


Seminar programme 2025



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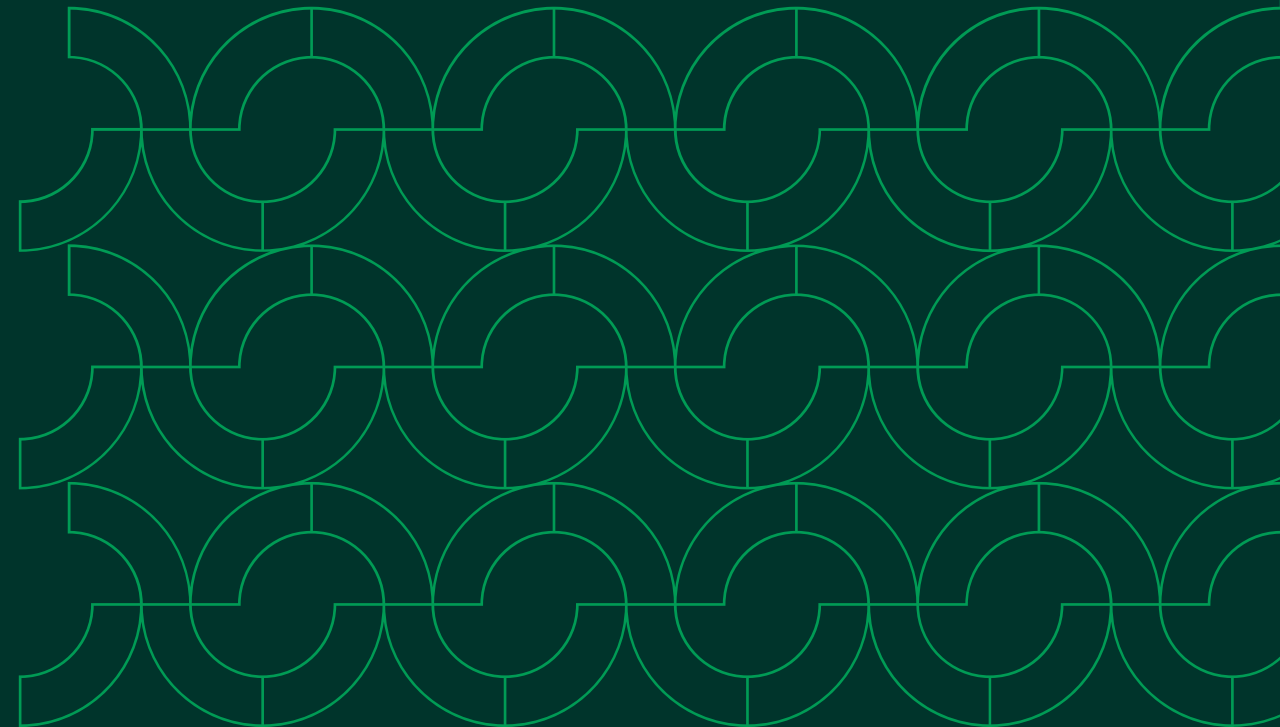
- Thank you for joining today's '**New U.K. crypto regime - Focus for Global Firms**' seminar. We will begin shortly.
- On joining the session your microphone will be muted and your video turned off. You will not be able to activate these during the session.
- To submit a question please click on  and type your question into the chat box that appears.
- The session is being recorded. The slides and recording will be made available online at seminars.aoshearman.com.
- If you experience any technical issues, please submit these to the host via the Q&A chat box or please call +44 203 088 3400.

New U.K. crypto regime – Focus for Global Firms

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Nick Bradbury
Paul Edwards
Nikki Johnstone
Jack Prettejohn
Ben Regnard-Weinrabe

12 JUNE 2025



Introduction

-
- 01 Legislative framework and FCA papers
 - 02 Cryptoasset trading platforms and exchanges
 - 03 Dealing activities
 - 04 Crypto custody
 - 05 Prudential regime for cryptoasset firms
 - 06 Stablecoin issuance
 - 07 Transitional arrangements
-



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What has been
published so far?



