EXPLANATORY MEMORANDUM TO

THE FINANCIAL SERVICES AND MARKETS ACT 2000 (CRYPTOASSETS) REGULATIONS 2025

2025 No. [XXXX]

1. Introduction

1.1 This Explanatory Memorandum has been prepared by HM Treasury and is laid before Parliament by Command of His Majesty.

2. Declaration

2.1 Lucy Rigby KC MP, Economic Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Laura Mountford, Deputy Director for Payments and Fintech at HM Treasury confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Tom Mead at HM Treasury can be contacted by email at the following address with any queries regarding the instrument: cryptoasset.legislation@hmtreasury.gov.uk.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This statutory instrument delivers the UK's financial services regulatory framework for cryptoassets. The core of the regime amends the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (S.I. 2001/544) ("the RAO") to define the principal categories of cryptoassets that will be part of regulation: 'qualifying cryptoassets', 'qualifying stablecoin' (a subset of qualifying cryptoassets) and 'specified investment cryptoassets'. This instrument also specifies certain activities related to these assets as regulated activities, such that any persons carrying on those activities by way of business needs to be authorised for that activity by the Financial Conduct Authority (FCA), or risk committing a criminal offence by breaching the general prohibition set out in section 19 of the Financial Services and Markets Act 2000 ("FSMA"). These new regulated activities include issuing qualifying stablecoin, safeguarding of qualifying cryptoassets and relevant specified investment cryptoassets, operating a qualifying cryptoasset trading platform, dealing in qualifying cryptoassets as principal or agent, or arranging deals in qualifying cryptoassets, and qualifying cryptoasset staking.

4.2 It also makes certain associated consequential amendments to other instruments such as existing anti-money laundering and financial promotions requirements for cryptoasset firms to reflect the new regulatory perimeter.

4.3 The instrument also introduces new designated activities under Part 5A of FSMA (as amended by the Financial Services and Markets Act 2023) in relation to offering a relevant qualifying cryptoasset to the public and admitting a cryptoasset to trading on a regulated platform, and to complement the FCA's regulatory oversight of the issuance of a qualifying stablecoin in the UK by a person with a Part 4A permission to carry on the regulated activity in new article 9M of the RAO. The legislation prohibits

a person from making a public offer of a qualifying cryptoasset in the UK unless the offer falls within an exception specified in Schedule 1 to this instrument. The contravention of the prohibition relating to the public offer of qualifying cryptoassets will become a criminal offence (as a result of the application, with modifications, of section 85 FSMA).

4.4 It also creates new designated activities (under Part 5A of FSMA) to establish a market abuse framework for relevant qualifying cryptoassets. It defines inside information and market manipulation, prohibits insider dealing, the unlawful disclosure of inside information and market manipulation, and establishes obligations relating to the public disclosure of inside information. The provisions include requirements for market abuse related systems and controls. It provides the relevant investigatory and enforcement powers for the FCA to pursue breaches where appropriate. The instrument includes provisions to allow the FCA to specify activities as 'legitimate cryptoasset market practice' to future-proof the framework and prevent any future market developments being captured inadvertently under the prohibitions in this framework where it would not be appropriate.

4.5 Lastly, the instrument includes savings and transitional provisions. It provides the FCA with a power to specify a relevant application period and makes provision for the treatment of, and obligations on, persons that do or do not secure all relevant authorisations within that period. It also provides the FCA with powers to gather information from certain persons, publish information concerning certain persons and censure persons the FCA considers not to have complied with relevant obligations under this part.

Where does the legislation extend to, and apply?

4.6 The extent of this instrument (that is, the jurisdiction(s) in which the instrument forms part of the law of) is England and Wales, Scotland and Northern Ireland.

4.7 The territorial application of this instrument (that is, where the instrument produces a practical effect) is England and Wales, Scotland and Northern Ireland.

5. Policy Context

What is being done and why?

5.1 One of the UK financial services sector's biggest strengths is its willingness to embrace innovation. Financial services are core to the Government's mission for economic growth, and it is committed to creating the right conditions for a vibrant, competitive, and innovative financial services sector.

5.2 The percentage of UK adults who own cryptoassets has increased considerably since 2021. Furthermore, cryptoassets and blockchain technologies are ever more intertwined with the traditional financial sector. The Government recognises the transformative potential for digital assets and blockchain technologies to drive economic growth in the UK and increase efficiencies across financial markets. Such benefits can only be realised sustainably if the technology is adopted safely and accompanied by an effective and appropriate regulatory framework for financial services.

