

International Regulatory Strategy Group (IRSG)

RESPONSE TO THE FINANCIAL CONDUCT AUTHORITY CONSULTATION PAPER

‘APPLICATION OF FCA HANDBOOK FOR REGULATED CRYPTOASSET ACTIVITIES’

Introduction

The International Regulatory Strategy Group (IRSG) is a joint venture between TheCityUK and the City of London Corporation. Its remit is to provide a cross-sectoral voice to shape the development of a globally coherent regulatory framework that will facilitate open and competitive cross-border financial services. It comprises practitioners from the UK-based financial and related professional services industry who provide policy expertise and thought leadership across a broad range of regulatory issues.

The IRSG welcomes the opportunity to respond to the Financial Conduct Authority’s (FCA) consultation paper [CP25/25](#) ‘Application of FCA Handbook for Regulated Cryptoasset Activities’ dated 17 September 2025 (“**the Paper**”). This response focuses on the discussion proposals (chapters 1-5).

Key Messages

The IRSG supports the FCA’s proportionate, risk-based approach to extending Handbook provisions to cryptoasset firms and outlines key considerations for the future framework in the annex:

- **Designated investment business classification:** We support classifying qualifying cryptoasset activities as ‘designated investment business’ under the Handbook. Stablecoins should be treated proportionately as payment instruments. The FCA should clarify overlaps with payments rules, consider carve-outs for payment-focused stablecoins, and issue joint guidance with the Bank of England. Further clarity is needed on the scope of activities.
- **High-level standards:** We agree with applying the FCA’s high-level standards and 11 Principles to cryptoasset firms. The phased approach is proportionate and ensures regulatory consistency with traditional finance.
- **SUP rules:** We support applying SUP (excluding SUP 16) to cryptoasset firms, ensuring consistent supervision, oversight, and market integrity.
- **Senior Management Arrangements, System and Control (SYSC) rules:** We support extending SYSC requirements to strengthen governance, risk management, and accountability. Further guidance on conflicts of interest and alignment with Senior Managers and Certification Regime (SM&CR) and the Training and Competence sourcebook (TC) standards is welcomed.
- **SM&CR:** We support applying SM&CR to cryptoasset firms to enhance accountability and align standards with other regulated sectors.
- **Cyber and digital resilience:** We highlight the growing relevance of quantum threats (‘Harvest Now, Decrypt Later’) and recommend early adoption of post-quantum cryptography (PQC). Zero-knowledge proofs (ZKPs) also show potential for improving privacy and compliance in digital finance.

We wish to thank Clifford Chance LLP for their support in drafting this response.

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Annex: Responses to questions posed

#	Question / Response
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?

We broadly support the proposal that new cryptoasset activities defined in the Statutory Instrument (and described as “qualifying cryptoasset activities” in the draft FCA Handbook rules) should fall under the category of “designated investment business” for the purposes of applying relevant sections of the Handbook. This aligns with the principle of “same risk, same regulatory outcome,” ensuring that cryptoasset activities are regulated consistently with traditional financial activities presenting similar risks.

However, while we agree with this principle, we are concerned that the proposed classification of stablecoins as specified investments under the Financial Services and Markets Act (FSMA) may create significant regulatory and operational challenges. In particular, stablecoins are designed primarily as payment instruments, and applying an investment framework risks creating a conflict between their use as payment tools and their treatment as investment products. This dual character gives rise to several key risks:

- **Regulatory overlap:** Firms issuing or safeguarding stablecoins may be subject to both investment firm obligations (prudential, conduct, disclosure) and payment services requirements under PSRs/e-money rules, leading to duplicative compliance.
- **Operational complexity:** Applying Conduct of Business Sourcebook (COBS), CASS, and SM&CR alongside payment-system standards could impose disproportionate burdens on firms whose primary purpose is facilitating payments.
- **Market impact:** Treating stablecoins as investment products may hinder innovation in payment use cases and create barriers to entry, potentially undermining the UK’s objective of supporting a competitive and innovative digital payments ecosystem.

