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Dear FCA,

Financial Services Consumer Panel¹ response to the Consultation Paper on Regulating Cryptoasset Activities.

The Panel welcomes the opportunity to respond to the FCA's CP25-40 consultation on Regulating Cryptoasset Activities. 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.

The Panel wishes to highlight the following:

- The Panel is concerned with the FCA's ability to supervise UK-authorized overseas CATPs where key functions, systems or decision-making sit outside the UK. The Panel therefore seeks clearer guidance on how the FCA will ensure effective oversight of firms operating through branches or subsidiaries, and what additional expectations will apply to safeguard consumers.
- While welcoming the FCA's recognition of key conflicts, the Panel remains concerned about residual risks, particularly regarding principal dealing within the same legal entity and affiliated trading. The Panel questions whether functional separation and disclosure alone are sufficient safeguards in high-risk crypto markets, and seeks clarity on whether additional structural or conduct requirements are needed to protect consumers.
- The Panel questions whether the proposed mitigants for conflicts of interest will consistently achieve the desired outcomes for retail investors and calls for ongoing engagement and empirical evidence.

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

- The Panel notes risks from affiliated entities trading on CATPs, including perceived or actual preferential access, insider pricing, and erosion of trust in platform neutrality. The Panel highlights the absence of quantitative limits and public disclosure of affiliated trading activity.
- Concerns persist about platforms issuing or admitting tokens in which they have a material interest, as this may incentivise steering consumers towards proprietary tokens, even with independent governance arrangements.
- The Panel is disappointed that the FCA decided not to proceed with creditworthiness assessments and forbearance measures for retail crypto lending, as these checks are crucial for affordability and protection against financial difficulty.
- The Panel expresses significant concerns about cryptoasset lending and borrowing for retail clients, highlighting the complexity, risks, and lack of adequate consumer protections. While the Panel acknowledges improvements in the FCA's proposals—such as stronger disclosure and explicit consent—it remains cautious, emphasising that disclosure alone is not enough and that additional safeguards are needed.
- The Panel highlights that regulation alone is not sufficient to protect consumers, as limited understanding leads to excessive and unintended risk-taking. The Panel encourages the FCA to go beyond disclosure and ensure genuine consumer understanding.
- The Panel encourages the FCA to reconsider its position on compensation for preventable operational or technological failures in staking services, arguing that retail clients should not bear losses resulting from failures outside their control.
- Exempting smaller firms from key requirements may result in uneven protection and greater information asymmetry for consumers, especially those less experienced or financially vulnerable.
- The Panel notes that the proposed approach to measuring effectiveness relies heavily on industry-generated data and periodic consumer surveys, and recommends more regular, accessible, and consumer-centred engagement to identify emerging harms.

The Panel recognises the importance of establishing a clear and robust cryptoasset regulation, one that ensures consumers are appropriately protected. 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

Annex A

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

In principal, the Panel agrees with the FCA's proposals on location, incorporation, and authorisation for UK cryptoasset trading platforms (CATPs). The Panel also supports the FCA's view that UK retail customers should always have a relationship with a UK legal entity as this ensures they benefit from the more direct level of recourse and oversight that a UK entity affords.

The Panel continues to be concerned that the FCA may not have sufficient power to protect consumers of UK-authorized overseas CATPs operating only through a branch and/or a subsidiary in the UK and looks forward to considering the proposed separate guidance clarifying firms' supervisory and regulatory oversight obligations with respect to both their home state regulator and the FCA.

2. Do you agree with our proposals on UK CATP access and operation requirements? If not, please explain why not? to require UK CATP

The Panel agrees with the FCA's proposals on UK CATP access and operating requirements, which mandate that operators refrain from discretionary trading practices and establish clear, non-discriminatory rules and procedures for platform access and operation.

The Panel also welcomes the FCA's decision not to permit exceptions to these rules for specific types of transactions, as such carve-outs could undermine the neutrality of CATPs. The Panel is also pleased to note that the FCA's proposed rules include provisions to ensure that it is always possible to identify the person or entity responsible for placing an order on a UK CATP.

The Panel agrees with the FCA's proposals requiring UK CATP operators to maintain adequate, effective, and proportionate systems and controls, including operational resilience, aligned with SYSC and the CATP-specific requirements in "CRYPTO 6 chapter of the FCA's proposed rules.

The Panel supports the requirement for operators to publish and communicate platform access and operation rules transparently, monitor user compliance, and implement appropriate policies and mechanisms to intervene where rules are breached, including the ability to halt trading where necessary to mitigate harm.

The Panel continues to support the FCA's consideration of requiring UK CATP operators to document contractual agreements with market makers and welcomes the progression and clarification of this proposal including disclosures related to incentives schemes.

The Panel also supports the FCA's proposed requirement for UK CATP operators to develop rules governing the use of algorithmic and automated trading systems on UK CATPs, including thresholds and limits proportionate to the platform's business and capacity. We also support the requirement for operators to publicly disclose these rules and their approach to managing potential harms, to monitor algorithmic trading activity for compliance and market abuse, and to provide transparent information on the role and nature of algorithmic trading permitted on the platform.

The Panel continues to support the introduction of requirements such as 'kill switches,' enabling UK CATP operators to halt trading instantly in emergencies. To protect consumers, CATPs should be required to identify and register algorithmic trading accounts with proper risk controls, introduce circuit breakers or trading halts to manage rapid market movements or bot-related issues, report algorithmic activity that impacts prices to ensure transparency, and consider limiting algorithmic and automated trading modules to experienced traders.

