



CBA Panel advice

Consultation Paper title	Application of FCA Handbook for Regulated Cryptoasset Activities II
Summary of intervention	HM Treasury will shortly be laying before Parliament the 'Markets in Cryptoassets (Designated and Regulated activities and Offers to the Public) Regulations 2025' (the Cryptoasset Regulations). This CBA assesses the impact of applying FCA Handbook rules to authorised cryptoasset firms
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Main recommendations

- **Embed the CBA in an overarching economic analysis of the cryptoasset market.** This is a succinct and well-presented CBA. However, like previous CBAs in this area (e.g. (i) CP25/25 *Application of the FCA Handbook for regulated cryptoasset activities*, and (ii) CP25/40 *Regulating cryptoasset activities*), it suffers from the lack of a coherent, overarching economic analysis of the market for cryptoasset activities. While a range of data points is presented, they do not amount to a clearly conceptualised and well evidenced explanation of how the market functions, how different cryptoasset activities relate to one another, or how the market is expected to evolve over time. This limits the clarity of the problem definition and contributes to weaknesses in the counterfactual, cumulative impact assessment, and analysis of competition and international effects.
- **Specify more clearly the baseline and counterfactual.** The baseline and counterfactual underpin several key figures in the CBA, including the break-even cost per consumer and assumptions about market growth and harm. However, they are not specified with sufficient clarity or consistency. Assumptions about customer numbers, firm growth, and complaint volumes are introduced without adequate explanation of their plausibility or of the degree to which they reflect counterfactual developments or regulation-induced effects. This limits confidence in the quantitative results.
- **Rebalance analysis and presentation of costs and benefits.** The CBA should ensure that the resources devoted to the analysis of particular cost and benefit items is more proportionate to their magnitude. This is particularly important given that the CBA's quantified NPV is negative and the case for intervention therefore relies heavily on qualitative benefits, which however receive relatively cursory treatment. Benefits are described in multiple places and expressed in different ways, without a single, consistent narrative.
- **Analyse more clearly cumulative impact, competition, and international context.** The CBA largely assesses individual measures in isolation and aggregates their costs and benefits without adequately considering interactions or cumulative impacts. This is especially relevant for smaller firms, which may face disproportionately higher burdens, and for understanding whether economies of scale advantage larger or already-regulated firms. In addition, the international nature of cryptoasset markets is not clearly integrated into the analysis, despite evidence that many UK consumers transact with non-UK firms.



Summary

Category	CBA Panel comments
The market	<p>As was the case for the CBAs of (i) CP25/25 (Application of the FCA Handbook for regulated cryptoasset activities) and (ii) CP25/40 (Regulating cryptoasset activities), the CBA would benefit from being embedded in a clearer background analysis of the overall cryptoasset market. In the absence of such a general analysis, the CBA's characterisation of how the market operates and how it is expected to evolve rests on weak evidential and analytical foundations. The analysis does not, for example, distinguish sufficiently between different cryptoasset activities, such as investment, payments, and custody, or explain how these interact.</p>
Problem and rationale for intervention	<p>The rationale for intervention is clearly set out at a high level, but the proposals would benefit from being more closely anchored to specific market failures, and nested in a clearer background analysis of the overall cryptoasset market of the sort advised above and in the case of previous CBAs in this area. This would improve the CBA in two key respects:</p> <ul style="list-style-type: none"> • Consistency of analysis across CBAs. The nature, and drivers, of the harms identified as resulting from the current lack of regulation of cryptoasset activities are not consistent across the CBAs in the series. • Clarity regarding application of regulatory principles. Clearer explanation is needed of how the principle of a level playing field between traditional financial and cryptoasset services is being applied, including where the proposed regime aligns with regulation in traditional financial services and where it does not.
Proposed intervention and alternative options	<p>The description of the options assessment is clear, but actual analysis of key alternatives is limited. The option of FSCS eligibility, for example, is dismissed on the basis of potential halo effects, despite (i) evidence indicating relatively strong consumer support for additional protection and (ii) the eligibility of traditional financial service providers for the scheme. Given the importance of the proposed decision to exclude cryptoasset service providers from the FSCS, it is a shortcoming of the CBA that it does not provide a fuller analysis of the potential costs and benefits of this option to support the policy decision.</p>
Assessment of costs and benefits	<p>Baseline and counterfactual.</p> <ul style="list-style-type: none"> • The high-level decision to bring cryptoasset activities into the UK regulatory perimeter has been made by HM Treasury. This CBA analyses the FCA's proposed implementation of that decision. This fundamental point should be made clearer in the CBA, and its consequence that the appropriate counterfactual in this case is not a "Do Nothing" scenario, but an appropriate "Do Minimum" scenario, better explained. • Assumptions about future market growth, harm, firm entry, and consumer behaviour in the baseline and counterfactual scenarios are not always clearly stated or reconciled. This is another area



where the existence of a clearer background analysis of the overall cryptoasset market would help the CBA. Large figures for the number of customers and firms are introduced without corroboration of their plausibility. It is not clear how the analysis distinguishes between market growth that would occur with and without the intervention. Given the importance of these assumptions, the counterfactual should be set out more explicitly.

Evidence and data. The CBA is transparent about data limitations, which is helpful and well justified, and it draws on targeted data collection from firms to inform cost estimates. However, it is not always clear how different sources of evidence are weighed, particularly where they point in different directions, such as in the case of consumer attitudes to regulation. Greater clarity on how evidence has been used to inform key assumptions, and where judgement has been applied, would improve the robustness of the analysis.

Assumptions. Many assumptions are reasonable, but the CBA should be more explicit about the areas it does not quantify and the implications of this for interpreting the results. In particular, assumptions relating to counterfactual market growth, reductions in fraud and scams, time savings from redress, and changes in consumer participation are not always clearly set out. Being clearer about these limitations would help readers assess the plausibility of the break-even analysis.

Economic analysis.

- **Rebalancing analysis and presentation.** The NPV of the proposed policy's quantified costs and benefits is negative. The CBA argues that its qualitative benefits will transform this to a positive net welfare impact in practice - but these benefits receive a cursory treatment compared to the quantified items. Given this, the CBA would benefit from rebalancing its analysis and presentation towards the proposed policy's qualitative benefits. Likewise, it would make sense if more space were devoted to the largest cost items, such as IT costs, and less to smaller cost components.
- **Treatment of redress.** Redress is the dominant quantified item on both the costs and benefits sides of the CBA. It is treated as a transfer between firms and consumers, and thus has no effect on the overall NPV. Given the importance of this methodological decision, the CBA should explain more clearly why this approach has been taken, and how it aligns with the FCA's Statement of Policy on CBAs and with the treatment of redress in other recent CBAs.

Risk and uncertainty	The CBA recognises uncertainty, but the treatment of risk would benefit from strengthening. In particular, the analysis should be clearer about uncertainty surrounding its assumptions on market growth, firm behaviour, and consumer responses.
Wider economic impacts	Wider economic impacts, including effects on competition, innovation, and the allocation of investment between cryptoassets and other



assets, are not fully explored. The CBA should consider more explicitly the cumulative impact of the multiple regulatory measures being proposed, particularly on smaller firms, and whether economies of scale are likely to favour larger or already-regulated firms. Greater attention should also be given to how developments in other jurisdictions may influence outcomes in the UK market. Once again, a clearer background analysis of the overall cryptoasset market - including its international dimension - would be helpful in this respect.
