The British Blockchain Association

The British Blockchain Association®
Advocating Evidence Based Blockchain

The BBA CLG Ltd, Kemp House
124 City Road
London, EC1V 2NX, UK

30 January 2026

Financial Conduct Authority
Crypto Policy
Payments & Digital Assets Division
12 Endeavour Square
London, E20 1JN

Submitted via email to: **cp25-40@fca.org.uk**

BBA's Response to Financial Conduct Authority's Consultation Paper CP25/40: Regulating Cryptoasset Activities

Consent to publication: The British Blockchain Association (BBA) consents to publication of our name as a respondent. We are responding as an organisation and do not request confidential treatment for this submission.

How this response was developed

This submission draws on consolidated input from BBA members and industry stakeholders, including cryptoasset issuers, crypto banks, exchanges, custodians, payments and fintech firms, legal and compliance practitioners, and academic specialists. The BBA often weighs in on UK and international consultations, engaging with stakeholders on regulatory design, how practical it is to implement, and its impact on the market. Where it makes sense, we reference positions from our earlier responses (including to FCA consultations) to promote consistency and avoid unnecessary differences across UK frameworks.

About the British Blockchain Association:

The British Blockchain Association (BBA) is the UK's longest established blockchain industry body (est. 2017), advancing evidence-based adoption of Blockchain, digital assets, and Distributed Ledger Technologies (DLT). We work closely with policymakers, regulators, financial institutions, technology providers, academics, and market infrastructure stakeholders to support evidence-led adoption of blockchain and digital assets in the UK. From contributing to the HMT, BoE and FCA's first Cryptoasset Task Force in May 2018, BBA has regularly responded to public consultations on blockchain and digital assets, including our comprehensive response to FCA's Crypto Consultation DP25/1 in 2025: https://britishblockchainassociation.org/wp-content/uploads/2025/06/FCA-DP-Cryptoassets-2025-BBA-1-2.pdf

The BBA CLG Ltd, Kemp House
124 City Road
London, EC1V 2NX, UK

The BBA has advisors, ambassadors, members, partners, and an editorial board network in 78 countries across six continents. In 2021, we authored the UK's National Blockchain Roadmap. We're home to the world's first peer-reviewed blockchain research journal, The JBBA - Journal of The British Blockchain Association; the world's first Centre for Evidence-Based Blockchain (CEBB); the world's first trans-national collaboration consortium of 53 countries - BAF - The Blockchain Associations Forum, as well as BBA Fellowships (FBBA), Blockchain International Scientific Conferences (ISCs), and many other leading blockchain initiatives. BBA also has its headquarters in the Metaverse. In 2022, our president became the first person in the world to receive a UK National Honour (King's Honour, MBE) for services to Blockchain and Digital Asset Technologies. The BBA serves as the Secretariat of the UK's All-Party Parliamentary Group (APPG) on Blockchain Technologies.

1. Introduction

This submission addresses FCA Consultation Paper CP25/40: Regulating cryptoasset activities (first published 16 December 2025; consultation closes 12 February 2026). The BBA gathered input from industry participants, researchers, legal and compliance practitioners, and academics to create this evidence-based response. Our emphasis is on practical steps that enhance consumer outcomes and market integrity, all while fostering effective competition and bolstering the UK's long-term competitiveness.

CP25/40 outlines rules and guidance for firms involved in newly regulated cryptoasset activities, such as operating a qualifying cryptoasset trading platform (CATP), cryptoasset intermediation, cryptoasset lending and borrowing, staking, and DeFi arrangements where there's a clear controlling person handling one or more of these activities. We note that CP25/40 is part of a broader package, including CP25/41 (on admissions and disclosures; market abuse regime for cryptoassets) and CP25/42 (prudential regime). We're also mindful of the FCA's earlier consultation CP25/25 on applying the FCA Handbook to regulated cryptoasset activities, which gives key context for how overarching FCA standards might apply to newly authorised firms.

Our perspective aligns with CP25/40's policy goals: building a competitive and sustainable UK cryptoasset sector that promotes market integrity, protects consumers, and encourages innovation and competition. We aim for consistency with international standards and recommendations from the FSB, IOSCO, and FATF, given the cross-border nature of crypto markets and the importance of minimising regulatory gaps and arbitrage.

We've also considered the FCA's data on consumer behaviour and understanding. The FCA's 2025 cryptoassets consumer research shows that centralised exchanges are the most common entry point for UK users, and there's a notable difference in risk tolerance between active crypto users and the broader "crypto-aware" population. This underlines the need for straightforward disclosures, strong governance, and enforceable conduct standards.

