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Consultation Paper 26/4
Application of FCA Handbook to Regulated Crypto
Activities II

Financial Conduct Authority
January 2026

Response from
The Payments Association
March 2026

Introduction

The Payments Association welcomes the opportunity to contribute to the FCA CP 26/4 “Application of FCA Handbook to Regulated Crypto Activities II”.

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 Vice President, Policy & Government Relations with assistance from law firm and member Addleshaw Goddard. 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:

Please note we are responding to this consultation per chapter rather than question by question. This consultation response represents the collective views of members engaged in regulated cryptoasset activities in the UK. Members appreciate the FCA's clear effort to apply existing Handbooks to crypto firms proportionately, promote market integrity, protect consumers, and support innovation and competition.

However, while members support the policy intent behind many proposals, there are several areas where further clarification, proportionality, and calibration of outcomes are needed to ensure that the rules are workable, predictable, and appropriately tailored to the unique features of crypto activities.

Chapter 1 – Summary

Question 1: Do you agree with our proposed approach on guidance for international crypto firms? If not, provide details.

a. In particular, we would be interested in views as to whether any of our proposed rules in this should be applied differently to a UK QCATP which is authorised via a UK branch of an overseas firm, in relation to non-UK users.

Question 2: Do you consider that the SUP 3.3-3.8 should be extended to all cryptoasset activities? If not, explain why.

We agree that SUP 3.3 – 3.8 should be extended to cryptoasset activities, on the basis that the relevant activities are broadly comparable to traditional financial activities that are within scope of these requirements.

Chapter 2 – Consumer Duty

Question 3: Do you agree with our proposals to apply Principle 12 and PRIN 2A to cryptoasset firms supplemented by non-Handbook guidance to clarify how the duty applies to cryptoasset activities?

Question 4: Do you agree with our approach that the Duty will not apply to trading between participants of a UK QCATP?

Question 5: Do you agree with our approach that the Duty will apply to all activities carried out in relation to UK-issued qualifying stablecoins, including activities relating to public offers and admissions to trading?

Question 6: Do you have any comments on our proposed guidance on how cryptoasset firms should comply with the Consumer Principle and three cross-cutting rules?

Question 7: Do you have any comments on our proposed guidance on application of the Duty's: (a) products and services outcome; (b) price and value outcome; (c) consumer understanding outcome; and (d) consumer support outcome?

Question 8: Are there any areas where cryptoasset firms could benefit from additional guidance to better understand their obligations? Please provide examples.

We support the extension of the Consumer Duty (Principle 12 and PRIN 2A) to all elements of regulated cryptoasset activities, particularly in relation to retail consumers. The focus on outcomes-based regulation and the requirement for firms to deliver good outcomes aligns with the Association's own principles and the expectations of the wider payments and crypto industry.

However, we believe the proposed non-Handbook guidance accompanying the Duty should be further developed. The current guidance is high-level and, while useful, does not address the practical challenges faced by firms in applying the Duty to cryptoasset products and services. We recommend that the FCA expands this guidance to include detailed, scenario-based examples relevant to crypto markets, products including in areas such as price and value, consumer understanding, and the management of risks that are inherent to decentralised protocols or outside of firms' direct control.

It is also essential that the non-handbook guidance avoids duplicative or conflicting obligations, especially where other rules (such as QCATP protections) already address certain risks. We recommend the FCA aims to ensure that the Duty and non-handbook guidance does not inadvertently create overlapping requirements with other rules or unintended burdens on firms. We also urge the FCA to consider phased implementation windows and transitional guidance for firms new to the Duty, recognising the varied maturity and business models across the sector.

Chapter 3 – Redress

Question 9: Do you agree with our proposal to apply the DISP 1 complaint handling requirements to all cryptoasset firms?

Question 10: Do you agree with the proposal to add requirements to the crypto sourcebook for stablecoin issuers to put in place contractual arrangements with third parties that carry out activities on their behalf?

