FINANCIAL CONDUCT AUTHORITY

Policy Statement

PS26/12

Crypto Regime

A Prudential Regime for Cryptoasset Firms

June 2026

This relates to

Consultation Papers CP25/15 and CP25/42 which are available on our website at www.fca.org.uk/publications

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Chapter 1

Summary

1.1 In this Policy Statement, we set out our final prudential framework for regulated cryptoasset firms, covering capital, liquidity, risk management and public disclosure requirements. The framework is intended to provide a robust and proportionate prudential baseline for firms undertaking regulated cryptoasset activities.

1.2 Consultation feedback was broadly supportive of aligning the cryptoasset prudential regime with the structure and logic of existing prudential frameworks, while emphasising the need to ensure international competitiveness, proportionality and practical operability. Respondents welcomed a clear prudential architecture for the sector, but raised questions about calibration in certain areas, particularly where they considered requirements could impose unnecessary burden or fail to reflect the specific economics of cryptoasset activities. We have included the outcome of our sentiment analysis on how respondents viewed our proposals through their feedback.

1.3 In light of feedback, we have largely maintained the proposed framework, while making targeted recalibrations and clarifications to improve proportionality and usability. These changes include reducing the operational risk K-factor capital requirement for stablecoin issuance from 2% to 1%, simplifying the market risk framework, and introducing greater proportionality in the public disclosure regime.

1.4 In the revised market risk framework, cryptoassets that can be prudently valued and are admitted to a UK qualifying cryptoasset trading platform will be subject to a single 40% net risk position requirement for K-NCP (net cryptoasset position) and 40% volatility adjustment for K-CCD (counterparty credit default). Cryptoassets that do not meet these conditions are deducted from regulatory capital and subject to 100% volatility adjustment for K-CCD. This approach replaces the more complex categorisation previously proposed with a clearer and more operable framework, while maintaining an appropriate distinction in the treatment of cryptoasset exposures.

1.5 Taken together, these changes are intended to preserve prudential robustness while avoiding unnecessary complexity and burden for firms.

1.6 We have also made minor adjustments to MIFIDPRU on the interaction with CRYPTOPRU on own funds and own funds requirement elements, which we do not consider to be material from the perspective of s143I(3) FSMA.

1.7 In relation to stablecoins, our rules apply to issuers in relation to any stablecoin that is part of a qualifying stablecoin product which includes a UK-issued qualifying stablecoin. However, for shorthand in this document we refer to this concept as applying to 'UK-issued qualifying stablecoin'.

1.8 Alongside this Policy Statement we are consulting on non-Handbook guidance GC26/4 and GC26/5 that will support firms with their overall risk assessment.

1.9 This Policy Statement forms part of a wider package. For further information about what other policy statements and documents would be useful, please refer to the Summary.

Chapter 2

Own funds – definition and composition of capital

2.1 This chapter sets out our final rules on the definition and composition of regulatory capital, also known as 'own funds', for CRYPTOPRU firms. As described in CP25/15, COREPRU is our core prudential sourcebook, while CRYPTOPRU is our sourcebook with sector-specific prudential requirements for firms doing regulated cryptoasset activities as set out in the Cryptoassets Regulations. Both COREPRU and CRYPTOPRU apply to CRYPTOPRU firms.

2.2 We are implementing the rules broadly as we proposed in CP25/15. We explain the feedback we received and our response. The main areas we cover are:

- the composition and proportion of own funds tiers
- the deductions from Common Equity Tier 1 (CET1) capital (including intangible assets, and qualifying cryptoassets that the firm issues or controls the supply of)
- deferred tax assets
- the definition of 'connected party'
- how our rules interact with other prudential regimes

Key proposals

2.3 In CP25/15, we set out our proposals for the definition and composition of capital for CRYPTOPRU firms. Our proposals broadly aligned with the existing own funds rules for MIFIDPRU firms.

2.4 We proposed a 3-tier capital structure for CRYPTOPRU firms, comprising CET1, Additional Tier 1 (AT1), and Tier 2 (T2) capital instruments. This structure recognises the differing levels of quality and permanence associated with each class of capital. We set out eligibility criteria for capital instruments in each tier.

2.5 We also proposed requirements for the composition of own funds. This ensures that CRYPTOPRU firms rely primarily on higher quality 'going concern' capital (which allows a firm to absorb losses and continue operating) to meet their requirements, while still allowing them to use a limited amount of 'gone concern' capital (to facilitate and absorb losses in wind-down).

2.6 We set out a number of deductions and prudential adjustments that CRYPTOPRU firms would need to make to their own funds. These proposals ensure that their regulatory capital reflects genuine loss-absorbing capacity.

2.7 Our proposed deductions closely mirrored those that apply to MIFIDPRU firms. The prudential concepts apply in the same way to CRYPTOPRU firms.

2.8 We also proposed that firms must deduct holdings of qualifying cryptoassets they or a connected party have either issued or control the supply of. However, we excluded regulated stablecoins backed in line with our regulatory requirements from this requirement; we would not require firms to deduct these from their own funds.

2.9 Additionally, we proposed that firms would need to obtain prior permission from us, or notify us, in certain instances (such as issuing capital instruments).

2.10 In our consultation, we asked 2 questions about the definition and composition of own funds:

CP25/15 Question 1: **Do you have any comments on our proposals for the definitions and types of, and deductions from, regulatory capital that CRYPTOPRU firms should use to calculate their own funds?**

CP25/15 Question 2: **Do you have any views on our proposed requirements for deductions from CET1 capital, in particular cryptoassets held by firms which they have issued or are in control of the supply of?**

Feedback and responses

2.11 We received feedback from 32 respondents to the questions in this chapter. On question 1 of CP25/15, 50% of respondents were supportive, 29% neutral and 21% unsupportive. On question 2 of CP25/15, 25% of respondents were supportive, 43% neutral and 32% unsupportive.

2.12 Respondents generally supported our proposed framework for regulatory capital for CRYPTOPRU firms. In principle, they were in favour of clear definitions, a tiered capital structure, and alignment with MIFIDPRU to provide consistency across regimes. They noted that relying on existing frameworks would allow firms to make use of a well understood set of rules and guidance.

2.13 However, there were also areas that they did not support, and many asked for clarification on how to apply specific deductions and Glossary definitions. These areas are set out below.

Own funds composition and proportion of capital tiers

2.14 Two respondents argued that aligning the composition rules for own funds with MIFIDPRU would favour established firms that can issue AT1 and T2 instruments. They noted that cryptoasset firms typically have limited access to traditional financial markets, and rely on funding from technology-enabled mechanisms like on-chain investments. They recommended that we recognise non-traditional, non-fiat investments as permissible capital resources.

2.15 Another respondent noted that some international regimes recognise insurance products for meeting capital requirements. They asked us to consider a similar approach. They also noted the difficulty cryptoasset firms may face in accessing traditional debt markets, and encouraged us to set out clear routes for issuing Tier 2 capital instruments that reflect market realities.

2.16 On our proposed proportion requirements for capital classes, 1 respondent said they may be an entry barrier for smaller firms or start-ups. They said we should consider transitional arrangements or a simplified regime. Meanwhile, 2 respondents said we should increase proportions for CET1 and Tier 1 (CET1+AT1) capital tiers, citing the higher volatility in cryptoasset markets and the need for higher quality capital buffers.

Our response

We have considered all the feedback carefully and are proceeding with our proposals as consulted on. We consider that our proposed composition and proportion requirements for capital tiers provide a proportionate and consistent approach, while remaining robust and offering flexibility to firms.

Regulatory capital underpins a firm's ability to withstand shocks and absorb losses while continuing to operate on a solvent basis. It is critical that firms maintain a high-quality capital base. Our own funds framework supports this by allowing firms to utilise different tiers of capital based on their capital needs.

Our rules set out core characteristics that own funds instruments must meet, such as loss absorption and permanence. These are fundamental to ensuring that regulatory capital can serve its intended purpose. As new types of capital instruments emerge, including those enabled by technological developments, firms would be able to use these new types of capital instruments if they are able to demonstrate that the instruments meet the core requirements as set out in COREPRU 3.

Our final rules set out that firms may choose to meet their capital requirements solely with ordinary shares and retained earnings (CET1 items). The minimum requirements do not oblige firms to use all three capital tiers. Additionally, other elements of our prudential regime for CRYPTOPRU firms, such as the K-factor requirements and the overall risk assessment set out in CP25/42, more appropriately address the volatility of cryptoasset markets.

Deductions from CET1 capital

2.17 Twenty-nine respondents provided feedback on our proposed deductions from CET1 capital. Many acknowledged that regulatory adjustments help ensure that only genuine loss-absorbing capacity counts toward regulatory capital requirements. Some explicitly supported the deductions, saying they were prudent and necessary.

Intangible assets

2.18 Several respondents did not support deducting intangible assets from regulatory capital. They said this would be too restrictive and disproportionate for cryptoasset firms.

2.19 Respondents pointed out that cryptoasset firms rely heavily on software assets and other technology-based intellectual property that is essential to their operations. They also noted that their business models are structurally less reliant on physical or financial assets.

2.20 Two respondents suggested an exclusion for intangible assets that:

- are critical to the firm's ongoing operations
- can be reliably and independently valued by third parties

Another noted that the requirement to deduct intangible assets would create incentives for firms to transfer these assets to a connected entity.

2.21 A number of respondents asked us to clarify whether cryptoassets classified as intangible assets under accounting standards would need to be deducted from regulatory capital.

2.22 Two respondents cautioned against applying a full deduction to cryptoassets classified as intangibles, and instead recommended exemptions or alternative approaches for tokens held for operational necessity. One recommended a gradual approach based on factors such as firm size, liquidity characteristics of the cryptoasset, or market-related metrics. They argued that the rules may have a disproportionate impact on early-stage firms.

2.23 Another recommendation was a framework for recognising cryptoassets that are limited to Tier 2 capital, subject to standardised haircuts and capped at thresholds of total own funds.

Cryptoassets that the firm issues or controls the supply of

2.24 Some respondents were in favour of deducting cryptoassets that the firm issues or controls the supply of from CET1 capital. They acknowledged the rules' intent to prevent artificial inflation of a firm's capital position.

2.25 However, others raised concerns about the implications for cryptoasset firms. Several suggested alternative approaches.

2.26 One was to apply haircuts, so that widely traded and liquid cryptoassets would receive lower haircuts rather than being subject to a full deduction. In support of a more flexible treatment, respondents also noted that many firms in the sector may generate revenues and incur expenses in cryptoassets – for example, when they pay employee bonuses and other long-term incentives.

2.27 Two respondents suggested allowing firms to assess cryptoassets on various factors, such as market capitalisation, and to partially or fully recognise such assets in capital where the cryptoasset has genuine and demonstrable value.

2.28 A few respondents pointed out that cryptoasset firms often hold a reserve of their own tokens for operational purposes, such as liquidity and settlement needs. Some recommended excluding such holdings from the deduction requirement. One proposed a threshold below which holdings would not be deducted from own funds. They also suggested giving firms a short exemption period for deductions for temporary holdings arising from routine processes.

2.29 Two respondents said requiring firms to deduct cryptoassets issued by their own employees is disproportionate, noting that they may have limited visibility of individual employees' activities. Another respondent suggested considering thresholds in these cases, or applying a 'significant influence' test.

2.30 One respondent welcomed the proposed exemption for UK-issued qualifying stablecoins from this deduction, and recommended extending it to stablecoins issued under equivalent regimes in other jurisdictions. However, another was against our proposal and argued that we should only consider it once sufficient data shows that the stablecoins consistently perform in line with expectations.

2.31 Another suggestion was that only stablecoins held in the firm's principal capacity should be exempt from the deduction requirement. Meanwhile, stablecoins held in the operational inventory, where they are not backed by reserve assets, should still be deducted from CET1 capital.

Our response

We have considered all of the feedback carefully, and are proceeding to make final rules as consulted on. This is because a firm's regulatory capital must be of sufficient quality to absorb losses when required so that the firm can continue to operate as a going concern. Many regulatory regimes set eligibility criteria for including capital items in own funds for regulatory purposes.

In the final rules we have applied deductions and adjustments to the accounting definition of capital to help make sure firms measure their own funds in a way that reflects their ability to absorb losses in stress or liquidation. These are based on the principle that regulatory capital components should be permanent and loss-absorbing, rather than simply the difference between asset and liability values.

Intangible assets

Intangible assets are essential to a firm's operations, with items such as proprietary software, systems and other intellectual property often underpinning key business activities.

These assets typically have characteristics that make them unsuitable for regulatory capital purposes, such as uncertain value or limited realisability. For example, an internally developed system may be essential for generating revenue, but its realisable value – and therefore its ability to absorb a loss in a period of stress – is uncertain. This uncertainty means firms must deduct intangible assets from regulatory capital to make sure they do not overstate their loss-absorbing capacity.

We acknowledge the suggestion to exclude intangible assets from the deduction where they are essential to the firm's operations and can be independently valued. However, this is not in line with our underlying prudential principles.

The requirement to deduct intangible assets also applies to qualifying cryptoassets classified as intangible assets under relevant accounting standards. Accordingly, in our final rules we have set out that firms must continue to deduct these cryptoassets from their own funds. This ensures consistent treatment with the requirement to deduct other intangible assets.

Where a firm holds qualifying cryptoassets for sale in the ordinary course of business, we would expect it to classify them as inventory under applicable accounting standards. As we noted in CP25/42, firms will generally record holdings of qualifying cryptoassets in their trading book. We expect that these cryptoassets would not typically be classified as intangible assets and, as a result, would not get deducted from own funds. Instead, where applicable, such holdings will be subject to capital requirements under relevant exposure-based K-factors.

We believe that a gradual approach to deducting cryptoassets classified as intangibles based on a variety of metrics would be impractical and would introduce unnecessary complexity to calculating available capital resources. For example, monitoring liquidity characteristics or other market-related metrics and continuously readjusting the deductions is likely to place a disproportionate burden on firms. It may also introduce volatility to a firm's capital position, making capital planning more difficult, while benefits may be limited.

For these reasons, we consider that full deduction remains necessary for all intangible assets and are implementing our final rules as consulted in CP25/15.

In our final rules we also require that firms deduct qualifying cryptoassets that are:

- not traded on a UK qualifying cryptoasset trading platform, or
- held in the trading book that cannot be valued in accordance with the prudent valuation requirements in CRYPTOPRU

Similarly to intangible assets, such cryptoassets have characteristics that would limit the loss-absorbing capacity they need for regulatory capital purposes. We set out the rationale for this requirement in detail in our response on the net cryptoasset position (K-NCP) requirement in this Policy Statement.

Cryptoassets that the firm issues or controls the supply of
This deduction is designed to prevent a firm from artificially inflating its capital position. Where a firm holds cryptoassets issued by, or where the supply is controlled by, the firm itself or a connected entity, those assets do not provide genuine, independent loss-absorbing capacity.

This means that they may not be reliably realisable in a stress event. The economic risk remains within the firm, which undermines the purpose of regulatory capital. Deducting these assets in full means that regulatory capital reflects resources that can absorb losses as soon as they arise. This requirement applies only where the firm holds the relevant qualifying cryptoasset.

Our approach is also consistent with long-standing prudential principles applied in traditional finance, where firms must deduct holdings of their own CET1 instruments because they are unlikely to truly absorb losses in a stress.

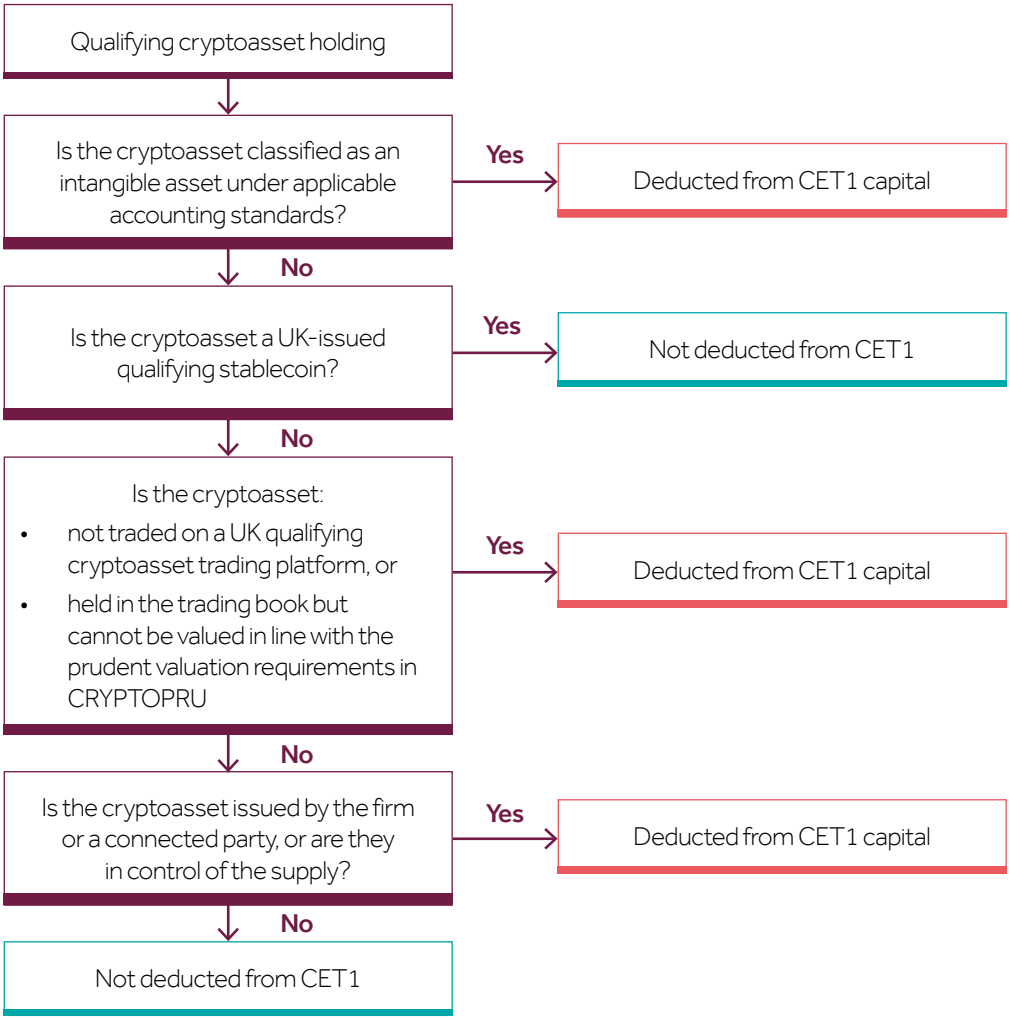
We recognise respondents' alternative suggestions and have carefully considered them. However, we do not think there is a sound prudential basis for such differentiated treatments, particularly given the difficulty in demonstrating clear independence between a firm and the value of cryptoassets it issues or influences. Alternative approaches would also be more complex, as firms would be required to continually assess liquidity, market capitalisation, influence, and operational purpose.

For these reasons, we are proceeding with these elements as consulted.

UK-issued qualifying stablecoins will remain exempt from this deduction requirement. This approach recognises our expectation that such cryptoassets will maintain stable value in periods of stress due to the requirements in the regulatory regime including robust safeguarding and record keeping requirements in CASS 16. Therefore, they are unlikely to adversely impact the loss-absorbing capacity of regulatory capital.

Figure 1 shows how the deduction requirement applies to holdings of cryptoassets in our final rules, and how it interacts with the requirement to deduct intangible assets.

Figure 1 – Deduction of cryptoassets from regulatory capital



Deferred tax assets

2.32 To our proposal for deducting deferred tax assets that rely on future profitability, one respondent suggested allowing longer recognition periods for deferred tax assets, noting the still-evolving tax treatment in the cryptoasset industry.

Our response

As the last line of defence, eligibility of regulatory capital typically adopts a more conservative view of movements in balance sheet values. Deferred tax assets generally arise from net losses carried forward and do not represent genuine loss-absorbing capacity that firms can rely on in periods of stress. By requiring firms to deduct deferred tax assets from capital, our regime ensures that only elements that are genuinely capable of absorbing losses are recognised within a firm's own funds.

This approach is consistent with other existing regimes, ensuring a level playing field between firms subject to COREPRU and other sourcebooks. We have therefore included this deduction in our final rules.

Additional clarifications

Position size

2.33 Two respondents asked us to clarify how firms should calculate a qualifying cryptoasset holding's position for the deduction requirement where the firm itself issues or controls the supply of the cryptoasset. They asked whether the amount to be deducted should be based on the gross or the net position in the qualifying cryptoasset.

Control of supply

2.34 Multiple respondents asked for more guidance and specific examples on what constitutes 'control of the supply' of a cryptoasset. They argued that the definition is vague and difficult to determine. Some noted that, without guidance, the definition may inadvertently capture exchanges and other intermediaries that do not exercise meaningful control over a cryptoasset's supply.

2.35 Some respondents also said that determining which cryptoassets have been issued by connected parties would add a significant compliance burden. This may make the UK less competitive than other international regimes.

2.36 A number of respondents made specific suggestions relating to the determination of control of supply. These included establishing percentage thresholds and governance-participation metrics to define control, distinguishing between technical and economic control, and exempting market-making activities.

Connected party

2.37 Several respondents also asked us to clarify the definition of 'connected party'. One noted that the scope of 'close relative' is unclear and recommended limiting it to spouses, parents and children.

2.38 Another respondent suggested that the current definition, which includes 'a member of the same group as the firm', is broad and could create unintended consequences for firms that are part of large groups.

Our response

Position size
Firms must calculate the amount to be deducted from regulatory capital on a gross long position basis. This is because the firm may retain discretion over the issuance or distribution of that cryptoasset, so that any short position is not independent of the firm.

Control of supply
The assessment is intended to be outcomes based and capable of accommodating the diverse structures and arrangements that exist across cryptoasset markets. Control of supply is intended to capture situations where a firm influences a cryptoasset's availability, rather than simply facilitating trading activity or providing liquidity.

We have not introduced quantitative thresholds or prescriptive metrics for control of supply. This could be both under- and over-inclusive, particularly given the evolving nature of cryptoasset arrangements. Instead, we expect firms to apply the guidance in COREPRU 3 on a substance-over-form basis, taking into account the cumulative effect of relevant arrangements and positions.

Connected party
We do not consider the scope of connected parties to be broad. Entities within the same group are treated as connected parties because group membership often creates a material likelihood of control, dependence and contagion. As a result, cryptoassets issued by other group entities cannot be reliably assumed to be economically independent for regulatory capital purposes.

Our draft rules in CP25/15 set out the scope of connected parties for the purposes of this deduction. We have maintained this scope in our final rules. 'Close relative' is a defined term in our Glossary.

Interaction with other regimes

2.39 Two respondents queried whether our proposals would apply to dual-regulated firms, or firms regulated by overseas regulators, that want to undertake cryptoasset activities in the UK. One respondent also recommended a joined-up approach between UK regulators with respect to cryptoasset requirements.

Our response

COREPRU and CRYPTOPRU sourcebooks will apply to a CRYPTOPRU firm, which is defined in our Glossary as a firm with permission to carry on any CRYPTOPRU activity. As set out in the draft Handbook text for CP25/42, this definition excludes PRA-authorised persons. This definition remains unchanged in our final rules.

A firm that is authorised under both CRYPTOPRU and MIFIDPRU must comply with both regimes. We explained in CP25/42 how the own funds requirements in each regime interact. In summary, where a firm is subject to both sourcebooks:

- it must calculate its own funds in accordance with COREPRU

- the permanent minimum requirement is the highest applicable across the 2 regimes
- the fixed overheads requirement must also be calculated under COREPRU, and
- the K-factor requirement is the sum of the K-factor requirements that apply under each regime

Overseas firms undertaking cryptoasset activities in the UK must be authorised by us. Our Approach to International Firms explains our usual approach to overseas firms with UK branches, which expects that they will be subject to comparable prudential regulation in their home state.

However, we recognise that some jurisdictions have not yet adopted full regulatory regimes for cryptoassets. Accordingly, we would encourage firms intending to apply through a branch in line with our Approach to International Cryptoasset Firms to consider the outcomes of the prudential regime, and to demonstrate how this is achieved through prudential regulation in their home state and other arrangements they have in place.

Additional clarifications

2.40 In CP25/15, we recommended that readers interested in the section on the definition and composition of own funds should also read CP25/10, as the types and treatment of own funds of CRYPTOPRU firms would be the same as those for MIFIDPRU firms. In CP25/10 we proposed to:

- remove cross-references to the UK Capital Requirements Regulation (UK CRR)
- simplify and consolidate the existing rules for regulatory capital of FCA investment firms in MIFIDPRU 3

Following the consultation process, we implemented our final rules in PS25/14, which came into effect on 1 April 2026.

2.41 In PS25/14 we made a few minor changes to the final rules in response to feedback. For example, we clarified how firms must apply the deduction for qualifying holdings outside the financial sector when they exceed both the 15% and 60% limits. We consider that these changes are also relevant and appropriate for CRYPTOPRU firms. Therefore, our final rules in COREPRU 3 also reflect the feedback we received in response to CP25/10, ensuring consistency between the regimes.

2.42 We also confirm that, where we did not receive any significant feedback on aspects of our proposed rules, we are implementing them as consulted on – for example, the requirements to obtain prior permission from, or to notify, us in certain circumstances.

2.43 Where we require a firm to submit an application or notification to us, it must use our online system. If the relevant form is not available when the application period starts, we will make alternative arrangements available to firms. We expect relevant forms to broadly reflect the existing forms that apply to firms under MIFIDPRU 3.

2.44 We have also amended our final rules to clarify that a firm does not need to reapply for permission to recognise a capital instrument as CET1 capital if it has already obtained this permission under a similar regime (such as MIFIDPRU or the UK CRR).

Chapter 3

Own funds requirements

3.1 This chapter sets out our final rules on the minimum own funds requirements for CRYPTOPRU firms.

3.2 We are making three substantive changes to our proposals in CP25/15 and CP25/42. These relate to the K-factors for issuing qualifying stablecoins, net cryptoasset position and cryptoasset counterparty default (as a consequence of changes to the K-Factor for net cryptoasset position). We explain our final positions on the:

- permanent minimum requirement (PMR)
- fixed overheads requirement (FOR)
- operational risk K-factors
- exposure-based K-factors

We cover the K-factor for concentration risk (K-CON) in Chapter 4.

Permanent minimum requirement and fixed overhead requirement

Key proposals

Permanent minimum requirement (PMR)

3.3 In CP25/15 we proposed that CRYPTOPRU firms must maintain a PMR of own funds that reflects the activities they are authorised to do. We proposed PMRs of:

- £350,000 for issuing qualifying stablecoins
- £150,000 for safeguarding qualifying cryptoassets

We consulted on these as a proportionate baseline which supports market integrity, firm resilience and consistency with comparable UK and international prudential regimes.

3.4 In CP25/42 we consulted on PMRs for a wider set of regulated cryptoasset activities. These were:

- £75,000 for dealing as agent and arranging deals in qualifying cryptoassets
- £150,000 for operating a cryptoasset trading platform and qualifying cryptoasset staking
- £750,000 for dealing as principal

Fixed overheads requirement (FOR)

3.5 In CP25/15 we set out our FOR proposals for CRYPTOPRU firms. The FOR serves as a stabilising measure, ensuring firms hold adequate capital to withstand the costs associated with an orderly wind-down. We based the calculation on a firm's previous year's audited expenditure. This would be consistent across firms and transparent. We proposed to accommodate newer firms by allowing them to use unaudited figures where necessary.

3.6 We also set out the method for firms to determine their FOR which included examples of expenditure that could be deducted from the calculation. We aimed for simplicity and proportionality, recognising that the FOR is designed to approximate potential wind-down costs. Where third party arrangements give rise to expenses on behalf of the firm, the firm must also capture these to accurately reflect its operating footprint.

3.7 We also proposed the steps firms must take in situations where expenditure changes materially during the year, for both increases and decreases.

3.8 We asked respondents for feedback on the following questions:

CP25/15 Question 3: **Do you have any comments on our proposed overall approach on the Own Funds Requirements (OFR), and the detailed provisions of the specific components: (i) PMR, (ii) FOR, (iii) K-SII, and (iv) K-QCS?**

CP25/15 Question 4: **Do you have any views on the items to be deducted from total expenditure when calculating the FOR, are there any others that may be relevant for cryptoasset firms and if so, why?**

CP25/42 Question 1: **Do you agree with the proposed PMR for the various activities that cryptoasset firms will need to comply with?**

Feedback and responses

3.9 Across the items we asked about in question 3 of CP25/15, overall 15% of respondents were supportive, 15% neutral and 70% unsupportive.

Approach to PMR and FOR

PMR – CP25/15

3.10 Most respondents supported our PMR proposals for UK stablecoin issuers and firms safeguarding qualifying cryptoassets. One asked for more variable risk-based PMRs. Another respondent proposed higher PMRs of £500,000 for UK stablecoin issuers and £250,000 for safeguarding qualifying cryptoassets. Another said we should calibrate the PMRs with further analysis of e-money firms and traditional custodian firms.

3.11 Four respondents said the PMR for UK stablecoin issuers was acceptable in isolation but did not work when combined with the K-factor approach. Respondents also asked us to clarify how PMRs interact with K-factors and the FOR, to avoid duplication or double counting.

PMR – CP25/42

3.12 There were 26 respondents to question 1 of CP25/42. 55% of respondents were supportive, 23% neutral and 22% unsupportive. Most respondents expressed broad support for having a PMR as a prudential baseline for CRYPTOPRU firms. Many saw it as a necessary capital floor that supports resilience and orderly wind-down. Some were positive about the tiered, activity-based structure being coherent and aligned with investment firm style prudential regimes.

3.13 A number of respondents raised concerns about proportionality and calibration, suggesting that the PMR may be:

- too blunt
- not risk-sensitive enough for lower risk or fully hedged models
- materially higher than comparable international regimes (notably the European Union's Markets in Crypto-Assets Regulation (MiCA), which institutes uniform EU market rules for cryptoassets), with potential implications for UK competitiveness

This feedback was particularly in relation to the £750k PMR for dealing as principal.

3.14 Several respondents thought we could make the PMR more risk-sensitive by increasing segmentation, and considering business model, scale and mitigation as segmenting factors. Some were concerned about overcapitalising low risk or new firms. Another four respondents wanted a phased implementation.

3.15 Four respondents agreed we should monitor and recalibrate the PMRs after implementation, once we have supervisory data.

FOR

3.16 We received 31 responses on question 3 of CP25/15 regarding the FOR. Most broadly supported our proposals. They agreed that FOR is a reasonable way to approximate wind-down and that we should include it within the overall OFR structure, and agreed with our methodology.

3.17 Five respondents suggested that firms should only base their FOR calculations on cryptoasset activity. A subset of these respondents also considered that a material increase in relevant expenditure should be defined by reference to the 30% threshold alone, and not the £2 million threshold.

3.18 Three respondents suggested using average total expenses instead. They also considered that the wind-down cost of redemption would be a better metric for UK stablecoin issuers because of the potential for long-tail costs.

3.19 Respondents asked for allowances to be made for new entrants, firms with volatile expenditure, and intra-group service level agreements (where they said the billed cost should be used). One suggested that the firm's Board should determine what counts as 'fully discretionary' expenditure, with flexibility over the timing of that decision.

Our response

After carefully considering all the feedback, our final rules set out the PMR and FOR as consulted on.

PMR

The broad support for PMRs reinforces our view they are an appropriate way to set baseline capital levels, and should vary by activity to support firm and market integrity. We emphasise it is a baseline: it is the higher of the PMR, FOR and K-factor requirement that drives the minimum OFR.

As a baseline representing the minimum each firm should hold, the PMR is not designed to be risk-sensitive. Risk sensitivity is delivered through the K-factor framework, which scales with activity volume, and through the overall risk assessment.

We have built proportionality into the PMR by varying the level by activity, from £75,000 to £750,000.

The £750,000 PMR for dealing as principal aligns with the initial capital requirement for investment firms dealing on own account under MIFIDPRU. We consider that the operational and risk management infrastructure required to deal as principal does not become less demanding because the underlying instrument is a cryptoasset. Aligning the PMR with the analogous MIFIDPRU activity also supports a level playing field across regimes.

We have considered the comparison with MiCA. However, MiCA does not contain a directly equivalent activity and we do not consider that comparison to be a sound basis for departing from the MIFIDPRU calibration.

We do not think transitional arrangements are appropriate. The PMR is a threshold condition for authorisation: a firm cannot be authorised to carry on a regulated activity unless it meets the PMR for that activity. Phasing in the PMR after authorisation would contradict the threshold condition.

We recognise that firms entering the regime need time to prepare. The lead time from publication of this Policy Statement to the opening of the authorisation gateway in autumn 2026, with authorisation on or after the start of the regime on 25 October 2027, provides a reasonable planning period. We will monitor the operation of these rules after implementation.

FOR

In response to the feedback that the FOR should only be based on cryptoasset activity, the purpose of the FOR is to provide a proxy for wind-down costs for the whole firm, not just cryptoasset activity. Therefore, basing it on cryptoasset activity only would not be fit for purpose.

We have retained the dual test for a material increase as either a 30% increase in projected relevant annual expenditure, or a £2m increase in the FOR. The 2 limbs serve different purposes:

- The percentage limb captures proportionate change in smaller firms.
- The absolute limb captures large-scale change in bigger firms, where a 30% threshold could otherwise allow significant absolute increases to pass without triggering reassessment.

The FOR is a core minimum requirement and aligns with our approach for investment firms. We do not agree that there is a need to change this for CRYPTOPRU firms but not investment firms. We therefore also do not agree to use alternative metrics such as average total expenses or the wind-down cost of redemption for UK stablecoin issuers. The fact that FOR is a proxy for wind-down costs also means that firms should allow for volatile expenditure when they calculate it.

Our approach to intra-group service level agreements is covered under 'expenses incurred on behalf of the firm by third parties' in COREPRU 4.3.5R. This is consistent with our approach to other types of firms.

Deductions from total expenditure when calculating FOR

3.20 We received 26 responses on question 4 of CP25/15. 16% of respondents were supportive, 64% neutral and 20% unsupportive. Thirteen respondents either suggested additions to the list of deductible items, such as gas fees, or asked for clarity and guidance on items including:

- global shared services
- technology and development
- depreciation and amortisation

- apportioning group expenses
- a range of crypto activity related costs

3.21 One respondent asked us to give crypto examples and explain cryptoasset expense valuations.

3.22 Five respondents said there should be no exhaustive list and that firms should have discretion over what they deduct.

Our response

We have considered the feedback to question 4 of CP25/15. We include some clarificatory points below. It has not been necessary to amend the Handbook.

Gas fees
We consider that gas fees are comparable to brokerage fees for investment firms and should be treated in the same way. Therefore, firms can deduct 100% of gas fees that they pass on to customers, and 80% of other gas fees. We have amended the rules to facilitate this.

Global shared services, intercompany and compliance technology, amortisation, depreciation and cybersecurity costs
These should not be deducted, as they tend to relate to elements that form a core part of the firm's operations.

Research and development write offs, smart contract audit costs and protocol development costs
We confirm that firms may deduct these if they are non-recurring and incurred through non-ordinary activities.

Currency
The currency of settlement does not by itself determine deductibility. Costs settled in cryptoassets should be treated in the same way as the equivalent costs settled in fiat. They are deductible only if they would be deductible under COREPRU 4.3.3R.

Operational risk K-factors

Key proposals

3.23 K-factor requirements (KFR) form the variable component of the own funds requirements. They are designed to reflect the scale of a firm's ongoing activities. Operational risk K-factors address the operational risks associated with particular regulated activities. Exposure-based K-factors address the market and credit risks for firms that trade qualifying cryptoassets in their own name.

3.24 A firm's capital requirement is the higher of its PMR, FOR or KFR. Different firms performing the same regulated cryptoasset activity may find a different component applies to them, depending on the scale of the activity or the way their business is structured. A firm may also find that different components apply at different times. If a firm undertakes multiple activities, multiple K-factors may apply; it should aggregate these to capture all the risks of harm across its business.

CP25/15

3.25 In CP25/15 we consulted on 2 proposed operational risk K-factors:

- qualifying stablecoins in issuance (K-SII)
- qualifying cryptoassets safeguarded (K-QCS)

We have now renamed K-QCS as the K-factor for cryptoassets safeguarded (K-RCS), as we explain in paragraph 3.30.

3.26 For issuers of qualifying stablecoins, K-SII represents the operational risks inherent in issuance. We consulted on setting it at 2% of the average qualifying stablecoin in issuance, using a 6-month backward-looking arithmetic mean to reduce volatility and give issuers predictability when planning.

3.27 For custodians safeguarding qualifying cryptoassets, K-QCS represents the operational risks associated with safeguarding cryptoassets. We consulted on setting it at 0.04% of average QCS, aligned with similar obligations in traditional custody models. We proposed the same averaging methodology as K-SII, offering consistency and stability in capital planning.

3.28 Where firms use third parties for safeguarding, our proposal reflected the view that firms cannot outsource their operational responsibility. A firm must include all qualifying cryptoassets safeguarded, whether directly or through a third party. This takes account of the distinct risks of overseeing, selecting and monitoring service providers.

CP25/42

3.29 In CP25/42 we proposed expanding the definition of K-QCS to include specified investment cryptoassets, in line with changes in legislation. As a result, both the MIFIDPRU K-factor K-ASA and K-QCS could apply to these assets. We clarified that firms should disapply K-ASA and use K-QCS.

3.30 We also explained that firms must express all relevant metrics in their functional currency, and confirmed the modified calculation approach for operational risk K-factors where firms do not have 9 months of data. To reflect the expanded scope of the safeguarding activity, we have renamed this K-factor. It is now the K-factor for cryptoassets safeguarded (K-RCS). We use this name throughout the rest of this chapter.

3.31 We proposed a new K-factor for client cryptoasset orders (K-CCO). It applies to orders firms execute on behalf of clients, and to orders they receive and transmit when acting as an intermediary or operating a cryptoasset trading platform. We proposed a capital requirement of 0.1% of average cryptoasset orders, aligning with the equivalent traditional finance activity. We included proposals on what would be included in the measurement of client cryptoasset orders (CCO) and the calculation approach.

3.32 We also proposed a new K-factor for cryptoasset trading flow (K-CTF) to reflect operational risk arising from trading activity a firm conducts in its own name, including trades it makes on behalf of clients. We proposed a capital requirement of 0.1% of average daily trading flow, and clarified its distinction from K-CCO, explaining what would be included in cryptoasset trading flow.

3.33 The third new operational risk K-factor we proposed was for clients' cryptoassets staked (K-CCS). We saw parallels in the operational risk profile with custody of cryptoassets and proposed K-CCS would be 0.04% of average client cryptoassets staked (CCS). We also defined how to measure CCS and explained the approach when safeguarding and staking K-factors applied to the same cryptoassets. We also proposed how the measure would apply where firms appoint or are appointed by third parties to undertake staking. This reflected the principle that operational responsibility remains with the firm, and that it must support oversight, delegation and increased operational complexity with appropriate capital.

3.34 We asked respondents for feedback on the following questions:

CP25/15 Question 3: **Do you have any comments on our proposed overall approach on the Own Funds Requirements (OFR), and the detailed provisions of the specific components: (i) PMR, (ii) FOR, (iii) K-SII, and (iv) K-QCS?**

CP25/15 Question 5: **Do you agree with our proposal that the value of qualifying cryptoassets appointed by or to a third-party custodian for the purposes of safeguarding must be included in the measurement of QCS? If not, how else would you suggest that the risk of potential harm from the use of third parties is mitigated?**

CP25/42 Question 2: **Do you have any views on the operational risk K-factors we are proposing for cryptoasset firms?**

Feedback and responses

Approach to K-SII and K-RCS

K-SII

3.35 We received 24 responses to our proposal for K-SII. There was a common view that K-SII was too high and overstated the operational risk, particularly when considered alongside the CASS rules, backing asset requirements and Issuer Liquid Asset Requirement (ILAR). Respondents said we could use a more flexible requirement with a tiered or tapering metric as issuance scaled, based on risk weighting or a cap. Some felt that our proposed metric could limit issuer growth and have a destabilising effect through the secondary market.

3.36 A few responses asked for guidance on:

- valuation for K-SII
- how K-SII would apply to a UK affiliate facilitating the sale of an overseas stablecoin or stablecoins owned by the issuer

3.37 One respondent asked us to clarify how K-SII would apply across the range of issuance activities defined in Article 9M of the Cryptoassets Regulations. Another asked if infrastructure providers would be exempt.

3.38 One respondent said we should increase K-SII from 2% to 3%, based on market stress tests.

K-RCS

3.39 We received 19 responses to our proposal for K-RCS. There was support for the principle of an operational risk K-factor. Eight responses suggested:

- alternative metrics using client or transaction volume
- adjustments based on:
  - jurisdiction
  - operating history
  - use of statutory trust or use of an FCA regulated custodian
  - exclusion of title transfer collateral arrangements

3.40 Some respondents were concerned about volatility in the averaging approach due to crypto volatility or rapid growth, and said we needed measures for new firms. They thought complexity could be costly and firms would pass this on to consumers. They suggested we could use a Pillar 2 approach or a longer averaging period for calculation.

3.41 A small number of responses asked us to clarify the basis of K-RCS, particularly for specific tokenised investments and for the application of MIFIDPRU and CRYPTOPRU requirements. A few other responses asked for guidance on applying K-RCS where activities overlap, and on valuation and disclosure requirements.

Our response

K-SII

In our final rules we have reduced the K-SII coefficient from 2% to 1%. Other than this change the final rules are as consulted on.

Our original proposal used the stablecoin regimes in other jurisdictions and that for e-money as comparators, but we recognise that they apply their metrics to risk more broadly.

Issuing a UK-issued qualifying stablecoin is subject to a comprehensive set of risk mitigants. These are set out in more detail in our stablecoin issuance Policy Statement PS26/10 and include:

- the requirement for issuers to maintain full 1:1 backing of qualifying stablecoins
- statutory trust over the backing asset pool
- reconciliation requirements
- the redemption regime
- safeguarding rules in CASS 16

Together, these mitigants substantially reduce the residual operational risk that K-SII is intended to cover.

In deciding the new metric, we have considered what operational risks are present. These largely relate to failures in systems, processes and controls associated with the safeguarding of backing assets. There are also additional risks arising from the need to use third parties and the demands on governance. We consider that, on balance, our new calibration improves proportionality at scale while maintaining the robustness of the prudential regime.

We considered the feedback that we should be more flexible and that operational risk does not increase in a linear fashion as a firm's operations scale. While there is merit in this view, we also note that operational complexity may increase with scale. We have decided not to apply any tapering, tiering, risk weighting or cap to the metric at this stage. We do not think there is enough data available currently to accurately calibrate such approaches. Instead, we will use a competitive, flat metric. Firms may choose to apply more sophisticated approaches if the operational risk capital requirement identified as part of the overall risk assessment exceeds minimum requirements.

The other elements of our K-SII proposal in our final rules are unchanged. K-SII is calculated as a percentage of the average qualifying stablecoins that the UK stablecoin issuer is liable to redeem, excluding any deductions required in the rules. The average is calculated using the daily values for the previous 9 months, excluding the most recent 3 months and taking the arithmetic mean of the remaining 6 months. The modified calculation for issuers with less than 9 months of data also remains as proposed in CP25/15.

On the application questions raised by respondents, we confirm that the activity test is whether the firm is 'issuing a qualifying stablecoin' as defined in our Glossary.

A UK affiliate facilitating the sale of an overseas stablecoin but not carrying on the activity in Article 9M of the Cryptoassets Regulations would not be subject to K-SII. Qualifying stablecoins minted by another person outside of the UK may be included if they are fungible with the relevant UK-issued qualifying stablecoins as per CRYPTOPRU 4.4.4G(1)(b). Stablecoins owned by the issuer would be deducted from capital in accordance with COREPRU 3.3.39R and not subject to K-SII, unless they are UK-issued qualifying stablecoins (see Figure 1). Pure infrastructure providers that are not carrying on the activity in Article 9M of the Cryptoassets Regulations are not subject to K-SII.

On valuation, the value of qualifying stablecoins that the UK stablecoin issuer is liable to redeem, excluding any deductions required in the rules, is the value of each stablecoin in its functional currency. For example, 1 stablecoin = 1 GBP. Stablecoins held by the issuer itself are not included in the measurement, because they do not represent third-party exposure that the issuer is liable to redeem.

We also considered the suggestion to increase K-SII to 3% based on stress test analysis. The stress tests referenced do not provide enough evidence to change the calibration we set out. A higher coefficient is likely to conflate the operational risk K-SII covers with:

- the liquidity and market risks addressed by the issuer liquid asset requirement (ILAR)
- the backing asset requirements set out in our stablecoin issuance Policy Statement PS26/10

K-RCS

We want to provide simple and straightforward metrics for calculating minimum capital requirements, including K-factors. We considered a longer averaging period (for example, to 15 months), a non-linear curve for large firms, and alternative metrics. We have concluded there is not enough data to justify changing the K-RCS metric from that which we consulted on at this stage.

We will retain the current K-RCS approach. The existing 6-month average with a 3-month lag already mitigates volatility. Extending the period may not materially reduce it further. We maintain the view that aligning the metric with K-ASA in MIFIDPRU is appropriate given similar operational risks.

K-RCS applies to all firms safeguarding cryptoassets. In applying K-RCS, the same coefficient will apply to all qualifying cryptoassets and relevant specified investment cryptoassets in respect of which the firm is carrying on the safeguarding cryptoassets activity. We may come back to consider this again if we see increased potential risk arising where the safeguarded assets are held outside trust arrangements.

At a coefficient of 0.04%, K-RCS may not be the binding component of the OFR for most firms purely doing the cryptoasset safeguarding activity. We illustrated the dynamic between the components in the worked examples in paragraphs 4.49 to 4.52 of CP25/15. We will keep this metric under review as more data becomes available.

The overall risk assessment framework in CP25/42 allows firms to apply more risk-sensitive analysis to the operational risks of harm arising from safeguarding cryptoassets where the resulting capital required exceeds minimum requirements.

Using third parties for safeguarding

3.42 We received 31 responses to question 5 of CP25/15. 35% of respondents were supportive, 23% neutral and 42% unsupportive. There was support for having rules on this, but there were also some other key themes.

3.43 Some respondents thought that including cryptoassets with third party custodians in K-RCS did not reflect the operational risk. They said these cryptoassets should have a discounted rate for K-RCS calculations.

3.44 Some thought we could use a risk-based model, perhaps considering due diligence, the existence of clear agreements, the use of quarterly third-party assessments or contingency requirements.

3.45 Others asked us to clarify circumstances of application, cold storage, multi-signature schemes, segregated wallets and group arrangements.

3.46 There was also a suggestion to require cross-checks on asset valuation, and a call for cross-border coordination mechanisms to enhance the framework.

Our response

Much of the rationale for K-RCS which we consulted on is also relevant to third parties. In particular, we note:

- the need for simplicity in metrics for calculating minimum capital requirements
- the scale of activity needed to trigger this K-factor requirement
- the scope under the overall risk assessment framework to tailor requirements to the specific risks for each firm

A risk-based or due-diligence-driven model would require substantial FCA supervisory resources and intensive firm-by-firm engagement, and impose a disproportionate burden on smaller custodians. Additional risk management requirements are unnecessary as these risks are already addressed through existing Handbook provisions and the overall risk assessment.

We believe that there are risks of harm from delegating the safeguarding and administration of assets to another entity, and where a firm has the activity delegated to it by another entity. Both situations need to be included when measuring RCS.

We recognise that this creates the appearance of double counting, as the same cryptoassets may be included in the K-RCS calculation of 2 firms. However, where one firm delegates safeguarding to another, the delegating firm continues to bear operational risk. This includes the risks of selecting, monitoring and overseeing the delegate, and the residual exposure to its clients if the delegate fails. The receiving firm bears the direct operational risk of holding the assets. Both risks are real and neither is eliminated by the other.

Given the deliberately simple, broad-proxy design of operational risk K-factors and the modest 0.04% coefficient, we do not consider it proportionate to try to disaggregate the two at this stage. We will therefore retain in the final rules the approach consulted on and keep it under review as more data becomes available, with the option to adjust at a future date if evidence supports it.

As we explained in paragraph 4.43 of CP25/15, the selection, appointment and periodic review of any third party which a firm has appointed for safeguarding is a separate potential source of harm. This is caused by the increased operational complexity for the firm and the additional controls and oversight it must have in place. A firm cannot reduce its level of cryptoassets safeguarded by appointing a third party to do the safeguarding. Using the same separate potential source of harm principle, where a firm has been appointed by another entity for safeguarding it must take responsibility for the cryptoassets it safeguards.

Operational risk K-factor requirement

K-CCO, K-CTF and K-CCS

3.47 We received 26 responses to question 2 of CP25/42. 40% of respondents were supportive, 13% neutral and 47% unsupportive. There was broad support in principle for using operational risk K-factors to scale prudential requirements for CRYPTOPRU firms. This particularly applied where K-factors capture technology, cyber, fraud, third-party dependency and operational resilience risks inherent in crypto markets.

3.48 However, respondents were concerned that our proposed calibration was not risk-sensitive enough. Many argued that volume or throughput is a poor proxy for operational risk in crypto markets. Several said the framework represents a proxy for firm size rather than operational risk exposure.

3.49 Some feedback focused on duplication and cumulative impact. Respondents highlighted potential double counting with PMR, FOR, overall risk assessment and existing controls. They also said that layering multiple K-factors could materially overstate risk and capital needs for certain business models.

3.50 A number of respondents raised concerns about international competitiveness, particularly among trading firms. This was particularly linked to MiCA's avoidance of K-factors. Respondents warned that mis-calibrated operational risk K-factors could deter entry, distort market structure and incentivise offshoring.

3.51 Some respondents asked us to be more transparent about the data, modelling assumptions and empirical evidence we used to set coefficients, particularly given limited historical crypto loss data. Others thought operational complexity and compliance costs would be high, with concern that firms would pass this on to consumers.

3.52 One respondent highlighted a discrepancy between paragraph 3.17 of CP25/42 and the drafting of CRYPTOPRU 4.7 in that the consultation paper said K-CCO would apply to a firm in its capacity as the operator of a qualifying cryptoasset trading platform but the draft Handbook rules did not. The same respondent asked us to clarify:

- the meaning of 'reception and transmission' as referenced in CRYPTOPRU 4.7.2G
- the Glossary definition of 'client cryptoasset orders'

3.53 Another respondent asked whether K-CCO is the right instrument for firms whose primary business is the use of qualifying stablecoins as a means of payment. They also raised concerns about a potential overlap with capital requirements applied to authorised payment institutions (APIs) and electronic money institutions (EMIs) under the Payment Services Regulations (PSRs) and the Electronic Money Regulations (EMRs).

Our response

K-CCO, K-CTF and K-CCS

We recognise that cryptoassets can be bought and sold against cash or stablecoins. Considering the money-like use of stablecoins, we have amended the definition of 'cryptoasset order' to exclude orders that only include UK-issued qualifying stablecoins.

