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Dear FCA,

The Financial Services Consumer Panel¹ welcomes the opportunity to respond to the FCA's Consultation Paper on proposed rules and guidance for cryptoasset firms across the Handbook.

We commend the FCA's efforts to enhance consumer protection, market integrity, competition, and international alignment in this rapidly evolving sector. These proposals could potentially impact 12% of the UK adult population (7 million people who currently own cryptoassets²), with over a quarter (27%) of cryptoasset users surveyed reporting that they have bought stablecoin, which is certainly noteworthy.

The Panel recognises the importance of establishing a clear and robust regulatory framework for cryptoassets, one that ensures consumers are appropriately protected. As the sector matures, the FCA's proposed measures present an opportunity to introduce proportionate safeguards, align with international standards, and provide much-needed clarity to firms and consumers alike. In this context, the Panel offers the following comments and recommendations in response to the specific areas outlined in the Consultation Paper:

- **Consumer Duty (CD):**

The Panel recommends retaining the CD for all cryptoasset activities, supported by specific rules and guidance to address sector-specific risks. CD alone is insufficient due to the complexity and rapid evolution of cryptoasset market.

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

² <https://www.fca.org.uk/publications/research/research-note-cryptoassets-consumer-research-2024> and <https://www.gov.uk/government/news/new-cryptoasset-rules-to-drive-growth-and-protect-consumers>

- **Financial Ombudsman Service (FOS):**
The Panel strongly supports consumer access to the FOS for all regulated cryptoasset activities, emphasizing the need for consistent redress mechanisms and clear disclosures, especially when firms are based overseas.
- **Stablecoins and Marketing Restrictions:**
The Panel agrees that FCA-authorised, fiat-backed stablecoins should not be classified as Restricted Mass Market Investments (RMMIs) and could be exempt from related marketing restrictions. The Panel believes that it is still worth considering a standardised risk warning or low-level disclosure about the nature of stablecoins, especially given that consumer understanding of this asset class is still developing. Additional risk warnings are also necessary for stablecoins not issued by FCA-authorised UK firms.
- **Distance Communications and Promotions:**
The Panel advocates for specific regulatory frameworks for digital-first communications and promotions, moving beyond high-level principles. This is necessary to address aggressive marketing and consumer harm in the crypto sector.
- **Appropriateness Testing:**
The Panel supports making the COBS 10 Annex 4G appropriateness test mandatory for cryptoassets, ensuring robust assessment of consumer knowledge and experience before engagement.
- **Cancellation Rights:**
The Panel recommends providing cancellation rights for cryptoasset products and services not driven by market fluctuations (e.g., staking, safeguarding), allowing consumers to withdraw within a defined cooling-off period.
- **Conduct of Business (COBS):**
The Panel endorses proportionate and targeted COBS requirements for cryptoassets, with differentiated treatment for low-risk stablecoins and enhanced standards for digital marketing and onboarding.
- **Product Governance (PROD):**
The Panel proposes a hybrid approach, using PROD principles as a foundation, supplemented by tailored guidance to address the decentralised nature of many cryptoassets and ensure robust product oversight.

The Panel supports the overall direction of the FCA's proposals but emphasises the need for tailored, enforceable rules that reflect the unique

risks and dynamics of the cryptoasset market. A hybrid regulatory model—combining Consumer Duty, COBS, PROD principles, and sector-specific guidance—will deliver clarity, consistency, and adequate consumer protection while also fostering responsible innovation.