Question 11: Do you agree that the Financial Ombudsman should consider complaints about all new cryptoasset activities carried out by all UK authorised firms? If not, are there specific activities it should not be able to consider complaints for?

Question 12: Do you agree that the Financial Ombudsman should not extend the voluntary jurisdiction to cover complaints about the proposed new cryptoasset activities?

Question 13: Do you agree with our approach to not extend FSCS coverage to new regulated cryptoasset activities and all types of qualifying cryptoassets?

Question 14: Given that the move of Specified Investment Cryptoasset (SIC) safeguarding from Article 40 to Article 9N may remove it from the scope of FSCS protection, do you agree with our approach to SIC safeguarding even though it may give rise to potential inconsistent outcomes, for example, safeguarding a traditional share would fall within FSCS scope, while safeguarding its tokenised equivalent would not?

We support the proposal to bring regulated cryptoasset activities within the jurisdiction of the Financial Ombudsman Service (FOS) and to apply the existing DISP complaint handling

rules. This is a logical and necessary step to ensure that consumers have access to redress mechanisms consistent with those available with other regulated financial firms. Where third-party providers are involved in service delivery, this approach will avoid unnecessary duplication of DISP obligations.

We recommend that the FCA clarifies that contractual arrangements should set out clear responsibilities for redress and complaint handling where third-party providers are involved in the delivery of cryptoasset services (such as wallet or technology partners). We believe that complaint handling arrangements should be capable of being integrated with firms' existing outsourcing and third-party risk management frameworks. This would allow firms to use established governance structures and contractual provisions to allocate responsibilities for the receipt, escalation, investigation, and resolution of complaints between themselves and their service providers. Such alignment avoids unnecessary duplication of obligations under DISP, ensures clarity for consumers, and enables efficient and effective redress processes that reflect the operational realities of cryptoasset service provision. We also ask the FCA to confirm that this approach is permissible under the final rules.

13 - Our banking community members support the application of FSCS protections to SICs. If the underlying assets are covered by FSCS, then digital representations of these assets should have equivalent protections. The potential application of FSCS for all new regulated cryptoassets is complex. However, comparable forms of money or investment should have comparable levels of protection.

FOS - Support customers of cryptoasset firms having recourse to FOS to resolve disputes with cryptoasset services. The FOS should not uphold complaints relating to investment losses from poor performance only. The FOS should be clear to not hold conventional finance firms liable for any failings of cryptoasset firms.

Chapter 4 – COBS

Question 15: What is your view on whether COBS generally (subject to COBS 1 Annex 1 carve-outs) should apply to non-UK retail and professional clients of a UK QCATP operator that is incorporated overseas and authorised via a UK branch?

Question 16: Do you have any views on what qualifying cryptoassets should be assessed as Category A or Category B qualifying cryptoassets? If so, please provide details.

Question 17: Do you agree with our proposals on express consent, appropriateness testing, and strengthening retail clients' understanding? If not, please explain why not? If there is an issue of timing or cost in relation to our proposals on appropriateness assessments and express consent, including as they apply to existing clients, please share details.

We agree with the application of core COBS provisions to cryptoasset investment services where the activity is directly analogous to traditional financial services. However, the application of COBS to cryptoassets raises unique challenges, particularly where activities are protocol-driven or decentralised in nature.

We recommend that the FCA provides a clear mapping between crypto-specific conduct risks and the relevant COBS principles. This will help firms to navigate compliance requirements and avoid duplicative or inconsistent obligations. Where activities do not align with existing COBS requirements, such as protocol-driven transactions, we recommend the FCA provide tailored guidance to ensure regulatory requirements are relevant and proportionate.

Our banking community members support the FCA's proposal for COBS to extend to trading conducted on UK authorised CATPs, and where an overseas firm provides services to UK retail consumers. However, creating carve outs for these rules could add complexity to how firms are regulated and when rules apply. Ensuring a clear and robust conduct framework is integral to maintaining market integrity and consumer protection in the emerging cryptoasset environment.