On calibration, the 0.1% coefficient is aligned with the equivalent calibration for client order handling under MIFIDPRU (K-COH). We consider this alignment appropriate as the operational risks are substantially the same.

We acknowledge comments about risk sensitivity, however operational risk K-factors are designed with simple risk metrics that can be applied by all affected firms as a way of setting minimum requirements. Firms can tailor the approach to their own operational risk profile through the overall risk assessment framework, and apply the result if it is higher than minimum requirements. Firms must calculate their minimum capital requirements to be the highest of their PMR, FOR and K-factor

requirements. Given the coefficients in these metrics, the K-factors may not become binding for smaller firms. For example, if a firm is authorised for the regulated activity of qualifying cryptoasset staking, its average client assets staked would have to be over £375m before its K-CCS would be higher than its PMR of £150,000.

On the comparison with MiCA, we note that MiCA does not use a K-factor architecture. More broadly, we recognise that the UK may be the first major jurisdiction to apply prudential requirements to a wide range of regulated cryptoasset activities. Some jurisdictions that respondents pointed to either exclude these activities from the perimeter entirely or rely on alternate mitigants such as insurance. Differences in scope and perimeter of this kind mean that headline capital comparisons across jurisdictions are not a like-for-like measure of competitiveness. We have concluded that the right response to this is to recalibrate in those areas where the evidence supports it, rather than stepping back from the prudential framework altogether. The changes we are making in this Policy Statement to K-SII, K-NCP and K-CCD reflect that approach.

While the overall risk assessment framework is applied alongside the minimum requirements, this may not always result in additional capital requirements.

Where multiple K-factors could apply to a firm due to the regulated activities it undertakes, we generally apply the metrics to capture the total operational risk from distinct activities. For example, K-CCO is based on client orders whereas K-CTF is based on daily trading flow (orders in the firm's own name). The two calculations would represent the separate activities and together would represent the risk from the combination of activities. We do not see this as an overstatement of the risk.

Operational risk K-factors can overlap. For example, the respective K-factors for safeguarding cryptoassets and cryptoasset staking may apply to the same assets. In this situation, we were clear in paragraph 3.30 of CP25/42 that firms only need to apply the calculation for safeguarding cryptoassets.

We agree that there is limited historical crypto loss data for calibrating coefficients. Our current approach is technology agnostic, with a same risk, same regulatory outcome principle. The assumption is therefore that activities with a parallel traditional finance activity, such as handling client orders or trading on a firm's own account, should have the same operational risk coefficients. We consulted on this framework in paragraph 3.2 of CP25/42, where we explained that we had aligned the new K-factors with their traditional finance equivalents and would only diverge where unique cryptoasset risks justified it. K-CCO is aligned with K-COH in MIFIDPRU, K-CTF with K-DTF, and K-RCS and K-CCS with K-ASA.

We have therefore retained these coefficients in the final rules and will keep them under review as more data becomes available, with the option to adjust at a future date if evidence supports it.

In the final rules we have clarified our intention that K-CCO applies to the operator of a qualifying cryptoasset trading platform by amending the Glossary definition of Cryptoasset Client Orders. We are also clarifying that where a firm handles an order involving both a qualifying cryptoasset and a MiFID financial instrument the cryptoasset leg of the order falls within the scope of K-CCO and the financial instrument leg falls within the scope of K-COH (the MIFIDPRU K-Factor for client orders handled). The firm must include each leg separately in the relevant K-factor calculation.

Similarly, we are clarifying that where a transaction entered into by a firm on its own account involves both a qualifying cryptoasset and a MiFID financial instrument, the cryptoasset leg of the order falls within the scope of K-CTF and the financial instrument leg falls within the scope of K-DTF (the MIFIDPRU K-Factor for daily trade flow). The firm must include each leg separately in the relevant K-factor calculation.

Exposure risk K-factors

Key proposals

3.54 In addition to activity-based K-factor requirements, in CP25/42 we introduced 3 exposure-based K-factors. These define the capital requirements for firms with trading book activities. Our proposed exposure risk K-factors were:

- net cryptoasset position (K-NCP)
- cryptoasset counterparty default (K-CCD)
- concentration risk (K-CON)

Paragraphs 3.55 to 3.85 cover trading book positions and K-NCP, K-CCD is covered in paragraphs 3.86 to 3.98 and K-CON is covered in Chapter 4.

Trading book positions

3.55 We consulted on the exposure-based K-factors applying to positions held in the trading book. We proposed a definition of the trading book consistent with the existing definition in MIFIDPRU.

3.56 We proposed applying requirements for managing and valuing trading book positions in qualifying cryptoassets that are identical to those applying to MIFIDPRU firms.

3.57 We also proposed applying an additional value adjustment (AVA) as a deduction from CET1 capital, based on the value of trading book positions. This is intended to address potential valuation uncertainty. We excluded certain positions from the application of AVAs.

K-NCP and categorisation of cryptoassets

3.58 Our proposed K-NCP requirement is intended to capture market risk arising from changes in the value of cryptoassets held in the trading book. We explained that K-NCP would apply to CRYPTOPRU firms holding positions in qualifying cryptoassets as part of their trading book, including positions held on behalf of clients.

3.59 We proposed that firms should calculate K-NCP by reference to any trading book positions in qualifying cryptoassets, excluding certain exposures such as UK-issued qualifying stablecoins. We also set out how firms would calculate K-NCP. We proposed capital requirements of 40% for Category A cryptoassets and 100% for Category B cryptoassets.

3.60 We explained that the lower capital requirement for Category A reflects higher levels of market maturity, liquidity and resilience, supported by our analysis of price data from the preceding 5 years. We proposed a set of conditions that firms must assess to determine whether a cryptoasset would qualify as Category A, alongside expectations around governance, documentation and ongoing monitoring.

3.61 Finally, we proposed that firms must monitor their K-NCP requirement on an intraday basis and ensure they have sufficient own funds before executing trades. We also provided an illustrative example to demonstrate how the K-NCP requirement would apply in practice to a simple trading book.

3.62 We asked respondents for feedback on the following questions:

CP25/42 Question 3: **Do you have any views on our proposals for positions in the trading book, including the definition, management and additional value adjustments?**

CP25/42 Question 4: **Do you have any views on the categorisation of cryptoassets, particularly on the conditions attached to a cryptoasset being included in Category A? Do you agree with the proposed capital charges for each category under our net cryptoasset position (K-NCP) proposals?**

3.63 In this section we respond to the feedback on our proposals for K-NCP and K-CCD, and on the definition of the trading book. We respond to feedback received on K-CON proposals in Chapter 4.

Feedback and responses

Trading book positions

3.64 We received 22 responses to question 3 in CP25/42 on the trading book definition and AVAs. 49% of respondents were supportive, 13% neutral and 38% unsupportive.

3.65 Many respondents supported our proposals. They welcomed the alignment with MIFIDPRU requirements, saying our approach is appropriate and necessary.

3.66 However, some did not support some areas of our proposals. They asked us to clarify the scope of the trading book and made suggestions regarding the application of AVAs – particularly in light of the characteristics of cryptoasset markets, which differ from traditional markets with defined trading hours.

3.67 A small number of respondents did not support our general expectation that all positions in qualifying cryptoassets would be recorded in the trading book. By way of example, they noted that firms are likely to hold regulated stablecoins for treasury or settlement purposes. They asked us to clarify that we would not treat such holdings as being held with trading intent.

3.68 Respondents asked us to clarify how AVAs apply to different positions, including hedged exposures, and whether this would include synthetic positions offsetting physical positions. They also wanted to know how they will interact with exposure-based requirements, to avoid duplicative adjustments.

3.69 One respondent asked if firms can recognise credit risk mitigation techniques to reduce trading book exposures. Others were concerned that cross-references to the UK Capital Requirements Regulation may make the rules harder for cryptoasset firms to navigate, given their limited familiarity with that framework.

3.70 One respondent said firms should not deduct AVAs from CET1 capital, describing the approach as overly punitive and duplicative of the K-NCP requirement. They argued that no equivalent deduction applies to traditional finance instruments, which may be less liquid and transparent.

3.71 Two respondents suggested that an AVA of 0.1% may not be risk-sensitive enough, particularly for illiquid assets. Suggestions included a dynamic or tiered approach based on asset liquidity, or recognising limited valuation uncertainty within the framework.

3.72 Some raised operational concerns, including a suggestion to allow simplified estimation methods for AVAs to reduce operational burden. One respondent proposed exemptions or lower coefficients for AVAs applied to holdings of qualifying stablecoins, reflecting their lower price volatility.

3.73 Another respondent said we should monitor AVAs and recalibrate them where market conditions or data indicate misalignment. The same respondent also recommended treating AVAs as a dynamic parameter subject to ongoing monitoring and calibration.

Our response

In light of the general support for our approach, we are substantially implementing our final rules as consulted.

We agree that in certain circumstances firms should not record holdings of qualifying cryptoassets in the trading book – for example, when they pay operating expenses with a cryptoasset. We have amended our final rules to reflect this.

When determining whether a position should be recorded in the trading book, firms must refer to our Glossary definition of 'positions held with trading intent' and within MIFIDPRU 4.11.3R. They must base their assessment on appropriately documented strategies, policies and procedures that they have in place to manage the relevant position or portfolio.

Regarding the recognition of credit risk mitigation techniques, our rules on AVAs and exposure-based K-factors specify the scope of application of each requirement, including where firms may net or offset trading book positions.

We also recognise that cross-referring to the UK CRR may introduce complexity for firms that are less familiar with that framework. In the medium term, we intend to remove these cross-references and integrate relevant material into our Handbook.

On the application of AVAs, our approach is aligned with the requirements that apply to firms under MIFIDPRU. We consider that adopting more dynamic approaches would increase implementation and ongoing compliance challenges for firms. We believe that our approach to calculating and applying AVAs currently remains appropriate and proportionate and is consistent with other existing regimes. We may revisit our approach in a holistic way as part of our wider work to review market risk capital requirements and the trading book. We would consult on any changes.

We also confirm that the amended Handbook text we consulted on in CP25/42 and our final rules exclude positions in UK-issued qualifying stablecoins from the application of AVAs.

AVAs and exposure-based K-factors are based on distinct purposes that each requirement aims to serve. The deduction of AVAs from CET1 capital is designed to address valuation uncertainty associated with trading book positions. By contrast, exposure-based K-factors introduce a minimum requirement to address exposure risk arising from firms trading in cryptoassets in their own name. In this regard, we do not consider that these requirements are duplicative.

K-NCP and categorisation of cryptoassets

3.74 Twenty-seven respondents provided feedback to question 4 in CP25/42 on the K-NCP requirement and our proposed categorisation of cryptoassets. 35% of respondents were supportive, 20% neutral and 45% unsupportive.

3.75 In general, respondents supported our intention to design a risk-sensitive and proportionate framework to address market risk arising from changes in the value of cryptoassets held in the trading book. They considered that our overall approach to categorising cryptoassets was appropriate.

3.76 However, many raised significant concerns about the operability of the Category A criteria, the cliff-edge effects of reclassification events, and the calibration of the proposed capital requirements.

3.77 Respondents argued that the combination of trading venue, stable operational history and average daily volatility requirements risked excluding highly liquid and widely traded cryptoassets from Category A. They suggested that, as drafted, very few cryptoassets other than certain stablecoins would qualify as Category A, leading to most positions in qualifying cryptoassets being subject to the Category B capital requirement by default.

3.78 Many thought we needed more than 2 categories with materially different capital requirements. They argued that our approach was not risk-sensitive enough and created cliff-edge effects, where a cryptoasset ceases to meet one Category A condition and is immediately reclassified as Category B. Respondents noted that this could result in sudden and substantial increases in capital requirements, leading firms to liquidate their positions and increasing cryptoasset price volatility.

3.79 A substantial number of respondents did not support the capital requirements of 40% for Category A and 100% for Category B cryptoassets. They said this was restrictive and disproportionate compared to the requirements for traditional finance instruments and the treatment of cryptoassets under other international regimes like MiCA. In their view, this proposal would disincentivise firms from operating in the UK.

3.80 Respondents also raised concerns about the requirements for intraday monitoring of K-NCP and maintaining systems and controls to regularly review the classification of cryptoassets. They noted that these requirements would be operationally burdensome.

3.81 Respondents proposed a number of alternative approaches. Several suggested introducing additional categories of cryptoassets, with capital requirements that increase gradually with the characteristics of the cryptoasset, such as volatility. In their view, a more granular framework would reduce cliff edge effects and better cater for situations where highly liquid cryptoassets do not meet all Category A criteria.

3.82 Respondents also said we should reconsider and simplify the criteria for Category A.

3.83 The feedback also emphasised the need for smoothing or transitional mechanisms to manage reclassification events. Respondents said this would help mitigate procyclicality and reduce the risk of firms withdrawing liquidity during periods of stress.

3.84 Several respondents proposed recalibrating and lowering the capital requirement for Category B.

3.85 In CP26/4, we also asked whether respondents had views on what qualifying cryptoassets should be assessed as Category A or B for the purposes of communication with clients and financial promotions. In their feedback, respondents also commented on the design and categorisation criteria for Categories A and B, similar to feedback to question 4 in CP25/42. Our response addresses the feedback to both CP26/4 and CP25/42.

Our response

We have revised the K-NCP framework in our final rules. These revisions address respondents' concerns and ensure that our approach to market risk arising from changes in the value of cryptoassets, which are often highly volatile assets, is proportionate and operable in practice.

Classification of qualifying cryptoassets

We agree that our proposal could have added complexity to the requirement and could have had cliff-edge effects. It could have produced inconsistent outcomes, with the same cryptoasset being treated differently across firms. Based on the feedback we have:

- significantly reduced the complexity of the K-NCP requirement and removed the operational burden of classifying and reassessing cryptoassets
- eliminated cliff-edge effects
- delivered a proportionate framework by supporting more stable and predictable capital outcomes for firms trading in cryptoassets

We have done this by making the following changes:

a) Capital requirement simplified to a single position risk adjustment

In our final rules we have retained a single position risk adjustment of 40%, applied to the net exposure value of each cryptoasset within scope. A minimum capital requirement for market risk should provide a sufficient level of protection against potential losses across different stages of the economic cycle.

While the number of cryptoassets has grown significantly, sustained market activity and reliable price history remain concentrated within a relatively limited subset of instruments. As a result, the available historical observations do not yet span a full economic cycle across a broad range of market conditions.

Given the prudential objective of market risk capital requirements – to ensure firms hold sufficient capital throughout the economic cycle – we have calibrated the requirement at a level intended to remain effective across varying market conditions. On this basis, a 40% capital requirement is broadly consistent with capturing 99% of historical losses over a five-day holding period.

b) Cryptoassets that do not meet these conditions are deducted from regulatory capital

However, we recognise that the cryptoasset market continues to display varying levels of development. For certain cryptoassets, limitations in trading arrangements or valuation capability may give rise to risks that capital requirements do not adequately address. We want to ensure that our framework appropriately reflects the risk profiles of such qualifying cryptoassets. Therefore, we require firms to treat the following cryptoassets as intangible, as outlined in COREPRU 3:

- cryptoassets that are not admitted to any UK qualifying trading platform (UK QCATP)
- cryptoassets held in trading book that cannot be prudently valued

Firms must deduct these cryptoassets from their regulatory capital. This will improve the loss-absorbing capacity of the trading book across different stages of the economic cycle.

We previously consulted that any positions in Category A cryptoassets could not be marked to model. However, in light of the above changes, in our final rules we allow firms to use models, as long as they comply with the prudent valuation requirements in MIFIDPRU 4.11.3R.

This approach supports the consistent application of valuation standards and reinforces the overall robustness of the prudential framework, aligning the treatment of cryptoassets with that of traditional financial instruments.

UK-issued qualifying stablecoins

As we proposed in CP25/42, positions in UK-issued qualifying stablecoins will continue to be excluded from the K-NCP requirement.

Non-UK-issued qualifying stablecoins

Non-UK-issued qualifying stablecoins within the scope of this requirement must be treated as other qualifying cryptoassets, and are therefore subject to a 40% position risk capital requirement. This reflects the potential for higher residual risks associated with overseas stablecoins due to:

- differences in evolving regulatory frameworks in other jurisdictions
- stress events that could undermine confidence in issuers or backing arrangements, and result in heightened price volatility

We will continue to monitor international regulatory developments, and may review this calibration as frameworks in other jurisdictions evolve.

International landscape
The international landscape for regulating cryptoasset activities is rapidly evolving, and the treatment of different activities and cryptoassets may continue to change as these developments mature. In this context, we recognise that regulatory approaches to cryptoasset firms are still developing across jurisdictions.

Our intention in introducing a proportionate net risk position requirement for CRYPTOPRU firms is to help build market and consumer confidence in UK-regulated cryptoasset markets, supporting their continued development. We will continue to refine our framework as markets develop, international standards advance, and the availability of high-quality data improves.

We are currently reviewing market risk capital requirements for FCA investment firms. We published an engagement paper in December 2025 setting out the background and objectives of this work. That review is separate from the K-NCP requirement for CRYPTOPRU firms. However, in light of the progress and outcomes of that review, we may do a more holistic review of K-NCP, including the prudent valuation framework for cryptoassets. We would consult on any such review.

Overall risk assessment for any residual risk
The requirement to hold capital under K-NCP represents the minimum own funds requirement for market risk in qualifying cryptoassets. In practice, cryptoassets exhibit varying degrees of market maturity, liquidity and resilience. While K-NCP provides a robust and proportionate minimum requirement, firms may need to hold additional own funds. For example, this may be necessary for positions in cryptoassets with characteristics that make them more prone to extreme price volatility, or where the actual observed volatility warrants it. Firms must assess this as part of their overall risk assessment, and hold additional capital where they identify risks the minimum requirement does not cover.

Intraday monitoring requirements
We have removed the provision requiring firms to recalculate the K-NCP requirement before executing any trade. We agree that it would pose operational difficulties for business models in which trades are executed over shorter timeframes.

Treatment of tokenised financial instruments
In the draft Handbook text in CP25/42, we explained that a tokenised financial instrument in the trading book would not be subject to the K-NCP requirement. Instead, they would be subject to the K-NPR or the K-CMG requirements related to market risk. We have maintained this in our final rules, as the definition of qualifying cryptoasset generally excludes a specified investment cryptoasset. We will continue to engage with industry as more practical use cases emerge and tokenised markets continue to develop.

Updated calculation example
We have updated the example calculation from CP25/42 to illustrate how K-NCP applies to a simple trading book under our final rules.

Cryptoasset	Long	Short
Asset A	£5,000	£3,000
Asset B	£10,000	£0

Step 1: ascertain net positions
Asset A: £5,000 (long) – £3,000 (short) = £2,000 net long
Asset B: £10,000 (long) – £0 (short) = £10,000 net long

Step 2: apply position risk adjustment
Asset A: £2,000 x 40% = £800
Asset B: £10,000 x 40% = £4,000

Step 3: total K-NCP requirement across assets
£800 + £4,000 = £4,800

Cryptoasset counterparty default requirement

3.86 In CP25/42, we consulted on a capital requirement for cryptoasset counterparty default (K-CCD).

Key proposals

3.87 We proposed that K-CCD would apply to firms entering into transactions involving qualifying cryptoassets that expose them to counterparty default risk lasting longer than the standard settlement period for a spot trade. This includes, for example, exposure to cryptoasset lending, cryptoasset borrowing and economically equivalent arrangements. The requirement does not apply to spot trades, where settlement is immediate or near-immediate.

3.88 We proposed that firms must calculate the K-CCD requirement for each transaction with a formula that is the product of a scalar factor, an exposure value and a counterparty risk factor.

3.89 In our proposals, the exposure value calculated for each transaction was symmetrically adjusted by reference to the replacement cost and to collateral received, to reflect market volatility. These volatility adjustments varied depending on the asset class, with the adjustments for cryptoasset categories A and B aligned to their respective K-NCP capital requirements. UK-issued qualifying stablecoins attracted a 0% adjustment.

3.90 Our proposals for the applicable risk factor varied by counterparty. The higher risk factor (83.33%) for retail clients was to ensure that firms significantly over-collateralise their transactions with retail clients. This aligned with our proposal in CP25/40 on negative balance protection, so that firms would have no recourse to recover cryptoassets borrowed by retail clients beyond the collateral received.

3.91 We asked respondents for feedback on the following question:

CP25/42 Question 5: **Do you have views on our framework for calculating cryptoasset counterparty default requirements (K-CCD) for cryptoasset firms? Are there any transactions that you think would give rise to counterparty credit risk but are not covered by our proposed rules?**

Feedback and responses

3.92 We received 24 responses on K-CCD. 49% of respondents were supportive, 19% neutral and 32% unsupportive. Most supported a counterparty default requirement tailored to CRYPTOPRU firms and their activities, but raised concerns about calibration and application. They broadly acknowledged that counterparty credit risk arises in crypto markets, and supported a dedicated requirement to mitigate this risk.

3.93 Six respondents said the retail client risk factor of 83.33% was too high. They argued that the calibration is insufficiently risk-sensitive to over-collateralised retail borrowing models, so could make regulated retail cryptoasset borrowing commercially unviable.

3.94 Six respondents thought the volatility adjustments were too high. They said they could overstate exposure values and limit the effective recognition of certain cryptoassets as collateral.

3.95 Six respondents asked us to clarify how to treat non-UK-issued qualifying stablecoins. Some said we should extend the treatment of UK-issued qualifying stablecoins to non-UK-issued qualifying stablecoins. Others argued that the volatility adjustment of non-UK-issued qualifying stablecoins should reflect a cash-like risk profile.

3.96 We received 15 responses on K-CCD for crypto-native settlement technologies and structures. Some of these argued that these technologies, including pre-funded, delivery versus payment style execution and atomic settlements, reduce the risk of counterparty default. Therefore, they should have lighter capital requirements under K-CCD. Others asked us to clarify and give examples of how K-CCD applies to transactions involving decentralised finance protocols, cross-chain bridges or swaps, and other non-standard settlement structures. Some respondents asked us to clarify and provide a definition for a standard settlement period for a spot trade.

3.97 Three respondents raised concerns that K-CCD would result in double counting of transactions, which would be subject to capital requirements under both K-NCP and K-CCD. They also said the cumulative impact of capital requirements could result in total capital requirements exceeding 100% of the position value.

3.98 Fourteen respondents compared K-CCD to overseas regimes, voicing concerns about the divergence of regulation from other jurisdictions, including the EU.

Our response

We have amended our proposals in our final rules to reflect changes to the volatility adjustments. We have not changed the retail client risk factor.

Retail counterparty risk factor

The higher counterparty risk factor of 83.33% for retail clients and the scalar of 1.2x effectively requires firms to hold capital equivalent to the full exposure value after accounting for the collateral received. This is consistent with our policy on negative balance protection for retail clients, as set out in Chapter 6 of PS26/11 and reflected in CRYPTO 9.7 (which prevents firms' ability to recover cryptoassets lent to retail clients beyond the collateral already received).

Consequently, firms transacting with retail clients may be exposed to the full value of their clients' commitments. They should therefore ensure that their retail cryptoasset borrowing activities are appropriately over-collateralised. Cryptoasset lenders using over-collateralised models may also have to hold additional capital for exposures to retail clients. This is a result of the volatility adjustments, which require firms to adjust the value of the collateral received and the replacement costs of the cryptoasset when calculating their exposure value under K-CCD.

These adjustments are necessary to reflect market volatility and to ensure that firms do not over-estimate the protection provided by the collateral they have received. The rules aim to ensure that firms engaging in cryptoasset lending to retail clients are adequately capitalised against their counterparty default risk. As a result, we are not changing the retail client risk factor. However, we have amended the rules to clarify that only retail clients who benefit from negative balance protection attract the 83.33% risk factor.

K-CCD volatility adjustments

We are changing the K-NCP capital requirements for qualifying cryptoassets to a single position risk adjustment of 40%, where they have been admitted to a UK QCATP, are being held in the trading book and can be prudently valued. We will also change the K-CCD volatility adjustments for such qualifying cryptoassets to 40%, aligning to the applicable capital requirement under K-NCP.

However, where a firm receives an asset as collateral which would ordinarily be deductible from its regulatory capital, the collateral is subject to a 100% volatility adjustment for K-CCD (because the collateral may not have meaningful realisable value if a counterparty defaulted).

Our approach to non-UK-issued qualifying stablecoins is aligned to our approach for K-NCP. The applicable volatility adjustments for non-UK-issued qualifying stablecoins will therefore be 40%.

Transactions involving cryptoassets and MiFID financial instruments
We have also amended the rules for transactions that:

- involve both a qualifying cryptoasset and a MiFID financial instrument
- are within scope of both K-CCD and K-TCD (trading counterparty default) under MIFIDPRU

Firm should apply K-CCD to these transactions rather than K-TCD, so that the appropriate capital requirements apply.

We remind firms that they may conclude from their overall risk assessment that a higher volatility adjustment is appropriate. In such cases, a firm may need to apply a higher volatility adjustment than those stated in our rules.

Settlement considerations for transactions in scope of K-CCD
K-CCD applies only to transactions in qualifying cryptoassets that create counterparty default risk beyond the standard spot settlement period – such as repurchasing agreements or other cryptoasset lending and borrowing activities. Spot transactions are excluded regardless of the settlement technology or structure used.

Using crypto native technologies – such as atomic settlement – for the individual legs of a repurchasing agreement does not materially reduce counterparty credit risk over the life of the transaction. While such technologies may minimise the risk of a transaction failing during settlement, they do not mitigate the risk of a counterparty defaulting between the initial sale and the subsequent buy-back. K-CCD therefore applies consistently to all in-scope transactions, irrespective of the technology or structure used to execute them.

Firms should make their own assessments to identify which of their transactions extend exposure to counterparty default risk beyond the standard settlement period of a spot trade. We are not providing worked examples of how K-CCD applies to different crypto-native settlement structures and technologies, as they would not be exhaustive and risk becoming quickly outdated.

When assessing whether a transaction is in-scope of K-CCD, firms should consider its duration and nature. We expect spot trades to be those whose settlement is immediate or near-immediate. In this context, we acknowledge feedback that crypto-native spot transactions typically settle on-chain within very short durations, which reduces settlement risk compared with off-chain transactions in traditional financial markets. Nevertheless, transactions that create ongoing obligations, such as repurchasing agreements, bring exposure beyond the standard spot settlement period and therefore fall within the scope of K-CCD. For example, a 24-hour cryptoasset repurchasing agreement, in which

each leg is executed using atomic settlement, would be in scope. This is because the firm's exposure to its counterparty's default risk extends beyond the standard spot settlement period, which in this case is near-instantaneous.

However, we recognise that settlement practices in the cryptoasset market continue to evolve, and different firms and technologies may have different standard settlement periods. We have therefore amended the definition of standard spot settlement period in our final rules. Instead of referring to general market practices, we refer to the specific period the firm uses in its own settlement practice to settle spot transactions in a particular qualifying cryptoasset.

Cumulative impact of capital requirements

In response to the feedback on double counting, it is important to clarify that the K-factors are intended to protect firms against different risks. For example, K-NCP requires firms to hold capital against their market risk exposure, while K-CCD requires firms to hold capital against their risk of counterparty default. K-NCP is a position risk requirement that captures market risk arising from holding cryptoassets. If the firm holds only short-term spot positions and does not have counterparty exposure beyond the standard spot settlement period, no K-CCD requirement arises.

Alternatively, a cryptoasset lending platform entering into a repurchasing agreement involving a qualifying cryptoasset faces risk of loss from fluctuations in the value of the cryptoasset and from its counterparty defaulting. In this case, K-NCP covers the risk of market loss and K-CCD covers the risk of counterparty default. This example illustrates how applying K-NCP and K-CCD to the same transaction is not double counting, as they cover different risks. A calculation example of K-NCP was given in our response on K-NCP and categorisation of cryptoassets. A calculation example of K-CCD is found in CRYPTOPRU 4.10.13G.

We have amended our final rules to mitigate concerns about the cumulative impact of capital requirements. In particular, the revisions we have made to the volatility adjustments for qualifying cryptoassets should reduce the resulting exposure values. This will support a more proportionate outcome by lowering the likelihood that firms would face capital requirements approaching or exceeding 100% of the underlying position value.

International landscape

In finalising K-CCD, we considered international approaches to cryptoasset prudential regulation. We recognise that the UK may be considered a first mover in applying prudential requirements to a wide range of regulated cryptoasset activities. Differences in scope and perimeter mean that headline capital comparisons across jurisdictions are not a like-for-like measure of competitiveness. Some jurisdictions exclude activities from the prudential perimeter entirely or rely on

alternate mitigants such as insurance. Having considered the feedback carefully, we have concluded that the right response to this is to recalibrate in those areas where the evidence supports it, rather than stepping back from the prudential framework altogether. This approach reflects the principle of same risk, same regulatory outcome, and is intended to help build market and consumer confidence. In turn, this can support wider and more sustainable mainstream adoption of cryptoassets. The changes we are making in this Policy Statement to K-SII, K-NCP and K-CCD reflect that approach.

Overall

Our final rules set out a framework that reflects counterparty default risk consistently, having regard to the role of collateral in reducing exposure values, without overstating such effects or unduly constraining the recognition of eligible cryptoassets as collateral.

Chapter 4

Concentration risk

4.1 This chapter sets out our final rules on concentration risk requirements for CRYPTOPRU firms. We are making the rules as consulted on in CP25/15 and CP25/42. We explain our final positions on monitoring and control of concentration risk, and the framework for calculating the K-factor for concentration risk (K-CON).

Key proposals

4.2 In CP25/15, we set out our proposals for monitoring requirements to address concentration risk for CRYPTOPRU firms. We proposed that firms should monitor and control all their relevant sources of concentration risk by having sound administrative and accounting procedures, supported by robust internal controls. CRYPTOPRU firms should be able to identify individual clients, and groups of connected clients that may constitute a single risk because of their interconnectedness.

4.3 In CP25/42, we set out our proposals for capital requirements for CRYPTOPRU firms that trade in their own name and have concentrated exposures arising from their trading book. This capital requirement, K-CON, covers the risks that arise when a firm has significant exposures to individual clients or groups of connected clients. The aim is to ensure that CRYPTOPRU firms are subject to a consistent and proportionate framework for managing concentration risk, adopting the same core methodology under MIFIDPRU for investment firms.

4.4 We asked respondents for feedback on the following questions:

CP25/15 Question 10: **Do you have any comments on the proposal for monitoring and control of concentration risk? Please provide suggestions for any specific clarifications that you feel may be helpful.**

CP25/42 Question 6: **Do you have any views on the proposed framework for calculating concentration risk requirements (K-CON)?**

Feedback and responses

Monitoring and control

4.5 We received 28 responses on question 10 of CP25/15. 79% of respondents were supportive and 21% neutral. There was broad support in principle for monitoring and controlling concentration risk for CRYPTOPRU firms. Many welcomed our principles-based approach.

4.6 Several respondents asked us to clarify:

- good and poor practices
- expected policies and management (for example, what exposure categories and metrics to use)
- sources of concentration risk relevant to specific business models – for example, models related to block chains and intragroup exposures

4.7 Several respondents asked for clarification on reporting, including what regular reporting mechanisms we recommend to monitor systemic risks across firms and custodians.

4.8 Several respondents were concerned about having limited options for diversification: for example, physical gold storage and managing inherently narrow asset pools.

4.9 Several respondents asked us to clarify the definition of earnings, particularly for UK stablecoin issuers. One gave the example of monitoring counterparties' levels of earnings, which may not be publicly available or readily discernible.

4.10 A small number of respondents raised more specific points on concentration risk. These include views that:

- concentration risk controls should apply only to prudential exposures, not customer demographics or affiliations, as firms should not be penalised for serving clients that share a common profile
- firms should have reasonable discretion in how they monitor and control concentration risk, taking account of their business model and avoiding overly prescriptive monitoring measures
- firms should be encouraged to integrate legal entity identifiers (LEIs) into concentration risk monitoring
- quantitative concentration limits could be introduced, alongside real-time monitoring and automatic mitigation triggers
- our concentration risk framework should be more explicitly linked to the overall risk assessment

Our response

In paragraph 6.4 of CP25/15 we set out examples of sources of concentration risk that firms should consider. The extent to which a particular element constitutes a material source of concentration risk for a firm will depend on the firm's risk appetite, as part of its risk management framework, including the considerations set out in paragraph 6.8 of CP25/15.

Where there may be limited options for diversification, we expect firms to test that against their own risk appetite. This may result in different outcomes by firm based on risk tolerances.

The purpose of concentration risk controls is not to penalise firms for serving clients that share a common profile. They are meant to ensure that a firm's significant exposures remain in line with its risk appetite. Whether those exposures are of a prudential or other nature, and how acceptable they are to the firm, depends again on its risk appetite.

The crypto sector contains many different business models with various nuances, so different metrics will be meaningful for different firms in terms of concentration risk. As such, firms have a reasonable level of discretion in identifying what is suitable for them as part of their risk management framework. For example, they may consider the frequency of monitoring (real-time vs periodic), how mitigating actions are triggered (automatic vs non-automatic) and granularity (such as using legal entity identifiers where suitable). We expect firms to undertake scenario analysis, sensitivity analysis and stress testing, and to assess concentration risk in an integrated way alongside other material risks, rather than in isolation. This should form an integral part of a firm's risk management, such that the level of detail is suitable for monitoring, control and decision-making purposes.

On the definition of earnings, the references to relevant sources of concentration risk in paragraph 6.4 in CP25/15 are from the firm's own perspective. As such, sources of earnings refer to income earned by the firm itself (from providing goods and services to counterparties and clients), rather than what counterparties earn.

We welcome respondents' suggestions, including on quantification and linking to the overall risk assessment. Our final rules include a K-factor capital requirement, K-CON, for CRYPTOPRU firms, which includes concentration risk soft limits and hard limits through cross-application with MIFIDPRU 5. However, firms may be exposed to forms of concentration risk that K-CON does not capture. Firms must consider these, and other risks not adequately covered by the K-factors, as part of their overall risk assessment. This includes whether a firm needs additional own funds or liquid assets to meet the overall financial adequacy rule.

Concentration risk requirement

4.11 We received 24 responses on question 6 of CP25/42. 50% of respondents were supportive, 19% neutral and 31% unsupportive. There was broad support in principle for a concentration risk requirement for CRYPTOPRU firms. Many welcomed our proposals to adapt concentration risk concepts used in MIFIDPRU to cryptoasset business models, and broadly agreed that excessive concentration can amplify financial and operational risk.

4.12 Many respondents argued that exposures to appropriately regulated, fully backed stablecoins should not be treated as counterparty group exposures. This is because the economic risk lies with the underlying backing assets rather than with the issuer.

4.13 Many said that liquidity in crypto markets is inherently concentrated.

4.14 Several respondents expressed concerns about the effects of procyclicality and volatility: sudden price movements or market stress could inadvertently trigger concentration limit breaches and force firms to sell cryptoassets. Suggestions to address this included grace periods and averaging mechanisms.

4.15 Several respondents pointed out that our proposals could result in total capital requirements exceeding 100% of position value, particularly with the interaction between K-CON and K-NCP, and whether this could be addressed by applying a cap.

4.16 Some respondents asked us to clarify how 'connected clients' and 'control' are defined in the context of (semi-) decentralised structures.

4.17 Some respondents were concerned that divergence from MiCA and other regulatory regimes may discourage firms from seeking UK authorisation.

4.18 Two respondents did not support the level or fixed aspect of the concentration limits. Another asked us to clarify the multiplying factors used when exceeding the concentration risk soft limit.

4.19 One respondent said the framework does not adequately reflect the mitigating effect of insurance or similar risk transfer arrangements.

4.20 One respondent argued that the framework may not fully capture how concentration risk arises in practice, and said it should explicitly capture intragroup and economically linked counterparties.

Our response

The composition of backing assets for UK-issued qualifying stablecoins affects their redemption risk. We address this through a suite of prudential safeguards in our final rules. This includes the Backing Asset Composition Requirement (to ensure sufficient liquidity to meet redemption requests) and the Issuer Liquid Asset Requirement (to cover price risk). As stablecoins that are backed in accordance with our rules have no K-NCP capital requirement, there is no K-CON requirement flowing from K-NCP.

We also note that the counterparty default element of K-CON aligns with the K-CCD requirement, which applies only to counterparty default risks that persist beyond the standard settlement period for a spot trade. Where this condition is not met for a qualifying cryptoasset transaction, the K-CCD requirement does not apply, so neither does the corresponding element of K-CON.

We acknowledge the feedback about volatility in cryptoassets and liquidity in crypto markets being inherently concentrated. We therefore consider it important for risk management that firms with a concentration of exposures have robust prudential safeguards, as such exposures can create vulnerabilities in their financial position. We do not consider grace periods or averaging mechanisms to be fit for purpose when it comes to exposure-based requirements, as they would make the resulting outcome less representative of the actual level of concentration risk and potential for harm.

We have considered the possibility of total capital requirements exceeding 100% of position value. We expect this to have been driven primarily by the 100% capital requirement for Category B cryptoassets. As our final rules no longer include this element, instances of total capital requirements exceeding 100% of position value are remote. As such, and having considered the feedback carefully, we are not introducing a cap.

We have set out our response on control of supply in Chapter 2 of this Policy Statement. This explains that the approach is intended to capture situations where a firm has influence over the availability of a cryptoasset. In such situations, firms should apply the guidance in COREPRU 3 on a substance-over-form basis, taking into account the cumulative effect of relevant arrangements and positions. In terms of groups of connected clients, this is defined in our Glossary and the principles and further details are outlined in MIFIDPRU 5.

We know that not all prudential regimes in other jurisdictions have a concentration risk capital requirement similar to K-CON. However, we consider it prudent to have one, given that excessive concentration can adversely impact financial resilience. The K-CON framework is consistent with the approach taken in MIFIDPRU for investment firms. We have not seen compelling evidence to change that.

K-CON (as with the other K-factors) forms part of the own funds requirement in determining the minimum capital requirements for CRYPTOPRU firms. Where there are relevant considerations for a firm's concentration risk that are not part of the K-CON framework, we expect the firm to incorporate them into its overall risk assessment. Where a firm uses concentration risk mitigants, it should clearly explain why in its overall risk assessment, as well as how they mitigate the related risk, and which exposures they explicitly cover.

Chapter 5

Liquid assets requirement

Key proposals

5.1 In CP25/15 we proposed minimum liquidity standards for CRYPTOPRU firms that reflect their operating needs and their role in maintaining market confidence. We proposed that the Basic Liquid Assets Requirement (BLAR) would ensure all firms hold readily available resources, providing a proportionate buffer for short-term obligations. For UK stablecoin issuers, the Issuer Liquid Asset Requirement (ILAR) addresses price volatility in the backing asset pool with the additional liquidity needed to respond swiftly to shortfalls. These measures represent minimum liquidity. They are complemented by a wider overall risk assessment framework which firms use to assess their own liquidity needs, recognising that some may need to hold further liquid assets to support orderly wind-down or ongoing funding demands.

5.2 The BLAR we proposed was one third of the fixed overheads requirement (FOR) plus 1.6% of client guarantees. This ensures firms retain sufficient liquid assets to manage the early stages of a wind-down, meet short-term liabilities, and provide time to arrange cash flows to meet wind-down liabilities in the longer term. We proposed that the BLAR must consist of a defined list of core liquid assets.

5.3 We proposed that firms meet their minimum liquidity needs using sterling denominated assets, reflecting their typical balance sheet denomination. Where part of a firm's expenditure is in other currencies, it may hold equivalent high-quality liquid assets in those currencies, matched in proportion to the underlying expenditure.

5.4 Our proposals introduced a dedicated liquidity requirement for UK stablecoin issuers to ensure that the value of backing assets aligns 1:1 with the volume of stablecoins in circulation. Because issuers must maintain full backing at all times, even modest price movements in non-cash assets can create shortfalls that must be addressed promptly. To manage this, issuers would be required to hold a specific quantity of immediately available deposits, enabling them to restore the required backing asset level by the next business day.

5.5 We proposed that the amount of liquid assets required will depend on the issuer's chosen asset mix. Expanded backing assets, such as longer dated public debt and public debt constant net asset value money market funds (PDCNAV MMFs), present greater risk of shortfall and require firms to hold more liquid assets. We proposed different charges for each asset type, drawing on established regulatory treatments for government securities and relevant market data, and explained how the approach would be applied to repos and PDCNAV MMFs. This allows the liquidity requirement to scale in proportion to the price risk within the backing asset pool.

5.6 We also set out expectations for issuers operating in multiple currencies, requiring them to hold on-demand deposits in the currency of issuance. We did not set out a proposal at this stage for addressing FX risk that may arise if the currency of issuance differs from the issuer's functional currency.

5.7 We did not consider it proportionate to apply a capital requirement for the price risk in the backing pool, in addition to the ILAR, given price movements may be temporary and losses would only occur after significant redemptions. We did say that issuers should consider this through their Internal Capital Adequacy and Risk Assessment (ICARA – now the overall risk assessment) process.

5.8 We asked respondents for feedback on the following questions:

CP25/15 Question 6: **Do you agree with our proposals on the basic liquid assets requirement (BLAR)?**

CP25/15 Question 7: **As part of the BLAR, can you identify any circumstances where the provision of guarantees provided to clients by firms might apply to cryptoasset custodians or qualifying stablecoin issuers?**

CP25/15 Question 8: **Do you agree with our proposals on the issuer liquid asset requirement (ILAR) to address price risk when government debt instruments are held in a backing pool (either directly or indirectly in connection with certain funds and repo/reverse repo transactions)? If not, please explain why you do not agree with specific aspects and what alternative solutions would you suggest?**

CP25/15 Question 9: **Do respondents consider that the foreign exchange risk for qualifying stablecoin issuers described in paragraph 5.22 needs to be addressed through minimum requirements, for example would a specific capital charge be appropriate?**

Feedback and responses

Basic liquid assets requirement

5.9 We received 29 responses to question 6 of CP25/15. 32% of respondents were supportive, 15% neutral and 53% unsupportive. They supported the principle behind BLAR, but for some there were other clear themes.

5.10 Twenty-one respondents thought that the BLAR should include more qualifying assets. Suggestions included UK qualifying stablecoin and digital core assets, trade receivables, physical gold (in particular for gold token issuers), and FX beyond the matching proportion of overheads with haircuts. These respondents also asked us for guidance and asked if the BLAR could be lowered through the ICARA (now the overall risk assessment).

5.11 Four respondents asked us to clarify the BLAR's purpose and calibration, and the intended interaction between the BLAR and the capital framework or the backing asset pool. One asked us to explain the specific risk scenarios that the BLAR is designed to mitigate, especially where capital is already fully liquid and liabilities are minimal. There was a question about whether BLAR applied to UK-issued stablecoins only or in respect of a stablecoin's global circulation, a question about whether the liquidity buffer must be held at UK-authorised institutions, and a suggestion that firms should be allowed to hold eligible liquid assets across group entities.

5.12 One respondent suggested the BLAR should increase to 50% of the fixed overheads requirement (FOR), 3% of guarantees and 2% of issuance/custody volume for implicit guarantees such as 1:1 redemption. One respondent asked why 1 month is enough, particularly under stress. Individual respondents suggested that BLAR assets should align to Level 1 high quality liquid assets (HQLAs), and asked how the BLAR applies to:

- multiple firms captured by the different activities under Article 9M of the Cryptoassets Regulations for the same stablecoin
- infrastructure providers

Our response

With regard to expanding the list of core liquid assets set out in paragraph 5.10 of CP25/15 to include trade receivables, physical gold and foreign exchange (beyond the proportion of overheads in that currency) we remain of the view that these should not be included in BLAR and have confirmed this in our final rules.

Trade receivables are included in the BLAR under MIFIDPRU but only to a limited extent. Their inclusion stems from EU legislation and reflects specific nuances regarding the firms and activities caught by MiFID, which we do not consider relevant to CRYPTOPRU.

Physical gold does not, in our view, meet the liquidity characteristics needed for BLAR. We note that in the past other prudential regimes have given gold a 0% credit risk weighting but have not accepted it as HQLA. We acknowledge however that there are different views on the suitability of gold as HQLA and therefore will continue to monitor this position.

The limit on non-sterling currency assets being in proportion to the overheads incurred in that currency aligns with MIFIDPRU. There are good reasons for this approach, notably that an excess of foreign exchange exposure would create liquidity risk and the BLAR would cease

to have the desired liquidity characteristics (noting that from a market risk perspective gold is typically treated as foreign exchange risk). We do not consider haircuts to be an effective measure for liquidity purposes.

Tokenised forms of core liquid assets are permitted for meeting the BLAR where they follow the principles as set out in the joint FCA-BoE Call for Input on the future of tokenisation. These principles relate to having legal rights that are identical and underlying risks that are comparable to their non-tokenised equivalents. Using the above Call for Input, we will develop our policy position further on this subject. UK-issued qualifying stablecoins will not currently be permitted for meeting the BLAR. But we are developing our policy position holistically and will continue to review this subject for the purpose of future policy work.

BLAR is a minimum requirement and therefore cannot be reduced through the overall risk assessment process. In our view it is more likely that firms will find they need more liquidity than the BLAR requires through the overall risk assessment. BLAR is designed to provide a liquidity buffer on the firm's balance sheet that can support its liquidity needs in wind-down for approximately 1 month, giving the firm time to make further liquidity arrangements to manage an orderly wind-down. It may also assist firms in surviving liquidity shocks, although we would expect firms to provide for such events through liquidity stress testing as part of the overall risk assessment (see our non-Handbook guidance consultations for further information). The BLAR is distinct from the capital framework because it serves a different purpose – liquid asset buffers ensure firms are able to meet their liabilities as they fall due, whereas the purpose of capital is to absorb the firm's losses. A profitable firm can fail if it does not have sufficient liquid resources. Due to its distinct purpose, the liquid resources to meet the BLAR must be on the firm's balance sheet, and therefore also separate from the backing asset pool.

With regard to the application of BLAR, it will apply to any CRYPTOPRU firm. BLAR is based on the firm's annual relevant expenditure and may therefore include unregulated activity. On where to hold the liquidity buffer, this will depend on the core liquid asset held. In the case of pound sterling denominated short-term deposits they should be held at a UK authorised bank as set out in COREPRU 6.3.1R(2). Where not denominated in pound sterling they must be held at a credit institution as set out in COREPRU 6.3.3R(1)(b).

As a proportionate minimum requirement, our expectation is that a CRYPTOPRU firm will not need to hold the liquid resources to meet its BLAR with other group entities. We are also of the view that to do so could increase liquidity risk for the firm by delaying access to the funding and preventing the firm from meeting its obligations when they fall due. Our position on liquid assets is illustrated further in CRYPTOPRU 7.4 and on group risk in CRYPTOPRU 7.6 of our final rules.

We do not consider it necessary to increase the BLAR or to amend what qualifies as a core liquid asset. The BLAR is a core requirement as part of COREPRU, designed to apply to different types of firms, and specific adjustments for CRYPTOPRU firms would not align to this principle. With regard to the obligation for UK stablecoin issuers to redeem at par, the ILAR is designed to provide the necessary liquidity. We expect CRYPTOPRU firms, through the assessment required under CRYPTOPRU 7.4.2R and 7.4.3R, and compliance with the overall financial adequacy rule (see guidance in CRYPTOPRU 7.4.5G), to understand whether their BLAR (and in addition the ILAR for UK stablecoin issuers) is sufficient, including under stress, and as a result to hold additional liquid resources if they need to.

Article 9M of the Cryptoassets Regulations requires that all three related activities have to be satisfied in order to amount to issuing a qualifying stablecoin in the UK. It also clarifies the position where a firm delegates activity.

The BLAR would apply to any firm requiring FCA authorisation for the cryptoasset activities in the Cryptoassets Regulations, and each firm will need to make its own assessment. Infrastructure providers will be subject to the BLAR if they undertake regulated cryptoasset activities.

Provision of guarantees

5.13 We received 23 responses to question 7 of CP25/15. 20% of respondents were supportive, 72% neutral and 8% unsupportive. Many respondents asked for clarification on guarantees. 10 respondents suggested possible BLAR guarantees, including:

- compensation in service level agreements
- fee caps
- correcting operational errors
- enhanced custody services
- institutional stablecoin agreements
- operational warranties
- ancillary lending services

5.14 Respondents also asked why BLAR used 1.6% of guarantees, for the inclusion of guarantee examples, and for clarification on whether this meant only formal, enforceable guarantees. Aligned to this was a request to exclude the inherent issuer guarantee.

Our response

We agree that guarantees in this context should only include formal, financial guarantees that a firm makes to its clients in respect of something that is not in the firm's control. We do not consider that any of the respondents' examples in paragraph 5.13 above amount to such a guarantee.

We have decided not to include guarantee examples. As a COREPRU requirement, the BLAR is intended to apply across sectors and over time the list of examples may become unwieldy and/or out of date. There is also a risk that the examples are seen as guidance, reducing proactive identification of guarantees by firms.

Issuer liquid asset requirement

5.15 We received 28 responses to question 8 of CP25/15. 23% of respondents were supportive, 31% neutral and 46% unsupportive. There was support for the principle of a requirement that addresses price risk in the backing asset pool, with some clear themes.

5.16 Many respondents commented on our proposed ILAR calibration or the methodology. Respondents suggested that the charges for backing asset holdings in 3-month US Treasury Bills and 4 to 5-year government bonds implied extreme market moves or were disproportionate. Some suggested that we should remove or reduce some requirements. For high-quality sovereign debt, respondents thought current market data instead of historical assumptions may achieve reduced requirements. For overnight repos, respondents thought we could use a K-TCD equivalent. Other responses suggested we use net exposure for repos to make the charge more risk-sensitive. There were some suggestions that we allow internal models, using risk assessments and stress testing based on scenario examples. Others wanted a dynamic approach, concentration risk limits or haircut models instead.

5.17 Other suggestions included:

- using empirical analysis of price volatility to calibrate charges
- including factors based on credit rating and the Backing Asset Composition Ratio (BACR, now called Backing Asset Composition Requirement) in the methodology
- tiered thresholds based on volume or business model

5.18 Some respondents questioned the complexity of our proposals, and the ability of small issuers in particular to maintain ongoing compliance. Some noted that over-collateralisation would remove the need for the ILAR and thought it would be preferable.

5.19 Respondents also felt the ILAR duplicated risk-based standards in CP25/14. They thought the cost was high compared to the benefit, and that the ILAR creates risk by placing emphasis on commercial bank deposits. Some respondents felt that the ILAR blurs the boundary between capital and liquidity.

5.20 There were calls for clarification and guidance. With regard to the table on asset charges in CRYPTOPRU 6.1.11R there was a query on why there was no coupon for level 3 assets. We were asked for guidance on risk management techniques and the interaction between ILAR and other elements of the framework. Respondents also asked us how to apply the ILAR in a 'de-stabilised' environment.