U.K. Financial Conduct Authority (FCA) Discussion Papers

– *6 November 2023 / 16 December 2024*

DP23/4: Regulating
cryptoassets Phase 1:
Stablecoins

DP24/4: Regulating
cryptoassets –
Admissions &
Disclosures and Market
Abuse Regime for
Cryptoassets

Legislative framework for cryptoassets – 29 April 2025

01

HM Treasury published the draft Financial Services and Markets Act 2000 (Regulated Activities and Miscellaneous Provisions) (Cryptoassets) Order 2025 (**Draft SI**)

- ♦ Brings cryptoassets within the scope of U.K. financial services regulation
- ♦ New regulated activities, which require a license under the Financial Services and Markets Act 2000 (**FSMA**) when performed in relation to “qualifying cryptoassets”

02

U.K. and (in many cases) offshore firms serving U.K. customers (particularly retail) will be subject to an FCA licensing regime

03

Consequential amendments to other legislation, such as:

- ♦ The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (**MLRs**)
- ♦ Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (**FPO**)
- ♦ Electronic Money Regulations 2011 (**EMRs**)

FCA Discussion Paper on Platforms, Intermediaries, Staking, Lending and DeFi – *2 May 2025*

01

FCA has published DP25/1, covering its approach to regulating some cryptoasset activities

02

Asks how FCA should regulate the newly regulated activities, with specific focus on crypto trading platforms, intermediaries, lending and borrowing, and decentralised finance (**DeFi**)

03

HM Treasury to also publish provisions relating to market abuse and admissions and disclosures

FCA Consultation Papers – *28 May 2025*

CP25/14: STABLECOIN ISSUANCE AND CRYPTOASSET CUSTODY

FCA sets out its proposed rules and guidance for the activities of:

- ♦ Issuing a qualifying stablecoin; and
- ♦ Safeguarding qualifying cryptoassets (including qualifying stablecoins),

which will be introduced as specified activities through amendments to the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (**RAO**)

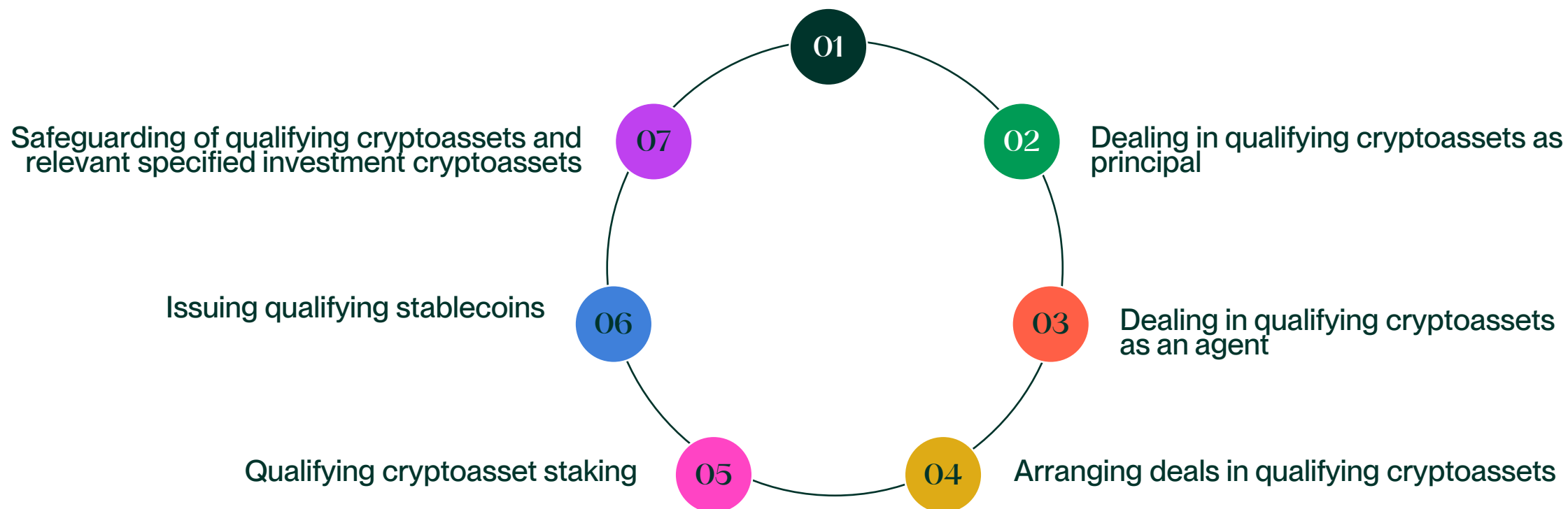
CP25/15: A PRUDENTIAL REGIME FOR CRYPTOASSET FIRMS

FCA sets out its proposed prudential rules and guidance for:

- ♦ Issuing qualifying stablecoins; and
- ♦ Safeguarding of qualifying cryptoassets