The British Blockchain Association®
Advocating Evidence Based Blockchain

The BBA CLG Ltd, Kemp House
124 City Road
London, EC1V 2NX, UK

2. Executive Summary

We support the majority of the proposals; however we disagree with a small number of proposals where we believe the same consumer outcomes can be achieved through targeted constraints, disclosures, and governance controls, rather than blanket prohibitions. We have made recommendations that can be sensibly adapted to establish conduct and market integrity principles for cryptoasset activities, while recognising the limits of regulation in eliminating all risk and the need for proportionality as market structures evolve.

Our main priorities:

1. Substance over form on location and authorisation: UK authorisation needs to mean real UK accountability. The FCA should call for a clear responsibility map outlining where critical functions like matching, surveillance, listings/admissions, custody/safeguarding, settlement, incident response, and complaints are located, who oversees them, and what the FCA can enforce – particularly when group entities or offshore elements are involved.

2. Retail protection tailored to actual user experiences (apps, not just PDFs): Retail results improve only if disclosures are brief, comparable, and appear right when decisions are made. We'd suggest a standardised "key information" summary (one screen or page) covering total costs, custody/control, withdrawal limits, settlement finality, major risk events, and conflicts – and refreshed whenever terms change significantly.

3. Conflicts controls that are verifiable, not just outlined: When venues mix roles (like venue operator plus principal dealing/affiliate market-making plus issuer interests), the FCA should look for proof that controls actually function: things like functional separation, surveillance results, escalation records, independent reviews, and solid governance for listings and token interests.

4. Best execution that's quantifiable in scattered markets: The FCA ought to detail crypto-specific standards – venue selection reasoning, slippage/price-impact safeguards, reliable price source criteria, and handling volatile periods – and require firms to track and prove execution quality ongoing, beyond just stating a policy.

5. Phased rollout to prevent liquidity splits and poor execution: Where rules depend on UK-authorised venue availability, roll them out in stages, with defined interim options when no UK venue exists for an asset or use case, to avoid accidental liquidity silos that hurt retail execution.

6. Decentralised Finance: regulate based on actual control and define "control" plainly: Impose rules where there's an identifiable controlling person, and issue practical signs of control (admin/upgrade keys, unilateral parameter shifts, treasury/fee management, front-end oversight, governance concentration, revenue extraction). This keeps the boundary predictable and targets regulation at those who can truly influence results.

In all these areas, we prefer rules that are auditable, testable, and focused on outcomes, so firms and regulators can clearly show what success looks like.

The British Blockchain Association®
Advocating Evidence Based Blockchain

The BBA CLG Ltd, Kemp House
124 City Road
London, EC1V 2NX, UK

3. Responses to Consultation Questions (Q1–Q30)

Chapter 2: Cryptoasset Trading Platforms (CATPs)

Q1. Location, incorporation and authorisation of UK CATPs

BBA response:

We back the FCA's approach in principle, as clearer expectations around location and incorporation can genuinely boost supervisory oversight, accountability, and consumer recourse for UK retail clients. In crypto markets, the issue isn't usually a lack of rules but rather responsibilities spread thin across group entities, with key operations offshore and decisions outside the UK scope. Having a UK-authorised CATP with substantial governance presence helps pinpoint who's responsible for conduct, systems and controls, complaints, and incident handling; it enforces UK standards steadily for retail activities; and it cuts down on regulatory arbitrage in global platform setups.

Still, we don't see "UK entity required" as a straightforward yes-or-no check. The policy's strength hinges on the FCA being able to oversee the actual business controls – systems, custody/settlement, risk calls, conflicts management, listing/admissions, and outsourcing.

The FCA might run into a few key hurdles:

1. "UK entity in name only" (substance vs form)

A big risk is setting up lightweight UK shells that are incorporated here but rely heavily on offshore affiliates for core functions like matching engines, custody, surveillance, listings, complaint triage, or incident management. This could actually cloud supervision if the UK entity doesn't control the real risks. In effect, the FCA might end up overseeing a front without the power to influence outcomes. To counter this, require a straightforward responsibility map that details where each critical function is based, who owns it (UK or group), what safeguards are in place, and what the FCA can demand from whom. Also, ask for proof that the UK firm can guide, question, and override outsourced or affiliate services, with solid contracts, escalation paths, audit access, termination options, and tested backups.

2. Cross-border delivery models and enforcement reality

Many platforms are inherently global. Even with a UK entity, operations often depend on group liquidity, shared order books, joint surveillance, common tech stacks, central DevOps/SRE teams, and affiliate setups for custody/settlement and treasury.

The FCA could hit blind spots unless cross-border info access and auditability are clear and enforceable. Plus, the policy might accidentally split liquidity if UK retail flows must be isolated without proper planning, potentially worsening execution. Addressing this means building authorisation around control and auditability, not just incorporation. Platforms should show a proven resilience model for cross-border ties, clear data and audit rights (including for algo surveillance), and incident playbooks that function even if key teams are abroad. A phased transition would help, especially if venue or structure rules shift routing and liquidity significantly.

