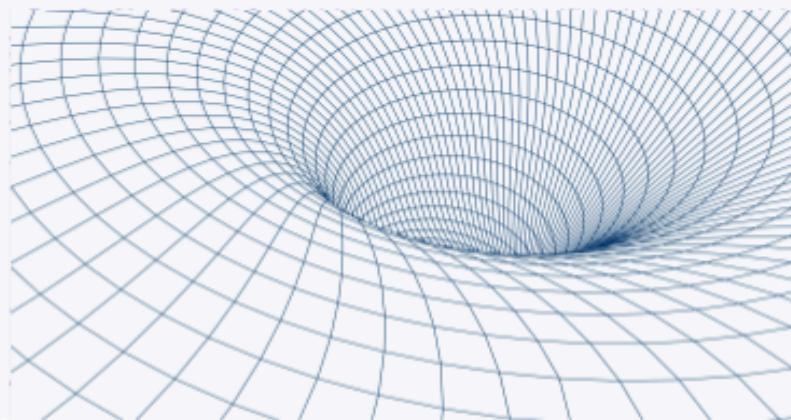


Exponential Science

Consultation Response

12 February 2026

Consultation Response on the FCA CP25/40: Regulating cryptoasset activities



Carol Alexander
Paolo Tasca
Nikhil Vadgama
Jiahua Xu
Juan Ignacio Ibañez

Online Response Form Questions:

*** Respondent full name**

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*** Are you responding on behalf of a company or organisation or as a private individual in a personal capacity?**

Company or organisation

*** Please provide the following information**

Name of organisation/company - UK Centre for Blockchain Technologies

Your position in the organisation/company - Chairman

*** Type of organisation or company**

Charity

Question 1: Do you agree with our proposals on location, authorisation, and operation of UK CATPs? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Positive ▾

FCA Proposal:

The FCA proposes that crypto asset trading platforms serving UK users should be subject to UK authorisation, with requirements on location, incorporation and operational presence, to improve supervisory oversight, market integrity and consumer protection.

Prof. Carol Alexander Response:

I support the FCA's proposal to require UK authorisation and a meaningful UK operational presence for crypto asset trading platforms serving UK clients. Effective supervision of market integrity and risk management is difficult where platforms operate offshore while actively targeting domestic users.

However, location and incorporation requirements alone will not materially reduce risk unless they are coupled with strong requirements on governance, conflicts of interest and risk controls. My research on financial and market risk, including in highly volatile and leveraged markets, consistently shows that risk in such systems is driven primarily by incentives and business models, not by legal form. In crypto markets, many of the most serious failures arose from vertically integrated platforms combining trading, brokerage, custody, token issuance and leverage within the same group. Authorisation should therefore be used as a mechanism to address these structural risks - the effectiveness of this proposal will depend on how rigorously authorisation is used to constrain risk-amplifying platform design.

Crypto market microstructure research suggests that formal authorisation and legal location are weak proxies for market quality when underlying trading activity remains concentrated on venues with opaque governance and limited functional separation. Empirical analysis shows that price discovery and volatility transmission in crypto markets are often dominated by a small number of large exchanges, regardless of jurisdiction, reinforcing the importance of supervising business models rather than relying on legal form alone (Alexander and Heck, 2020). Concerns about platform solvency, internal risk management and balance-sheet transparency are discussed in <https://www.coalexander.com/post/how-should-binance-prove-it-is-solvent> where I highlight why authorisation must be accompanied by robust ongoing supervision focused on incentives, governance and risk controls.

Alexander, C. and D. Heck (2020) Price Discovery in Bitcoin: The Impact of Unregulated Markets. Journal of Financial Stability 50, 1-18

Question 2: Do you agree with our proposals on UK CATP access and operation requirements? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Neutral ▾

FCA Proposal:

The FCA proposes that UK CATPs operate with fair, non-discretionary access rules, robust systems and controls, and transparent governance to ensure orderly markets. Platforms must oversee market-making and algorithmic trading through a principles-based regime and implement strong market abuse monitoring and information-sharing obligations under MARC.

Dr Jiahua Xu and Dr Paolo Tasca response:

While the vision for fair access and robust governance on UK CATPs is sound, its practical feasibility requires a rigorous reality check. A principles-based regime for algorithmic trading is theoretically appropriate, but enforcement will be exceptionally difficult as Large Language Models (LLMs) redefine the technological landscape. The complexity of modern autonomous systems makes it difficult to distinguish between legitimate execution and sophisticated market manipulation, posing a significant regulatory challenge that current surveillance standards may not be equipped to handle.