We therefore recommend that the FCA:

- Clarify how the Handbook requirements will interact with existing payments legislation.
- Consider proportionality measures or targeted carve-outs for stablecoin activities primarily intended for payment functions.
- Provide guidance on supervisory coordination between the FCA and the Bank of England to prevent duplicative or inconsistent regulatory requirements.

We acknowledge that the FCA has previously recognised this tension and is coordinating with the Bank of England and HM Treasury to align cryptoasset regulation with payment system oversight.

However, CP25/25 does not fully resolve this overlap, as it primarily focuses on applying the Handbook to cryptoassets as investment business.

Furthermore, the consultation paper lacks sufficient clarity on the scope of activities captured or the basis for exclusions. While the proposed approach for cryptoasset trading appears broadly appropriate, further guidance is needed on how specific activities—such as transactions without a brokerage function or involving direct market access—will be treated under the new regime.

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

We support the proposal to apply High Level Standards to cryptoasset firms in the same way they apply to traditional financial firms. Applying the full suite of rules, including the 11 Principles for Businesses, ensures consistent expectations across all regulated firms and promotes fair, safe, and resilient markets. The phased implementation—requiring critical notifications for fraud and crime immediately, with other requirements introduced over time—is a proportionate approach. This approach aligns with the FCA’s principle of ‘same risk, same regulatory outcome,’ ensuring that cryptoasset firms are subject to comparable regulatory standards as traditional financial firms facing similar risks.

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

We agree with the proposed application of existing SUP rules (excluding SUP 16) to cryptoasset firms. This ensures that supervision, information gathering, variation of permissions, notifications, and auditing will be applied in line with other regulated firms, supporting effective oversight and market integrity. Applying SUP sets a clear regulatory baseline for cryptoasset firms and aligns with requirements already in force under FSMA.

#	Question / Response
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)?

We support the FCA's proposed incorporation of cryptoasset activities into the SISK (Systems and Controls) Handbook through the extension of SYSC obligations. This approach promotes robust governance and risk management frameworks among crypto firms.

We welcome the FCA's acknowledgement of inherent conflicts of interest, particularly in vertically integrated models where exchanges act as both custodians and trading venues. Provisional guidance will be valuable in helping firms interpret SYSC obligations as they apply to cryptoasset activities.

We support the extension of existing SYSC standards relating to skills, training, and expertise to cryptoasset firms. Alignment with the SM&CR and the TC reinforces market trust and regulatory consistency.

#	Question / Response
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.

We support the FCA's proposal to extend the Senior Managers and Certification Regime (SM&CR) to cryptoasset firms. This is a well-founded and proportionate measure that will strengthen senior management accountability, clarify responsibilities, and ensure the maintenance of fitness and propriety standards consistent with existing FCA-regulated sectors. The proposal appropriately aligns crypto firms with traditional financial services firms, reflecting the FCA's principle of "same risk, same regulatory" outcome.

#	Question / Response
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?

N/A

#	Question / Response
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.

N/A

#	Question / Response
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.

N/A

#	Question / Response
9	Do you agree with our proposal to require cryptoasset firms to follow the same financial crime framework as FSMA-authorised firms? If not, please explain why.

N/A

#	Question / Response
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?

N/A

#	Question / Response
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.

We would highlight quantum technology as a key emerging consideration for the operational resilience of cryptoasset firms. In particular, “Harvest Now, Decrypt Later” (HNDL) techniques present a growing risk, whereby data encrypted today could be stored and decrypted in the future once quantum capabilities become more advanced. This underscores the importance of integrating post-quantum cryptography (PQC) into distributed ledger technologies (DLT) and any other interconnected systems to ensure long-term data security and resilience.

In addition, zero-knowledge proofs (ZKPs) are an increasingly relevant cryptographic protocol that enables information or statements to be verified without disclosing the underlying data itself. While not yet universally adopted, such technologies demonstrate how privacy-preserving verification methods can enhance both security and compliance in digital financial systems.

As the threat landscape evolves, there may be a need to incorporate or mandate similar advanced cryptographic solutions in the future to strengthen the sector’s resilience and maintain regulatory confidence in cryptoasset operations.

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

N/A