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Dear FCA,

Financial Services Consumer Panel¹ response to the Consultation Paper on the Prudential Regime for Cryptoasset firms.

The Panel welcomes the opportunity to respond to the FCA's CP25-42 consultation on the prudential regime for cryptoasset firms. The Panel broadly supports the FCA's proposals, recognising their focus on strengthening consumer protection, enhancing market integrity, and aligning cryptoasset regulation with established financial market standards. In particular, the Panel supports the FCA's approach to capital requirements, operational risk factors, and governance arrangements. However, the Panel wishes to highlight the following:

- **Consumer Impacts:** The Panel notes that prudential regulation can have both direct and indirect impacts on consumers. While robust capital and risk management requirements are essential to mitigate harm when firms fail, the Panel believes the FCA should also explicitly consider less direct consumer impacts, including costs passed on to consumers, potential limitations on products and services, and effects on innovation and competition. Prudential outcomes for consumers should therefore be assessed holistically, rather than solely through the lens of firm resilience.

The Panel further notes that while consistency with existing regulatory frameworks is valuable, it should not override the objective of achieving the best possible consumer and market outcomes. Where appropriate, the FCA should be open to evolving or adapting existing approaches to ensure the prudential regime for cryptoasset firms is proportionate, effective, and fit for purpose for a novel asset class.

¹ <https://www.fca.org.uk/panels/consumer-panel>

- **Transparency:** The Panel recommends the FCA provides greater transparency regarding the data, modelling, and assumptions underpinning the calibration of prudential requirements. This will help stakeholders assess whether the proposed measures are proportionate and effective.
- **Complexity and Cost:** The complexity of the proposed calculations and compliance requirements may impose significant costs on firms, which could ultimately be passed on to consumers.

The Panel believes that simplification should be treated as a core regulatory design objective, not merely a cost consideration. Overly complex calculations increase the risk of error, demand greater supervisory oversight, and may undermine confidence in the regime. The Panel encourages the FCA to explore whether simpler approaches could achieve the same prudential outcomes more efficiently, including through engagement with practitioners responsible for performing these calculations in practice.

We recommend that the FCA carefully consider the operational impact and ensure that the regime remains proportionate as the market matures. Simplification should be treated as a regulatory design objective, not merely a cost issue. Over-complexity increases: error risk, supervisory burden, and ultimately consumer harm.

- **Treatment of Firm-Owned Cryptoassets:** The Panel encourages the FCA to clarify how firm-owned cryptoassets, particularly those used in staking or proprietary trading, should be treated within the operational risk framework.
- **Governance and Technology Oversight:** The Panel advocates for the introduction of a dedicated Senior Management Function accountable for customer and consumer outcomes, as well as a Technology Champion at Board level, to ensure robust oversight of technology-related risks.
- **Consumer-Friendly Disclosures:** The Panel recommends that firms be required to provide plain-language prudential summaries and clear information on governance and operational resilience, making disclosures more accessible and meaningful for retail consumers.

The Panel recognises the importance of establishing a clear and robust prudential regime for cryptoasset firms, one that ensures consumers are appropriately protected. The Panel responses to the questions posed in the Consultation Paper are included at Annex A. The Panel continues to

appreciate the FCA's efforts and looks forward to further engagement on these topics.

Yours sincerely,

Chris Pond

Chair, Financial Services Consumer Panel

Annex A

1. Do you agree with the proposed PMR for the various activities that cryptoasset firms will need to comply with?

The Panel supports the FCA's proposed Permanent Minimum Requirements (PMRs) calibrated to the risk profile of each cryptoasset activity. The tiered structure is proportionate and aligned with traditional financial equivalents (e.g. MiFID investment firms), which promotes regulatory coherence and predictability for firms already operating under MiFID-aligned regime. The FCA's proposed PMR framework is broadly aligned with international practice similar to the EU's MiCA regime², which also combines a permanent minimum and thresholds by service type.

The proposed thresholds carry materially different risks based on the entity type and services offered and the levels appropriately reflect this:

- £75k for arranging/dealing as agent recognises the lower operational complexity and the absence of balance-sheet risk.
- £150k for trading platforms and staking reflects higher operational, cyber, and reconciliation risks.
- £750k for principal trading is justified given the significant market, liquidity, and counterparty exposure.

The PMR provides a necessary capital floor to support orderly failure and consumer protection, particularly given the volatility and fragility observed in recent crypto market failures. The proposed levels strike a reasonable balance between ensuring firms can absorb early-stage stress and avoiding barriers to entry that would stifle innovation or competition.