Research by Luo et al. (2025) highlights how LLMs now enable autonomous multi-agent systems to manage portfolios using complex multi-modal reasoning. This shifts "algorithmic trading" from simple rule-based execution to opaque, autonomous decision-making. Consequently, the FCA's proposed oversight may struggle to monitor systems where the "intent" behind a trade is buried within the non-deterministic reasoning of a black-box model, making traditional audit trails and market abuse detection significantly less effective.

Furthermore, detecting market abuse under MARC becomes exponentially harder as adversaries use LLMs to fabricate sentiment and simulate demand. As demonstrated by Luo et al. (2026), sophisticated bots can now use Chain-of-Thought reasoning to create illusions of market activity that bypass traditional surveillance. Unless the FCA conducts a feasibility check on how platforms can realistically detect LLM-driven "sentiment manipulation," the proposed enforcement obligations may place an unfeasible technical burden on CATPs, resulting in inconsistent application.

Luo, Y., Feng, Y., Xu, J., & Liu, Y. (2026, February 5). Resisting Manipulative Bots in Meme Coin Copy Trading: A Multi-Agent Approach with Chain-of-Thought Reasoning. ACM Web Conference. <https://arxiv.org/abs/2601.08641>

Luo, Y., Feng, Y., Xu, J., Tasca, P., & Liu, Y. (2025). LLM-Powered Multi-Agent System for Automated Crypto Portfolio Management. <http://arxiv.org/abs/2501.00826>

Question 3: Do you agree with our proposals on additional rules to protect UK retail customers? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Positive ▾

FCA Proposal:

The FCA proposes that UK retail investors may only access cryptoassets admitted to trading on a UK CATP with an A&D-compliant disclosure (QCDD). CATPs must direct retail users to disclosures, restrict access to non-admitted products, and implement transparent admission, withdrawal, and consumer information policies to enhance retail protection and cross-platform oversight.

Dr Jiahua Xu response:

I agree with the FCA's proposal to restrict retail access to cryptoassets admitted to trading on a UK CATP, subject to compliant disclosure (QCDD). By requiring platforms to act as gatekeepers and provide transparent admission and withdrawal policies, the FCA establishes a necessary baseline for consumer protection. This framework is essential for filtering out the "hype-driven" and low-quality assets that currently dominate the unregulated market, ensuring that retail investors only interact with assets that meet a verified standard of information.

The necessity of these restrictions is underscored by the prevalence of market manipulation targeting low-quality coins. Research by Xu and Livshits (2019) demonstrates that these schemes frequently target assets with low liquidity and small market capitalisations (often below \$50 million). These "low-quality" coins are susceptible to coordinated price inflation organised via social channels, where artificial demand is created to lure in retail investors. Without the mandatory disclosure and admission standards proposed by the FCA, retail users remain highly vulnerable to these "pump-and-dump" cycles where insiders liquidate at the peak, leaving late-arriving retail participants with worthless assets.

Furthermore, implementing a transparent withdrawal and consumer information policy allows for an orderly exit when an asset no longer meets the required standards. By

directing users toward QCDD-verified disclosures, the FCA addresses the "information asymmetry" that malicious actors exploit during hype cycles. This proactive stance on admissions is a vital defence against the structural vulnerabilities identified in the Xu and Livshits study, ultimately protecting the integrity of the UK cryptoasset market and preventing the irrecoverable financial losses often associated with unvetted, speculative tokens.

Xu, J., & Livshits, B. (2019). *The anatomy of a cryptocurrency pump-and-dump scheme*. 28th USENIX Security Symposium, 1609–1625.

https://www.usenix.org/system/files/sec19-xu-jiahua_0.pdf

Juan Ignacio Ibañez response:

We agree to the proposal to rely on A&D-compliant QCDDs as a requisite for asset offer and for admission to trading. This proposal is a functional equivalent to the European Union's Markets in Crypto Assets (MiCA) White Papers. Experience shows that the enforcement of comprehensive, standardised disclosure templates can increase the quality of disclosures relative to possible "race to the bottom" scenarios in which non-standard white papers are released as marketing documents.

