GENERAL CATALYST INSTITUTE

Response to FCA Consultation Paper CP26/4 & GC26/2

To: Crypto Policy Team, Financial Conduct Authority

From: General Catalyst Institute

Date: 20 February 2026

Re: CP26/4: Application of FCA Handbook for Regulated Cryptoasset Activities, Part 2; and GC26/2: Application of the Consumer Duty to Cryptoasset Firms

Email: cp26-4@fca.org.uk

AI Review: We do not object to the use of AI to review this submission.

Publication: We consent to the publication of our organisation's name.

Executive Summary

The General Catalyst Institute (GCI) welcomes the opportunity to respond to CP26/4 and the accompanying Guidance Consultation GC26/2. As the global public policy arm of General Catalyst, a venture capital and transformation firm with over $40 billion in assets under management and more than 150 investments in financial technology and digital assets, we bring a perspective shaped by deep engagement with the companies building next-generation financial infrastructure.

General Catalyst maintains a significant and growing presence in the UK market through our London office and portfolio companies, including Monzo, Zego, Deel, and Capi Money, among others. We have a direct stake in ensuring the UK's cryptoasset regulatory framework is both properly rigorous and commercially viable. Our response draws on extensive cross-jurisdictional experience, including our comprehensive submission to the U.S. Senate Banking Committee's Request for Information on digital asset market structure in August 2025, and reflects feedback gathered directly from portfolio companies operating or seeking to operate in the UK.

We commend the FCA's commitment to the "same risk, same regulatory outcome" principle and the pragmatic decision to extend existing handbook frameworks to cryptoasset activities. This provides regulatory familiarity for firms already within the FSMA perimeter while establishing clear expectations for new entrants. Our overarching concern, however, is that the cumulative weight of CP26/4 alongside the preceding consultations (CP25/14, CP25/15, CP25/25, CP25/40, CP25/41, CP25/42, and CP25/36) creates a very dense body of regulation that firms must navigate simultaneously. We urge the FCA to invest in clear implementation guidance and active engagement through the September 2026 to February 2027 application window.

I. International Cryptoasset Firms and Location Policy

Question 1: Guidance for International Crypto Firms

We broadly agree with the proposed approach, including the expectation that firms serving UK clients should generally maintain a UK legal entity presence. This supports effective supervision and enforceability. However, we urge the FCA to implement this with appropriate flexibility,

particularly for QCATP operators where access to global liquidity pools is essential for competitive pricing and execution quality for UK consumers.

We specifically support the FCA's willingness to permit QCATP operators to combine a UK entity presence with UK authorisation of an overseas CATP via a UK branch for matching UK and overseas orders within the same legal entity. This is a pragmatic recognition that fragmenting order books across separate legal entities would reduce liquidity depth and worsen execution outcomes for UK clients.

On the sub-question of whether proposed rules should apply differently to a UK QCATP authorised via a UK branch in relation to non-UK users, we recommend:

- COBS requirements should apply in full to UK users of such platforms, but should be applied proportionately to non-UK users, recognising that those users may already be subject to consumer protection requirements in their home jurisdictions.
- The FCA should clarify its interpretation of the territorial scope of the new regulated activities, particularly in relation to dealing activities and the question of where a contract is formed. Without this clarity, firms risk unnecessary authorisation applications or inadvertent regulatory breaches.
- The FCA should consider equivalence frameworks with jurisdictions operating comparable regimes, particularly the United States (where the GENIUS Act and emerging market structure legislation establish analogous frameworks) and the EU (under MiCA). This would facilitate cross-border operations without duplicative compliance.

As we noted in our U.S. Senate Banking RFI submission, unified licensing frameworks and interoperability standards serve innovation and consumer protection far better than fragmented jurisdiction-by-jurisdiction requirements. The UK has an opportunity to lead by example.

Question 2: SUP 3.3 to 3.8 Extension to All Cryptoasset Activities

Yes. We support extending auditor requirements (SUP 3.3 to 3.8) to all cryptoasset activities, consistent with the "same risk, same regulatory outcome" principle. Robust independent audit is essential for market confidence, and applying these requirements unevenly across different cryptoasset activities would create an unjustifiable gap.

However, the pool of auditors with genuine cryptoasset expertise remains limited. We recommend the FCA consider a transitional period during which firms may supplement traditional audit with alternative assurance mechanisms such as third-party proof of reserves attestations and on-chain verification tools. In our Senate Banking submission, we advocated for monthly proof of reserves with standardised reporting formats and real-time on-chain verification where technically feasible. These principles apply equally here.