The Panel responses to the questions posed in the Consultation Paper are included at Annex A below. 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

Chapter 6: Consumer Duty

13. **Do you consider that we should apply the Duty (along with additional sector-specific guidance)?**
14. **Do you have views on where applying the Duty would be an effective way to achieve broadly comparable standards of consumer protection in the cryptoassets market, or where it might not?**
15. **Do you consider that not applying the Duty, but introducing rules in the cryptoassets market would achieve an appropriate standard of consumer protection?**
16. **If the Duty was not to apply, do you have views on what matters should be dealt with by sector-specific rules and guidance?**
17. **Do you agree with our suggested approach under the A&D regime?**

The Panel does not believe the Consumer Duty (CD) should be disapplied to cryptoasset activities. The relevant cryptoasset markets are relatively nascent and are developing at a fast rate. Firms, consumers and regulators across the globe are in the process of familiarising themselves with the various cryptoassets products and activities. In such circumstances, we consider replacing the CD with a set of sector-specific rules risks implementing a regime which is quickly out of date or otherwise ineffective.

That said, we recognise some of the challenges outlined in the Consultation Paper regarding the application of the CD to the full range of cryptoassets. As per our response to the Consultation Paper CP25-14, on the proposals for regulating stablecoins and cryptoassets custody, we continue to believe that Consumer Duty alone is not sufficient. Consumer Duty focuses on firms delivering "good outcomes" (like fair value and clear information) and not how firms can guarantee those outcomes—especially in complex areas such as cryptoassets. Although Consumer Duty provides important baseline protections for consumers, it does not address the specific risks of cryptoassets. Without specific rules on transparency and disclosure, there's a high risk of uninformed decision-making—even when firms act "fairly" under the Consumer Duty.

We are therefore currently of the view that the FCA should adopt a blended approach to regulating cryptoasset activities, which involves:

- Maintaining the CD in place for all cryptoasset activities, subject to the following:
 - Introducing targeted cryptoasset specific rules to address known risks, areas of specific consumer harm, and areas where the application of the CD poses particular challenges; and
 - Introducing specific targeted guidance to supplement the above, particularly in relation to addressing some of the areas where the application of the CD requires further clarification.

Our suggestion is not about drowning the sector in regulation. Rather it is with the intention of introducing clarity as well as an adequate level of consumer protection.

Chapter 6: Financial Ombudsman

18. **Should customers be able to refer complaints relating to cryptoasset activities to the Financial Ombudsman?**
19. **Are there any additional factors that we should take into account when considering if it is appropriate for the Financial Ombudsman to consider complaints about cryptoasset activities (eg complaints where a firm is based overseas or where a third party is acting on behalf of an authorised firm)?**
20. **Are there specific activities the Financial Ombudsman should not be able to consider complaints for? Please explain.**

The Panel is strongly of the view that consumers should have:

- access to FOS for consumer complaints in relation to all cryptoasset-related products, firms and activities falling within the regulatory perimeter; and
- commensurate protection for consumers through the FSCS.

Given the markets in question are complex and their rate of development is rapid, there are material risks to consumers engaging with the market notwithstanding their taking of all reasonable steps to protect themselves. We also note that bringing various cryptoasset activities within the FCA's regulatory perimeter will naturally provide a degree of reassurance to consumers looking to engage in the relevant markets. It is important the implicit consumer protections expected through this regulatory oversight is matched by the explicit protections provided through the new regime.

We also think considerable importance should be attributed to having a consistent approach to the availability of consumer redress across all the relevant cryptoasset products, firms and activities within the regulatory perimeter. We consider this will facilitate both consumer understanding and consumer confidence as well as helping to deliver better consumer outcomes. In contrast, having a patchwork of approaches to such matters within a new cryptoasset regulatory regime is likely to lead to consumer uncertainty, inhibit informed decision-making and ultimately lead to poorer consumer outcomes and disengagement from the markets.

We recognise the challenges posed in the Consultation Paper including as a result of firms based outside the UK. Consumers must be absolutely clear when they do and do not have access to the FOS when engaging in cryptoasset-related markets, clear disclosures and heightened transparency obligations are likely to be important. However, the Panel notes that in practice, it will be difficult to ensure that consumers always have the information they need to make an informed decision if there is no uniform approach.