We also agree to the logging on a centralised FCA repository and publication on the CATP website. Publication on the CATP website is a standard MiCA requirement, and homogeneity of such requirements facilitates multi-jurisdictional operation of trading platforms, which is a key aspect to remain competitive in the context of a borderless technology. The quality of the deployment of the centralised repository is one of the areas marked for improvement by the industry at large, with multiple private repositories being developed to address these shortcomings, such as the MiCA Crypto Alliance's own White Paper Tracker (<https://www.micacryptoalliance.com/white-paper-tracker>). For this reason, we endorse the development of an FCA central repository and highlight the importance of its comprehensive design and adequate maintenance.

Finally, with regard to the proposal to introduce transitional arrangements, we agree with the proposal if it is oriented by two guiding objectives. First, proportionality of requirements in the context of "legacy assets". Second, to enable sufficient time for industry players to develop templates and processes to effectively comply with the new regime, and for competition across technical providers to emerge, so that the cost of compliance is reduced. The experience of MiCA shows that MiCA white paper costs were reduced heavily after the first 6 months, we suggest a 6-month transitional period. We suggest that this period should start with the publication of the required QCDD templates by the FCA. During this period, we propose that "legacy assets", i.e. assets admitted under a different regulatory environment and, in many cases, without an identifiable or cooperative issuer, are excluded from the QCDD requirement, which comes into force only after the transitional period is over. We encourage the FCA to

provide early clarity on the expected duration and structure of transitional measures to allow industry participants to plan appropriately.

In our view, transitional arrangements designed around proportionality and operational feasibility will materially strengthen the effectiveness and credibility of the new regime.

Question 4: Do you agree with our proposals to manage conflicts of interest and related risks? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Positive ▾

FCA Proposal:

The FCA proposes rules to identify, manage and mitigate conflicts of interest on UK-authorised CATPs, particularly where platforms undertake multiple activities or have economic interests that may conflict with client outcomes or market integrity.

Prof. Carol Alexander Response:

I strongly support the FCA's focus on conflicts of interest, which are structural and pervasive in crypto asset markets. Many crypto platforms combine exchange operations, proprietary trading, brokerage, custody and token issuance within the same group, creating incentives that directly undermine fair price formation and execution quality. Such vertically integrated models generate endogenous risk, particularly during periods of stress, when incentives to internalise order flow or support affiliated tokens become strongest. Disclosure alone is not an adequate mitigant where conflicts are embedded in the business model.

The effectiveness of these proposals will therefore depend on whether they go beyond formal policies to require meaningful separation of functions, independent surveillance, and governance arrangements that genuinely constrain conflicted behaviour. This is an area where crypto markets differ sharply from traditional markets and where robust intervention is justified.

Conflicts of interest are structural rather than incidental. My research on price discovery and order flow shows that trading activity on exchanges with weaker governance and higher degrees of vertical integration can materially affect price formation and informational efficiency, particularly during periods of market stress.

(Alexander and Heck, 2020; Alexander, Heck, Kaeck and Riordan, 2024). <https://www.coalexander.com/post/how-should-binance-prove-it-is-solvent> illustrates how opaque internal risk management and balance-sheet interdependencies can blur the

boundaries between platform solvency, client protection and market integrity in vertically integrated firms.

Alexander, C. and D. Heck (2020) Price Discovery in Bitcoin: The Impact of Unregulated Markets. Journal of Financial Stability 50, 1-18.

Alexander, C., Heck, D., Kaeck, A. and R. Riordan (2024) Order Flow Impact and Price Formation in Centralised Crypto Exchanges.

Question 5: Do you agree with our high-level proposals on settlement? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Positive ▾

FCA Proposal:

The FCA proposes proportionate pre- and post-trade transparency, transaction recording, and regulatory reporting requirements for UK CATPs and principal dealers. It also proposes a flexible approach to settlement, allowing internal or external arrangements, provided firms clearly disclose settlement responsibilities, with further detailed rules and guidance to follow.

Dr Jiahua Xu and Nikhil Vadgama Response:

I support the FCA's high-level proposals on settlement, particularly the flexibility for firms to choose between internalised and externalised models. This pragmatic approach correctly balances operational efficiency with consumer protection by requiring clear communication regarding settlement responsibilities. Providing firms with the discretion to manage these processes ensures the regime can accommodate the diverse range of business models currently operating in the UK.

However, I believe further guidance is necessary regarding the definition of settlement for on-chain transactions. Unlike traditional finance, where settlement is a discrete legal event, many blockchains rely on 'probabilistic finality.' As highlighted in Barucca, Campajola, and Xu (2024), network dynamics such as propagation delays and power concentration can lead to forks. This means a transaction may appear confirmed but could technically be reversed by the network, creating a conflict between technical state and legal finality.