To strengthen the evidential basis for the PMR, the Panel encourages the FCA to demonstrate how existing Permanent Minimum Requirements for traditional financial services have proven effective in supporting orderly failure and consumer protection, and to explain how these have been adjusted on a risk-based basis to reflect the specific characteristics of cryptoasset activities. The Panel also considers it important that PMR levels are reviewed on a regular basis (at least annually) and recalibrated where supervisory or authorisation data indicates that risks are higher or lower than initially anticipated.

We also welcome the FCA's commitment to future recalibration once supervisory data becomes available. This ensures the regime remains proportionate as the market matures.

² <https://www.bectra.fr/en/post/mica-prudential-requirements-what-amounts-are-needed-for-psca-authorization>

2. Do you have any views on the operational risk K-factors we are proposing for cryptoasset firms?

The Panel supports the FCA's intention to apply operational-risk K-factors to cryptoasset firms. As with our previous response on stablecoin-related K-factors, we agree with the principle that capital requirements should reflect the specific operational risks arising from a firm's activities. The proposed K-factors—K-CCO, K-CTF and K-CCS—appear to be a logical extension of this approach.

The Panel has three concerns, consistent with the themes we raised in earlier consultations.

1. Transparency of data, modelling and calibration

As with the calibration of K-SII and K-QCS in the stablecoin regime, the FCA should be transparent about the data, modelling and assumptions used to determine the proposed calibrations for K-CCO (0.1%), K-CTF (0.1%) and K-CCS (0.04%).

Given the limited availability of high-quality, long-run operational-risk data in crypto markets, it is important that stakeholders understand:

- the rationale for the chosen percentages
- how the FCA has benchmarked these risks against MiFIDPRU
- whether crypto-specific operational risks (e.g., outages, slashing, smart-contract failures, validator mismanagement) have been fully captured

The FCA appears to have borrowed MiFIDPRU calibrations such as: K-COH (client orders handled) = 0.1% that are used in the investment management regime. While it is currently hard to justify adapting those K-factors to crypto-specific risks and expanding their scope due to limited market data, we urge the FCA to consider these changes as soon as sufficient evidence becomes available to support such action.

Without this transparency, it is difficult to assess whether the calibrations are proportionate or whether they may under- or over-estimate the risks to consumers.

2. Complexity of calculations and the cost of compliance

As we noted previously in relation to K-SII and K-QCS, the proposed K-factor calculations appear operationally complex. While firms may technically have the data required, the ongoing cost of extracting, reconciling, validating and auditing may be significant. It is unclear whether these costs have been fully captured in the Cost Benefit Analysis.

The Panel remains mindful that such costs are likely to be passed on to consumers.

3. Treatment of firm-owned cryptoassets and other balance-sheet exposures

In our previous response to CP25/14³, we highlighted the importance of considering stablecoins owned by the issuer. A similar issue arises here: the consultation does not appear to address how firm-owned cryptoassets—particularly those used in staking, liquidity provision, or proprietary trading—should be treated within the operational-risk framework. We encourage the FCA to clarify whether and how such holdings should be reflected in the K-factor regime, and we refer the FCA to our earlier comments on this point.

Overall, the Panel supports the direction of travel and agrees that operational-risk K-factors are necessary to protect consumers in cryptoasset markets. The Panel considers this consultation an opportunity for the FCA to strategically evolve the design of operational-risk capital requirements over time. While consistency with MiFIDPRU may reduce short-term transition costs, maintaining complex legacy approaches purely for consistency risks embedding inefficiencies. A simpler, more intuitive model—developed as evidence improves—could reduce costs for firms, supervisory burden for the FCA, and ultimately detriment to consumers, without weakening prudential outcomes.

3. Do you have any views on our proposals for positions in the trading book, including the definition, management and additional value adjustments?

The Panel supports the FCA's intention to align the definition and management of trading book positions for cryptoasset firms with the standards applied under MiFIDPRU, including the requirement for daily monitoring, clear documentation of trading intent, and robust risk-control processes.

The Panel agrees that:

- Daily monitoring and risk control are necessary given the extreme volatility of cryptoassets and the speed at which losses can crystallise.

³ <https://www.fca.org.uk/panels/consumer-panel/publication/20250707consumerpanelresponsetofca25-14stablecoinissuanceandcryptoassetcustody.pdf>

- The additional valuation adjustment (AVA) of 0.1% is a prudent measure to ensure valuations reflect uncertainty and are not overstated.
- The exclusion of qualifying UK stablecoins from K-NCP is appropriate, provided these assets meet the operational and backing standards set out elsewhere in the regime.