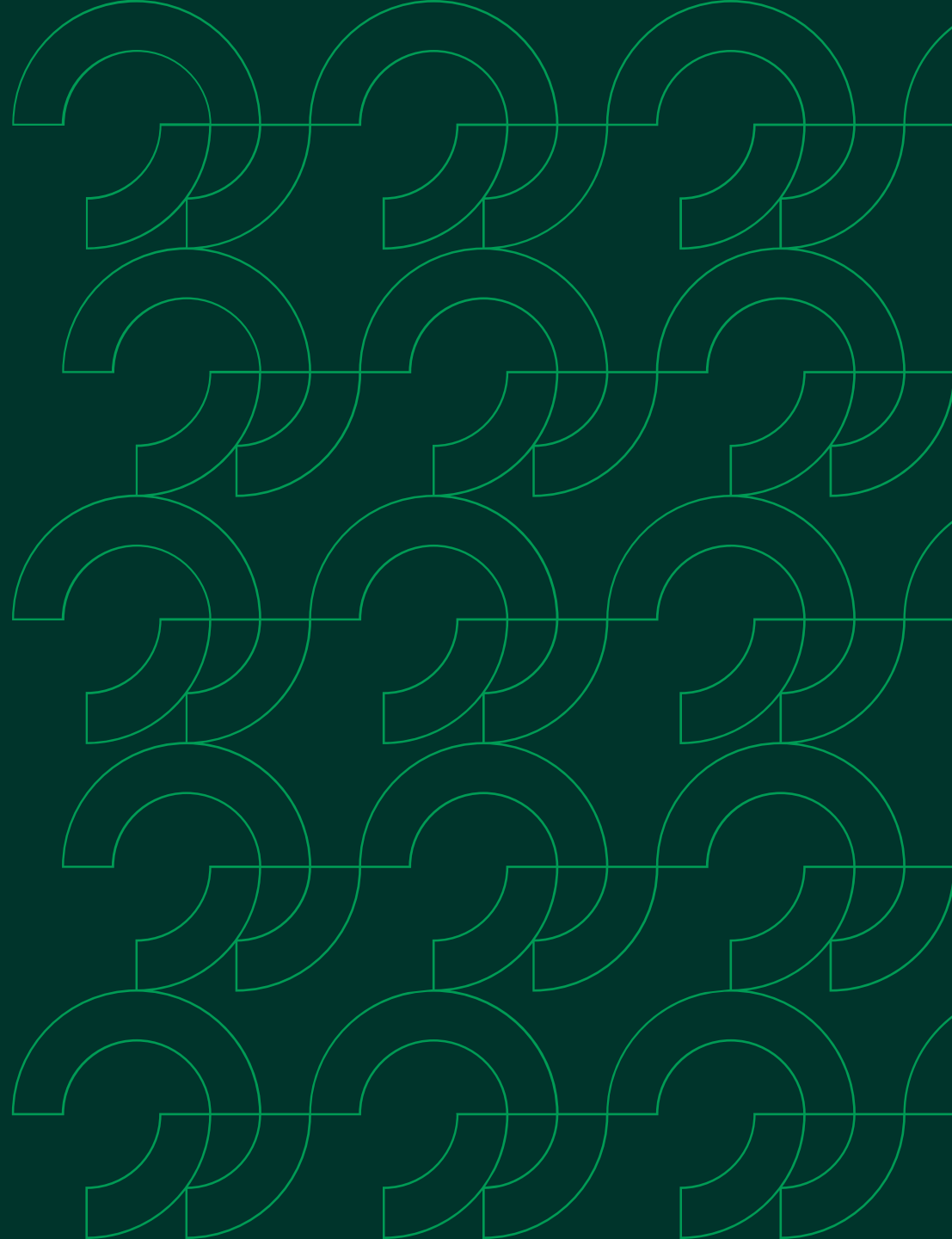
Which new activities are regulated?

Operating a qualifying cryptoasset trading platform



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Cryptoasset trading platforms and exchanges





Definition of *cryptoasset trading platform* (CATP)