Finally, the Panel supports the FCA's MARC regime, which relies on UK CATPs acting as strong gatekeepers against market abuse. We agree with the proposed obligations requiring operators to establish effective systems and controls for monitoring orders and transactions, ensuring alerts are generated and analysed. We also support the additional requirements for 'large' CATP operators² to monitor relevant on-chain activity and share information on suspected market abuse, as well as the obligation for all operators to maintain appropriate information barriers and insider lists to safeguard against conflicts of interest.

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

² Firms with \geq £10 million annual average revenue over the previous 3 reporting years

The Panel agrees with these proposals and welcomes the emphasis on strengthening retail protections and market integrity. We support the requirement for large UK CATP operators to share information across platforms where market abuse is suspected, recognising the importance of consistent identification of intermediaries and the additional responsibilities CATP operators may need to assume for direct retail customers. We also endorse the admission and disclosure regime (A&D), including the requirement that qualifying cryptoassets offered to UK retail investors must be admitted to trading on a UK CATP and supported by a Qualifying Cryptoasset Disclosure Document (QCDD) logged with the FCA's central repository.

We agree that CATP operators should ensure retail investors only access products admitted with a QCDD, direct users clearly to the relevant QCDD before orders are placed, and publish transparent lists of admitted assets and supported blockchains. We also support the proposed obligations around withdrawal of admission, including clear communication to the market, affected users, issuers, and the FCA, alongside maintaining a disclosed withdrawal policy.

Finally, we agree that CATP operators should provide retail customers with timely and appropriate information on fees, trading rules, transaction limits, settlement risks, and conflicts of interest, ensuring that retail users are adequately protected and informed.

Overall, the Panel is pleased to see the strong focus on retail customer protection. We note that intermediaries will only be permitted to deal or arrange deals with UK retail customers for cryptoassets admitted to trading on a UK CATP. The Panel is pleased to see that the FCA is progressing with these proposals.

The Panel is also pleased to see that the FCA is progressing with the proposals for UK CATP operators' other responsibilities to mitigate harm from direct retail access. The Panel looks forwards to read the details on the Consumer Duty in the forthcoming CP.

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

We welcome the FCA's detailed consideration of the responses to DP25/1 and note with appreciation that the final proposals

recognise many of the conflicts of interest we previously highlighted, particularly those affecting retail consumers and market integrity.

We also acknowledge the FCA's explicit confirmation that disclosure alone is insufficient to address conflicts of interest where retail customers are concerned, and its adoption of risk-neutrality and legal separation requirements in respect of credit exposure.

However, we remain concerned that certain residual risks persist under the proposed framework.

Principal dealing within the same legal entity as the CATP:

We remain concerned that allowing principal dealing desks to operate within the same legal entity as a retail-facing CATP creates conflicts that may be difficult to mitigate in practice. We therefore question whether functional separation supported by disclosures, information barriers, supervision and enforcement provides sufficient protection in high-risk, data-rich crypto markets.

While the Panel's previous response advocated strict segregation and enhanced trade surveillance and governance oversight, it is evident that the FCA concurs with the need for strong functional separation and governance controls, even where it has chosen not to mandate legal separation in all circumstances.

Affiliate trading on CATPs: Permitting affiliated entities to trade on the CATP introduces risks of:

- perceived or actual preferential access,
- reduced confidence in price formation (insider pricing),
- erosion of trust in platform neutrality.

The Panel welcomes the requirement for permissions and information barriers, and we note the absence of quantitative limits on affiliated trading volumes and public or periodic disclosure of aggregate affiliated trading activity.

Issuance and admission of tokens with material interests:

The Panel supports the FCA's requirements for disclosure, independent committees, and governance controls where CATPs issue or admit tokens in which they have a material interest.

However, we remain concerned that conflicts of interest may persist in practice where a platform both promotes its own token and controls the environment in which it is used. This dual role may incentivise platforms to steer consumers towards holding or using proprietary tokens, even where this may not be in the consumer's best interests. Retail consumers may struggle to interpret conflict disclosures in a meaningful way, and the prominence of self-issued tokens may continue to bias consumer behaviour, notwithstanding formally independent governance arrangements.

Personal account dealing: The Panel welcomes the FCA's decision to address personal account dealing risks by extending established conduct standards into the cryptoasset regime. In particular, the proposal to replicate the core requirements of COBS 11.7 within the CRYPTO Sourcebook

Overall, we support the FCA's objective of enabling innovation while protecting consumers and market integrity. Our residual concerns relate not to the identification of risks—which we believe the FCA has accurately captured—but to whether the proposed mitigants will consistently achieve the desired outcomes in practice, especially for retail investors. We would welcome further engagement as the regime develops and empirical evidence emerges on the effectiveness of these controls.

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

The Panel agrees with the FCA's high-level proposals on settlement, including the flexibility for firms to internalise settlement or arrange it externally, provided that clients clearly understand the firm's settlement responsibilities. We support the FCA's intention to develop a coherent framework combining systems and controls, safeguarding, settlement-specific rules and guidance, and the Consumer Duty. From a consumer perspective, settlement should represent the final transfer of ownership of a cryptoasset, whether on-chain or off-chain, and must be clearly documented with timely confirmation so that consumers can verify the transfer and be confident that their assets are securely in their possession.

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

The Panel broadly supports the FCA's proposed approach to best execution and considers it appropriate for the cryptoasset market.

While we recognise that firms may face technical and operational challenges in implementing robust best execution and order-handling arrangements—such as integrating multiple data feeds, monitoring execution quality, and operating in fragmented and fast-moving liquidity environments—we believe that the consumer benefits of strong best execution standards clearly outweigh these costs.

The Panel supports the FCA's emphasis on accountability and its application of a total consideration approach, ensuring that all relevant costs are taken into account and clearly presented to retail clients. Total consideration should factor not only the price of cryptoasset but also fees, commissions and other costs. Consumers should have a full breakdown of the costs they have to pay.

