

FCA Discussion Paper Response

Discussion Paper Response (DP25/1) - Regulating Cryptoasset Activities

Wholesale Cryptoasset Policy
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

13th June, 2025

Via e-mail: dp24-4@fca.org.uk

Re: Discussion Paper Response (DP25/1) - Regulating Cryptoasset Activities

Dear Sir/Madam,

Shift Markets welcomes the opportunity to contribute to this discussion paper. We commend the FCA for its forward-thinking approach to regulating the cryptoasset sector and for fostering an open dialogue with the industry. We firmly believe that robust and adaptive regulatory frameworks are built on a foundation of continuous public-private collaboration.

The inclusion of cryptoassets within a defined regulatory perimeter is a critical step towards enhancing consumer protection, ensuring market integrity, and promoting responsible innovation within the UK. A clear, proportionate, and well-communicated framework will not only build confidence among consumers but also provide the certainty necessary for businesses to invest, compete, and grow in the UK market. Inclusion of cryptoassets to the existing framework is a positive step towards financial inclusion, clarity, innovation and standardisation in the UK's regulatory landscape. A clearer regulatory framework will encourage market participation, fostering competition, boost market integrity and expand choices for financial service users.

Our feedback is concentrated on the discussion points where we believe our operational experience offers the most valuable insights for crafting a workable and effective regime. Our goal is to contribute constructively to a framework that contributes towards the principle of "same activity, same risk, same regulation". We are confident that with practical feedback of industry participants, we will be closer to a fitting, clarified regulatory environment for cryptoassets.

About Shift Markets

Shift Markets provides trading technology, market access, and regulatory solutions for businesses operating in traditional and digital asset markets. We equip clients with trading environments allowing customisation of liquidity, compliance tools and user management, enabling them to scale securely and meet evolving regulatory requirements. Our expertise spans crypto exchanges, tokenised assets, and forex brokerages, offering businesses the flexibility to navigate digital finance securely and efficiently.

Our regulatory and compliance services help crypto businesses navigate licensing, build AML/CTF frameworks, and align with global standards while maintaining operational flexibility. By integrating financial expertise with regulatory strategy, we support the long-term stability and growth of digital asset businesses. Shift's services are designed to support every stage of launching and operating a trading platform, including market making, regulatory guidance, and ongoing technical support. Our mission is to make blockchain-based finance accessible and scalable for businesses of all sizes—whether market leaders or new entrants—through proven technology, strategic guidance, and industry expertise.

Shift Markets welcomes further dialogue and is committed to continuous engagement with the EBA. Please do not hesitate to contact us at legal@shiftmarkets.com should you require any further clarification or expansion on any of the points mentioned.

Sincerely,

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Chapter 2: Cryptoasset Trading Platforms

4. What, if any, additional responsibilities should we consider for CATPs, to address the risks from direct retail access?

Additional responsibilities for Cryptoasset Trading Platforms (CATPs) are essential to mitigate the risks associated with direct retail access. The proposals in section 2.25 serve as a strong foundation. However, we believe the requirements should be complemented by robust standards for operational resilience, including regular, independent audits of a platform's systems and controls. Fundamentally, before any trading activity can be undertaken for retail users, CATPs must provide prominent and clear risk disclosures. These disclosures should be presented in an easy to read, non-technical manner, that way it is made clear to retail clients, who may be less sophisticated, the inherent risks of loss, volatility of cryptoasset transactions as with other financial instruments, that an asset's value may derive solely from market willingness to trade it, and the increased risk of loss from fraud, cyber-attack, or technological failure, as well as the unique irreversible nature of cryptoasset transactions.

In addition to clear disclosures, CATPs should implement a comprehensive client due diligence process to better assign a risk profile. This process should assess a client's financial situation, investment experience, and objectives to establish a clear risk profile. A balance needs to be struck between overly prescriptive requirements, and flexible guidelines for different sizes of firms. Understanding a client's risk appetite and reasons for trading is paramount. While we recognise there may be a distinction between solicited and unsolicited transactions, a baseline understanding of the client is a prerequisite for any platform that provides direct retail access, forming the basis for subsequent monitoring and protective measures.

Platforms should maintain an appropriate level of coverage for client assets against events like hacking, secured by third-party insurance or segregated, ringfenced funds, thereby providing a crucial layer of protection.

To address irresponsible trading, CATPs should employ ongoing transaction monitoring to analyse client activity against their established profile. This framework must also include clear policies to address prohibited trading activities, empowering the platform to take decisive action, such as the suspension or termination of a client's account, to protect market integrity.

11. What are the risks from admitting a cryptoasset to a CATP that has material direct or indirect interests in it? How should we address these?

The main risk arising from a Cryptoasset Trading Platform (CATP) having a material interest in a listed asset is the conflicts of interest that may arise. Unmanaged conflicts can undermine market integrity and lead to significant consumer harm. A clear definition of "material interest" is required. This should extend beyond direct equity or token holdings to include any arrangements where the CATP or its key personnel are involved in the creation, governance, or promotion of the asset, or receive benefits from the issuer beyond standard listing fees. The key risks include biased listing decisions, where an asset is admitted based on the platform's interest rather than merit; market manipulation, where the platform could leverage its position to influence price; and the risk of providing unclear or incomplete information to clients.

