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CryptoUK
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Submitted by email: cp26-17@fca.org.uk

Dear FCA

**Responses to Chapters 3 and 6 of FCA Quarterly Consultation Paper CP26/17 (the "*Consultation Paper*")**

CryptoUK (**"we"**) and its members welcome the opportunity to comment on the Consultation Paper regarding (i) annual fees and levies for cryptoasset firms and (ii) section 21 approval notifications for qualifying cryptoasset financial promotions. CryptoUK is the UK's self-regulatory trade association representing the cryptoasset sector. Our members comprise over 150 of the leading companies across the sector and across the UK. Many of our members are also international and engage with regulators and policies on a global basis.

We have provided detailed answers to each question posed in the Consultation Paper within the Appendix. We seek to offer pragmatic and relevant observations about, and suggestions in response to the content within the Consultation Paper.

## Appendix

**Consultation Questions:**

**3.1. Do you agree that the fees of cryptoasset firms in fee block A.26 should be based on regulated income, using our standard definition of income in FEES 4 Annex 11A?**

CryptoUK agrees that regulated income is an appropriate tariff base for fee block A.26. It is a familiar measure within the FCA's existing fees architecture, scales with firm size, and is more proportionate than a flat activity based measure for the general A.26 periodic fee. The confirmation in paragraph 3.8 that firms moving from fee-block G.30 into A.26 will not be required to pay periodic fees in both fee blocks is also welcome, given that many firms currently registered under the Money Laundering Regulations will be preparing for FSMA authorisation.

However, while the principle that fee contributions should be proportionate to the size and scale of a firm's regulated activities is well-established in traditional financial services, we have concerns about whether the standard definition of income is sufficiently adapted to the unique revenue structures of cryptoasset firms. The revenue models of cryptoasset firms differ materially from those in traditional finance. Income may derive from trading spreads, transaction fees, staking commissions, custody fees, listing fees, network validator rewards, or yield generated from DeFi protocol integrations. Not all of these income streams arise from activities that generate regulatory risk or supervisory cost for the FCA. The final rules should therefore be accompanied by practical examples showing how FEES 4 Annex 11A and FEES 4 Annex 13G apply to common cryptoasset business models, including multi-activity groups. This would help firms identify income attributable to authorised cryptoasset activities consistently when preparing authorisation applications and later annual returns, and would ensure the definition does not inadvertently sweep in income from ancillary technology services or unregulated activities.

The first A.26 variable fee-rate, to be consulted on in the 2028 Spring Fee-Rates Consultation, should also explain how the application data has been used so that firms can understand the link between reported income, fee-block allocation and the eventual rate. Transparency in the rate-setting methodology will be essential to building industry confidence in the fairness of the fees framework.

We also support the threshold under which firms with under £100,000 in regulated annual income pay only the minimum fee in fee-block A.0 (currently £2,200). This is a proportionate feature of the periodic-fee structure because it recognises that firms entering the authorised perimeter will vary materially in scale and revenue. The same principle should also inform authorisation application fees. A minimum periodic fee of £2,200 may still be material for pre-revenue or early-stage cryptoasset firms, and any flat application fee can create a similar up-front barrier to seeking authorisation. CryptoUK would therefore encourage the FCA to consider whether a lower minimum fee, a first-year fee reduction or fee holiday, and a more graduated approach to authorisation fees would be appropriate for smaller firms, while preserving the FCA's ability to recover the costs of larger or more complex applications.

**3.2. Do you agree that annual income relating to a firm's 'relevant business' is an appropriate tariff base for the retail facing cryptoasset activities listed in Table 2? If not, what alternative tariff base would you propose?**

We accept in principle that annual income relating to a firm's relevant business is a reasonable starting point for retail facing cryptoasset activities listed in Table 2. The FCA's rationale is that these activities are generally customer facing and involve frequent consumer touchpoints that may give rise to complaints.

However, we would challenge the assumption that all of the listed activities generate comparable levels of complaint risk. For example, "arranging cryptoasset safeguarding" may involve minimal direct interaction with retail consumers and function more as a technology or infrastructure service. Similarly, "arranging qualifying cryptoasset staking" may involve automated processes with limited scope for consumer detriment compared with, say, operating a trading platform where pricing, execution quality, and outages are common sources of complaint. We would urge the FCA to consider whether a more granular approach, potentially with differentiated tariff rates for activities that carry demonstrably lower complaint risk, might be more proportionate and better aligned with the principle that levy contributions should reflect actual demand on the Financial Ombudsman.