Additional guidance in this area would support consistent implementation, reduce uncertainty for firms, and reinforce the principle that firms must act in the best interests of their customers when routing or fulfilling trades.

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

The Panel broadly agrees with the FCA's proposed guidance to reference at least three reliable price sources from UK-authorised execution venues, where available. This approach is consistent with our earlier consultation response on avoiding reliance on a single source of pricing and reducing the risk of skewed or biased price formation.

We consider that the FCA's proposal offers significant benefit to retail consumers by supporting fairer pricing and reducing the risk of exploitation through platform-specific spreads or illiquid order

books. Requiring firms to compare prices across multiple authorised venues also incentivises a more competitive order and strengthens confidence in execution outcomes.

We welcome the inclusion of exemptions and consider them necessary to ensure proportionality. In particular, smaller or niche tokens may not be sufficiently liquid or widely listed across multiple UK-authorised venues, and a rigid requirement could unintentionally restrict trading opportunities for consumers. In such cases, a more flexible approach—focused on the availability and reliability of alternative price sources rather than a fixed numerical threshold—would better support consumer outcomes.

We also note the potential risk that the operational costs of sourcing and monitoring multiple price feeds could be passed on to consumers. We therefore encourage the FCA to continue emphasising proportionality and alignment with the Consumer Duty, ensuring that the implementation of price-source checks delivers net benefits to retail investors.

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

Consistent with our earlier response, the Panel supports enhanced disclosure requirements. However, we reiterate that disclosure alone is not sufficient to ensure good consumer outcomes, particularly for retail clients.

Plain-language disclosures help consumers understand the risks involved and the total cost of a transaction before they confirm it. This is essential to treating consumers fairly and avoiding hidden harm. Disclosures should also provide clear information about the platform's legal status, regulatory oversight, and any limitations on protections compared to UK-based entities.

To improve client understanding, disclosures should:

- Be clear, concise, and outcome-focused, rather than legalistic.
- Explicitly explain the firm's role (e.g., CATP, principal dealer, intermediary) and how this affects execution, pricing, and settlement.

- Distinguish clearly between execution on a platform and off-platform principal dealing.
- Avoid relying solely on generic risk statements, particularly where conflicts of interest exist.

Firms should also implement consumer testing of communications—as required under the Consumer Duty—as standard practice. Using plain-English disclosures and prohibiting misleading promotional language (such as “safe returns” or “passive income”) would further reduce the risk of consumer misunderstanding.

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

The Panel agrees with the proposed requirement for specific pre-trade disclosures by principal dealers and considers this an important safeguard, particularly for retail clients. Pre-trade transparency is essential to ensuring fair pricing and market integrity, enabling consumers to make informed decisions.

To enhance effectiveness, such disclosures should:

- Clearly state that the firm is acting as principal and not providing access to a CATP.
- Explain how prices are determined and whether they may differ from prices available on other venues.
- Be provided in a timely manner before execution, rather than embedded in general terms and conditions.
- Be presented consistently across digital interfaces to avoid confusion.

This aligns with our prior emphasis that consumers should understand who they are trading with, on what basis, and how pricing and execution outcomes are determined.

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

The Panel believes that the default position should be that all transactions involving retail clients are subject to order handling and best execution rules. The Panel does not recommend carving out any proposed order handling and best execution rules. Carving

out specific transaction types of risks create regulatory blind spots where consumers are less protected.

In line with our previous response, effective order handling rules should ensure that:

- client interests are prioritised over firm interests;
- orders are handled promptly, fairly, and in accordance with transparent rules;
- firms do not exploit informational advantages or platform control to the detriment of consumers.

We consider the proposed framework broadly appropriate and welcome its consistency with traditional financial market standards.

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

The Panel broadly agrees with the proposed execution venue requirement, which mandates that orders for UK retail (and elective professional) clients be executed only on UK-authorized execution venues. We consider the alignment between the execution venue requirement and the amended geographic perimeter under section 418 FSMA to be appropriate and proportionate.

The Panel welcomes the FCA's acknowledgement of concerns raised by respondents regarding potential unintended consequences, particularly the risk of a "cliff-edge" effect for existing retail holders.

From a consumer perspective, this risk is real and material. Retail consumers may:

- find themselves unable to add to existing holdings;
- face sudden restrictions on selling assets;
- struggle to understand why previously accessible assets are no longer available.

We therefore support the FCA's intention to introduce targeted exemptions and transitional arrangements and encourage early clarity on how these will operate in practice to minimise disruption and confusion for retail clients.

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

The Panel supports the proposed restrictions on the cryptoassets that intermediaries may deal in or arrange for UK retail clients, including the requirement that such cryptoassets be admitted to trading on at least one UK-authorized CATP and supported by an A&D-compliant Qualifying Cryptoasset Disclosure Document (QCDD).

The illustrations in the Consultation Paper outlining permitted and non-permitted transaction flows provide helpful clarity and should assist firms in structuring compliant business models, particularly by reducing the risk of complex or opaque arrangements that retail consumers are unlikely to understand. In this context, the Panel supports the restriction preventing firms from sourcing liquidity from unauthorised affiliated trading platforms.

These requirements materially improve transparency and reduce the risk of retail consumers being exposed to poorly understood or inadequately scrutinised assets. They align with the Panel's longstanding position that retail participation should occur only where consumers have access to clear, reliable, and regulator-aligned information. The Panel therefore also supports the requirement that intermediaries direct retail clients only to A&D-compliant QCDDs published by UK-authorized CATPs, preferably via a central FCA repository.

The Panel strongly supports the safeguard allowing intermediaries to continue buying assets from retail clients where admission to trading has been withdrawn, while preventing further sales.