II. The Consumer Duty (Questions 3 to 8)

Question 3: Applying Principle 12 and PRIN 2A

Yes. We strongly support applying the Consumer Duty to cryptoasset firms supplemented by sector-specific non-Handbook guidance. The Duty's outcomes-based framework is well-suited to the rapidly evolving cryptoasset sector, providing flexibility to innovate while maintaining clear accountability for consumer outcomes. We agree with the FCA's decision not to apply PROD, as

the Duty's Products and Services outcome provides equivalent protections without the rigidity of prescriptive product governance rules.

We note the FCA's commitment to consult on narrowing the Duty's territorial scope to exclude non-UK customers in H1 2026. We strongly encourage this. Applying the Duty to non-UK customers of UK authorised firms creates significant compliance complexity, particularly for QCATP operators serving global user bases, and risks putting UK authorised firms at a competitive disadvantage relative to operators authorised in jurisdictions without equivalent extraterritorial requirements.

Question 4: Duty Not Applying to QCATP Trading

Yes. We agree that the Duty should not apply to trading between participants of a UK QCATP, consistent with the treatment of MTFs in traditional finance. The CRYPTO sourcebook's platform operator rules in Chapter 6 provide for non-discretionary, fair, and transparent trading. Applying the Duty on top of these rules would create duplicative obligations without commensurate consumer benefit. We support the Duty continuing to apply to how QCATP operators interact with retail customers more broadly, including communications and customer service.

Question 5: Duty Applying to UK Issued Qualifying Stablecoins

Yes. Given the payment-like characteristics of stablecoins and their direct consumer impact, applying the Duty to all activities relating to UK-issued qualifying stablecoins, including public offers and admissions to trading, is appropriate. Consumers using stablecoins for payments or value storage should receive the same standard of protection as users of comparable regulated payment instruments.

Questions 6 and 7: Proposed Guidance on Cross-Cutting Rules and Duty Outcomes

We welcome the proposed guidance in GC26/2 and offer the following observations:

On the price and value outcome, we welcome the FCA's decision not to include the example from CP25/25 suggesting that maintaining percentage-based charges during sustained price appreciation would be inconsistent with fair value. Percentage-based fees are standard across global platforms and reflect the complexity and risk of facilitating transactions on volatile assets. We urge the FCA to provide further clarity in the final guidance on fair value assessments for: (a) tiered fee structures based on trading volume; (b) services involving blockchain native costs such as gas fees and network transaction costs that are outside the firm's control and passed through to consumers; and (c) staking and yield bearing products where the relationship between fees, rewards, and value is more complex than traditional products.

On the products and services outcome, we appreciate the recognition that for truly decentralised cryptoassets such as Bitcoin, there may not be an identifiable manufacturer. In our Senate Banking submission, we advocated for recognising decentralisation as a spectrum rather than a binary state. We recommend the FCA provide additional guidance on how platforms should assess whether they are acting as a "manufacturer" versus a "distributor" when listing third-party tokens, as the obligation to conduct manufacturer-level product governance for each of hundreds of tokens could be disproportionate.

On consumer understanding, the guidance should acknowledge the inherent technical complexity of cryptoasset products and provide firms with flexibility in how they communicate

risks, provided the communication is fair, clear, and not misleading. Overly prescriptive communication requirements may result in lengthy disclosures that consumers do not engage with.

Question 8: Additional Guidance Areas

We believe the following areas would benefit from additional FCA guidance:

- DeFi interactions: How the Duty applies when an authorised firm provides access to decentralised protocols, including the extent of the firm's responsibility for outcomes on third-party protocols (which they may not exercise any control over).
- Cross-chain and interoperability services: Consumer understanding obligations where services involve bridges, wrapped assets, or multi-chain settlement with inherent technical complexity.
- Airdrops and token distributions: Whether receiving unsolicited cryptoassets creates obligations under the Duty for the platform through which they are received.
- Staking services: How the Duty's price and value outcome applies to staking, where yields are variable and dependent on network conditions outside the firm's control.

III. Dispute Resolution and Compensation (Questions 9 to 14)

Questions 9 and 10: DISP 1 and Stablecoin Third Party Arrangements

Yes to both. We support applying DISP 1 complaint-handling requirements to all cryptoasset firms and requiring stablecoin issuers to include complaint-handling provisions in contractual arrangements with third parties acting on their behalf. Clear, standardised complaint handling is essential for consumer trust.