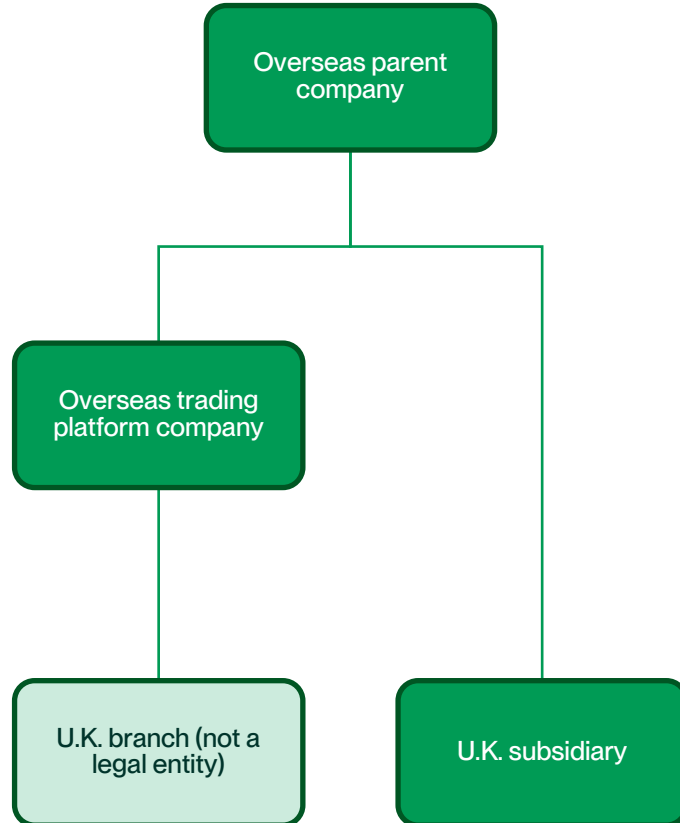
“a system which brings together or facilitates the bringing together of multiple third-party buying and selling interests in qualifying cryptoassets in a way that results in a contract for the exchange of qualifying cryptoassets for any of: (a) money (including electronic money); or (b) other qualifying cryptoassets”

EXCHANGE MODELS

- ◆ Lessons from MiFID 2
 - ◆ Restriction on discretionary trading arrangements
 - ◆ Gaps in scope coverage?
- ◆ Restrictions on matched principal trading
 - ◆ Conflicts of interest
 - ◆ Credit and market risk



Example of legal entity structure *for overseas firms with retail clients*



- ♦ **U.K. branch:**

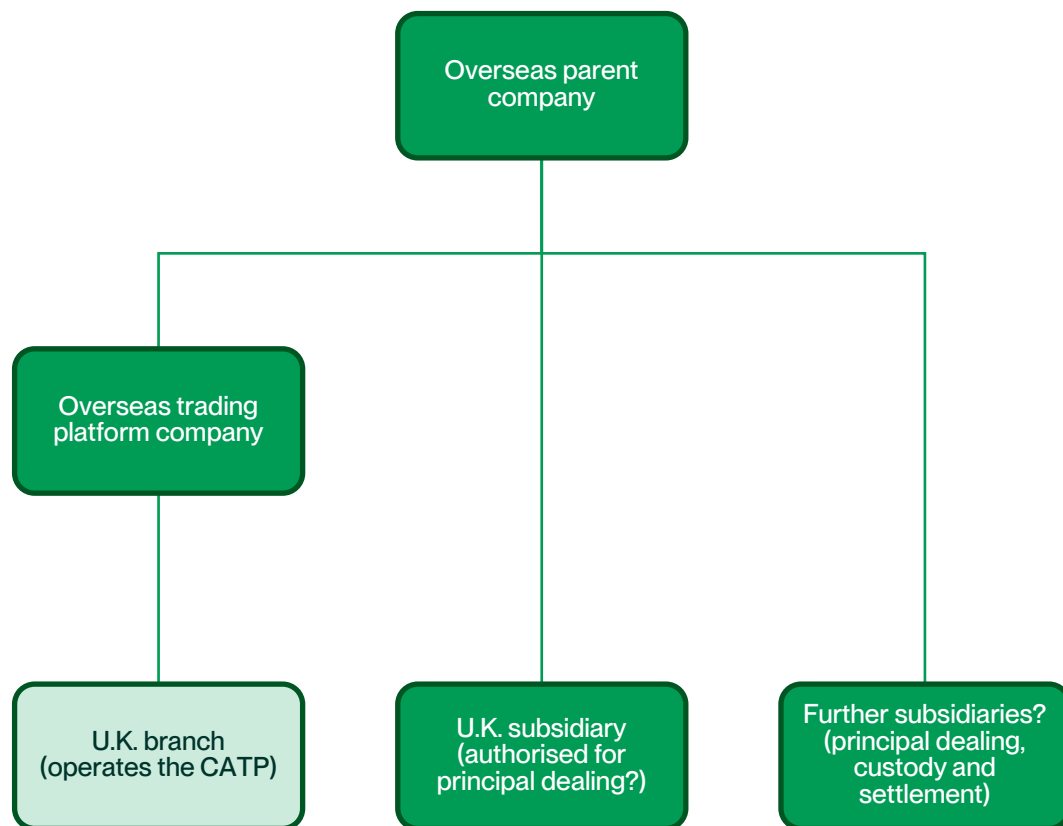
- ♦ Handles functions which are central to a CATP's operation
- ♦ Core matching execution activities to facilitate access to international liquidity
- ♦ Overseas firms would need to meet fundamental threshold conditions and general FCA expectations. Regulatory requirements applied on a home/host basis

- ♦ **U.K. subsidiary:**

- ♦ Handles client-facing functions like customer on-boarding and e-money issuance, or other ancillary/complementary activities
- ♦ Rationale: enables the FCA to supervise adequately
- ♦ Anti-avoidance: cannot operate a predominantly U.K. business from overseas – CATPs with significant U.K. business would have to maintain appropriate operations, permissions and authorisations in the U.K.