The Panel also agrees with the proposed exemption for UK-issued qualifying stablecoins from the admission-to-trading requirement, recognising their distinct regulatory treatment and issuance framework.

Requiring intermediaries to provide a link to the relevant QCDD via a central FCA repository is an appropriate and proportionate

safeguard that supports consumer understanding without imposing unnecessary barriers.

Overall, the Panel agrees that the proposed restrictions strike a reasonable balance between consumer protection and market functioning, and align with long-standing principles applied in traditional financial markets.

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

The Panel broadly agrees with the FCA's proposed approach to addressing conflicts of interest where cryptoasset intermediaries engage in proprietary trading alongside client order execution. From a consumer perspective, the FCA correctly identifies that proprietary trading creates an inherent risk that firms may prioritise their own interests over those of their clients, particularly where firms have access to sensitive order-flow information.

We support the expectation of at least functional separation between proprietary trading and client execution activities, including separate governance structures.

However, the Panel notes that functional separation relies heavily on firms' internal controls and governance. The Panel therefore welcomes the FCA's clear statement that additional measures should be required where conflicts cannot be adequately mitigated through functional separation alone. In such cases, enhanced restrictions or stronger supervisory intervention may be necessary to ensure that consumer interests are not compromised.

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

The Panel agrees with the FCA's proposed approach to payment for order flow (PFOF). Retail consumers are unlikely to understand how PFOF affects execution outcomes or to assess whether they are receiving best execution in practice. We therefore support the FCA's application of the "same risk, same regulatory outcome" principle

and do not consider carve-outs for retail-facing services to be appropriate. Any exceptions would risk reintroducing the very conflicts that the proposals seek to address.

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

The Panel agrees with the proposal to apply personal account dealing (PAD) rules to cryptoasset intermediaries and welcomes the FCA's intention to replicate the core requirements of COBS 11.7 within the new CRYPTO Sourcebook.

Personal account dealing presents clear risks to retail consumers, particularly where employees or connected persons have access to confidential or inside information relating to order flow, listings, or platform operations. Applying established PAD standards provides a clear, enforceable framework for managing these risks and aligns cryptoasset markets with expectations already in place in traditional financial services. We consider this approach appropriate and proportionate, provided that firms are held accountable for effective implementation and ongoing monitoring.

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

The Panel broadly agrees with the FCA's proposed requirements on settlement arrangements for intermediaries. The proposals appear to strengthen consumer protection by ensuring that firms take clear responsibility for how settlement is handled, regardless of whether they internalise settlement or outsource it.

Requiring firms to clearly explain their settlement responsibilities helps reduce confusion and ensures consumers know who to contact if something goes wrong. Consumers need to know when settlement has occurred, that ownership has been transferred irrevocably, and who is responsible if something goes wrong.

The Panel also supports the proposal that intermediaries responsible for overseeing or arranging settlement must maintain robust

arrangements to mitigate settlement risks, and that these arrangements be documented and published. Settlement failures can lead to financial loss, delays, or loss of access to assets. The requirement for firms to put in place adequate and robust arrangements and to document and publish them, may give consumers greater confidence that intermediaries are actively managing operational and counterparty risks.

Publishing settlement arrangements increases transparency and allows consumers to compare firms' approaches. This supports better decision-making and encourages higher industry standards.

While the direction of travel is positive, consumers may still need firms to publish disclosures that are accessible and meaningful to non-experts. Also, if settlement is arranged externally, consumers need reassurance that the intermediary remains fully accountable and cannot shift responsibility to third parties.

The Panel welcomes the FCA's intention to consult further on settlement guidance and the interpretation of the temporary settlement exclusion.

Overall, the Panel agrees that the proposed settlement requirements are appropriate and proportionate, provided they are implemented with a strong focus on consumer understanding. Clarity around outsourced arrangements would provide even stronger protection.

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

The Panel broadly agrees with the FCA's proposed pre- and post-trade transparency requirements and supports their underlying objective of improving price discovery, competition, and consumer outcomes in fragmented cryptoasset markets. We welcome the FCA's recognition that the growth of off-platform and proprietary liquidity pools makes it harder for consumers to see what's really going on in the market. This lack of visibility can leave consumers at a disadvantage because they can't easily check prices or understand current market conditions.

The Panel supports the introduction of pre-trade transparency obligations for larger CATPs and principal dealers, including the publication of order book data and firm quotes. The Panel also supports the FCA's decision not to apply pre-trade transparency to activities that do not meaningfully contribute to price formation (such as stablecoin exchange, staking, wrapping, and lending).

From a consumer standpoint, the Panel notes that waivers from pre-trade transparency rely heavily on firms' self-defined policies. While flexibility is necessary, retail consumers cannot assess whether waivers are being used appropriately.

The Panel strongly supports near-real-time post-trade transparency, including the publication of price, size, and timing information within one minute of execution. This aligns closely with traditional financial market standards and supports consumer confidence that markets are operating fairly.

Although the Panel recognises the need for deferrals for large or illiquid trades to avoid front-running and support liquidity provision, deferrals of up to three months are significant and should remain tightly constrained; deferral criteria must be genuinely exceptional, objective, and rarely used for liquid cryptoassets; transparency around the use of deferrals is essential to prevent erosion of trust.

Overall, the Panel agrees with the proposed framework, provided it is implemented with strong supervision, limited discretion, and a continued focus on measurable consumer outcomes.

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

The Panel considered the FCA's proposed methodology for determining the pre-trade transparency threshold, including the use of a £10 million annual revenue threshold measured over a three-year rolling average. The Panel considers that revenue alone may not always be a perfect proxy for consumer impact. Firms with relatively small revenues can still have a meaningful impact on the market if they execute large volumes of trades—either through the size of individual trades or the number of transactions. For this

reason, we recommend that the FCA consider not only firm revenues but also trading volumes and trade sizes, as these can be significant drivers of market influence. A firm may generate limited revenue yet still play a substantial role in how the market moves. We therefore encourage the FCA to keep the threshold under review and consider whether, over time, a hybrid or more adaptive approach may better capture consumer risk.