5.21 Several respondents commented on ILAR eligible assets, suggesting they should be extended beyond on-demand deposits to tokenised MMFs, gilts, FX, gold and Bitcoin. We were asked if firms had to hold their ILAR with UK authorised institutions and if they could hold it as part of reserve assets. In terms of backing assets, others thought we should make 'expanded' assets 'core' assets, and asked about inclusion of digitised core assets in the future. There was also a view that we should remove long-dated government bonds and limit them to 91 days.

5.22 Another small group of respondents saw the ILAR as onerous alongside the BACR and BLAR. They said that firms having access to committed facilities from financial institutions and the Bank of England (with haircuts) would be desirable for liquidity.

5.23 A respondent asked if the ILAR could be applied to multiple firms, as there were a range of activities under Article 9M of the Cryptoassets Regulations that could apply to the same stablecoin.

5.24 A respondent thought we should give foreign currency issuers more flexibility. They were concerned that ILAR may inadvertently favour GBP assets or UK-based liquidity structures, and disadvantage firms issuing non-GBP denominated stablecoins backed by HQLAs.

5.25 A small number of respondents thought that stablecoin redemptions could be more significant than our assumption, with a scale of 30-50% and liquidity needed within 6 hours. They proposed that:

- the ILAR could be a basic 20% of issuance, with dynamic upward adjustments based on market conditions
- backing asset composition should be 80% on-demand deposits and 20% short-term government bonds that can liquidate within 24 hours

5.26 They also suggested a need to monitor stablecoin trading volumes, price deviation, on-chain transfers and social media sentiment, consider stress testing and assess market risk capital against the liquidity buffer.

Our response

In our final rules we maintain our proposals. They are based on three robust sources, including the BoE/PRA's haircut approach and the UK CRR.

Using historic market data provides greater certainty and consistency, whereas using current market data may result in undesirable volatility in the metric and complexity for firms.

With regard to limiting maturity dates of government bonds to 91 days, we have evaluated the position from a UK perspective and sterling denominated stablecoins. We do not think this is a workable solution due to the supply limits of short-term UK government debt, which is considerably lower than the US Treasury equivalent. We also consider that such an approach would be restrictive, which runs counter to the deliberately permissive proposals we consulted on. Firms are not required to hold longer term maturities. We note the Treasury and UK Debt Management Office's recent consultation on the T-Bill market and the potential changes in market structure that may result over time. We will continue to assess the structure of this market, and its impact on our rules, as it evolves. We will review any potential changes to our rules in due course.

Our intention is to keep the calculation of the ILAR relatively simple. Net repo exposure calculations would add unnecessary complexity. We also think this would not fully capture the price risk that exists whether assets are held or lent. Additionally, we took a prudent approach that inherently covers counterparty risk consideration by protecting against a fall in value of government securities in all cases.

On allowing ILAR to comprise more than on-demand deposits, we view many of the asset types proposed by respondents – MMFs, FX, gold and Bitcoin – as unsuitable for guaranteeing T+1 liquidity. They will also incur market risk. We are therefore maintaining the position that the ILAR should be comprised of on-demand deposits only. Firms can include breakable deposits as long as they can access them on a T+1 basis. In our final rules, firms must hold on-demand deposits in a UK authorised credit institution unless the reference currency of a qualifying stablecoin is not in pounds sterling, in which case they must be held in a credit institution (as defined in the Glossary).

If expanded assets were treated as core assets their underlying price risk would remain the same and the issuer would be exposed to shortfalls, thereby breaching 1:1 parity between the value of backing assets and the stablecoin pool calculated in accordance with CASS 16.2.8R.

We acknowledge in principle that an internal modelling approach would be possible. However, in practice this will make the regime highly complex and burdensome for both the FCA and UK stablecoin issuers, who will need to develop and maintain internal models. Therefore, we do not consider it would be appropriate at this stage. We are currently reviewing market risk, and will consider our findings in our future considerations on internal models. Firms may use models to assess the adequacy of their liquid assets in their overall risk assessment.

Our final rules on firms' general obligation to manage concentration risk are set out in COREPRU 5. Where this is relevant to the ILAR rules, we expect firms to take steps to mitigate concentration risk. A haircut model implies holding additional quantities of backing assets, either in the backing asset pool or separately. Over-collateralisation of the backing

asset pool to the extent required here is not allowed in the rules (although in the final rules firms may hold a small surplus in the backing asset pool).

If held separately, the types of non-cash asset permitted in the backing asset pool would not provide sufficient liquidity for ILAR purposes. Similarly, we do not think credit ratings would be a useful input to the calculation of an issuer liquidity requirement because all of the permissible assets (with the exception of cash) are government debt. The BACR already has an impact on the ILAR because it determines the amount of core assets an issuer must hold in its backing asset pool. Similarly, the issuer's business model is already taken into account to the extent that the issuer will decide which eligible assets it will hold in its backing asset pool.

We do not think a tiered approach linked to volume would work for the ILAR either, as the potential shortfall in backing asset value, and therefore the liquidity risk, will scale with size. Overall, we have sought to keep the ILAR approach relatively simple and, in our view, the alternative approaches suggested would increase complexity.

On the question of the model being too complex for smaller firms, we acknowledge that complexity would increase with the number of different types of assets in the backing asset pool. However, we note that it is a firm's choice to hold expanded backing assets and that the rules include expectations about a firm's liquidity risk management framework in order for it to do so. Firms that do not have the governance, systems and controls to manage liquidity risk effectively should not hold expanded backing assets. The ILAR is less complex for firms with only core backing assets. Our CASS rules for stablecoins (CASS 16) do not allow over-collateralisation in the backing asset pool except for amounts up to 5% of the backing asset pool's value for operational purposes.

Firms may reduce their ILAR by holding less price-sensitive assets in the backing asset pool, or have no ILAR by holding on-demand deposits only. We highlight in COREPRU 5 that firms must monitor and mitigate sources of concentration risk, and this would apply to holding on-demand deposits for the ILAR. While there is a market risk element in determining the ILAR, its purpose as a liquid asset buffer for meeting the obligation to maintain 1:1 backing of stablecoins issued is clear.

We want the ILAR to be more risk-sensitive relative to other stablecoin regimes, while keeping it as straightforward as possible. The use of level 3 assets in the backing asset pool creates much greater volatility and therefore attracts a higher liquidity requirement. It is likely that level 3 assets will be used to a lesser extent than level 1 and level 2 assets. Therefore, in our view it would be unnecessarily complex to create more than one higher, but similar, liquidity requirement. We are consulting on non-Handbook guidance that should help firms with risk management, including liquidity risk management.

The BACR and ILAR work together to ensure a robust regime for UK stablecoin issuers. The ILAR is a distinct pool of liquid assets. Firms hold it purely to address the liquidity risk inherent in UK stablecoin issuers' obligation to maintain 1:1 backing of the stablecoin pool. It recognises that the backing assets, apart from cash, will fluctuate in value (price risk). This is a different purpose to the BACR, which is designed to set the minimum level of core assets a UK stablecoin issuer must hold in its backing asset pool based on redemption risk.

The risk of not being able to meet unexpected redemption requests is greater if firms are unable to predict redemption accurately. A variation in the BACR could produce a variation in the ILAR if, for example, a UK stablecoin issuer held less cash and more expanded backing assets as a result. The BLAR is completely separate to the ILAR. It provides liquidity to meet the obligations of the UK stablecoin issuer itself, rather than those arising from the backing asset pool, notably in a wind-down scenario. It is a core requirement that will apply to all CRYPTOPRU firms, not just UK stablecoin issuers.

In a de-stabilised or stressed environment, the ILAR would be applied in the same way as in business as usual. However, firms may adjust the composition of the backing asset pool through risk management techniques, which is likely to change the ILAR calculation. In addition, we expect firms to:

- consider stress scenarios as part of their overall risk assessment (our non-Handbook guidance consultations provide helpful details)
- produce plans and/or hold additional liquidity for these environments

With regard to application of the ILAR to multiple firms due to the range of activities under Article 9M of the Cryptoassets Regulations that could apply to the same stablecoin, the Cryptoassets Regulations require that all three related activities have to be satisfied in order to amount to issuing a qualifying stablecoin in the UK.

We do not agree that our proposals disadvantage the issue of non-GBP denominated stablecoins by UK stablecoin issuers. In paragraph 5.21 of CP25/15 we acknowledge that issuers may create stablecoins in a range of currency denominations. The on-demand deposits that comprise the ILAR must be in the same currency that the stablecoin is denominated in. In paragraph 5.22 of CP25/15 we explain that there are circumstances where this may give rise to FX risk. We do not specify a requirement for this, although where applicable firms will need to consider this FX risk as part of their overall risk assessment. We address the question on FX risk further in our response below after paragraph 5.28.

We do not consider that higher requirements are necessary, although COREPRU 2.2 allows the voluntary application of stricter measures by a firm. We have set requirements that reflect reliable sources of information on price risk, such as the UK CRR and the Bank of England's haircut approach. We believe that the ILAR achieves a reasonable balance of prudence, flexibility and proportionality. We also highlight that since CP25/15

we have published a second consultation paper (CP25/42) that explains the overall risk assessment process. We expect firms to use this framework to evaluate the impact of stress scenarios and devise appropriate mitigating tools, including holding additional liquid resources if necessary. We will consult on prudential regulatory reporting requirements in due course, and propose the metrics we want to monitor on an ongoing basis.

ILAR and foreign exchange risk

5.27 We received 25 responses to question 9 of CP25/15. 20% of respondents were supportive, 48% neutral and 32% unsupportive. Most did not support a specific capital requirement for foreign exchange risk arising where the reference currency of the stablecoin is different to the functional currency of the issuer.

5.28 There were several common themes. A majority consider that FX risk should not attract a fixed or automatic capital requirement where the proposed currency-matching and backing rules are met. They preferred an approach based on supervisory monitoring, ICARA (now overall risk assessment), governance and controls. Many respondents noted that FX risk is minimal or self-mitigating if assets are held in the reference currency, and that breaches should be handled through supervision rather than capital add-ons. A smaller number of respondents supported risk-sensitive or tiered approaches, allowing capital requirements only where exposures are material or unmanaged. A small number of respondents supported a mandatory, standalone FX capital requirement of 8% alongside risk management requirements such as exposure limits.

Our response

We want to clarify the circumstances where the FX risk in question 9 arises. We were referring to a UK issuer of a qualifying stablecoin, with a GBP balance sheet, issuing a stablecoin where the reference currency is not GBP. If the reference currency were USD for example, the ILAR would need to be held in USD in accordance with CRYPTOPRU 6.1.12R(2). Consequently, FX risk would arise between the ILAR and the balance sheet currency of the issuer.

Given the balance of responses after considering the feedback carefully, our final rules set out that there is no specific minimum FX risk capital requirement for UK stablecoin issuers. We note that it is likely that the majority of stablecoins will be GBP denominated, so this FX risk will not arise. If this risk is relevant to an issuer, it should assess it and any mitigants that it has in place as part of its overall risk assessment.

Chapter 6

Overall risk assessment

6.1 This chapter sets out our final rules on the overall risk assessment for CRYPTOPRU firms. We are implementing the rules broadly as consulted on in CP25/42, with some clarifications in response to feedback. This chapter explains the feedback we received and our response, and sets out further clarification to support firms in meeting the requirements.

Key proposals

6.2 In CP25/42 we proposed to introduce the overall risk assessment as a continuous process where a firm identifies, monitors and, where proportionate, mitigates all risks from the ongoing operation or winding down of its business that may cause material harm.

6.3 We proposed that firms should consider and account for risks that could cause material harm to consumers, counterparties, and the markets in which they operate, maintaining adequate financial resources for the business they undertake. We said our expectations would be proportionate to the scale and nature of the potential harm. Our proposals for the overall risk assessment introduced requirements applying across sectors for firms within COREPRU, and allowed for sector-specific requirements such as those proposed for CRYPTOPRU firms under CRYPTOPRU 7.

6.4 We stated our expectation that the overall risk assessment would be the central element of a firm's risk management process, to be fully embedded within its business model, strategic decision-making and existing risk management frameworks.

6.5 We also proposed that senior management would remain responsible for ensuring that their firm's risk management arrangements are appropriate. As set out in CP25/25, we proposed applying all existing requirements of the Senior Managers & Certification Regime (SM&CR) to CRYPTOPRU firms, consistent with our approach for other authorised firms. This includes all relevant senior management functions, with senior management responsible for identifying, monitoring, and, where proportionate, reducing all risks arising from the firm's ongoing operation or wind-down of the firm's business that may cause material harm.

6.6 We asked respondents for feedback on the following question:

CP25/42 Question 7: **Are our expectations of firms regarding the overall risk assessment sufficiently clear? If not, which areas could benefit from further clarification?**

Feedback and responses

6.7 We received 27 responses to our question. 41% of respondents were supportive, 14% neutral and 45% unsupportive. Respondents broadly supported introducing the overall risk assessment as a central prudential tool, and recognised its alignment with established prudential approaches.

6.8 Respondents also emphasised that firms undertaking cryptoasset activities would benefit from clearer implementation guidance outside the Handbook so they can apply the overall risk assessment consistently.

6.9 Respondents sought assurance that the overall risk assessment would not create an additional layer of capital requirements, and asked us to clarify how overall risk assessment outcomes should interact with existing prudential requirements to avoid duplication.

6.10 Proportionality was a recurring theme. Respondents called for a simplified approach for firms whose cryptoasset activity is limited, and asked us to clarify how stress testing should reflect the specific features of cryptoasset markets.

6.11 Respondents also highlighted the need for clearer expectations on:

- liquid asset composition
- how firms should reflect group risk in the overall risk assessment for mixed-regulated groups
- the interpretation of the concept of material harm, particularly for UK stablecoin issuers

6.12 Respondents commented on the use of valuation haircuts, primarily in the context of wind-down planning and stress testing. Firms did not generally object to the concept, but they wanted more clarity on how they should calibrate and apply haircut assumptions within their overall risk assessment. Respondents asked us to explain when to apply valuation haircuts, including the distinction between going-concern stress and wind-down scenarios. They also asked for more clarity on the severity of haircut assumptions, including whether these should be standardised or calibrated to firms' business models and asset holdings. In addition, respondents asked us to explain how we intend valuation haircut assumptions to interact with stress testing, viability assessments and reverse stress testing requirements.

Our response

We consider the overall risk assessment to be an essential safeguard that strengthens firms' ability to identify and address sources of potential harm arising from their activities. Its purpose is not to duplicate existing prudential requirements, or to create an additional capital layer. Instead, it gives firms a structured way of assessing whether their existing financial and non-financial resources remain adequate in light of the risks from their activities and the potential harm.

Embedding this assessment within firms' governance and risk management frameworks gives them a clearer understanding of vulnerabilities, and ensures that they can calibrate any mitigants appropriately.

On stress testing, we have not prescribed specific stress scenarios because the risks a firm faces will depend on its business model, scale and operating environment. Firms should design scenarios that are severe but plausible for their own circumstances, drawing on the guidance in COREPRU 7 and CRYPTOPRU 7. They should also take account of the specific features of the cryptoasset markets they operate in. We included examples of scenario types as part of our non-Handbook guidance consultations where this would help firms develop their approach.

As part of this analysis, firms may need to apply valuation haircuts to reflect stressed or disorderly market conditions, including where assets may need to be realised in a wind-down. All assumptions should be proportionate, risk-based and appropriate to the firm's business model, asset composition and stressed market conditions. The firm should clearly explain and evidence them within the overall risk assessment. We don't intend valuation haircuts to be an additional or duplicative prudential buffer, and firms should avoid double counting where relevant risks are already addressed elsewhere in the framework such as the K-factor requirements.

On proportionality, firms must calibrate their overall risk assessment to the scale and nature of the potential harm. The principle is that the depth and sophistication of the assessment should be proportionate to the potential for material harm to market participants arising from the firm's activities, not to the firm's size alone.

On group arrangements, a CRYPTOPRU firm that is part of a wider group must take account of group risks in its overall risk assessment, whether or not the group contains other regulated firms. The requirements in our final rules in CRYPTOPRU 7 identify the categories of group risk that firms should consider, including direct and indirect financial exposures to group members and risks arising from shared reputation, clients or control frameworks. Where a firm is part of a mixed-regulated group that also contains a MIFIDPRU investment firm, the firm should refer to MIFIDPRU 7 rather than COREPRU 7 and CRYPTOPRU 7.

On the interpretation of material harm, the concept is intended to capture harm that is significant in the context of the firm's activities and the markets in which it operates. It is not defined by reference to a specific monetary threshold. We have taken this approach because a rigid definition would be both under-inclusive and over-inclusive across the range of firms. Firms should interpret material harm by reference to the potential consequences for clients, counterparties and markets, having regard to the guidance in FG20/1. For UK stablecoin issuers, material harm would include the potential for stablecoin holders to suffer loss or delay in redemption.

We recognise the calls for further implementation guidance. As we signalled in CP25/42, we are consulting on non-Handbook guidance to support firms with their overall risk assessment. That guidance will address the practical areas where respondents asked for further clarity, including capital and liquidity planning, stress testing, recovery planning and group risk.

On the output of the overall risk assessment, a CRYPTOPRU firm must produce an overall risk assessment document that explains how it complies with the overall financial adequacy rule. This document should include a clear statement of available own funds, available liquid assets, and its assessment of its own funds and liquid assets threshold requirements.

We would expect a CRYPTOPRU firm to set its liquid assets threshold requirement as the sum of the BLAR, ILAR (where applicable) and the higher of the following two assessments:

- the amount of liquid assets the firm requires to fund ongoing operations, taking into account potential periods of financial stress
- the additional liquid assets required to begin its wind-down without causing material harm

Similarly, we would expect a CRYPTOPRU firm to set its own funds threshold requirement as the higher of:

- the firm's own funds requirement
- the amount of own funds resulting from the firm's overall risk assessment

If a firm is in breach of its own funds threshold requirement (OFTR) or liquid asset threshold requirement (LATR) then it must notify us under its obligations in SUP 15.3.1R(1) immediately as provided in CRYPTOPRU 7.3.4G and CRYPTOPRU 7.4.16G respectively.

Chapter 7

Public disclosure of prudential information

7.1 This chapter sets out our final rules on the public disclosure of prudential information by CRYPTOPRU firms under CRYPTOPRU 8.

7.2 These rules require firms to publish key information about their prudential position, including:

- their own funds
- the minimum capital they are required to hold
- the material features of any group arrangements they are part of

7.3 These disclosures enable clients, counterparties, investors, and other market participants to form a view of a firm's financial soundness. Public disclosure of this kind supports market discipline, complements our supervisory work, and gives firms a structured way to demonstrate that they are meeting prudential obligations.

7.4 In this chapter, we summarise our key proposals, set out the feedback received and our response. We also explain how the permanent minimum requirement (PMR) exemption operates in practice.

Key proposals

7.5 In CP25/42 we proposed a disclosure framework tailored to the cryptoasset sector and designed to improve transparency over firms' prudential soundness and risk management practices. It would apply on an individual entity basis. Firms would have to publish a set of prudential disclosures annually, and update them sooner if significant changes occurred during the year.

7.6 We proposed that firms publish a concise, governing-body-approved statement setting out the key risks associated with their business model, together with a high-level explanation of how these risks are assessed and managed. This will give readers direct visibility of the firm's risk profile, and of the governance and processes through which senior management controls and mitigates those risks.

7.7 We proposed that firms disclose a breakdown of the composition of their own funds, reconciled to their audited balance sheet. We also proposed a standardised disclosure template to support consistency and comparability across firms.

7.8 To help readers assess the strength of a firm's capital position relative to its minimum requirements, we proposed disclosures covering the firm's:

- PMR
- fixed overheads requirement (FOR)

- total K-factor requirement (KFR), including a high-level breakdown of the relevant K-factor components that drive the firm's KFR

7.9 We proposed that firms disclose the own funds threshold requirement (OFTR) and liquid asset threshold requirement (LATR) derived from their overall risk assessment. This would give additional transparency around each firm's internal assessment of what it needs to hold to cover the risks its business poses.

7.10 For firms operating within a group, we proposed disclosures setting out:

- the identity and location of parent entities
- any material direct or indirect financial exposures to other group members
- any additional financial resources held to address group-related risks

7.11 We proposed additional disclosures for firms dealing in qualifying cryptoassets as principal, including key financial information relating to the ultimate parent undertaking and details of encumbered assets. This ensures stakeholders have adequate visibility of group-level financial dependencies and constraints.

7.12 We asked respondents for feedback on the following question:

CP25/42 Question 8: **Do you have any views on our proposals for the public disclosure of prudential information, in particular on group arrangements and for firms that undertake dealing in cryptoassets?**

Feedback and responses

7.13 We received 27 substantive responses expressing general support for our proposals and principles. 45% of respondents were supportive, 14% neutral and 41% unsupportive. Many welcomed the effort to tailor the framework to the sector, and recognised that appropriate disclosure can support comparability across firms.

7.14 The dominant theme was proportionality. Many respondents thought the disclosure requirements went beyond those in comparable regulatory regimes, or were more granular. They felt that this could expose commercially sensitive or security-critical information. They said we should balance transparency with protecting firms' operational resilience, competitive position and proprietary information.

7.15 Respondents emphasised that disclosure obligations should be scaled to firms' size, complexity, and business model. They said we should include tiering or other proportionality mechanisms to avoid placing an undue burden on smaller or less complex firms.

7.16 Several respondents stressed the importance of alignment with existing domestic and international prudential disclosure frameworks. They expressed concern that materially more onerous or UK-specific obligations could reduce cross-regime comparability, and make the UK less competitive as a location for cryptoasset firms.

7.17 Some respondents argued that specific business models warrant tailored disclosure expectations. They said issuers of qualifying stablecoins and proprietary trading firms are part of groups that had distinctive risk profiles and activities that justify a different approach.

7.18 Respondents asked us to consider whether the disclosure regime could be more proportionate, particularly for smaller and less complex firms. They noted that where a firm's OFR is determined by the PMR rather than by the activity-based or overhead-based components, detailed disclosures of K-factors, fixed overheads and group exposures have limited use in imposing a compliance burden. A specific suggestion made by multiple respondents was that firms whose PMR is the binding component of the OFR should be exempt from some or all of the CRYPTOPRU 8 disclosure requirements.

Our response

Having carefully considered the feedback we are making 2 targeted changes to the disclosure framework in our final rules. We are:

- removing the requirement to publicly disclose the threshold requirements derived from each firm's overall risk assessment, including the additional own funds or liquid assets held to address group risk
- exempting firms whose own funds requirement (OFR) is determined by the permanent minimum capital requirement (PMR) from detailed disclosure requirements

Removing the disclosure of threshold requirements

We have removed the requirement for firms to publicly disclose their OFTR and LATR.

In CP25/42, we proposed that firms publicly disclose these alongside their OFR and liquid assets requirement. Our proposal was informed by Pillar 3–style disclosure concepts, where the publication of the firm's own internally-assessed requirements was intended to enhance transparency.

However, we agree with respondents that this approach diverges from the equivalent framework under MIFIDPRU 8, where FCA investment firms are not required to disclose the threshold outputs of the ICARA process. This divergence could reduce the comparability of cryptoasset disclosures with those of firms in adjacent prudential regimes. Removing this requirement better aligns the cryptoasset disclosure framework with MIFIDPRU and avoids imposing overly granular disclosure obligations.

CP25/42 also included disclosure proposals relating to firms' group arrangements. We proposed this would include disclosure of additional own funds or liquid assets held by a firm to address group risks identified through its overall risk assessment. These additional amounts are components of the firm's OFTR and LATR. To align with our decision to remove these threshold disclosures, we have also decided to remove this requirement.

In the meantime, we confirm that firms should notify us under SUP 15 if there are material changes to their group structure, group arrangements, or group related risks.

These changes only affect public disclosure. They do not alter the underlying requirement for a firm to assess, hold, and maintain own funds and liquid assets at or above its OFTR and LATR, or the related supervisory arrangements. Where a firm's own funds fall below its OFTR, or its liquid assets fall below its LATR, the firm must notify us under its obligations in SUP 15.3.1R(1) immediately as provided in CRYPTOPRU 7.3.4G and CRYPTOPRU 7.4.16G respectively.

Proportionate exemption for firms where PMR is the binding requirement

CRYPTOPRU structures the OFR as the highest of 3 components:

- the PMR
- the FOR
- the KFR

Where the FOR is binding, the firm's minimum capital is driven by its cost base as a proxy for the resources needed for wind-down. Where the KFR is binding, the minimum reflects the firm's activity levels and associated risks. In both cases, the firm's OFR varies with its business and risk profile. Disclosures of K-factor breakdowns, fixed overheads, and group exposures provide meaningful information about how the firm's capital requirement is linked to its activities.

By contrast, where the PMR is binding, minimum capital is driven by a flat-rate floor set by reference to type of activity. It does not vary with scale of activity, cost base, or risk. Detailed activity-based and cost-based disclosures for these firms create a compliance burden but do not have proportionate transparency benefits.

We have considered using a threshold pegged to firm size or turnover as a more proportionate requirement, along the lines of the MIFIDPRU small and non-interconnected (SNI) framework. However, we consider the binding-component test a more direct proxy. The PMR, FOR, and KFR already capture key aspects of a firm's profile, and a binding PMR signals that activity- or cost-based requirements do not exceed the floor. An additional SNI-style test would add complexity without improving the outcome.

We agree that detailed disclosure requirements impose costs on firms where PMR is binding that are disproportionate to the limited transparency benefits. Therefore, where the PMR is the binding component, CRYPTOPRU 8 disclosure requirements will not apply (including group disclosures).

This approach is consistent with the broader proportionality principle in CRYPTOPRU, which ensures that the regulatory burden imposed on smaller or simpler firms is not excessive relative to the prudential risks they pose.

In operational terms, the application of CRYPTOPRU 8 depends on which component of the OFR is binding at the firm's financial year-end, as summarised in Table 1.

Table 1 – Proportionality framework

Binding OFR component	Application of CRYPTOPRU 8
PMR is binding (PMR ≥ FOR and PMR ≥ KFR)	No disclosure obligation under CRYPTOPRU 8
FOR or KFR exceeds PMR	Full CRYPTOPRU 8 disclosure obligations apply

How the threshold test operates

This section explains how the binding-component test operates in practice, including when firms should assess their position, when they must publish, and how they move between being in and out of scope of CRYPTOPRU 8.

When the test is applied

Whether a firm is subject to CRYPTOPRU 8 in a given year is determined by its OFR at the end of its accounting reference period (i.e. financial year-end). This is the point at which the firm's OFR crystallises for the purposes of its annual accounts, and at which the firm should already have calculated the PMR, FOR and KFR. The test applies uniformly to all firms, including those that do not prepare statutory financial statements but nonetheless have an accounting reference period under the Companies Act 2006.

We considered alternatives, including a rolling quarterly test and a 'worst point in the year' trigger. We implemented a single year-end test because it aligns with the firm's accounting cycle, minimises compliance cost, and avoids the firm repeatedly assessing its binding component and potential scope changes within a single year.

We recognise that a year-end-only test creates the possibility that a firm could manage its K-factor exposures around year-end to avoid disclosure. We consider this risk to be limited in practice because PMR and FOR are typically less volatile than K-factors, and material changes in the binding component are unlikely without corresponding changes in the firm's business profile. We will keep this under review and may revisit the design if evidence of avoidance behaviour emerges.

When firms must publish

A firm that is in scope of CRYPTOPRU 8 at its financial year-end is not required to publish immediately. It must publish by the later of:

- the publication date of its annual financial statements
- the date of submission of its confirmation statement

These dates will always fall after the financial year-end, typically by several months. This gap gives firms a reasonable window to complete the accounts process, finalise the own funds reconciliation, and obtain governing body approval of the risk management statement.

Because this window is already embedded in the framework, we are not providing any additional period for firms entering scope for the first time.

Moving in and out of scope

The test applies on a same-year basis and operates symmetrically when firms move into or out of scope.

Upward transition (PMR binding to FOR/KFR binding)

Where a firm's FOR or KFR first exceeds its PMR at financial year-end, the firm is in scope for CRYPTOPRU 8 for that year. It must publish its first disclosure no earlier than the publication trigger date for that year, using numbers from its completed accounting process. A firm entering scope for the first time is not required to provide a comparison with the previous year.

Downward transition (FOR/KFR binding to PMR binding)

Where a firm's PMR becomes the binding component at financial year-end, the firm is out of scope for CRYPTOPRU 8 from that year-end onwards. Its final disclosure will be the disclosure it publishes for that same year. Provided the PMR remains binding, it will not have to publish a disclosure in subsequent years.

If a firm's binding component changes between year-ends, it will enter into and exit from the disclosure regime by following these processes.

Scope of public disclosure requirements

We are not introducing tailored public disclosure requirements by business model. All firms in scope of CRYPTOPRU 8 are subject to the public disclosure requirements.

The CRYPTOPRU 8 disclosures are focused on the firm's overall prudential position rather than on features specific to any particular operating model. We consider that applying CRYPTOPRU 8 in the form finalised in this chapter is consistent with the treatment of other firm types, and avoids creating a parallel disclosure track.

We do not consider that additional adjustments are needed beyond the PMR exemption set out above. We will keep the application of CRYPTOPRU 8 to these firms under review as the sector matures, and will consider tailoring it further if the evidence supports it.

We have provided an optional template in section 8 of CRYPTOPRU that firms may use to demonstrate compliance with CRYPTOPRU 8 requirements.

Chapter 8

Cost Benefit Analysis

8.1 In CP25/14 and CP25/40, we set out our cost benefit analysis (CBA) of the expected impact of our prudential requirements for CRYPTOPRU firms.

8.2 In the CBA, our causal framework set out the expectation that introducing prudential requirements for cryptoasset market participants would better align firm incentives with consumers and reduce excessive risk taking. Costs to firms primarily materialised through the opportunity cost of capital, and through familiarisation with our rules.

8.3 Table 2 below summarises the key quantified and unquantified costs and benefits of our prudential requirements for firms authorised across different cryptoasset activities.

Table 2 – Key costs and benefits

Group Affected	Item Description	PV Benefits	PV Costs
Firms	Prudential requirements for Stablecoin Issuers	–	£7m
	Prudential requirements for Cryptoasset Custodians	–	£87m
	Prudential requirements for Cryptoasset Trading Platforms	–	£13m
	Prudential requirements for Cryptoasset Intermediaries	–	£77m
	Prudential requirements for firms undertaking Cryptoasset Lending and Borrowing	–	£15m
	Prudential requirements for Cryptoasset Staking	–	£4m
Total impacts		**–**	**£203m**

Feedback and responses

8.4 Across both our CBAs, we asked:

Question 28: **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.**

Question 29: **Do you have any views on the cost benefit analysis, including our analysis of costs and benefits to consumers, firms and the market?**

8.5 In the feedback to the CBAs, we received 6 responses which discussed our assessment of prudential costs to firms.

- Some respondents stated that our assessment was incomplete and not proportionate to the risks addressed, and highlighted that the proposed prudential requirements risked undermining UK competitiveness assessment relative to other jurisdictions.
- Some respondents suggested that our approach could create barriers to entry for new firms, which could result in entrenched incumbents and reduced innovation.
- One respondent stated that the calculation and maintenance of the Own Funds Threshold Requirement (OFTR) are likely to require sustained senior management involvement, specialist prudential expertise, scenario analysis, internal documentation, governance processes and periodic review. These represent ongoing operational costs rather than one-off implementation efforts as firms will incur significant recurring compliance costs associated with conducting risk assessments and calculating the OFTR.
- Some firms also suggested the complexity of rules in relation to volume of sourcebooks to become familiar with was not sufficiently accounted for.

Our response

We recognise firms' concerns in relation to costs associated with prudential requirements and have taken steps to address them. We acknowledge that there may be ongoing costs associated with prudential requirements other than opportunity cost of capital. We have updated our costs estimates in Table 3 below to account for this.

In addition to our policy statements, we have published an updated CBA outlining the aggregate impact of the rules for cryptoassets we are introducing. This analysis provides a comprehensive assessment of the one-off and ongoing costs firms will need to incur in order to be compliant with our rules.

Consistent with feedback received across our wider CBAs, we have updated our familiarisation costs for firms, to better reflect costs firms will incur. This includes a higher per-hour cost associated with firms becoming familiar with prudential sourcebook requirements and receiving legal advice.

As set out in our previously published CBAs, we recognise that prudential requirements may create barriers to entry for new firms. We remain of the view that any adverse effect our proposed prudential rules will have on firm entry is proportionate to the benefits these rules will create in protecting consumers and supporting market integrity. We have set out an updated assessment of the expected impact of our rules on UK competition in cryptoassets in our updated CBA.

Updated cost estimates

In Table 3 below, we provide an update of cost estimates based on the changes made between our consultation papers and policy statement, namely:

- an increased firm population estimate (based on updated market data)
- increased per firm costs associated with higher familiarisation costs and ongoing requirements
- change to the K-SII K-factor requirement for stablecoin issuers

Table 3 – Updated cost estimates

Group Affected	Item Description	PV Benefits	PV Costs
Firms	Prudential requirements for Stablecoin Issuers	–	£11m
	Prudential requirements for Cryptoasset Custodians	–	£104m
	Prudential requirements for Cryptoasset Trading Platforms	–	£19m
	Prudential requirements for Cryptoasset Intermediaries	–	£129m
	Prudential requirements for firms undertaking Cryptoasset Lending and Borrowing	–	£15m
	Prudential requirements for Cryptoasset Staking	–	£4m
Total impacts		**–**	**£285m**

As seen above, total costs have increased, largely driven by an increased number of firms which we expect to be within scope of the regime, increasing the opportunity cost associated with our prudential requirements. We expect non-quantified benefits associated with our prudential requirements, such as improved market integrity and reduced harm to consumers to be significant and exceed costs to firms.

Annex 1

List of non-confidential respondents

We are obliged to include a list of the names of respondents to our consultations who have consented to the publication of their name.

The list is as follows:

Alphascaled.com

Association of Corporate Treasurers

BPX Markets Limited

Circle International Finance LLC

Danton Zhang

Electronic Money Association

Financial Services Consumer Panel

GSR Markets UK Ltd

Payments and Crypto Network

RebuildingSociety.com Ltd

The British Blockchain Association

Annex 2

Abbreviations used in this paper

Abbreviation	Description
APIs	Authorised Payment Institutions
AT1	Additional Tier 1
AVA	Additional Valuation Adjustment
BACR	Backing Asset Composition Requirement
BLAR	Basic Liquid Assets Requirement
CASS	Client Assets Sourcebook
CBA	Cost Benefit Analysis
CCO	Client Cryptoasset Orders
CCS	Client Cryptoassets Staked
CET1	Common Equity Tier 1
COREPRU	Core Prudential Sourcebook
CP	Consultation Paper
CRYPTOPRU	Cryptoasset Prudential Sourcebook
EMIs	Electronic Money Institutions
EMRs	Electronic Money Regulations
EU	European Union
EV	Exposure Value
EVE	Exposure Value Excess
FCA	Financial Conduct Authority
FG20/1	FCA Guidance 20/1: Assessing Adequate Financial Resources

Abbreviation	Description
FOR	Fixed Overheads Requirement
FSMA	Financial Services and Markets Act 2000
HQLA	High Quality Liquid Assets
ICARA	Internal Capital Adequacy and Risk Assessment
ILAR	Issuer Liquid Asset Requirement
K-ASA	K-factor for Assets Safeguarded and Administered (MIFIDPRU)
K-CCD	K-factor for Cryptoasset Counterparty Default
K-CCO	K-factor for Client Cryptoasset Orders
K-CCS	K-factor for Client Cryptoassets Staked
K-COH	K-factor for Client Orders Handled (MIFIDPRU)
K-CON	K-factor for Concentration Risk
K-CTF	K-factor for Cryptoasset Trading Flow
K-DTF	K-factor for Daily Trading Flow (MIFIDPRU)
K-NCP	K-factor for Net Cryptoasset Position
K-QCS	K-factor for Qualifying Cryptoasset Safeguarding
K-RCS	K-factor for Cryptoassets Safeguarded
K-SII	K-factor for Stablecoin Issuance
KFR	K-factor Requirement
LATR	Liquid Asset Threshold Requirement
MiCA	Markets in Crypto-Assets Regulation
MiFID	Markets in Financial Instruments Directive
MIFIDPRU	Markets in Financial Instruments Directive Prudential Sourcebook
OFR	Own Funds Requirement
OFTR	Own Funds Threshold Requirement

Abbreviation	Description
PDCNAV MMFs	Public Debt Constant Net Asset Value Money Market Funds
PMR	Permanent Minimum Requirement
PRA	Prudential Regulation Authority
PS	Policy Statement
PSRs	Payment Services Regulations
QCS	Qualifying Cryptoassets Safeguarded
SM&CR	Senior Managers and Certification Regime
SUP	The Supervision Manual
T2	Tier 2
UK QCATP	UK Qualifying Cryptoasset Trading Platform
UK CRR	UK Capital Requirements Regulation

Appendix 1

Made rules (legal instrument)

GLOSSARY (CRYPTOASSETS) INSTRUMENT 2026

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the powers and related provisions in or under:

(1) the following sections of the Financial Services and Markets Act 2000 ("the Act"), including as applied by article 98 (Application of section 137B of the Act to backing assets for qualifying stablecoin) of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544) (as amended by the Financial Services and Markets Act 2000 (Cryptoassets) Regulations 2026 (SI 2026/102)) as applied by paragraph 3 (FCA rules) of Part 1 (Application and modification of the 2000 Act) of Schedule 6 (Application and modification of legislation) to the Payment Services Regulations 2017 (SI 2017/752) and paragraph 2A (Authority rules) of Part 1 (Application and modification of legislation) of Schedule 3 (Application and modification of legislation) to the Electronic Money Regulations 2011 (SI 2011/99):

(a) section 71N (Designated activities: rules);
(b) section 137A (The FCA's general rules);
(c) section 137B (FCA general rules: clients' money, right to rescind etc.);
(d) section 137R (Financial promotion rules); and
(e) section 137T (General supplementary powers);
(f) section 213 (The compensation scheme);
(g) section 214 (General);
(h) section 226 (Compulsory jurisdiction); and
(i) paragraph 13 (FCA's rules) of Part III (The Compulsory Jurisdiction) of Schedule 17 (The Ombudsman Scheme);

(2) the following provisions of the Financial Services and Markets Act 2000 (Cryptoassets) Regulations 2026 (SI 2026/102):

(a) regulation 6 ("Qualifying cryptoasset disclosure document" and "supplementary disclosure document");
(b) regulation 9 (Designated activity rules: qualifying cryptoasset public offers and admissions to trading);
(c) regulation 12 (Responsibility for disclosure documents);
(d) regulation 13 (General requirements to be met by a qualifying cryptoasset disclosure document or supplementary disclosure document);
(e) regulation 15 (Withdrawal rights);
(f) regulation 21 (Designated activity rules: market abuse in qualifying cryptoassets and related instruments);
(g) regulation 23 (Exclusions: insider dealing);
(h) regulation 26 (Public disclosure of inside information);
(i) regulation 27 (Public disclosure of inside information: delayed disclosure);

(j) regulation 30 (Systems and procedures for trading relevant qualifying cryptoassets and related instruments);
(k) regulation 31 (Insider lists for relevant qualifying cryptoassets and related instruments);
(l) regulation 32 (Cases in which sharing of information authorised or required);
(m) regulation 34 (Legitimate cryptoasset market practice);
(n) regulation 36 (Disapplication or modification of rules); and
(o) paragraph 8 ("Protected forward-looking statement") of Part 2 (Further exemption relating to forward-looking statement) of Schedule 2 (Compensation: exemptions); and

(3) the other rule making powers listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA's Handbook.

B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument is one of a series of instruments which introduce or amend provisions of the Handbook relating to cryptoassets. These instruments all come into force on 25 October 2027, immediately after one another, in the following order:

(1) Glossary (Cryptoassets) Instrument 2026;
(2) Cryptoassets (Stablecoins) Instrument 2026;
(3) Cryptoassets (Admission of Qualifying Cryptoassets to Trading and Offers of Qualifying Cryptoassets to the Public) Instrument 2026;
(4) Cryptoassets (Market Abuse) Instrument 2026;
(5) Cryptoassets (Intermediaries) Instrument 2026;
(6) Cryptoassets (Trading Platforms, Transparency and Records) Instrument 2026;
(7) Cryptoassets (Lending, Borrowing and Staking) Instrument 2026;
(8) Cryptoassets (Safeguarding) Instrument 2026;
(9) Cryptoassets (Client Assets Consequentials) Instrument 2026;
(10) Cryptoassets (Conduct and Firm Standards) Instrument 2026; and
(11) Cryptoassets (COREPRU and CRYPTOPRU) Instrument 2026.

Amendments to the Handbook

D. The Glossary of definitions is amended in accordance with the Annex to this instrument.

Notes

E. In the Annex to this instrument, the notes (indicated by "*Editor's note*:") are included for the convenience of readers but do not form part of the legislative text.

Citation

F. This instrument may be cited as the Glossary (Cryptoassets) Instrument 2026.

By order of the Board
25 June 2026

Annex

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless stated otherwise.

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

admission criteria	(in *CRYPTO* 3) the criteria a *retail UK QCATP operator* is required to establish by *CRYPTO* 3.2.5R.
arranging (bringing about) deals in qualifying cryptoassets	the *regulated activity* specified in article 9Y(1) of the *Regulated Activities Order* (Arranging deals in qualifying cryptoassets), which is, in summary, making arrangements for another *person* (whether as *principal* or agent) to *buy*, *sell*, subscribe for or underwrite a *qualifying cryptoasset*.
arranging cryptoasset safeguarding	the *regulated activity* specified in article 9N(1)(b) of the *Regulated Activities Order* (Safeguarding of qualifying cryptoassets and relevant specified investment cryptoassets).
arranging deals in qualifying cryptoassets	the *regulated activity* specified in article 9Y of the *Regulated Activities Order* (Arranging deals in qualifying cryptoassets), which is, in summary, making arrangements for either or both of the following: (a) for another *person* (whether as *principal* or agent) to *buy*, *sell*, subscribe for or underwrite a *qualifying cryptoasset*; and (b) with a view to a *person* who participates in the arrangements for the *buying*, *selling*, subscribing for or underwriting of a *qualifying cryptoasset*, whether as *principal* or agent.
arranging qualifying cryptoasset safeguarding	the *regulated activity* specified in article 9N(1)(b) (Safeguarding of qualifying cryptoassets and relevant specified investment cryptoassets) of the *Regulated Activities Order*, but only in relation to *qualifying cryptoassets*.
arranging qualifying cryptoasset staking	the *regulated activity* specified in article 9Z6 (Qualifying cryptoasset staking) of the *Regulated Activities Order*, which is, in summary, making arrangements on behalf of another (whether as *principal* or agent) for *qualifying cryptoasset staking*.

authorised cryptoasset firm	an *authorised person* who has a *Part 4A permission* to carry on a *regulated cryptoasset activity*.
backing asset composition requirement	the requirement in *CASS* 16.2.25R.
backing asset pool	(a) a pool of *money* and/or *assets* held by a *firm* in connection with a *qualifying stablecoin* with a view to maintaining the stability or value of that *qualifying stablecoin*; and (b) any additional sum held in excess of the requirement in *CASS* 16.2.1R(3) in accordance with *CASS* 16.4.16R.
backing asset pool acknowledgement letter	a letter in the form set out in *CASS* 16 Annex 1.
backing assets account	an account in which a *qualifying stablecoin issuer* holds *assets* in the *backing asset pool*.
backing funds account	an account in which a *qualifying stablecoin issuer* holds *money* in the *backing asset pool*.
blockchain validation	(in accordance with article 9Z6 (Qualifying cryptoasset staking) of the *Regulated Activities Order*) the validation of transactions on: (a) a blockchain; or (b) a network that uses distributed ledger technology or other similar technology, and includes proof of stake consensus mechanisms.
burning	the process by which a *cryptoasset* is permanently removed from circulation on a blockchain or other network that uses distributed ledger technology or other similar technology.
client cryptoasset	a *qualifying cryptoasset* which is either: (a) required to be held in trust under *CASS* 17.3.3R by a *firm* to which that *rule* applies; or (b) part of an *operational surplus*.
client cryptoasset discrepancy record	a *firm's* record setting out details of each discrepancy relating to its safeguarding of *client cryptoassets* that it identifies under *CASS* 17.5.11R, as required under *CASS* 17.5.11R(2).

client cryptoasset reconciliation	the process set out at *CASS* 17.5.10R.
client cryptoasset reconciliation record	a *firm's* record setting out details of each *client cryptoasset reconciliation* which it performs under *CASS* 17.5.10R, as required under *CASS* 17.5.10R(4).
client cryptoasset third party due diligence record	a *firm's* record of the grounds upon which an appointment of a third party under *CASS* 17.6.3R or *CASS* 17.6.8R met the requirements of *CASS* 17.6.3R(1) or *CASS* 17.6.8R(2), as required by *CASS* 17.6.11R(1).
client cryptoasset third party governance record	a *firm's* record of its *governing body's*, or its *governing body's* delegate's, approval under *CASS* 17.6.9R(1) or (3), as required under *CASS* 17.6.11R(5).
client cryptoasset third party review record	a *firm's* record of the conclusions of any periodic review performed under *CASS* 17.6.5R or *CASS* 17.6.8R(4), as required under *CASS* 17.6.11R(3).
client cryptoasset trust exemption consent record	a record of a *firm's client's* written consent under *CASS* 17.3.5R(4) or *CASS* 17.3.6R(1)(c) for the *firm* to use the exemption at *CASS* 17.3.5R(1) or *CASS* 17.3.6R(1) respectively, as required under *CASS* 17.3.11R(4).
client cryptoasset trust exemption record	a record of a *firm's* reasons for concluding that it is necessary for the exemption at *CASS* 17.3.6R(1) to be used, as required under *CASS* 17.3.6R(3).
client cryptoasset trust record	a *firm's* record of a trust that it has created under *CASS* 17.3.3R, as required under *CASS* 17.3.19R.
core backing asset requirement	the requirement in *CASS* 16.2.27R.
core backing assets	(a) *on-demand deposits*; and (b) *short-term government debt instruments*.
CRYPTO	the Cryptoassets sourcebook.
cryptoasset	as defined in section 417 (Definitions) of the *Act*, any cryptographically secured digital representation of value or contractual rights that: (a) can be transferred, stored or traded electronically; and (b) uses technology supporting the recording or storage of data (which may include distributed ledger technology).

cryptoasset inside information	'inside information' as defined in regulation 18 (Inside information) of the *Cryptoassets Regulations*.
cryptoasset insider	a *person* who possesses inside information, as described in regulation 22(4) and (5) (Prohibited use of inside information (insider dealing)) of the *Cryptoassets Regulations*.
cryptoasset insider dealing	using inside information as prohibited by regulation 22 (Prohibited use of inside information (insider dealing)) of the *Cryptoassets Regulations*.
cryptoasset insider list	a list, as required by regulation 31(1)(a) (Insider lists for relevant qualifying cryptoassets and related instruments) of the *Cryptoassets Regulations*, of all *persons* specified in *CRYPTO* 4.12.2R, who: (a) have access to *cryptoasset inside information*; and (b) are working for those *persons* under a contract of employment, or otherwise performing tasks through which they have access to *cryptoasset inside information*, such as advisers, accountants or credit rating agencies.
cryptoasset intermediary	an *authorised person*, other than a *UK QCATP operator*, that carries out any of the following activities: (a) in relation to *qualifying cryptoassets*: (i) *dealing in qualifying cryptoassets as principal*; (ii) *dealing in qualifying cryptoassets as agent*; and (iii) *arranging deals in qualifying cryptoassets*; and (b) in relation to *related instruments*: (i) *dealing in investments as principal*; (ii) *dealing in investments as agent*; (iii) *arranging (bringing about) deals in investments*; and (iv) *making arrangements with a view to transactions in investments*.
cryptoasset market abuse	any activity prohibited by the following provisions in the *Cryptoassets Regulations*:

	(a) regulation 22 (Prohibited use of inside information (insider dealing));
	(b) regulation 24 (Prohibition on the disclosure of inside information); and
	(c) regulation 28 (Prohibition of market manipulation).
cryptoasset market manipulation	'market manipulation' as defined in regulation 19 (Market manipulation) of the *Cryptoassets Regulations*.
cryptoasset means of access record	a *firm's* record setting out details of each *means of access* it controls at any particular point in time, as required under *CASS* 17.4.8R.
cryptoasset safeguarding arrangement record	a *firm's* record of *arranging qualifying cryptoasset safeguarding*, as required under *CASS* 17.7.3R(1).
cryptoasset safeguarding class	a class of *cryptoasset* in which all the *cryptoassets*:
	(a) are fungible with each other;
	(b) are instances of the same single product;
	(c) share the same name or identifier code; and
	(d) exist on:
	(i) the same blockchain; or
	(ii) the same network that uses distributed ledger technology or other similar technology.
cryptoasset safeguarding rules	*CASS* 17.
cryptoasset unlawful disclosure	the behaviour described in regulation 24 (Prohibition on the disclosure of inside information) of the *Cryptoassets Regulations*.
Cryptoassets Regulations	The Financial Services and Markets Act 2000 (Cryptoassets) Regulations 2026 (SI 2026/102).
dealing in qualifying cryptoassets (as principal or agent)	one or both of the following activities:
	(a) *dealing in qualifying cryptoassets as principal*; and
	(b) *dealing in qualifying cryptoassets as agent*.

dealing in qualifying cryptoassets as agent	the *regulated activity*, specified in article 9W (Dealing in qualifying cryptoassets as agent) of the *Regulated Activities Order*, which is, in summary, *buying*, *selling*, subscribing for or underwriting *qualifying cryptoassets* as agent.
dealing in qualifying cryptoassets as principal	the *regulated activity*, specified in article 9T (Dealing in qualifying cryptoassets as principle) of the *Regulated Activities Order*, which is, in summary, *buying*, *selling*, subscribing for or underwriting *qualifying cryptoassets* as principal.
digital token identifier	an identifier: (a) which is a digital token identifier available on the Digital Token Identifier Foundation Registry; or (b) if there is no digital token identifier available for the purposes of (a), which clearly describes the *qualifying cryptoasset* and is each of the following: (i) unique; (ii) neutral; (iii) reliable; (iv) open source; (v) accessible; and (vi) subject to a governance framework.
expanded backing assets	in relation to a *backing asset pool*, the following *assets*: (a) *long-term government debt instruments*; (b) units in a *fund* which is authorised as a *public debt CNAV MMF* under the *Money Market Funds Regulation* or the *EU MMF Regulation* and which meets the following conditions: (i) all *asset*s held within the *fund* are denominated in the *reference currency* of the *qualifying stablecoin*; and (ii) *asset*s which are a debt security represent a claim on the *UK* government or the central government of a *Zone A country*; and

(c) *asset*s, rights or *money* held as a counterparty to a *repurchase transaction* (whether as a repurchase agreement or reverse repurchase agreement):

(i) that has a maximum maturity up to and including 7 *days*;

(ii) that concerns *long-term government debt instruments* or *short-term government debt instruments*; and

(iii) in relation to which the other counterparty is limited to one of the following:

(A) a *UK credit institution*;

(B) a *MIFIDPRU investment firm*;

(C) a *designated investment firm*;

(D) a 'UK Solvency II firm' as defined in chapter 2 of the PRA Rulebook: Solvency II Firms Insurance General Application; or

(E) a *third country person* with a main business comparable to any of the entities referred to in (A) to (D).

