical and disproportionate requirements.

However, further guidance on this topic is recommended. Specifically, this position should be cross-referenced with the Information Commissioner's Office's (ICO's) draft guidance on distributed ledger technologies to avoid potential regulatory conflicts, particularly regarding data protection and personal information on public ledgers. The recently closed consultation by the ICO on the data protection implications of DLT, and especially their comments on the use of public blockchains, is noted.

Close co-ordination between regulators is needed on the use of innovative technologies. There is a risk that the position taken by the ICO (while open to interpretation) could, in fact, act to constrain the sector's use of public blockchain and defeat the object of the FCA's proportionate and technology agnostic approach. The ICO's requirements could significantly impinge the ability of regulated firms to adopt this technology, negate the FCA's forward-looking approach and, ultimately, stymie UK economic growth.

9. Do you agree with our proposal to require cryptoasset firms to follow the same financial crime framework as FSMA-authorised firms? If not, please explain why.

We agree with extending the existing financial crime framework to cryptoasset firms. A unified approach ensures consistency across financial services and supports consumer protection objectives. As the FATF continues refining its crypto guidance, the FCA should remain aligned with international best practices to prevent fragmentation.

Given the inherent uncertainty regarding the precise level of financial crime risks that may arise, it is suggested that the FCA consider an implementation approach that is adaptable and evolutionary. This recognises that the framework may need to evolve over time as industry and the regulator gain greater shared understanding of cryptoassets and their interaction with the wider financial system. The industry is committed to working closely with the FCA to ensure that the changed regulatory coverage under the existing MLRs 2017 appropriately expands to cover all elements of financial crime detection and prevention.

10. Do you agree with the guidance set out in this document, and can you outline any areas where you think our approach could be clearer or better tailored to the specific risks and business models in the cryptoasset sector?

The Association broadly supports the guidance provided. However, we encourage the FCA to further tailor operational resilience guidance to crypto-native risks—such as

- DLT-specific operational dependencies;
- Wallet key management and recovery;
- Reserve disclosure for stablecoins;
- Third-party node and oracle governance.
- Wallet segregation
- Validator dependencies, and
- Smart contract vulnerabilities.

Current guidance reads as overly generic and risks undershooting the sophistication of leading digital firms, hence, further guidance should note the unique challenges for firms, when interacting or providing services to the cryptoasset ecosystem, and the need for practical examples.

However, given that this is non-Handbook guidance, there is a substantial case for deferring finalisation of this guidance until firms have passed through the authorisation gateway and the FCA can assess good and poor market practice.

11. Are there any emerging digital and cyber security industry practices or measures which we should consider when supporting cryptoasset firms complying with operational resilience and related requirements? Please elaborate.

Given the fast-evolving threat landscape, we recommend that the FCA maintain a principles-based and adaptive approach. We want the FCA to support open standards and interoperability frameworks but not to mandate, and without imposing technology-specific requirements.

The FCA should encourage, emerging practices such as:

- Continuous penetration testing (“red-teaming”);
- Multi-party computation (MPC) for key management;
- Smart-contract audit certification;
- zero-trust architectures;
- Cryptographic key-recovery protocols; and
- Real time blockchain analytics for fraud detection.

to inform future supervisory expectations as they are already recognised by many countries as minimum cyber baselines for digital-asset custodians.

12. Do you agree with our proposal to apply the ESG Sourcebook to cryptoasset firms?

We agree in principle with applying the ESG Sourcebook to cryptoasset firms, and welcome the FCA's recognition that there should not be any crypto-specific additional obligations. ESG metrics should be applied on a level playing field across all financial services.

We caution that energy consumption narratives around blockchain networks are often misrepresented; any ESG reporting framework should consider lifecycle energy use comparisons with existing payment and banking infrastructures.

28 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.

We broadly agree with the FCA's assumptions and findings. The analysis correctly identifies the key compliance costs for firms and the benefits in terms of consumer protection and market integrity. We note, however, that the CBA could further consider the proportionality of costs across different firm types, particularly SMEs and new entrants, to ensure that the regulatory burden does not unduly restrict innovation or market entry. Recognising these differences would help demonstrate that the proposed rules are appropriately calibrated and proportionate.

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

We support the CBA's assessment of the net benefits to consumers and market stability. In addition, we suggest the FCA emphasise the long-term efficiency gains from international alignment, for example with the U.S. GENIUS Act and EU MiCA. Harmonised rules would reduce duplication in reporting, auditing, and legal compliance for firms operating cross-border, benefiting both industry and consumers through clearer, more consistent standards. Highlighting these dynamic gains strengthens the economic case for proportionate regulation while supporting the UK's position as a globally coherent and innovation-friendly cryptoasset hub.

About The Payments Association

The Payments Association is for payments institutions, big & small. We help our members navigate a complex regulatory environment and facilitate profitable business partnerships.

Our purpose is to empower the most influential community in payments, where the connections, collaboration and learning shape an industry that works for all.

We operate as an independent representative for the industry and its interests, and drive collaboration within the payments sector in order to bring about meaningful change and innovation. We work closely with industry stakeholders such as the Bank of England, the FCA, HM Treasury, the Payment Systems Regulator, Pay.UK, UK Finance and Innovate Finance.

Through our comprehensive programme of activities for members and with guidance from an independent Advisory Board of leading payments CEOs, we facilitate the connections and build the bridges that join the ecosystem together and make it stronger.

These activities include a programme of monthly digital and face-to-face events including our annual conference PAY360 and PAY360 Awards dinner, CEO round tables and training activities.

We run seven stakeholder working Project groups: Inclusion, Regulator, Financial Crime, Cross-Border, Digital Currencies, ESG and Open Banking. The volunteers within these groups represent the collective view of The Payments Association members at industry-critical moments and work together to drive innovation in these areas.

We also conduct exclusive industry research which is made available to our members through our Insights knowledge base. These include monthly whitepapers, insightful

interviews and tips from the industry's most successful CEOs. We also undertake policy development and government relations activities aiming at informing and influencing important stakeholders to enable a prosperous, impactful and secure payments ecosystem.

See www.thepaymentsassociation.org for more information.

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