



Consultation Paper title	Consultation Paper on Conduct & Firm Standards for Regulated Cryptoasset Activities
Summary of intervention	Application of FCA Handbook rules and standards to regulated cryptoassets firms.
Feedback date of issue	26/08/2025
CBA Panel reference number	CBAP-0007

CBA Panel advice

Main recommendations

- Clarify basic rationale for extension of conduct regulation perimeter.** Given the extensive evidential and analytical base underpinning the UK’s existing conduct regulation regime for traditional financial products, the broad outlines of the rationale for extending the perimeter to cryptoasset activities is unlikely to be controversial. Nevertheless, the Panel recommends that the CBA should present more clearly the economic case for applying conduct regulation to cryptoasset activities, explaining in particular how it relates to (i) the HM Treasury’s draft Statutory Instrument and its Impact Assessment; (ii) the existing base of CBA supporting conduct regulation for traditional financial services; and (iii) the principle of ensuring a level regulatory playing-field between traditional financial and cryptoasset services.
- Clarify conceptualisation of market for cryptoasset services and focus analysis on areas of divergence from traditional financial services.** The markets for cryptoasset and traditional financial services also differ significantly in several respects which make the existing analytical base for regulation less transferable. For example, there are distinctive issues relating to (i) jurisdiction – such as the current dominance of the UK market by a large, existing universe of offshore service providers; and the importance of entities of indeterminate jurisdiction, such as permissionless Distributed Ledger Technologies (DLTs) – and (ii) functional diversity – such as the role of certain cryptoassets as both investment products and payments media. The Panel therefore recommends that the CBA focus its analysis on how these divergent features of cryptoasset markets will affect the impact of the proposed regime.
- Sharpen analysis of proposed regulatory disparities between traditional and cryptoasset, and on- and offshore, providers on the market and wider economy.** The proposed intervention implies a level playing field between traditional and cryptoasset service providers in many areas, but not in some important ones. The Panel recommends that the CBA is more explicit in its analysis of the economic impacts of these differences - including dynamic impacts such as migration by consumers and potential regulatory arbitrage by service providers.



Summary

Category	CBA Panel comments
The market	<ul style="list-style-type: none"> • Conceptualisation of market. It is not clear that the CBA conceptualises the market for cryptoasset services comprehensively. For example: <ul style="list-style-type: none"> ○ Given the intrinsically global nature of the market for cryptoasset services, the CBA should provide a clearer treatment of jurisdictional issues, which are particularly important for an accurate analysis of cryptoasset services given (i) the existence of a large, existing universe of offshore service providers, and (ii) the importance of entities of apparently indeterminate jurisdiction, such as permissionless Distributed Ledger Technologies (DLTs). The CBA could, for example, present data on which jurisdictions providers currently supply the UK market from; what regulation these providers are currently subject to; how does this determine the current economics of the UK market; how UK consumers currently choose between providers; and how the CBA treats those components of cryptoasset services, such as permissionless DLTs, which do not sit within any single jurisdiction. ○ The CBA analyses the cryptoasset market primarily as a market for investment products. Cryptoasset services, however, incorporate a diversity of functions beyond investment alone – for example, payments services. The CBA should either include these functions in its analysis, or give grounds for omitting them. • Problem and rationale for intervention. The decision to extend the perimeter for conduct regulation to the market for cryptoasset services has been made by HM Treasury, and as such will be subject to statutory analysis in an accompanying Impact Assessment. Nonetheless, it would be very useful for the CBA to rehearse clearly the basic rationale for conduct regulation in this novel market, explaining (i) where it is identical to and (ii) where it differs from the market for traditional financial services. • Economic harm and its drivers. The Panel recommends that the CBA clarify the market failures and resulting economic harms which have been identified and how they have been quantified – separating more clearly, for example, harms arising from market volatility from those linked to service provider conduct. The analysis should also clarify how harms for which regulatory remedies are already in place (for example, financial crime) have been accounted for. Generally, the CBA should present more detail on the types and scale of consumer harm the proposed intervention is seeking to address.
Baseline and counterfactual	<ul style="list-style-type: none"> • Focus on divergence from conduct regime for traditional financial services. Given that the high-level decision to extend the regulatory perimeter has been taken by HM Treasury, it would be useful for the CBA to focus on analysing the impact of those aspects of the proposed regime which diverge from existing financial services conduct regulation. • Evidence assumptions and/or break-even analysis. Given the cryptoasset market’s novelty and rapid ongoing evolution, the specification of both the baseline and counterfactual is highly sensitive to intrinsically uncertain assumptions. The CBA should therefore give clearer grounds for the key



assumptions underpinning its baseline and counterfactual scenarios (see below). An alternative approach of deploying break-even analysis could be considered instead.

Evidence and data

- The CBA should acknowledge limitations in the strength of evidence used, including for example the low survey response rate.
- Several inputs – such as projected ownership figures are currently stated without supporting analysis, which limits transparency and confidence in the cost-benefit estimates.
- Where cryptoasset-specific data is limited, the CBA could draw (with appropriate disclaimers) on comparative evidence from traditional investment firms, as well as consider insights from previous crypto regulatory interventions, such as the financial promotions regime, to assess alignment with earlier impact estimates and inform future approaches to estimating impacts in the crypto sector.

Assumptions

- The CBA should emphasize that it is highly sensitive to its key assumptions, because the cryptoasset market is novel and rapidly changing, and there is therefore a high degree of intrinsic uncertainty around its evolution.
- Examples of assumptions for which the CBA should provide clearer justification and supporting evidence include:
 - The assumption that risks of regulatory arbitrage by existing and future service providers are low, given the global nature of crypto markets and the fact that most crypto services consumed by UK consumers are currently provided by firms based outside the UK.
 - The assumption that increased regulatory oversight may lead to greater consumer engagement with cryptoassets, driven by enhanced confidence in the market - especially in light of financial promotions warnings.
- Assumptions translated from the market for traditional investment products should be carefully reviewed to account for the distinct characteristics of cryptoasset products and services.

Uncertainty and risk

- Further discussion is needed on the assumption of low regulatory arbitrage risk, particularly given the potential for lighter-touch overseas regimes to attract UK firms and consumers. While some of this is addressed in the sensitivity analysis, the implications could be made clearer.

Assessment of costs and benefits

- The CBA acknowledges that the proposed regime implies a level regulatory playing field for on- and offshore cryptoasset service providers with respect to some aspects of the regulatory environment.
- The CBA should include analysis of the costs and benefits of creating these disparities - including on the dynamics of the market, through market migration and potential regulatory arbitrage.
- The net margin between estimated benefits and costs established in the CBA is narrow. This reinforces the case for greater emphasis on explaining the evidence underpinning those assumptions (see above), or applying break-even analysis (see above).



Wider economic impacts

- The CBA should provide clearer evidence and analysis on how the proposed intervention may affect the development and international competitiveness of the UK financial sector, and the growth objective (SICGO).
 - In particular, the assumption that UK regulation aligns with other major jurisdictions and poses low risk of regulatory arbitrage requires corroboration.
 - The CBA should also assess potential divergence from offshore cryptoasset centres and explain how this may influence stakeholder confidence and market dynamics.
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