EU MMF Regulation the *EU* version of Regulation (EU) No. 2017/1131 of the European Parliament and the Council of 14 June 2017 on money market funds.

FCA-owned centralised repository (in *CRYPTO*) the system identified by the *FCA* on its website as the centralised repository for information relating to *qualifying cryptoassets*.

issuing a qualifying stablecoin the activity defined in article 9M (Issuing qualifying stablecoin) of the *Regulated Activities Order*.

large CATP operator a *firm* which:

(a) operates a *UK QCATP*;

(b) has average revenue, to be calculated at 12-*month* intervals, of more than or equal to £10m a year, for the 3 previous years, having regard to:

(i) all its activities, including but not limited to operating a *UK QCATP*; and

	(ii) where applicable, revenue arising from periods when the business was carried on by or in any predecessor entity.
legal entity identifier	(in *CRYPTO*) a 20-character alphanumeric code that uniquely identifies legally distinct entities which engage in financial transactions.
legitimate cryptoasset market practice	a market practice that is specified in *CRYPTO* 4.11.
LEI	a *legal entity identifier*.
long-term government debt instrument	a debt security representing a claim on the *UK* government or the central government of a *Zone A country* with a residual maturity of more than 365 *days*.
making arrangements with a view to transactions in qualifying cryptoassets	the *regulated activity* specified in article 9Y(2) of the *Regulated Activities Order* (Arranging deals in qualifying cryptoassets), which is, in summary, making arrangements with a view to a *person* who participates in the arrangements for the *buying*, *selling*, subscribing for, or underwriting of a *qualifying cryptoasset*, whether as *principal* or agent.
means of access	a private cryptographic key, part or parts of a private cryptographic key or some other means of which, in either case, a *person* would need possession or knowledge to bring about a transfer of the benefit of a *cryptoasset* to another *person*.
minting	the process of putting a *cryptoasset* on a blockchain or other network using distributed ledger technology or similar technology in a transferrable form.
offer of a qualifying cryptoasset to the public	has the same meaning as in regulation 5 ("Offer of a qualifying cryptoasset to the public") of the *Cryptoassets Regulations*.
on-demand deposit	a *deposit* the terms of which require that the sum of *money* paid will be repaid, with or without interest or a premium, on demand.
on-demand deposit requirement	the requirement in *CASS* 16.2.1R(4).
operational surplus	one or more *qualifying cryptoassets* or *relevant specified investment cryptoassets* which a *firm* is using in accordance with *CASS* 17.3.20R.

operating a qualifying CATP	the *regulated activity* in article 9S (Operating a qualifying cryptoasset trading platform) of the *Regulated Activities Order* which is, in summary, the operation of a *qualifying cryptoasset trading platform*.
person responsible for the offer	(in accordance with regulation 3(3) (Interpretation: qualifying cryptoasset public offers and admissions to trading) and regulation 17(1) and (5) (Interpretation: market abuse in qualifying cryptoassets and related instruments) of the *Cryptoassets Regulations*): (a) in relation to the *offer of a qualifying cryptoasset* to the public: (i) the *person* making the offer; or (ii) where the offer is being made on behalf of another, the *person* on whose behalf the offer is being made; (b) in relation to the *admission to trading* of a *qualifying cryptoasset* on a *UK QCATP*: (i) the *person* requesting or obtaining *admission to trading*; or (ii) where, of its own motion, a *UK QCATP operator* admits a *qualifying cryptoasset* to trading on a *UK QCATP* operated by it, that *UK QCATP operator*; or (c) in relation to a *related instrument*, the *person* who is, for the purposes of the *Market Abuse Regulation*, the offeror of that instrument.
per-trust operational surplus record	a *firm's* record, in relation to a trust created by it under *CASS* 17.3.3R, of the reasons for it being necessary for the *firm* to use an *operational surplus* for that trust, as required under *CASS* 17.3.20R(4).
per-trust/class cryptoasset resource	the amount of a particular class of *client cryptoasset* that a *firm* is required to confirm under *CASS* 17.5.7R that it is safeguarding for *clients* under a particular trust in accordance with *CASS* 17.3.3R.
per-trust/client/class cryptoasset requirement	the amount of a particular class of *client cryptoasset* that a *firm* is required to hold for a particular *client* under a particular trust in accordance with *CASS* 17.3.3R, as calculated at *CASS* 17.5.6R.

pre-issued stablecoin	a *qualifying stablecoin* that first entered circulation prior to 25 October 2027.
proprietary token	a *qualifying cryptoasset* that is not a *UK qualifying stablecoin* and that is either: (a) a *qualifying cryptoasset* issued by a *qualifying cryptoasset firm* or a member of its *group*; or (b) a *qualifying cryptoasset* over which a *qualifying cryptoasset firm* or a member of its *group* has material control or holdings of its supply.
public debt CNAV MMF	(a) in relation to a *regulated money market fund*, has the meaning given in article 2(11) (Definitions) of the *Money Market Funds Regulation*; or (b) in relation to a money market fund authorised under the *EU MMF Regulation*, has the meaning given in article 2(11) (Definitions) of the *EU MMF Regulation*.
QCATP	a *qualifying cryptoasset trading platform*.
QCATP operator	a *qualifying CATP operator*.
QCDD	a document which is a qualifying cryptoasset disclosure document for the purposes of Chapter 1 (Qualifying cryptoasset public offers and admissions to trading) of Part 2 (Markets in cryptoassets: designated activities) of the *Cryptoassets Regulations*.
qualifying CATP	a *qualifying cryptoasset trading platform*.
qualifying CATP operator	a *firm* authorised to carry on the activity of *operating a qualifying CATP*.
qualifying cryptoasset activity	any of the following activities, specified in Part II of the *Regulated Activities Order* (Specified Activities): (a) *issuing a qualifying stablecoin* (article 9M (Issuing qualifying stablecoin)); (b) *safeguarding cryptoassets* (article 9N(1)(a) (Safeguarding of qualifying cryptoassets and relevant specified investment cryptoassets)); (c) *arranging cryptoasset safeguarding* (article 9N(1)(b)); (d) *operating a qualifying CATP* (article 9S (Operating a qualifying cryptoasset trading platform));

	(e) *dealing in qualifying cryptoassets as principal* ((article 9T (Dealing in qualifying cryptoasset trading platform) (but disregarding the exclusion in article 9U (Article 9T exclusion: absence of holding out etc.));
	(f) *dealing in qualifying cryptoassets as agent* (article 9W (Dealing in qualifying cryptoassets as agent));
	(g) *arranging deals in qualifying cryptoassets* (article 9Y (Arranging deals in qualifying cryptoassets)); or
	(h) *arranging qualifying cryptoasset staking* (article 9Z6 (Qualifying cryptoasset staking)).
qualifying cryptoasset best execution obligation	(in *CRYPTO* 5) the obligation of a *firm* under *CRYPTO* 5.4.1R, *CRYPTO* 5.4.10R, *CRYPTO* 5.4.13R and *CRYPTO* 5.4.16R.
qualifying cryptoasset borrowing	the disposal of a *qualifying cryptoasset* from or via an *authorised cryptoasset firm* to a *person* subject to an obligation or right to reacquire the same or equivalent *qualifying cryptoasset* from the *person*, which may include the provision of *qualifying cryptoasset borrowing collateral* and/or payment of interest from the *person* to the *authorised cryptoasset firm*.
qualifying cryptoasset borrowing collateral	the transfer (other than by way of sale) by a *retail client* of assets (including *qualifying cryptoassets*) or currency, or rights in respect thereof, subject to a right of the *retail client* to have transferred back to them the same or equivalent assets or currency where the assets or currency are transferred to secure the performance of the obligations of the *retail client* arising in connection with *qualifying cryptoasset borrowing*.
qualifying cryptoasset custodian	an *authorised person* with *permission* to carry on the *regulated activity* of *safeguarding cryptoassets*.
qualifying cryptoasset execution venue	(in *CRYPTO*):
	(a) a *qualifying cryptoasset trading platform*;
	(b) a single dealer platform;
	(c) a liquidity provider; or
	(d) an entity that, in a *third country*, performs a similar function to the functions performed by any of the entities in (a) to (c).

qualifying cryptoasset firm	a *firm* with a *Part 4A permission* which includes a *qualifying cryptoasset activity*.
qualifying cryptoasset lending	the disposal of a *qualifying cryptoasset* from a *person* to or via an *authorised cryptoasset firm* subject to an obligation or right to reacquire the same or equivalent *qualifying cryptoasset* from the *authorised cryptoasset firm*, typically with compensation paid to that *person* by the *qualifying cryptoasset firm* in the form of yield.
qualifying cryptoasset lending or borrowing	one or both of the following services: (a) *qualifying cryptoasset lending*; and (b) *qualifying cryptoasset borrowing*.
qualifying cryptoasset staking	the use of a *qualifying cryptoasset* in *blockchain validation*.
qualifying cryptoasset trading platform	(in accordance with article 3(1) (Interpretation) of the *Regulated Activities Order*) a system which brings together, or facilitates the bringing together of, multiple third-party *buying* and *selling* interests in *qualifying cryptoassets* in a way that results in a contract for the exchange of *qualifying cryptoassets* for: (a) *money* (including *electronic money*); or (b) other *qualifying cryptoassets*.
qualifying stablecoin	the specified *investment* defined in article 88G (Qualifying stablecoin) of the *Regulated Activities Order*.
qualifying stablecoin funds	(a) *money* received by a *qualifying stablecoin issuer* in payment for a *qualifying stablecoin* in the course of carrying out the activity of *issuing a qualifying stablecoin*; and (b) *money* that is equivalent in value to the consideration accepted by a *qualifying stablecoin issuer* when it accepts something other than *money* in payment for a *qualifying stablecoin* in the course of carrying out the activity of *issuing a qualifying stablecoin*.
qualifying stablecoin issuer	an *authorised person* with *permission* to carry on the *regulated activity* defined in article 9M (Issuing qualifying stablecoin) of the *Regulated Activities Order*.
qualifying stablecoin product	a category of *qualifying stablecoins* identifiable on the basis that:

(a) each *qualifying stablecoin* within that category is fungible with each other *qualifying stablecoin* within that category; and

(b) together all the *qualifying stablecoins* in that category represent a single product.

qualifying stablecoin product identifier

the following identifiers in respect of a *qualifying stablecoin product* and the *qualifying stablecoins* within it:

(a) the name of the *qualifying stablecoin product* and, if different, that part of the name used by all *qualifying stablecoins* in the *qualifying stablecoin product*; and

(b) any *digital token identifiers* relating to the *qualifying stablecoin product* (including those for equivalent groups on the Digital Token Identifier Foundation Registry).

redemption day

(a) a *business day*; or

(b) any other *day* on which a *qualifying stablecoin issuer* is operating so as to be able to complete *redemptions*.

redemption fee

the fee a *qualifying stablecoin issuer* charges for carrying out *redemption*.

redemption sum

the *reference value* of the sum total of *qualifying stablecoins* in respect of which a *redemption* request is received, less:

(a) any *redemption fee*; and

(b) any currency exchange fees which may be incurred by the *qualifying stablecoin issuer* in meeting the *redemption* request in a currency chosen by the *holder* where that currency is different to the *reference currency*.

reference currency

the fiat currency to which a *qualifying stablecoin* is referenced.

reference value

the face value of a *qualifying stablecoin*, with reference to a unit of the fiat currency to which that *qualifying stablecoin* is referenced.

regulated cryptoasset activity

the *regulated activities* in Chapter 2B (Cryptoassets) of Part II (Specified activities) of the *Regulated Activities Order*:

(a) *issuing a qualifying stablecoin*;

(b) *safeguarding cryptoassets*;

(c) *arranging cryptoasset safeguarding*;

(d) *operating a qualifying CATP*;

(e) *dealing in qualifying cryptoassets as principal*;

(f) *dealing in qualifying cryptoassets as agent*;

(g) *arranging (bringing about) deals in qualifying cryptoassets*;

(h) *making arrangements with a view to transactions in qualifying cryptoassets*; and

(i) *arranging qualifying cryptoasset staking*.

related instrument (in accordance with regulation 17(1) (Interpretation: market abuse in qualifying cryptoassets and related instruments) of the *Cryptoassets Regulations*) a *financial instrument* or *specified investment* whose price or value depends on, or has an effect on, the price or value of a *relevant qualifying cryptoasset*, but does not include a *financial instrument* or *specified investment* which:

(a) is a *relevant qualifying cryptoasset*; or

(b) falls within article 2(1) (Scope) of the *Market Abuse Regulation*.

relevant dealer in principal (in accordance with regulation 17(1) (Interpretation: market abuse in qualifying cryptoassets and related instruments) of the *Cryptoassets Regulations*) a *person* who carries on an activity of a kind described in article 9T (Dealing in qualifying cryptoassets as principal) of the *Regulated Activities Order* in relation to a *relevant qualifying cryptoasset*.

relevant issuer (in accordance with regulation 17(1) (Interpretation: market abuse in qualifying cryptoassets and related instruments) of the *Cryptoassets Regulations*):

(a) in relation to a *relevant qualifying cryptoasset*:

(i) the issuer of a *qualifying stablecoin*; or

(ii) in any other case, a *person* ('A') where:

(A) A offers a *qualifying cryptoasset*, or arranges for another to offer that *qualifying cryptoasset* to the public; and

	(B) that *qualifying cryptoasset* is created by, or on behalf of, A for sale or subscription; or
	(b) in relation to a *related instrument*, the issuer of that instrument.
relevant qualifying cryptoasset	(in accordance with regulation 17(1) (Interpretation: market abuse in qualifying cryptoassets and related instruments) of the *Cryptoassets Regulations*) a *qualifying cryptoasset* that has been *admitted to trading*, or is subject to an application seeking *admission to trading*, on a *UK QCATP*.
relevant specified investment cryptoasset	a *specified investment cryptoasset* which meets the definition at article 9N(5)(b) (Safeguarding of qualifying cryptoassets and relevant specified investment cryptoassets) of the *Regulated Activities Order*.
reportable post-trade transparency information	information which a *transparency reporting firm* is required to report, as set out in *CRYPTO* 7.3.
reportable pre-trade transparency information	information which a *transparency reporting firm* is required to report, as set out in *CRYPTO* 7.2.
retail UK QCATP	a *UK QCATP* whose rules do not preclude *retail investors* from trading on the *UK QCATP* directly or through intermediaries.
retail UK QCATP operator	the operator of a *retail UK QCATP*.
safeguarding cryptoassets	the *regulated activity* specified in article 9N(1)(a) (Safeguarding of qualifying cryptoassets and relevant specified investment cryptoassets) of the *Regulated Activities Order*.
safeguarding qualifying cryptoassets	the *regulated activity* specified in article 9N(1)(a) (Safeguarding of qualifying cryptoassets and relevant specified investment cryptoassets) of the *Regulated Activities Order*, but only in relation to *qualifying cryptoassets*.
safeguarding qualifying cryptoassets and relevant specified investment cryptoassets	*safeguarding cryptoassets*.
short-term government debt instrument	a debt security representing a claim on the *UK* government or the central government of a *Zone A country* with a residual maturity of 365 *days* or fewer.

specified investment cryptoasset	a *cryptoasset* that: (a) is a *specified investment* as a result of Part III (Specified investments) of the *Regulated Activities Order*: (i) excluding article 88F (Qualifying cryptoassets); and (ii) including where the *cryptoasset* is a right to, or an interest in, such a *specified investment* by operation of article 89 (Rights to or interests in investments); and (b) would be a *qualifying cryptoasset* if article 88F(4)(a) to (c) of the *Regulated Activities Order* were disregarded.
specified investment cryptoasset firm	an *authorised person* who: (a) has a *Part 4A permission* to carry on a *regulated activity* other than a *regulated cryptoasset activity*; and (b) carries on an activity under that *permission* in relation to *specified investment cryptoassets*.
stablecoin backing assets	*assets* received or held by *firm* in its capacity as trustee under *CASS* 16.5.2R for the benefit of the *holders* of a *qualifying stablecoin* in respect of which that *firm* is the *qualifying stablecoin issuer*.
stablecoin backing funds	*money* received or held by a *firm* in its capacity as trustee under *CASS* 16.5.2R for the benefit of the *holders* of a *qualifying stablecoin* in respect of which that *firm* is the *qualifying stablecoin issuer*.
stablecoin pool	a number ('X') of *qualifying stablecoins* calculated in accordance with *CASS* 16.2.8R.
stablecoin QCDD	a *QCDD* produced in relation to a *UK qualifying stablecoin*.
supplementary disclosure document	a document which is a supplementary disclosure document for the purposes of Chapter 1 (Qualifying cryptoasset public offers and admissions to trading) of Part 2 (Markets in cryptoassets: designated activities) of the *Cryptoassets Regulations*.
third-party custodian	(a) a *person* who is authorised and supervised in the *UK* or in a *third country* for the activity of safeguarding for

	the account of another *person* of *assets* including *core backing assets* (excluding *on-demand deposits*) and *expanded backing assets*; or (b) any *person* appointed to safeguard *core backing assets* (excluding *on-demand deposits*) or *expanded backing assets* in circumstances described in *CASS* 16.6.7R(2).
transparency crypto intermediary	a *firm dealing in qualifying cryptoassets as principal* when trading in *qualifying cryptoassets* otherwise than on a matched principal basis.
transparency reporting firm	a *firm* that is either: (a) a *UK QCATP operator*; or (b) a *transparency crypto intermediary*, to which *CRYPTO* 7 applies.
UK QCATP	a *qualifying cryptoasset trading platform*, the operation of which requires *authorisation*.
UK QCATP operator	the operator of a *UK QCATP*.
UK qualifying cryptoasset execution venue	a *qualifying cryptoasset execution venue*, the operation of which requires *authorisation*.
UK qualifying stablecoin	a *qualifying stablecoin* issued by a *firm* (F): (a) in respect of which F is *issuing a qualifying stablecoin*; and (b) where F has a *Part 4A permission* to carry on the activity in (a).
wrapped token	a qualifying cryptoasset ('A') which: (a) relates to an underlying *qualifying cryptoasset* ('B'), where B is *minted* on a blockchain other than one on which A is used ('C'); and (b) is created specifically for the purpose of enabling B to be used on C.

Amend the following definitions as shown.

acknowledgement letter	…

	(2)	…
	(3)	(in *CASS* 16) a *backing asset pool acknowledgement letter* (a letter in the form of the template in *CASS* 16 Annex 1).
acknowledgement letter fixed text	…	
	(4)	…
	(5)	(in *CASS* 16) the text in the template *acknowledgement letter* in *CASS* 16 Annex 1 that is not in square brackets.
acknowledgement letter variable text	…	
	(4)	…
	(5)	(in *CASS* 16) the text in the template *acknowledgement letter* in *CASS* 16 Annex 1 that is in square brackets.
admission to trading	…	
	(2A)	…
	(2B)	(in *CRYPTO*) admission of a *qualifying cryptoasset* to trading on a *UK QCATP*.
	…	
advertisement	(1)	(except in *CRYPTO*) has the meaning in regulation 3 of the *Public Offers and Admissions to Trading Regulations* – in summary, a communication which:
	…	
	(2)	(in *CRYPTO)* has the meaning in regulation 3 (Interpretation: qualifying cryptoasset public offers and admissions to trading) of the *Cryptoasset Regulations* – in summary, a communication which:
		(a) relates to:
		(i) a specific *offer of a qualifying cryptoasset to the public*; or
		(ii) an admission, or proposed admission, of a *qualifying cryptoasset* to trading on a *qualifying cryptoasset trading platform*;

(b) aims specifically to promote the potential *buying* of, or subscribing for, a *qualifying cryptoasset*; and

(c) is not a *QCDD* or *supplementary disclosure document*.

agreeing to carry on a regulated activity the *regulated activity*, specified in article 64 of the *Regulated Activities Order* (Agreeing to carry on specified kinds of activity), of agreeing to carry on an activity specified in Part II, Part 3A, or Part 3B of that Order other than:

…

(aa) …

(ab) *issuing a qualifying stablecoin*;

(ac) *operating a qualifying CATP*;

…

algorithmic trading (1) (except in *CRYPTO* 4.7 and *CRYPTO* 4.8) trading in *financial instruments* which meets the following conditions:

…

(2) (in *CRYPTO* 4.7 and *CRYPTO* 4.8) trading in *qualifying cryptoassets* or *related instruments* which meets the following conditions:

(a) where a computer algorithm automatically determines individual parameters of orders, such as whether to initiate the order, the timing, price or quantity of the order for how to manage the order after its submission; and

(b) there is limited or no human intervention; but

does not include any system that is only used for the purpose of routing orders to one or more *qualifying cryptoasset trading platforms* or *trading venues* (as applicable) or the processing of orders involving no determination of any trading parameters or for the confirmation of orders or the post-trade processing of executed transactions.

approved bank (1) (except in *COLL* ~~and~~, *CASS* 15 and *CASS* 16) (in relation to a *bank* account opened by a firm):

…

…

(3) …

(4) (in *CASS* 16) (in relation to a *backing funds account* opened by a *firm*):

(a) the *central bank* of a state that is a member of the *OECD* ('an *OECD* state');

(b) a *credit institution* that is supervised by the *central bank* or other banking regulator of an *OECD* state; and

(c) any *credit institution* that:

(i) is subject to regulation by the banking regulator of a state that is not an *OECD* state;

(ii) is required by the law of the country or territory in which it is established to provide audited accounts;

(iii) has minimum net assets of £5 million (or its equivalent in any other currency at the relevant time);

(iv) has a surplus of revenue over expenditure for the past 2 financial years; and

(v) has an annual report which is not materially qualified.

asset …

(2) …

(3) (in *CRYPTO* and *CASS* 16) any property, right, entitlement or interest, excluding *money*.

client …

(B) in the *FCA Handbook*:

(1) (except in *PROF*, in *MIFIDPRU* 5, in relation to a *credit-related regulated activity*, in relation to *regulated funeral plan activity*, in relation to a *home finance transaction* ~~and~~, in relation to *insurance risk transformation* and activities directly arising from *insurance risk transformation*, and in relation to *issuing a qualifying stablecoin* in *PRIN* and *SYSC* 15A) has the meaning given in *COBS* 3.2, that is (in summary and without prejudice to the detailed effect of *COBS* 3.2) a *person* to whom a *firm* provides, intends to provide or has provided a service in the course of carrying on a *regulated activity*, or in the case of *MiFID or equivalent third country business*, an *ancillary service*:

…

…

(12) …

(13) (in *PRIN* and *SYSC* 15A in relation to *issuing a qualifying stablecoin*):

(a) a *person* to whom a *firm* provides, intends to provide or has provided a service in the course of carrying on a *regulated activity*; and

(b) where not otherwise included in (a), the *holder* of a *qualifying stablecoin* which is issued by a *qualifying stablecoin issuer*.

client money …

(2A) (in *MIFIDPRU*, *FEES*, *CASS* 6, *CASS* 7, *CASS* 7A and *CASS* 10 and, in so far as it relates to matters covered by *CASS* 6, *CASS* 7~~,~~ and *COBS* ~~and *IPRU(INV)* 11~~) subject to the *client money rules*, *money* of any currency:

…

(b) that, in the course of carrying on *designated investment business* that is not *MiFID business* or *issuing a qualifying stablecoin*, a *firm* holds for a *client*; or

…

…

complaint …

(2) (in *DISP*, except *DISP* 1.1 and (in relation to *collective portfolio management*) in the *consumer awareness rules*, the *complaints handling rules*, the *complaints record rule*, and in *CONRED* 5, *CONRED* 6, *CREDS* 9, in *SUP* 12 ~~and,~~ in *SUP* 15 and in *SUP* 16) any oral or written expression of dissatisfaction, whether justified or not, from, or on behalf of, a *person* about the provision of, or failure to provide, a financial service, *claims management service* or a *redress determination*, which:

…

…

controlled activity (in accordance with section 21(9) of the *Act* (The classes of activity and investment)) any of the following activities specified in Part 1 of Schedule 1 to the Financial Promotions Order (Controlled Activities):

…

(ia) …

(ib) safeguarding cryptoassets (paragraph 7A);

(ic) operating a qualifying cryptoasset trading platform (paragraph 7B);

(id) arranging qualifying cryptoasset staking (paragraph 7C);

CRD credit institution (1) (except in *COLL* ~~and,~~ *FUND* and *CASS* 16) a *credit institution* that has its registered office (or, if it has no registered office, its head office) in the *UK*, excluding an *institution* to which the *CRD* does not apply under the *UK* provisions which implemented article 2 of the *CRD* (see also *full CRD credit institution*).

(2) (in *COLL* ~~and,~~ *FUND* and *CASS* 16) a *credit institution* that:

…

customer …

(B) in the *FCA Handbook*:

(1) (except in relation to *SYSC* 19F.2, *ICOBS*, *retail premium finance*, a *credit-related regulated activity*, *regulated claims management activity*, *regulated funeral plan activity*, *regulated pensions dashboard activity*, *MCOB* 3A, an *MCD credit agreement*, *CASS* 5, for the purposes of *PRIN* in relation to *MiFID or equivalent third country business* and *issuing a qualifying stablecoin*, *DISP* 1.1.10-BR, *PROD* 1.4 and *PROD* 4) and in relation to *payment services* and issuing *electronic money* (where not a *regulated activity*) a *client* who is not an *eligible counterparty* for the relevant purposes.

…

(10) …

(11) (in *PRIN* in relation to *issuing a qualifying stablecoin*) a *client* who is not an *eligible counterparty* for the relevant purposes.

data protection legislation

(1) (except in *CRYPTO* 4) the General Data Protection Regulation (EU) No 2016/679 and the Data Protection Act 2018.

(2) (in *CRYPTO* 4) has the same meaning as in section 3 (Terms relating to the processing of personal data) of the Data Protection Act 2018.

designated investment

…

(4) …

(5) (in *COBS*) in addition and to the extent it does not fall within (1):

(a) a *qualifying cryptoasset*; and

(b) a *relevant specified investment cryptoasset*.

designated investment business

(1) (except in *COMP*) any of the following activities, specified in Part II of the *Regulated Activities Order* (Specified Activities), which is carried on by way of business:

…

(t) …

(u) *issuing a qualifying stablecoin* (article 9M (Issuing qualifying stablecoin));

(v) *safeguarding cryptoassets* (article 9N(1)(a) (Safeguarding of qualifying cryptoassets and relevant specified investment cryptoassets));

(w) *arranging cryptoasset safeguarding* (article 9N(1)(b));

(x) *operating a qualifying CATP* (article 9S (Operating a qualifying cryptoasset trading platform));

(y) *dealing in qualifying cryptoassets as principal* (article 9T (Dealing in qualifying cryptoassets as principal)), but disregarding the exclusion in article 9U (Article 9T exclusion: absence of holding out etc.);

(z) *dealing in qualifying cryptoassets as agent* (article 9W (Dealing in qualifying cryptoassets as agent));

(za) *arranging deals in qualifying cryptoassets* (article 9Y (Arranging deals in qualifying cryptoassets)); and

(zb) *arranging qualifying cryptoasset staking* (article 9Z6 (Qualifying cryptoasset staking)).

(2) (in *COMP*) any of the activities falling within (1) except:

(a) *issuing a qualifying stablecoin* (article 9M);

(b) *safeguarding cryptoassets* (article 9N(1)(a));

(c) *arranging cryptoasset safeguarding* (article 9N(1)(b));

(d) *operating a qualifying CATP* (article 9S);

(e) *dealing in qualifying cryptoassets as principal* (article 9T), but disregarding the exclusion in article 9U;

(f) *dealing in qualifying cryptoassets as agent* (article 9W);

(g) *arranging deals in qualifying cryptoassets* (article 9Y); and

(h) *arranging qualifying cryptoasset staking* (article 9Z6).

eligible counterparty business

the following services and activities carried on by a *firm*:

(a) *dealing on own account*, *execution of orders on behalf of clients* or reception and transmission of orders; ~~or~~

(b) any *ancillary service* directly related to a service or activity referred to in (a); ~~or~~

(c) …

(d) *dealing in qualifying cryptoassets as principal*;

(e) *dealing in qualifying cryptoassets as agent*;

(f) *arranging deals in qualifying cryptoassets*;

(g) *arranging qualifying cryptoasset staking*;

(h) *issuing a qualifying stablecoin*;

(i) *safeguarding cryptoassets*; or

(j) *arranging cryptoasset safeguarding*.

execution of orders on behalf of clients

(1) (except in *CRYPTO* and *CRYPTOPRU*) acting to conclude agreements to buy or sell one or more *financial instruments* on behalf of *clients*, including the conclusion of agreements to sell *financial instruments* issued by an *investment firm* or a *credit institution* at the moment of their issuance.

…

(2) (in *CRYPTO* and *CRYPTOPRU*) acting to conclude agreements to buy or sell one or more *qualifying cryptoassets* on behalf of *clients*, including the conclusion of agreements to sell *qualifying cryptoassets* issued by a *firm* at the moment of their issuance.

forward-looking statement	(1)	(in *PRM*) has the same meaning as in paragraph 10(2) of Schedule 2 to the *Public Offers and Admissions to Trading Regulations*.
	(2)	(in *CRYPTO* 3) has the same meaning as in paragraph 8(2) ("Protected forward-looking statement") of Part 2 (Further exemption relating to forward-looking statement) of Schedule 2 (Compensation: exemptions) to the *Cryptoassets Regulations*.
holder	…	
	(b)	…
	(c)	(in relation to a *qualifying stablecoin*):
		(i) the *person* who has the right to *redeem* that *qualifying stablecoin*; or
		(ii) a *person* who is exercising the right in (i) until *redemption* is completed in respect of that *qualifying stablecoin*.

[*Editor's note*: The definition of 'market maker' takes into account the changes introduced by the Short Selling Rules Sourcebook Instrument 2026, which comes into force on 13 July 2026, and the Commodity Derivatives (Ancillary Activity Exemption) Instrument 2025 (FCA 2025/61), which comes into force on 1 January 2027.]

market maker	…	
	(5)	…
	(6)	(in *CRYPTO*) a *person* who holds themselves out on a *qualifying CATP* on a continuous basis as being willing to *deal* in *qualifying cryptoassets* as *principal* by buying and selling *qualifying cryptoassets* against that *person's* proprietary capital at prices defined by that *person*.
material change	(in *COBS* 11 and *CRYPTO* 5.4) a significant event that could impact parameters of best execution, such as cost, price, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order.	
over the counter	(1)	(except in *CRYPTO*) (in relation to a transaction in an *investment*) not *on-exchange*.
	(2)	(in *CRYPTO*) in relation to a transaction in *qualifying cryptoassets* not on a *UK QCATP*.

periodic statement (1) (except in *CRYPTO*) a report which a *firm* is required to provide to a *client* pursuant to:

…

(2) (in *CRYPTO*) a report which a *firm* is required to provide to a *client* pursuant to *CRYPTO* 9.

personal transaction a trade in a *designated investment* or *qualifying cryptoasset*, or in *COBS* 11.7A only, a trade in a *financial instrument*, effected by or on behalf of a *relevant person*, where at least one of the following criteria are met:

…

proprietary trading (in *SYSC* 27 (Senior managers and certification regime: (Certification regime) and *COCON*) *dealing in investments as principal* as part of a business of trading in *specified investments*. For these purposes *dealing in investments as principal* includes:

(a) any activities that would be included but for the exclusion in Article 15 (Absence of holding out etc.), Article 16 (Dealing in contractually based investments) or, for a *UK AIFM* or *UK UCITS management company*, article 72AA (Managers of UCITS and AIFs) of the *Regulated Activities Order*;

(b) *dealing in qualifying cryptoassets as principal*; and

(c) any activities that would be included in (b) but for the exclusion in article 9U (Article 9T exclusion: absence of holding out etc.) of the *Regulated Activities Order*.

protected forward-looking statement (1) (in *PRM*) a *forward-looking statement* that satisfies the conditions set out in *PRM* 8.1.3R.

(2) (in *CRYPTO* 3) a *forward-looking statement* that satisfies the conditions set out in *CRYPTO* 3.7.3R.

qualifying cryptoasset (1) (as defined in ~~paragraph 26F (Qualifying cryptoasset) of Schedule 1 to the *Financial Promotion Order*~~ article 88F (Qualifying cryptoasset) of *Regulated Activities Order*):

~~(1)~~ ~~Any cryptoasset (other than a cryptoasset fall in (2))~~
(a) A *cryptoasset* which is:

~~(a)~~ (i) fungible; ~~and~~

~~(b)~~ (ii) transferable~~.~~;

(iii) not solely a record of value or contractual rights, including rights in another *cryptoasset*; and

(iv) not excluded by (c).

(b) For the purposes of (1)(a)(ii), the circumstances in which a *cryptoasset* is to be treated as 'transferable' include where it confers transferable rights.

~~(2)~~ (c) A ~~cryptoasset~~ *cryptoasset* does not fall within ~~(1)~~ (1)(a) if it is:

~~(a)~~ (i) ~~a *controlled investment* falling within any of paragraphs 12 to 26E or, so far as relevant to any such *investment*, paragraph 27 of Schedule 1 to the *Financial Promotion Order*;~~ a *specified investment cryptoasset*, other than one specified by:

(A) article 74A (Electronic money) of the *Regulated Activities Order*; or

(B) article 88F (Qualifying cryptoassets) of the *Regulated Activities Order*;

~~(b)~~ (ii) ~~electronic money (as defined in regulation 2(1) (Interpretation) of the *Electronic Money Regulations*)~~ *electronic money*;

~~(c)~~ (iii) ~~fiat currency~~ currency of the *United Kingdom* or any other country or territory, including a central bank digital currency; or

~~(d) fiat currency issued in digital form; or~~

~~(e)~~ (iv) a ~~cryptoasset~~ *cryptoasset* that:

~~(i)~~ (A) cannot be transferred or sold in exchange for ~~money~~ *money* or other ~~cryptoassets~~ *cryptoassets*, except by way of redemption with the issuer; and

~~(ii)~~ (B) can only be used ~~in a limited way and meets one of the following conditions~~ by the holder to:

(1) ~~it allows the holder to~~ acquire goods or services ~~only~~ from the issuer; or

(2) ~~it is issued by a professional issuer and allows the holder to~~ acquire goods or services ~~only~~ within a limited network of service providers which have direct commercial agreements with the issuer~~; or~~.

~~(3) it may be used only to acquire a very limited range of goods or services.~~

~~(3) For the purposes of this definition, a cryptoasset is any cryptographically secured digital representation of value or contractual rights that:~~

~~(a) can be transferred, stored or traded electronically; and~~

~~(b) uses technology supporting the recording or storage of data (which may include distributed ledger technology).~~

(2) (insofar as referring to the *controlled investment*, in accordance with article 2 (Interpretation: general) of the *Financial Promotion Order*) has the meaning given by article 88F (Qualifying cryptoassets) of the *Regulated Activities Order*, except that the condition as to the *cryptoasset* being transferable is to be taken as met if a communication made in relation to the *cryptoasset* describes it as being:

(a) transferable; or

(b) conferring transferable rights.

redemption …

(2) …

(3) (in relation to a *qualifying stablecoin*) the process by which a *qualifying stablecoin issuer* fulfils its obligation to the *holder* of a *qualifying stablecoin*, whether carried out directly or indirectly (for example, through a third party), to provide value in exchange for the *holder* returning a *qualifying stablecoin*.

regulated activity …

(B) in the *FCA* Handbook:

(1) (in accordance with section 22 of the *Act* (Regulated activities)) the activities specified in Part II (Specified activities), Part 3A (Specified activities in relation to information) and Part 3B (Claims management activities in Great Britain) of the *Regulated Activities Order*, which are, in summary:

…

(aa) …

(ab) *issuing a qualifying stablecoin* (article 9M (Issuing qualifying stablecoin));

(ac) *safeguarding cryptoassets* (article 9N(1)(a) (Safeguarding of qualifying cryptoassets and relevant specified investment cryptoassets));

(ad) *arranging cryptoasset safeguarding* (article 9N(1)(b));

(ae) *operating a qualifying CATP* (article 9S (Operating a qualifying cryptoasset trading platform));

(af) *dealing in qualifying cryptoassets as principal* (article 9T (Dealing in qualifying cryptoassets as principal));

(ag) *dealing in qualifying cryptoassets as agent* (article 9W (Dealing in qualifying cryptoassets as agent));

(ah) *arranging deals in qualifying cryptoassets* (article 9Y (Arranging deals in qualifying cryptoassets));

(ai) *arranging qualifying cryptoasset staking* (article 9Z6 (Qualifying cryptoasset staking));

…

(2) in *DISP*, except *DISP* 1.1, *DISP* 1.2, *DISP* 1.3 and *DISP* 1.9: (in accordance with the *FCA's* power under section 226 of the *Act*) all of the activities included in (B)(1) as at ~~6 April 2026~~ 25 October 2027, unless expressly excluded in *DISP* 2.3.1R.

relevant person …

(1) …

(1A) (in *CRYPTO* 4) (in accordance with regulation 17(4) (Interpretation: market abuse in qualifying cryptoassets and related instruments) of the *Cryptoassets Regulations*) a *person*, in relation to a *relevant qualifying cryptoasset* or *related instrument*, who is:

(a) a *relevant issuer* of that *relevant qualifying cryptoasset* or *related instrument*;

(b) a *person responsible for the offer* of that *relevant qualifying cryptoasset* or *related instrument*;

(c) a *UK QCATP operator* in relation to a *relevant qualifying cryptoasset*; or

(d) a *relevant dealer in principal*.

…

restricted mass market investment any of the following:

…

(e) a *qualifying cryptoasset* other than one which is part of a *qualifying stablecoin product* that includes a *UK qualifying stablecoin*;

…

retail customer …

(2) (in *PRIN* and *COCON*):

…

(g) …

(h) where a *firm* is a *qualifying stablecoin issuer*, a *customer* who is not a *professional client*.

…

retail investor (1) (in *GEN*, *COBS*, *COLL*, *DISC* and the Investment Funds sourcebook) a *person* meeting the criteria in *DISC* 1A.1.5R.

(2) (in *CRYPTO* 3) a *person* who is not a 'qualified investor' as defined by paragraph 9 of Part 2 (Supplementary provisions relating to Part 1) of Schedule 1 (Exceptions

from prohibition of offers to the public) to the *Cryptoassets Regulations*.

retail market business the *regulated activities* and *ancillary activities* to those activities, *payment services*, issuing *electronic money*, and activities connected to the provision of *payment services* or issuing of *electronic money*, of a *firm* in a distribution chain (including a *manufacturer* and a *distributor*) which involves a *retail customer*, but not including the following activities:

…

(6) *insurance distribution activities* carried on by a *firm* in respect of a *group policy* that:

…

(c) do not involve any direct contact between the *firm* and that *person*~~.~~; and

(7) the activities specified as designated activities under section 71K (Designated activities) of the *Act* by regulations 7 (Designated activities: public offers of qualifying cryptoassets) and 8 (Designated activities: admissions to trading on a qualifying cryptoasset trading platform) of the *Cryptoassets Regulations*, where:

(a) the carrying on of those activities would involve the carrying on of *regulated activities* or *ancillary activities* to those activities; and

(b) those activities are carried on in relation to a *qualifying cryptoasset* that is not a *UK qualifying stablecoin*.

specified investment (1) any of the following *investments* specified in Part III of the *Regulated Activities Order* (Specified Investments):

…

(p) *rights to or interests in investments* (article 89)~~.~~;

(r) a *qualifying cryptoasset* (article 88F); and

(s) a *qualifying stablecoin* (article 88G).

…

third country firm (1) (in *SYSC*) either:

…

(2) (in *COBS* and *DISP*) a *firm* which operates from an establishment in the *United Kingdom* and which:

(a) if it is a body corporate or a partnership, is formed or incorporated under the law of a *third country*; or

(b) if not a body corporate or partnership, operates from a principal place of business in a *third country*.

[*Editor's note*: The definition of 'working day' takes into account the changes made by the Commodity Derivatives (Position Limits, Position Management and Perimeter) Instrument 2025 (FCA 2025/4), which comes into force on 6 July 2026, the Short Selling Rules Sourcebook Instrument 2026 (FCA 2026/16), which comes into force on 13 July 2026, and the Notification of Third Party Arrangements and Operational Incident Reporting Instrument 2026 (FCA 2026/6), which comes into force on 18 March 2027.]

working day	(1)	(in *PRM*, *MAR* 5-A, *MAR* 9 ~~and~~, *MAR* 10 and *CRYPTO* 3) (as defined in section 103 of the *Act*) any day other than a Saturday, a Sunday, Christmas Day, Good Friday or a day which is a bank holiday under the Banking and Financial Dealings Act 1971 in any part of the *United Kingdom*.
	…	

CRYPTOASSETS (COREPRU AND CRYPTOPRU) INSTRUMENT 2026

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following powers and related provisions in or under:

(1) the following sections of the Financial Services and Markets Act 2000 ("the Act"):

(a) section 137A (The FCA's general rules);
(b) section 137T (General supplementary powers);
(c) section 138C (Evidential provisions);
(d) section 138D (Actions for damages); and
(e) section 139A (Power of the FCA to give guidance); and

(2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA's Handbook.

B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

C. The FCA confirms and remakes in the Glossary of definitions any defined expressions used in the modules of the FCA's Handbook of rules and guidance referred to in paragraph E where such defined expressions relate to any UK legislation that has been amended since those defined expressions were last made.

Commencement

D. This instrument is one of a series of instruments which introduce or amend provisions of the Handbook relating to cryptoassets. These instruments all come into force on 25 October 2027, immediately after one another, in the following order:

(1) Glossary (Cryptoassets) Instrument 2026;
(2) Cryptoassets (Stablecoins) Instrument 2026;
(3) Cryptoassets (Admission of Qualifying Cryptoassets to Trading and Offers of Qualifying Cryptoassets to the Public) Instrument 2026;
(4) Cryptoassets (Market Abuse) Instrument 2026;
(5) Cryptoassets (Intermediaries) Instrument 2026;
(6) Cryptoassets (Trading Platforms, Transparency and Records) Instrument 2026;
(7) Cryptoassets (Lending, Borrowing and Staking) Instrument 2026;
(8) Cryptoassets (Safeguarding) Instrument 2026;
(9) Cryptoassets (Client Assets Consequentials) Instrument 2026;
(10) Cryptoassets (Conduct and Firm Standards) Instrument 2026; and
(11) Cryptoassets (COREPRU and CRYPTOPRU) Instrument 2026.

Amendments to the FCA Handbook

E. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Prudential sourcebook for MiFID Investment Firms (MIFIDPRU)	Annex D
Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)	Annex E
Interim Prudential sourcebook for Investment Businesses (IPRU-INV)	Annex F

F. The Prudential sourcebook for Insurers (INSPRU) is moved immediately after the Interim Prudential sourcebook for Insurers (IPRU-INS).

G. The General Prudential sourcebook (GENPRU) is moved after the Interim Prudential sourcebook for Investment Businesses (IPRU-INV), so it is the last sourcebook in the Prudential Standards block within the Handbook.

Making the Core Prudential sourcebook (COREPRU) and the Prudential sourcebook for CRYPTOPRU Firms (CRYPTOPRU)

H. The FCA makes the rules and gives the guidance in Annexes B and C to this instrument.

I. The Core Prudential sourcebook (COREPRU) is added as the first sourcebook in the Prudential Standards block within the Handbook.

J. The Prudential sourcebook for CRYPTOPRU Firms (CRYPTOPRU) is added to the Prudential Standards block within the Handbook, immediately after the Core Prudential sourcebook (COREPRU).

Notes

K. In the annexes to this instrument, the notes (indicated by "**Note:**" or "*Editor's note*:") are included for the convenience of readers, but do not form part of the legislative text.

Citation

L. This instrument may be cited as the Cryptoassets (COREPRU and CRYPTOPRU) Instrument 2026.

M. The sourcebook in Annex B to this instrument may be cited as the Core Prudential sourcebook (COREPRU).

N. The sourcebook in Annex C to this instrument may be cited as the Prudential sourcebook for CRYPTOPRU Firms (CRYPTOPRU).

By order of the Board
25 June 2026

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

average CCO	the rolling average of a *CRYPTOPRU firm's CCO* calculated in accordance with *CRYPTOPRU* 4.7.9R.
average CCS	the rolling average of a *CRYPTOPRU firm's CCS* calculated in accordance with *CRYPTOPRU* 4.6.7R.
average CTF	the rolling average of a *CRYPTOPRU firm's CTF* calculated in accordance with *CRYPTOPRU* 4.8.4R.
average RCS	the rolling average of a *CRYPTOPRU firm's RCS* calculated in accordance with *CRYPTOPRU* 4.5.6R.
average SII	the rolling average of a *CRYPTOPRU firm's SII* calculated in accordance with *CRYPTOPRU* 4.4.3R.
CASS 16 stablecoin	any *qualifying stablecoin* which is part of a *qualifying stablecoin product* that includes a *UK qualifying stablecoin*.
CCO	*cryptoasset client orders*.
CCS	*client cryptoassets staked*.
CET1 permission	the permissions in *MIFIDPRU* 3.3A.3R, *COREPRU* 3.3.3R and Article 26(3) of the *UK CRR* (including applied by any *rule* in the *FCA Handbook*).
client cryptoassets staked	the total daily value of *qualifying cryptoassets* for which the *firm* makes arrangements on behalf of another *person* (whether as *principal* or agent) for *qualifying cryptoasset staking*, calculated in accordance with *CRYPTOPRU* 4.6.6R.
COREPRU	the Core Prudential sourcebook.
COREPRU firm	a *firm* to which *COREPRU* applies in accordance with *COREPRU* 1.1.1R.
cryptoasset client orders	the value of *cryptoasset orders*, as calculated in accordance with *CRYPTOPRU* 4.7, that a *firm* handles: (a) for *clients,* when providing the following services:

(i) reception and transmission of *cryptoasset orders*; or

(ii) *execution of orders on behalf of clients*; or

(b) solely in its capacity as the *qualifying CATP operator*.

cryptoasset order	an order that involves the purchase or sale of a *qualifying cryptoasset* except where the order involves a *CASS 16 stablecoin* and no other *qualifying cryptoasset*.
cryptoasset trading flow	the daily value of *cryptoasset orders* that a *CRYPTOPRU firm* enters in its own name, calculated in accordance with *CRYPTOPRU* 4.8.4R.
CRYPTOPRU	the Prudential sourcebook for CRYPTOPRU Firms.
CRYPTOPRU firm	a *firm* with *permission* to carry on any *regulated cryptoasset activity* that is not a *PRA-authorised person*.
CTF	*cryptoasset trading flow*.
issuer liquid assets requirement	an amount of *on-demand deposits* that a *CRYPTOPRU firm* must hold, in accordance with *CRYPTOPRU* 6.1.9R.
K-CCD requirement	the part of the *K-factor requirement* calculated on the basis of cryptoasset counterparty default risk in accordance with *CRYPTOPRU* 4.10.
K-CCO requirement	the part of the *K-factor requirement* calculated on the basis of the *CCO* of a *CRYPTOPRU firm* in accordance with *CRYPTOPRU* 4.7.
K-CCS requirement	the part of the *K-factor requirement* calculated on the basis of the *CCS* of a *CRYPTOPRU firm* in accordance with *CRYPTOPRU* 4.6.
K-CTF requirement	the part of the *K-factor requirement* calculated on the basis of the *CTF* of a *CRYPTOPRU firm* in accordance with *CRYPTOPRU* 4.8.
K-NCP requirement	the part of the *K-factor requirement* calculated on the basis of net cryptoasset position risk in accordance with *CRYPTOPRU* 4.9.
K-RCS requirement	the part of the *K-factor requirement* calculated on the basis of the *RCS* of a *CRYPTOPRU firm*, in accordance with *CRYPTOPRU* 4.5.
K-SII requirement	the part of the *K-factor requirement* calculated on the basis of the *SII* of a *CRYPTOPRU firm*, in accordance with *CRYPTOPRU* 4.4.
level 1 asset	a *short-term government debt instrument* or a *long-term government debt instrument* that has been issued by:

(a) Canada;

(b) France;

(c) Germany;

(d) the Netherlands;

(e) the *United Kingdom*; or

(f) the United States.

level 2 asset a *short-term government debt instrument* or a *long-term government debt instrument* that has been issued by:

(a) Australia;

(b) Austria;

(c) Belgium;

(d) Denmark;

(e) Finland;

(f) Ireland;

(g) Italy;

(h) Japan;

(i) Luxembourg;

(j) New Zealand;

(k) Norway;

(l) Portugal;

(m) Spain;

(n) Sweden; or

(o) Switzerland.

level 3 asset a *short-term government debt instrument* or a *long-term government debt instrument* that has been issued by a member of the *OECD* not listed in the definitions of *level 1 asset* or *level 2 asset*.

overall risk assessment has the meaning in *COREPRU* 7.2.1R, which, in summary, is the systems, controls and procedures operated by a *firm* to:

(a) identify, monitor and, if proportionate, reduce all risks from the ongoing operation or winding down of the *firm's* business that may cause material harm; and

	(b)	assess whether the *firm* should hold *own funds* or *liquid assets* to mitigate risks that may cause material harm.
overall risk assessment document	has the meaning in *COREPRU* 7.2.9R, which, in summary, is the documentation used to record the *firm's* review of the adequacy of its *overall risk assessment*.	
RCS	*relevant cryptoassets safeguarded*.	
relevant cryptoassets safeguarded	the value of *qualifying cryptoassets* and *relevant specified investment cryptoassets* in respect of which a *CRYPTOPRU firm* is *safeguarding cryptoassets*.	
sectoral liquidity requirement	a requirement on liquidity set out in a *sectoral prudential sourcebook*.	
sectoral prudential sourcebook	any of the following:	
	(a)	*CRYPTOPRU*; or
	(b)	[intentionally left blank]
SII	*stablecoins in issuance*.	
stablecoins in issuance	the *qualifying stablecoins* that the *qualifying stablecoin issuer* is liable to redeem, excluding any amount deducted in accordance with *COREPRU* 3.3.39R.	
standard spot settlement period	(in *CRYPTOPRU*) the period the *firm* uses (as part of its normal settlement practice) to settle a spot transaction in a *qualifying cryptoasset*.	