Chapter 5 – The use of Credit

Our banking members believe that purchasing cryptoassets with a credit card may cause complications with the application of Section 75, the limits of which should be clarified by FCA. And that, as with the purchase of high-risk investments with a credit card, the FCA should make it clear that issuers are within their rights to decline such transactions and be clear on cryptoasset firms' consumer duty obligations to prevent foreseeable harm for consumers purchasing cryptoassets using credit cards.

This approach is not shared by other members who remark crypto is not gambling hence should not be treated in the same way.

Chapter 6 – SM&CR Tiering

Question 18: Do you agree with our proposals to introduce thresholds for becoming an SM&CR Enhanced firm for authorised stablecoin issuance firms and authorised cryptoasset custodians? If not, please explain why.

We support the application of the SM&CR to cryptoasset firms, particularly on the importance and application of senior manager accountability for stablecoin issuers and custodians on a risk-proportionate basis. However, greater clarity is needed regarding the triggers for “core” versus “enhanced” classification to avoid abrupt shifts in regulatory expectations for mid-sized firms. We recommend the FCA provide guidance to ensure that the tiering criteria are clear, predictable, and aligned with those applied to comparable payment and e-money institutions, to maintain consistency and proportionality in governance outcomes.

Chapter 7 – Training and Competence

Question 19: Do you agree with our proposals to apply the TC Sourcebook to certain cryptoasset activities similar to the existing approach for traditional finance? If not, please explain why?

We agree with the application of the FCA's Training and Competence sourcebook to cryptoasset activities. To support consistent and effective implementation, we recommend that the FCA develops additional crypto-specific competency criteria, particularly for roles that involve decentralised protocols, staking, and custody. Traditional frameworks may not fully capture the skills required in these areas, and sector-specific guidance will be valuable in raising standards across the industry.

Chapter 8 – Regulatory Reporting

Question 20: Do you agree with our proposed application of the existing regulatory returns to qualifying cryptoasset firms?

Question 21: Do you agree with our phased approach to introducing regulatory returns for qualifying cryptoasset firms?

Question 22: Do you agree with the proposed approach for:

- a. Stablecoin issuance**
- b. Operating a Qualifying Cryptoasset Trading platform**
- c. Dealing and Arranging (intermediation)**
- d. Cryptoasset Staking**
- e. Cryptoasset Lending and Borrowing**

Question 23: Do you agree with our approach to qualifying cryptoasset safeguarding reporting?

Question 24: Do you agree with our approach to cryptoasset complaint and active client reporting?

Question 25: Do you agree with our proposed approach to supplementary data collections?

Question 26: Do you agree with our approach to prudential reporting?

We support a proportionate, technology-neutral reporting regime that aligns with the FCA's supervisory objectives and existing reporting frameworks. The proposed reporting requirements set out in SUP 16.34 are comprehensive. However, we encourage the FCA to provide clear guidance on reporting definitions and data elements to support consistent compliance across both distributed ledger technology (DLT) based and non-DLT models.

The introduction of new reporting obligations represents a significant operational undertaking for many firms, and we recommend that the FCA allows for phased implementation of new reporting requirements to facilitate operational readiness.

Chapter 9 – Safeguarding client cryptoassets

Question 27: Do you agree with our proposed approach to applying CASS 17 in these scenarios? If not, why not, and please describe any scenarios we may not have considered.

Question 28: Do you agree with our proposed approach to protecting clients' ownership rights, including the approach to the operational surplus and class of cryptoasset? If not, why not?

Question 29: Do you agree with our proposed approach to exempting firms from holding cryptoassets on trust in certain scenarios? If not, why not?

Question 30: Do you agree with our proposed approach to recordkeeping requirements, including only applying them to client cryptoassets held on trust? Please explain your answer and indicate whether this approach would create a gap in consumer protection.