The Panel believes that the FCA should monitor the adequacy of the AVA over time and recalibrate if market conditions or data indicate misalignment. The Panel also encourages the FCA to treat the additional valuation adjustment as a dynamic parameter, subject to ongoing monitoring and recalibration as market data, valuation practices, and risk characteristics evolve.

4. Do you have any views on the categorisation of cryptoassets, particularly on the conditions attached to a cryptoasset being included in category A? Do you agree with the proposed capital charges for each category under our net cryptoasset position (K-NCP) proposals?

The Panel supports the principle of differentiating cryptoassets based on liquidity, volatility, operational resilience and market maturity.

The Panel believes that the FCA should publish more detail on:

- The actual list of assets included in the calibration analysis
- the time periods and data sources used: eg. We used hourly BTC-USD and ETH-USD prices from Coinbase and Binance from 2018 and 2023 sourced by "X" data provider. It does not also specify the start date and end date and whether stress periods were included and this matters as different windows produce very different results
- how the methodology accounts for structural breaks, market manipulation, or liquidity fragmentation.

In addition, the Panel encourages the FCA to consider whether, in current market conditions, a meaningful number of cryptoassets other than stablecoins are likely to meet the criteria for Category A, and whether the benefits of intra-day reassessment of categorisation justify the operational costs incurred. Where risks are not materially increased, lower-frequency reassessment or alternative approaches may achieve similar prudential outcomes with reduced burden.

The FCA should consider:

- requiring independent validation of classifications
- mandating periodic reassessment
- setting clear expectations for governance and oversight

As with other K-factors, the complexity of the classification process may impose costs that are ultimately borne by consumers.

5. Do you have views on our framework for calculating cryptoasset counterparty default requirements (K-CCD) for cryptoasset firms? Are there any transactions that you think would give rise to counterparty credit risk but are not covered by our proposed rules?

Overall, the Panel agrees with the proposed K-CCD framework. In particular, the Panel supports the 83.33% risk factor for retail clients reflecting the FCA's position that firms should have no recourse to retail clients beyond collateral. This ensures that firms cannot shift losses onto retail clients.

The Panel nevertheless encourages the FCA to assess whether this calibration could result in unintended consequences for retail consumers, such as higher costs or unnecessary restrictions on access to services, and to consider alternative approaches where these could achieve equivalent protection with fewer adverse effects.

While we agree with the overall approach, it would be helpful if the FCA provided more transparency on how the percentage adjustments were derived.

The overall consultation explains the structure of the K-factors and the criteria for categorising assets, but it does not set out the empirical basis for the specific percentages used.

For example, it is not clear:

- how the FCA selected the percentage adjustments applied to exposure values
- what historical data or modelling underpins these numbers
- whether the calibration reflects crypto-specific market features such as fragmentation, exchange outages and periods of extreme volatility
- whether alternative calibration options were considered and why these particular percentages were chosen

As with other K-factors, the complexity of the classification process may impose costs that are ultimately borne by consumers.

6. Do you have any views on the proposed framework for calculating concentration risk requirements (K-CON)?

The Panel agrees with the FCA's proposals for K-CON. Using a structure similar to MIFIDPRU means firms and supervisors already understand the framework. While the structure of K-CON is clear, the consultation does not explain the empirical basis for the specific percentage increases applied when exposures exceed limits.

As with other K-factors, the complexity of K-CON calculations may impose costs that are ultimately borne by consumers.

7. Are our expectations of firms regarding the overall risk assessment sufficiently clear? If not, which areas could benefit from further clarification?

The Panel agrees with the FCA's proposed Overall Risk Assessment (ORA) framework. The Panel also encourages the FCA to explicitly reference client complaints and redress risk within the ORA. While the FCA has paused work on capital deductions for redress, the ORA provides an important mechanism to ensure firms recognise and plan for the financial and operational risks associated with consumer harm. In addition, the Panel believes the ORA should clearly capture risks outside the direct control of firms, including cyber risk and geopolitical risk, which have the potential to crystallise rapidly and cause significant disruption.

Embedding the ORA into firms' business models, governance and decision-making is essential in a sector where operational, liquidity and counterparty risks can crystallise quickly. To support consistent implementation, the Panel encourages the FCA to issue non-Handbook guidance, including:

- examples of good and poor practice
- expectations for stress-testing in crypto-specific scenarios
- guidance on assessing operational dependencies such as validators, third-party staking providers and cloud infrastructure

Weak governance and unclear responsibility have been common features of past crypto failures. The FCA's emphasis on senior management identifying risks, ensuring appropriate controls and signing off the ORA annually is therefore critical for effective oversight and accountability.