The BBA CLG Ltd, Kemp House
124 City Road
London, EC1V 2NX, UK

3. Proportionality and barriers to entry

Strict incorporation/location rules could hike fixed costs and discourage smaller UK innovators, niche venues (e.g., for specific asset classes), or firms testing new models. This risks a "compliance cliff" where only big players comply fast, curbing competition and pushing activity into murkier channels.

The fix is clear, non-binding guidance upfront: typical stages, common info requests, and examples of "good" setups. Scale expectations by risk/complexity (retail reach, custody exposure, market-making, leverage, token issuance conflicts), keeping basics uniform.

4. Ambiguity around what "located in the UK" means in a digital platform context

Crypto platforms are digital by nature. Staff, servers, order books, and custody can be distributed. If "location" means physical setup, it creates confusion and expense without better outcomes. If it's about "serving UK customers," firms may puzzle over boundaries, especially for remote onboarding, APIs, and app stores.

Define "location" functionally: where the regulated activity happens and where the controlling mind/management sits for UK retail – not server location. Clarify how the FCA will handle UK-targeted marketing, retail onboarding, app-based cross-border services, and API access by UK consumers.

What we suggest the FCA does:

A) Adopt a "substance test" for UK CATPs (not just a legal-form test)

Require applicants to show, at authorisation and ongoing, that the UK CATP has effective control over critical functions (or enforceable oversight of outsourced ones), meaningful UK governance and senior accountability for market surveillance and integrity, conflicts management, listings/admissions decisions (and disclosures), incident response, and complaints, along with strong resilience for any offshore dependencies.

B) Mandate a "critical functions and dependencies" pack

A standardised pack should cover organisational chart and group structure; critical outsourced functions and intra-group services; data flows and access; audit/inspection rights; step-in and termination rights; contingency and exit plans (including migration/failover).

C) Reduce uncertainty with published process guidance

To avoid slow, inconsistent market entry: publish typical authorisation stages and common evidence requests; provide worked examples for common models (single-entity UK venue; UK subsidiary with shared group tech; hybrid shared order book models).

D) Recognise limitations and avoid overreach into pure software

Where activities look more like non-custodial software or arrangements without a controlling person, the location/incorporation framework may have limited traction. The FCA should be explicit on boundaries to reduce chilling effects on legitimate open-source development.

The British Blockchain Association®
Advocating Evidence Based Blockchain

The BBA CLG Ltd, Kemp House
124 City Road
London, EC1V 2NX, UK

Q2. UK CATP access and operation requirements

BBA response: We agree with non-discriminatory access, clear trading/matching rules, and market monitoring as baseline market integrity tools.

To help with implementation, add worked examples on algorithmic controls and incident response – like trigger types, escalation, governance, and post-incident reporting – to ensure consistent application across firms.

Q3. Additional rules to protect UK retail customers

BBA response: We agree with the proposals on additional rules to protect UK retail customers. From our perspective, retail harms in crypto often stem from a few recurring issues: unclear or incomplete info on fees and how products work, confusion over custody and withdrawals, weak handling of incidents and outages, and hidden conflicts of interest at decision points. Extra rules that boost transparency, set stronger operational standards, and make risks and rights clear are fitting and needed.

To get the most impact, focus on rules that actually help consumers decide, not just add paperwork. In essence, the best protections answer: (i) what the service does, (ii) what could go wrong, (iii) what happens to my assets if it does, and (iv) what I can do next.

We support strengthening retail transparency on total cost of use (platform fees, spreads, network fees, third-party charges); custody and control model (segregation vs pooling, third-party involvement); withdrawal and settlement terms (when delays or pauses might happen, extra checks); key risks tied to the service (execution risk/slippages for trading, loss allocation/redemption limits for staking, liquidation for borrowing); and conflicts that affect outcomes (principal trading, affiliated market-making, listing incentives, routing incentives, token issuance).

We also think the FCA should back digital-first delivery. Most retail interactions are via apps and web, so disclosures and confirmations should fit that: short, standardised “key information” summaries with links to full terms, shown when decisions are made (onboarding, first use of high-risk features), and updated for material changes.

Keep in mind practical limits. Rules can’t eliminate volatility or all losses, and too strict requirements might lead to “consent fatigue” with users clicking through repeats. The FCA should calibrate so key info is prominent and comparable, consent links to real customer choices (not routine events), and firms keep evidence tying disclosures to the consumer’s decision.

Q4. Managing conflicts of interest and related risks

BBA response: We agree, but supervision should zero in on proof of effectiveness.

The BBA CLG Ltd, Kemp House
124 City Road
London, EC1V 2NX, UK

We support the FCA's focus on conflicts, especially where venues juggle multiple roles. For CATPs that trade too, require evidence that functional separation and surveillance actually work – monitoring outputs, escalation logs, independent reviews – beyond just policies. Where a CATP lists tokens it issued or has a stake in, call for prominent, ongoing disclosures linked directly to governance and conflict controls.