To ensure regulatory certainty, the FCA should clarify the specific thresholds or conditions under which an on-chain transaction is considered 'final' for regulatory and

reporting purposes. Without a clear distinction between technical confirmation and legal settlement, firms may adopt inconsistent risk thresholds. Providing specific guidance on how to navigate the inherent latency and probabilistic nature of distributed ledgers will be essential for creating a robust and predictable regulatory environment.

Barucca, P., Campajola, C., & Xu, J. (2024). How the interplay between power concentration, competition, and propagation affects the resource efficiency of distributed ledgers. <https://arxiv.org/abs/2411.10249>

Question 6: Is any further guidance on best execution required? If so, what additional guidance can we provide to clarify the scope of and expectations around best execution?

Please also indicate if your overall sentiment towards our proposals is:

Positive ▾

FCA Proposal:

The FCA asks whether further guidance is needed on best execution in crypto asset markets, including clarification of scope and expectations given market fragmentation and differing execution models.

Prof. Carol Alexander Response:

Additional guidance on best execution is necessary and welcome. Crypto markets are highly fragmented, liquidity quality varies widely across venues, and prices can diverge materially during periods of volatility. In this environment, mechanically applying traditional best-execution concepts risks creating false assurance rather than better outcomes. My work on market microstructure and risk highlights that execution quality in volatile markets depends not only on price, but also on liquidity depth, likelihood of execution, slippage and settlement risk. Best-execution guidance should therefore explicitly recognise these factors, particularly for retail clients. I would support guidance that focuses on execution policy governance and evidence, rather than per-transaction compliance, and that requires firms to demonstrate how venue selection and execution methods perform under stressed conditions, not just in normal markets.

Studies of price discovery show that execution outcomes are strongly influenced by venue-specific liquidity, market depth and the interaction between spot and derivatives markets, particularly during periods of heightened volatility (Alexander, Heck and Kaeck, 2022a). This concentration of price formation is also evident in practice, as discussed in <https://www.coalexander.com/post/almost-all-bitcoin-price-transmission-comes-from-binance>, which highlights how execution quality can become tightly linked to a small number of dominant venues. Together, this supports the need for best-execution

guidance that explicitly accounts for liquidity quality, resilience and stress performance rather than relying on static price comparisons.

Alexander, C., Heck, D. and A. Kaeck (2022a) Price Discovery in Bitcoin: The Role of Limit Orders

Question 7: Do you agree with our proposed guidance (including the exemptions proposed) to check at least 3 reliable price sources from UK-authorised execution venues, such as a CATP or principal dealer (if available)? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Positive ▾

FCA Proposal:

The FCA proposes guidance requiring firms to check prices against at least three reliable price sources from UK-authorised execution venues, subject to stated exemptions.

Prof. Carol Alexander Response:

I support the principle of avoiding reliance on a single price source, but the effectiveness of this proposal will depend on how “reliable” price sources are defined and supervised. In crypto markets, multiple venues can report prices that are technically distinct yet economically misleading due to wash trading, thin liquidity or stale quotes. My research on price discovery and market integrity shows that simply increasing the number of reference venues does not necessarily improve execution quality unless data quality and liquidity are addressed explicitly. There is also a risk that an overly rigid UK-centric interpretation could worsen outcomes if authorised venues are thinly traded. The guidance should therefore make clear that this is a policy-level governance requirement rather than a mechanical per-trade rule, and should be accompanied by expectations around data quality, liquidity assessment and outlier handling.

The empirical basis for these concerns is well established in the crypto market microstructure literature. Research on cryptocurrency data quality shows that headline prices and volumes can be contaminated by unregulated venue practices, and that naïve aggregation across venues may amplify, rather than reduce, measurement error (Alexander and Dakos, 2020). This much-read blog <https://www.coalexander.com/post/binance-spoofy-bots-and-liquidations> demonstrates how spoofing and thin liquidity can generate misleading price signals even when multiple venues are referenced. This supports an approach in which “three sources” is treated as

a necessary but insufficient condition, requiring explicit criteria for venue reliability, liquidity and outlier controls.

Alexander C. and M. Dakos (2020) A Critical Investigation of Cryptocurrency Data and Analysis. Quantitative Finance, 20(2), 173-188

Question 8: Regarding the general disclosure requirements when firms serve retail or professional clients, what changes or additions may help client understanding?