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

The Panel agrees with the FCA's proposed transaction recording and client reporting requirements for UK CATP operators and intermediaries. From a consumer perspective, robust record-keeping and timely, clear client reporting are essential to market integrity, dispute resolution, and consumer trust.

We support the requirement that firms retain comprehensive order and transaction records for 5 years and make them available to the FCA upon request. The Panel also supports the proposed minimum data fields to be recorded, particularly the inclusion of total costs and charges, total consideration, timestamps, and unique asset identifiers. These elements reflect the Panel's previous position that consumers must be able to verify execution quality, understand the true cost of transactions, and obtain evidence in the event of complaints or redress processes.

Timely reporting to clients on T+0 is especially welcome from a consumer perspective. Prompt confirmations reinforce confidence that trades have been executed as expected and reduce uncertainty following execution. We also support requirements to confirm cancellations, including reasons where cancellation is outside the client's control.

The Panel recognises and shares concerns raised by respondents about privacy risks, particularly where retail transaction data is linked to personal identifiers. Consistent with our previous consultation response, we consider that the use of pseudonymised or appropriately protected identifiers can help balance consumer privacy with the need for traceability and market abuse monitoring.

As per our previous consultation response, it is important that consumers receive clear explanation about what data is collected, how long it is retained, and when it may be shared will be critical.

The Panel notes the encouragement of standardised and interoperable formats aligns with our earlier support for approaches informed by ISO 20022 and MiFID II/MAR principles. Over time, greater standardisation would benefit both consumers and regulators by improving data consistency, comparability, and accessibility.

Finally, the requirement for firms to make transaction histories available to clients for at least 3 years on request is strongly supported. This supports consumer understanding, independent verification, tax reporting, and effective dispute resolution.

Overall, the Panel considers the proposals to be proportionate, consumer-focused, and consistent with the principles raised in our previous consultation response, provided privacy safeguards and clear consumer communications remain central to implementation.

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

Before we move into responding to this question the Panel wishes to raise the following points:

The Panel's overarching position remains that retail consumers should not engage in cryptoasset lending and borrowing due to the inherent and asymmetric risks involved. While this continues to be our preferred and stronger approach, we are responding to the detail of the FCA's proposals in order to be constructive and to help maximise consumer protections should the FCA proceed with permitting retail access.

The explicit recognition of Lending and Borrowing (L&B)³ services carries distinct and heightened risks which the Panel believes requires additional rules beyond general disclosures. This is

³ Cryptoasset lending and borrowing allow customers to seek yield or liquidity without selling their assets

consistent with the Panel's earlier position that retail consumers must not engage in cryptoasset lending or borrowing without clear, upfront understanding that:

- Returns are not guaranteed,
- There is no depositor protection or insurance on platforms,
- Losses may be total in the event of firm and counterparty failure (e.g. Celsius-style events⁴).

In our response to [DP25/1](#), the Panel supported restricting retail access to cryptoasset lending and borrowing precisely because:

- Consumers often misunderstand crypto lending products, equating them with low-risk savings or staking.
- There is limited visibility into rehypothecation⁵, counterparty risk, and insolvency outcomes.
- Disclosure alone was unlikely to overcome the complexity of those products for retail consumers.

It is worth noting that, according to the Thematic Review on FSB Global Regulatory Framework for Crypto-asset Activities: Peer review report⁶, Singapore prohibits licensed crypto firms from offering staking, lending and borrowing services to retail consumers, while requirements for institutional and wholesale activities are more relaxed. Hong Kong, Korea, Türkiye and Thailand explicitly prohibit crypto borrowing and lending, including to retail clients.

It also worth noting that according to the recent FCA Cryptoasset Consumer Research⁷: 7% of crypto users participate in lending or borrowing — a figure that has remained broadly stable across recent waves. Awareness is much higher ($\approx 35\%$), meaning a significant proportion of users know about these products but choose not to engage. This gap between awareness and participation suggests the perceived complexity of these services, low trust in platforms, unclear risk–reward trade-offs and possibly limited understanding of counterparty risk.

⁴ Celsius Network" How a Crypto Bank Froze \$20 Billion, https://youtu.be/pOgx4Ik_Njs

⁵ The risk of not knowing what is being done with the crypto once it is lent out

⁶ FSB, [Thematic Review on FSB Global Regulatory Framework for Crypto-asset Activities: Peer review report](#) Oct 2025, [Accessed on 22 Dec 2025]

⁷ [Research Note: Cryptoassets consumer research 2025 | FCA](#)

However, low participation does not necessarily indicate strong consumer understanding; it may simply reflect uncertainty or a lack of confidence in assessing these risks. Once these services fall within a regulated perimeter, participation is likely to increase because regulation can create a perception of legitimacy and safety. This shift could attract consumers who currently stay away precisely because they do not understand the risks, making it even more important that disclosures and protections anticipate a broader, less-informed user base. At the moment, what is certain is that yield generation remains the primary motivator, especially among younger investors (18–34), higher-risk-tolerant groups and users with larger portfolios (>£1,000).