Q5. High-level proposals on settlement

BBA response: We agree with the FCA's high-level proposals on settlement and the decision to set outcomes-focused expectations at this stage rather than locking in a single prescriptive settlement model. Crypto market settlement differs materially across business models (e.g., internal ledger settlement on a platform, on-chain delivery, third-party custodial settlement, or hybrid models), and a rigid framework applied too early risks either (i) missing key risks in some models or (ii) imposing controls that are poorly aligned to how settlement actually occurs.

That said, "high-level" will only protect clients if it is anchored to a small set of minimum outcomes that firms can demonstrate in practice. In our view, the FCA's settlement expectations should be implemented in a way that requires firms to evidence, at a minimum:

- Clarity on finality and timing: Clients should be told clearly when a trade is treated as "final" in the firm's process (and what events could delay or reverse that in practice), including expected settlement timeframes and any dependence on network conditions or third parties.
- Operational resilience of the settlement process: Firms should demonstrate how settlement continues during outages, congestion, forks, or third-party disruption, including incident playbooks, reconciliation processes, and back-out or remediation steps where settlement fails.
- Reconciliation and record integrity: Where internal books and records are used, firms should demonstrate robust reconciliation between trading records, client balances, custody records, and on-chain movements (where applicable), with clear audit trails and exception handling.
- Client asset protections and allocation of loss: Settlement arrangements should make explicit where assets sit during the settlement cycle, whether assets are pooled or segregated, and how losses are allocated in the event of operational failures, insolvency, or third-party default.
- Dependency mapping and oversight: If settlement relies on third parties (custodians, liquidity providers, infrastructure providers), firms should be required to map those dependencies, set service standards, and retain enforceable rights (audit, access, step-in and termination), with tested contingency plans.

We also recommend the FCA is explicit about the limits of settlement rules in crypto. Some risks are intrinsic (network congestion, protocol events, validator performance) and cannot be regulated away; the goal should be to ensure consumers understand these risks and that firms have controls to manage them, rather than implying guaranteed outcomes.

Finally, if the FCA intends to develop a more detailed settlement framework later, it would help to signal early the likely direction of travel (for example, expectations on governance, reconciliation, and client communications in failed settlement scenarios), so firms can build settlement processes that will remain compatible as the regime evolves.

The British Blockchain Association®
Advocating Evidence Based Blockchain

The BBA CLG Ltd, Kemp House
124 City Road
London, EC1V 2NX, UK

Chapter 3: Cryptoasset Intermediaries

Q6. Further guidance on best execution

BBA response: Yes, but more guidance is needed. Best execution should apply where a firm owes agency/contractual obligations. The practical issue is consistent operationalisation in fragmented markets. We recommend FCA provides crypto-specific examples of "sufficient steps": venue selection logic, reliability criteria, slippage/price-impact controls, and treatment of fast markets.

Q7. Checking at least 3 reliable price sources from UK-authorised venues

BBA response: Yes, with practical exceptions where sources aren't available.

We support multi-source pricing.

Define "reliable price source" criteria (availability, governance, methodology, resilience). Explain how to handle cases with fewer than 3 UK-authorised sources, including documentation.

Q8. General disclosure requirements—changes to help understanding

BBA response:

A few targeted changes could really boost client understanding for retail and professionals alike.

First, standardise a brief set of disclosure elements so clients can compare providers and products easily. Often, info exists but is inconsistent, buried in lengthy docs, or hard to compare. A standard "key information" layer (one page/screen) should top the full legal terms, with uniform headings and simple definitions.

Second, tailor disclosures by audience and timing. Retail needs clear, upfront explanations of the product, risks, and rights (withdrawals, complaints, recourse). Professionals might want more on mechanics, governance, risks – ideally machine-readable or structured. For both, show disclosures when decisions happen (onboarding, first trade, first staking/lending, leverage/collateral changes, venue transfers), not just in static files.

Third, require prominent disclosure of "non-negotiables" that spark most misunderstandings: custody/control (key holders, segregation, pooling); real total fees (spreads, platform, network, third-party); execution/settlement (routing/filling, when final, delays/pauses); structural conflicts (principal trading, affiliates, listings, token interests, routing/revenue-sharing); key risks/events (hacks/outages, chain halts/forks, slashing, liquidations, fast-market exposure); complaints/recourse (escalation, timelines).

Fourth, make risk statements concrete and scenario-based, not vague. Instead of "crypto is volatile," explain service-specific impacts (e.g., borrowing liquidation, staking delays, trading slippage, custody loss allocation). This ties risk to the client's action, aiding comprehension.

The BBA CLG Ltd, Kemp House
124 City Road
London, EC1V 2NX, UK

Finally, support auditability in disclosures. Firms should keep trails linking disclosure versions, client acknowledgements/consents where needed, and timing (pre-fund commitment or transaction). This boosts supervision and cuts disputes, as firms can prove what clients saw and agreed to.