We also support the phased approach to complaints reporting, deferring DISP 1.10 and 1.10A in favour of baseline complaint data through SUP 16 during the initial period. This appropriately balances regulatory oversight with the practical challenges firms face during the transition.

Questions 11 and 12: Financial Ombudsman Jurisdiction

We agree that the Financial Ombudsman's compulsory jurisdiction should extend to complaints about all new cryptoasset activities (Question 11) and that the voluntary jurisdiction should not be extended at this time (Question 12).

However, we share concerns regarding the Ombudsman's technical readiness. Cryptoasset disputes will involve highly technical issues, including blockchain settlement failures, smart contract execution, cross-chain bridge incidents, and private key management. We strongly recommend:

- The FCA and Financial Ombudsman establish a dedicated cryptoasset training programme for case handlers, drawing on industry expertise.
- Clear published guidance confirming that investment losses from market volatility will not be upheld and that complaints arising from blockchain-level issues beyond a firm's control (network congestion, protocol-level bugs) will be assessed in the context of what the firm could reasonably have been expected to do.

- A specialist advisory panel to support the Ombudsman on complex crypto-specific cases during the initial years of the regime.
- Close coordination between the FCA and Ombudsman to ensure that the Ombudsman's case handling approach is consistent with the FCA's supervisory expectations, particularly in novel areas where there is no established precedent.

Questions 13 and 14: FSCS Coverage and SIC Safeguarding

We agree with not extending FSCS coverage to new regulated cryptoasset activities at this stage (Question 13). There is insufficient data to set appropriate compensation limits and levies, and premature extension could create a moral hazard by signalling inappropriate levels of safety for inherently volatile assets.

On Question 14 regarding the SIC safeguarding inconsistency, we flag this as a genuine concern. The move of SIC safeguarding from Article 40 to Article 9N of the RAO risks creating an arbitrary gap where safeguarding a traditional share falls within FSCS scope but safeguarding its tokenised equivalent does not. Where the underlying asset would attract FSCS protection in its traditional form, the tokenised version should receive equivalent treatment. We recommend the FCA commit to a formal review of this position within 18 months of the regime going live, with a clear policy intent to eliminate what can be construed as unjustifiable inconsistencies between traditional and tokenised instruments.

IV. Conduct of Business Sourcebook (Questions 15 to 21)

Question 15: COBS Application to Non-UK Clients of Branch Authorised QCATPs

We recommend that COBS should generally not apply to non-UK retail and professional clients of a UK QCATP operator incorporated overseas and authorised via a UK branch, subject to limited exceptions for core anti-fraud and market integrity provisions. These clients are typically already subject to consumer protection requirements in their home jurisdictions. Applying the full weight of COBS to non-UK users would increase compliance costs significantly, potentially making it uneconomic for overseas QCATP operators to obtain UK authorisation and thereby reducing the number of platforms available to UK consumers.

We welcome the FCA's ongoing consideration of whether to disapply COBS generally for non-UK users and urge this to be resolved before the application window opens in September 2026, as it is a material factor in firms' commercial decisions about whether and how to establish a UK authorised presence.

Question 16: Category A and Category B Qualifying Cryptoassets

We support the concept of risk-based categorisation. In our Senate Banking submission, we advocated for a token taxonomy based on underlying characteristics, such as functionality (payment, utility, governance, asset-backed), to remain merit- and technology-neutral. We recommend Category A (lower risk) include: (a) qualifying cryptoassets that have demonstrated sustained market liquidity and adoption over an extended period (e.g., three or more years of continuous trading on established platforms); (b) qualifying cryptoassets with transparent, well audited open source codebases; and (c) qualifying cryptoassets with governance structures providing meaningful decentralisation. Category B (higher risk) would appropriately capture

newer, less tested, or more concentrated assets. We encourage the FCA to publish illustrative examples alongside the final rules.

We also support retaining COBS 5 non-application and the decision not to apply COBS 11 to qualifying cryptoasset activities (substituting CRYPTO 5 execution and order handling rules). We recommend that the FCA ensure COBS 10 appropriateness requirements are proportionate, particularly the proposed change from guidance to a rule for COBS 10 Annex 4G. While we support robust appropriateness assessments, overly rigid questionnaire requirements may become a tick-box exercise rather than genuinely informing consumer decision-making.