We also note that some firms may face significant practical challenges in reliably distinguishing income from relevant business (i.e. business with consumers subject to Financial Ombudsman jurisdiction) from income derived from professional or institutional clients, particularly given that many cryptoasset platforms serve a mixed client base through a single interface. The FCA's existing provision at FEES 5.4.1R(3), which allows firms to report on a best estimate basis where they cannot reliably and consistently identify income attributable to relevant business, is a critical safeguard that must apply to cryptoasset firms from the outset. The FCA should also consider whether the traditional finance distinction between retail and professional clients translates cleanly to the cryptoasset context, where many users may be highly sophisticated but not technically classified as professional clients under the current regulatory framework.

**3.3. Do you agree with our proposal to apply a flat fee to firms dealing in qualifying cryptoassets as principal, including the provisionally proposed level of £75? If not, what alternative tariff base would you propose?**

Yes, we agree. Dealing as principal is often not directly customer facing, with firms acting on their own account rather than providing an ongoing service to retail clients. Complaint volumes are expected to be low, and income attributable to business that could give rise to complaints to the Financial Ombudsman may be difficult to identify. A flat fee of £75 is proportionate and consistent with the treatment of comparable principal dealing activities in traditional financial services, where dealing as principal currently attracts a flat fee of £75.

We welcome the FCA's commitment to keep the proposed level under review as the cryptoasset regime beds in and further evidence becomes available on firms' risk profiles, business models, and complaint volumes. We would emphasise that any future increase in this flat fee should be evidence based, linked to demonstrated complaint volumes rather than assumptions about risk, and subject to proper consultation with the industry. The cryptoasset sector should not be treated as

inherently higher risk than comparable traditional finance activities absent concrete data to support such a conclusion.

**3.4. Do you agree with our proposal to apply a flat fee to stablecoin issuance activities, including the provisionally proposed level of £75?**

Yes, we agree that a flat fee is the correct approach for stablecoin issuance activities. Stablecoin issuers typically do not have a direct relationship with end holders, as tokens are commonly issued and redeemed with exchanges at the wholesale level and traded by retail customers on secondary markets. This structure makes it difficult for issuers to reliably identify income derived from business conducted with eligible complainants, and complaint volumes are expected to be low.

The proposed flat fee of £75 aligns with the current minimum levy applicable to e-money issuers, which the FCA identifies as the closest traditional finance comparator. While we accept this comparison as a reasonable starting point, we would note that stablecoin issuers are arguably even more removed from retail consumers than e-money issuers, who typically do maintain direct account relationships with end users. The case for a flat fee of £0 during the initial period of the regime, with a subsequent review once actual complaint data is available, is strong. At minimum, the FCA should commit to not increasing this fee above £75 without clear evidence of material complaint volumes arising from stablecoin issuance activities.

We also urge the FCA to be cautious in drawing future analogies between stablecoins and e-money. While both involve the creation of a money like instrument, stablecoins operate on fundamentally different technological infrastructure, with different risk profiles and consumer interaction models. Any future changes to the levy for stablecoin issuers should be based on observed data from the cryptoasset regime itself, rather than imported assumptions from the e-money regulatory framework.

**3.5. Do you agree that the existing reporting requirement on the activities which will use the annual income tariff base will be sufficient for firms to identify and report annual income derived from 'relevant business'?**

We have reservations about whether the existing reporting requirements will be sufficient for all cryptoasset firms to identify and report annual income derived from relevant business. The diversity of business models in the cryptoasset sector presents unique challenges that do not arise in the same way in traditional finance. Many cryptoasset firms operate hybrid models that combine retail and institutional services through a single platform, serve customers across multiple jurisdictions with no clear UK specific revenue segregation, and generate income through mechanisms (such as protocol fees, liquidity provision, or staking rewards) that do not map neatly onto the concept of income from "relevant business" as understood in traditional financial services.

We therefore consider the existing safeguard at FEES 5.4.1R(3) allowing best estimate reporting to be essential rather than merely helpful. The FCA must issue detailed, sector specific guidance with worked examples covering common cryptoasset business models, including exchanges, custodians, staking providers, and multi service platforms. Without such guidance, there is a real risk of inconsistent reporting across the sector, which would undermine the fairness of the fee allocation.