Q9. Specific pre-trade disclosures by principal dealers

BBA response: Yes. Pre-trade disclosures aid transparency and assessing execution quality and conflicts.

Encourage machine-readable disclosures (APIs) for professionals, while retail ones stay clear, prominent, and timed to decisions.

Q10. Client order handling rules

BBA response: Yes. Fair, prompt and transparent handling is foundational to market integrity.

Q11. Proposed execution venue requirement (FSMA location policy context)

BBA response: Yes, but only with a sequenced transition.

We support supervised, authorised venues for retail execution. Several compliance leads told us the key trade-off is that moving too quickly can fragment liquidity and worsen retail execution quality temporarily.

Recommendation: Provide a defined transition pathway (phasing; clear treatment where a UK-authorised venue is not available; documentation expectations for exceptions).

Q12. Restrictions on cryptoassets intermediaries can deal/arrange for UK retail

BBA response: Broadly yes but keep the boundary predictable.

Tying retail access to admission/disclosure standards works, especially with CP25/41.

Clarify workflows for withdrawals tied to disclosure docs. Be clear on handling unavailable UK admission/disclosure docs to avoid restrictions based on availability over risk.

Q13. Conflicts during order execution when engaged in proprietary trading

BBA response: Yes.

Recommendation

Require firms to evidence effectiveness (monitoring, escalation, independent oversight), not only formal separation.

The BBA CLG Ltd, Kemp House
124 City Road
London, EC1V 2NX, UK

Q14. Payment for order flow (PFOF)

BBA response: We do not support a blanket restriction in all circumstances; we support an outcomes-based, tightly constrained approach.

We recognise the FCA's concern that PFOF can create structural conflicts. However, a full restriction risks pushing activity into less transparent offshore structures or less competitive pricing models, without necessarily improving outcomes.

Recommendations (an alternative that still protects consumers)

Permit PFOF only where:
the firm demonstrates execution quality is no worse than a non-PFOF benchmark;
routing decisions are governed by a documented, auditable best execution policy;
disclosures are prominent and comparable; and
conflicts are managed through governance, monitoring, and periodic independent review.

If the FCA proceeds with restriction, clarify treatment of non-monetary inducements, group routing, and cross-border affiliate models to reduce circumvention risk.

Q15. Personal account dealing rules for cryptoasset intermediaries

BBA response:

We agree with applying personal account dealing (PAD) rules to cryptoasset intermediaries. PAD controls are a direct, balanced way to curb conflicts, prevent insider info misuse, and bolster market integrity – especially where staff see client orders, internal positions, listings, token announcements, or incidents that sway prices.

Crypto markets have unique traits making PAD vital: always-on trading, quick info-driven price swings, heavy retail involvement, and firm-held data (upcoming listings, parameter tweaks, outages, wallet issues, big flows) that can be highly sensitive. Without PAD, intermediaries' risk real or perceived wrongdoing, eroding trust and sparking disputes.

To make rules practical and effective in crypto: cover "personal account" broadly (external exchange accounts, on-chain wallets staff control, nominee/related-party accounts with beneficial interest); require pre-clearance for high-risk staff (in listings, surveillance, execution, response) with blackouts around announcements/events; set monitoring expectations (including on-chain), record retention, breach escalation; apply proportionally (stricter for trading/listings/surveillance/custody staff); clarify interaction with employee token pay, staking rewards, airdrops, crypto-native perks that might create conflicts.

PAD rules are established and enforceable, translating well to crypto intermediaries, and they support other measures on conflicts, best execution, and integrity.

Q16. Settlement arrangements requirements (where applicable)

The BBA CLG Ltd, Kemp House
124 City Road
London, EC1V 2NX, UK

BBA response: Yes. Clients should understand settlement arrangements and associated risks.

Chapter 4: Proposals applying to CATPs and Intermediaries

Q17. Pre- and post-trade transparency requirements

BA response: Yes. Transparency aids price formation, evaluation, and supervision.

Publish supervisory examples for waiver/deferral tuning and record-keeping.

Q18. Methodology for determining the pre-trade transparency threshold

BBA response: Partially disagree – revenue-only is too blunt.

We appreciate the simplicity, but risk doesn't always track revenue.

Consult on a combined threshold (revenue plus risk indicators like activity or market share), with a brief transition for data buildup.

Q19. Transaction recording and client reporting requirements

BBA response: Yes. Robust record-keeping supports supervision, market abuse detection and dispute resolution, consistent with FATF expectations for virtual asset service providers (VASPs).