Please also indicate if your overall sentiment towards our proposals is:

Neutral ▾

FCA Proposal:

The FCA proposes enhanced disclosure requirements for intermediaries serving retail and professional clients, including clear communication of the firm's role (principal or agent), execution arrangements, use of non-UK venues where permitted, pricing details, and associated risks, to improve transparency and client understanding.

[We refrain from commenting on this question.]

Question 9: Do you agree with the proposed specific pre-trade disclosures to clients by principal dealers? If not, please explain why not? Do you have any suggestions that can make these disclosures more effective?

Please also indicate if your overall sentiment towards our proposals is:

Neutral ▾

FCA Proposal:

The FCA proposes that intermediaries dealing as principals provide clear pre-trade disclosures to retail and professional clients, including a firm executable price, the duration of that price, and all associated fees or charges, to improve pricing transparency and support informed client decision-making.

[We refrain from commenting on this question.]

Question 10: Do you agree with the proposed client order handling rules? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Neutral ▾

FCA Proposal:

The FCA proposes that cryptoasset intermediaries implement procedures to ensure prompt, fair, and expeditious handling and execution of client orders, prioritising client interests over the firm's own trading activities and ensuring consistent, orderly treatment of orders.

[We refrain from commenting on this question.]

Question 11: Given the overall location policy established by the amendments to section 418 of FSMA set out in the Cryptoasset Regulations, do you agree with our proposed execution venue requirement? If not, please explain why not? What changes do you propose?

Please also indicate if your overall sentiment towards our proposals is:

Neutral ▾

FCA Proposal:

The FCA proposes that orders for UK retail (and elective professional) clients handled by intermediaries must ultimately be executed only on UK-authorised execution venues, and that UK-authorised principal dealers should not predominantly source liquidity from unauthorised affiliated trading platforms.

[We refrain from commenting on this question.]

Question 12: Do you agree with our proposed restrictions on the cryptoassets in which an intermediary can deal or arrange deals for a UK retail client? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Neutral ▾

FCA Proposal:

The FCA proposes that intermediaries may only deal or arrange deals for UK retail clients in cryptoassets admitted to trading on at least one UK-authorised CATP with an A&D-compliant disclosure (QCDD) available, with limited carve-outs (notably for UK-issued qualifying stablecoins and post-withdrawal “buy-only” scenarios).

[We refrain from commenting on this question.]

Question 13: Do you agree with our proposed approach to addressing conflicts of interest during order execution when a firm is engaged in proprietary trading? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Neutral ▾

FCA Proposal:

The FCA proposes that cryptoasset intermediaries engaging in proprietary trading implement at least functional separation, including separate governance, between proprietary trading and client order execution to manage conflicts of interest, with additional safeguards where functional separation alone is insufficient.

[We refrain from commenting on this question.]

Question 14: Do you agree with our proposed approach to PFOF? If not, what carve-outs do you consider necessary and why?

Please also indicate if your overall sentiment towards our proposals is:

Positive ▾

FCA Proposal:

The FCA proposes restrictions on payment for order flow (PFOF), with limited carve-outs where appropriate.

Prof. Carol Alexander Response:

I support a restrictive approach to payment for order flow. PFOF creates clear incentives to route orders in ways that may not deliver the best outcomes for clients, while obscuring true execution costs behind apparently “free” trading. My work on market microstructure shows that these incentive distortions are particularly problematic in fragmented and volatile markets such as crypto, where execution quality is already difficult for retail clients to assess. Any carve-outs should therefore be narrowly defined and supported by strong evidence that client outcomes are not harmed.

Absent such evidence, PFOF risks undermining best execution and market integrity.

The practical risks associated with distorted routing incentives and opaque execution quality are illustrated in <https://www.coalexander.com/post/binance-spoofy-bots-and-liquidations>. This blog discusses how order placement, liquidity illusion and automated trading behaviour can interact to produce execution outcomes that are difficult for retail clients to observe or evaluate. While this blog does not address PFOF directly, it highlights the broader point that in fragmented crypto markets, routing and liquidity conditions materially affect execution quality in ways that disclosure alone does not resolve. This reinforces the case for a restrictive regulatory stance on PFOF rather than reliance on client consent or ex post transparency.

Question 15: Do you agree with the proposal to apply personal account dealing rules to cryptoasset intermediaries? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Neutral ▾

FCA Proposal:

The FCA proposes applying personal account dealing rules, aligned with COBS 11.7, to cryptoasset intermediaries to mitigate conflicts of interest and reduce risks of market abuse arising from employee trading.