Accordingly, the Panel would urge the FCA to consider alternative means to help ensure an adequate level of protection, for example by considering how firms based outside the regulatory perimeter can be incentivised to join the voluntary jurisdiction of the FOS or can be held responsible through connected third parties based within the regulatory perimeter. In addition, the Panel recognises that, where such measures prove insufficient, firms may be required to establish a UK subsidiary to serve UK clients, particularly if the absence of a domestic legal entity creates persistent regulatory or consumer protection concerns.

Chapter 7: Conduct of Business Sourcebook and Product Intervention and Product Governance Sourcebook

21. Do you agree with our proposal that UK-issued qualifying stablecoins should not be classified as Restricted Mass Market Investment (RMMI), which will not be subject to marketing restrictions? Why/Why not?

The Panel agrees with the proposal not to categorise FCA-authorised, fiat-backed stablecoins as Restricted Mass Market Investments (RMMIs) and, therefore, believes they should not be subject to the associated marketing restrictions.

The Panel supports the view that regulated stablecoins—which are fully backed by assets (such as cash or short-term government debt), redeemable at par, and supported by robust custodial arrangements and transparent disclosures—can reasonably be excluded from the RMMI classification. This would encourage their promotion and adoption,

particularly for use cases such as remittances and micropayments. The Panel is particularly pleased to see that this consultation paper includes regulatory proposals addressing issuers of electronic money and payment service providers (section 1.53 of the consultation paper).

22. Do you agree with our proposal that financial promotions for qualifying stablecoins not issued by an FCA-authorised UK issuer should include additional risk warning information? Why/Why not?

The Panel agrees with the proposal that financial promotions for qualifying stablecoins not issued by an FCA-authorised UK issuer should include additional risk warning information.

Providing clear and specific risk disclosures is essential to ensure that consumers fully understand the potential risks associated with stablecoins, particularly when they are issued by entities that are not regulated by the FCA.

The Panel also provided specific comments on the proposed risk warnings for different categories of cryptoassets:

UK-Issued Qualifying Stablecoins and Qualifying Cryptoassets

Since these stablecoins are issued under UK regulatory oversight, the lack of a specific high-risk warning may be justifiable. However, the Panel believes that it is still worth considering a standardised risk warning or low-level disclosure about the nature of stablecoins, especially given that consumer understanding of this asset class is still developing.

The absence of any risk warning may fail to address the illusion of safety created by the term "stablecoin," with many consumers wrongly assuming that these assets are risk-free or equivalent to fiat currency and this is not the case, as:

- UK-issued qualifying stablecoins are issued by private companies and do not carry sovereign backing.
- While they may fall under the FCA's proposed regime, they are distinct from central bank digital currencies (CBDCs) such as a potential digital pound.
- The backing assets — and any associated risks — remain the responsibility of the issuing firm, not the UK government.

While the proposed risk warning for qualifying cryptoassets is clear and communicates an appropriate level of caution, the Panel believes it may still be insufficient for retail investors, particularly those unfamiliar with the unique risks associated with cryptoassets. These include:

- Redemption processes that may not be instant or guaranteed, especially in the event of liquidity issues
- Cybersecurity risks, including hacks, system outages, or fraud
- No guarantees of issuer solvency or protection against market volatility
- Uncertainty around FSCS coverage, even for regulated stablecoins or cryptoassets.
- Risks associated with the loss or compromise of private keys, including uncertainty over who bears responsibility for recovery or loss in such circumstances

Qualifying Stablecoins Not Issued by a UK-Authorised Issuer

The Panel supports the addition of explicit warnings for stablecoins not issued by FCA-authorised firms. Clear disclosure about the lack of UK regulatory oversight ensures that consumers understand they may be exposed to:

- No legal or regulatory recourse in the UK
- Uncertain reserve management practices and
- Potential redemption issues or delays.