Amend the following definitions as shown.

additional tier 1 capital	(1)	(in *COREPRU* and *CRYPTOPRU*) has the meaning in *COREPRU* 3.4.2R.
	(2)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 3.4A.2R.
additional tier 1 instrument	(1)	(in *COREPRU* and *CRYPTOPRU*) a capital instrument that complies with the conditions in *COREPRU* 3.4.3R to *COREPRU* 3.4.15R and that is not a *common equity tier 1 instrument*.
	(2)	(in *MIFIDPRU*) a capital instrument that complies with the conditions in *MIFIDPRU* 3.4A.3R to *MIFIDPRU* 3.4A.15R and that is not a *common equity tier 1 instrument*.

additional tier 1 item	(1)	(in *COREPRU* and *CRYPTOPRU*) has the meaning in *COREPRU* 3.4.2R.
	(2)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 3.4A.2R.
additional tier 1 or comparable instrument	(1)	(in *COREPRU*) has the meaning in *COREPRU* 3.4.22R.
	(2)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 3.4A.22R.
basic liquid assets requirement	the requirement to hold a minimum amount of *core liquid assets*:	
	(1)	(in *COREPRU* and *CRYPTOPRU*) as set out in *COREPRU* 6.2.1R.
	(2)	(in *MIFIDPRU*) as set out in *MIFIDPRU* 6.2.1R ~~for a *MIFIDPRU investment firm* to hold a minimum amount of *core liquid assets*~~.
client	…	
	(B)	in the *FCA Handbook*:
		…
		(2A) (in *MIFIDPRU* 5 and *CRYPTOPRU* 5) a counterparty of the ~~*investment firm*~~ *firm*.
		…
common equity tier 1 capital	(1)	(in *COREPRU* and *CRYPTOPRU*) has the meaning in *COREPRU* 3.3.2R.
	(2)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 3.3A.2R.
common equity tier 1 instrument	(1)	(in *COREPRU* and *CRYPTOPRU*) a capital instrument that complies with the conditions in *COREPRU* 3.3.3R to *COREPRU* 3.3.18R.
	(2)	(in *MIFIDPRU*) a capital instrument that complies with the conditions in *MIFIDPRU* 3.3A.3R to *MIFIDPRU* 3.3A.16R.
common equity tier 1 item	(1)	(in *COREPRU* and *CRYPTOPRU*) has the meaning in *COREPRU* 3.3.2R.
	(2)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 3.3A.2R.
common equity tier 1 or comparable instrument	(1)	(in *COREPRU*) has the meaning in *COREPRU* 3.3.31R.
	(2)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 3.3A.29R.

core liquid asset	(1)	(in *COREPRU* and *CRYPTOPRU*) has the meaning in *COREPRU* 6.3 (Core liquid assets).
	(2)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 6.3 (Core liquid assets).
exposure value	(1)	(in *MIFIDPRU* 5) the value of a *firm's* exposure to a *client* or *group of connected clients*, calculated in accordance with *MIFIDPRU* 5.4.
	(2)	(in *CRYPTOPRU* 5) the value of a *firm's* exposure to a *client* or *group of connected clients*, calculated in accordance with *MIFIDPRU* 5.4 as modified by *CRYPTOPRU* 5.
fixed overheads requirement	(1)	…
	(2)	~~(in *IPRU(INV)*) the part of the *own funds* requirement calculated in accordance with *IPRU(INV)*11.3.3R (Fixed overheads requirement).~~ [deleted]
	(3)	…
	(4)	(in *COREPRU* and *CRYPTOPRU*) the part of the *own funds requirement* calculated in accordance with *COREPRU* 4.3 (Fixed overheads requirement).
investment management firm	a *firm* whose *permitted activities* include *designated investment business*, which is not an *authorised professional firm*, *bank*, *MIFIDPRU investment firm*, *COREPRU firm*, *collective portfolio management firm*, *credit union*, *energy market participant*, *friendly society*, *ICVC*, *insurer*, *media firm*, *oil market participant* or *service company*, whose *permission* does not include a *requirement* that it comply with *IPRU-INV* 3 (Securities and futures firms) or *IPRU-INV* 13 (Personal investment firms) and which is within (a), (b) or (c): …	
K-CON requirement	the part of the *K-factor requirement* that accounts for *concentration risk* in the *trading book* ~~of a *MIFIDPRU investment firm*~~, calculated in accordance with *MIFIDPRU* 5.7 (including, where relevant, as applied and modified by *CRYPTOPRU* 5).	
K-factor requirement	(1)	(in *MIFIDPRU*) the part of the *own funds requirement* calculated in accordance with *MIFIDPRU* 4.6.
	(2)	(in *COREPRU* and *CRYPTOPRU*) the part of the *own funds requirement* calculated in accordance with *COREPRU* 4.4.

management body	(1)	(other than in (2) or (3)-) *the governing body* and *senior personnel* who are empowered to set the *person's* strategy, objectives and overall direction, and which oversee and monitor management decision-making in the following:
		(ai) …
		(aii) a *COREPRU firm* (in relation to the requirements in *COREPRU*); or
		…
non-core liquid asset	~~has the meaning in *MIFIDPRU* 7.7.8R, which is any of the following, except to the extent excluded by *MIFIDPRU* 7.7.8R(2)~~:	
	(1)	~~short-term deposits at a *credit institution* that does not have a *Part 4A permission* in the *UK* to *accept deposits*;~~ [deleted]
	(1A)	~~short-term non-sterling deposits at a *UK credit institution*;~~ [deleted]
	(2)	~~assets representing claims on, or guaranteed by, multilateral development banks or international organisations;~~ [deleted]
	(3)	~~assets representing claims on or guaranteed by any *third country* central bank or government;~~ [deleted]
	(4)	~~*financial instruments*; and~~ [deleted]
	(5)	~~any other instrument eligible as collateral against the margin requirement of an *authorised central counterparty*.~~ [deleted]
	(6)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 7.7.8R.
	(7)	(in *CRYPTOPRU*) has the meaning in *CRYPTOPRU* 7.4.9R.
overall financial adequacy rule	…	
	(2)	…
	(3)	(in *COREPRU* and *CRYPTOPRU*) the requirement in *COREPRU* 2.3.1R.
own funds	…	
	(4A)	…
	(4B)	(in *COREPRU* and *CRYPTOPRU*) has the meaning in *COREPRU* 3.2.2R.

	(5)	(except in *MIFIDPRU*, *COREPRU* and *CRYPTOPRU*) has the meaning in article 4(1)(118) of the *UK CRR*, as it applied on 31 December 2021.
own funds requirement	(1)	(in *MIFIDPRU*) the requirement for a *MIFIDPRU investment firm* to maintain a minimum level of *own funds* specified in *MIFIDPRU* 4.3.
	(2)	(in *COREPRU* and *CRYPTOPRU*) the requirement for a *firm* to maintain a minimum level of *own funds* specified in *COREPRU* 4.1.
permanent minimum capital requirement	(1)	(in *MIFIDPRU*) the part of the *own funds requirement* calculated in accordance with *MIFIDPRU* 4.4.
	(2)	(in *COREPRU* and *CRYPTOPRU*) the part of the *own funds requirement* calculated in accordance with *COREPRU* 4.2.
personal investment firm	a *firm* whose *permitted activities* include *designated investment business*, which is not an *authorised professional firm*, *bank*, *MIFIDPRU investment firm*, *COREPRU firm*, *building society*, *collective portfolio management firm*, *credit union*, *energy market participant*, *ICVC*, *insurer*, *media firm*, *oil market participant* or *service company*, whose *permission* does not include a *requirement* that it comply with ~~*IPRU(INV)*~~ *IPRU-INV* 3 (Securities and futures firms) or *IPRU-INV* 5 (Investment management firms), and which is within (a), (b) or (c):	
	…	
regulated covered bond	(in *RCB* and *CRYPTOPRU* 7) (as defined in Regulation 1(2) of the *RCB Regulations*) a *covered bond* or *programme* of *covered bonds*, as the case may be, which is admitted to the register of *regulated covered bonds* maintained under Regulation 7(1)(b) of the *RCB Regulations*.	
relevant body	(in *MIFIDPRU* and *COREPRU*) a general meeting of the shareholders of a *firm* or an equivalent meeting of the owners of a *firm*.	
relevant expenditure	(1)	(in *MIFIDPRU* 4, *MIFIDPRU* 6 and ~~*IPRU(INV)*~~ *IPRU-INV* 11) relevant expenditure as calculated under *MIFIDPRU* 4.5.3R.
	(2)	(in *COREPRU*) relevant expenditure as calculated under *COREPRU* 4.3.3R.
securities and futures firm	a *firm* whose *permitted activities* include *designated investment business* or *bidding in emissions auctions*, which is not an *authorised professional firm*, *bank*, *MIFIDPRU investment firm*, *COREPRU firm*, *building society*, *collective portfolio management firm*, *credit union*, *friendly society*, *ICVC*, *insurer*, *media firm* or *service company*, whose permission does not include a *requirement* that it comply with *IPRU-INV* 5	

(Investment management firms) or *IPRU-INV* 13 (Personal investment firms), and which is within (a), (b), (c), (d), (e), (f), (g) or (ga):

…

senior management	…	
	(4)	(in *MIFIDPRU* and *COREPRU*) those natural persons who exercise executive functions in ~~*MIFIDPRU investment firms*~~ *firms* and who are responsible and accountable to the *management body* for the day-to-day management of the *firm*, including for the implementation of the policies concerning the distribution of services and products to *clients* by it and its personnel.
	…	
threshold requirement	either of the following in relation to a *MIFIDPRU investment firm* or a *firm* subject to *CRYPTOPRU* 7:	
	(1)	the *liquid assets threshold requirement*; or
	(2)	the *own funds threshold requirement*.
tier 2 capital	(1)	(in *COREPRU* and *CRYPTOPRU*) has the meaning in *COREPRU* 3.5.2R.
	(2)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 3.5A.2R.
tier 2 instruments	(1)	(in *COREPRU* and *CRYPTOPRU*) a capital instrument that complies with the conditions in *COREPRU* 3.5.3R to *COREPRU* 3.5.11R and is not a *common equity tier 1 instrument* or an *additional tier 1 instrument*.
	(2)	(in *MIFIDPRU*) a capital instrument that complies with the conditions in *MIFIDPRU* 3.5A.3R to *MIFIDPRU* 3.5A.11R and is not a *common equity tier 1 instrument* or an *additional tier 1 instrument*.
tier 2 item	(1)	(in *COREPRU* and *CRYPTOPRU*) has the meaning in *COREPRU* 3.5.2R.
	(2)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 3.5A.2R.
tier 2 or comparable instrument	(1)	(in *COREPRU*) has the meaning in *COREPRU* 3.5.17R.
	(2)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 3.5A.17R.
trading book	…	

(6) …

(7) (in *COREPRU*) all positions in a *financial instrument*, commodity and *qualifying cryptoasset* held by a *firm* that are:

(a) *positions held with trading intent*; or

(b) held to hedge *positions held with trading intent*.

(8) (in *CRYPTOPRU*) all positions in a *qualifying cryptoasset* held by a *firm* that are:

(a) *positions held with trading intent*; or

(b) held to hedge *positions held with trading intent*.

Annex B

The Core Prudential sourcebook (COREPRU)

In this Annex, all the text is new and is not underlined.

Insert the following new sourcebook, the Core Prudential sourcebook (COREPRU), as the first sourcebook in the Prudential Standards block.

1 Application

1.1 Application and interaction with sectoral prudential sourcebooks

Application

1.1.1 R *COREPRU* applies to a *CRYPTOPRU firm*.

1.2 COREPRU and the sectoral prudential sourcebooks

1.2.1 G *COREPRU* contains the prudential requirements that apply to the *firms* listed in *COREPRU* 1.1.1R.

1.2.2 G The prudential requirements in this sourcebook are cross-cutting requirements that are intended to apply across multiple sectors. These cross-cutting requirements are supplemented by sector-specific requirements in the *sectoral prudential sourcebooks*, such as *CRYPTOPRU*. *COREPRU* should therefore be read alongside any *sectoral prudential sourcebooks* which apply to a *firm*.

1.2.3 G For example, a *CRYPTOPRU firm* needs to comply with the *own funds requirement* in *COREPRU* 4.1. The *own funds requirement* has a variety of components, some of which are cross-cutting and defined in *COREPRU*, while others are sector-specific and defined in the *sectoral prudential sourcebooks* (which, in the case of a *CRYPTOPRU firm*, would mean *CRYPTOPRU*).

1.3 Notifications and applications for permission

1.3.1 R A notification or application for permission that is required by *COREPRU* must be submitted using the *online notification and application system*.

1.4 Actions for damages

1.4.1 R A contravention of any *rule* in *COREPRU* does not give rise to a right of action by a *private person* under section 138D of the *Act* (and each of those *rules* is specified under section 138D(3) of the *Act* as a provision giving rise to no such right of action).

2 Overall financial adequacy

2.1 Purpose

2.1.1 G *COREPRU* contains *rules* and *guidance* which supplement the overarching requirements under:

(1) the appropriate resources *threshold condition* in Schedule 6 to the *Act* (as explained in *COND* 2.4) under which a *firm* must have appropriate resources in relation to the *regulated activities* that it carries on; and

(2) *Principle* 4 (Financial prudence) under which a *firm* must maintain adequate financial resources.

2.1.2 G The overall purpose of the requirements in *COREPRU* is to ensure that a *firm*:

(1) holds financial resources that are adequate for the business it undertakes; and

(2) has appropriate systems and controls in place to identify, monitor and, where proportionate, reduce all potential material harms that may result from the ongoing operation of its business or winding down of its business.

2.1.3 G The *FCA*:

(1) recognises that there is a vast range of potential harms and that it will not be possible for the *FCA* or *firms* to eliminate all potential risks and sources of harm;

(2) considers that *firms* should focus on material harms, adopting a proportionate and risk-based approach to their business and operating models; and

(3) recognises that some *firms* may still fail, but considers that *firms* should aim to ensure that their wind-down occurs in an orderly manner, minimising the impact on *consumers* and the wider market.

2.2 Voluntary application of stricter requirements

2.2.1 R No provision in *COREPRU* or the *sectoral prudential sourcebooks* prevents a *firm* from:

(1) holding *own funds* (or components of *own funds*) or *liquid assets* that exceed those required by an applicable *rule*; or

(2) applying other measures that are stricter than those required by an applicable *rule*.

2.2.2 G If a *firm* wishes to apply a stricter measure but is unsure of whether that measure would meet the prudential requirements applicable to it, it should discuss the proposal with the *FCA* before applying the measure.

2.3 Overall financial adequacy rule

2.3.1 R (1) A *firm* must, at all times, maintain *own funds* and *liquid assets* that are adequate in both amount and quality for the business it undertakes.

(2) The requirement in (1) is known as the *overall financial adequacy rule*.

2.3.2 G The remainder of *COREPRU* expands upon the *overall financial adequacy rule* as follows:

(1) *COREPRU* 3 explains how a *firm* must quantify its *own funds*;

(2) *COREPRU* 4 explains how a *firm* must calculate an *own funds requirement* in accordance with a quantified methodology prescribed by the *FCA*;

(3) *COREPRU* 5 contains requirements relating to concentration risk;

(4) *COREPRU* 6 explains how a *firm* must calculate its *basic liquid assets requirement* in accordance with a quantified methodology prescribed by the *FCA*; and

(5) *COREPRU* 7 explains how a *firm* must carry out its *overall risk assessment*.

3 Own funds

3.1 Purpose and interpretation

Purpose

3.1.1 G This chapter explains how a *firm* must calculate its *own funds*. *Own funds* is the term the *FCA* commonly uses to describe a *firm's* regulatory capital.

Principles underlying the definition of own funds

3.1.2 G By requiring a *firm* to maintain an appropriate level of *own funds*, the *FCA* helps ensure that:

(1) a *firm* can absorb losses while continuing to operate as a going concern;

(2) a *firm* can absorb losses in *liquidation* in an orderly way that minimises harm to clients, markets and the wider financial system;

(3) *own funds* are calculated consistently and transparently, allowing the *FCA* and other stakeholders to assess a *firm's* loss-absorbing capacity; and

(4) the interests of a *firm's* owners are appropriately aligned with the long-term interests of the *firm* itself.

Interpretation

3.1.3 R A *firm* must categorise and value its assets and off-balance sheet items in accordance with the applicable accounting framework, unless a *rule* specifies otherwise.

3.1.4 G Every provision in the *Handbook* must be interpreted in the light of its purpose (*GEN* 2.2.1R). A *firm* must therefore look beyond the legal form of its capital arrangements and consider their economic substance. This includes considering matters not set out in the terms of a capital instrument.

Mutual societies

3.1.5 G The *FCA* recognises that a mutual society may require modification of certain requirements in this chapter. The *FCA* will generally use the *own funds* rules for mutual societies in the *PRA Rulebook* as the starting point for such modifications, but will discuss this with relevant mutual societies.

3.2 Composition of own funds

3.2.1 G The *FCA* divides *own funds* into categories, or tiers, reflecting differences in the extent to which the capital concerned meets the purposes set out in *COREPRU* 3.1.2G.

3.2.2 R The *own funds* of a *firm* are the sum of its:

(1) *common equity tier 1 capital*;

(2) *additional tier 1 capital*; and

(3) *tier 2 capital*.

3.2.3 G The *FCA* generally prefers a *firm* to hold *common equity tier 1 capital* because it provides the highest quality of loss absorption and permanence. *Common equity tier 1 capital* can be used to meet a *firm's* capital requirements without limit. Other tiers of capital are subject to limits as set out in *COREPRU* 3.2.4R.

3.2.4 R A *firm* must, at all times, have *own funds* that satisfy all of the following conditions:

(1) the *firm's common equity tier 1 capital* must be equal to or greater than 56% of the *firm's own funds requirement* under *COREPRU* 4.1;

(2) the sum of the *firm's common equity tier 1 capital* and *additional tier 1 capital* must be equal to or greater than 75% of the *firm's own funds requirement* under *COREPRU* 4.1; and

(3) the *firm's own funds* must be equal to or greater than 100% of the *firm's own funds requirement* under *COREPRU* 4.1.

3.3 Common equity tier 1 capital

3.3.1 G (1) *Common equity tier 1 capital* has the following core characteristics:

(a) it is able to absorb losses as they occur;

(b) it ranks below all other claims in *liquidation*;

(c) it is permanent;

(d) there is no obligation to make a *distribution*; and

(e) the level of *distributions* is not capped.

(2) The remainder of *COREPRU* 3.3 contains the detailed *rules* and *guidance* for calculating *common equity tier 1 capital*.

3.3.2 R A *firm* must calculate its *common equity tier 1 capital* in accordance with the first column of the following table. The second column indicates where relevant *rules* and *guidance* are found, as applicable.

Item		Relevant rules and guidance
Common equity tier 1 items:		
(1)	*common equity tier 1 instruments*;	*COREPRU* 3.3.3R to *COREPRU* 3.3.18R
(2)	share premium accounts related to the *common equity tier 1 instruments*;	
(3)	*retained earnings*;	
(4)	interim or provisional year-end profits;	*COREPRU* 3.3.19R and *COREPRU* 3.3.20G
(5)	*accumulated other comprehensive income*;	
(6)	*other reserves*;	
Note: Items (3) to (6) may only be recognised as *common equity tier 1 items* if they are available to the *firm* for unrestricted and immediate use to cover risks or losses as soon as these occur.		
LESS		
Deductions from *common equity tier 1 items*:		*COREPRU* 3.3.21G
(7)	losses for the current financial year;	*COREPRU* 3.3.22R

(8)	*intangible assets*;	*COREPRU* 3.3.23R
(9)	deferred tax assets that rely on future profitability;	*COREPRU* 3.3.24R
(10)	defined benefit pension fund assets;	*COREPRU* 3.3.25R
(11)	direct, indirect and synthetic holdings of own *common equity tier 1 instruments*;	*COREPRU* 3.3.26R, 3.3.32R and 3.3.33G
(12)	direct, indirect and synthetic holdings of *common equity tier 1 or comparable instruments* of *financial sector entities* where those entities have a *reciprocal cross-holding* with the *firm*;	*COREPRU* 3.3.27R, *COREPRU* 3.3.28G, and *COREPRU* 3.3.31R to *COREPRU* 3.3.33G
(13)	direct, indirect and synthetic holdings of *common equity tier 1 or comparable instruments* of *financial sector entities* which are not held in the *trading book*;	*COREPRU* 3.3.29R to *COREPRU* 3.3.33G
(14)	any excess of alternative tier 1 deductions above the *firm's additional tier 1 capital*;	*COREPRU* 3.3.34R
(15)	foreseeable tax charges relating to *common equity tier 1 items*;	*COREPRU* 3.3.35R
(16)	*qualifying holdings* outside the financial sector;	*COREPRU* 3.3.36R and *COREPRU* 3.3.37G
(17)	(for *partnerships* or *limited liability partnerships*) excess withdrawals;	*COREPRU* 3.3.38R
(18)	direct, indirect or synthetic holdings of *qualifying cryptoassets* issued by, or where the supply is controlled by, the *firm* or a connected entity;	*COREPRU* 3.3.39R and *COREPRU* 3.3.40G
ADJUSTED FOR		
Prudential filters for *common equity tier 1 capital*:		

(19)	cash flow hedges and changes in the value of own liabilities due to own credit standing; and	*COREPRU* 3.3.41R and *COREPRU* 3.3.42G
(20)	additional valuation adjustment for the *trading book*.	*COREPRU* 3.3.43R

Prior permission and notification of issuances of common equity tier 1 instruments

3.3.3 R (1) A *firm* must not classify an issuance of a capital instrument as a c*ommon equity tier 1 instrument* unless:

(a) it has obtained prior permission from the *FCA*; or

(b) (i) it is issuing new instruments on terms which are substantially the same as instruments for which the *firm* has already received the *FCA's* prior permission; and

(ii) it notifies the *FCA* sufficiently far in advance of classifying the new instruments as *common equity tier 1 instruments*.

(2) The *FCA* will grant the permission in (1)(a) if it is satisfied that the capital instrument meets the criteria in *COREPRU* 3.3.7R to *COREPRU* 3.3.18R.

3.3.4 R A *firm* that has been granted any *CET1 permission* is deemed to have been granted any other *CET1 permission* for the purposes of compliance with relevant *rules* in the *FCA Handbook*.

3.3.5 G The following example illustrates the effect of *COREPRU* 3.3.4R:

(1) Firm Z was granted a *CET1 permission* under *MIFIDPRU* 3.3A.3R.

(2) It subsequently began to carry on *regulated cryptoasset activities* and became subject to *COREPRU*.

(3) Firm Z does not need to reapply for a *CET1 permission* under *COREPRU* 3.3.3R in respect of any capital instruments for which it has already received a *CET1 permission* under *MIFIDPRU* 3.3A.3R.

(4) In addition, if Firm Z then issues new instruments on terms which are substantially the same as instruments for which it received the permission under *MIFIDPRU* 3.3A.3R, it may notify under *COREPRU* 3.3.3R(1)(b) rather than obtaining a further permission.

3.3.6 G The *FCA* generally expects to receive a notification of a new issuance of an existing form of *common equity tier 1 instrument* under *COREPRU* 3.3.3R(1)(b) at least 20 *business days* before the *firm* intends to classify that issuance as *common equity tier 1 instruments*.

Common equity tier 1 instruments: loss absorption

3.3.7 R (1) A *common equity tier 1 instrument* must be classified as equity within the meaning of the applicable accounting framework.

(2) A *firm's* obligations under the instrument must not constitute a liability (including a contingent or prospective liability) that would be relevant for the purposes of section 123(2) of the Insolvency Act 1986.

(3) The holder of the instrument must not have any right, arising from the non-payment of any sums connected to the instrument, to petition for the winding up or administration of the *firm*, or any similar procedure.

(4) The instrument must not be secured by, or subject to, a guarantee or other arrangement which enhances the legal or economic seniority of the claim.

(5) (a) The *common equity tier 1 instruments* must rank below all other claims in the event of *liquidation*, except for claims from holders of other ordinary *shares* which rank pari passu with the instruments.

(b) The *common equity tier 1 instruments* must entitle their owners to a claim on the residual assets of the *firm* which, in the event of *liquidation* and after payment of all senior claims, is proportionate to the amount of such instruments issued and is not fixed or subject to a cap, except that a claim specified as a percentage of residual assets does not constitute a fixed or capped claim.

(c) Each *common equity tier 1 instrument* must absorb losses to the same degree as all other *common equity tier 1 instruments*, and all *common equity tier 1 instruments* must absorb losses before any other *own funds instruments* issued by the *firm*.

3.3.8 R While the conditions in *COREPRU* 3.3.7R(5) require *common equity tier 1 instruments* to absorb losses before any other *own funds instruments*, the fact that an *additional tier 1 instrument* or *tier 2 instrument* may be permanently written down does not prevent these conditions being met.

3.3.9 R (1) A *common equity tier 1 instrument* must be fully paid and the proceeds of issue immediately and fully available to the *firm*.

(2) Where an instrument is partly paid, only the paid-up portion is eligible as a *common equity tier 1 instrument*.

3.3.10 G *COREPRU* 3.3.9R requires that the full amount of capital has been irrevocably received by the *firm*, is fully under the *firm's* control, and does not directly or indirectly expose the *firm* to the credit risk of the investor. This condition is stricter than the definition of 'fully paid' in the Companies Act 2006, which may be met by an undertaking to pay.

3.3.11 R (1) A *common equity tier 1 instrument* must not be funded directly or indirectly by the *firm* itself.

(2) Paragraph (1) does not apply if the funding is provided in the ordinary course of the *firm's* business.

3.3.12 G (1) *COREPRU* 3.3.11R prevents the artificial inflation of a *firm's own funds* by prohibiting a *firm* from funding its own capital instruments, at issuance or thereafter. This includes situations where:

(a) a *firm* grants a loan or other funding to an investor that is used to purchase the *firm's* own capital instruments;

(b) a *firm* grants any funding to an existing investor in its capital instruments;

(c) a *firm* provides a guarantee, enters into a credit derivative, or enters into some other form of arrangement so that the credit risk in a capital instrument is or may be transferred to the *firm*; or

(d) the funding in (a), (b) or (c) is provided to an external investor indirectly, for example by a member of the *firm's group* or via another intermediary.

(2) However, there is an exception for funding that is provided in the ordinary course of a *firm's* business. This covers situations where:

(a) funding is provided as part of a *firm's* normal trading or business operations;

(b) the terms are comparable to the terms the *firm* offers for third-party instruments; and

(c) the funding is not designed to support the *firm's* capital position.

(3) For example, a market maker providing standard margin lending that happens to involve the market maker's own capital instruments is likely to qualify for the exception. However, a structured arrangement specifically designed to fund purchases of the *firm's* capital instruments would not qualify.

Common equity tier 1 instruments: perpetuity

3.3.13 R (1) A *common equity tier 1 instrument* must be perpetual, with a *reduction of capital* only permissible where:

(a) the *firm* is in *liquidation*; or

(b) the *firm* carries out a *reduction of capital* which complies with *COREPRU* 3.6.4R or *COREPRU* 3.6.6R.

(2) A *firm* must not do anything to create an expectation that it will or might carry out a *reduction of capital* under (1)(b) when it issues the instrument, and the statutory or contractual terms of the instrument must not contain any feature which would or might give rise to such an expectation.

3.3.14 G (1) A *firm* generally has the right to carry out a *reduction of capital* under company law. However, *COREPRU* 3.6.4R requires that any *reduction of capital* is generally first approved by the *FCA*.

(2) The *FCA* recognises that relevant documentation may acknowledge the fact that a *firm* is able to carry out a *reduction of capital*. However, the *firm* must not create an expectation that it would or might carry out a *reduction of capital* when it issues the relevant instrument.

(3) An expectation that a *firm* would or might carry out a *reduction of capital* may be created by:

(a) a term which creates an economic incentive for the *firm* to carry out a *reduction of capital* at a particular point in time;

(b) a term which suggests that a *reduction of capital* may be carried out at a particular point in time, or at the initiative of any *person* other than the *firm*, even if this is conditional upon the approval of the *firm's management body* and the *FCA*; or

(c) any other contractual or non-contractual indication that the *firm* would or might carry out a *reduction of capital* on a particular date, or in particular circumstances.

Common equity tier 1 instruments: perpetuity, partnerships and limited liability partnerships

3.3.15 R (1) This *rule* applies to:

(a) a *partner's* account in a *firm* that is a *partnership*; and

(b) a member's account in a *firm* that is a *limited liability partnership*.

(2) References to a *partner* or a *partnership* in this *rule* include a member and a *limited liability partnership* respectively.

(3) A *partner's* account satisfies the conditions in *COREPRU* 3.3.13R if:

(a) capital contributed by *partners* is paid into the account; and

(b) the terms of the partnership agreement ensure that (otherwise than with prior *FCA* consent under *COREPRU* 3.6.4R or in the circumstances set out in *COREPRU* 3.6.6R) capital may only be withdrawn from the account by a *partner* ('A') if:

(i) A ceases to be a *partner* and an equal amount is contributed to another *partner's* account by A's former *partners* or any *person* replacing A as their *partner*;

(ii) any reduction in the capital credited to A's account is immediately offset by an equal contribution to other *partner* accounts by one or more of A's *partners* (including any *person* becoming a *partner* of A at the time that the additional contribution is made);

(iii) the *partnership* is wound up or dissolved; or

(iv) the *firm* ceases to be *authorised* or no longer has a *Part 4A permission*.

Common equity tier 1 instruments: distributions

3.3.16 R A *common equity tier 1 instrument* must meet the following conditions regarding *distributions* (subject to *COREPRU* 3.3.18R):

(1) the instrument must not provide or allow for the payment of preferential *distributions* over other *common equity tier 1 instruments* or any other capital instruments;

(2) the instrument must not include a cap on *distributions* or any other restriction on the maximum amount payable;

(3) the level of *distributions* must not be linked to the amount for which the instrument was purchased at issuance;

(4) there must be no circumstances in which *distributions* are obligatory, including where non-payment triggers some other obligation (for example, to make payments in kind); and

(5) failure to make *distributions* must not constitute an event of default.

3.3.17 G (1) *COREPRU* 3.3.16R(1) prohibits differentiated levels of *distributions*, or preferences in factors such as the order or timing of *distributions*, subject to the exception for instruments with fewer or no voting rights in *COREPRU* 3.3.18R.

(2) *COREPRU* 3.3.16R(5) means that a failure to make *distributions* must not have contractual or other consequences associated with an event of default, such as by engaging rights of termination, early repayment, additional voting rights, or other similar consequences.

Common equity tier 1 instruments: dividend multiples on instruments with fewer or no voting rights

3.3.18 R A *common equity tier 1 instrument* may pay a dividend multiple relative to another *common equity tier 1 instrument* if:

(1) the higher dividend multiple applies to *common equity tier 1 instruments* with fewer or no voting rights;

(2) the dividend multiple is set contractually or under the *firm's* constitution;

(3) the dividend multiple is not revisable;

(4) the same dividend multiple applies to all instruments with a dividend multiple;

(5) the dividend multiple is no more than 125% of the *distribution* on one voting *common equity tier 1 instrument*; and

(6) the total amount of *distributions* paid on all *common equity tier 1 instruments* during a 1-year period does not exceed 105% of the amount that would have been paid if instruments with fewer or no voting rights received the same *distributions* as voting instruments.

Inclusion of interim profits or provisional year-end profits in common equity tier 1 capital

3.3.19 R A *firm* must not include interim profits or year-end profits in its *common equity tier 1 capital* before its formal decision confirming final profit or loss for the year, unless:

(1) those profits have been verified by a *person* who is independent of the *firm* and is responsible for the auditing of the accounts of that *firm*;

(2) the verification provides an adequate level of assurance that those profits have been evaluated in accordance with the principles set out in the applicable accounting framework;

(3) the *firm* is satisfied that any foreseeable charge or dividend has been deducted from the amount of those profits on a prudent and conservative basis; and

(4) the *firm* notifies the *FCA* as soon as reasonably practicable after including the profits in its *common equity tier 1 capital*.

3.3.20 G (1) When deducting foreseeable dividends under *COREPRU* 3.3.19R(3), a *firm* should consider:

(a) any formal decisions about dividends that have been taken by the *firm's management body*;

(b) the upper end of any dividend policy;

(c) the ratio of dividends to income paid out in previous years; and

(d) any other factors that might reasonably affect the *firm's* approach to *distributions* for the relevant period.

(2) When deducting foreseeable charges under *COREPRU* 3.3.19R(3), a *firm* should consider:

(a) any tax charges attributable to the profits being verified;

(b) any other charges that are attributable to the relevant period but have not yet been reflected in the *firm's common equity tier 1 capital* calculation; and

(c) any other factors that might reasonably be expected to affect the final profit or loss figure for the period.

Deductions and filters for common equity tier 1 capital

3.3.21 G (1) Deductions and filters help to ensure that a *firm* measures its *own funds* in a way that reflects its ability to absorb losses in stressed conditions or *liquidation*.

(2) They achieve this by adjusting accounting values, for example because those values:

(a) are subject to significant valuation uncertainty;

(b) may not reflect realisable values in stressed conditions;

(c) include unrealised or market-value gains and losses that may reverse with changing market conditions; or

(d) are only realisable if the *firm* continues to operate as a going concern.

Deduction of losses for the current financial year

3.3.22 R (1) A *firm* must deduct losses for the current financial year, save where the losses have already resulted in a reduction in its *common equity tier 1 items*.

(2) For the purposes of (1), a *firm* must:

(a) apply the same accounting policies and standards as used for the year-end financial report;

(b) prudently estimate and assign income and expenses to the interim period in which they are incurred;

(c) recognise material or non-recurrent events in full and without delay in the interim period during which they arise; and

(d) determine profits, gains and losses, and deduct any resulting losses, as they arise.

Deduction of intangible assets

3.3.23 R (1) A *firm* must deduct *intangible assets*.

(2) For the purposes of (1):

(a) a *firm* must also deduct any *intangible assets* included in the valuation of its *qualifying holdings*;

(b) where the *qualifying holding* in (2)(a) is not wholly owned or controlled by the *firm*, the *firm* must only deduct the portion of *intangible assets* corresponding to its percentage of ownership or control; and

(c) a *firm* must reduce the amount to be deducted by the amount of associated deferred tax liabilities that would be extinguished if the *intangible assets* became impaired or were derecognised, under the applicable accounting framework.

(3) Where not already included under (1), a *firm* must also deduct its net position in any *qualifying cryptoasset* other than a *CASS 16 stablecoin*, where:

(a) the *qualifying cryptoasset* is not traded on a *UK QCATP*; or

(b) the *qualifying cryptoasset* is held in the *trading book* but the *firm* is unable to value the *qualifying cryptoasset* in accordance with the requirements on prudent valuation in Article 105 of the *UK CRR* as applied by *MIFIDPRU* 4.11.3R.

Deduction of deferred tax assets that rely on future profitability

3.3.24 R (1) A *firm* must deduct deferred tax assets that rely on future profitability.

(2) For the purposes of (1):

(a) a *firm* may offset deferred tax liabilities against associated deferred tax assets if:

(i) the *firm* has a legally enforceable right to set off those current tax assets against current tax liabilities;

(ii) the deferred tax assets and the deferred tax liabilities arise from the same tax authority and for the same taxable entity; and

(iii) the deferred tax liabilities do not reduce the amount of *intangible assets* or defined pension fund assets deductible under *COREPRU* 3.3.23R or *COREPRU* 3.3.25R; and

(b) for the calculation of deferred tax assets and liabilities at consolidated level, a taxable entity includes any number of

entities which are members of the same tax group, fiscal consolidation, fiscal unity or consolidated tax return.

Deduction of defined benefit pension fund assets on the firm's balance sheet

3.3.25 R (1) A *firm* must deduct the value of any defined benefit pension fund assets on its balance sheet.

(2) For the purposes of (1):

(a) a *firm* must net off pension fund assets against its obligations under the fund; and

(b) a *firm* must reduce the amount to be deducted by the amount of associated deferred tax liabilities which would be extinguished if the assets became impaired or were derecognised, under the applicable accounting framework.

Deduction of holdings of own common equity tier 1 instruments

3.3.26 R (1) A *firm* must deduct direct, indirect and synthetic holdings of its own *common equity tier 1 instruments*.

(2) For the purposes of (1):

(a) a *firm* must also apply the deduction where it could be obliged to purchase its own *common equity tier 1 instrument* as a result of an existing contractual obligation;

(b) a *firm* must deduct its gross long position unless (2)(c) applies; and

(c) a *firm* may deduct its net long position if:

(i) the long and short positions are in the same underlying exposure;

(ii) the short positions are cleared through an *authorised central counterparty* or subject to appropriate margining requirements; and

(iii) the long and short positions are both held in the *trading book* or are both held outside the *trading book*.

Deduction of holdings of common equity tier 1 or comparable instruments where a firm has a reciprocal cross-holding designed to inflate own funds artificially

3.3.27 R (1) A *firm* must deduct direct, indirect and synthetic holdings of the *common equity tier 1 or comparable instruments* of *financial sector entities* where those entities have a *reciprocal cross-holding* with the *firm* that is designed to inflate the *own funds* of the *firm* artificially.

(2) For the purposes of (1), a *firm* must deduct holdings based on its gross long position.

3.3.28 G The following factors indicate a *reciprocal cross-holding* designed to inflate *own funds* artificially:

(1) the cross-holding does not serve a genuine business purpose;

(2) the timing and circumstances of the cross-holding suggest an intention to boost regulatory capital; or

(3) there are other connections between relevant entities which might indicate coordinated capital management.

Deduction of holdings of common equity tier 1 or comparable instruments of financial sector entities

3.3.29 R (1) A *firm* must deduct direct, indirect and synthetic holdings of *common equity tier 1 or comparable instruments* of *financial sector entities* which are held outside of the *trading book*, unless *COREPRU* 3.3.30R applies.

(2) A *firm* must calculate holdings based on its gross long position unless (3) applies.

(3) A *firm* may calculate holdings based on its net long position where:

(a)

(i) the maturity date of the short position is the same as, or later than, the maturity date of the long position; or

(ii) the residual maturity of the short position is at least 1 year; and

(b) the long and short positions are held outside of the *trading book*.

Holdings of common equity tier 1 instruments issued by a financial sector entity within an investment firm group

3.3.30 R A *firm* is not required to deduct holdings of *common equity tier 1 instruments* of a *financial sector entity* under *COREPRU* 3.3.29R if it is part of an *investment firm group* and all of the conditions in *MIFIDPRU* 3.3A.28R are met.

Common equity tier 1 or comparable instruments

3.3.31 R A *common equity tier 1 or comparable instrument* means:

(1) (for an entity subject to *COREPRU* or *MIFIDPRU*) a *common equity tier 1 instrument*;

(2) (for an *insurer* subject to the Solvency II Firms part of the *PRA Rulebook*) 'Tier 1 own funds' as defined in the Own Funds (Solvency II

Firms) part of the *PRA Rulebook*, the inclusion of which is not restricted by Own Funds (Solvency II Firms) 4A.3 in the *PRA Rulebook*; and

(3) (for a *financial sector entity* not subject to (1) or (2)) any capital instrument that ranks below all other claims in *liquidation*.

Identifying and valuing indirect and synthetic holdings

3.3.32 R For the purposes of *COREPRU* 3.3.26R, *COREPRU* 3.3.27R and *COREPRU* 3.3.29R:

(1) an indirect holding means an economic exposure through an intermediate entity such as a holding company or special purpose vehicle;

(2) a *firm* must calculate the amount to be deducted for indirect holdings by:

(a) identifying any intermediate entities or structures through which it may be exposed to a deductible *common equity tier 1 instrument*;

(b) making a prudent estimate of the full economic exposure of the intermediate entities or structures to deductible instruments; and

(c) deducting the proportion of economic exposure that is attributable to the *firm*;

(3) a *firm* is not required to treat a holding in a *fund* as an indirect holding;

(4) a synthetic holding means an economic exposure through a derivative instrument, guarantee, credit protection, or other similar arrangement; and

(5) a *firm* must calculate the amount to be deducted for synthetic holdings by determining the maximum potential loss that would arise if the underlying deductible *common equity tier 1 instrument* or equivalent economic exposure had zero value, taking into account:

(a) all contractual obligations relating to the position; and

(b) any other features that could increase the *firm's* economic exposure.

3.3.33 G (1) *COREPRU* 3.3.32R explains how a *firm* should identify and value any indirect or synthetic holdings for the purposes of *COREPRU* 3.3.26R, *COREPRU* 3.3.27R and *COREPRU* 3.3.29R.

(2) The *FCA* generally considers it disproportionate to require a *firm* to look through a *fund* for these purposes, given the limited exposures to a *firm's* own capital instruments and those of other *financial sector entities* that are likely to arise through most *funds*.

(3) However, *COREPRU* 3.1.4G reminds *firms* to consider the economic substance of its capital arrangements. The *FCA* does not expect to see *firms* entering into arrangements intended to arbitrage this or other such concessions. Where a *fund* has a purpose or mandate to invest mainly in the capital instruments of *financial sector entities*, a *firm* should apply the relevant capital deductions accordingly.

Deduction of excess additional tier 1 deductions

3.3.34 R A *firm* must deduct from *common equity tier 1 items* the amount by which any items required to be deducted from *additional tier 1 capital* under *COREPRU* 3.4.2R exceed *additional tier 1 items*.

Deduction of foreseeable tax charges relating to common equity tier 1 items

3.3.35 R (1) This deduction applies if a *firm* does not calculate its *own funds* in accordance with *UK-adopted international accounting standards*.

(2) Where this deduction applies, a *firm* must:

(a) deduct any foreseeable current and deferred tax charges relating to *common equity tier 1 items* that are not yet accounted for in its *common equity tier 1 capital*;

(b) calculate the amount to be deducted using the approach in *UK-adopted international accounting standards*; and

(c) deduct the amount of foreseeable current and deferred tax charges without netting off against any unrecognised deferred tax assets.

Deduction of qualifying holdings outside the financial sector

3.3.36 R (1) A *firm* must deduct the higher of:

(a) the sum of the amounts by which any *qualifying holdings* in *non-financial sector entities* each exceed 15% of the *firm's own funds*; and

(b) the amount by which all of its *qualifying holdings* in *non-financial sector entities* exceed 60% of the *firm's own funds*.

(2) The *own funds* limits in (1)(a) and (1)(b) must be calculated before applying this deduction.

(3) When calculating the amounts in (1), a *firm* must treat a *fund* as a *non-financial sector entity*.

(4) When calculating the amounts in (1), a *firm* must exclude:

(a) shares held in the name of the *firm* on behalf of others;

(b) shares held in the *trading book*; and

(c) shares which are not financial fixed assets, as defined in paragraph 94 of Schedule 2 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/401).

3.3.37 G (1) The following examples illustrate how to apply the deduction in *COREPRU* 3.3.36R.

(2) Firm Z has *own funds* of £100m before applying this deduction. Firm Z has *qualifying holdings* in *non-financial sector entities* of £20m, £25m and £30m.

(3) Firm Z must deduct the higher of the amounts calculated under *COREPRU* 3.3.36R(1)(a) or (b).

(4) Firm Z calculates the amount in *COREPRU* 3.3.36R(1)(a) as (£20m – £15m) + (£25m – £15m) + (£30m – £15m) = £30m.

(5) Firm Z calculates the amount in *COREPRU* 3.3.36R(1)(b) as (£20m + £25m + £30m) – £60m = £15m.

(6) £30m is the higher amount and Firm Z therefore deducts £30m, which means Firm Z has *own funds* of £70m.

Deduction of excess partnership withdrawals

3.3.38 R A *firm* that is a *partnership* or a *limited liability partnership* must deduct the amount by which the aggregate of any amounts withdrawn by its *partners* or members exceeds the profits of the *firm*, except to the extent that the amount:

(1) has already been deducted from the *firm's own funds* as a loss under *COREPRU* 3.3.22R;

(2) was repaid in accordance with *COREPRU* 3.3.15R(3); or

(3) is already reflected in a reduction of the *firm's own funds* that was permitted under *COREPRU* 3.6.4R or *COREPRU* 3.6.6R.

Deduction of own or connected qualifying cryptoassets

3.3.39 R (1) A *firm* must deduct any direct, indirect or synthetic holding of a *qualifying cryptoasset* issued by, or where supply is controlled by:

(a) the *firm*;

(b) a member of the same *group* as the *firm*;

(c) a *controller*, shareholder or member of the *firm*;

(d) a *director*, other *officer* or *employee* of the *firm*, or of any member of the same *group* as the *firm*; or

(e) a *close relative* of a *person* falling within (c) or (d).

(2) Paragraph (1) does not apply if:

(a) the *qualifying cryptoasset* is a *CASS 16 stablecoin*; or

(b) the full value of the *qualifying cryptoasset* is deducted in accordance with another *rule* in *COREPRU* 3.3.

(3) A *firm* must calculate its holdings in (1) based on its gross long position.

3.3.40 G When considering whether it has control of supply of a *qualifying cryptoasset*, a *firm* should consider factors such as:

(1) any contractual or non-contractual arrangements which give the *firm* control of supply; and

(2) whether the *firm* holds a position in the relevant *qualifying cryptoasset* that enables it to behave independently of other market participants to control supply.

Adjustment for cash flow hedges and changes in the value of own liabilities

3.3.41 R A *firm* must exclude the following from its *common equity tier 1 items*:

(1) any unrealised gain or loss on cash flow hedges of financial instruments that are not measured at fair value, except where:

(a) the hedged item itself is measured at fair value; or

(b) the unrealised gain or loss represents effective net investment hedges of foreign operations; and

(2) any gain or loss arising from changes in the value of its liabilities that are due to changes in the *firm's* own credit standing.

3.3.42 G (1) *COREPRU* 3.3.41R(1) prevents unrealised gains or losses that arise from cash flow hedges from being included in *common equity tier 1 capital* where the hedged financial instruments are not measured at fair value. This filter is necessary because these hedge-related gains or losses may reverse over time, while not being matched by corresponding changes in the value of the hedged item in the regulatory capital calculation.

(2) *COREPRU* 3.3.41R(2) ensures that a deterioration in a *firm's* own creditworthiness does not increase its *common equity tier 1 capital*. For example, if a *firm's* creditworthiness deteriorates, this could result in the fair value of its liabilities decreasing, resulting in an accounting gain. This gain is counterproductive from a prudential perspective because the

firm's financial condition is actually worsening. *COREPRU* 3.3.41R(2) filters this out to ensure capital reflects true loss-absorbing capacity.

Additional valuation adjustment for the trading book

3.3.43 R (1) A *firm* with a *trading book* must deduct the additional valuation adjustment in (2) from its *common equity tier 1 items*.

(2) A *firm* must calculate the additional valuation adjustment as 0.1% of the base value of positions in the *trading book*.

(3) The base value of positions in the *trading book* is the sum of the absolute value of fair-valued assets and liabilities stated in a *firm's* financial statements under the applicable accounting framework, except that:

(a) positions in a *CASS 16 stablecoin* must be excluded;

(b) exactly matching offsetting fair-valued assets and liabilities must be excluded;

(c) where a change in the accounting valuation of fair-valued assets and liabilities would only partially be reflected in *common equity tier 1 capital*, the value of those assets or liabilities must only be included in proportion to the impact of the relevant valuation change on *common equity tier 1 capital*; and

(d) where a change in the accounting valuation of fair-valued assets and liabilities would have no impact on *common equity tier 1 capital*, the value of those assets or liabilities must be excluded.

3.4 Additional tier 1 capital

3.4.1 G (1) *Additional tier 1 capital* has the following core characteristics:

(a) it converts into *common equity tier 1 capital*, or is written down, upon the occurrence of one or more trigger events;

(b) it has no fixed maturity;

(c) there is no inescapable obligation to make a *distribution*; and

(d) *distributions* do not accelerate when the *firm* experiences stress.

(2) The remainder of *COREPRU* 3.4 contains the detailed *rules* and *guidance* for calculating *additional tier 1 capital*.

3.4.2 R A *firm* must calculate its *additional tier 1 capital* in accordance with the first column of the following table. The second column indicates where relevant *rules* and *guidance* are found, as applicable.

Item	Relevant rules and guidance

Additional tier 1 items:		
(1)	*additional tier 1 instruments*;	*COREPRU* 3.4.3R to *COREPRU* 3.4.16G
(2)	share premium accounts related to the *additional tier 1 instruments*;	
LESS		
Deductions from *additional tier 1 items*:		
(3)	direct, indirect and synthetic holdings of own *additional tier 1 instruments*;	*COREPRU* 3.4.17R and *COREPRU* 3.4.23R
(4)	direct, indirect and synthetic holdings of *additional tier 1 or comparable instruments* of *financial sector entities* where those entities have a *reciprocal cross-holding* with the *firm*;	*COREPRU* 3.4.18R, *COREPRU* 3.4.19G, *COREPRU* 3.4.22R and *COREPRU* 3.4.23R
(5)	direct, indirect and synthetic holdings of *additional tier 1 or comparable instruments* of *financial sector entities* which are not held in the *trading book*;	*COREPRU* 3.4.20R to *COREPRU* 3.4.23R
(6)	any excess of tier 2 deductions above the *firm's tier 2 capital*; and	*COREPRU* 3.4.24R
(7)	foreseeable tax charges relating to *additional tier 1 items*.	*COREPRU* 3.4.25R

Additional tier 1 instruments: loss absorption

3.4.3 R (1) If one or more trigger events occur, the full principal amount of the *additional tier 1 instrument* must be written down on a permanent or temporary basis, or the instrument converted into a *common equity tier 1 instrument*, in accordance with the requirements of *COREPRU* 3.4.9R to *COREPRU* 3.4.12R.

(2) A *firm's* obligations under the instrument must not constitute a liability (including a contingent or prospective liability) that would be relevant for the purposes of section 123(2) of the Insolvency Act 1986.

(3) An *additional tier 1 instrument* must not be secured or subject to a guarantee or other arrangement which enhances the legal or economic seniority of the claim.

(4) The instrument must rank below any *tier 2 instrument* in *liquidation*.

(5) The instrument must not be subject to set-off or netting arrangements that would undermine its capacity to absorb losses.

(6) The provisions governing the instrument must not include any feature that could hinder the recapitalisation of the *firm*.

3.4.4 G For the purposes of *COREPRU* 3.4.3R(6), a feature that could hinder the recapitalisation of the *firm* includes:

(1) a provision that requires the *firm* to compensate existing holders of capital instruments where a new capital instrument is issued; and

(2) other terms that could discourage the *firm* from issuing new capital instruments for recapitalisation.

3.4.5 R (1) An *additional tier 1 instrument* must be fully paid and the proceeds of issue must be immediately and fully available to the *firm*.

(2) Where an instrument is partly paid, only the paid-up portion is eligible as an *additional tier 1 instrument*.

3.4.6 G *COREPRU* 3.3.10G applies to *additional tier 1 instruments* as it applies to *common equity tier 1 instruments*.

3.4.7 R (1) An *additional tier 1 instrument* must not be funded directly or indirectly by the *firm* itself.

(2) Paragraph (1) does not apply if the funding is provided in the ordinary course of the *firm's* business.