The Panel notes the points raised by other respondents to the DP25.1 and wishes to comment that:

- The argument that a retail restriction would push consumers towards unregulated platforms highlights a *real behavioural risk*, but it should not be treated as a decisive reason to permit access. Consumer protection policy should not be framed solely around avoiding regulatory arbitrage. If products are inherently complex, opaque, or prone to consumer harm, restricting access may still be justified.
- divergence from international regulatory approaches is a relevant consideration, but it should not override domestic consumer protection objectives. International practice remains highly fragmented, with several jurisdictions (as noted above) continuing to prohibit or tightly restrict retail crypto lending and borrowing precisely because of the risks involved. Alignment should therefore focus on *outcomes*—such as consumer understanding and loss prevention—rather than on uniformity for its own sake.
- comparisons with other high-risk products available to retail consumers require caution. While retail investors may access products such as Contracts for Differences (CFDs) or margin lending, these are subject to extensive, prescriptive safeguards, including leverage limits, appropriateness testing and standardised risk warnings. Cryptoasset L&B products currently lack an equivalent depth of protections, particularly around insolvency treatment, asset ownership, and rehypothecation.

While the Panel notes that the FCA has now moved to permit retail access subject to mitigants, the Panel considers that this shift places significant weight to consumers and on the effectiveness of consumer understanding.

The Panel welcomes the FCA's strengthened focus on consumer understanding and express prior consent for cryptoasset lending and borrowing (L&B) services and recognises that the proposals in CP25/40 represent a material improvement on the earlier DP25/1 approach.

In particular, the Panel supports:

- The requirement for firms to provide service information each time a retail consumer engages in L&B services
- The obligation to obtain express prior consent.

The Panel emphasises that the effectiveness of these proposals will depend on how they are implemented in practice. The strengthened disclosure, explicit consent, and appropriateness requirements therefore become critical safeguards mechanisms for consumer's protection.

In particular, the Panel believes that:

- firms should not be allowed to use "click-through" consent mechanisms that risk becoming a formality rather than a genuine comprehension check.
- risk disclosures should be written in plain, consumer-friendly language including ownership transfer information, rehypothecation (where applicable), and insolvency outcomes

The Panel strongly supports the application of appropriateness testing. Firms should be expected to test understanding, not merely provide information, particularly given the FCA's own acknowledgement that these services remain high-risk even with mitigants in place.

Overall, the Panel agrees with the FCA's proposals to strengthen retail clients' understanding and require express prior consent, and acknowledges that these measures represent a meaningful response to the risks previously identified.

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

The Panel agrees with the proposal to prohibit the use of proprietary tokens in cryptoasset lending and borrowing (L&B) services for retail consumers.

From a consumer perspective, the risks associated with the use of proprietary tokens in L&B arrangements materially outweigh any potential benefits. These risks cannot be adequately mitigated through disclosure, governance arrangements, and/or conflict-management measures alone.

As set out in our response to DP25/1, the Panel has consistently raised concerns where firms combine multiple roles in ways that create structural conflicts of interest. The use of proprietary tokens within L&B services is a clear example of this risk.

Proprietary tokens embed a firm's commercial interests directly into lending, borrowing, collateral valuation, and yield generation creates incentives for firms to support or promote their own tokens in ways that may not align with the best interests of retail consumers, increasing the risk of price manipulation, mis-selling, and opaque risk exposure.

Past failures illustrate these risks clearly. The collapse of Celsius Network, where a proprietary token (CEL) was used to pay yield and offer preferential lending terms, demonstrates how such structures can create unmanageable conflicts of interest and accelerate consumer harm. When confidence in the firm deteriorated, the value of the proprietary token collapsed, amplifying losses for retail consumers and undermining confidence in the platform as a whole. This is precisely the type of harm the Panel believes that the FCA's proposal seeks to prevent.

Overall, the Panel supports the FCA's proposal to prohibit the use of proprietary tokens in cryptoasset lending and borrowing services for retail consumers. We consider this restriction to be proportionate, justified, and necessary to reduce conflicts of interest, prevent price manipulation, and deliver better consumer outcomes in line with the

Consumer Duty. It also represents an important safeguard in an area of the crypto market where past failures have demonstrated the severe consequences of inadequate structural protections for consumers.

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

The Panel agrees with the FCA's proposed record-keeping requirements for regulated cryptoasset lending and borrowing (L&B) firms and supports the FCA's focus on daily, granular record-keeping, including the recording of operational losses.

The proposals appropriately supplement existing frameworks (including COBS and CASS, where applicable) and promote consistency and comparability across L&B services.

As set out in our response to DP25/1, the Panel has consistently emphasised that accurate record-keeping and regular reconciliation are foundational safeguards for consumers engaging with cryptoasset services. The proposed requirements address these risks by ensuring firms maintain clear and comprehensive records covering asset amounts, blockchain location, custody arrangements, daily yield accrual, fees and charges, key contractual terms, client consent, and termination requests. Collectively, these records are critical to helping consumers understand how their assets are used and what they are entitled to receive.

Overall, the Panel considers the proposed record-keeping requirements to be proportionate, necessary, and aligned with the objectives of preventing consumer harm, supporting effective supervision, and delivering good outcomes under the Consumer Duty. They are also consistent with the Panel's earlier position in DP25/1 that robust records, reconciliation, and auditability are essential to a credible, consumer-focused cryptoasset regulatory regime.

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

The Panel supports the FCA's proposals on additional collateral, mandatory over-collateralisation, and managing loan limits/levels.

As highlighted in our DP25/1 response, retail consumers often lack experience managing credit in volatile crypto markets. Over-collateralisation ensures that the value of the client's collateral exceeds the value of the cryptoassets borrowed, which directly mitigates the risk of clients losing more than they can reasonably bear.

The Panel supports the requirement for firms to model and set appropriate loan-to-value (LTV), margin call, and liquidation levels, and giving clients the option to accept firm-proposed limits or set their own within safe boundaries provided that those limits are not higher than those modelled and set by the firm. The new limit that additional collateral cannot exceed 50% of the initial collateral value is a practical and sensible protection.