As set out in our response to DP25-25, the Panel continues to advocate for a dedicated Senior Management Function (SMF) accountable for customer and consumer outcomes. With the removal of the requirement

for a Board-level Consumer Duty Champion—though many firms have retained this voluntarily—the Panel believes this is the right moment to formalise such a function within the SM&CR for digital-asset firms.

Given the increasing technology-driven risks in this sector, the Panel also proposes the introduction of a Technology Champion at Board level. This role would provide the expertise needed to guide and challenge the Board and Executive on technology-related decisions, particularly those linked to digital innovation and cryptoasset activities.

Boards must have access to diverse technology expertise to challenge assumptions, scrutinise risks and ask fundamental questions such as “what could go wrong if we take this decision?”. Regular, structured discussions of technology and operational risks should form part of Board culture to avoid blind spots and ensure early identification of vulnerabilities. Recent crypto failures and frauds have shown that insufficient understanding of technology, governance and data integrity at senior levels can directly contribute to consumer harm and market instability.

The Post Office scandal, though unrelated to cryptoassets, illustrates the consequences of inadequate technological understanding among Board members and executives. It reinforces the need for Boards to include members who genuinely understand how technology and operational systems work, where risks originate and how they evolve.

The Panel also believes it is time to move away from recycling the same individuals across Boards, particularly where this limits awareness of emerging technologies. A greater focus on appointing new members with expertise in digital systems, data and technology strategy would strengthen governance and improve the quality of challenge.

A strong, technology-aware culture must be driven from the top. Firms should embed technology awareness and continuous learning across all levels of the organisation. This will support resilience, responsible innovation and help prevent the recurrence of past failures in both traditional and crypto-related systems.

The Panel also recommends that the FCA require firms to attest that every Senior Management Function has appropriate knowledge of any technology—including distributed ledger technology—relevant to the products or services within their remit. Notably, of the 23 FCA-defined SMFs, none is specifically responsible for technology oversight. While SMF24 (Chief Operations) touches on this, it is too broad to ensure accountability for technology, which now underpins most financial services.

8. Do you have any views on our proposals for the public disclosure of prudential information, in particular on group arrangements and for firms that undertake dealing in cryptoassets?

The proposed disclosure framework is directionally right. However, Section 5 focuses primarily on technical prudential disclosures. While these are essential for market discipline, they are not accessible to retail consumers. The Panel believes that what is missing are plain-language explanations of prudential metrics, the associated risks, and what these mean in practice for consumers. Firms should also clearly state whether they have ever breached their own-funds or liquidity thresholds. This matters because crypto consumers are not institutional investors and cannot reasonably be expected to interpret complex prudential terminology.

The Panel therefore suggests that firms be required to provide a consumer-friendly prudential summary. This should explain how client assets are handled, what would happen in the event of firm failure, and whether the firm is covered by the Financial Ombudsman Service, as referenced in CP25/42.

The Panel also notes that Section 5 requires disclosure of prudential metrics, group structure, and risk exposures, but not the governance accountability behind them. Given the FCA's intention to apply the full SM&CR to cryptoasset firms (as set out in CP25/25), it is reasonable and proportionate to require firms to disclose who their Senior Managers are, including their SMF designations, and to provide a high-level summary of their prescribed and prudential-risk-related responsibilities.

As crypto failures frequently stem from governance weaknesses rather than capital shortfalls alone, the Panel considers this information relevant for disclosure. The Panel therefore proposes that the FCA require firms to publish a Governance & Accountability Statement, including the names and roles of Senior Managers, a summary of their responsibilities, and confirmation that Statements of Responsibilities and Management Responsibilities Maps are maintained. This would mirror existing expectations for banks and investment firms.

Given the sector's heavy reliance on cloud providers, blockchain infrastructure, staking intermediaries, liquidity providers, and custodial partners, the Panel believes firms should also disclose information on operational resilience and third-party dependencies. This should include material outsourcing arrangements, reliance on third-party staking

providers, concentration of service providers, and any significant outages or incidents.

In conclusion, Section 5 provides a strong foundation, but from a consumer protection perspective the FCA should strengthen it by requiring:

- Governance transparency (Senior Managers and their responsibilities)
- Consumer-friendly prudential summaries
- Disclosure of operational resilience and third-party dependencies

Finally, the Panel suggests that the FCA undertake a post-implementation review of prudential disclosures to assess whether they are genuinely understood by retail consumers and other stakeholders, and to refine disclosure requirements where evidence indicates that intended consumer-protection outcomes are not being achieved.