[We refrain from commenting on this question.]

Question 16: Do you agree with our proposed requirements on intermediaries around settlement arrangements, where applicable? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Neutral ▾

FCA Proposal:

The FCA proposes proportionate pre- and post-trade transparency, transaction recordkeeping, and client reporting requirements for intermediaries, alongside broader regulatory reporting. It also proposes a flexible settlement approach (internal or external), requiring intermediaries overseeing settlement to maintain robust, documented, and publicly disclosed arrangements to mitigate settlement risk.

[We refrain from commenting on this question.]

Question 17: Do you agree with our proposed pre-and post-trade transparency requirements for UK CATP operators and principal dealers? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Positive ▾

FCA Proposal:

The FCA proposes pre- and post-trade transparency requirements for UK-authorised crypto asset trading platforms and principal dealers.

Prof. Carol Alexander Response:

I support the objective of improving transparency, which is essential for market integrity and effective supervision. However, transparency requirements must be carefully calibrated to avoid unintended consequences, particularly in less liquid or highly volatile markets. My research on market risk shows that poorly designed transparency rules can reduce liquidity provision or shift trading into less observable channels. The use of waivers and deferrals in appropriate circumstances is therefore important. Transparency requirements should be explicitly linked to market abuse monitoring and enforcement, rather than treated as a purely disclosure-based intervention.

Research on price discovery and trading behaviour shows that liquidity provision and informational efficiency in crypto markets depend critically on market depth and the structure of order submission, particularly in stressed conditions (Alexander, Heck and Kaeck, 2022a, Alexander, Heck, Kaeck and Riordan, 2024). Where transparency rules are applied without regard to liquidity and volatility regimes, they risk discouraging market making and pushing activity into less transparent channels, weakening rather than strengthening market integrity. This evidence supports the FCA's use of waivers and deferrals and reinforces the importance of linking transparency obligations directly to

market abuse detection and supervisory objectives, rather than maximising disclosure for its own sake.

Alexander, C., Heck, D. and A. Kaeck (2022a) Price Discovery in Bitcoin: The Role of Limit Orders.

Alexander, C., Heck, D., Kaeck, A. and R. Riordan (2024) Order Flow Impact and Price Formation in Centralised Crypto Exchanges

Question 18: Do you agree with our proposed methodology for determining the pre-trade transparency threshold? If not, please explain why not? What other methodology do you suggest?

Please also indicate if your overall sentiment towards our proposals is:

Positive ▾

FCA Proposal:

The FCA proposes a methodology for determining pre-trade transparency thresholds and invites views on alternative approaches.

Prof. Carol Alexander Response:

Threshold design is a technically sensitive issue with significant implications for liquidity and volatility. A static, one-size-fits-all threshold risks creating cliff effects and gaming behaviour, particularly in heterogeneous crypto markets. My quantitative research on volatility and liquidity suggests that thresholds should adapt to market conditions, including token-specific liquidity and volatility regimes. Periodic recalibration and stress-testing of thresholds would help reduce unintended consequences. Transparency thresholds should be aligned with market integrity objectives, not maximised disclosure per se.

Quantitative evidence from crypto markets supports the view that liquidity and volatility vary substantially across assets and over time, making static transparency thresholds problematic. Research on volatility dynamics and market risk in crypto portfolios shows strong regime dependence and pronounced tail behaviour, implying that fixed thresholds can become either non-binding in calm markets or destabilising under stress (Alexander and Dakos, 2023). In such environments, rigid pre-trade transparency requirements risk creating sharp behavioural responses, including order fragmentation or withdrawal of liquidity, rather than improving market quality. This evidence supports an adaptive, stress-aware approach to threshold calibration, consistent with the FCA's objective of preserving market integrity rather than maximising disclosure mechanically.

Leveraged crypto products have endogenous leverage structures that are inherently pro-cyclical and amplify market stress, particularly when collateral values are closely linked to platform-controlled token prices. Evidence on the dynamics of leveraged tokens demonstrates how price declines can trigger rapid deleveraging and feedback loops, magnifying losses and destabilising markets (Alexander, 2023). This risk is not hypothetical: practical examples discussed in <https://www.coalexander.com/post/binance-still-onboarding-fiat-and-offering-50x-to-125x-leverage> show how platforms have continued to promote highly leveraged exposures to retail users, reinforcing the case that conflicts arising from proprietary token use in lending and borrowing cannot be reliably controlled through disclosure or internal governance. Together, this supports the FCA's conclusion that prohibition, rather than mitigation, is the appropriate regulatory response.