Group structures and conflicts of interest

Potential structure



Proprietary trading

- ◆ Conflicts of interest
 - ◆ CATP trading on-platform as principal
 - ◆ CATP trading off-platform as principal
 - ◆ CATP-affiliated firms trading on-platform or off-platform as principal
- ◆ “legal or operational separation”, “legal or functional separation”
- ◆ Role of disclosure?

Custody and settlement

- ◆ Internalised or external services

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Dealing activities



Intermediary activities

- ♦ **Dealing in qualifying cryptoassets as principal means:**

Buying, selling, subscribing for or underwriting qualifying cryptoassets as principal

- ♦ **Exclusions for (amongst others):**

- ♦ “Not holding out”
- ♦ Creation (including design) and minting of qualifying stablecoins
- ♦ Issuing for free and blockchain staking rewards
- ♦ Non-public transfer of created/minted cryptoassets as part of capital raising
- ♦ Issuing a qualifying stablecoin in the U.K.

Broker-dealer activities

- ♦ Includes trading desks, order execution services and other intermediary activities
- ♦ FCA is considering various conduct requirements, including:
 - ♦ Order handling and best execution rules
 - ♦ Execution of consumer orders across UK venues only
 - ♦ Functional separation of principal trading and client order execution operations
 - ♦ Prohibition on payment for order flow

Issuance of qualifying cryptoassets

- ♦ Expect involvement in issuances of qualifying cryptoassets (other than qualifying stablecoins) will be within scope of intermediary activities unless exempt
- ♦ Includes issuance of liquid staking tokens
- ♦ Includes offshore issuance unless excluded

Lending / borrowing of cryptoassets

- ♦ Proposal to prohibit lending to/borrowing from consumers
- ♦ Considering alternatives, including to permit:
 - ♦ Lending/borrowing generally, except of “own platform tokens”, and/or
 - ♦ Only lending/borrowing of qualifying stablecoins
- ♦ May restrict the use of credit to purchase cryptoassets except qualifying cryptoassets
- ♦ Will allow corporate/institutional lending and borrowing

Intermediary activities

- ♦ **Dealing in qualifying cryptoassets as agent means:**

Buying, selling, or subscribing for or underwriting qualifying cryptoassets as agent is a specified kind of activity

- ♦ **Arranging deals in qualifying cryptoassets:**

(1) Making arrangements for another person (whether as principal or agent) to buy, sell, subscribe for or underwrite a qualifying cryptoasset...

(2) Making arrangements with a view to a person who participates in the arrangements buying, selling, subscribing for or underwriting qualifying cryptoassets...

- ♦ Activity is drafted to also capture the operation of a cryptoasset lending platform

- ♦ **Exclusions for (amongst others):**

- ♦ Creation (including design) and minting of qualifying stablecoins
- ♦ Issuing for free and blockchain staking rewards

- ♦ **Exclusions for (amongst others):**

- ♦ Arrangements not causing a deal
- ♦ Introducing
- ♦ Enabling parties to communicate
- ♦ Creation (including design) and minting of qualifying stablecoins
- ♦ Issuing for free and blockchain staking rewards

Intermediary activities

- ♦ **Making arrangements for qualifying cryptoasset staking**

“qualifying cryptoasset staking” means the use of a qualifying cryptoasset in blockchain validation

“blockchain validation” means the validation of transactions on a blockchain, DLT or similar technology, and includes proof of stake

- ♦ **Exclusions for** (amongst others):

- ♦ Introducing
- ♦ Enabling parties to communicate
- ♦ This is unique to cryptoassets – there is no equivalent to any other regulated activities in the RAO
- ♦ Includes liquid staking
- ♦ FCA is seeking views on whether it is operationally viable to segregate a single consumer’s staked cryptoassets into a single wallet for each staking product

- ♦ **DeFi**

- ♦ HM Treasury does not intend to regulate “*truly decentralised finance*” where “*there is no person that could be seen to be undertaking the activity by way of business*”
- ♦ But firms that provide DeFi services which would involve regulated activities will be regulated, if there is a “*clear controlling person(s)*”
- ♦ FCA will assess on a case-by-case basis whether a sufficiently centralised entity is conducting regulated activities
- ♦ Could affect self-custodial wallets, decentralised exchanges and liquidity pools