However, we are disappointed that the FCA has decided not to proceed with creditworthiness assessments and forbearance measures (as proposed under CONC in DP25/1). From a consumer perspective, these checks are crucial to ensure retail clients can afford to borrow and are protected if they experience financial difficulty. While over-collateralisation reduces credit risk for the firm, it does not address the underlying affordability risks for retail clients, particularly those less experienced with crypto borrowing. We urge the FCA to continue considering ways to incorporate elements of creditworthiness assessments into retail crypto lending.

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

The Panel strongly supports negative balance protection. Retail clients in crypto markets are particularly vulnerable to rapid and significant losses. Negative balance protection ensures that clients cannot lose more than the collateral they have specifically allocated to a cryptoasset borrowing arrangement.

This protection complements mandatory over-collateralisation and proper loan modelling, providing an essential safety net in the event

of extreme market movements or inadequate collateral management by firms.

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

The Panel supports the FCA's proposals on information provision, key terms disclosure, and express prior consent for each staking activity. As highlighted in our response to DP25/1, retail clients often lack understanding of staking mechanics, validator risks, slashing, and the implications of locking their cryptoassets. Requiring firms to provide clear information and obtain explicit consent ensures that consumers are informed of the type, value, duration, risks, fees, rewards, and ownership arrangements of each staking activity.

We also note that the proposal's flexibility on format and presentation is welcome, as it allows firms to use engaging methods—such as infographics, interactive tools, or short videos—to enhance consumer comprehension, consistent with our prior recommendation on Key Features Documents and other clear disclosures.

However, we note that the current proposal does not require regulated staking firms to compensate retail clients for losses arising from preventable operational or technological failures. In our previous response, we emphasised that firms should be accountable for such losses because retail clients cannot reasonably assess platform resilience, validator performance, or the risk of slashing.

We strongly urge the FCA to reconsider this position. The fact that industry respondents may view the probability of such failures as low, or that existing operational resilience requirements exist, does not change the fundamental principle: retail clients should not bear losses resulting from failures outside their control. If the risk is genuinely low, maintaining a compensation mechanism would have

minimal cost or impact on firms but would provide an important safeguard for consumers.

Operational and technological accountability, including the possibility of reimbursement or redress, is essential to reinforce trust in staking services, incentivise firms to maintain robust systems, and uphold the FCA's Consumer Duty obligations. We recommend that the FCA explicitly clarify that compensation for preventable operational or technological failures remains an integral element of consumer protection for staking activities.

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

The Panel agrees that these requirements should apply only to retail clients. Non-retail clients, including qualified investors and professional counterparties, are generally more sophisticated and capable of understanding staking mechanics, risks, and contractual arrangements.

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

The Panel agrees with the FCA's proposed record-keeping requirements for regulated staking firms. We also consider the proposed five-year retention period appropriate for consumers to access relevant records over a reasonable timeframe. Overall, these record-keeping requirements represent a vital component of protecting consumers and ensuring the integrity of regulated staking services.

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

The Panel agrees with the FCA's proposed approach to applying the requirements and guidance set out in Chapters 2-6 to DeFi activities where there is a clearly identifiable controlling person or

persons. We support the application of the principle of “same risk, same regulatory outcome” as the correct and proportionate basis for regulating DeFi activities that, in substance, replicate the risks and harms of centralised cryptoasset services.

From a consumer perspective, the underlying technology or degree of automation should not determine the level of protection available where consumers are exposed to comparable operational, financial crime, safeguarding, and conduct risks. Applying consistent requirements where control exists helps reduce regulatory arbitrage, supports market integrity, and ensures that retail consumers receive a consistent baseline of protection regardless of whether a service is branded as “decentralised” or “centralised”.

We also agree with the FCA’s decision not to introduce bespoke DeFi-specific rules at this stage, and to instead rely on guidance to address the varying degrees of decentralisation and control. Clear, practical guidance will be critical to helping firms understand when they fall within scope, how control is assessed, and how existing regulatory requirements apply in DeFi-adjacent business models.

Consistent with our previous response to DP25/1, we note that a number of effective and emerging industry practices can support compliance and mitigate consumer harm in DeFi contexts. These include third-party smart contract audits, on-chain monitoring, transparent reporting, and risk disclosures presented in plain language. Additional measures such as transaction previews, risk ratings, clear consent mechanisms, incident response planning, and in-platform consumer education can further strengthen consumer outcomes and trust.

Overall, the Panel considers the FCA’s approach to DeFi to be balanced, proportionate, and aligned with legislative intent. Applying existing requirements where control exists, supported by clear guidance on decentralisation, is the right foundation for protecting consumers while allowing responsible innovation to develop in the UK cryptoasset market.

29. Do you agree with our assumptions and findings as set out in this CBA on the relative costs and benefits of the

proposals contained in this consultation paper? Please give your reasons.

The costs and benefits outlined in the CBA appear proportionate. The analysis recognises that consumers currently face high levels of harm, including misleading disclosures, opaque trading practices, weak governance, and limited recourse.

Although firms may benefit earlier from increased clarity, improved market integrity, and a more level playing field, consumers benefit more indirectly and over time, as improved disclosures, safer platforms, and better governance translate into more trustworthy products and fewer harmful practices.

The CBA shows that firms will bear significant implementation and ongoing compliance costs. These costs may be passed on to consumers in the short term through fees or reduced product availability. Over time, however, stronger standards should reduce fraud, mis-selling, and platform failures—delivering net consumer benefit.

The Panel agrees with the statement that regulating the cryptoasset market may not achieve the same outcomes as in traditional finance, however it is anticipated it will achieve a higher level of consumer protection relative to current standards.