3.4.8 G *COREPRU* 3.3.12G applies to *additional tier 1 instruments* as it applies to *common equity tier 1 instruments*.

Additional tier 1 instruments: trigger events

3.4.9 R (1) A *firm* must specify one or more trigger events in the terms of an *additional tier 1 instrument*.

(2) The trigger events specified under (1) must include a trigger event that occurs where the *common equity tier 1 capital* of the *firm* falls below a level specified by the *firm* that is no lower than 64% of the *firm's own funds requirement*.

(3) The full principal amount of an *additional tier 1 instrument* must be written down or converted when a trigger event occurs.

(4) The amount recognised for *additional tier 1 instruments* and any associated share premium accounts must not exceed the amount of *common equity tier 1 items* that would be generated if there were a write-down or conversion.

(5) Where a trigger event occurs, a *firm* must:

(a) convene the *management body* or other *relevant body* without delay to determinate that a trigger event has occurred;

(b) immediately inform the *FCA*;

(c) inform the holders of the *additional tier 1 instruments*; and

(d) write down or convert the instruments without delay, and within 1 *month*.

3.4.10 G (1) *COREPRU* 3.4.9R requires that the principal amount of an *additional tier 1 instrument* converts into *common equity tier 1 instruments* or is written down if the *firm's common equity tier capital* falls below a specified level.

(2) This level must be set at no lower than 64% of the *firm's own funds requirement* but a *firm* may set the relevant trigger at a higher level (such as 70% of its *own funds requirement*) if it wishes.

(3) A *firm* may also specify additional trigger events alongside the required trigger event in *COREPRU* 3.4.9R(2).

Additional tier 1 instruments: write-down

3.4.11 R Where a *firm* issues *additional tier 1 instruments* that write down:

(1) the write-down must extinguish:

(a) the claim of the holder in *liquidation*;

(b) any amount required to be paid in the event of call or redemption of the instrument; and

(c) any *distribution* on the instrument;

(2) the write-down must apply to all holders of *additional tier 1 instruments* that include the same trigger; and

(3) in the case of a write-up after a temporary write-down:

(a) any write-up must be based on profits after the *firm* has taken a formal decision confirming the final profits;

(b) any write-up must be at the full discretion of the *firm* (subject to (c) to (e) below), and there must be no obligation on the *firm* to operate or accelerate a write-up under specific circumstances;

(c) any write-up must be operated on a pro rata basis among *additional tier 1 instruments* with the same trigger that was subject to write-down;

(d) the maximum amount that can be written up must be calculated using the formula:

M = P * A/T

where:

- M = the maximum amount that can be written up;
- P = the profit of the *firm*;
- A = the aggregate nominal value (before write-down) of all *additional tier 1 instruments* that were subject to a write-down; and
- T = the sum of the *common equity tier 1 capital* and *additional tier 1 capital* of the *firm*; and

(e) any write-up amount must be treated as a payment that reduces the *firm's common equity tier 1 capital*.

Additional tier 1 instruments: conversion into common equity tier 1

3.4.12 R Where a *firm* issues *additional tier 1 instruments* that convert into *common equity tier 1 instruments*, it must:

(1) specify in the provisions governing the *additional tier 1 instruments* either:

(a) the rate of such conversion; or

(b) a range within which the instruments will convert into *common equity tier 1 instruments*;

(2) retain all necessary authorisations for converting all of its *additional tier 1 instruments* into *common equity tier 1 instruments*; and

(3) ensure there are no procedural impediments to conversion under its constitutional or contractual arrangements.

Additional tier 1 instruments: perpetuity

3.4.13 R (1) An *additional tier 1 instrument* must be perpetual, with a *reduction of capital* only permissible where:

(a) the *firm* is in *liquidation*; or

(b) the *firm* carries out a *reduction of capital* which:

(i) complies with *COREPRU* 3.6.4R or *COREPRU* 3.6.6R; and

(ii) does not take place before 5 years after the date of issuance, unless the conditions in *COREPRU* 3.6.6R(1) or (2) are met.

(2) The *additional tier 1 instrument* must not include any incentive for the *firm* to carry out a *reduction of capital*.

(3) A *firm* must not explicitly or implicitly indicate that the *additional tier 1 instrument* would be redeemed or repaid other than in *liquidation*, and the terms of the instrument must not provide such an indication.

(4) Where the *additional tier 1 instrument* includes one or more early redemption options including call options, the options must be exercisable at the sole discretion of the *firm*.

(5) A *firm* must not indicate explicitly or implicitly that the *FCA* would consent to a *reduction of capital*.

3.4.14 G (1) An incentive to carry out a *reduction of capital* in *COREPRU* 3.4.13R(2) includes any feature that provides, at the date of issuance of a capital instrument, an expectation that the capital instrument is likely to be redeemed.

(2) Examples of an incentive under (1) include:

(a) a term which creates an economic incentive for the *firm* to carry out a *reduction of capital* at a particular point in time; and

(b) marketing of the instrument in a way which suggests to investors that the instrument will be called.

Additional tier 1 instruments: distributions

3.4.15 R An *additional tier 1 instrument* must meet the following conditions regarding *distributions*:

(1) the *firm* must at all times have full discretion to cancel *distributions* on the instruments for an unlimited period and on a non-cumulative basis;

(2) the *firm* must be able to use cancelled *distributions* to meet its obligations as they fall due, without restriction;

(3) failure to make *distributions* must not constitute an event of default;

(4) the *additional tier 1 instrument* must not include a requirement:

(a) to make a *distribution* in the event of a *distribution* being made on another instrument that ranks the same or more junior;

(b) that, if a *distribution* is not made on that instrument, a *distribution* cannot be made on another capital instrument; or

(c) substituting the obligation to make a *distribution* with any other obligation to make payment in any other form; and

(5) the level of *distribution* must not change in a way that is linked to the credit standing of the *firm* or any member of the *firm's group*.

3.4.16 G *COREPRU* 3.4.15R(3) means that a failure to make *distributions* must not have contractual or other consequences associated with an event of default, such as by engaging rights of termination, early repayment, additional voting rights, or other similar consequences.

Deduction of holdings of own additional tier 1 instruments

3.4.17 R (1) A *firm* must deduct direct, indirect and synthetic holdings of its own *additional tier 1 instruments*.

(2) For the purposes of (1):

(a) a *firm* must also apply the deduction where it could be obliged to purchase the *additional tier 1 instrument* as a result of an existing contractual obligation;

(b) a *firm* must deduct its gross long position unless (2)(c) applies; and

(c) a *firm* may deduct its net long position if:

(i) the long and short positions are in the same underlying exposure;

(ii) the short positions are cleared through an *authorised central counterparty* or subject to appropriate margining requirements; and

(iii) the long and short positions are both held in the *trading book* or are both held outside of the *trading book*.

Deduction of holdings of additional tier 1 or comparable instruments where a firm has a reciprocal cross-holding designed to inflate own funds artificially

3.4.18 R (1) A *firm* must deduct direct, indirect and synthetic holdings of the *additional tier 1 or comparable instruments* of *financial sector entities* where those entities have a *reciprocal cross-holding* with the *firm* designed to inflate the *own funds* of the *firm* artificially.

(2) For the purposes of (1), a *firm* must calculate holdings based on its gross long position.

3.4.19 G The factors in *COREPRU* 3.3.28G indicate a *reciprocal cross-holding* designed to inflate *own funds* artificially.

Deduction of holdings of additional tier 1 or comparable instruments of financial sector entities

3.4.20 R (1) A *firm* must deduct direct, indirect and synthetic holdings of *additional tier 1 or comparable instruments* of *financial sector entities* which are held outside of the *trading book*, unless *COREPRU* 3.4.21R applies.

(2) A *firm* must calculate holdings based on its gross long position unless (3) applies.

(3) A *firm* may calculate holdings based on its net long position where:

(a)

(i) the maturity date of the short position is the same or later than the maturity date of the long position; or

(ii) the residual maturity of the short position is at least 1 year; and

(b) the long and short positions are held outside of the *trading book*.

Holdings of additional tier 1 instruments issued by a financial sector entity within an investment firm group

3.4.21 R A *firm* is not required to deduct holdings of *additional tier 1 instruments* of a *financial sector entity* under *COREPRU* 3.4.20R if it is part of an *investment firm group* and all of the conditions in *MIFIDPRU* 3.4A.21R are met.

Additional tier 1 or comparable instruments

3.4.22 R An *additional tier 1 or comparable instrument* means:

(1) (for an entity subject to *COREPRU* or *MIFIDPRU*) an *additional tier 1 instrument*;

(2) (for an *insurer* subject to the Solvency II Firms part of the *PRA Rulebook*) 'Tier 1 own funds' as defined in the Own Funds (Solvency II) part of the *PRA Rulebook*, the inclusion of which is restricted by Own Funds (Solvency II Firms) 4A.3 in the *PRA Rulebook*; and

(3) (for a *financial sector entity* not subject to (1) or (2)) any capital instrument that does not rank below all other claims in *liquidation* but absorbs losses on a going-concern basis.

Identifying and valuing indirect and synthetic holdings

3.4.23 R *COREPRU* 3.3.32R (Identifying and valuing indirect and synthetic holdings) applies to holdings of *additional tier 1 instruments* as it applies to holdings of *common equity tier 1 instruments*.

Deduction of excess tier 2 deductions

3.4.24 R A *firm* must deduct from *additional tier 1 items* the amount by which any items required to be deducted from *tier 2 items* under *COREPRU* 3.5.2R exceed *tier 2 items*.

Deduction of foreseeable tax charges relating to additional tier 1 items

3.4.25 R (1) This *rule* applies if a *firm* does not calculate its *own funds* in accordance with *UK-adopted international accounting standards*.

(2) Where this *rule* applies, a *firm* must:

(a) deduct any current and deferred tax charges relating to *additional tier 1 items* that are not yet accounted for in its *common equity tier 1 capital*;

(b) calculate the amount to be deducted using the approach in *UK-adopted international accounting standards*; and

(c) deduct the amount of foreseeable current and deferred tax charges without netting off against any unrecognised deferred tax assets.

3.5 Tier 2 capital

3.5.1 G (1) *Tier 2 capital* has the following core characteristics:

(a) it ranks below ordinary creditors in *liquidation*;

(b) it has an original maturity of at least 5 years;

(c) it amortises over the final 5 years; and

(d) *distributions* do not accelerate when the *firm* experiences stress.

(2) The remainder of *COREPRU* 3.5 contains detailed *rules* and *guidance* for calculating *tier 2 capital*.

3.5.2 R A *firm* must calculate its *tier 2 capital* in accordance with the first column of the following table. The second column indicates where relevant *rules* and *guidance* are found, as applicable.

Item	Relevant rules and guidance

Tier 2 items:		
(1)	*tier 2 instruments*;	*COREPRU* 3.5.3R to *COREPRU* 3.5.11R
(2)	share premium accounts related to the *tier 2 instruments*;	
LESS		
Deductions from *tier 2 items*:		
(3)	direct, indirect and synthetic holdings of own *tier 2 instruments*;	*COREPRU* 3.5.12R and *COREPRU* 3.5.18R
(4)	direct, indirect and synthetic holdings of *tier 2 or comparable instruments* of *financial sector entities* where those entities have a *reciprocal cross-holding* with the *firm*; and	*COREPRU* 3.5.13R, *COREPRU* 3.5.14G, *COREPRU* 3.5.17R and *COREPRU* 3.5.18R
(5)	direct, indirect and synthetic holdings of *tier 2 or comparable instruments* of *financial sector entities* which are not held in the *trading book*.	*COREPRU* 3.5.15R to *COREPRU* 3.5.18R

Tier 2 instruments: loss absorption

3.5.3 R (1) The claim on the principal amount of a *tier 2 instrument* must be wholly subordinated to the claims of all non-subordinated creditors.

(2) A *tier 2 instrument* must not be secured or subject to a guarantee or other arrangement which enhances the legal or economic seniority of the claim.

(3) A *tier 2 instrument* must not be subject to set-off or netting arrangements that would undermine its capacity to absorb losses.

3.5.4 R (1) A *tier 2 instrument* must be fully paid and the proceeds of issue immediately and fully available to the *firm*.

(2) Where an instrument is partly paid, only the paid-up portion is eligible as a *tier 2 instrument*.

3.5.5 G *COREPRU* 3.3.10G applies to *tier 2 instruments* as it applies to *common equity tier 1 instruments*.

3.5.6 R (1) A *tier 2 instrument* must not be funded directly or indirectly by the *firm* itself.

(2) Paragraph (1) does not apply if the funding is provided in the ordinary course of the *firm's* business.

3.5.7 G *COREPRU* 3.3.12G applies to *tier 2 instruments* as it applies to *common equity tier 1 instruments*.

Tier 2 instruments: duration

3.5.8 R (1) A *tier 2 instrument* must have an original maturity of at least 5 years, with a *reduction of capital* prior to maturity only permissible where:

(a) the *firm* is in *liquidation*; or

(b) the *firm* carries out a *reduction of capital* which:

(i) has been approved by the *FCA* under *COREPRU* 3.6.4R; and

(ii) does not take place before 5 years after the date of issuance, unless the conditions in *COREPRU* 3.6.6R(1) or (2) are met.

(2) A *tier 2 instrument* must not include any incentive for the principal amount to be redeemed or repaid prior to maturity, or a right to accelerate early redemption or repayment.

(3) A *firm* must not explicitly or implicitly indicate that the *tier 2 instrument* would be redeemed or repaid prior to maturity other than in *liquidation*, and the terms of the instrument must not provide such an indication.

(4) Where the *tier 2 instrument* includes one or more early redemption options including call options, the options must be exercisable at the sole discretion of the *firm*.

3.5.9 G (1) An incentive for the principal amount to be redeemed or repaid in *COREPRU* 3.5.8R(2) includes any feature that provides, at the date of issuance of a capital instrument, an expectation that the capital instrument is likely to be redeemed before its stated maturity date.

(2) Examples of an incentive under (1) include:

(a) a term which creates an economic incentive for the *firm* to reduce or repay the principal before maturity; and

(b) marketing of the instrument in a way which suggests to investors that the instrument will be called before maturity.

Tier 2 instruments: amortisation

3.5.10 R Where a *tier 2 instrument* has a residual maturity of 5 years or less, the proportion of the instrument which qualifies as a *tier 2 item* must be calculated by multiplying A and B, where:

(1) A is the notional amount of the instrument on the first *day* of the final 5-year period of its contractual maturity divided by the number of *days* in that period; and

(2) B is the number of remaining *days* of contractual maturity of the instrument.

Tier 2 instruments: distributions

3.5.11 R A *tier 2 instrument* must meet the following conditions regarding *distributions*:

(1) the holder of the instrument must have no right to accelerate the future scheduled payment of *distributions*, other than in *liquidation*; and

(2) the level of *distribution* must not change in a way that is linked to the credit standing of the *firm* or any member of the *firm's group*.

Deduction of holdings of own tier 2 instruments

3.5.12 R (1) A *firm* must deduct direct, indirect and synthetic holdings of its own *tier 2 instruments*.

(2) For the purposes of (1):

(a) a *firm* must also apply the deduction where it could be obliged to purchase the *tier 2 instrument* as a result of an existing contractual obligation;

(b) a *firm* must deduct its gross long position unless (c) applies; and

(c) a *firm* may deduct its net long position if:

(i) the long and short positions are in the same underlying exposure;

(ii) the short positions are cleared through an *authorised central counterparty* or subject to appropriate margining requirements; and

(iii) the long and short positions are both held in the *trading book* or are both held outside of the *trading book*.

Deduction of holdings of tier 2 or comparable instruments where a firm has a reciprocal cross-holding designed to inflate own funds artificially

3.5.13 R (1) A *firm* must deduct direct, indirect and synthetic holdings of the *tier 2 or comparable instruments* of *financial sector entities* where those entities

have a *reciprocal cross-holding* with the *firm* designed to inflate the *own funds* of the *firm* artificially.

(2) For the purposes of (1), a *firm* must calculate holdings based on its gross long position.

3.5.14 G The factors in *COREPRU* 3.3.28G indicate a *reciprocal cross-holding* designed to inflate *own funds* artificially.

Deduction of holdings of tier 2 or comparable instruments of financial sector entities

3.5.15 R (1) A *firm* must deduct direct, indirect and synthetic holdings of *tier 2 or comparable instruments* of *financial sector entities* which are held outside of the *trading book*, unless *COREPRU* 3.5.16R applies.

(2) A *firm* must calculate holdings based on its the gross long position unless (3) applies.

(3) A *firm* may calculate holdings based on its net long positions where:

(a)

(i) the maturity date of the short position is the same or later than the maturity date of the long position; or

(ii) the residual maturity of the short position is at least 1 year; and

(b) the long and short positions are held outside of the *trading book*.

Holdings of tier 2 instruments issued by a financial sector entity within an investment firm group

3.5.16 R A *firm* is not required to deduct holdings of *tier 2 instruments* of a *financial sector entity* under *COREPRU* 3.5.15R if it is part of an *investment firm group* and all of the conditions in *MIFIDPRU* 3.5A.16R are met.

Tier 2 or comparable instruments

3.5.17 R A *tier 2 or comparable instrument* means:

(1) (for an entity subject to *COREPRU* or *MIFIDPRU*) a *tier 2 instrument*;

(2) (for an *insurer* subject to the Solvency II Firms part of the *PRA Rulebook*):

(a) 'Tier 2 basic own funds' as defined in the Own Funds (Solvency II Firms) part of the *PRA Rulebook*; and

(b) 'Tier 3 own funds' that are 'basic own funds' as those terms are defined in the Own Funds (Solvency II Firms) part of the *PRA Rulebook*; and

(3) (for a *financial sector entity* not subject to (1) or (2)) any subordinated instrument that does not absorb losses on a going-concern basis.

Identifying and valuing indirect and synthetic holdings

3.5.18 R *COREPRU* 3.3.32R (Identifying and valuing indirect and synthetic holdings) applies to holdings of *tier 2 instruments* as it applies to holdings of *common equity tier 1 instruments*.

3.6 General requirements for own funds instruments

3.6.1 R An *own funds instrument* must not pay *distributions* in a form other than cash or *own funds instruments* where:

(1) the *firm* has the sole discretion to decide to make such payment; or

(2) a *person* other than the *firm* has the discretion to decide or require such payment to be made.

3.6.2 R For the purposes of the deductions in *COREPRU* 3.3.26R, *COREPRU* 3.3.29R, *COREPRU* 3.4.17R, *COREPRU* 3.4.20R, *COREPRU* 3.5.12R and *COREPRU* 3.5.15R, a *firm* may reduce the amount of a long position in a capital instrument by the portion of a short position in an index that is made up of the same underlying exposure, provided that:

(1) the positions are either both held in the *trading book*, or both held outside of the *trading book*; and

(2) the positions are held at fair value on the *firm's* balance sheet.

3.6.3 R An *own funds instrument* and any associated share premium account immediately ceases to count towards *own funds* if it ceases to meet any applicable requirement in *COREPRU* 3.

Reduction of own funds instruments

3.6.4 R Save in the circumstances set out in *COREPRU* 3.6.6R, a *firm* must obtain the prior permission of the *FCA* to:

(1) carry out a *reduction of capital* in relation to any of its *common equity tier 1 instruments*;

(2) reduce, distribute or reclassify as another *own funds* item the share premium accounts related to any of its *own funds instruments*;

(3) carry out a *reduction of capital* in relation to an *additional tier 1 instrument*, whether on a call date or otherwise; or

(4) carry out a *reduction of capital* in relation to a *tier 2 instrument* prior to maturity.

3.6.5 R The *FCA* will grant the permission in *COREPRU* 3.6.4R if it is satisfied that the *firm* will continue to exceed its *own funds threshold requirement* by a margin sufficient to ensure adequate financial resilience for the foreseeable future.

3.6.6 R A *firm* is not required to obtain the permission in *COREPRU* 3.6.4R if:

(1) the instrument is being repurchased for market making purposes; or

(2) all of the following conditions are met:

(a) either of the conditions in *COREPRU* 3.6.7R are met;

(b) at least 20 *business days* before the *day* on which the *reduction of capital* is proposed to occur, the *firm* has notified the *FCA* of:

(i) the proposed *reduction of capital*; and

(ii) the basis on which the *firm* has concluded that either condition in (2)(a) is satisfied; and

(c) the *FCA* has not notified the *firm* of any objection to the proposal before the *day* on which the *reduction of capital* is proposed to occur.

3.6.7 R The conditions referred to in *COREPRU* 3.6.6R(2)(a) are that:

(1) before or at the same time as the *reduction of capital*, the *firm* replaces the relevant *own funds instruments* with *own funds instruments* of equal or higher quality on terms that are sustainable for the income capacity of the *firm*, so that:

(a) the profitability of the *firm* will continue to be sound and will not see any negative change in the foreseeable future after the replacement of the original *own funds instruments* with *own funds instruments* of equal or higher quality; and

(b) the assessment of profitability in the foreseeable future in (1)(a) takes into account the *firm's* profitability in stressed situations; or

(2) the *firm* is redeeming *additional tier 1 instruments* or *tier 2 instruments* within 5 years of their date of issue and either:

(a) there is a change in the regulatory classification of the instruments that is likely to result in their exclusion from *own funds* or their reclassification as a lower-quality form of *own funds*, and both the following conditions are met:

(i) there are reasonable grounds to conclude that the change is sufficiently certain; and

(ii) the regulatory reclassification of the instruments was not reasonably foreseeable at the time of their issuance; or

(b) there is a change in the applicable tax treatment of those instruments which is material and was not reasonably foreseeable at the time of their issuance.

Notification of issuance of additional tier 1 and tier 2 instruments

3.6.8 R (1) A *firm* must notify the *FCA* at least 20 *business days* before the intended issuance date of the *firm's* intention to issue:

(a) *additional tier 1 instruments*; or

(b) *tier 2 instruments*.

(2) The notification requirement in (1) does not apply if:

(a) the *firm* has previously notified the *FCA* of an issuance of the same class of *additional tier 1 instruments* or *tier 2 instruments*; and

(b) the terms of the new instruments are identical in all material respects to the terms of the instruments in the issuance previously notified to the *FCA*.

(3) The notification under (1) must include the following:

(a) confirmation of whether the instruments are intended to be classified as *additional tier 1 instruments* or *tier 2 instruments*;

(b) confirmation of whether the instruments are intended to be issued to external investors or only to other members of the *firm's group* or connected parties;

(c) a copy of the term sheet and details of any features of the capital instruments which are novel, unusual or different from a capital instrument of a similar nature previously issued by the *firm* or widely available in the market;

(d) confirmation from a member of the *firm's senior management* or *governing body* who has oversight of the intended issuance that the instruments meet the conditions in *COREPRU* 3.4 or *COREPRU* 3.5 (as applicable) to be classified as *additional tier 1 instruments* or *tier 2 instruments*; and

(e) a properly reasoned legal opinion from an appropriately qualified *individual*, confirming that the capital instruments meet the conditions in (3)(d).

3.6.9 G *Firms* that are proposing to classify an issuance of capital instruments as *common equity tier 1 capital* should refer to the obligations and *guidance* in

COREPRU 3.3.3R and *COREPRU* 3.3.6G. In particular, *firms* must obtain the *FCA's* prior permission for the first issuance of a class of instruments that is intended to comprise *common equity tier 1 capital*.

3.6.10 G Submitting a notification in accordance with *COREPRU* 3.6.8R does not guarantee that the relevant instruments meet the required conditions in *COREPRU* 3.4 or *COREPRU* 3.5 to qualify as *own funds*. The *firm* or *parent undertaking* must ensure that an instrument continues to meet the conditions to be counted as *own funds*, including if its terms are varied on a later date.

4 Own funds requirements

4.1 Own funds requirement

4.1.1 R A *firm* must at all times maintain *own funds* that are at least equal to its *own funds requirement*.

4.1.2 R The *own funds requirement* is the highest of:

(1) the *permanent minimum capital requirement*;

(2) the *fixed overheads requirement*; or

(3) the *K-factor requirement*.

4.1.3 G *Authorised payment institutions* and *electronic money institutions* which are also subject to *COREPRU* should note that they need to meet any capital requirements imposed under the *Payment Services Regulations* and the *Electronic Money Regulations* separately and in addition to any applicable *own funds requirement*.

4.2 Permanent minimum capital requirement

4.2.1 R The *permanent minimum capital requirement* is the highest of the applicable requirements in the following table:

Category of firm	Applicable requirement
A *CRYPTOPRU firm*	The applicable requirement in *CRYPTOPRU* 4.2.1R (Permanent minimum capital requirement)
A *MIFIDPRU investment firm*	The applicable requirement in *MIFIDPRU* 4.4 (Permanent minimum capital requirement)

4.3 Fixed overheads requirement

4.3.1 R (1) The *fixed overheads requirement* is an amount equal to one quarter of a *firm's relevant expenditure* during the preceding year.

(2) When calculating its *fixed overheads requirement* in (1), a *firm* must use the figures resulting from the accounting framework applied in accordance with *COREPRU* 4.3.2R.

(3) This *rule* is subject to *COREPRU* 4.3.6R and *COREPRU* 4.3.8R.

4.3.2 R (1) For the purposes of the calculation in *COREPRU* 4.3.1R, a *firm* must use the figures in its most recent:

(a) audited *annual financial statements*; or

(b) unaudited *annual financial statements*, where audited *annual financial statements* are not available.

(2) If a *firm* has used unaudited *annual financial statements* in accordance with (1)(b) and audited *annual financial statements* subsequently become available, the *firm* must update the calculation in *COREPRU* 4.3.1R using the audited figures.

(3) Where the financial statements in (1) do not cover a 12-*month* period, the *firm* must:

(a) divide the amounts included in those statements by the number of *months* the financial statements cover; and

(b) multiply the result of the calculation in (3)(a) by 12 to produce an equivalent annual amount.

4.3.3 R (1) For the purpose of *COREPRU* 4.3.1R(1), a *firm* must calculate its *relevant expenditure* by:

(a) calculating the *firm's* total expenditure before distribution of profits; and

(b) deducting any of the items in (2) from the total expenditure in (1)(a) to the extent that those items have been included in the expenditure.

(2) The items that a *firm* may deduct from its total expenditure are:

(a) any of the following, if they are fully discretionary:

(i) staff bonuses and other variable *remuneration*;

(ii) *employees'*, *directors'*, *partners'* and *limited liability partnership* members' shares in profits; and

(iii) other appropriations of profits;

(b) shared commission and fees payable that meet all of the following conditions:

(i) they are directly related to commission and fees receivable;

(ii) the commission and fees receivable are included within total revenue; and

(iii) the payment of the commission and fees payable is contingent on receipt of the commission and fees receivable;

(c) non-recurring expenses from non-ordinary activities;

(d) fees, brokerage and other charges paid to trading venues, intermediate brokers, central counterparties and other similar parties for the purposes of executing, registering and clearing transactions, provided that the fees, brokerage and charges are directly passed on and charged to customers, unless *COREPRU* 4.3.4R applies;

(e) 80% of the value of any fees, brokerage and other charges paid to trading venues, intermediate brokers, central counterparties and other similar parties for the purposes of executing, registering and clearing transactions, unless:

(i) the fees, brokerage or other charges have already been deducted under (d); or

(ii) *COREPRU* 4.3.4R applies;

(f) taxes where they fall due in relation to the annual profits of the *firm*;

(g) losses from trading in *financial instruments* or *qualifying cryptoassets*;

(h) payments related to contract-based profit and loss transfer agreements according to which the *firm* is obliged to transfer its annual profit to the *parent undertaking* following the preparation of the *firm's annual financial statements*;

(i) other expenses, to the extent that their value has already been reflected in a deduction from *own funds* under *COREPRU* 3; and

(j) (for a *MIFIDPRU investment firm*) any other deductions permissible under *MIFIDPRU* 4.5.3R and *MIFIDPRU* 4.5.4R.

4.3.4 R The deducted amounts in *COREPRU* 4.3.3R(2)(d) and (e) must not include fees and other charges necessary to maintain membership of, or otherwise meet loss-sharing financial obligations to, trading venues or central counterparties.

Expenses incurred on behalf of the firm by third parties

4.3.5 R (1) A *firm* must add any fixed expenses that have been incurred on its behalf by a third party to the *firm's* total expenditure for the purposes of *COREPRU* 4.3.3R in accordance with this *rule*.

(2) A *firm* is not required to add fixed expenses which are already included in the figures resulting from *COREPRU* 4.3.3R.

(3) Where a breakdown of the third party's expenses is available, the *firm* must add its share of the third party's expenses.

(4) Where a breakdown of the third party's expenses is not available, the *firm* must:

(a) add its share of the third party's expenses as projected in the *firm's* business plan; or

(b) (if the *firm* does not have a business plan that projects the third party's expenses) reasonably estimate the share of those expenses that are attributable to the *firm's* business and add that estimated share of expenses to the *firm's* total expenditure.

Material change to projected relevant expenditure during the year

4.3.6 R (1) This *rule* applies where:

(a) there is an increase of 30% or more in the *firm's* projected *relevant expenditure* for the current year; or

(b) there would be an increase of £2 million or more in the *firm's fixed overheads requirement* based on projected *relevant expenditure* for the current year.

(2) Where this *rule* applies, a *firm* must:

(a) immediately recalculate its *fixed overheads requirement* by applying the methodology in *COREPRU* 4.3.3R to the projected *relevant expenditure*, taking into account the increase in (1);

(b) immediately substitute the revised *fixed overheads requirement* that results from the calculation in (2)(a) for the *firm's* previous *fixed overheads requirement* under *COREPRU* 4.3.1R(1); and

(c) immediately recalculate its *basic liquid assets requirement* using the revised *fixed overheads requirement* in (2)(b) and substitute the updated amount for its previous *basic liquid assets requirement*.

4.3.7 G (1) Where there is a material increase in the *firm's* projected *relevant expenditure* that triggers the obligation in *COREPRU* 4.3.6R, a *firm* should also consider the potential impact on its *overall risk assessment*

and the conclusions documented in its last *overall risk assessment document*.

(2) The review in (1) is particularly important if the *firm's own funds requirement* was determined by the *fixed overheads requirement* immediately before the change occurred.

4.3.8 R (1) This *rule* applies where:

(a) there is a decrease of 30% or more in the *firm's* projected *relevant expenditure* for the current year; or

(b) there would be a decrease of £2 million or more in the *firm's fixed overheads requirement* based on projected *relevant expenditure* for the current year.

(2) Where this *rule* applies, a *firm* may:

(a) recalculate its *fixed overheads requirement* by applying the methodology in *COREPRU* 4.3.3R to the projected *relevant expenditure*, taking into account the decrease in (1); and

(b) if it has obtained prior permission from the *FCA*, substitute the revised *fixed overheads requirement* that results from the calculation in (2)(a) for the *firm's* original *fixed overheads requirement*.

(3) To obtain the permission in (2), a *firm* must demonstrate all of the following:

(a) that one of the conditions in (1)(a) or (1)(b) is met and the projected decrease in the *firm's relevant expenditure* is a reasonable projection;

(b) that the *firm* has adequately considered the impact of the decrease on the *firm*'s *overall risk assessment* and the conclusions documented in the *firm's* last *overall risk assessment document*; and

(c) that there is a reasonable basis to conclude that, following the reduction in the *firm's fixed overheads requirement*, the *firm* will continue to hold sufficient *own funds* and *liquid assets* to comply with its obligations under the *overall risk assessment*.

4.3.9 G (1) Under *COREPRU* 4.3.2R, a *firm* is required to calculate its *fixed overheads requirement* based on its *relevant expenditure* as set out in its *annual financial statement* for the previous year.

(2) Under *COREPRU* 4.3.6R, if there is a material increase in the *firm's* projected *relevant expenditure* for the current year, the *firm* must recalculate its *fixed overheads requirement* on the basis of the projected

increased *relevant expenditure*, taking into account the impact of that change.

(3) However, under *COREPRU* 4.3.8R, if there is a material change that results in a decrease in the *firm's* projected *relevant expenditure* for the current year, the *firm* must obtain permission from the *FCA* before substituting a reduced *fixed overheads requirement* calculated on the basis of the projected decrease.

(4) In many cases, a material change of the type specified in *COREPRU* 4.3.6R(1) or *COREPRU* 4.3.8R(1) would result from planned changes to the *firm's* business. Examples of these changes may include:

(a) starting or ceasing a major business line;

(b) acquiring or disposing of a major business; or

(c) undertaking a significant investment, upgrade or restructuring programme.

(5) A *firm* that is planning to implement a material change to its business should calculate the anticipated impact of that change on its *fixed overheads requirement* (and its broader *own funds requirement*) before executing the relevant change. This should include considering the potential impact on its *overall risk assessment*.

Firms in business for less than 1 year

4.3.10 R (1) This *rule* applies where a *firm* has been in business for less than 1 year.

(2) For the purposes of the calculation in *COREPRU* 4.3.1R, a *firm* must use the *relevant expenditure* included in its projections for the first 12 *months'* trading, as submitted in its application for *authorisation*.

4.4 Overall K-factor requirement

4.4.1 The *K-factor requirement* is the sum of all the applicable requirements in the following table:

Type of firm	Applicable requirements
A *CRYPTOPRU firm*	The requirements in *CRYPTOPRU* 4.3.1R.
A *MIFIDPRU firm*	The requirements in *MIFIDPRU* 4.6.1R.

4.4.2 G (1) The *sectoral prudential sourcebooks* contain parts of the *K-factor requirement* which relate to different activities.

(2) A *firm* is only required to consider the parts of the *K-factor requirement* which are applicable to it. The application of each part of the *K-factor requirement* is explained in the relevant *sectoral prudential sourcebook*.

(3) If a *firm* is subject to multiple *sectoral prudential sourcebooks*, it must sum the applicable parts of the *K-factor requirement* from each sourcebook.

5 Concentration risk

5.1 Monitoring obligation

5.1.1 R A *firm* must monitor and control its concentration risk using sound administrative and accounting procedures and robust internal control mechanisms.

5.1.2 G *COREPRU* 5.1.1R requires a *firm* to monitor and control all sources of concentration risk. It includes any concentration risk that may arise from the following:

(1) the location of any assets safeguarded in accordance with *CASS*;

(2) a *firm's* own cash deposits; and

(3) earnings.

6 Basic liquid assets requirement

6.1 Purpose

6.1.1 G This chapter contains *rules* and *guidance* about a *firm's* liquidity. It contains:

(1) a *basic liquid assets requirement* for a *firm* (*COREPRU* 6.2);

(2) *rules* and *guidance* on which assets count as *core liquid assets* for the purposes of the *basic liquid assets requirement* (*COREPRU* 6.3); and

(3) a *rule* excluding double counting of *core liquid assets* (*COREPRU* 6.3.7R).

6.1.2 G A *firm's basic liquid assets requirement* provides a minimum level of *core liquid assets* that the *firm* must maintain at all times. The purpose of the *basic liquid assets requirement* is to ensure that the *firm* always has a minimum stock of *liquid assets* to fund the initial stages of its wind-down process if wind-down becomes necessary. The *firm* cannot, therefore, use the value of the *core liquid assets* that it holds to meet the *basic liquid assets requirement* as *liquid assets* for any supplementary *sectoral liquidity requirement* or the liquidity needs of its ongoing business.

6.1.3 G A *firm* should also refer to the *rules* and *guidance* on any supplementary *sectoral liquidity requirement* that applies to it.

6.1.4 G The relevant *sectoral prudential sourcebook* may contain requirements relating to a *firm's* systems and controls for identifying, monitoring and reducing liquidity risks that may cause material harm.

6.1.5 G The *basic liquid assets requirement* in this chapter is based on a proportion of a *firm's fixed overheads requirement* and any guarantees provided to *clients*. A *firm* may need to hold more *liquid assets* to comply with its *liquid assets threshold requirement*.

6.2 Basic liquid assets requirement

6.2.1 R A *firm* must hold an amount of *core liquid assets* equal to the sum of:

(1) one-third of the amount of its *fixed overheads requirement*; and

(2) 1.6% of the total amount of any guarantees provided to *clients*.

6.2.2 R Where a *firm* calculates a total amount for guarantees under *COREPRU* 6.2.1R(2), it must calculate:

(1) the total value of guarantees that the *firm* has outstanding at the end of each *business day*; or

(2) an average value for the guarantees that the *firm* has had outstanding over an appropriate time period, which must be updated at regular, appropriate intervals.

6.2.3 G (1) *COREPRU* 6.2.2R(2) is intended to allow a *firm* to smooth out its liquidity requirement for guarantees, where the value of its outstanding guarantees fluctuates on a daily basis.

(2) An appropriate time period for calculating and updating this amount is likely to be a period that produces an average value that is representative of the overall liquidity risk arising out of the provision of guarantees to *clients*.

6.3 Core liquid assets

6.3.1 R Subject to *COREPRU* 6.3.3R to *COREPRU* 6.3.5R, a *core liquid asset* means any of the following, when denominated in pound sterling:

(1) coins and banknotes;

(2) short-term deposits at a *UK-authorised credit institution*;

(3) assets representing claims on, or guaranteed by, the UK government or the Bank of England;

(4) units or shares in a *short-term MMF*; and

(5) units or shares in a *third country* fund that is comparable to a *short-term MMF*.

6.3.2 G When assessing whether a *third country* fund is comparable to a *short-term MMF*, a *firm* should consider factors such as:

(1) whether the restrictions on instruments eligible for inclusion in the fund are comparable to the restrictions on instruments in article 10(1) of the *Money Market Funds Regulation*; and

(2) whether the fund is subject to requirements concerning portfolio diversification and risk management which are comparable to the requirements applicable to *short-term MMFs* in the *Money Market Funds Regulation*.

6.3.3 R (1) If a *firm's relevant expenditure* is incurred in a currency other than pound sterling, the *firm* may also treat the following assets as *liquid assets*, when denominated in that currency:

(a) coins and banknotes;

(b) short-term deposits at a *credit institution*;

(c) assets representing claims on, or guaranteed by, a central bank or government in a *third country*;

(d) units or shares in a *short-term MMF*; and

(e) units or shares in a *third country* fund that is comparable to a *short-term MMF*.

(2) The proportion of *core liquid assets* denominated in any currency other than pound sterling that a *firm* can rely upon to meet its *basic liquid assets requirement* must be no greater than:

(a) for the requirement in *COREPRU* 6.2.1R(1), the proportion of *relevant expenditure* incurred in that currency; and

(b) for the requirement in *COREPRU* 6.2.1R(2), the proportion of guarantees provided in that currency.

(3) This *rule* is subject to *COREPRU* 6.3.5R.

6.3.4 G The effect of *COREPRU* 6.3.3R(2) is illustrated by the following example:

(1) A *firm* has *relevant expenditure* with a value of £1,200,000, of which:

(a) 20%, equivalent to £240,000, is incurred in US dollars (USD); and

(b) 5%, equivalent to £60,000, is incurred in Swiss francs (CHF).

(2) In addition, the *firm* has provided total guarantees to *clients* with a value of £10m of which 50%, equivalent to £5m, is denominated in USD.

(3) The *firm's fixed overheads requirement* (one quarter of its *relevant expenditure* calculated in accordance with *COREPRU* 4.3) is £300,000.

(4) Under *COREPRU* 6.2.1R, the *firm's basic liquid assets requirement* is £260,000, which reflects:

(a) £100,000 in respect of the requirement in *COREPRU* 6.2.1R(1) (one-third of the amount of its *fixed overheads requirement*); and

(b) £160,000 in respect of the requirement in *COREPRU* 6.2.1R(2) (1.6% of the total amount of any guarantees provided to *clients*).

(5) To meet its requirement in *COREPRU* 6.2.1R, a *firm* may choose to use *liquid assets* listed in *COREPRU* 6.3.3R denominated in a currency other than pound sterling, up to a maximum equivalent to £105,000 in accordance with *COREPRU* 6.3.3R(2), as follows:

(a) for the requirement in *COREPRU* 6.2.1R(1), up to the equivalent of:

(i) £20,000 may be held in USD-denominated *liquid assets* (20% of 100,000 = 20,000); and

(ii) £5,000 may be held in CHF-denominated *liquid assets* (5% of 100,000 = 5,000); and

(b) for the requirement in *COREPRU* 6.2.1R(2), up to the equivalent of £80,000 (50% of 160,000 = 80,000) may be held in USD-denominated *liquid assets*.

6.3.5 R A *firm* must not treat any of the following as a *core liquid asset*:

(1) any asset that belongs to a *client*; and

(2) any other asset that is encumbered.

6.3.6 G (1) For the purposes of *COREPRU* 6.3.5R(1), an asset may belong to a *client* even if the asset is held in the *firm's* own name. Examples of assets belonging to a *client* include money or other assets held under the *FCA's client asset rules*.

(2) For the purposes of *COREPRU* 6.3.5R(2), an asset may be encumbered if it is pledged as security or collateral, or subject to some other legal restriction (for example, due to regulatory or contractual requirements) which affects the *firm's* ability to liquidate, sell, transfer or assign the asset.

Requirement to exclude double counting of core liquid assets

6.3.7 R A *firm* must not use the same *core liquid assets* to meet the *basic liquid assets requirement* in *COREPRU* 6.2.1R and any supplementary *sectoral liquidity requirement*.

Interaction between COREPRU and MIFIDPRU

6.3.8 G Where a *firm* is subject to the Core Prudential Sourcebook (*COREPRU*) and the Prudential Sourcebook for MiFID Investment Firms (*MIFIDPRU*), a *firm* can use the same *core liquid assets* to meet the *basic liquid assets requirement* in *COREPRU* 6.2.1R and *MIFIDPRU* 6.2.1R.

7 Overall risk assessment

7.1 Overall risk assessment

Application

7.1.1 R *COREPRU* 7 (Overall risk assessment) does not apply to a *firm* that is both a *CRYPTOPRU firm* and a *MIFIDPRU investment firm*.

7.1.2 G The effect of *COREPRU* 7.1.1R is that, where a *firm* is both a *CRYPTOPRU firm* and a *MIFIDPRU investment firm*, only the requirements in *MIFIDPRU* 7 (Governance and risk management) apply.

Purpose

7.1.3 G The overall purpose of *COREPRU* 7 is to ensure that a *firm*:

(1) has appropriate systems and controls in place to identify, monitor and, if proportionate, reduce all risks from the ongoing operation or winding down of the *firm's* business that may cause material harm; and

(2) holds financial resources that are adequate for the business it undertakes.

7.1.4 G (1) *COREPRU* 7 contain *rules* and *guidance* which supplement:

(a) the appropriate resources *threshold condition* in Schedule 6 to the *Act*, under which a *firm* must have appropriate resources in relation to the *regulated activities* that it carries on;

(b) *Principle* 3 (Management and control), under which a *firm* must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems;

(c) *Principle* 4 (Financial prudence), under which a *firm* must maintain adequate financial resources; and

(d) the systems and controls requirements in *SYSC*, in particular *SYSC* 4.1.1R, under which a *firm* must have robust governance arrangements, which include effective processes to identify,

manage, monitor and report the risks it is or might be exposed to, and internal control mechanisms.

(2) The requirement for a *firm* to carry out an *overall risk assessment* is the articulation of the requirements in (1).

7.1.5 G This chapter builds on the requirements in *COREPRU* 7.1.4G and explains how a *firm* applies them to carry out its *overall risk assessment*.

7.1.6 G The *rules* and *guidance* in *COREPRU* 7 also build on the *FCA's* general approach to assessing the adequacy of financial resources, as explained in Finalised Guidance, FG20/1 (Our framework: assessing adequate financial resources), which can be found on the *FCA's* website at https://www.fca.org.uk/publication/finalised-guidance/fg20-1.pdf. *Firms* should refer to that *guidance* when considering their obligations under *COREPRU* 7.

7.1.7 G A *firm* should also refer to the *rules* and *guidance* on any supplementary requirements on the *overall risk assessment* in the *sectoral prudential sourcebooks* (as applicable).

7.2 Overall risk assessment

Overall risk assessment: baseline requirement

7.2.1 R (1) Reflecting the requirement in *SYSC* 4.1.1R, a *firm* must have in place appropriate systems and controls to identify, monitor and, if proportionate, reduce all risks from the ongoing operation or winding down of the *firm's* business that may cause material harm:

(a) to the *firm's clients* and counterparties; or

(b) to the markets in which the *firm* operates.

(2) If any risks that may cause material harm remain after a *firm* has implemented the systems and controls in (1), the *firm* must assess whether to hold *own funds* or *liquid assets* to mitigate those risks.

(3) The requirements in this *rule* apply to a *firm's* entire business, including:

(a) all *regulated activities*; and

(b) any *unregulated activities*.

(4) The systems, controls and procedures operated by a *firm* to comply with the requirements in this *rule* are known as the *overall risk assessment*.

7.2.2 R A *firm's overall risk assessment* must be proportionate to the nature, scale and complexity of the business carried on by the *firm*.

7.2.3 G (1) A *firm's overall risk assessment* is the collective term for the internal systems and controls that a *firm* must operate on an ongoing basis to identify, monitor and, if proportionate, reduce all risks from the ongoing

operation or winding down of the *firm's* business that may cause material harm.

(2) As part of its *overall risk assessment*, a *firm* should consider what proportionate measures it can take to reduce risks that may cause material harm. The nature of such measures will vary depending on the *firm's* business and operating model. Examples may include implementing additional internal systems and controls, strengthening governance and oversight processes or changing how the firm conducts certain business. A *firm* will need to form a judgement about what is proportionate for its particular circumstances. That judgement will be informed by the *firm's* risk appetite.

(3) A *firm* must assess whether it should hold *own funds* or *liquid assets* to mitigate risks that may cause material harm that it has identified under its *overall risk assessment*. This may be the case where the *firm* cannot identify other proportionate measures to mitigate risks that may cause material harm, or where it has applied these measures, but a residual risk of material harm remains. Any assessment must be realistic and based on severe but plausible assumptions.

(4) A *firm* should therefore use its *overall risk assessment* to ensure it complies with the *overall financial adequacy rule*.

Overall financial adequacy rule

7.2.4 G *COREPRU* 2.3 sets out the *overall financial adequacy rule*, which is the standard that the *FCA* applies to determine whether a *firm* has adequate financial resources.

Calculating the own funds threshold requirement and liquid assets threshold requirement

7.2.5 R (1) Subject to (2) and (3), a *firm* must use the assessment in *COREPRU* 7.2.1R(2) to calculate:

(a) its *own funds threshold requirement*; and

(b) its *liquid assets threshold requirement*,

to comply with the *overall financial adequacy rule*.

(2) The amount of the *own funds threshold requirement* is the higher of:

(a) the *firm's own funds requirement*; and

(b) the amount of *own funds* resulting from the *firm's overall risk assessment*.

(3) The amount of the *liquid assets threshold requirement* cannot be lower than the sum of:

(a) the *firm's basic liquid assets requirement*; and

(b) any applicable *sectoral liquidity requirement*.

7.2.6 G *COREPRU* 7.2.5R complements the requirement in *COREPRU* 7.2.1R on the *overall risk assessment* by setting out how the *firm* determines the amount of *own funds* and *liquid assets* that it needs to hold to comply with the *overall financial adequacy rule*. The resulting *own funds threshold requirement* cannot be lower than the *firm's own funds requirement*. The resulting *liquid assets threshold requirement* cannot be lower than the sum of the *firm's basic liquid assets requirement* and any *sectoral liquidity requirement*.

7.2.7 G A *firm* should also refer to any supplementary *rules* and *guidance* on the *overall risk assessment* in any applicable *sectoral prudential sourcebook*.

Reviewing and documenting a firm's overall risk assessment

7.2.8 R A *firm* must:

(1) carry out its *overall risk assessment* on an ongoing basis; and

(2) review the adequacy of its *overall risk assessment*:

(a) at least once every 12 *months*; and

(b) irrespective of any review carried out under (a), following any material change in the *firm's* business model or operating model.

7.2.9 R (1) A *firm* must:

(a) document any review carried out under *COREPRU* 7.2.8R(2);

(b) keep adequate records of its *overall risk assessment*; and

(c) retain the documentation and records in (2) for at least 3 years from the date on which the relevant document or record was approved.

(2) The documentation and records produced by the *firm* to comply with (1) are referred to as the *overall risk assessment document*.

Embedding the overall risk assessment

7.2.10 R A *firm* must embed the *overall risk assessment* within the *firm's* business model and strategic decision making.

8 Disclosure

8.1 Purpose

8.1.1 G (1) *COREPRU* 8 does not contain *rules* and *guidance* on disclosure.

(2) However, a *firm* may be subject to disclosure requirements in a *sectoral prudential sourcebook*.

Sch 1 Record keeping requirements

Sch 1.1 G (1) The aim of the *guidance* in the following table is to provide an overview of the relevant record keeping requirements in *COREPRU*.

(2) It is not a complete statement of those requirements and should not be relied on as if it were.

Handbook reference	Subject of record	Contents of record	When the record must be made	Retention period
COREPRU 7.2.9R	*Overall risk assessment document*	The *firm's overall risk assessment document*	At the time that the *overall risk assessment document* is approved by the *firm*	3 years from the date on which the *overall risk assessment document* is approved by the *firm*

Sch 2 Notification requirements

Sch 2.1 G (1) The aim of the *guidance* in the following table is to provide an overview of the relevant notification requirements in *COREPRU*.

(2) It is not a complete statement of those requirements and should not be relied on as if it were.

Handbook reference	Subject of notification	Trigger events	Time allowed
COREPRU 3.3.3R(1)	Notification of subsequent issuance of capital instruments qualifying as *common equity tier 1 instruments*	Proposed issuance of capital instruments of an existing class of *common equity tier 1 instruments*	No fewer than 20 *business days* before the issuance
COREPRU 3.3.19R(4)	Notification of inclusion of interim profits or year-end profits in the *firm's common equity tier 1 capital* where the	Inclusion of the interim profits or year-end profits in the *firm's common equity tier 1 capital* where the	Prompt notification

	conditions in *COREPRU* 3.3.19R are met	conditions in *COREPRU* 3.3.19R are met	
COREPRU 3.6.6R	Notification of proposed *reduction of capital* where the conditions in *COREPRU* 3.6.6R(2) are met	Proposed *reduction of capital* where the conditions in *COREPRU* 3.6.6R(2) are met	No later than the 20th *business day* before the *day* on which the *reduction of capital* will occur
COREPRU 3.6.8R	Notification of proposed issuance of *additional tier 1 instruments* or *tier 2 instruments*	Proposed issuance of *additional tier 1 instruments* or *tier 2 instruments*	At least 20 *business days* before the intended issuance date

Sch 3 Fees and other payment requirements

Sch 3.1 G *COREPRU* does not contain any *rules* that directly impose fees or other payments.

Sch 4 Rights of action for damages

Sch 4.1 G (1) The table below sets out the *rules* in *COREPRU*, contravention of which by an *authorised person* may be actionable under section 138D of the *Act* (Actions for damages) by a *person* who suffers loss a result of the contravention.