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Crypto custody



Regulated activity of safeguarding

-
- 01 Regulated activity of:
- ♦ Safeguarding (i.e. custody) on behalf of another; or
 - ♦ Arranging such safeguarding (e.g. by offshore entity)
-
- 02 Applies to custody of:
- ♦ Qualifying cryptoassets; and
 - ♦ Specified investment cryptoassets that are securities or contractually based investments (e.g. tokenised equities, bonds and derivatives)
-
- 03 Safeguarding arises if custodian **has control** enabling custodian to bring about transfer of benefit of cryptoasset to another person
- ♦ Suggests mere “veto” rights (e.g. under fractional private key arrangements) not sufficient
 - ♦ However, position unclear given “control” can arise from “holding or storing ... part of the means of access”, and “means of access” can include part of private key
-
- 04 Safeguarding **on behalf of** another
- ♦ Self custody intended to be excluded
 - ♦ “On behalf of customer” can include where customer has: (a) both legal and beneficial title; (b) beneficial title only; or (c) right against custodian for return of cryptoasset
-
- 05 Certain exclusions available

Overseas *custodians*

TERRITORIAL SCOPE

Authorisation will be required where safeguarding is undertaken from an establishment in the U.K. and for overseas custodians that:

- ♦ Provide or arrange cryptoasset custody
- ♦ Directly or indirectly (i.e. through an intermediary)
- ♦ To or for a U.K. consumer

Except where they have been appointed by a U.K. authorised cryptoasset custodian



Safeguarding as it relates to *specified investment cryptoassets*

01

The safeguarding activity also captures custody of “specified investment cryptoassets” that are securities or contractually based investments

Bringing the tokenised versions of traditional financial instruments into this new safeguarding activity will mean the FCA can make rules to address the specific risks associated with the custody of digital asset technologies that are not properly addressed at present in CASS

02

FCA CASS regime for *custody of qualifying cryptoassets* (CASS 17)

01

Trust-based segregation – individual or omnibus client wallets

02

Liability – strict liability not imposed

03

Record-keeping and reconciliation – client specific custody record and daily reconciliations

04

Security, operational and organisational arrangements for private keys – requirement to keep a key mapping record

05

Use of third parties

06

Reporting, disclosure, oversight and audit

Using *third parties* (CASS 17)



SUB-CUSTODY

Sub-custody rules more restrictive than existing CASS rules



AUTHORISATION

No allowance for unregulated sub-custodians



NECESSITY

Prohibition on relying on client instruction or client terms to deem sub-custody necessary



BOARD APPROVAL

New requirement for board approval for sub-custody



SUITABLE ADAPTATIONS

Obligation to make suitable adaptations so it is not necessary to use a sub-custodian

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Prudential regime for cryptoasset firms



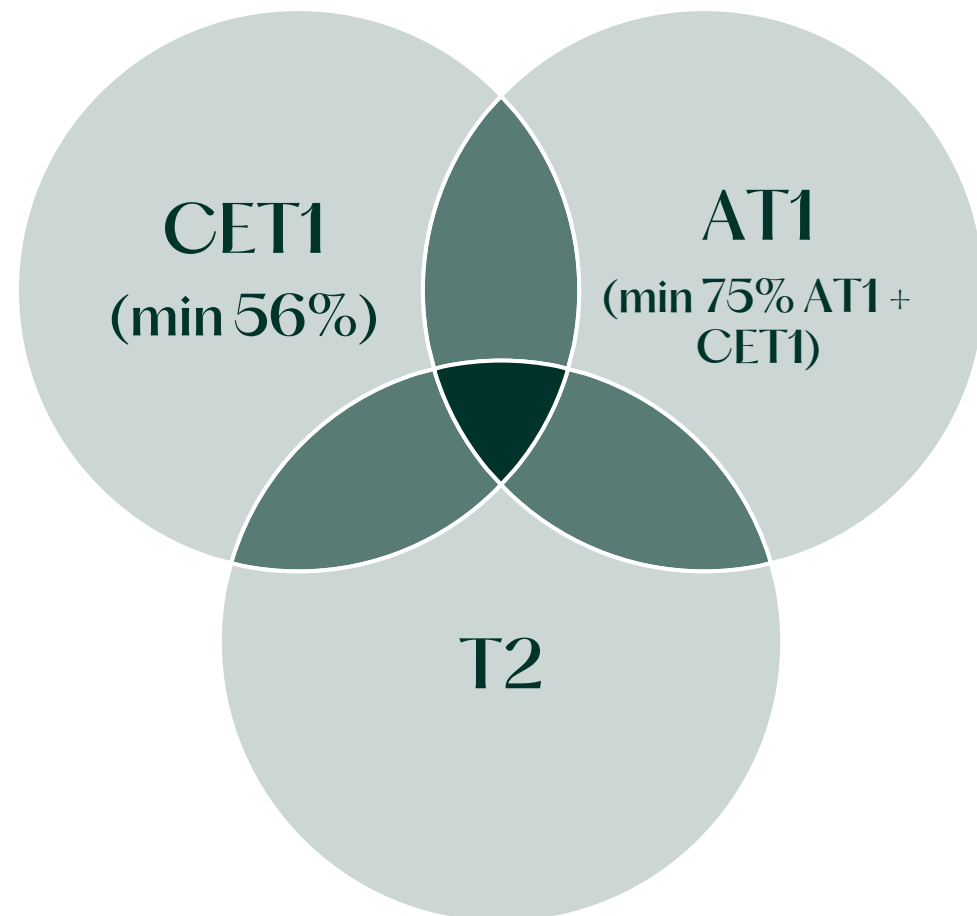
Proposed prudential regime *for cryptoasset firms*