V. Use of Credit to Purchase Cryptoassets (Question 22)

We welcome the FCA's decision not to proceed with a blanket ban on credit card purchases of cryptoassets, recognising the implementation challenges and the fact that credit providers already conduct creditworthiness assessments. The Duty's requirement for firms to consider whether to provide additional information to consumers using credit is an appropriate, proportionate alternative.

We recommend the FCA provide guidance distinguishing between qualifying stablecoins and other qualifying cryptoassets in this context. A consumer purchasing a fully reserved, fiat-backed UK-issued qualifying stablecoin for payment purposes presents a fundamentally different risk profile than one using credit to speculate on volatile cryptoassets. A uniform approach risks inadvertently restricting stablecoin-based payments, which both the UK government and the FCA have identified as a priority innovation area.

VI. SM&CR Tiering (Questions 23 to 25)

We support applying SM&CR to cryptoasset firms and the proposed tiering thresholds. The thresholds for enhanced categorisation (£65 billion backing asset pool for stablecoin issuers and £100 billion in safeguarded cryptoassets for custodians, both on rolling/annual measures) are set at levels that will capture only genuinely systemically significant firms, which is appropriate.

We recommend the FCA consider a transitional arrangement for newly authorised firms, allowing a defined period (e.g., 12 months from authorisation) to build out the governance structures required for enhanced categorisation while operating under core SM&CR obligations. This is particularly important given that the enhanced regime imposes significant additional compliance costs, and many firms entering the new regime will be building these structures for the first time.

VII. Training and Competence (Questions 26 and 27)

We support applying the Training and Competence Sourcebook to cryptoasset firms serving retail clients and commend the FCA's pragmatic decision not to propose mandatory qualifications at this stage. The market for professional cryptoasset qualifications is still developing, and prescribing specific qualifications prematurely could create supply bottlenecks.

We recommend the FCA work with industry, potentially through the Innovation Hub or in partnership with CryptoUK and Innovate Finance, to develop recognised competence standards covering both technical blockchain understanding and the specific regulatory obligations under

the new regime. These could be published as non-mandatory guidance to help firms develop their internal training frameworks.

VIII. Regulatory Reporting (Questions 28 to 35)

We strongly support the phased, iterative approach to regulatory reporting. Requiring baseline data initially and building toward more granular reporting as the regime matures is both pragmatic and proportionate. However, as Travers Smith and others have noted, an iterative approach does create the risk of a moving target for firms during the first years of the regime. We urge the FCA to:

- Publish a clear indicative roadmap of planned reporting enhancements alongside the Policy Statement, so firms can plan their data collection and systems infrastructure accordingly.
- Provide machine-readable reporting templates well in advance of the September 2026 gateway opening.
- Leverage blockchain native data where possible. On-chain transaction data, proof-of-reserve attestations, and wallet analytics should be accepted as satisfying reporting requirements, rather than requiring firms to manually recreate information that is already transparently available on public ledgers.
- Establish a dedicated FCA helpdesk for cryptoasset reporting queries during the first 12 months of the regime.
- Align reporting timelines with international standards (particularly IOSCO CDA recommendations) to reduce duplicative reporting for cross-border firms.

We note the proposed quarterly reporting cycle (30 business days post period) and monthly cycle for safeguarding returns (15 business days). These timelines are reasonable, though we encourage the FCA to monitor whether the monthly safeguarding cycle creates disproportionate burden for smaller custodians relative to the supervisory value of the data collected.

IX. Safeguarding Client Cryptoassets and Specified Investment Cryptoassets (Questions 36 to 42)

Robust safeguarding of client cryptoassets is foundational to consumer trust and market integrity. We support the FCA's approach to extending CASS rules to cryptoasset safeguarding through the new CASS 17 framework. In our Senate Banking submission, we advocated for differentiated custody treatment recognising the unique technical requirements of digital asset custody, including clear standards for key management, mandated multi-signature arrangements, and regular security audits.

We offer the following specific observations on the CASS 17 proposals:

Trust Requirement

We note with concern the proposed requirement that firms carrying on safeguarding must act as trustee over client cryptoassets under a trust complying with UK legal requirements. While we support the policy intent of ensuring client cryptoassets are segregated and insulated from firm creditors, we share the concern raised by commentators that this requirement may be unworkable for non-holding safeguarding scenarios. Under English law, a person cannot declare

a trust over assets in which they have no proprietary interest. Where a firm controls only the means of access to a client's cryptoasset (e.g., holding key shards) without holding the asset itself, the trust requirement as currently drafted would appear impossible to satisfy. We strongly recommend the FCA address this in the final rules, either by providing a specific exemption for non-holding safeguarding or by clarifying how the trust requirement should be applied in these scenarios.