Chapter 5: Cryptoasset Lending and Borrowing (L&B)

Q20. Strengthening retail understanding and express prior consent

BBA response: We agree with the proposals to strengthen retail clients' understanding and to require express prior consent. Cryptoasset lending and borrowing products are often marketed using simplified "earn", "yield", or "borrow instantly" messaging, but the underlying risk profile can be complex and highly path dependent. Retail harms in this area typically arise less from a single "bad day" and more from predictable failure modes: misunderstanding of collateral requirements, liquidation triggers, rehypothecation and counterparty exposure, changing withdrawal terms, and the speed at which losses can crystallise in volatile markets. Strengthening disclosure and requiring explicit consent directly targets that gap and reduces the likelihood that consumers enter these arrangements on assumptions that are not true.

To be effective, however, "understanding" and "consent" need to be operationalised in a way that is usable, not just legally comprehensive. We recommend that the FCA's approach prioritises a short, standardised set of key terms and risk statements that can be read and understood at the point of

The BBA CLG Ltd, Kemp House
124 City Road
London, EC1V 2NX, UK

decision (particularly in app-based journeys), with full contractual terms available behind it. In our view, the minimum items that should be prominent for retail include:

- whether the arrangement is lending, borrowing, or a hybrid product, and whether assets are pooled;
- what the client is exposed to (counterparty/credit risk, operational risk, protocol risk where relevant);
- what can cause loss and how quickly loss can occur (liquidation triggers, margin calls, collateral shortfalls, price gaps);
- whether and how assets may be rehypothecated, and the implications for redemption and creditor ranking in an insolvency scenario;
- withdrawal constraints or circumstances in which withdrawals/redemptions can be delayed or suspended;
- fees and how they are charged (including spread/hidden costs where relevant);
- how the firm handles stressed markets and the client's practical options during volatility.

We also recommend that consent is captured at the "decision moment" (before funds are committed), and that material changes to key terms, especially those that affect liquidity, collateral requirements, liquidation mechanics, or the firm's use of client assets, trigger a fresh consent before those changes apply to existing retail positions. Otherwise, firms could technically obtain consent once while changing risk materially over time.

Finally, there is a real risk that repeated consents become routine click-throughs. To avoid consent fatigue, it is helpful to tie express prior consent to meaningful client decisions (e.g., opening a lending/borrowing position, increasing exposure, changing collateral arrangements), rather than operational back-end events. Firms should also retain records that link the customer's consent to the specific version of the key terms provided at the time, to support auditability, supervision, and complaint handling.

Q21. Prohibit the use of proprietary tokens for L&B

BBA response: We disagree with a blanket prohibition in all cases; we support restrictions and controls targeted at the specific harms.

We accept the FCA's concern that proprietary tokens can heighten conflicts and manipulation incentives. However, a blanket ban may be over-inclusive and could remove structures that are capable of being made transparent and well-governed.

Recommendations (alternative approach)

Permit use only where:
valuation methodology, liquidity and concentration risks are explicitly disclosed;
conflicts are managed via governance controls (including independent oversight);

collateral haircuts / concentration limits mitigate manipulation and liquidity risk; and
firms can evidence monitoring and stress testing for fast-market scenarios.

If the FCA proceeds with prohibition, clarify scope boundaries to prevent circumvention via affiliates or economically equivalent token structures.

The BBA CLG Ltd, Kemp House
124 City Road
London, EC1V 2NX, UK

Q22. Record-keeping requirements on regulated L&B firms

BBA response: Yes. Detailed record-keeping supports supervision, redress and governance accountability.

Q23. Additional collateral, mandatory over-collateralisation, and managing limits/levels

BBA response:

We agree with extra collateral needs, mandatory over-collateral for retail borrowing, and clearer loan limit management. These are balanced for retail, as crypto prices swing fast, liquidity can vanish in stress, and liquidations (even solid ones) might not hit expected prices in rapid markets. Over-collateral and defined limits cut risk odds and impact, drawing a sharper line between controlled borrowing and leveraged bets.

For practice, focus on how firms set, watch, and tweak collateral/limits in actual conditions, not just initial ratios. The FCA should expect proof of, at least: clear collateral methods (factoring volatility, liquidity, concentration, correlation, varying by asset); haircuts/concentration limits (extra for volatile/thin assets, caps on single-asset reliance); real-time monitoring/triggers (frequency, price governance, outage handling); liquidation governance (waterfall: margin call to partial/full liquidation, speed rules, venue choice, impact/slippage management in stress); stressed controls (higher margins, lower LTV, borrowing limits on volatiles, delay handling, with client comms). Loan-level caps: simple retail max LTV/exposure limits, restrictions on “raise limit” paths encouraging leverage without clear reconfirmation.

Acknowledge limits: over-collateral cuts but doesn’t erase risk in sharp gaps or illiquidity, and liquidations can falter in extremes. That’s why require stress testing evidence and transparent liquidation for retail (shortfall scenarios). Keep audit trails for methodology, monitoring, discretionary changes, linked to approvals and comms.

Overall, these proposals set a good retail baseline. Success lies in ensuring collateral/limits are active, credible controls in volatility and stress, not paper ratios.