23. **Do you agree that applying the Duty and additional guidance would be sufficient to achieve clear distance communications for cryptoassets or whether we should consider more specific rules such as those set out in COBS 5?**

The Panel acknowledges the FCA's rationale for reconsidering the application of COBS 5 to cryptoasset firms, particularly given that the chapter originates from the 2002 Directive on distance marketing and was last updated on 01/01/2021³. However, this does not reflect the modern, digital-first communication channels used by most cryptoasset firms (e.g., web platforms, social media, apps). The Panel believes that some form of specific regulatory structure for distance communications remains necessary.

Cryptoassets are high-risk and often poorly understood by retail consumers, and are frequently marketed through highly aggressive, persuasive, and fast-paced digital channels, which carry significant potential for consumer harm. While the Consumer Duty and additional guidance provide important high-level protections, the Panel is concerned

³ [FCA Handbook - COBS 5 Distance communications](#)

that relying solely on principles may not offer sufficient clarity or enforceability in the context of fast-moving crypto promotions.

COBS 5 gives the FCA clear powers to oversee, approve, and, if needed, restrict financial promotions involving cryptoassets. COBS 5 ensures that promotions are fair, clear, and not misleading, helping prevent scams, mis-selling, or misleading hype. COBS 5 also requires firms to provide appropriate risk warnings, improving investor understanding of risks like volatility, loss of capital, FOS and FSCS protection levels.

The Panel believes there is a case for excluding certain fiat-backed stablecoins—specifically those issued by FCA-authorised UK firms under a clear regulatory regime—from the full scope of COBS 5. These stablecoins, when used primarily for payments or low-risk use cases such as remittances and micropayments, may not present the same level of risk as speculative cryptoassets. Provided they are fully backed by high-quality assets, redeemable at par, and supported by strong operational and governance standards, they could be treated differently to reflect their lower risk profile and to support innovation in digital payments.

24. Do you agree with our overall approach to the appropriateness test? Are all 12 matters in COBS 10 Annex 4G relevant? Why, why not?

The Panel acknowledges FCA’s recent findings that many firms’ assessments did not adequately cover the relevant topics and, in some cases, allowed clients to proceed despite failing the assessment. The Panel therefore agrees with the FCA’s overall approach to the appropriateness test for qualifying cryptoassets and supports the enhanced consumer protection needed in this space. In particular, we support the proposal to elevate COBS 10 Annex 4G⁴ from guidance to a mandatory rule, as this will help ensure consistent standards across the industry and address current shortcomings identified by the FCA.

We believe all 12 matters outlined in Annex 4G are relevant and necessary to determine whether a retail client has sufficient knowledge and experience to understand the risks associated with cryptoassets. These topics represent a baseline of competence and understanding that should be met before engaging in these high-risk products.

We agree that firms must not process applications or orders from retail clients in response to a direct offer financial promotion unless an appropriate assessment has been conducted. Given the complexity and

⁴ [FCA Handbook - COBS 10 Annex 4 Assessing appropriateness: qualifying cryptoassets](#)

volatility of cryptoassets, this step is crucial to ensure that consumers understand the risks they are exposed to.

The Panel also supports the expectation that firms remain fully responsible for the integrity and robustness of their appropriateness assessments, even when these are carried out via automated, online systems. While automation can improve scalability, it must not compromise the effectiveness of the assessment. The Panel also support the flexibility for firms to include additional questions, provided these build on a robust core framework and allowing firms to tailor their assessments to reflect the specific nature and risks of the products being promoted.

Overall, the Panel believes that firms should be required to assess a client's knowledge, experience, and financial resilience, using objective, measurable standards. Additional guidance should include mandatory risk profiling, cooling-off periods, and confirmation of understanding, ensuring decisions are informed, considered, and in the consumer's best interest. The Panel also considers that mandatory signposting should be introduced to direct consumers to independent, FCA-approved sources of information and support (Citizen's Advice, Action Fraud, HM Treasury / Government / FCA Warning Lists and Guidance), helping them to better understand the risks and protections associated with their investment decisions.

