Response to FCA CP25/25 - Consultation Chapters 1-5
Application of FCA Handbook for Regulated Cryptoasset Activities

(November 2025)

About Innovate Finance

Innovate Finance is the independent industry body that represents and advances the global FinTech community in the UK. Our mission is to accelerate the UK's leading role in the financial services sector by directly supporting the next generation of technology-led innovators.

Our membership base is diverse across FinTech and financial services including but not limited to challenger banks, payments firms, electronic money institutions, consumer credit providers, credit information providers, alternative credit rating agencies, wallet providers, personal finance apps, RegTech firms and digital asset firms.

The Digital Pound Foundation

The Digital Pound Foundation (DPF), an Innovate Finance programme since completing a merger in February 2025, is dedicated to advancing the UK as a leading global centre for development and adoption of new forms of digital money, including stablecoins, central bank digital currencies (CBDC) and tokenised deposits. It is a member-led forum supporting a diverse, effective and competitive ecosystem for new forms of digital money in the UK and globally and the development of a legal, regulatory and political landscape that enables the UK to embrace opportunities to become a leader in the FinTech space.

The DPF's members include a wide range of firms interested in digital assets, digital money and payments including blockchain applications, payment systems and services, global stablecoin services, GBP stablecoin issuers, challenger banks and advisory firms.

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Overview of response

As a general principle we understand and support the approach taken by the FCA to apply existing non-sector-based rules to cryptoassets.

The drafting of the rules has clearly been approached in line with this objective, with particular details or exemptions acknowledging the specificities of the cryptoasset sector and its underlying business models.

For existing FCA-regulated firms this will be an incremental rather than a fundamental change. For crypto-native firms the sector-specific guidance is welcome given for some it is the start of their regulated journey.

Operational resilience is a key area where our member firms would like further clarification, for example a greater level of detail demonstrating the expected best practice across sound operational risk management practices, and updates to the guidance on matters such as how far into the ecosystem companies need to go in terms of their risk mapping.

In relation to the Senior Managers and Certification Regime, the FCA is currently undertaking a review with proposals to streamline application and introduce a more proportionate framework. Whilst this review is underway, the existing SMCR requirements should not be applied to cryptoasset firms; it will be inappropriate to require compliance costs and processes associated with a burdensome set of requirements that are then reformed soon afterwards. Application to cryptoasset firms should be at the point new streamlined rules are introduced.

At this point it will also be necessary to consider where the regime should apply to components of the value chain for stablecoins given SMCR is not currently extended to payments and e-money firms. As we have stated before in relation to proposals to extend SMCR to firms regulated under the E-Money and Payment Services Regulations 2017, we are concerned that blanket application of the SMCR to the entire payments sector could risk removing some of the competitive advantages that firms in this sector enjoy against larger incumbents such as banks, particularly innovative market entrants. Any policy proposals in this area should take into account these risks and should align with the Government's stated aims of continuing to grow the FinTech sector and stripping away

burdensome regulations. In the context of CP 25/25 proposals, FCA should make clear that payments services utilising stablecoins are out of scope of SMCR.

When introducing categorisation of enhanced cryptoasset firms it may be premature to determine the most appropriate levels. Once SMCR applies then enhanced levels will need to take into account both market developments and alignments with criteria set for traditional financial firms.

Consultation questions

Scope

Question 1: Do you agree that new cryptoasset activities defined in the SI (and as described as 'qualifying cryptoasset activities' in draft FCA Handbook rules) should fall under the category of 'designated investment business' for the purposes of applying relevant sections of the Handbook?

This should be reviewed and proportionate depending on the nature of the business conducted ranging from more investment-focused activities (making deals / trades) through to payment-related activities (such as components in the stablecoin value chain). Stablecoin issuance and distribution should not be treated as designated investment business. Other tokenised assets and cryptoasset services should be treated according to the specific nature of the related activity.

High level standards and Supervision

Question 2: Do you agree with our proposal for applying High Level Standards to cryptoasset firms in a similar way they apply to traditional finance?

Yes, subject to the specificities of cryptoassets as identified in the consultation

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Question 3: Do you agree with our proposed application of the existing SUP rules (except SUP 16) to cryptoasset firms?

Yes, subject to the specificities of cryptoassets as identified in the consultation

System and Controls

General Standards and Governance

Question 4: Do you agree with our proposal to require cryptoasset firms to follow the existing requirements in SYSC 1, 4 – 7, 9 – 10, and 18 in a similar way to existing FCA-regulated firms (or existing DIBs)?

