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Prudential Policy
Financial Conduct Authority
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Sent via email: cp25-42@fca.org.uk

BBA's Response to FCA's Consultation Paper CP25/42: A prudential regime for cryptoasset firms

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 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



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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.

Executive summary

We welcome the FCA's direction of travel to extend prudential requirements to additional cryptoasset activities (CATPs, staking, dealing), building on prior proposals and aligning sensibly with the structure of UK investment firm prudential logic (floors, scalable risk factors, own assessment, wind-down readiness and disclosure). Overall, the proposals are coherent and conservative in the right places but would benefit from targeted crypto-specific guidance to ensure consistent implementation, avoid cliff effects, and prevent perimeter/metric gaming.

Our cross-cutting recommendations are:

Publish worked examples for hybrid business models (agency vs own-name execution; CATP + brokerage; staking outsourcing; matched-principal flows).

Mitigate cliff effects in Category A classification (especially the "UK CATP" condition and immediate reclassification mechanics), while preserving conservative intent.

Strengthen ORA guidance with crypto-specific wind-down and liquidity stress examples, plus clearer "group control" indicators for decentralised structures.

Standardise disclosures with templates and encourage machine-readable formats, while allowing limited redaction of genuinely sensitive notes.

Responses to Annex 1 Questions

Q1. PMR levels across activities

We broadly agree with the proposed PMR levels as a clear baseline floor differentiated by activity risk, with sensible parallels to MIFIDPRU-type logic:

£75k for dealing as agent / arranging deals: proportionate for intermediary roles without principal risk.

£150k for operating a CATP: appropriate given operational/cyber and market integrity risks.

£150k for qualifying cryptoasset staking: reasonable baseline reflecting custody-like operational risk (including slashing/validator downtime risk pathways), without over-capitalising.



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£750k for dealing as principal: justified given inventory/volatility, counterparty exposures and stress transmission evidenced by prior market failures.

Strength: the “highest PMR across activities” rule is efficient (avoids double-counting while covering the riskiest function).

Refinements:

Consider tiered PMR expectations for staking where scale and complexity are demonstrably lower, while retaining risk-sensitive add-ons via K-factors and ORA.

For principal dealing (including lending-style models), provide guidance on evidencing over-collateralisation and risk controls, and how PMR interacts with scalable K-factors (PMR as floor, not “comfort”).

Commit to post-implementation monitoring and data-driven recalibration to meet the FCA’s secondary competitiveness objective.

Q2. Operational risk K-factors (K-CCO, K-CTF, K-CCS, and extensions)

We support the scalable, activity-based approach and alignment with MIFIDPRU-style coefficients where appropriate, with crypto-specific adaptations.

K-CCO (0.1%): appropriate for client order handling risks; pragmatic to exclude unexecuted orders and to include transaction costs (e.g., gas) where relevant.

Clarify: how “chain orders” and multi-party routing are measured to avoid double-counting in complex execution chains.

K-CTF (0.1%): suitable for own-name execution and intra-day risk; averaging methodology helps smooth crypto volatility.

Clarify: consistent functional currency conversion and valuation conventions for volatile assets.

K-CCS (0.04%): welcome and directionally right as staking resembles custody-type operational risk (cyber, reconciliation, operational errors). Including queued/unstaking balances is appropriate.

Refinements:

Consider whether calibration could be modestly risk-sensitive to empirical evidence (e.g., networks with consistently low slashing incidence), without creating arbitrage.

If third-party staking does not reduce exposure measurement (directionally correct), specify minimum outsourcing controls (validator concentration, incident response, slashing controls, auditability).

K-QCS/K-SII extensions: logical for holistic safeguarding treatment and helpful for new firms with <9 months history.

Recommendation: pilot and review coefficients using supervisory reporting data so K-factors remain risk-sensitive and do not unintentionally disadvantage UK-authorized models relative to third-country competitors.



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Q3. Trading book definition, management, and AVA

We endorse the trading book proposals adapting established position-management discipline to crypto, where most own-name exposures are trading-intent by nature.

Definition: broad scope (trading/hedging intent) is appropriate and reduces misclassification incentives. Management controls: documented intent, rationale, and daily monitoring are sound; templates would improve consistency.

AVA (0.1% of base value): a reasonable, simple valuation uncertainty buffer with appropriate exclusions (e.g., qualifying stablecoins; perfectly offsetting positions; items not impacting CET1).

Refinements:

Provide guidance on evidencing proprietary vs client positions using blockchain-specific artifacts (wallet segregation, control evidence, reconciliation trails).

Consider whether AVA should be more explicitly linked to liquidity/asset category, or commit to review once UK data is available, to avoid either undue conservatism or weak coverage.

Q4. Category A/B classification and K-NCP charges

We agree with the two-tier framework and conservative charges: 40% for Category A, 100% for Category B under K-NCP. This incentivises focus on mature, resilient assets and appropriately capitalises tail risk.

Category A conditions: robust overall (venue, exchangeability, history, liquidity/market quality, volatility thresholds, correlation tests, reliable data, and documented review).