(2) If 'Yes' appears in the column headed 'For private person?', the *rule* may be actionable by a *private person* under section 138D (or, in certain circumstances, that person's fiduciary or representative: see regulation 6(2) and 6(3)(c) of the Financial Services and Markets Act 2000 (Rights of Action) Regulations 2001 (SI 2001/2256)). If 'Yes' appears in the column headed 'Removed?', this indicates that the *FCA* has removed the right of action under section 138D(3) of the *Act*. If so, a reference to the *rule* in which the right of action is removed is also given.

(3) The column headed 'For other person?' indicates whether the *rule* may be actionable by a *person* other than a *private person* (or that *person's* fiduciary or representative) under article 6(2) and (3) of those Regulations. If so, an indication of the type of *person* by whom the *rule* may be actionable is given.

Chapter/Appendix	Rights of action under section 138D of the Act		
	For private person?	Removed?	For other person?

All *rules* in *COREPRU*	No	Yes – *COREPRU* 1.3.1R	No

Sch 5 Rules that can be waived or modified

Sch 5.1 G The *rules* in *COREPRU* may be waived or modified by the *FCA* under section 138A of the *Act* (Modification or waiver of rules) where the conditions in that section are met.

Annex C

The Prudential sourcebook for CRYPTOPRU Firms (CRYPTOPRU)

In this Annex, all the text is new and is not underlined.

Insert the following new sourcebook, the Prudential sourcebook for CRYPTOPRU Firms (CRYPTOPRU), in the Prudential Standards block, immediately after the Core Prudential sourcebook (COREPRU).

1 Application

1.1 Application and purpose

Application

1.1.1 G Each chapter of *CRYPTOPRU* explains which *CRYPTOPRU firms* it applies to.

Purpose

1.1.2 G The purpose of *CRYPTOPRU* is to set out sectoral prudential requirements for *CRYPTOPRU firms*.

1.1.3 G *CRYPTOPRU* supplements the core requirements in *COREPRU* and should be read in conjunction with the prudential requirements set out there.

1.1.4 G Generally, the *rules* in *CRYPTOPRU* are intended to cover the *CRYPTOPRU activities* undertaken by a *CRYPTOPRU firm*, but certain requirements apply to a *firm* as a whole.

1.1.5 G The requirements in *CRYPTOPRU* expand upon the basic requirements under the appropriate resources *threshold condition* (referred to in *COND* 2.4) and the requirement in *Principle* 4 for a *firm* to maintain adequate financial resources.

1.2 Actions for damages

1.2.1 R A contravention of any *rule* in *CRYPTOPRU* does not give rise to a right of action by a *private person* under section 138D of the *Act* (and each of those *rules* is specified under section 138D(3) of the *Act* as a provision giving rise to no such right of action).

2 Overall financial adequacy for CRYPTOPRU firms

2.1 Guidance

2.1.1 G *CRYPTOPRU firms* are required to comply with the requirements on overall financial adequacy that are set out in *COREPRU* 2. There are no sectoral *rules* on overall financial adequacy for these *firms*.

3 Own funds for CRYPTOPRU firms

3.1 Guidance

3.1.1 G *CRYPTOPRU firms* are required to comply with the requirements on *own funds* that are set out in *COREPRU* 3. There are no sectoral *rules* on *own funds* for these *firms*.

4 Sectoral own funds requirement for CRYPTOPRU firms

4.1 Application

4.1.1 R This chapter applies to a *CRYPTOPRU firm*.

4.2 Permanent minimum capital requirement

4.2.1 R The *permanent minimum capital requirement* is the highest of the applicable requirements in the following table:

Category of firm	Permanent minimum capital requirement
A *firm* with permission for *dealing in qualifying cryptoassets as principal*	£750,000
A *firm* with *permission* for *issuing a qualifying stablecoin*	£350,000
A *firm* with *permission* for *safeguarding cryptoassets*	£150,000
A *firm* with permission for *arranging qualifying cryptoasset staking*	£150,000
A *firm* with permission for *operating a qualifying CATP*	£150,000
A *firm* with permission for *dealing in qualifying cryptoassets as agent*	£75,000
A *firm* with permission for *arranging deals in qualifying cryptoassets*	£75,000

4.3 CRYPTOPRU K-factor requirement

4.3.1 R The parts of the *K-factor requirement* in *CRYPTOPRU* are:

(1) the *K-SII requirement*;

(2) the *K-RCS requirement*;

(3) the *K-CCS requirement*;

(4) the *K-CCO requirement*;

(5) the *K-CTF requirement*;

(6) the *K-NCP requirement*;

(7) the *K-CCD requirement*; and

(8) the *K-CON requirement*.

4.4 K-factor requirement for stablecoins in issuance (K-SII)

4.4.1 R The *K-SII requirement* of a *firm* that is *issuing a qualifying stablecoin* is equal to 1% of its *average SII*.

4.4.2 R A *firm* must calculate its *K-SII requirement*:

(1) on the first *business day* on which *CRYPTOPRU* applies to the *firm*; and

(2) thereafter, on the first *business day* of each *month*.

Calculating SII

4.4.3 R A *firm* must calculate its *average SII* by:

(1) taking the total *SII* as measured at the end of each *business day* for the previous 9 *months*;

(2) excluding the values for the most recent 3 *months*; and

(3) calculating the arithmetic mean of the daily values for the remaining 6 *months*.

4.4.4 G (1) As the definition of *SII* includes any *qualifying stablecoins* that the *qualifying stablecoin issuer* is liable to redeem, this:

(a) includes *qualifying stablecoins* that were *minted* at any time, including before *CRYPTOPRU* came into force; and

(b) includes *qualifying stablecoins* that have been *minted* by a *person* other than the *qualifying stablecoin issuer* (which could include *qualifying stablecoins minted* outside the *UK*) if they are fungible with the relevant *qualifying stablecoins*; but

(c) excludes *qualifying stablecoins* that have been *burned*.

(2) The definition of *SII* excludes *qualifying stablecoins* the value of which has been deducted from the *qualifying stablecoin issuer's own funds*, in accordance with *COREPRU* 3.3.39R. Such *qualifying stablecoins* will not therefore be included in the calculation of *average SII*.

Firms with less than 9 months of data on SII

4.4.5 R Where a *firm* has been *issuing a qualifying stablecoin* for less than 9 *months*, it must calculate its *average SII* as follows:

(1) during the first *month* in which it is *issuing a qualifying stablecoin*, the *firm* must:

(a) make a best-efforts estimate of expected *SII* for that *month*; and

(b) use that estimate as its *average SII*; and

(2) during the subsequent 8 *months*, the *firm's average SII* must be calculated in accordance with *CRYPTOPRU* 4.11.1R(2).

4.5 K-factor requirement for qualifying cryptoassets and relevant specified investment cryptoassets that are safeguarded (K-RCS)

4.5.1 R The *K-RCS requirement* of a *firm* that is *safeguarding cryptoassets* is equal to 0.04% of its *average RCS*.

4.5.2 G (1) The definition of *RCS* only includes the *qualifying cryptoassets* and *relevant specified investment cryptoassets* in respect of which the *firm* is carrying on the activity of *safeguarding cryptoassets*. Any other *qualifying cryptoassets* and *relevant specified investment cryptoassets* do not therefore need to be included in a *firm's* calculation of the *K-RCS requirement* (except to the extent that *CRYPTOPRU* 4.5.3R applies).

(2) As part of its *overall risk assessment*, a *firm* should also consider risks arising from amounts it may be obliged to return to a *client* which do not amount to the *regulated activity* of *safeguarding cryptoassets*. An example would be obligations to a *client* under a title transfer collateral arrangement where that *client* is not a 'consumer' (as those terms are defined at article 9N(5) of the *RAO*).

4.5.3 R Where a *firm* is subject to both *CRYPTOPRU* and *MIFIDPRU*, it is not required to include in the calculation of *K-RCS relevant specified investments cryptoassets* already captured in the *K-ASA requirement*.

4.5.4 R If a *firm* is unsure whether *qualifying cryptoassets* and *relevant specified investment cryptoassets* are held in the course of *safeguarding cryptoassets*, it must treat those *qualifying cryptoassets* and *relevant specified investment*

cryptoassets as being held in the course of *safeguarding cryptoassets* for the purposes of calculating *K-RCS*.

Calculating RCS

4.5.5 R A *firm* must calculate its *K-RCS requirement*:

(1) on the first *business day* on which *CRYPTOPRU* applies to the *firm*; and

(2) thereafter, on the first *business day* of each *month*.

4.5.6 R A *firm* must calculate its *average RCS* by:

(1) taking the total *RCS* as measured at the end of each *business day* for the previous 9 *months*;

(2) excluding the values for the most recent 3 *months*; and

(3) calculating the arithmetic mean of the daily values for the remaining 6 *months*.

4.5.7 R A *firm* must include the value of the relevant *qualifying cryptoassets* and *relevant specified investment cryptoassets* in its measurement of *RCS* in both of the following situations:

(1) the *firm* has appointed a third party to carry out the activity of *safeguarding cryptoassets* which the *firm* has undertaken to its *client* to safeguard; or

(2) a third party has appointed the *firm* to carry out the activity of *safeguarding cryptoassets*.

4.5.8 G (1) The effect of *CRYPTOPRU* 4.5.7R is that a *firm* will not reduce its level of *RCS* by appointing a third party to carry out the activity of *safeguarding cryptoassets*.

(2) However, a *firm* will increase the level of its *RCS* by accepting the appointment from a third party to carry out the activity of *safeguarding cryptoassets*.

(3) This reflects the harm that may result from a breach of the *firm's* direct safeguarding responsibilities or the *firm's* responsibilities in relation to the selection, appointment and periodic review of any third party which the *firm* has appointed to carry out the activity of *safeguarding cryptoassets*.

Firms with less than 9 months of data on RCS

4.5.9 R Where a *firm* has been *safeguarding cryptoassets* for less than 9 *months*, it must calculate its *average RCS* as follows:

(1) during the first *month* in which it is *safeguarding cryptoassets*, the *firm* must:

(a) make a best-efforts estimate of expected *RCS* for that *month*; and

(b) use that estimate as its *average RCS*; and

(2) during the subsequent 8 *months*, the *firm's average RCS* must be calculated in accordance with *CRYPTOPRU* 4.11.1R(2).

4.6 K-factor requirement for client cryptoassets staked (K-CCS)

4.6.1 R The *K-CCS requirement* of a *firm* that is *arranging qualifying cryptoasset staking* is equal to 0.04% of its *average CCS*.

4.6.2 R A *firm* is not required to include in its measurement of *CCS* any *qualifying cryptoassets* already included in its calculation of *K-RCS*.

4.6.3 G (1) In some cases, *firms* may be simultaneously *arranging qualifying cryptoasset staking* and *safeguarding cryptoassets* in relation to the same *qualifying cryptoassets*.

(2) In those situations, the *FCA* expects *firms* to apply the rule in *CRYPTOPRU* 4.6.2R and not include the relevant *qualifying cryptoassets* in the measurement of *CCS*.

(3) As a consequence, the risks inherent to *qualifying cryptoasset staking* would not be considered as part of *K-CCS* or *K-RCS.* Therefore, the *firm's overall risk assessment* should consider any potential material risks that may arise in connection with *arranging qualifying cryptoasset staking* that are not captured in the definition of *CCS* and *RCS*.

4.6.4 G Where a *firm* is *arranging qualifying cryptoasset staking* in its own name (as *principal*), but on behalf of a *client*, it should include the relevant *qualifying cryptoassets* within its measurement of *CCS* under *CRYPTOPRU* 4.6.1R.

4.6.5 R The definition of *arranging qualifying cryptoasset staking* includes arrangements for *qualifying cryptoasset staking* both as *principal* and as agent. Where a *firm* makes arrangements for *qualifying cryptoasset staking* as *principal* but it is unclear about whether such arrangement is for the *firm*'s own benefit or the *client's*, it must include those *qualifying cryptoassets* in the calculation of its *K-CCS* until it is satisfied that it is not *arranging qualifying cryptoasset staking*.

Calculating CCS

4.6.6 R A *firm* must calculate its *K-CCS requirement*:

(1) on the first *business day* on which *CRYPTOPRU* applies to the *firm*; and

(2) thereafter, on the first *business day* of each *month*.

4.6.7 R A *firm* must calculate its *average CCS* by:

(1) taking the total *CCS* as measured at the end of each *business day* for the previous 9 *months*;

(2) excluding the values for the most recent 3 *months*; and

(3) calculating the arithmetic mean of the daily values for the remaining 6 *months*.

4.6.8 R A *firm* must include *qualifying cryptoassets* in its measurement of *CCS* in both of the following situations:

(1) the *firm* has appointed a third party to carry out *arranging qualifying cryptoasset staking* which the *firm* has undertaken to its *client* to carry out; or

(2) a third party has appointed the *firm* to carry out *arranging qualifying cryptoasset staking*.

4.6.9 G (1) The effect of *CRYPTOPRU* 4.6.8R is that a *firm* will not reduce its level of *CCS* by appointing a third party to carry out *arranging qualifying cryptoasset staking*.

(2) However, a *firm* will increase the level of its *CCS* by accepting the appointment from a third party to carry out *arranging qualifying cryptoasset staking*.

(3) This reflects the harm that may result from a breach of the *firm's* direct responsibilities for *arranging qualifying cryptoasset staking* or the *firm's* responsibilities in relation to the selection, appointment and periodic review of any third party which the *firm* has appointed to carry out *arranging qualifying cryptoasset staking*.

Firms with less than 9 months of data on CCS

4.6.10 R Where a *firm* has been *arranging qualifying cryptoasset staking* for less than 9 *months*, it must calculate its *average CCS* as follows:

(1) During the first *month* in which it is *arranging qualifying cryptoasset staking*, the *firm* must:

(a) make a best-efforts estimate of expected *CCS* for that *month*; and

(b) use that estimate as its *average CCS*.

(2) During the subsequent 8 *months*, the *firm's average CCS* must be calculated in accordance with *CRYPTOPRU* 4.11.1R(2).

4.7 K-factor requirement for cryptoasset client orders (K-CCO)

4.7.1 R The *K-CCO requirement* of a *CRYPTOPRU firm* is equal to 0.1% of its *average CCO*.

4.7.2 G The definition of *CCO* includes *cryptoasset orders* that a *firm* handles:

(1) when providing the following services:

(a) reception and transmission of *cryptoasset orders*; or

(b) *execution of orders on behalf of clients*; or

(2) solely in its capacity as the *qualifying CATP operator*.

Execution of cryptoasset orders in the firm's own name

4.7.3 R A *firm* is not required to include a *cryptoasset order* executed by it in its own name (including where the *firm* executes an order in its own name on behalf of a *client*) in its measurement of *CCO*.

4.7.4 G Where a *firm* executes a *cryptoasset order* in its own name (irrespective of whether the order is ultimately for the benefit of a *client*), the order is included within the *firm's* measurement of its *CTF* under *CRYPTOPRU* 4.8 (K-CTF requirement) and not within its measurement of *CCO* under this section.

Introduction to an authorised person

4.7.5 G Arrangements that are solely arrangements under which *persons* will be introduced to an *authorised person* authorised to carry on a *regulated cryptoasset activity* specified in chapter 2B of the *Regulated Activities Order* do not need to be included in the measurement of *CCO*.

Arrangements which do not bring about transactions

4.7.6 G Arrangements which do not, or would not, bring about the transaction to which the arrangements relate do not need to be included in the measurement of *CCO*.

Interaction between client orders in CRYPTOPRU and MIFIDPRU

4.7.7 G A *firm* may handle transactions involving both *qualifying cryptoassets* and *financial instruments*. In this case, it may be subject to both *CRYPTOPRU* and *MIFIDPRU*, and may be required to calculate a *K-CCO requirement* under this section (K-CCO) in respect of the *qualifying cryptoasset*, and a *K-COH requirement* under *MIFIDPRU* 4.10 (K-COH) for the *financial*

instrument. Its total *K-factor requirement* will be the sum of all applicable parts of the *K-factor requirement* in those sourcebooks (*COREPRU* 4.4.1R).

4.7.8 G The basic definition of *CCO* includes:

(1) *cryptoasset orders* that the *firm* executes when providing execution services for a *client*;

(2) *cryptoasset orders* that the *firm* has received from a *client* and transmitted to another entity for execution; and

(3) *cryptoasset orders* that a *firm* handles solely in its capacity as a *qualifying CATP operator*.

Calculating CCO

4.7.9 R A *firm* must calculate its *K-CCO requirement*:

(1) on the first *business day* on which *CRYPTOPRU* applies to the *firm*; and

(2) thereafter, on the first *business day* of each *month*.

4.7.10 R A *firm* must calculate the amount of its *average CCO* by:

(1) taking the total *CCO* as measured throughout each *business day* over the previous 9 *months*;

(2) excluding the daily values for the most recent 3 *months*; and

(3) calculating the arithmetic mean of the daily values of the remaining 6 *months*.

4.7.11 R (1) When measuring its *CCO*, a *firm* must use the sum of the absolute value of each buy order and sell order.

(2) The value in (1) is the amount paid or received on the order at the time at which it is executed, unless the *firm* has applied the approach in *CRYPTOPRU* 4.7.13R.

(3) A *firm* may calculate the value of a *cryptoasset order* by deducting any transaction costs to reflect the consideration paid or received by the *client* for the relevant *cryptoasset order*, provided that the transaction costs are not paid separately to the *firm* by the *client*.

4.7.12 G (1) Under the general approach in *CRYPTOPRU* 4.7.11R(2), a *firm* determines the gross value of an order by multiplying the market price of the *qualifying cryptoasset* by the quantity of the *qualifying cryptoasset* being purchased or sold.

(2) However, *CRYPTOPRU* 4.7.11R(3) permits (but does not require) a *firm* to calculate the value of a *cryptoasset order* by reference to the

consideration paid or received by the *client* for the *cryptoasset order* (ie, net of transaction costs), provided that the transaction costs are included in the gross value of the order and are not paid by the *client* to the *firm* separately.

(3) For example, Firm A executes a *cryptoasset order* on behalf of a *client*. The total cost, including transaction costs, is £100. The *client* receives *qualifying cryptoassets* worth £88, after Firm A uses £12 to cover transaction costs. Under the standard approach in *CRYPTOPRU* 4.7.11R(2), Firm A may record the value of the *cryptoasset order* in its *CCO* as £100 (ie, the gross cost of the order). The *firm* may, for example, choose this approach for reasons of simplicity and administrative convenience.

(4) Alternatively, in the example in (3) the *firm* may apply the approach under *CRYPTOPRU* 4.7.11R(3) to record the value of the *cryptoasset order* in its *CCO* as £88 (ie, net of transaction costs paid by the *client* in relation to the transaction).

(5) However, a *firm* cannot rely on *CRYPTOPRU* 4.7.11R(3) to reduce the value of a *cryptoasset order* by transaction costs that are paid separately by the *client* to the *firm*.

(6) For example, Firm B executes a *cryptoasset order* to buy 100 *qualifying cryptoassets*. The total cost of the *cryptoasset order* is £100. The *client* additionally pays £12 to Firm B for transaction costs. In this case, Firm B must record the net value of the *cryptoasset order* under *CRYPTOPRU* 4.7.11R(2) in its *CCO* as £100 (and not £88), as the transaction costs have been paid separately.

4.7.13 R (1) By way of derogation from *CRYPTOPRU* 4.7.11R(2), a *firm* that receives and transmits an order that is a *cryptoasset order* may apply the approach in this *rule* to determine the value of that order for the purposes of measuring *CCO*.

(2) Where a *firm* applies the approach in this *rule*, the value of the *cryptoasset order* is determined by reference to:

(a) for an order which specifies a fixed price or limit price at which the order should be executed, that price; or

(b) for an order which does not specify a price, the market price of the relevant order at the end of the *day* on which the order is transmitted by the *firm*.

(3) A *firm* that applies the approach in this *rule* must apply it either:

(a) in relation to all *cryptoasset orders* that the *firm* receives and transmits; or

(b) only in relation to *cryptoasset orders* that the *firm* receives and transmits where it does not receive timely information

from the executing entity about the terms on which the order was executed.

(4) A *firm* that applies the approach in this *rule* must document which basis in (3) applies.

Firms with less than 9 months of data on CCO

4.7.14 R Where a *firm* has been handling *cryptoasset orders* constituting *CCO* for less than 9 *months*, it must calculate its average under *CRYPTOPRU* 4.7.10R as follows:

(1) During the first *month* in which it is handling *cryptoasset orders* constituting *CCO*, the *firm* must:

(a) make a best-efforts estimate of expected *CCO* for that *month*; and

(b) use that estimate as its *average CCO*.

(2) During the subsequent 8 *months*, the *firm's average CCO* must be calculated in accordance with *CRYPTOPRU* 4.11.1R(2).

4.8 K-factor requirement for cryptoasset trading flow (K-CTF)

4.8.1 R The *K-CTF requirement* of a *CRYPTOPRU firm* is equal to 0.1% of *average CTF*.

4.8.2 G The definition of *CTF* includes *cryptoasset orders* that a *firm* enters in its own name.

Interaction between orders in a firm's own name in CRYPTOPRU and MIFIDPRU

4.8.3 G A *firm* may handle transactions involving both *qualifying cryptoassets* and *financial instruments*. In this case, it may be subject to both *CRYPTOPRU* and *MIFIDPRU*, and may be required to calculate a *K-CTF requirement* under this section (K-CTF) in respect of the *qualifying cryptoasset*, and a *K-DTF requirement* under *MIFIDPRU* 4.15 (K-DTF) for the *financial instrument*. Its total *K-factor requirement* will be the sum of all applicable parts of the *K-factor requirement* in those sourcebooks (*COREPRU* 4.4.1R).

Calculating CTF

4.8.4 R A *firm* must calculate its *K-CTF requirement*:

(1) on the first *business day* on which *CRYPTOPRU* applies to the *firm*; and

(2) thereafter, on the first *business day* of each *month*.

4.8.5 R A *firm* must calculate the amount of its *average CTF* by:

(1) taking the total *CTF* as measured throughout each *business day* in each of the previous 9 *months*;

(2) excluding the daily values for the most recent 3 *months*; and

(3) calculating the arithmetic mean of the daily values for the remaining 6 *months*.

4.8.6 R (1) When measuring its *CTF*, a *firm* must use the sum of the absolute value of each buy order and sell order.

(2) The value in (1) is the amount paid or received on the order.

4.8.7 G When measuring *CTF* for the purposes of *CRYPTOPRU* 4.8.5R, a *firm* must include transactions executed by a *firm* in its own name either for itself or on behalf of a *client*.

Firms with less than 9 months of data on CTF

4.8.8 R Where a *firm* has had *cryptoasset orders* for less than 9 *months*, it must calculate its *average CTF* under *CRYPTOPRU* 4.8.5R as follows:

(1) During the first *month* in which it has had *cryptoasset orders*, the *firm* must:

(a) make a best-efforts estimate of expected *CTF* for that *month*; and

(b) use that estimate as its *average CTF*.

(2) During the subsequent 8 *months*, the *firm's average CTF* must be calculated in accordance with *CRYPTOPRU* 4.11.1R(2).

4.9 K-factor requirement for net cryptoasset position (K-NCP)

Scope

4.9.1 R This section applies to a *firm* that enters into positions in a *qualifying cryptoasset* that are recorded in the *trading book*.

Purpose

4.9.2 G (1) This section contains the minimum *own funds requirement* for market risk in *qualifying cryptoasset* positions.

(2) As part of the *overall risk assessment*, a *firm* should consider whether it needs to hold any additional *own funds* for its *qualifying cryptoasset* positions, having regard to the characteristics of each *qualifying cryptoasset* it trades.

Meaning of 'position'

4.9.3 R For the purposes of this section, a position in *qualifying cryptoasset* includes:

(1) any *qualifying cryptoasset* that a *firm* owns beneficially;

(2) any *qualifying cryptoasset* that a *firm* has an existing contractual right to receive in the future (for example, under an arrangement in which it has lent the cryptoasset to a *client*); and

(3) (in the case of a short position) any *qualifying cryptoasset* that a *firm* has an existing contractual obligation to deliver in the future (for example, under an arrangement in which it has borrowed the cryptoasset from a *client*).

4.9.4 G (1) A *firm* that trades in *qualifying cryptoassets* in its own name, including where it does so on behalf of clients, must calculate the *K-NCP requirement*.

(2) A *firm* must calculate the *K-NCP requirement* even where it seeks to match or offset trades in such a way that it is not immediately exposed to movements in market prices.

(3) However, where a *firm* only executes trades in the name of the client, or as a custodian, it is not required to calculate the *K-NCP requirement*.

Managing the trading book

4.9.5 G (1) The definition of *trading book* includes both a *firm's* own proprietary positions and positions in its own name arising from client servicing. The *FCA* would therefore generally expect a *firm's* positions in a *qualifying cryptoasset* to be recorded in the *trading book*. However, some holdings may be excluded, such as where the *firm* needs the *qualifying cryptoasset* to pay bills or other operating expenses.

(2) Where a *UK QCATP operator* engages in *matched principal trading* or other trading that is permitted by *CRYPTO* 6.6, these activities should be included in the *trading book*.

4.9.6 R A *firm* must manage its *trading book* for *qualifying cryptoassets* in accordance with *MIFIDPRU* 4.11.3R, reading any references to 'financial instrument' as references to *qualifying cryptoasset*.

4.9.7 G The requirement in *CRYPTOPRU* 4.9.6R applies when a *firm* values any *qualifying cryptoasset* held in the *trading book* for the purposes of both:

(1) calculating its *own funds* under *COREPRU* 3; and

(2) calculating any parts of the *K-factor requirement* under *CRYPTOPRU* 4.

General rule

4.9.8 R A *firm* must calculate its *K-NCP requirement* by:

(1) identifying positions in *qualifying cryptoassets* which are in scope;

(2) netting positions in identical *qualifying cryptoassets*;

(3) expressing the value of each net position in its functional currency;

(4) calculating a requirement for each net position in each *qualifying cryptoasset*; and

(5) summing the resulting requirements for each *qualifying cryptoasset*.

Monitoring of K-NCP

4.9.9 R A *firm* must be able to monitor its *K-NCP requirement* on an intra-day basis.

Positions in scope of K-NCP

4.9.10 R A *firm* must calculate its *K-NCP requirement* by reference to any position it holds in the *trading book* in any *qualifying cryptoasset*, except:

(1) a position in a *CASS 16 stablecoin*;

(2) a position in a *qualifying cryptoasset* which has already been deducted in full under *COREPRU* 3; or

(3) a position in a *financial instrument* to which the *firm* applies the *K-NPR requirement* or the *K-CMG requirement* under *MIFIDPRU*, except where it applies the netting approach in *CRYPTOPRU* 4.9.15R.

Interaction between position risk requirements and own funds deductions

4.9.11 G To avoid double-counting, if a *firm* has already deducted its position in a *qualifying cryptoasset* in full (for example, because it cannot prudently value the position in accordance with Article 105 of the *UK CRR* as applied by *MIFIDPRU* 4.11.3R), it is not required to calculate a *K-NCP requirement* for that position.

Interaction between position risk requirements in CRYPTOPRU and MIFIDPRU

4.9.12 G (1) A *firm* may trade in both *qualifying cryptoassets* and *financial instruments*, in which case it may be subject to both *CRYPTOPRU* and *MIFIDPRU*, and may be required to calculate a position risk requirement under this section (K-NCP), and a position risk requirement under *MIFIDPRU* 4.12 (K-NPR) or *MIFIDPRU* 4.13 (K-CMG). Its total *K-factor requirement* will be the sum of all applicable parts of the *K-factor requirement* in those sourcebooks (*COREPRU* 4.4.1R).

(2) The *FCA's* general policy is that such a *firm* should not be required to recognise the same exposure twice and should be permitted to net or offset positions appropriately.

(3) The definition of *qualifying cryptoasset* generally excludes a *specified investment cryptoasset*. This means that a tokenised *financial instrument* in the *trading book* will not be subject to the *K-NCP requirement* and will instead be subject to the *K-NPR requirement* or the *K-CMG requirement*.

(4) However, a *firm* may also hold a *financial instrument* which gives economic exposure to a *qualifying cryptoasset* – for example, a derivative over a *qualifying cryptoasset*, or a *fund* invested in a *qualifying cryptoasset*. In this case, *CRYPTOPRU* 4.9.10R(3) avoids double-counting by ensuring that such a position is only subject to one net position risk requirement.

(5) While a position in a *financial instrument* which gives economic exposure to a *qualifying cryptoasset* will generally be subject to the *K-NPR requirement* or the *K-CMG requirement*, *CRYPTOPRU* 4.9.15R allows a *firm* to include this position in its *K-NCP requirement* instead. This permits the recognition of potential hedging effects for exposures in identical *qualifying cryptoassets*.

Netting positions in an identical qualifying cryptoasset

4.9.13 R A *firm* must not net long and short positions in a *qualifying cryptoasset* unless the positions are in an identical *qualifying cryptoasset*.

4.9.14 G *Qualifying cryptoassets* are identical if they:

(1) enjoy identical rights in all respects; and

(2) are fungible with one another.

4.9.15 R (1) This *rule* applies where a *firm* has:

(a) a position in a *qualifying cryptoasset* in scope of the *K-NCP requirement*; and

(b) a position in a *financial instrument* in scope of the *K-NPR requirement* or the *K-CMG requirement* which gives economic exposure to an identical *qualifying cryptoasset* as in (1)(a).

(2) Where this *rule* applies, a *firm* may:

(a) exclude the position which gives economic exposure to a *qualifying cryptoasset* from the *K-NPR requirement* or the *K-CMG requirement*; and

(b) include both positions in the *K-NCP requirement*, to arrive at its net long or short position in each *qualifying cryptoasset*.

4.9.16 G (1) An example of the situation in *CRYPTOPRU* 4.9.15R is as follows. Firm Z has 3 of a particular *qualifying cryptoasset*. Firm Z has entered into a forward contract which gives it long exposure to 3 more of this *qualifying cryptoasset*. Firm Z is required to deliver 5 of this *qualifying cryptoasset* to a counterparty in 3 *months'* time.

(2) Firm Z therefore has a net long position of 1 in the relevant *qualifying cryptoasset*.

(3) In effect, forward positions are treated as being equivalent to spot positions for the purposes of calculating the *K-NCP requirement*.

4.9.17 R Where a *firm* has economic exposure to a *qualifying cryptoasset* through a *fund*, it may not apply the approach in *CRYPTOPRU* 4.9.15R unless it is aware of the actual *qualifying cryptoasset* the *fund* is invested in, and only nets off identical *qualifying cryptoassets*.

Calculating the K-NCP requirement

4.9.18 R The *K-NCP requirement* for each net position in a *qualifying cryptoasset* must be calculated by multiplying the value for each net position in a *qualifying cryptoasset* (ignoring the sign) by 40%.

4.10 K-factor requirement for cryptoasset counterparty default (K-CCD)

Scope

4.10.1 R The *K-CCD requirement* applies to a *firm* that enters into a *trading book* transaction involving a *qualifying cryptoasset* which exposes it to a risk of counterparty default that persists for longer than the *standard spot settlement period*.

4.10.2 G (1) The *FCA* does not expect a *firm* that simply trades in spot *qualifying cryptoassets* to calculate the *K-CCD requirement*.

(2) However, where a *firm* enters into any *qualifying cryptoasset* transaction in the *trading book* that takes longer to complete – for example, by lending *qualifying cryptoassets* to a counterparty – it must calculate the *K-CCD requirement*.

(3) [to follow]

(4) A *firm* must calculate the *K-CCD requirement* even if it receives collateral to help mitigate against the risk of counterparty default. The *K-CCD requirement* recognises collateral as part of the calculation.

Purpose

4.10.3 G (1) This section contains the minimum *own funds requirement* for counterparty risk in transactions involving a *qualifying cryptoasset*. It prescribes standardised risk factors for different types of counterparty, and standardised volatility adjustments for different types of asset.

(2) As part of the *overall risk assessment*, a *firm* should consider whether it needs to hold any additional *own funds* for its transactions involving a *qualifying cryptoasset*, having regard to the characteristics of each of its counterparties and the assets it trades.

General rule

4.10.4 R A *firm* must calculate its *K-CCD requirement* by:

(1) identifying transactions in *qualifying cryptoassets* which are in scope in accordance with *CRYPTOPRU* 4.10.5R;

(2) calculating the exposure value for each transaction in its functional currency in accordance with *CRYPTOPRU* 4.10.6R;

(3) using each exposure value to calculate a requirement for each transaction in accordance with *CRYPTOPRU* 4.10.11R; and

(4) summing the resulting requirements for each transaction.

Transactions in scope of K-CCD

4.10.5 R (1) A *firm* must calculate its *K-CCD requirement* by identifying every transaction and contract involving any *trading book qualifying cryptoasset* which exposes it to a risk of counterparty default that persists for longer than the *standard spot settlement period*, except where (2) applies.

(2) A *firm* is not required to calculate the *K-CCD requirement* for a transaction or contract involving a *qualifying cryptoasset* where the value of the transaction or contract has been deducted in full under *COREPRU* 3.

(3) Where the *K-CCD requirement* applies to a transaction or contract, and the *firm* receives collateral which would be deductible in full under *COREPRU* 3, the *firm* must apply a volatility adjustment of 100% to the collateral under *CRYPTOPRU* 4.10.8R.

Calculating the exposure value

4.10.6 R The exposure value must be calculated using the following formula:

Exposure value = Max (0; RC– C)

where:

(1) RC = the replacement cost calculated in accordance with *CRYPTOPRU* 4.10.7R; and

(2) C = collateral as calculated in accordance with *CRYPTOPRU* 4.10.8R.

Replacement cost

4.10.7 R The replacement cost is the current market value of the asset that the *firm* is due to receive from the counterparty to the transaction, increased by the volatility adjustment in *CRYPTOPRU* 4.10.9R.

Collateral

4.10.8 R The value of C is the current market value of any collateral received by the *firm*, decreased in accordance with the relevant volatility adjustment specified in *CRYPTOPRU* 4.10.9R.

Volatility adjustment

4.10.9 R The volatility adjustment for each asset class is specified in the table below.

Asset class	**Volatility adjustment**
CASS 16 stablecoin	0%
Any asset class referred to in *MIFIDPRU* 4.14.25R	The applicable volatility adjustment listed in Column (B) of *MIFIDPRU* 4.14.25R
Any other *qualifying cryptoasset*	40%

4.10.10 G (1) The following is an example of how the volatility adjustment to collateral under *CRYPTOPRU* 4.10.8R and *CRYPTOPRU* 4.10.9R applies.

(2) A *firm* receives collateral in the form of a *qualifying cryptoasset*. The notional value of the collateral is 100.

(3) *CRYPTOPRU* 4.10.8R requires the notional value of the collateral to be decreased by the applicable volatility adjustment.

(4) The relevant volatility adjustment in *CRYPTOPRU* 4.10.9R is 40%.

(5) The resulting value of the collateral after the volatility adjustment has been applied is therefore 60.

Calculating the K-CCD requirement

4.10.11 R The *K-CCD requirement* for each transaction must be calculated using the following formula:

α * EV * RF

where:

(1) α = 1.2;

(2) EV = the exposure value calculated in accordance with *CRYPTOPRU* 4.10.6R; and

(3) RF = the risk factor applicable to the counterparty type as set out in *CRYPTOPRU* 4.10.12R.

Risk factor

4.10.12 R The risk factor for a counterparty is set out in the following table:

Counterparty type	**Risk factor**
Central governments, central banks and public sector entities	1.6%
Credit institutions, *investment firms* and *CRYPTOPRU firms*	1.6%
retail client with negative balance protection under *CRYPTO* 9.7	83.33%
Other counterparties	8%

4.10.13 G (1) The following example illustrates how to calculate the *K-CCD requirement*.

(2) In this example, there are two *qualifying cryptoassets*, neither of which are *CASS 16 stablecoins*. Cryptoasset A is traded on a *UK QCATP*, whereas Cryptoasset B is not.

(3) A *firm* lends out Cryptoasset A valued at £100 to another *CRYPTOPRU firm*. The *firm* receives Cryptoasset B valued at £100 as collateral.

(4) The transaction is in scope of the *K-CCD requirement*.

(5) The *K-CCD requirement* is α * EV * RF.

(6) α is 1.2, and the RF for another *CRYPTOPRU firm* is 1.6%.

(7) The EV (Exposure Value) is the RC (Replacement Cost) – C (Collateral).

(8) The RC (Replacement Cost) is the current market value of Cryptoasset A, £100, increased by a volatility adjustment of 40%, to a total of £140.

(9) As Cryptoasset B is not traded on a *UK QCATP*, the value of C (Collateral) is reduced by a volatility adjustment of 100%, to zero.

(10) The EV is therefore £140 – £0 = £140.

(11) The *K-CCD requirement* for this transaction is 1.2*£140*1.6% = £2.688.

4.11 Modified calculation for CRYPTOPRU firms performing CRYPTOPRU activities for less than 9 months

4.11.1 R (1) This *rule* applies to the calculation of:

(a) *average SII* (for the purpose of *CRYPTOPRU* 4.4.5R(2));

(b) *average RCS* (for the purpose of *CRYPTOPRU* 4.5.9R(2));

(c) *average CCS* (for the purpose of *CRYPTOPRU* 4.6.10R(2));

(d) *average CCO* (for the purpose of *CRYPTOPRU* 4.7.13R (2)); and

(e) *average CTF* (for the purpose of *CRYPTOPRU* 4.8.7R (2)).

(2) For the purpose of calculating the values in (1), a *firm* must calculate the arithmetic mean of the daily values over the previous n *months* - y *months*, where:

- n = the number of *months* that have elapsed since *CRYPTOPRU* began to apply (with the *month* during which *CRYPROPRU* begins to apply being counted as *month* 1); and
- y = the greater of 0 and (*n* - 6) *months*.

4.12 Conversion of amounts into the firm's functional currency

4.12.1 R This section applies to the calculation of:

(1) *SII*;

(2) *RCS*;

(3) *CCS*;

(4) *CCO*; and

(5) *CTF*.

4.12.2 R (1) When measuring the value of the relevant metric in *CRYPTOPRU* 4.12.1R for a particular *business day*, a *firm* must convert all amounts into its functional currency.

(2) For the purposes of the currency conversion in (1), a *firm* must:

(a) determine the conversion rate by reference to an appropriate market rate; and

(b) record the rate that was chosen.

4.12.3 G The effect of *CRYPTOPRU* 4.12.2R(1) is that, when measuring the value of the relevant metric at the end of each *business day*, a *firm* must convert all amounts into its functional currency using an appropriate market rate. The relevant metric for each preceding *business day* should continue to be measured by reference to the conversion rate that was applicable on that preceding day.

4.12.4 R The values used by a *firm* under *CRYPTOPRU* 4.12.2R(2) should be consistent with the information on *qualifying cryptoassets* and *relevant specified investment cryptoassets* in any relevant regulatory data reported by the *firm* to the *FCA*, and in any internal or external reconciliations and records maintained in accordance the *FCA*'s record keeping requirements, unless a *rule* or relevant *guidance* requires the *firm* to take a different approach.

5 Concentration risk

5.1 K-factor requirement for concentration risk (K-CON)

Scope

5.1.1 R This chapter applies to a *firm* that enters into a *trading book* transaction involving a *qualifying cryptoasset*.

5.1.2 G (1) This chapter operates by cross-applying and modifying the concentration risk requirements in *MIFIDPRU* 5.4 to *MIFIDPRU* 5.10.

(2) Where a *firm* is in scope of both this chapter and *MIFIDPRU* 5.4 to *MIFIDPRU* 5.10, the effect is that:

(a) it is required to calculate a single *concentration risk soft limit* for its exposures to each *client* or *group of connected clients* in accordance with *MIFIDPRU* 5.5.1R;

(b) when calculating whether its exposures exceed the *concentration risk soft limit*, it must sum:

(i) exposures caught by *MIFIDPRU* 5.4.1R;

(ii) exposures caught by *CRYPTOPRU* 4.10.5R (Transactions in scope of K-CCD); and

(iii) any other exposures to a *qualifying cryptoasset* which is issued by, or the supply of which is controlled by, a particular *client* or *group of connected clients*;

(c) it must calculate a single *K-CON requirement* for any exposures that exceed the *concentration risk soft limit*; and

(d) when calculating whether its exposures exceed the hard limits in *MIFIDPRU* 5.9, it must sum the exposures in (2)(b).

(3) Where a *firm* is in scope of this chapter but not *MIFIDPRU* 5.4 to *MIFIDPRU* 5.10, the effect is that:

(a) it is required to calculate a *concentration risk soft limit* for its exposure to each *client* or *group of connected clients* in accordance with *MIFIDPRU* 5.5.1R;

(b) when calculating whether its exposures exceed the *concentration risk soft limit*, it is only required to consider:

(i) exposures caught by *CRYPTOPRU* 4.10.5R (Transactions in scope of K-CCD); and

(ii) other exposures to a *qualifying cryptoasset* which is issued by, or the supply of which is controlled by, a particular *client* or *group of connected clients*;

(c) it must calculate a *K-CON requirement* for any exposures that exceed the *concentration risk soft limit*; and

(d) when calculating whether its exposures exceed the hard limits in *MIFIDPRU* 5.9, it must sum the exposures in (3)(b).

Firms in scope of both CRYPTOPRU and MIFIDPRU

5.1.3 R (1) The modifications in this *rule* apply to a *firm* in scope of both this chapter and *MIFIDPRU* 5.4 to *MIFIDPRU* 5.10.

(2) *MIFIDPRU* 5.1.7R applies as if it read as shown in the table below:

'*MIFIDPRU* 5.3 to *MIFIDPRU* 5.10 apply to a *firm* when:

(1)	*dealing on own account* in relation to transactions that are recorded in the *trading book*; and
(2)	entering into *trading book* transactions involving *qualifying cryptoassets*.'

(3) *MIFIDPRU* 5.3.1G applies as if, after the words 'that is *dealing on own account*' there were inserted the words 'or trading in *qualifying cryptoassets*'.

(4) *MIFIDPRU* 5.4.1R applies as if it read as shown in the table below:

'For the purposes of *MIFIDPRU* 5.5 to *MIFIDPRU* 5.10, a *firm* must calculate an *exposure value* (*EV*) for each *client* or *group of connected clients* by adding together the following items:		
(1)	the positive excess of the *firm's* long positions over its short positions in all the *trading book financial instruments* issued by the *client* in question, using the approach specified for K-NPR in *MIFIDPRU* 4.12.2R to calculate the net position for each instrument;	
(2)	the exposure value of contracts and transactions referred to in *MIFIDPRU* 4.14.3R with the *client* in question, calculated using the approach specified for K-TCD in *MIFIDPRU* 4.14.8R;	
(3)	the exposure value of contracts and transactions referred to in *CRYPTOPRU* 4.10.5R with the *client* in question, calculated using the approach specified for K-CCD in *CRYPTOPRU* 4.10.6R; and	
(4)	the positive excess of the *firm's* long positions over its short positions in all the *trading book qualifying cryptoassets*:	
	(a)	which are issued by the *client* or *group of connected clients*; or
	(b)	where supply is controlled by the *client* or *group of connected of connected clients*,
	and using the approach specified for K-NCP in *CRYPTOPRU* 4.9 to calculate the net position for each cryptoasset.'	

(5) The definition of *MIFIDPRU-eligible institution* applies as if it included a *CRYPTOPRU firm*.

(6) *MIFIDPRU* 5.7.3R(2) applies as if it read as shown in the table below:

'(a)	The *OFR* for an individual *client* is the sum of:		
	(i)	the *TCD own funds requirement* for exposures to that *client*;	
	(ii)	the *K-NPR requirement* for exposures to that *client*, subject to (b);	
	(iii)	the *K-CCD requirement* for exposures to that *client*; and	
	(iv)	the *K-NCP requirement* for exposures in a relevant *qualifying cryptoasset*:	
		(A)	which is issued by the *client* or *group of connected clients*; or
		(B)	the supply of which is controlled by that *client* or *group of connected clients*.
(b)	Where exposures arise from the positive excess of a *firm's* long positions over its short positions in all the *trading book financial instruments* issued by the *client* in question, the net position of each instrument calculated using the approach specified for K-NPR in *MIFIDPRU* 4.12.2R only includes specific-risk requirements.		
(c)	A *firm* that calculates a *K-CMG requirement* for a portfolio must calculate the *OFR* using the approach specified for K-NPR in *MIFIDPRU* 4.12.2R, subject to (b).		
(d)	The *OFR* for a *group of connected clients* must be calculated by adding together the exposures to individual *clients* within the group, and then determining a single own funds requirement for exposures to the group as if the group were a single *undertaking*.'		

5.1.4 R (1) This *rule* applies to a *firm* that is in scope of this chapter but which is not in scope of *MIFIDPRU* 5.4 to *MIFIDPRU* 5.10.

(2) A *firm* to which this *rule* applies must apply *MIFIDPRU* 5.1.11G to *MIFIDPRU* 5.1.19G and *MIFIDPRU* 5.4 to *MIFIDPRU* 5.10, with the modifications below.

(3) *MIFIDPRU* 5.4.1R applies as if it read as shown in the table below:

‘For the purposes of *MIFIDPRU* 5.5 to *MIFIDPRU* 5.10, a *firm* must calculate an *exposure value* (*EV*) for each *client* or *group of connected clients* by adding together:			
(1)	the exposure value of contracts and transactions referred to in *CRYPTOPRU* 4.10.5R with the *client* in question, using the approach specified for K-CCD in *CRYPTOPRU* 4.10.6R; and		
(2)	the positive excess of the *firm’s* long positions over its short positions in all the *trading book qualifying cryptoassets*:		
	(a)	which are issued by the *client* or *group of connected clients*; or	
	(b)	the supply of which is controlled by the *client* or *group of connected clients*,	
	and using the approach specified for K-NCP in *CRYPTOPRU* 4.9 to calculate the net position for each cryptoasset.’		

(4) The definition of *MIFIDPRU-eligible institution* applies as if it included a *CRYPTOPRU firm*.

(5) *MIFIDPRU* 5.7.1R and *MIFIDPRU* 5.10.1R(1) apply as if the references to a *MIFIDPRU investment firm* were replaced with references to a *CRYPTOPRU firm*.

(6) *MIFIDPRU* 5.7.3R(2) applies as if it read as shown in the table below:

‘(a)	The *OFR* for an individual *client* is the sum of:			
	(i)	the *K-CCD requirement* for exposures to that *client*; and		
	(ii)	the *K-NCP requirement* for exposures in a relevant *qualifying cryptoasset*:		
		(A)	which are issued by the *client* or *group of connected clients*; or	
		(B)	the supply of which is controlled by that *client* or *group of connected clients*.	
(b)	The *OFR* for a *group of connected clients* must be calculated by adding together the exposures to individual *clients* within the group, and then determining a single own			

	funds requirement for exposures to the group as if the group were a single *undertaking*.'

6 Sectoral liquidity requirement

6.1 Application and purpose

Application

6.1.1 R This chapter applies to a *CRYPTOPRU firm* that is carrying out the activity of *issuing a qualifying stablecoin*.

Purpose

6.1.2 G This chapter contains *rules* and *guidance* on the amount of *on-demand deposits* that a *qualifying stablecoin issuer* must hold to ensure it has adequate financial resources and can comply with the requirement in *CASS* 16.2.1R(4) at all times (its '*issuer liquid assets requirement*').

6.1.3 G The *issuer liquid assets requirement* supplements the *basic liquid assets requirement* that *COREPRU* 6 requires all *CRYPTOPRU firms* to meet.

Issuer liquid assets requirement

6.1.4 R A *qualifying stablecoin issuer* must calculate its *issuer liquid assets requirement* based on the following assets in its *backing asset pool*:

(1) *core backing assets*, excluding *on-demand deposits*; and

(2) *expanded backing assets*.

6.1.5 G Where a *firm* issues multiple *qualifying stablecoins*, it must calculate its *issuer liquid assets requirement* based on the *backing asset pool* for each *qualifying stablecoin*.

6.1.6 R (1) For a unit in a *public debt CNAV MMF*, a *qualifying stablecoin issuer* that is aware of the underlying investments on a daily basis may look through and calculate its *issuer liquid assets requirement* based on the underlying government debt securities.

(2) For the purpose of (1), where the underlying investments include a *repurchase transaction*, the *qualifying stablecoin issuer* must calculate its *issuer liquid assets requirement* in accordance with *CRYPTOPRU* 6.1.7R.

(3) If a *qualifying stablecoin issuer* cannot look through in accordance with (1) and (2), or chooses not to do so, it must (instead of performing the calculation in *CRYPTOPRU* 6.1.9R) calculate its *issuer liquid assets requirement* by multiplying the notional value of the unit by 5%.

6.1.7 R For a *repurchase transaction*, a *qualifying stablecoin issuer* must calculate its *issuer liquid assets requirement* based on any government debt securities that have been exchanged for the duration of the contract.

6.1.8 G The effect of *CRYPTOPRU* 6.1.7R is that a *qualifying stablecoin issuer* must calculate its *issuer liquid assets requirement* based on any government debt securities that have been exchanged as part of a *repurchase transaction* (whether as a repurchase agreement or reverse repurchase agreement).

6.1.9 R A *firm* must calculate its *issuer liquid assets requirement* by:

(1) determining whether an asset is a *level 1 asset*, a *level 2 asset* or a *level 3 asset*;

(2) determining the charge for each asset, in accordance with the table in *CRYPTOPRU* 6.1.11R;

(3) multiplying the notional value of each asset by the relevant charge; and

(4) adding together the output from step (3) for all the assets to which *CRYPTOPRU* 6.1.4R applies.

6.1.10 G (1) The calculation of the *issuer liquid assets requirement* in *CRYPTOPRU* 6.1.4R is illustrated by the following example.

(2) In accordance with *CASS* 16.2.1R, a *qualifying stablecoin issuer* holds the following *core backing assets* and *expanded backing assets* in its *backing asset pool* for the *qualifying stablecoins* that it has issued:

(a) £30,000 in *long-term government debt instruments* issued by the *UK* (a *level 1 asset*) with a residual maturity of 5 years and a coupon of 4%;

(b) £50,000 in *short-term government debt instruments* issued by the *UK* (a *level 1 asset*) with a residual maturity of 3 *months* and a coupon of 5%; and

(c) £20,000 in *on-demand deposits*.

(3) The *issuer liquid assets requirement* should be calculated by multiplying the notional value of the *long-term government debt instrument*s and the *short-term government debt instruments* by the charge found in the table in *CRYPTOPRU* 6.1.11R as follows:

£30,000 x 3.50% = £1,050

£50,000 x 0.20% = £100

(4) *On-demand deposits* are not included in the calculation (this reflects the fact that the aim of the *issuer liquid assets requirement* is to capture price risk).

(5) The *issuer liquid assets requirement* is £1,150.