Yes, subject to the specificities of cryptoassets as identified in the consultation

Senior Managers & Certification Regime

Question 5: Do you agree with our proposal to apply the existing SM&CR regime to cryptoasset firms, taking into account various parallel consultations on the broader SM&CR regime to ensure consistency? If not, please explain why.

As a general principle we understand and support the ambitions of the SM&CR regime to create accountability, clarify responsibilities, and encourage positive conduct.

However, the FCA is currently undertaking a review with proposals to streamline application and introduce a more proportionate framework. Whilst this review is underway, the existing SMCR requirements should not be applied to cryptoasset firms; it will be inappropriate to require compliance costs and processes associated with a burdensome set of requirements that are then reformed soon afterwards. Application to cryptoasset firms should be at the point new streamlined rules are introduced.

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the E-Money and Payment Services Regulations 2017, we are concerned that blanket application of the SMCR to the entire payments sector could risk removing some of the competitive advantages that firms in this sector enjoy against larger incumbents such as banks, particularly innovative market entrants. Any policy proposals in this area should take into account these risks and should align with the Government's stated aims of continuing to grow the FinTech sector and stripping away burdensome regulations. In the context of CP 25/25 proposals, FCA should make clear that payments services utilising stablecoins are out of scope of SMCR.

Question 6: Do you agree with the proposed categorisation for enhanced cryptoasset firms, such as the threshold for allowing cryptoasset custodian firms to qualify as enhanced? Should we consider other ways to categorise cryptoassets firms as enhanced?

Given the current state of the market it may be premature to determine the most appropriate categorisation for enhanced cryptoasset firms at this juncture. It should be noted that the criteria for traditional financial firms is likely to be increased from at least £50 billion assets under management to £65 billion, suggesting categorisation for enhanced cryptoasset firms is another element of the regime which should be deferred until future SM&CR rules are clear.

Operational resilience

Question 7: Do you agree with our proposal to extend the application of SYSC 15A to cover all cryptoasset firms, including FSMA-authorised firms carrying out qualifying cryptoasset activities? If not, please explain why.

Yes, subject to the specificities of cryptoassets as identified in the consultation.

Question 8: Do you agree with our proposal that the use of permissionless DLTs by cryptoasset firms should not be treated as an outsourcing arrangement? If not, please explain why.

Yes we agree. In the same way that financial services that rely on internet infrastructure to conduct their business and interact with customers via their computers or apps do not treat this as an outsourcing arrangement. They cannot take responsibility for the functioning (or failure thereof) of the world wide web neither for the country's energy supply networks, but firms can responsibly

undertake due diligence to consider the risks, threats and vulnerabilities of the third parties they rely through mapping and testing, through appropriate mitigation planning and preparing their response and recover actions for the event that additional complications occur. Further guidance on the nature of these assessments, and level of details required, would be appreciated by our member firms (see answer to Q10).

Financial Crime

Question 9: Do you agree with our proposal to require cryptoasset firms to follow the same financial crime framework as FS

Yes, subject to the specificities of cryptoassets as identified in the consultation

Guidance on cryptoasset-specific operational resilience

Question 10: Do you agree with the guidance set out in this document, and can you outline any areas where you think our approach could be clearer or better tailored to the specific risks and business models in the cryptoasset sector?

Further detail is needed within the key focus areas identified for sound operational risk management practices (in section 4.6 of the consultation paper). Currently these expectations remain very high-level, to the extent they do not provide sufficient guidance to demonstrate best practice for UK firms, and leave a lot of scope for debates at a supervisory level.

It would also be helpful to have further clarification on how far into the ecosystem companies need to go in terms of their risk mapping (see also answer to Q8), and any further clarity would be welcome on how companies are expected to mitigate or react to an issue occurring within an element of infrastructure for which they are not responsible.

It is also difficult to see from the current guidance how firms should interact with secondary market tracing and cross-border operations.

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Question 11: Are there any emerging digital and cyber security industry practices or measures which we should consider when supporting cryptoasset firms complying with operational resilience and related requirements? Please elaborate.

No response

Business standards

Environmental, Social and Governance (ESG)

Question 12: Do you agree with our proposal to apply the ESG Sourcebook to cryptoasset firms?

Yes