Many larger crypto firms already offer tutorials to explain key crypto concepts to consumers. To ensure consistency and accuracy, these educational materials could be made mandatory and subject to regulatory approval, similar to traditional financial marketing content. If individual firms do not perceive a competitive advantage in developing their own materials, they could collaborate to commission industry-wide resources from a credible, independent third party—ensuring consumers receive clear, trustworthy information across the board.

Finally, the Panel also welcomes the FCA's intention to consult further on appropriateness obligations for activity-specific products, which will help ensure the regime continues to evolve in line with the market and emerging risks.

25. Do you think there should be cancellation rights for distance contracts related to cryptoassets products or activities whose price is not driven by market fluctuation such as staking and safeguarding?

The Panel believes it is reasonable to differentiate between cryptoasset products based on their exposure to market volatility when determining whether cancellation rights should apply. While we agree with the FCA's rationale for excluding products whose value is subject to rapid market

fluctuations, there is a compelling case for granting cancellation rights for certain cryptoasset-related services and products not driven by market price movements—such as staking, safeguarding, stablecoin-linked service contracts, and yield or staking products involving stablecoins.

Staking and safeguarding services do not typically involve price-dependent contracts. These are better understood as ongoing service agreements, making it more appropriate to offer cancellation or cooling-off rights—particularly where retail clients enter such agreements at a distance (e.g. online).

The Panel is of the view that when a consumer signs up for a crypto staking service (e.g. they commit their tokens for six months to earn yield), they should have the right to change their mind within 14 days, cancel the agreement, and withdraw their tokens without penalty. If cancellation rights are not provided, consumers could be locked into a service that they later realise is unsuitable, or which they entered into by mistake. The same principle should apply to safeguarding services—consumers should be able to exit these agreements without penalty within a cooling-off period.

Similarly, stablecoin-linked service contracts—such as wallet services where stablecoins are stored, yield-bearing accounts, or payment accounts—should include cancellation rights for consumers. These services are not price-driven and, like staking and safeguarding, are typically entered into online and offered on an ongoing basis. The same logic should apply to yield or staking products involving stablecoins, where the consumer locks up their stablecoins for a fixed term (e.g. three months) to earn a specified return.

In this context, Circle's recent announcement proposing to introduce reversible blockchain transactions represents an interesting proposal to advance consumer protection in digital finance. By allowing temporary holds or rollback mechanisms in cases of fraud, error, or unauthorised activity, such innovations could complement regulatory efforts to ensure fairness and accountability across cryptoasset services. This approach recognises that while blockchain's immutability provides robust security, it can also expose consumers to irrecoverable losses when mistakes occur. Introducing reversibility, particularly for stablecoin-related transactions, could provide consumers with an essential safety net similar to those in traditional finance. As crypto adoption expands, embedding such consumer-centric safeguards—alongside measures like cancellation and cooling-off rights—will be crucial for building trust, promoting responsible innovation, and aligning digital finance with established expectations of financial protection and recourse.

26. Do you agree with our overall approach to Conduct of Business requirements? If not, why not?

The Panel broadly agrees with the FCA's overall approach to applying Conduct of Business (COBS) requirements to qualifying cryptoassets and stablecoins, recognising that these rules are essential to ensuring high standards of consumer protection, particularly in a sector that is fast-evolving, high-risk, and often poorly understood by retail investors.

The Panel supports the FCA's intention to apply proportionate and targeted COBS requirements that reflect the specific characteristics and risks of different cryptoasset products. We welcome the application of existing consumer protection principles—such as fair, clear, and not misleading communications, the duty to act in the customer's best interests, and the need for adequate risk disclosures—to the cryptoasset market.

The Panel believes that additional clarity and precision are needed in certain areas to ensure effective implementation and enforcement of these rules:

Differentiated Treatment for Stablecoins: The Panel continues to support the view that fiat-backed stablecoins issued by FCA-authorized UK entities—where they are fully backed by high-quality liquid assets, redeemable at par, and governed by robust operational standards—should be treated differently from more volatile and speculative cryptoassets. These products, when primarily used for payments or remittances, present lower risk profiles and could be subject to a more proportionate set of conduct requirements.