CP25/15

- ◆ Rules for stablecoin issuers and custodians only (so far)
- ◆ Prudential requirements for stablecoin issuers apply in addition to backing asset liquidity requirements
- ◆ Similar structure to the FCA prudential regime for investment firms (MIFIDPRU)
- ◆ No explicit comment on how rules work for credit institutions operating stablecoin issuance or cryptoasset custody businesses
- ◆ Proposed new sourcebooks
 - ◆ COREPRU and CRYPTOPRU

CP25/15: *Definition and mix of capital*





CP25/15: *Regulatory capital requirements*

Applied on the basis of the highest of the **permanent minimum requirement (PMR)**, **fixed overheads requirement (FOR)** and **K-factor requirement**

PMR

- ♦ £350k for stablecoin issuers
- ♦ £150k for custodians

FOR

- ♦ Based on ¼ fixed overheads, i.e.:
$$\frac{\text{total expenditure} - \text{variable costs}}{4}$$

K-factors

- ♦ K-SII = 2% average qualifying stablecoin in issuance
- ♦ K-QCS = 0.04% custodian’s safeguarded cryptoassets

NB: other K-factor calibrations to be consulted on in futher CP



CP25/15: *Liquidity*

BASIC LIQUID ASSETS REQUIREMENT (BLAR)

Firms subject to CRYPTOPRU

- ◆ Requirement to hold an amount of liquid assets
- ◆ Amount is at least equal to the sum of:
 - ◆ 1/3 of the amount of the FOR plus
 - ◆ 1.6% of the total amount of guarantees provided to clients
- ◆ The client guarantee component will be relevant to other crypto activities which will be subject to further consultation
- ◆ Can be met using:
 - ◆ Coins and banknotes
 - ◆ Short-term deposits
 - ◆ Assets representing claims on or guaranteed by the U.K. government or the Bank of England
 - ◆ Units or shares in a short-term regulated money market fund or in a comparable third-country firm



ISSUER LIQUID ASSETS REQUIREMENT (ILAR)

Qualifying stablecoin issuers only

- ◆ Separate requirement to hold on-demand deposits to cover potential shortfalls in value of stablecoin backing assets
- ◆ Calculated on the basis of the sum of **relevant charges**
- ◆ Relevant charges found in a table in CRYPTOPRU 6 which specifies charges depending on:
 - ◆ Maturity bands
 - ◆ “Level” of asset (regime provides for 3 levels)
 - ◆ Coupon % (for levels 1 and 2 only)
- ◆ If a firm issues multiple stablecoins, ILAR must be calculated for each qualifying stablecoin



Proposed prudential regime *for cryptoasset firms*



WHAT'S NEXT?

- ◆ Further consultation(s) expected on various other issues including:
 - ◆ Extending regime to other services
 - ◆ Group requirements
 - ◆ Internal Capital Adequacy and Risk Assessment (ICARA)
 - ◆ Client money rules

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Stablecoin issuance





Qualifying stablecoin (QS) issuance – Overview

SUMMARY OF CP25/14 OBLIGATIONS FOR QS ISSUERS

- ◆ Draft Cryptoasset sourcebook (CRYPTO) and CASS additions
- ◆ Restricted backing assets held on statutory trust with unconnected/independent third party(s)
- ◆ Maintain 1:1 parity between backing assets and value of minted QS
- ◆ Disclosure redemption policy and composition of backing assets
- ◆ Issuer must receive direct payment for issuance, in money or FCA-authorized firm's QS
- ◆ Right of redemption for all holders at par (can't pay interest/return)
- ◆ Redemption actioned by end D+1; any fees commensurate with operational costs
- ◆ Reconciliation and record-keeping obligations