Alexander, C. (2023). Pro-cyclical Dynamics and Spillover Effects of Variable Leveraged Tokens

Alexander, C. and M. Dakos (2023.) Assessing the Accuracy of Exponentially Weighted Moving Average Models for Value-at-Risk and Expected Shortfall of Crypto Portfolios. Quantitative Finance, 23(3), 393 - 427

Question 19: Do you agree with our proposals for transaction recording and client reporting requirements for UK CATP operators and intermediaries? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Neutral ▾

FCA Proposal:

The FCA proposes that UK CATPs and intermediaries maintain detailed transaction and client identification records for five years, available to the FCA on request, and provide prompt execution reporting to clients with essential pricing, cost, and execution information, to support market integrity, oversight, and client transparency.

[We refrain from commenting on this question.]

Question 20: Do you agree with our proposals on strengthening retail clients' understanding and expressing prior consent? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Neutral ▾

FCA Proposal:

The FCA proposes allowing retail access to cryptoasset L&B services subject to enhanced consumer protections, including mandatory service-specific disclosures, clear information on risks and key terms, appropriateness assessments, and obtaining retail clients' express prior consent before entering into each L&B arrangement.

[We refrain from commenting on this question.]

Question 21: Do you agree with our proposal to prohibit the use of proprietary tokens for L&B as outlined above? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Positive ▾

FCA Proposal:

The FCA proposes to prohibit the use of proprietary tokens in crypto asset lending and borrowing.

Prof. Carol Alexander Response:

I strongly support this proposal. The use of proprietary tokens in lending and borrowing creates severe conflicts of interest and introduces endogenous risk, as the value of the collateral or loaned asset is directly influenced by the issuing firm. My research on leverage and systemic fragility shows that such structures are highly unstable, particularly during market stress, when token prices can collapse rapidly and amplify losses. These risks cannot be adequately mitigated through disclosure or governance alone. A prohibition is therefore appropriate and proportionate and should be applied to economically equivalent structures that recreate the same risk through affiliated issuance or concentrated control.

Evidence on the dynamics of leveraged tokens demonstrates how price declines can trigger rapid deleveraging and feedback loops, magnifying losses and destabilising markets (Alexander, 2023). This risk is not hypothetical: practical examples discussed in <https://www.coalexander.com/post/binance-still-onboarding-fiat-and-offering-50x-to-125x-leverage> illustrate how platforms have continued to promote highly leveraged exposures to retail users, reinforcing the case that conflicts arising from proprietary token use in lending and borrowing cannot be reliably controlled through disclosure or internal

governance. Together, this supports the FCA's conclusion that prohibition, rather than mitigation, is the appropriate regulatory response.

Alexander, C. (2023). Pro-cyclical Dynamics and Spillover Effects of Variable Leveraged Tokens

Question 22: Do you agree with our proposed record-keeping requirements on regulated L&B firms? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Neutral ▾

FCA Proposal:

The FCA proposes additional record-keeping requirements for cryptoasset lending and borrowing firms, requiring them to maintain detailed, five-year records on client assets, collateral, yield, fees, key contractual terms, express consent, termination requests, and operational losses, to strengthen oversight, risk management, and consumer protection.

[We refrain from commenting on this question.]

Question 23: Do you agree with our proposals on additional collateral, mandatory over-collateralisation of retail clients' loans, and managing the limits/ levels of the loan? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Positive ▾

FCA Proposal:

The FCA proposes additional collateral requirements, mandatory over-collateralisation for retail lending, and limits on loan size and structure.

Prof. Carol Alexander Response:

I support mandatory over-collateralisation and collateral requirements for retail lending, but their effectiveness will depend critically on conservative calibration. In crypto markets, high volatility and liquidity gaps mean that collateral values can fall rapidly and liquidation can be disorderly. My work on financial risk management highlights the importance of

token-specific haircuts, dynamic margining and stress- based calibration. Forced liquidation mechanisms should also account for market impact and cascade effects. These measures should be designed to reduce risk, not to create false reassurance for retail clients in inherently unstable markets.

Quantitative evidence from crypto markets shows that standard risk measures often underestimate tail risk and liquidity-adjusted losses, particularly during periods of market stress. Research on margin, liquidation and leverage selection in Bitcoin futures demonstrates that automatic liquidation mechanisms can amplify losses when volatility spikes and liquidity deteriorates rather than containing risk (Alexander, Deng and Zou, 2023). These findings reinforce the need for conservative collateral haircuts, dynamic margin requirements and stress-based calibration in retail crypto lending. Without such safeguards, over-collateralisation rules risk failing precisely when they are most needed.