Question 31: Do you agree with our proposed approach to reconciliations, topping up shortfalls and removing excesses? If not, why not?

Question 32: Do you agree with our proposed approach to private key management and security? If not, why not?

Question 33: Do you agree with our proposed approach to the use of third parties? If not, why not?

We recognise the importance of robust safeguarding requirements and support the application of CASS 17 to client cryptoassets. However, the legal basis for trust constructs in relation to private keys and crypto-based custody models remains unclear. The FCA should provide guidance on the legal basis of trust arrangements relating to the application to private keys and crypto-specific custody models, including circumstances where establishing a legal trust may be impracticable. Clear transitional arrangements and expectations should also be set out for firms adopting new custody technologies, to ensure continuity of service and consumer protection.

Chapter 10 – Safeguarding specified investment cryptoassets

Question 34: Do you agree with our proposed approach to applying CASS 17 rules on protecting clients' ownership rights, private key management and appointment of third parties, applying SYSC and SUP rules to SIC custodians and amending the application of SUP 3.10.4R(2)? If not, why not?

Question 35: Do you foresee challenges for firms currently safeguarding SICs and subject to CASS 6 when transitioning to CASS 17? Please explain why.

Question 36: What are the potential use cases for and the rationale for SIC custodians to use these exclusions?

Question 37: Do you agree that rules applying to small AIFMs due to exclusions applying to UK UCITS and AIF managers should be extended to SIC and cryptoasset custodians under CASS 17? Please explain why.

Question 38: Do you anticipate SICs being used for SFTs in future? If so, should the requirements in CASS 6 permitting the use of clients' safe custody assets for SFTs be applied? Please explain why.

We believe the regulatory treatment of tokenised securities should remain aligned with the underlying asset's regulatory framework to avoid disproportionate capital or custody requirements purely because of tokenisation. We recommend that the FCA includes explicit carve-outs or cross-references to existing securities guidance to preserve functional consistency across tokenised and non-tokenised assets.

Focusing on 'same risk, same regulatory outcome', the application of CASS 6 for traditional specified investments should also apply to specified investments crypto assets (SICs) where the same underlying asset is used on a distributed ledger rather than having separate CASS 17 rules.

Taking into account the use of private keys and security in CASS 17 rules, amendments could be made to CASS 6 to ensure any additional rules are captured for SICs in one set of rules to simplifying regulation and preventing any confusion as to which ruleset needs to apply depending on the underlying asset.

Cost Benefit Analysis

Question 39: 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.

Question 40: Do you have any views on the cost benefit analysis, including our analysis of costs and benefits to consumers, firms and the market?

We acknowledge the FCA's efforts to quantify the costs and benefits of the proposed regime which is invaluable. However, we note that some baseline assumptions, particularly regarding Consumer Duty compliance costs and the diversity of business models, may not reflect the real-world implementation effort required. We recommend that the FCA revisits these assumptions and provides greater transparency on the methodology used, especially where these assumptions shape the proportionality of the final rules and outcomes. We recommend the final policy adjust cost assumptions where baseline figures appear unrealistic and provide updated evidence supporting key cost drivers.

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 to bring about meaningful change and innovation. We work closely with industry stakeholders such as the Bank of England, the FCA/PSR, HM Treasury, 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 digital and face-to-face events including our annual PAY360 and FC360 conferences, our PAY360 Awards dinner, PA@The City, CEO round tables, webinars, working group events and training activities.



We run eight stakeholder working groups: Cross-Border, Digital Currencies, ESG, Financial Crime, Financial Inclusion, Merchant Payments, Open Banking and Regulatory. 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.

Our Payments Intelligence team and our working groups aim to produce regular thought-leadership for our membership and beyond. These include data-driven reports, articles, video interviews and podcasts. 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.

Contact malik.smith@thepaymentsassociation.org for assistance.