Technology Neutrality

The FCA should avoid prescribing specific custody technologies (e.g., mandating particular cold/hot storage ratios or specific multi-signature configurations). The pace of innovation in custody technology, including multi-party computation, threshold signatures, and hardware security modules, means prescriptive rules risk becoming outdated. Outcome-based standards requiring firms to demonstrate appropriate security against foreseeable threats, with flexibility in how they achieve those outcomes, would be more durable and effective.

Reconciliation and Record Keeping

We support daily reconciliation requirements and the 24-hour shortfall resolution period. These are rigorous but achievable standards that align with the FCA's existing CASS framework expectations. We recommend the FCA acknowledge that firms may leverage blockchain-native data (on-chain transaction records, wallet balances) to satisfy reconciliation obligations, where such data provides a more accurate and timely record than manual processes.

Third Party Delegation

We support the conditions for appointing third parties to safeguard cryptoassets, including the requirement that third parties operate in jurisdictions with specific cryptoasset safeguarding regulation and ongoing supervision. We recommend the FCA publish guidance on which jurisdictions it currently considers to meet this standard, to provide certainty to firms structuring their custody arrangements.

Self Custody

We strongly urge the FCA to ensure the safeguarding regime does not inadvertently restrict consumers' right to self-custody. The right to hold one's own private keys is fundamental to the architecture of cryptoasset networks, and regulation should not mandate the use of custodial intermediaries. The final rules should make it clear that firms facilitating self-custody (e.g., providing non-custodial wallet interfaces) are not captured by the CASS 17 requirements.

X. Transatlantic Regulatory Coordination

As a firm deeply engaged in both U.S. and UK regulatory processes for digital assets, GCI highlights the importance of transatlantic coordination as both jurisdictions implement comprehensive cryptoasset regimes on parallel timelines. The United States has enacted the GENIUS Act for stablecoins and is advancing market structure legislation through the CLARITY Act. The UK's regime is being finalized simultaneously.

This creates an opportunity to establish coordinated, interoperable frameworks. It also creates a risk that divergent approaches to custody, location requirements, reporting, and consumer protection fragment markets and increase costs. We recommend the FCA:

- Establish formal dialogue with U.S. regulators (SEC, CFTC, OCC, FinCEN) on cryptoasset regulatory harmonisation.
- Pursue equivalence and mutual recognition for key regime components, particularly custody standards, AML/CFT requirements, and stablecoin reserve requirements.
- Engage actively with IOSCO's Crypto and Digital Assets workstream and the FSB's cryptoasset recommendations to ensure UK rules are internationally interoperable.

XI. Conclusion

The General Catalyst Institute commends the FCA for the thoroughness and rigour of CP26/4 and GC26/2. The UK is establishing one of the world's most comprehensive frameworks for cryptoasset regulation, and the quality of this iterative consultation process sets a high bar for other jurisdictions.

Our overarching recommendation is that the FCA maintain proportionality as the guiding principle through implementation. The application window opening in September 2026 and the regime going live in October 2027 represent a critical period for UK competitiveness. Firms that are compliant, well-intentioned, and committed to consumer protection should find the authorisation process navigable. The FCA's success should be measured not only by the robustness of its rules but by whether the UK attracts and retains the innovative firms that will drive the next generation of financial services.

We look forward to continuing our engagement with the FCA as the regime is finalised, and to supporting our portfolio companies through the authorisation process. General Catalyst and GCI stand ready to provide further input, facilitate dialogue between portfolio companies and the FCA, and contribute to the development of a framework that serves consumers, promotes innovation, and reinforces the UK's position as a global financial centre.

Respectfully submitted,

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About the General Catalyst Institute

The General Catalyst Institute is the global public policy arm of General Catalyst, a venture capital and transformation firm with over $43 billion in assets under management. GCI's mission is to promote global resilience by backing transformative technologies and shaping public policy that advances societal impact. GCI serves as a trusted partner to governments and public policy leaders on responding to, leveraging, and adopting cutting-edge technology. General Catalyst's portfolio includes more than 150 investments in financial technology and digital assets, spanning stablecoin issuers, crypto infrastructure providers, trading platforms, neobanks, insurtech companies, and payment networks.