Key refinements to avoid cliff effects while preserving conservatism:

Trading venue condition: allow a narrow, standards-based equivalence pathway for high-quality third-country venues (or transitional guidance) to prevent UK isolation during market formation.

Volatility/correlation methodology: standardise calculation windows and breach treatment; consider limited flexibility for temporary, well-evidenced disruptions (e.g., major network upgrades), without weakening prudential intent.

Reclassification mechanics: "immediate" is clear but can be pro-cyclical; clarify treatment for short-lived data outages vs genuine condition failure.

Consider whether a mid-tier category is warranted only if it can be defined without gaming; otherwise retain two-tier but publish FCA example sets and encourage annual review discipline.

Q5. Counterparty default requirements (K-CCD) and coverage gaps

We support the K-CCD framework and its alignment with counterparty default risk logic, including volatility haircuts by collateral type and risk factors by counterparty category (with heightened conservatism for retail where appropriate).



Clarify and extend coverage:

Define “standard spot settlement” for crypto markets (on-chain confirmation, internal ledger settlement, withdrawal batching).

Explicitly include or clarify treatment of:

DeFi lending via protocols (where “counterparty” is decentralised): specify how firms should map protocol risk and determine the appropriate counterparty category.

Cross-chain bridges/swaps and extended settlement exposures (material operational/credit-like risk pathways).

OTC derivatives/structured exposures where performance depends on counterparty solvency and settlement is non-standard.

Recommendation: publish worked examples for these exposures to reduce interpretive divergence and perimeter arbitrage.

Q6. Concentration risk (K-CON)

We support the K-CON framework (soft limits, excess calculations, time-based multipliers) and its extension to crypto-specific concentration pathways, including positions linked to issuer/supply control and K-CCD-driven exposures.

Crypto-specific clarifications needed:

Define “connected clients” and “control” indicators in decentralised or semi-decentralised contexts (DAOs, foundations, multisigs, protocol treasuries, shared infrastructure).

Consider a narrowly defined operational allowance for short-lived market-driven breaches (where risk is managed intraday and promptly remediated), without weakening the framework’s intent.

Recommendation: monitor impacts on structurally concentrated but well-collateralised models (e.g., certain lending/prime-like structures) to ensure K-CON targets genuine vulnerability, not efficient market structure.

Q7. Overall Risk Assessment (ORA): clarity and targeted improvements

We find ORA expectations (Chapter 4; COREPRU 7; CRYPTOPRU 7) generally clear, proportionate, and well-aligned with ensuring adequate own funds and liquid assets for ongoing operations and wind-down. The framework draws effectively from ICARA logic while tailoring to crypto (volatility, cyber risk, operational dependency). We support avoiding duplicate assessments for firms already subject to comparable regimes.



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Strengths:

Forward-looking capital/liquidity planning and stress testing;
Explicit incorporation of group risk;
Governance, documentation, and senior management accountability;
Liquidity expectations suited to rapid outflow risk and funding profile analysis.

Where crypto-specific guidance would materially improve consistency:

Wind-down realism and “material harm”: worked examples for on-chain asset transfer/reconciliation, return of safeguarded assets, third-party dependency unwind, key management risks, and wind-down budgeting components by model (CATP/staking/agency/principal).

Liquidity stress calibration (“severe but plausible”): include scenarios like network congestion, oracle failures, correlated withdrawal runs, and (where relevant) stablecoin stress.

Group risk in decentralised structures: clarify “shared ownership/control” tests for DAOs/protocol governance, shared smart contracts and treasury control; require explicit dependency mapping and mitigations.

Non-core liquid assets: provide examples for crypto-related CIUs/tokenised funds to reduce inconsistent haircut application.

Q8. Public disclosures: prudential information, group arrangements, and dealing firms

We support CRYPTOPRU 8 disclosures to promote transparency, market confidence and discipline, aligned to annual reporting cycles and proportionality for firm size. Disclosures on risk management, own funds composition, requirements (including K-factor breakdowns) and ORA thresholds will improve assessability of resilience.

Group arrangements: we support disclosures on direct/indirect exposures, additional resources held for group risks, and enhanced parent information where dealing as principal is conducted—given crypto groups’ cross-border interconnections.

Enhancements recommended:

Provide standardised templates not only for own funds but for K-factor breakdowns and group exposure narratives to improve comparability and reduce “marketing-style” disclosures.

Encourage machine-readable publication formats (structured reporting) to enable analysis.
Clarify whether disclosures cover material decentralised affiliates (e.g., protocol treasuries / shared contracts) where they transmit material risk.

Allow limited redaction of genuinely sensitive notes where security or competitive harm is credible, while preserving core transparency outcomes.



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Consider phased implementation for smaller firms to build capability, while maintaining baseline transparency from day one.

Closing

The BBA supports the FCA's establishment of a coherent prudential regime for cryptoasset firms. With targeted crypto-specific guidance and worked examples, especially around classification cliff effects, decentralised group/control indicators, and ORA wind-down/liquidity stresses, the framework will be more consistent, auditable, and effective in delivering consumer protection, market integrity and responsible UK competitiveness.

Yours faithfully,

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