In traditional financial services, firms have had decades to develop systems for identifying and segregating income by activity type and client classification. Cryptoasset firms entering the regulatory perimeter for the first time will not have these systems in place on day one. We strongly recommend that the FCA provide a transitional period of at least 12 months during which firms can develop reporting capabilities, with best estimate reporting accepted without penalty, and that the FCA engage with industry through roundtables or working groups to develop practical guidance before the first reporting deadline.

**6.1. Do you agree with our proposal to remove the requirement for section 21 approvers to notify us of the approval of financial promotions relating to qualifying cryptoassets other than in the circumstances described in paragraph 6.4?**

CryptoUK agrees with the proposal to remove the routine approval notification requirement for qualifying cryptoasset financial promotions, other than in the circumstances described in paragraph 6.4. The FCA's own compliance evidence indicates that a blanket notification requirement no longer provides supervisory value proportionate to the administrative burden placed on firms and the FCA. The proposed retention of targeted notifications for new approvers and direct offer financial promotions is a sensible way to preserve supervisory focus where the FCA has identified a stronger case for continued monitoring. The final rules should also give firms clear practical guidance on the intended use of SUP 15 for amendments, withdrawals and notifiable concerns. The broad notification requirement therefore no longer represents a proportionate means to mitigate harm when weighed against the substantial administrative burden it places on firms and the FCA.

The estimated cost savings to firms, which the FCA calculates at between £1.2 million and £2.5 million per year (with a present value of between £10.1 million and £21.8 million over a 10-year appraisal period), are significant and demonstrate the tangible benefit of proportionate regulation. We would encourage the FCA to apply this same evidence-based, proportionality focused approach to other areas of cryptoasset regulation as the regime matures.

The proposal is also a useful illustration of the wider proportionality issue in the financial promotions regime. CryptoUK recognises the importance of clear, fair and not misleading promotions, and does not suggest that consumer-protection standards should be weakened. The FCA's move towards differentiated treatment for UK-issued qualifying stablecoins is welcome, but the default RMMI categorisation still applies a broad marketing category to many qualifying cryptoassets with materially different economic functions and risk profiles. Tokenisation is a form of technology infrastructure, not an asset class with uniform risk characteristics, and regulatory treatment should therefore follow the economic function and consumer risk of the instrument rather than the fact that it is represented as a token. A monetary asset, a network token, a fiat-referenced token and a highly speculative token may each require controls, but not necessarily the same controls or customer journey frictions.

That position is consistent with the FCA's earlier consultation record. In PS23/6, paragraphs 1.32 to 1.33, the FCA recorded that many respondents accepted the need for rules around cryptoasset promotions, but argued that the approach should be less restrictive and more bespoke, with marketing restrictions and positive frictions applying only to some types of cryptoassets. CP26/17 now applies that logic in a

narrower context: where evidence shows that a blanket obligation is no longer adding proportionate supervisory value, the rule should be recalibrated rather than retained simply because cryptoassets remain within a high-risk investment category.

Industry experience since the regime came into force indicates that the cumulative effect of RMMI categorisation can extend beyond preventing harmful inducements to invest. It can restrict access to educational material, inhibit self-custody guidance, increase compliance costs for firms serving UK consumers, and make the UK market less attractive for firms that might otherwise provide products or services through a regulated route. CryptoUK therefore supports the proposed amendment to SUP 16.31.5R(1), and recommends that the FCA treat the evidence behind this proposal as part of a continuing review of RMMI calibration as the UK regime matures.
More broadly, this proposal validates the argument that the cryptoasset industry has made consistently: that well-designed, clear regulatory rules produce high levels of compliance, and that prescriptive, burdensome reporting obligations are not necessary to achieve good consumer outcomes. The FCA's acknowledgement that resource currently dedicated to reviewing notifications can be reallocated to other supervisory activities further supports a model of outcomes-focused regulation over process-heavy compliance requirements.

We note that the FCA will retain its regulatory powers to access firm information, intervene where necessary, and take enforcement action where concerns arise, as well as continuing to monitor firms' approval of financial promotions through general supervisory engagement. This provides an appropriate backstop and is consistent with the FCA's wider approach to supervision in established financial services sectors. We would encourage the FCA to continue trusting the sector to demonstrate compliance through outcomes rather than reverting to blanket notification requirements in the future.

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