Q24. Negative balance protection

BBA response: Yes. Appropriate where liquidation and operations can fail under extreme volatility.

Chapter 6: Staking

Q25. Information, key terms and express prior consent each time assets are staked

BBA response: We agree with requiring regulated staking firms to give retail clients clear firm/staking info, key terms, and express prior consent. Staking often comes across as “earn” or “yield” to retail, but

The BBA CLG Ltd, Kemp House
124 City Road
London, EC1V 2NX, UK

exposes to operational, protocol, liquidity constraints varying by asset/model. These rules fix info gaps and cut risks of consenting on false ideas (e.g., guaranteed rewards, instant withdrawals, no losses).

"Each time" consent works if applied right. Too literal (e.g., re-consent for auto-compound, validator swaps, backend steps) causes fatigue, lowering engagement. Better to see "each time" as each principal commitment or new instruction, allowing standing consent for client-chosen options (auto-restaking rewards) if explained upfront, easy to stop, revocable anytime.

Make "key terms" model-specific, in short, uniform mobile-friendly format with full terms linked. Retail should see prominently: pooling and firm role (agent/principal); reward calc, fees (variable?); withdrawal/redemption limits (unbonding, queues, delays, pauses); slashing/downtime allocation (who bears, why); custody/control (third parties for validator/infra); exceptional handling (halts/forks, outages, contract incidents), notification.

Do disclosure/consent at decision (pre-stake), with records tying to key terms version then. This boosts audit, supports complaints, strengthens protection.

Q26. Apply these requirements to retail only (not non-retail)

BBA response: Yes, provided client categorisation is robust.

Q27. Record-keeping requirements on regulated staking firms

BBA response:

We agree with the proposed record-keeping requirements for regulated staking firms, and we see them as a necessary foundation for effective supervision, dispute resolution, and consumer protection in a service where outcomes can be affected by operational decisions and third-party dependencies that are not visible to the client.

Staking is not a static "deposit" product. The customer outcome depends on how the firm executes and manages the staking activity in practice—validator selection, delegation policies, uptime performance, slashing exposure, fees, reward distribution mechanics, withdrawal/unbonding handling, and (in some models) smart contract and third-party infrastructure risks. Without clear records, it is difficult for a firm to evidence that it delivered the service as described, and difficult for the FCA to assess whether consumer communications, conflicts controls, and risk management are working.

To make record-keeping genuinely effective (rather than compliance theatre), we recommend the FCA ensures the requirements cover a small set of core "who/what/when/how" facts that link directly to consumer outcomes and supervisory needs. In particular, regulated staking firms should retain records that enable them to demonstrate:

- Client instruction and consent trail: the customer's staking instruction, the key terms/version presented at the time, the customer's express consent, timestamps, and any subsequent material change notices and acknowledgements (where applicable).

The BBA CLG Ltd, Kemp House
124 City Road
London, EC1V 2NX, UK

- Asset and position records: the amount staked, the asset type, when it was staked/unstaked, any lock-up/unbonding periods applied, and the status of assets during the lifecycle (e.g., pending, active, exited).
- Validator / operator decisions: which validator(s) or node operator(s) were used for each pool or client allocation (or the selection methodology where pooled), including changes over time, the rationale for changes, and any performance monitoring outcomes.
- Rewards and fees methodology: how rewards were calculated and allocated (gross vs net), all fees charged (including platform fees and any third-party fees), timing of reward distribution, and how rounding, compounding or auto-restaking was applied where relevant.
- Loss events and operational incidents: slashing/downtime penalties, their cause, allocation of losses (who bore them and why), incident response actions, customer notifications, and remediation/compensation decisions if relevant.
- Third-party dependency mapping: where critical elements are outsourced or provided by affiliates/third parties (validator infrastructure, custody, smart contract components for pooled/liquid staking), retain the service arrangements, oversight checks, and key risk controls.
- Withdrawal and redemption handling: records of withdrawal requests, processing times, reasons for delays, any suspension/queue events, and communications provided to customers.

There are also practical constraints: if record-keeping is too high granularity (e.g., capturing every micro-action for automated internal rebalancing), the volume can become unmanageable without adding much supervisory value. A sensible approach is to require record-keeping that captures the customer-relevant and risk-relevant events (instruction, allocation, material changes, rewards/fees, withdrawals, incidents), rather than every internal technical step.

Overall, we support the record-keeping proposals, and we encourage the FCA to frame them in a way that ensures records are sufficient to (i) evidence fair customer treatment and adherence to disclosed terms, (ii) support effective supervision and auditability, and (iii) enable timely resolution of complaints and disputes when outcomes differ from expectations.