6.1.11 R This table belong to *CRYPTOPRU* 6.1.9R(2):

Asset charge					
Maturity bands	**Level 1 - Coupon ≤ 3%**	**Level 1 - Coupon > 3%**	**Level 2 - Coupon ≤ 3%**	**Level 2 - Coupon > 3%**	**Level 3 (No coupon)**
0 ≤ 1 *month*	0.00%	0.00%	0.50%	0.50%	3.0%
> 1 ≤ 3 *months*	0.20%	0.20%	0.50%	0.50%	3.0%
> 3 ≤ 6 *months*	0.40%	0.40%	0.50%	0.50%	3.0%
> 6 ≤ 12 *months*	0.70%	0.70%	0.70%	0.70%	3.0%
> 1 ≤ 2 years	1.50%	1.50%	1.50%	2.00%	5.0%
> 2 ≤ 3 years	1.75%	2.25%	2.25%	2.75%	5.0%
> 3 ≤ 4 years	2.25%	2.75%	2.75%	3.25%	6.0%
> 4 ≤ 5 years	2.75%	3.50%	3.25%	4.00%	6.0%
> 5 ≤ 7 years	3.50%	3.75%	3.75%	5.00%	8.0%
> 7 ≤ 10 years	3.75%	6.00%	4.50%	7.00%	8.0%
> 10 ≤ 15 years	6.00%	8.50%	7.00%	10.00%	12.0%
> 15 ≤ 20 years	6.00%	8.50%	7.00%	13.00%	15.0%
> 20 ≤ 25 years	8.50%	12.50%	10.00%	16.00%	20.0%
> 25 ≤ 30 years	8.50%	15.00%	10.00%	18.00%	25.0%
>30 years	12.50%	20.00%	15.00%	25.00%	30.0%

Permissible assets

6.1.12 R For the purposes of meeting the *issuer liquid assets requirement*, the *on-demand deposits* must:

(1) be held at a *UK-authorised credit institution*, except where the *reference currency* of the *qualifying stablecoin* is not pound sterling, in which case it may be held at a *credit institution*; and

(2) be denominated in the *reference currency* of each relevant *qualifying stablecoin*.

6.1.13 G A *firm* must not use the same *on-demand deposits* to meet the *basic liquid assets requirement* in *COREPRU* 6.2.1R and the *issuer liquid assets requirement*.

7 Overall risk assessment for CRYPTOPRU firms

7.1 Application

7.1.1 R This chapter applies to a *CRYPTOPRU firm*.

7.1.2 R *CRYPTOPRU* 7 (Overall risk assessment) does not apply to a *firm* that is both a *CRYPTOPRU firm* and a *MIFIDPRU investment firm*.

7.1.3 G The effect of *CRYPTOPRU* 7.1.2R is that, where a *firm* is both a *CRYPTOPRU firm* and a *MIFIDPRU investment firm*, only the requirements in *MIFIDPRU* 7 (Governance and risk management) apply.

7.1.4 G The following table summarises the content of *CRYPTOPRU* 7.

Section	Summary of content
CRYPTOPRU 7.1	Application
CRYPTOPRU 7.2	Overall risk assessment: capital and liquidity planning, stress testing, wind-down planning and recovery planning
CRYPTOPRU 7.3	Overall risk assessment: own funds
CRYPTOPRU 7.4	Overall risk assessment: liquid assets
CRYPTOPRU 7.5	Overall risk assessment: review and document
CRYPTOPRU 7.6	Overall risk assessment: firms forming part of a group

Purpose

7.1.5 G (1) *COREPRU* 7 contains the general requirement for *firms* to carry out an *overall risk assessment*. This requirement is designed to ensure that a *firm*:

(a) has appropriate systems and controls in place to identify, monitor and, where proportionate, reduce all risks that may cause material harm which result from the ongoing operation or the winding down of its business; and

(b) holds financial resources that are adequate for the business it undertakes.

(2) A *firm* should therefore start by considering the *rules* and *guidance* on the *overall risk assessment* in *COREPRU* 7 (Overall risk assessment).

7.1.6 G *CRYPTOPRU* 7 contains *rules* and *guidance* which supplement the overarching requirements in *COREPRU* 7.

7.2 Overall risk assessment: capital and liquidity planning, stress testing, wind-down planning and recovery planning

Business model assessment and capital and liquidity planning

7.2.1 R As part of its *overall risk assessment*, a *firm* must:

(1) have a clearly articulated business model and strategy;

(2) have a clearly articulated risk appetite that is consistent with the business model and strategy identified under (1);

(3) identify any material risks of misalignment between the *firm's* business model and operating model and the interests of its *clients* and the wider financial markets, and evaluate whether those risks have been adequately mitigated;

(4) consider on a forward-looking basis the *own funds* and *liquid assets* that will be required to meet the *overall financial adequacy rule*, taking into account any planned future growth; and

(5) consider severe but plausible stresses that could affect the *firm's* business and consider whether the *firm* would still have sufficient *own funds* and *liquid assets* to meet the *overall financial adequacy rule*.

Stress testing

7.2.2 G *CRYPTOPRU* 7.2.1R(5) requires a *firm* to use stress testing to consider whether it holds sufficient *own funds* and *liquid assets*. *Firms* should refer to Finalised Guidance, FG20/1 (Our framework: assessing adequate financial resources), which can be found on the *FCA's* website at https://www.fca.org.uk/publication/finalised-guidance/fg20-1.pdf, for specific guidance on the *FCA's* expectations in relation to stress testing.

Recovery actions

7.2.3 R As part of its *overall risk assessment*, a *firm* must identify:

(1) levels of *own funds* and *liquid assets* that the *firm* considers, if reached, may indicate that there is a credible risk that the *firm* will breach the *overall financial adequacy rule*; and

(2) potential recovery actions that the *firm* would expect to take:

(a) to avoid a breach of the *overall financial adequacy rule* where the *firm's own funds* or *liquid assets* fall below the levels identified in (1); and

(b) to restore compliance with the *overall financial adequacy rule* if the *firm* were to breach it during a period of financial difficulty.

7.2.4 G A *firm* should adopt a proportionate approach to identifying potential recovery actions, taking into account the nature, scale and complexity of the *firm's* business and operating model. The actions that the *firm* proposes must be credible and justifiable, taking into account the circumstances in which the actions may be likely to be required.

Wind-down planning

7.2.5 G (1) *COREPRU* 7.2.1R contains the requirement on the *overall risk assessment*, which includes the analysis of the *firm's* winding down.

(2) As part of its *overall risk assessment*, a *firm* should therefore:

(a) identify the steps and resources that would be required to ensure the wind-down and termination of the *firm's* business in a realistic timescale; and

(b) evaluate the risks arising from winding down the *firm's* business that may cause material harm, and identify how to mitigate them.

(3) When carrying out a wind-down planning assessment under (1) and (2), and determining the timeline and any required actions, a *firm* should refer to the *guidance* in *WDPG* and in Finalised Guidance, FG20/1 (Our framework: assessing adequate financial resources), which can be found on the *FCA's* website at https://www.fca.org.uk/publication/finalised-guidance/fg20-1.pdf.

7.2.6 R (1) A *firm* must use its wind-down analysis under *CRYPTOPRU* 7.2.5G to assess the amount of *own funds* and *liquid assets* that would be required to ensure the wind-down of its business without causing material harm.

(2) The *firm's* assessment in (1) must not result in amounts that are lower than:

(a) in the case of *own funds*, the *firm's fixed overheads requirement*; and

(b) in the case of *liquid assets*, the *firm's basic liquid assets requirement*.

7.3 Overall risk assessment: own funds

Purpose

7.3.1 G The purpose of this section is to supplement the general requirements on the *overall risk assessment* and the calculation of the *own funds threshold requirement* in *COREPRU* 7.

Compliance with the overall financial adequacy rule

7.3.2 G (1) *COREPRU* 2.3.1R sets out the *overall financial adequacy rule*.

(2) *COREPRU* 7.2.1R and *COREPRU* 7.2.5R set out the *firm's* requirements to assess and calculate its *own funds threshold requirement* to comply with the *overall financial adequacy rule*.

(3) To comply with the *overall financial adequacy rule*, a *firm* must therefore hold the higher of:

(a) the amount of *own funds* that the *firm* requires at any given point in time to fund its ongoing business operations, taking into account potential periods of financial stress during the economic cycle (Assessment 'A'); and

(b) the amount of *own funds* that a *firm* would need to hold to ensure that the *firm* can be wound down without causing material harm (Assessment 'B').

Own funds threshold requirement: types of own funds

7.3.3 R (1) Unless (2) applies, a *firm* must meet its *own funds threshold requirement* with *own funds* that satisfy the following conditions:

(a) subject to (b), at least 75% of the *own funds threshold requirement* must be met with any combination of *common equity tier 1 capital* and *additional tier 1 capital*; and

(b) at least 56% of the *own funds threshold requirement* must be met with *common equity tier 1 capital*.

(2) The *FCA* may specify an alternative combination of *own funds* for the purpose of (1) in a requirement applied to a *firm*.

Notification of own funds falling below the own funds threshold requirement

7.3.4 G (1) *SUP* 15.3.1R(1) sets out the *firm's* obligation to notify the *FCA* as soon as it becomes aware that the *firm* is failing to meet one or more of the threshold conditions, or may fail to do so in the foreseeable future.

(2) To satisfy this obligation in *SUP* 15.3, the *FCA* expects a *firm* to provide immediate notification if its *own funds* fall below the level of its *own funds threshold requirement*.

(3) The *FCA* expects such a notification to include the following information:

(a) a clear statement of the current level of the *firm's own funds* in comparison to its *own funds threshold requirement*;

(b) an explanation of why the *firm's own funds* have reached the current level; and

(c) the recovery actions required by *CRYPTOPRU* 7.2.3R(2)(b) that the *firm* has already taken or will take to restore compliance with its *own funds threshold requirement*.

7.4 Overall risk assessment: liquid assets

Purpose

7.4.1 G The purpose of this section is to supplement the general requirements on the *overall risk assessment* in *COREPRU* 7. It sets out sectoral *rules* and *guidance* for the *firm's* assessment and calculation of its *liquid assets threshold requirement*.

Assessing and monitoring the adequacy of liquid assets

7.4.2 R (1) As part of its *overall risk assessment*, a *firm* must:

(a) for its ongoing business operations:

(i) assess its liquidity needs over a rolling 90-*day* period; and

(ii) calculate the amount of *liquid assets* it needs to hold to meet its liquidity needs under (a)(i); and

(b) produce a reasonable estimate of the amount of *liquid assets* required to ensure that the *firm* could be wound down without causing material harm.

(2) The assessment and calculations in (1) must take into account any risks that may cause material harm which the *firm* has identified under *COREPRU* 7.2.1R and that have not been fully mitigated through any measures taken.

(3) Without prejudice to the ongoing nature of its *overall risk assessment*, the *firm* must update the analysis in (1) immediately following any material change in the *firm's* business model or operating model.

(4) To produce the analysis in (1), the *firm* must ensure that it has in place reliable management information systems to provide timely and forward-looking information on its liquidity position.

7.4.3 R (1) As part of the *firm's* assessment of its liquidity needs, it must consider its funding profile by:

(a) producing a reasonable estimate of the *firm's* funding needs over the next 12 *months*, taking into account the results of the *firm's* stress testing under *CRYPTOPRU* 7.2.1R(5);

(b) identifying the *firm's* funding sources for the next 12 *months*, taking into account any risk to the roll-over of funding during that period (including due to potential stressed conditions); and

(c) identifying actions to mitigate funding gaps arising from the potential withdrawal or unavailability of funding arrangements or from significant increases in the cost of funding.

(2) Where a *firm* identifies funding gaps that it cannot fully close, it must, each *day*:

(a) assess its funding gap for the next 90-*day* rolling period; and

(b) ensure it holds *liquid assets* to cover that funding gap.

7.4.4 G (1) *CRYPTOPRU* 7.4.3R explains that a *firm* must consider its funding profile by estimating its funding needs and identifying its funding sources over the next 12 *months*. This allows the *firm* to plan and then to determine where future daily funding gaps may occur beyond the next 90-*day* rolling period. This may lead the *firm* to hold additional *liquid assets* to meet those future gaps as the 90-*day* periods roll forward. A *firm* will use such assessment on a daily basis to determine whether it needs to hold additional *liquid assets* to cover the total value of any funding gaps over the current 90-*day* rolling period. A *firm* should consider its funding profile as frequently as appropriate.

(2) The effect of *CRYPTOPRU* 7.4.3R(2) and *CRYPTOPRU* 7.4.4G(1) is illustrated by the following example:

(a) A *firm* carries out the assessment of its funding needs and sources under *CRYPTOPRU* 7.4.3R, and identifies a total funding gap of £200,000 over the current 90-*day* rolling period resulting from:

(i) a £110,000 peak margin call due on day 20;

(ii) an £80,000 payment of corporation tax payable on day 60; and

(iii) a £10,000 payment of staff bonuses on day 70.

(b) The *firm* takes an overdraft facility for £100,000 to partially mitigate the total funding gap of £200,000. This means that the *firm* still has a funding gap of £100,000 without mitigating actions.

(c) The *firm* must therefore hold additional *liquid assets* for the amount of £100,000 to cover the total value of the funding gap during the 90-*day* rolling period under *CRYPTOPRU* 7.4.3R(2).

Compliance with the overall financial adequacy rule

7.4.5 G (1) *COREPRU* 2.3.1R sets out the *overall financial adequacy rule*.

(2) *COREPRU* 7.2.1R and *COREPRU* 7.2.5R set out the *firm's* requirements to assess and calculate its *liquid assets threshold requirement* to comply with the *overall financial adequacy rule*.

(3) To comply with the *overall financial adequacy rule*, a *firm* must therefore hold at least the sum of:

(a) the *basic liquid assets requirement*;

(b) the *issuer liquid assets requirement*; and

(c) the higher of:

(i) the amount of *liquid assets* that the *firm* requires to fund its ongoing business operations (taking into account potential periods of financial stress) resulting from the *firm's* assessment of its liquidity under *CRYPTOPRU* 7.4.2R(1)(a) (Assessment 'A'); or

(ii) the amount of *liquid assets* that a *firm* would need to hold when commencing its wind-down process to ensure that the *firm* could be wound down without causing material harm under *CRYPTOPRU* 7.4.2R(1)(b) (Assessment 'B').

(4) The *firm* should use the analysis it produces under *CRYPTOPRU* 7.4.2R to ensure that it complies with the *overall financial adequacy rule*.

(5) The *liquid assets threshold requirement* is the amount of *liquid assets* that a *firm* needs to hold at any given time to comply with the *overall financial adequacy rule*.

(6) This is illustrated by the example in *CRYPTOPRU* 7.4.6G.

7.4.6 G The following example illustrates how a *firm* determines its *liquid assets threshold requirement*:

(1) A *firm* has a *basic liquid assets requirement* of £2m under *COREPRU* 6.2.

(2) The *firm* has an *issuer liquid assets requirement* of £3m under *CRYPTOPRU* 6.1.

(3) Through its *overall risk assessment*, the *firm* assesses that it needs an amount of *liquid assets* of:

(a) £3m for its ongoing business operations to cover its liquidity needs over a 90-*day* rolling period under *CRYPTOPRU* 7.4.2R(1)(a) (Assessment 'A'); and

(b) £4m for a wind-down without causing material harm under *CRYPTOPRU* 7.4.2R(1)(b) (Assessment 'B').

(4) As the amount in (3)(b) for Assessment 'B' (£4m) is higher than in (3)(a) for Assessment 'A' (£3m), then the amount of £4m is added to the sum of the *basic liquid assets requirement* (£2m) and the *issuer liquid assets requirement* (£3m).

(5) The *firm's liquid assets threshold requirement* would, therefore, be £9m (the sum of the amounts in (1), (2) and (3)(b)).

7.4.7 G When considering its likely liquidity needs and funding profile under *CRYPTOPRU* 7.4.2R(1)(a) and *CRYPTOPRU* 7.4.3R, a *firm* should consider, among other factors:

(1) the ordinary level of *liquid assets* that would typically be required to operate the *firm's* underlying business, taking into account any seasonal variations;

(2) any risks that may realistically cause material harm during the next 12 *months* and their potential impact on the *firm's* liquidity position;

(3) any *liquid assets* that the *firm* may need to use as collateral or to meet margining requirements;

(4) any estimated gaps in funding, including during periods of severe but plausible stress;

(5) any risk to the roll-over of funding due to potential stressed conditions – for example, changes to lenders' risk appetites or financial resilience and significant increases in the cost of funding;

(6) any estimated gaps between liquidity inflows and outflows; and

(7) the stability of funding sources.

Liquid assets threshold requirement: types of liquid assets

7.4.8 R (1) Subject to (2) and (3), a *firm* may hold the *liquid assets* necessary to comply with its *liquid assets threshold requirement* in any combination of:

(a) any *core liquid asset*; or

(b) any *non-core liquid asset*, as defined in *CRYPTOPRU* 7.4.9R, provided that the *firm* applies an appropriate haircut in accordance with *CRYPTOPRU* 7.4.11R.

(2) This *rule* does not apply in relation to the *liquid assets* that a *firm* is holding to meet its *basic liquid assets requirement* or the *issuer liquid assets requirement*, which must be *core liquid assets*.

(3) A *firm* may only use a *non-core liquid asset* for the purpose in (1) if the *firm* is satisfied that the asset can easily and promptly be converted into cash, even in stressed market conditions.

Non-core liquid assets

7.4.9 R (1) Except as specified in (2), a *non-core liquid asset* means any of the following:

(a) short-term deposits at a *credit institution* that does not have a *Part 4A permission* in the *UK* to *accept deposits*;

(b) short-term non-sterling deposits at a *UK credit institution*;

(c) assets representing claims on, or guaranteed by, multilateral development banks and international organisations;

(d) assets representing claims on, or guaranteed by, any *third country* central bank or government; and

(e) *financial instruments*.

(2) A *firm* must not treat any of the following as a *non-core liquid asset*:

(a) any asset that belongs to a *client*;

(b) any other asset that is encumbered; or

(c) any asset issued by the *firm* or any of its affiliated entities, except a short-term deposit with an affiliated *credit institution*.

7.4.10 R (1) For the purposes of *CRYPTOPRU* 7.4.9R(2)(a), an asset may belong to a *client* even if the asset is held in the *firm's* own name. Examples

of assets belonging to a *client* include money or other assets held under the *FCA's client asset rules*.

(2) For the purposes of *CRYPTOPRU* 7.4.9R(2)(b), an asset may be encumbered if it is pledged as security or collateral, or subject to some other legal restriction (for example, due to regulatory or contractual requirements) which affects the *firm's* ability to liquidate, sell, transfer, or assign the asset.

7.4.11 R A *firm* must apply an appropriate haircut to the value of a *non-core liquid asset* to reflect the potential loss of value when converting the asset into cash during stressed market conditions.

7.4.12 G The *FCA* considers that a minimum haircut of no less than that in the range specified in the table in *CRYPTOPRU* 7.4.13G is likely to be appropriate for the purposes of *CRYPTOPRU* 7.4.11R.

7.4.13 G This table belongs to *CRYPTOPRU* 7.4.12G.

Non-core liquid asset	Haircut
Short-term deposits at a *credit institution* that does not have *Part 4A permission* in the *UK* to *accept deposits*	0%
Short-term non-sterling deposits at a *UK credit institution*	0%
Assets representing claims on, or guaranteed by, multilateral development banks or international organisations	0%
Assets representing claims on, or guaranteed by, any *third country* central bank or government	0% - 50%
Regulated covered bonds, or comparable covered bonds regulated in a *third country*	7% - 30%
Asset-backed securities eligible for 'STS' designation under the *Securitisation Regulations 2024*, and backed by residential loans, personal loans, leases or commercial loans for purposes other than commercial real estate development, or comparable asset-backed securities regulated in a *third country*	25% - 35%
High-quality corporate debt securities	15% - 50%
Shares that form part of a major stock index	50%
Financial instruments not covered above for which there is a liquid market as defined in article 2(1)(17) of *MiFIR* or article 2(1)(17) of *EU MiFIR*	55%

7.4.14 G For the purposes of applying *CRYPTOPRU* 7.4.11R and *CRYPTOPRU* 7.4.12G to shares or units in a *CIU*:

(1) where a *firm* is aware of the exposures underlying the *CIU*, it may look through to the underlying exposures to assign an appropriate haircut;

(2) where a *firm* is not aware of the exposures underlying the *CIU*, it should assume that the *CIU* invests, up to the maximum amount allowed under its mandate, in the highest risk assets permissible; and

(3) in either case, a *firm* should consider applying an additional haircut to reflect any additional loss of value that could result from the underlying exposures being held through a *CIU*.

Additional provisions on systems and procedures on the issuer liquid assets requirement

7.4.15 G A *qualifying stablecoin issuer* subject to the *issuer liquid assets requirement* should also refer to the *rules* and *guidance* on systems and procedures to identify, measure and manage risks in relation to its *expanded backing assets* in *CASS* 16.2.16R to *CASS* 16.2.24R.

Notification of liquid assets falling below the liquid assets threshold requirement

7.4.16 G (1) *SUP* 15.3.1R(1) sets out the *firm's* obligation to notify the *FCA* as soon as it becomes aware that the *firm* is failing to meet one or more of the threshold conditions, or may fail to do so in the foreseeable future.

(2) To satisfy this obligation in *SUP* 15.3, the *FCA* expects a *firm* to provide immediate notification if its *own funds* fall below the level of its *own funds threshold requirement.*

(3) The *FCA* expects such a notification to include the following information:

(a) a clear statement of the current level of the *firm's own funds* in comparison to its *own funds liquid assets threshold requirement*;

(b) an explanation of why the *firm's liquid assets* have reached the current level; and

(c) the recovery actions required by *CRYPTOPRU* 7.2.3R(2)(b) that the *firm* has already taken or will take to restore compliance with its *liquid assets threshold requirement*.

7.5 Overall risk assessment: review and document

Overall risk assessment document: content

7.5.1 R When documenting its *overall risk assessment* under *COREPRU* 7.2.9R, a *firm* must include the following in its *overall risk assessment document*:

(1) an overview of the business model assessment and capital and liquidity planning undertaken by the *firm* under *CRYPTOPRU* 7.2.1R;

(2) a summary of the risks identified by the *firm* under *COREPRU* 7.2.1R that may cause material harm and any steps taken to mitigate them;

(3) an analysis of the effectiveness of the *firm's* systems and controls to identify, monitor and, if proportionate, reduce all risks that may cause material harm;

(4) an explanation of how the *firm* is complying with the *overall financial adequacy rule*, including a breakdown of the following as at the review date:

(a) available *own funds*;

(b) available *liquid assets*; and

(c) the *firm's* assessment of its *threshold requirements*;

(5) a summary of any stress testing carried out by the *firm*;

(6) the levels of *own funds* and *liquid assets* that, if reached, the *firm* has identified under *CRYPTOPRU* 7.2.3R(1) may indicate that there is a credible risk that the *firm* will breach its *threshold requirements*;

(7) the potential recovery actions that the *firm* has identified under *CRYPTOPRU* 7.2.3R(2) and *CRYPTOPRU* 7.2.4G; and

(8) an overview of the *firm's* wind-down planning under *COREPRU* 7.2.1R and *CRYPTOPRU* 7.2.5G.

Senior management responsibility for the firm's overall risk assessment

7.5.2 R (1) The content of the *overall risk assessment document* must be reviewed and approved by the *firm's governing body* within a reasonable period after the review under *COREPRU* 7.2.8R has been completed.

(2) As part of its review under (1), the *governing body* must specifically review and approve the key assumptions underlying the overall risk assessment.

7.5.3 G (1) Under *COCON* 2.2.2R, *senior conduct rules staff members* must take reasonable steps to ensure that the business of the *firm* for which they

are responsible complies with the relevant requirements and standards of the *regulatory system*.

(2) In particular, *COCON* 4.2.12G explains that *senior conduct rules staff members* should take reasonable steps to ensure that the business for which they are responsible:

(a) has operating procedures and systems with well-defined steps for complying with the detail of relevant requirements and standards of the *regulatory system*; and

(b) is run prudently.

(3) The *FCA* considers that the *overall risk assessment* is a key requirement of the *regulatory system* for *firms* subject to *CRYPTOPRU* 7 and is an essential part of a *firm's* internal systems and procedures for ensuring that the *firm's* business is run prudently. Accordingly, *senior conduct rules staff members* should take an active role in contributing to the analysis required under the *overall risk assessment* in respect of the business areas for which they are responsible and in embedding its requirements into those business areas.

(4) *Firms* and *senior conduct rules staff members* should refer to *COCON*, and in particular the *guidance* in *COCON* 3 and *COCON* 4, for further information on the *FCA's* general approach to assessing compliance with the relevant conduct rules.

7.6 Overall risk assessment: firms forming part of a group

Purpose

7.6.1 R The purpose of this section is to ensure that:

(1) a *firm* adequately considers the risks of group membership;

(2) a *firm* has adequate financial resources on an individual basis in light of the risk of its group membership; and

(3) a *firm's* membership of a group does not impede its ability to wind down individually without causing material harm.

Meaning of 'group'

7.6.2 R For the purposes of this section, group includes any entity to which a *firm* is linked by a material level of shared ownership or control.

Analysis of group risks by individual firms

7.6.3 R Where a *firm* is a part of a group, the *firm's overall risk assessment* must take into account any risks that may cause material harm and which are a result of

the *firm's* relationship with other members of that group or the group as a whole ('group risks').

7.6.4 G The requirement in *CRYPTOPRU* 7.6.3R applies in relation to any relationship that the *firm* has with any member of that group, irrespective of whether the other entity is an *authorised person* or where it is located.

Identifying and monitoring group risks

7.6.5 R A *firm* must identify and monitor any group risks that may cause material harm, including:

(1) direct financial exposures to another group member, such as:

(a) trading activity between the *firm* and another group member;

(b) intra-group lending arrangements and other group treasury activity; and

(c) any guarantees provided by the *firm* for the benefit of another group member;

(2) indirect financial exposures to another group member, such as:

(a) reliance on another group member for revenue generation;

(b) reliance on another group member for services or functions; and

(c) expectations that the *firm* will provide financial resources to meet financial liabilities incurred by another group member, even if these expectations are not legally enforceable;

(3) risks that may result from other aspects of group membership, such as:

(a) shared reputation;

(b) shared *clients*; and

(c) shared policies or control frameworks.

Mitigating group risks

7.6.6 R Where proportionate, a *firm* must reduce any group risks that may cause material harm, including by:

(1) assuring itself of the non-financial resources (for example, control frameworks and back-office functions) of relevant group members;

(2) assuring itself of the financial resources and financial resilience of relevant group members; and

(3) ensuring sufficiently independent decision making by the *firm*, so that the interests of the other group members are not prioritised by the *firm* over the interests of the *firm* itself and its *clients*.

Holding financial resources in the absence of other mitigants for group risks

7.6.7 R If any risk that may cause material harm remains after a *firm* has complied with *CRYPTOPRU* 7.6.5R, the *firm* must assess whether to hold *own funds* or *liquid assets* to mitigate risks that may cause that material harm.

7.6.8 G For example, if a *firm* identifies that it relies on functions performed by another group member which is not backed by adequate financial resources, the *firm* may hold *own funds* and *liquid assets* to ensure that, in the event of failure of the relevant group member, it has the resources to procure the relevant functions.

Assessment of risk at group level

7.6.9 G Where two or more *CRYPTOPRU firms* are members of the same group, each *firm* should document its *overall risk assessment* on an individual basis in accordance with *CRYPTOPRU* 7.5.1R.

8 Sectoral prudential disclosure requirements for CRYPTOPRU firms

8.1 Application

8.1.1 R (1) This chapter applies to a *CRYPTOPRU firm* that meets the condition in (2).

(2) The condition in (1) is that on the *firm's accounting reference date* its *own funds requirement* (determined in accordance with *COREPRU* 4.1.2R) is equal to the *fixed overheads requirement* or the *K-factor requirement*.

8.1.2 G The effect of *CRYPTOPRU* 8.1.1R is that the disclosure requirements in this chapter do not apply to a *CRYPTOPRU firm* where, on the *firm's accounting reference date*, its *own funds requirement* (determined in accordance with *COREPRU* 4.1.2R) is the *permanent minimum capital requirement*.

Application: proportionality

8.1.3 R In complying with this chapter, a *firm* must provide a level of detail in its qualitative disclosures that is appropriate to its size and internal organisation, and to the nature, scope and complexity of its activities.

Application: when?

8.1.4 R As a minimum, a *firm* must publicly disclose the information specified in this chapter annually:

(1) on the date it publishes its *annual financial statements*; or

(2) where it does not publish *annual financial statements*, on the date it submits its confirmation statement to Companies House under the Companies Act 2006.

8.1.5 G The *FCA* considers it would be appropriate for a *firm* to consider making more frequent public disclosure where particular circumstances demand it – for example, in the event of a major change to its business model or where a merger has taken place.

Application: how?

8.1.6 R A *firm* must publish the information required by this chapter in a manner that:

(1) is easily accessible and free to obtain;

(2) is clearly presented and easy to understand;

(3) is consistent with the presentation used for previous disclosure periods or otherwise allows a reader of the information to make comparisons easily; and

(4) highlights in a summary any significant changes to the information disclosed, when compared with previous disclosure periods.

8.1.7 G In complying with the disclosure requirements in *CRYPTOPRU* 8, a *firm* should consider the best way to make the disclosed information easy to understand – for example, by using:

(1) tables, charts or diagrams, or cross-references to other information, where relevant; or

(2) the template available at *CRYPTOPRU* 8 Annex 1.

8.1.8 R A *firm* is not required to comply with *CRYPTOPRU* 8.1.6R to the extent that compliance would breach the law of another jurisdiction.

8.1.9 E Making the disclosures required by this chapter available on a website will tend to establish compliance with the *rule* in *CRYPTOPRU* 8.1.6R(1).

8.1.10 G While the *FCA's* expectation is that a *firm* will use a website for the purpose of complying with *CRYPTOPRU* 8.1.6R, if a *firm* does not maintain a website, or cannot use a website to publish some or all of the information required without breaching the law of another jurisdiction, it must nonetheless ensure that the alternative method of disclosure used complies with the overarching requirement in *CRYPTOPRU* 8.1.6R(1).

8.2 Risk management

8.2.1 R A *firm* must disclose:

(1) a concise statement approved by the *firm's governing body* describing any risks associated with the business strategy that may cause material harm; and

(2) a summary of the strategies and processes used to manage the risks in (1).

8.2.2 G The *FCA* would expect a *firm* to use information from its *overall risk assessment* to provide the disclosures in *CRYPTOPRU* 8.2.1R.

8.3 Own funds

8.3.1 R (1) Subject to (2), a *firm* must disclose the following information regarding its *own funds*:

(a) the composition of its *own funds*, listing each of the following:

(i) *common equity tier 1 items*, *additional tier 1 items*, and *tier 2 items*;

(ii) all regulatory adjustments, filters and deductions applied; and

(iii) the resulting total for each tier of capital;

(b) a reconciliation showing how each item in (a) corresponds to specific line items in the balance sheet in the *firm's* audited financial statements; and

(c) a description of the main features of the *common equity tier 1 instruments*, *additional tier 1 instruments* and *tier 2 instruments* issued by the *firm*.

(2) A *firm* that is not required to publish *annual financial statements* is only required to disclose the information specified at (1)(a) and (c).

8.4 Own funds requirements

8.4.1 R A *firm* must disclose the following information regarding its compliance with *COREPRU* 4.1 (Own funds requirement) and *CRYPTOPRU* 4 (Sectoral own funds requirement for CRYPTOPRU firms):

(1) the *permanent minimum capital requirement*;

(2) the *K-factor requirement* broken down as follows:

(a) the sum of:

(i) the *K-CTF requirement*;

(ii) the *K-CCO requirement*;

(iii) the *K-CCS requirement*;

(iv) the *K-CON requirement*;

(v) the *K-RCS requirement*; and

(vi) the *K-SII requirement*;

(b) the *K-CCD requirement* broken down by type of counterparty as set out in *CRYPTOPRU* 4.10.12R;

(c) the *K-NCP requirement*; and

(3) the *fixed overheads requirement*.

8.5 Firms forming part of a group

Purpose

8.5.1 G This section contains:

(1) a *rule* on the general information a *firm* must disclose where it is a member of a group; and

(2) *rules* and *guidance* on the detailed financial information a *firm* must provide in relation to its ultimate *parent undertaking* ('A'), the content of which depends on whether the *firm* has *Part 4A permission* to carry on *dealing in qualifying cryptoassets as principal* or not.

Meaning of 'group' and 'A'

8.5.2 R For the purposes of this section:

(1) group has the meaning in *CRYPTOPRU* 7.6.2R;

(2) 'A' means the *firm's* ultimate *parent undertaking*, irrespective of whether it is located in the *UK*.

General group disclosures

8.5.3 R Where a *firm* is part of a group, the *firm* must disclose:

(1) any direct activity financial exposures the *firm* has to other group members, such as:

(a) trading between the *firm* and other group members;

(b) intra-group lending arrangements and other group treasury activity; and

(c) any guarantees provided by the *firm* for the benefit of other group members;

(2) any indirect financial exposures the *firm* has to other group members, such as:

(a) reliance on other group members for revenue generation; and

(b) expectations that the *firm* will upstream cash or dividends to meet financial liabilities incurred by other group members, even if these expectations are not legally enforceable; and

(3) the name, the jurisdiction of incorporation and the principal place of business of A and any intermediate *parent undertakings* between the *firm* and A.

Financial information about the firm's ultimate parent undertaking

8.5.4 R Where a *firm* does not have *Part 4A permission* to carry on the activity of *dealing in qualifying cryptoassets as principal*, the *firm* must disclose the following financial information in relation to A:

(1) total assets;

(2) any investment in group undertakings;

(3) goodwill;

(4) other intangible assets; and

(5) equity items (or equivalent capital/members' interests).

8.5.5 R Where a *firm* has *Part 4A permission* to carry on the activity of *dealing in qualifying cryptoassets as principal*, the *firm* must disclose the following financial information in relation to A:

(1) A's complete statement of financial position (balance sheet), including all line items as reported and the related notes, prepared:

(a) where A is required to prepare accounts in the *UK*, in accordance with the *UK* accounting framework applicable to A; or

(b) where A prepares accounts under another jurisdiction's accounting framework (but it is not required to prepare accounts in the *UK*), in accordance with that jurisdiction's accounting framework, provided they give a true and fair view of A's financial position; or

(c) where A is not required to prepare accounts in any jurisdiction, on a basis consistent with the accounting framework applied by the *firm* or, where this is not practicable, on another reasonable and consistent basis; and

(2) A's encumbered and unencumbered assets.

8.5.6 G Where a *firm* discloses information under *CRYPTOPRU* 8.5.5R, the *FCA* considers it good practice for the *firm*:

(1) where A falls within *CRYPTOPRU* 8.5.5R(1)(c), to provide management information that presents all assets, liabilities and equity items in a balance sheet format that gives a fair view of A's financial position;

(2) where A has a different corporate form (for example, it is a limited liability partnership, a partnership or an unincorporated entity), to adapt the financial information to reflect the relevant corporate structure while ensuring that all assets, liabilities and equity/capital accounts are disclosed;

(3) where local accounting standards differ materially from *UK-adopted international accounting standards*, to provide reconciling items or explanatory notes to aid understanding of material differences; and

(4) when disclosing encumbered and unencumbered assets under *CRYPTOPRU* 8.5.5R(2), to explain whether assets are pledged as security or collateral, or subject to some other legal restriction (for example, due to regulatory or contractual requirements) that affects the *firm's* ability to liquidate, sell, transfer, or assign the asset.

Compliance using a firm's website

8.5.7 G Where A is required to publish financial accounts in its country of incorporation that contain all the information required by *CRYPTOPRU* 8.5.4R or *CRYPTOPRU* 8.6.5R, a *firm* can demonstrate compliance with those disclosure requirements by providing a direct link to such accounts on its website.

8 Annex 1 Disclosure template for information required under CRYPTOPRU 8

8 Annex 1 G This annex consists of a template which can be found at the following link: [*Editor's note*: insert link].

Disclosure template for information required under CRYPTOPRU 8

This template is provided for the disclosure of the information under CRYPTOPRU 8. A firm is not required to use it. However, we are providing this template to make it easier for firms to demonstrate compliance with CRYPTOPRU 8.1.6R. The note below each template heading indicates which firms it applies to.

Template RM1 – Risk management

This template can be used by all CRYPTOPRU firms to which the disclosure requirements in CRYPTOPRU 8 apply. This template refers to the disclosures on risk management in CRYPTOPRU 8.2. How to complete this template: Provide free text disclosure under each item below. There is no prescribed format.	
Item	**Disclosure**
(1)	A concise statement approved by the firm's governing body describing any risks associated with the business strategy that may cause material harm.
(2)	A summary of the strategies and processes used to manage the risks identified in item (1).

Template OF1 – Own funds

This template can be used by all CRYPTOPRU firms to which the disclosure requirements in CRYPTOPRU 8 apply.

This template refers to the disclosures on own funds in CRYPTOPRU 8.3.

How to complete this template: This template has 3 sections corresponding to the 3 disclosure requirements in CRYPTOPRU 8.3.1R(1). Firms should complete only the rows that are relevant to their own funds structure and leave other rows blank.

Note for firms completing this template: 'Annual financial statements' means audited financial statements where the firm is required to be audited, or formally prepared annual financial statements where the firm is exempt from audit under the Companies Act 2006.

	Item	**Amount (GBP thousands)**	**Source reference in annual financial statements**
Section A – Composition of own funds			
Common equity tier 1 (CET1) capital			
1	Fully paid-up capital instruments		
2	Share premium		
3	Retained earnings		
4	Interim or year-end profits		
5	Accumulated other comprehensive income (AOCI)		
6	Other reserves		
LESS – Deductions from CET1 capital			
7	(-) Losses for the current financial year		
8	(-) Intangible assets (including goodwill)		
9	(-) Deferred tax assets that rely on future profitability		
10	(-) Defined benefit pension fund assets		
11	(-) Own CET1 instruments (direct, indirect and synthetic holdings)		

12	(-) Reciprocal cross-holdings in CET1 or comparable instruments		
13	(-) Holdings in CET1 instruments of financial sector entities which are not held in the trading book (direct, indirect and synthetic holdings)		
14	(-) Excess deductions from AT1 capital		
15	(-) Foreseeable tax charges relating to CET1 items		
16	(-) Qualifying holdings outside the financial sector		
17	(-) Excess withdrawals (for partnerships and LLPs only)		
18	(-) Holdings of qualifying cryptoassets issued by, or the supply of which is controlled by, the firm or a connected entity (direct, indirect and synthetic holdings)		
ADJUSTED FOR – Prudential filters			
19	(+/-) Cash flow hedges		
20	(+/-) Additional valuation adjustments (AVA) for the trading book		
20A	(+/-) Other CET1 deductions and adjustments [please specify]		
20B	**Total CET1 capital**		
Additional tier 1 (AT1) capital			
21	AT1 capital instruments		
22	Share premium accounts related to AT1 instruments		
LESS – Deductions from AT1 capital			
23	(-) Own AT1 instruments (direct, indirect and synthetic holdings)		
24	(-) Reciprocal cross-holdings in AT1 instruments		

25	(-) Holdings in AT1 instruments of financial sector entities which are not held in the trading book (direct, indirect and synthetic holdings)		
26	(-) Excess deductions from tier 2 capital		
27	(-) Foreseeable tax charges relating to AT1 items		
27A	(+/-) Other AT1 deductions and adjustments [please specify]		
27B	**Total AT1 capital**		
Tier 2 capital			
28	Tier 2 instruments		
29	Share premium accounts related to tier 2 instruments		
LESS – Deductions from tier 2 capital			
30	(-) Own tier 2 instruments (direct, indirect and synthetic holdings)		
31	(-) Reciprocal cross-holdings in tier 2 instruments		
32	(-) Holdings in tier 2 instruments of financial sector entities which are not held in the trading book (direct, indirect and synthetic holdings)		
32A	(+/-) Other tier 2 deductions and adjustments [please specify]		
32B	**Total tier 2 capital**		
32C	**TOTAL OWN FUNDS**		

Section B – Reconciliation of regulatory own funds to balance sheet

How to complete this section: Use one row for each line item in your balance sheet. Column (a) shows the balance sheet value from your annual financial statements. Column (b) should show the Section A row number that corresponds to that balance sheet item, where applicable – for example, the Section A row number for ‘retained earnings’ should be entered against the retained earnings line on your balance sheet, and the Section A deduction row number for ‘intangible assets’ should be entered against the goodwill and intangibles line on your balance

sheet. Most asset and liability rows will not have a Section A counterpart and column (b) should be left blank for those rows. Enter amounts in thousands of GBP unless noted otherwise.			
		a	b
		Balance sheet as in published financial statements	Cross reference to Section A of template OF1
Assets – Breakdown by asset classes according to the balance sheet in the annual financial statements.			
1			
2			
3			
4			
xxx	**Total assets**		
Liabilities – Breakdown by liability classes according to the balance sheet in the annual financial statements.			
1			
2			
3			
4			
xxx	**Total liabilities**		

Shareholders' equity			
1			
2			
3			
xxx	**Total shareholders' equity**		

Section C – Main features of own funds instruments issued by the firm

How to complete this section: Describe the main features of each common equity tier 1 instrument, additional tier 1 instrument and tier 2 instrument issued by the firm. For each instrument, the description must include:

(1) the type of instrument (common equity tier 1, additional tier 1 or tier 2);

(2) the amount outstanding;

(3) the applicable accounting treatment;

(4) whether the instrument is permanent (with no maturity date) or has a fixed maturity date; and

(5) any other significant features of the instrument (for example, loss absorption mechanisms, ranking in insolvency, and distribution rights).

Firms may provide this information in a table or in free text.

Template OFR1 – Own funds requirements

This template can be used by all CRYPTOPRU firms to which the disclosure requirements in CRYPTOPRU 8 apply.

This template refers to the disclosures on own funds requirements in CRYPTOPRU 8.4.

How to complete this template: Enter the amounts in thousands of GBP. Enter the K-CCD requirement broken down by each counterparty type as specified in CRYPTOPRU 4.10.12R.

	Item	**Amount (GBP thousands)**
1	**Permanent minimum requirement (PMR)**	

K-factor requirement		
2A	The sum of: i. the K-CTF requirement; ii. the K-CCO requirement; iii. the K-CCS requirement; iv. the K-CON requirement; v. the K-RCS requirement; and vi. the K-SII requirement.	
2B	The K-CCD requirement broken down by type of counterparty	
2C	The K-NCP requirement	
2	**Total K-factor requirement**	
3	**Fixed overheads requirement (FOR)**	

Template GG1 – General group disclosures

This template can be used by all CRYPTOPRU firms to which the disclosure requirements in CRYPTOPRU 8 apply.

This template refers to the disclosures on group arrangements required under CRYPTOPRU 8.5. The amounts disclosed in section 1 should be given as at the firm's financial year-end.

1. Direct financial exposures the firm has to other group members:

	Item	**Amount (GBP thousands)**
a	Trading activity between the firm and other group members (Note for firms: This refers to outstanding trading positions with other group members as at the firm's financial year-end.)	
b	Intra-group lending arrangements and other group treasury activity	
c	Any guarantees provided by the firm for the benefit of other group members	

2. Indirect financial exposures the firm has to other group members

	Item	**Description**
a	Reliance on other group members for revenue generation	[Free text – provide the details of the firm's reliance on other group members for

		revenue generation, including the activities or arrangements giving rise to that reliance.]
b	Expectations that the firm will upstream cash or dividends to meet financial liabilities incurred by other group members, even if these expectations are not legally enforceable	[Free text – provide the details of any such expectations, including the circumstances in which they arise and whether any formal or informal arrangements underpin them.]

3. Details of the firm's ultimate parent undertaking ('A') and the intermediate parent undertakings between the firm and A

Note for firms: CRYPTOPRU 8.5.2R (2) defines 'A' as the firm's ultimate parent undertaking, irrespective of whether it is located in the UK.

	Item	**Description**
a	The name of the firm's ultimate parent undertaking 'A'	
b	The jurisdiction of incorporation of the firm's ultimate parent undertaking 'A'	
c	The principal place of business of the firm's ultimate parent undertaking 'A'	
d	The name, jurisdiction of incorporation and principal place of business of any intermediate parent undertakings between the firm and the firm's ultimate parent undertaking 'A'. Where there is more than one intermediate parent undertaking, each should be listed separately.	

4. Financial information about the firm's ultimate parent undertaking 'A' (applies to a firm that does not have Part 4A permission to carry on the activity of dealing in qualifying cryptoassets as principal)

	Item	**Amount (GBP thousands)**
a	Total assets	
b	Any investment in group undertakings	

c	Goodwill	
d	Other intangible assets	
e	Equity items (or equivalent capital/members' interests)	

Template FI-A – Financial information in relation to A (for a firm with Part 4A permission to carry on dealing in qualifying cryptoassets as principal)		
1. A's complete statement of financial position How to complete this item: Firms must either: (i) append A's complete statement of financial position (balance sheet), including all line items as reported and the related notes, directly to this disclosure; or (ii) where CRYPTOPRU 8.5.7G applies (A is required to publish accounts that contain all the required information), provide a direct link to those published accounts. The statement must be prepared on one of the following bases (indicate which applies):		
	a. Where A is required to prepare accounts in the UK, in accordance with the UK accounting framework applicable to A; or b. Where A prepares accounts under another jurisdiction's accounting framework (but it is not required to prepare accounts in the UK), in accordance with that jurisdiction's accounting framework, provided they give a true and fair view of A's financial position; or c. Where A is not required to prepare accounts in any jurisdiction, on a basis consistent with the accounting framework applied by the firm or, where this is not practicable, on another reasonable and consistent basis.	
	Free text to provide the direct link to the published accounts of A where CRYPTOPRU 8.5.7G applies.	
2. A's encumbered and unencumbered assets		
	Free text to list A's encumbered and unencumbered assets.	

Sch 1 Record keeping requirements

Sch 1.1 G (1) There are no record keeping requirements in *CRYPTOPRU*.

(2) *CRYPTOPRU firms* are reminded of the general record keeping obligations that apply under *SYSC* 9 (Record keeping).

Sch 2 Notification requirements

Sch 2.1 G There are no notification requirements in *CRYPTOPRU*.

Sch 3 Fees and other payment requirements

Sch 3.1 G *CRYPTOPRU* does not contain any *rules* that directly impose fees or other payments.

Sch 4 Rights of action for damages

Sch 4.1 G (1) The table below sets out the *rules* in *CRYPTOPRU*, contravention of which by an *authorised person* may be actionable under section 138D of the *Act* (Actions for damages) by a *person* who suffers loss a result of the contravention.

(2) If 'Yes' appears in the column headed 'For private person?', the *rule* may be actionable by a *private person* under section 138D (or, in certain circumstances, that *person's* fiduciary or representative: see regulation 6(2) and 6(3)(c) of the Financial Services and Markets Act 2000 (Rights of Action) Regulations 2001 (SI 2001/2256)). If 'Yes' appears in the column headed 'Removed?', this indicates that the *FCA* has removed the right of action under section 138D(3) of the *Act*. If so, a reference to the *rule* in which the right of action is removed is also given.

(3) The column headed 'For other person?' indicates whether the *rule* may be actionable by a *person* other than a *private person* (or that *person's* fiduciary or representative) under article 6(2) and (3) of those Regulations. If so, an indication of the type of *person* by whom the *rule* may be actionable is given.

Chapter/Appendix	**Rights of action under section 138D of the *Act***		
	For private person?	**Removed?**	**For other person?**
All *rules* in *CRYPTOPRU*	No	Yes – *CRYPTOPRU* 1.2.1R	No

Sch 5 Rules that can be waived or modified

Sch 5.1 G The *rules* in *CRYPTOPRU* may be waived or modified by the *FCA* under section 138A of the *Act* (Modification or waiver of rules) where the conditions in that section are met.

Annex D

Amendments to the Prudential sourcebook for MiFID Investment Firms (MIFIDPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text.

3 Own funds

3.1A Application, purpose and interpretation

…

Mutual societies

3.1A.8 G …

Firms also subject to COREPRU

3.1A.9 R Where a *MIFIDPRU investment firm* is also a *COREPRU firm*, it must calculate its *own funds* in accordance with *COREPRU* 3 rather than this chapter.

…

4 Own funds requirements

…

4.5 Fixed overheads requirement

…

Firms that have been providing investment services and/or activities for less than one year

4.5.11 R …

Firms also subject to COREPRU

4.5.12 R Where a *MIFIDPRU investment firm* is also a *COREPRU firm*, it must calculate the *fixed overheads requirement* in accordance with *COREPRU* 4.3 rather than this section.

…

4.14 K-TCD requirement

…

Transactions to which K-TCD applies

…

4.14.5 R The K-*TCD requirement* does not apply to the following transactions ~~with the following counterparties~~:

(1) transactions with central governments and central banks, where the underlying exposures would receive a 0% risk weight under article 114 of the *UK CRR*;

(2) transactions with multilateral development banks listed in article 117(2) of the *UK CRR*; ~~or~~

(3) transactions with international organisations listed in article 118 of the *UK CRR*~~.~~; or

(4) transactions for which the *firm* calculates a *K-CCD requirement* under *CRYPTOPRU* 4.10.

…

Annex E

Amendments to the Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text.

4 Capital resources

…

4.2 Capital resources requirements

…

Capital resources requirement: firms carrying on regulated activities including designated investment business

4.2.5 R The capital resources requirement for a *firm* ~~(other than a *credit union*) carrying on *regulated activities*, including *designated investment business* and to which *IPRU(INV)* does not apply,~~ which is also a *MIFIDPRU investment firm* is the higher of:

(1) the requirement which is applied by this chapter according to the activity or activities of the *firm* (treating the relevant *rules* as applying to the *firm* by disregarding its *designated investment business*); and

(2) the financial resources requirement which is applied by the Prudential sourcebook for MiFID Investment Firms (*MIFIDPRU*).

4.2.5A G …

4.2.5B G A *firm* that is also a *COREPRU firm* is required to comply with *COREPRU* in addition to *MIPRU* 4.

…

4.4 Calculation of capital resources

The calculation of a firm's capital resources

4.4.1 R (1) …

(2) If the *firm* is subject to the Prudential sourcebook for MiFID Investment Firms (*MIFIDPRU*) or the Interim Prudential sourcebook for investment businesses (~~*IPRU(INV)*~~ *IPRU-INV*), the capital resources are the higher of:

…

Annex F

Amendments to the Interim Prudential sourcebook for Investment Businesses (IPRU-INV)

In this Annex, underlining indicates new text and striking through indicates deleted text.

1 Application and General Provisions

…

1.2 Application

…

1.2.2 R …

(2) *IPRU-INV* does not apply to:

…

(c) a *MIFIDPRU investment firm* (unless it is a *collective portfolio management investment firm*)~~.~~; or

(ca) a *COREPRU firm*.

…

…

…

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