Distance Communications and Digital Channels: As highlighted in our previous responses, the Panel believes that the unique characteristics of cryptoasset marketing—particularly its digital-first nature—necessitate bespoke rules beyond generic principles. While the Consumer Duty provides a strong foundation, specific conduct standards around distance marketing, especially for promotions through apps, social media, and influencer channels, are needed to minimise consumer harm and misinformation. The COBS 5 framework, or a modernised equivalent, could play an important role here.

Appropriateness Testing and Onboarding: The Panel strongly supports the mandatory application of appropriateness testing aligned with COBS 10, including the elevation of Annex 4G to a mandatory rule. These requirements will help ensure that firms assess consumer knowledge and experience rigorously and consistently, and that products are not sold to consumers without a baseline understanding of associated risks. Conduct

requirements should also make clear that this obligation cannot be delegated or weakened through automation.

Ongoing Services (e.g. Staking, Safeguarding): The Panel supports the introduction of cancellation rights and clear consumer protections for ongoing service agreements, such as staking and safeguarding. These arrangements are often entered into at a distance, and without exposure to market price volatility, making conduct standards and consumer rights (such as cooling-off periods) particularly important.

Risk Disclosures: The Panel supports standardised, prominent, and context-specific risk warnings as part of COBS conduct obligations, particularly for unregulated or overseas-issued stablecoins.

Misunderstandings around terms like “stablecoin” can lead to misplaced consumer confidence, and effective conduct standards must address this.

In summary, while the Panel supports the FCA’s approach to embedding existing Conduct of Business standards into the cryptoasset regulatory regime, we believe these rules must be further tailored to reflect the unique dynamics of this market. Specific protections for distance selling, clear treatment distinctions between low-risk and high-risk products, and strong enforcement mechanisms are all critical to ensuring that the regime delivers meaningful consumer protection while also allowing responsible innovation.

27. Do you agree that applying the Duty and additional guidance would be sufficient to achieve adequate product governance for cryptoassets or should we consider more specific rules such as those set out in PROD?

While the Consumer Duty (CD) is a framework for driving better outcomes, it is broad and high-level, and does not prescribe how to achieve those outcomes. Without operational frameworks like those found in PROD, firms—particularly new or smaller crypto firms—may struggle to implement the Duty effectively in practice. There is also a risk of inconsistency in how the Duty is interpreted or applied, and enforcement may become more reactive rather than preventative.

PROD principles provide the “how” that supports the Duty’s “why”—enabling firms to align their governance structures more effectively with the Duty’s intended outcomes. PROD ensures that financial products and services are well-designed, appropriately targeted, distributed through suitable channels, and subject to ongoing monitoring. It also requires firms to establish internal systems and controls to deliver suitable products to consumers.

The Panel believes that applying the existing PROD rules directly to cryptoassets would likely be ineffective, given the decentralised nature of many of these products. Yet failing to address product governance altogether would leave consumers exposed to the same harms that have already emerged in the sector. The Panel recognises the challenges in applying the current PROD framework to cryptoassets, as the rules are not well-suited to products that are decentralised or issued by anonymous entities.

We therefore propose a hybrid approach, where the FCA uses PROD principles as a foundation, supplemented by tailored guidance aligned with the Consumer Duty and COBS rules.

We believe this hybrid model:

- Adopts the core principles of PROD, ensuring robust oversight, control, and accountability in crypto product development and distribution;
- Avoids prescriptive rules that do not align with crypto's decentralised structure;
- Works in tandem with the Consumer Duty and COBS, enhancing consistency without regulatory duplication.

Providing tailored guidance for cryptoassets products recognises the unique characteristics of cryptoassets, encourages clear governance structures, and offers firms clarity on regulatory expectations. We believe this approach will deliver the consumer protection the FCA seeks, while acknowledging the distinctive features of cryptoassets and supporting a proportionate, flexible regulatory environment.