To mitigate against these risks, detailed and prominent disclosures are key. A CATP must be obligated to clearly disclose the nature and extent of its material interest in an asset before a client executes any transaction. This information should be presented as a clear, standalone warning near the point of trade. The disclosure must be in non-technical language to ensure retail clients can understand the potential conflict and make an informed decision about the added risks they are undertaking. Such a disclosure can be made again before a retail user agrees to confirm a trade.

Disclosure should be complemented by a robust internal governance framework designed to manage and minimise conflicts. This framework should include a formal, documented conflicts of interest policy, the clear segregation of duties between a platform's listing and commercial functions, and enhanced surveillance of trading activity.

The potential for conflicts of interest when a firm executes its own proprietary orders alongside client orders is a significant market integrity risk. As highlighted by the Financial Stability Board, the combined functions like market-making and brokerage within a single entity can give rise to conflicts that may harm client interests. While dealing as principal to satisfy client orders can provide liquidity, it also creates opportunities for a firm to trade against its clients. As such, a clear framework of controls is required. This must be supported by a formal conflicts of interest policy, clear information barriers, and regular reviews to assess whether execution quality is competitive with other available venues.

However, where proprietary trading activities are significant or where its business model presents inherent and intractable conflicts, requiring such activities to be conducted in a legally separate and ringfenced entity may be more effective at protecting clients and market integrity.

15. Do you agree that CATPs should be subject to both pretrade and post-trade transparency requirements? Are there any reasons we should consider pre-trade transparency waivers?

Requiring full pre-trade disclosure could disincentivise liquidity providers. The key is to balance the benefits of pre-trade information with the practical need to facilitate efficient execution without creating information leakage that can be used to a retail client's detriment. Post-trade transparency could be a better focus. Timely public disclosure of trade price and volume data after execution supports market integrity. It provides all participants, particularly retail consumers, with the verified data necessary to assess the fairness of their execution price and builds overall trust in the market's pricing mechanisms.

16. Which challenges may emerge for transaction data requirements if there is direct retail participation?

The volume and frequency of retail transactions and participants could lead to challenges with transaction data requirements. There will be a need for automated transaction monitoring and reporting systems, leading to substantially increased implementation and operational costs for CATPs - especially smaller ones or new market entrants. Such systems will need to be sufficiently sophisticated to manage the data load without creating unmanageable volumes of false positives. To mitigate this, we propose that the FCA considers a proportionate, risk-based approach, potentially incorporating periodic reporting or value-based thresholds to ensure that oversight remains focused on activity that could genuinely compromise market integrity or facilitate financial crime.

Another challenge is data fragmentation and the inherent gaps created by the global nature of cryptoassets and peer-to-peer transfers. With transactions occurring across numerous domestic and international venues, it is more challenging to have a consolidated view of transactions - especially as different venues may have different transaction data requirements prior to execution. Transaction reporting frameworks should acknowledge these limitations and consider what obligations should be placed on CATPs when interacting with offshore entities to ensure that data integrity is maintained as much as possible within the regulated perimeter.

Chapter 3: Cryptoasset Intermediaries

20. What benefits and risks do you see with the proposed guidance requiring firms to check the pricing for an order across at least 3 UK-authorised trading platforms (where available)?

While the intention behind requiring firms to check pricing across multiple platforms is likely to promote best execution and competition, the proposed guidance presents significant practical challenges that could undermine these goals. Prescribing a specific number of platforms, introduces ambiguity regarding scope: who determines the authorised platforms to be checked? How can a firm ensure a like-for-like comparison when liquidity, order book depth, and fee structures vary significantly? The operational burden of implementing, recording, and maintaining evidence for these checks for every order would be substantial and could delay transaction execution which may lead to worse outcomes for retail clients in a more price volatile market.

A more effective and proportionate approach would be to focus on a principles-based Best Execution obligation rather than a prescriptive rule. This would allow firms the flexibility to determine the most appropriate execution strategy, considering factors like price, speed, and likelihood of execution. Furthermore, a prescriptive "three-platform" rule risks encouraging smaller intermediary firms to default to checking the same three largest platforms, creating a concentration of power that stifles innovation and squeezes out smaller or newer trading venues. This outcome would be unsustainable, harming long-term competition, international competitiveness, and growth. A principles-based approach, in contrast, would be more appropriate and fosters genuine competition and innovation.

31. What are the crypto-specific risks of opting retail customers up? How could these be managed and what additional guidance on how to assess the expertise, knowledge and experience of clients can we give firms to better mitigate risks of harm?

The key risk is that a retail client may be categorised as a professional based on an incomplete or narrow assessment. While promoting market access is a valid goal, the primary duty must be to ensure clients are not unduly exposed to risks they do not understand.

Firms should be given clear guidance on conducting a robust and meaningful assessment of a client's expertise, knowledge, and experience that goes beyond simple self-certification. There could be eligibility criteria set for clients after meeting a quantitative experience threshold, such as a minimum period of active trading or a set number of transactions in non-complex cryptoassets. While this creates an operational burden, it is a necessary safeguard to prevent inexperienced clients from being prematurely opted-up.

The decision to opt-up a client should be continuously monitored. The client's categorisation should be reviewed periodically to ensure it remains appropriate. Furthermore, firms should provide clear, specific risk warnings even to opted-up clients, particularly when they are about to engage with highly complex or novel products. This layered approach ensures that while the ultimate decision to trade remains with the individual, the framework provides meaningful checks and balances, placing the onus on firms to demonstrate a client's genuine expertise rather than placing the full burden of understanding on the consumer.