OTHER FCA REGULATION

- ◆ CP25/15 on prudential regulation
- ◆ Consumer duty and SYSC expected to apply
- ◆ Future CP with broader “conduct and firm standards”

OTHER REGULATORS

- ◆ Bank of England (systemic stablecoins CP expected later this year)
- ◆ Payment Systems Regulator



Backing assets

- ♦ Always hold backing assets of equivalent value to minted QS:
 - ♦ Including QS held by issuer
 - ♦ Excluding redeemed QS burned within 24h
- ♦ Permitted assets:
 - ♦ Core backing assets: on demand deposits (ODDR = 5%) and government debt instruments
 - ♦ Expanded backing assets: (1) government debt instruments maturing > 1y; (2) units in Public Debt CNAV Money Market Fund; (3) assets, rights or money held as counterparty to repo or reverse repo agreements
 - ♦ Must be in same currency(s) as QCs - TBD
- ♦ Requirements for expanded backing assets:
 - ♦ Notify FCA
 - ♦ Skill and competence
 - ♦ Backing Asset Composition Ratio (**BACR**)
 - ♦ Calculated every 14 redemption days
 - ♦ Sets minimum % of core backing assets (inclusive of DDR) based on peak estimated daily redemption amount + adjustment for actual redemption levels
 - ♦ Promptly notify FCA if breach BACR and submit action plan within further business day
- ♦ Risk management framework including:
 - ♦ Liquidity risk management policy – how meet redemption requests / stress testing
 - ♦ Contingency funding plan (**CFP**) - how source liquidity if shortfall in liquid assets / annual testing
 - ♦ Custody policy – prompt access to backing assets / diversification (see also CRYPTOPRU)



Safeguarding of backing assets

- ◆ Apply due skill, care and diligence in selection of third party
 - ◆ Written terms to address information sharing (including for reconciliation)
 - ◆ Regularly review arrangements / consider diversification
- ◆ Issuer as trustee remains responsible for backing assets including discrepancies
- ◆ Keep records of appointments and reviews
- ◆ Reconcile QS against backing assets, using internal and external records
 - ◆ Conduct and record daily (more often depending on volatility) reconciliation of backing assets against value of minted QS
 - ◆ Remove excess (or mint new QS) or top up shortfall, within 1 business day
- ◆ Appoint CASS oversight officer
- ◆ Client asset audits
- ◆ Client Money and Assets Returns to FCA



Redemption and disclosures

REDEMPTION

- ♦ *All holders* have right to redeem in par in QS currency
- ♦ Issuer decides whether to support other currencies
- ♦ No minimum redemption amount
- ♦ Redemption fees
 - ♦ Commensurate with operational costs of executing redemption
 - ♦ Can't pass on costs/losses for asset pool
 - ♦ Fee must not exceed QS value
- ♦ Can temporarily suspend redemptions in exceptional circumstances e.g. DLT failure, issuer insolvency, loss of confidence in QS

DISCLOSURES

- ♦ Flexibility of content subject to publishing key information e.g. redemption process and fees, use of tech and third parties
- ♦ 3 monthly updating of # stablecoins + backing asset composition and value + statement of 1:1 backing
- ♦ Must be accurate, accessible (including published online), clear, fair and not misleading



Other

USE OF THIRD PARTIES

- ◆ Issuer remains responsible for compliance
- ◆ Adequate due diligence and contractual agreements (including information sharing)
- ◆ Review arrangements annually

RISK MANAGEMENT

- ◆ Understand and manage risks associated with design and build before issuance

MISCELLANEOUS

- ◆ KYC on intermediate QS holders
- ◆ Separate licence from e-money (PERG to clarify) and can mint QS before receipt of funds
- ◆ Payment services regulation N/A to payments using QS
- ◆ Application of conduct regime if different entities perform issuing activities, i.e. offering QS (for sale or subscription) vs redemption v maintenance of value?
- ◆ Focus on single currency QS; differences of approach for multicurrency QS TBD
- ◆ Attractive regime vs e.g. 'tokenised deposits'?

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Transitional arrangements





Transitional arrangements

01 Window for licence applications may be only shortly before licensing regime comes into effect

If apply during window:

02

- ♦ Pending licensing decision, can continue to do business outside of new regime for up to 2 years
- ♦ If application refused, up to 2 years for orderly wind down of existing cryptoasset activities (new activities not permitted)

03 Transitional period assumes existing opco serving U.K. market will apply for licence: what if that's not the case?



Questions?



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