Alexander, C., Deng, J. and B. Zou (2023) Hedging with Automatic Liquidation and Leverage Selection on Bitcoin Futures. European Journal of Operational Research, 306(1), 487 - 493.

Question 24: Do you agree with our proposals on negative balance protection? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Neutral ▾

FCA Proposal:

The FCA proposes negative balance protection for retail cryptoasset borrowing, limiting a firm's recourse to the collateral explicitly dedicated to the loan so retail clients cannot lose more than the collateral they have provided and consented to for borrowing.

[We refrain from commenting on this question.]

Question 25: Do you agree with our proposal that regulated staking firms must provide retail clients with information on the firm and its staking service, and provide the key terms of agreement in relation to those services and obtain retail clients' express prior consent in relation to those terms each time cryptoassets are staked, as outlined in paragraphs 6.14-6.19? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Neutral ▾

FCA Proposal:

The FCA proposes that regulated staking firms provide retail clients with clear information about the staking service and its risks, set out key contractual terms, and obtain express prior consent each time cryptoassets are staked, including notifying clients of material changes.

[We refrain from commenting on this question.]

Question 26: Do you agree that our proposed information provision, key terms and express prior consent requirements should only apply to retail clients and not to non-retail clients? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Neutral ▾

FCA Proposal:

The FCA proposes that enhanced information, key terms, and express prior consent requirements apply only to retail clients, reflecting their greater need for protection, while non-retail clients rely on existing contractual and regulatory safeguards.

[We refrain from commenting on this question.]

Question 27: Do you agree with our proposed record-keeping requirements on regulated staking firms? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Neutral ▾

FCA Proposal:

The FCA proposes that regulated staking firms maintain detailed five-year records of staking activity, rewards, fees, client consents, activation and termination events, safeguarding status, and operational losses, for all clients, to support oversight, accuracy, and consumer protection.

[We refrain from commenting on this question.]

Question 28: Do you agree with our proposal to apply rules and guidance in chapters 2-6 and guidance to firms engaging in DeFi where there is a clear controlling person(s) carrying on one or more of the new cryptoasset activities? If not, please explain why not?

Please also indicate if your overall sentiment towards our proposals is:

Neutral ▾

FCA Proposal:

The FCA proposes that DeFi arrangements with an identifiable controlling person carrying on regulated cryptoasset activities should be subject to the same regulatory requirements as equivalent centralised cryptoasset firms, reflecting a “same risk, same regulatory outcome” approach, with further guidance on control and decentralisation.

[We refrain from commenting on this question.]

Question 29: Do you agree with our assumptions and findings as set out in this CBA on the relative costs and benefits of the proposals contained in this consultation paper? Please give your reasons.

Please also indicate if your overall sentiment towards our proposals is:

Neutral ▾

FCA Proposal:

The FCA's CBA concludes that the proposed regulatory framework for cryptoasset activities would deliver a net positive impact over 10 years, with estimated consumer benefits outweighing compliance and prudential costs to firms. The analysis assumes increased consumer confidence, improved market integrity, and enhanced regulatory clarity, while recognising uncertainty around firm entry, behavioural responses, and cost pass-through. Further detail is set out in Annex 2.

[We refrain from commenting on this question.]

Question 30: Do you have any views on the cost-benefit analysis, including our analysis of costs and benefits to consumers, firms and the market?

Please also indicate if your overall sentiment towards our proposals is:

Neutral ▾

FCA Proposal:

The FCA's analysis assesses both quantified and qualitative impacts on consumers, firms, and market competition. While firms are expected to incur implementation and ongoing compliance costs (including prudential requirements), these are considered proportionate relative to the projected gains in consumer protection, transparency, and trust in UK cryptoasset markets. The CBA also considers competition effects, international competitiveness, and wider economic implications. See Annex 2 for full analysis.

[We refrain from commenting on this question.]

Would you like to upload any additional data as part of your response?

No

Confidentiality

*** Do you consent to your response to this consultation paper being made public?**

Yes

Please select No if there are areas of your response that should be treated as confidential.

No

Market sensitivity

*** Are there areas of your response that are considered to be market sensitive?**

***Market Sensitive* - information that if made public may impact on market prices.**

No