Chapter 7: Decentralised Finance (DeFi)

Q28. Apply rules where there is a clear controlling person carrying on regulated activities

BBA response:

This matters a lot. We agree in principle: if there's a clear controlling person (or group) doing new crypto activities, applying rules/guidance aligns accountability with actual control. Many "DeFi" setups aren't truly decentralised, involving entities that design, promote, run, update, profit from them. There, same protections/integrity standards should apply as centralised equivalents.

The big challenge is making "clear controlling person" practical and foreseeable. Too vague creates uncertainty for real innovation, risks snaring non-controllers (passive holders, departed devs, infra providers without change power). Too narrow invites structuring around, leaving consumers at risk.

We suggest the FCA outline practical control indicators for consistent use by firms/supervisors. Strongest are those showing ability to alter outcomes, economics, risks: upgrade/admin (unilateral/de facto keys, timelocks, upgrades, pauses, parameter shifts, emergencies); treasury/fee (direct treasury,

The BBA CLG Ltd, Kemp House
124 City Road
London, EC1V 2NX, UK

switch/set fees, divert streams); front-end/distribution (interface control – hosting, domain, app distro; access decisions, geo-blocks, KYC, feature changes affecting users); validator/operator/infra (operational layer controlling performance/reliability/availability); governance concentration (concentrated/delegated voting determining outcomes, especially risk/economic params); marketing/product ownership (active promotion, term-setting, economic benefits from volume/fees/token like running a business).

Distinguish truly decentralised protocols without controllers from "DeFi-form, CeFi-substance" where firms keep practical control. For the latter, applying chapters 2-6 is straightforward, as activities often mirror trading, intermediation, lending/borrowing, staking in CP25/40.

Regulation has bounds here. Some DeFi risks are core (contract flaws, composability spread, oracle fails, liquidity drops), with cases lacking single-party control for traditional authorisation. Policy should aim for clear edges and consistent handling, not cramming decentralised software into intermediary frameworks.

Overall, we back applying rules/guidance with clear controllers, but urge clearer "control" indicators and examples of perimeter application. This cuts uncertainty, boosts supervisory consistency, focuses effort where it improves consumer results/market integrity.

Annex 2: Cost Benefit Analysis (CBA)

Q29. Assumptions and findings on relative costs/benefits

BBA response: Partially agree.

We appreciate the openness on cost types. Costs for smaller firms/entrants will hinge on rollout timing and details.

Add modelling for small vs large firms, transitional vs ongoing costs, especially with layered requirements.

Q30. Views on costs/benefits to consumers, firms and the market

BBA response:

Net benefits seem positive overall if rollout avoids splits and expectations cut compliance guesswork.

Competitiveness view: Check liquidity silo risks if rules hit before enough UK-authorised infra for key assets/retail uses.

Outcomes tracking: Pledge post-rollout metrics (complaints/claims, execution quality, failed withdrawals, disruptions).

The BBA CLG Ltd, Kemp House
124 City Road
London, EC1V 2NX, UK

4. Conclusion

Overall, we support the FCA's direction in CP25/40 and welcome the opportunity to contribute to a workable, proportionate regime that improves consumer outcomes and market integrity while supporting effective competition and innovation. In our view, the success of the framework will depend less on the volume of rules, and more on whether firms and supervisors can apply them consistently in real market conditions. If there is one consistent theme across our comments, it is that clarity beats complexity. Clear scope, clear transition arrangements, and operational expectations that can be evidenced in supervision will deliver better outcomes than longer rule text that is implemented unevenly, particularly for conflicts management, best execution, and DeFi arrangements where control is identifiable. In these areas, we encourage the FCA to prioritise practical guidance and worked examples that set a consistent baseline across business models, reduce interpretive divergence, and make supervisory expectations predictable.

We also encourage the FCA to place emphasis on measurable outcomes once implemented, such as execution quality, disclosure usability, incidence of avoidable complaints, and operational disruptions, so that the regime can be refined over time based on evidence of what improves consumer outcomes and market integrity in practice. We would welcome continued engagement as the FCA develops policy statements and related consultations for the future cryptoasset regime, including participating in technical working sessions on implementation questions (for example, effective conflicts controls, best execution in fragmented markets, and indicators of "control") in Decentralised Finance ecosystems.

Yours faithfully,

_____

Professor Dr Naseem Naqvi MBE
UK National Honour Recipient for Services to Blockchain and Cryptoassets
Founding President, The British Blockchain Association
Founding Editor-in-Chief, The JBBA
Founding Chair, Centre for Evidence Based Blockchain
Founding Chair, Blockchain Associations Forum
Head of Secretariat, UK All-Party Parliamentary Group on Blockchain Technologies

Contributors to this report:

BBA Members, Advisors, and Partners
Members and Partners of BBA's Centre for Evidence Based Blockchain (CEBB)
Editors of The Journal of The British Blockchain Association (The JBBA)
Members of the BBA's Blockchain Associations Forum (BAF)

Contact: info@britishblockchainassociation.org

- END