The Panel believes that the approach is broadly balanced, but continued monitoring will be essential to ensure:

- costs are not disproportionately passed to retail consumers
- consumer protection remains meaningful as the market evolves
- smaller, innovative firms are not excluded

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

Several additional considerations may be relevant on the cost benefit analysis:

1. Transition costs for consumers
Consumers may face:

- Temporary or permanent loss of access to certain tokens or services as firms may decide to temporarily or permanently pause services due to costs.
- friction as firms adjust onboarding, disclosures, and trading rules
- potential fee increases as firms absorb compliance costs

These should be explicitly monitored to ensure they do not create unintended barriers or reduce consumer choice unnecessarily.

2. Distributional impacts

The CBA notes that crypto users tend to be younger, male, higher-income, and more ethnically diverse. The FCA may wish to consider whether the regime disproportionately affects certain groups and whether additional educational or communication interventions are needed.

3. Buying crypto divert funds away from other financial investments

The finding that UK buyers of cryptoassets are most likely to divert funds away from other financial investments—rather than from cash savings—deserves careful regulatory attention. This behaviour suggests that consumers may be reallocating money from more traditional, and often better-understood, investment products into assets that carry significantly different risk profiles. If left unexamined, this shift could have unintended consequences for long-term financial resilience, diversification, and the stability of established investment markets.

At the same time, the trend also highlights an important competitive dynamic. The willingness of consumers to move capital from traditional products into cryptoassets signals a demand for innovation, accessibility, and features that some legacy investment offerings may not currently provide.

The Panel urges the FCA to ensure consumers are adequately protected when reallocating investments into higher-risk products, and to recognise that healthy competition can ultimately drive better outcomes across the entire investment landscape.

4. Market interconnectivity

The rising cryptoasset ownership in the UK means that a sharp fall in prices could now affect a significant portion of the public, including the 10% of holders who are already financially vulnerable.

At the same time, the growing links between cryptoasset firms and the traditional financial sector increase the risk that turbulence in crypto markets could spill over into banks and other institutions. Also, the fact that some publicly listed companies are holding strategic crypto reserves further amplifies their exposure to sudden price shocks. Together, these trends represent material, economy-wide risks. The FCA should closely monitor these developments, as a severe downturn in crypto markets could trigger broader instability with the potential to impact the entire financial system

5. Regulation alone is not sufficient to protect consumers. Consumers' limited understanding of cryptoassets is leading to excessive and often unintended risk-taking. The 2022 collapse of several crypto-lending platforms showed how many people were drawn in by high advertised returns without grasping the underlying risks. At the same time, some firms are offering products that are fundamentally unsuitable for ordinary retail investors, exposing them to levels of volatility and complexity they are not equipped to assess.

While regulatory protections are essential, they cannot fully compensate for a widespread lack of consumer understanding. Without meaningful support to help people recognise the risks, consumers may continue to underestimate the likelihood of harm and engage with products that are inappropriate for their financial situation.

6. Disclosure of information before lending may not be sufficient to protect consumers. FCA regulatory proposals for firms to disclose key information before consumers lend or stake their assets is a good step forward but in practice this is not enough. Many consumers do not read, cannot interpret, or simply underestimate the significance of these disclosures. As a result, they often end up engaging with products that are far riskier than they can reasonably afford—especially when high returns are emphasised more prominently than the risks.

From a consumer perspective, relying on disclosure alone places too much responsibility on consumers who may not have the financial literacy, time, or confidence to assess complex crypto-lending risks. The Panel therefore encourages the regulator to go beyond disclosure and ensure that consumers genuinely understand what they are getting into.

7. Smaller firms being exempt from certain requirements may have disproportionate impact to consumers.

From a consumer point of view, exempting smaller firms from key requirements—such as pre-trade transparency and cross-platform information-sharing—creates a real risk of uneven protection across the market. While the regulator’s intention to avoid disproportionate burdens on smaller firms is understandable, consumers will not be aware that these firms are exempt. They will reasonably assume that all providers operate under the same standards and offer the same level of pre-trade information. This means that two consumers engaging in the same type of transaction could receive very different levels of transparency depending on the size of the firm they happen to use. In practice, this results in lower consumer protection, greater information asymmetry, and a higher likelihood that individuals—especially less experienced or financially vulnerable consumers—enter into products without fully understanding the risks.

8. International alignment

The consultation highlights alignment with FATF, IOSCO, and FSB standards. It is important that international competitiveness does not dilute consumer safeguards. The emphasis on growth should not overshadow the FCA’s primary objectives of consumer protection and market integrity.

9. Continued monitoring and evaluation

The proposed regime represents a significant step forward in protecting consumers in a market that currently lacked basic safeguards. While firms may realise many of the early benefits, the long-term gains for consumers—greater transparency, reduced fraud, and more trustworthy platforms—are substantial.

The Panel recommends continued attention to implementation costs, distributional impacts, and the balance between international competitiveness and consumer protection will be essential to ensure the regime delivers on its intended outcomes.

The Panel also wishes to comment that the proposed approach to measuring effectiveness appears heavily weighted toward industry generated data and periodic consumer surveys, rather than ongoing, direct engagement with consumers themselves.

Regulatory returns and firm submitted information inevitably reflect the industry's perspective, and while consumer surveys are useful, they are infrequent and cannot substitute continuous dialogue. As a result, industry voices may end up having a disproportionately stronger influence on how interventions are assessed and refined.

Without more regular, accessible, and consumer-centred channels of communication through national citizen assemblies and social media channels, there is a real risk that emerging harms will be identified too late. Consumers need more than occasional surveys—they need to be actively listened to and participate in active iterations of proposals. Strengthening direct consumer engagement would help ensure that regulatory outcomes genuinely reflect consumer experience.