5.3 That is why the Government is legislating for a new financial services regulatory framework for cryptoassets: to support safe innovation and help improve consumer protection. Previous regulatory interventions in this space have prioritised addressing the most pressing risks first and focused on cryptoassets' use in financial crime and misleading financial promotions targeting retail investors.

5.4 Overall, the Government's approach to cryptoassets is based on the principle of "same risk, same regulatory outcome", with the regulation of cryptoassets consistent with traditional finance where appropriate. It seeks to strike the right balance between giving firms regulatory certainty, while ensuring the sector has the space and flexibility to innovate.

What was the previous policy, how is this different?

5.5 In January 2020, an anti-money laundering and counter-terrorist financing regime was introduced for cryptoassets in the UK. This means cryptoasset exchange providers and custodian wallet providers all fall in scope of the UK's Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLRs) and are required to register with the FCA for money laundering supervision. In 2022, counter-proliferation financing obligations were also introduced under the MLRs and in 2023 firms' obligations when executing or receiving transfers of cryptoassets were enhanced. In October 2023, financial promotions requirements[1] for cryptoassets also came into effect, requiring promotions for cryptoasset products and services to be fair, clear and not misleading.

5.6 Additionally, in January 2025, the Government legislated to remove barriers to the provision of cryptoasset staking services in the UK by clarifying that staking is not a collective investment scheme[2].

5.7 However, most cryptoasset activities are not currently subject to broader financial services regulation, covering matters such as conduct and prudential requirements. HM Treasury published proposals for a comprehensive regulatory regime for cryptoassets in October 2023[3]. In November last year, the Government committed to implementing a UK financial services regulatory regime for cryptoassets, largely in line with those proposals[4].

6. Legislative and Legal Context

How has the law changed?

6.1 As outlined in the previous section, this instrument, delivers a new comprehensive financial services regulatory framework for cryptoassets. The legislation is described in three key parts, namely, a) defining 'qualifying cryptoassets' and new regulated activities; b) cryptoassets admissions and disclosures regime; and c) market abuse regime for cryptoassets.

6.2 Part 1 of the instrument details the instrument's commencement, initially enabling the FCA and the Prudential Regulation Authority (PRA) to issue directions, guidance and rules with full commencement beginning on Monday 25 October 2027. The reason for this approach is to allow the FCA and the PRA to prepare for the regime coming into effect by finalising rules and guidance ahead of time. This will not affect (i.e. bring

[1] The Financial Services and Markets Act 2000 (Financial Promotion) (Amendment) Order 2023 available at https://www.legislation.gov.uk/ukdsi/2023/9780348246490

[2] The Financial Services and Markets Act 2000 (Collective Investment Schemes) (Amendment) Order 2025 available at https://www.legislation.gov.uk/uksi/2025/17/made

[3] Consultation outcome: Future financial services regulatory regime for cryptoassets available at https://www.gov.uk/government/consultations/future-financial-services-regulatory-regime-for-cryptoassets

[4] Keynote address at the Tokenisation Summit (Nov 2024): UK government approach to tokenisation and regulation available at https://www.gov.uk/government/speeches/keynote-address-at-the-tokenisation-summit-uk-government-approach-to-tokenisation-and-regulation

forward) the timings for when firms will need to be compliant with the regulatory regime.

A) Defining 'qualifying cryptoassets' and new regulated activities.

6.3 "Cryptoassets" are already defined in section 417 of FSMA, (as amended by the Financial Services and Markets Act 2023) as being "any cryptographically secured digital representation of value or contractual rights that— (a) can be transferred, stored or traded electronically, and (b) that uses technology supporting the recording or storage of data (which may include distributed ledger technology)." The core of this legislation makes amendments to the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (S.I. 2001/544) ("the RAO"). This is covered by Part 3, and consequential amendments to FSMA itself are in Part 4 of this instrument.

6.4 Part 3 creates the following new definitions: "qualifying cryptoassets" are defined in the new article 88F of the RAO and are a subcategory of FSMA "cryptoassets" which are fungible and transferable and include "qualifying stablecoin". Tokenised versions of existing specified investments ("specified investment cryptoassets") are excluded from the definition. Mere records of value or contractual rights, which may otherwise fulfil the definition (e.g. a cryptographically secured/encrypted spreadsheet) are also excluded from the definition.

6.5 "Qualifying stablecoin" is defined in new article 88G of the RAO and is a qualifying cryptoasset that references a national currency and seeks to hold currency and other assets as backing assets to maintain a stable value. As a result, unlike other cryptoassets, which can have highly fluctuating prices, a stablecoin is intended to maintain a stable price relative to its reference asset. Where a stablecoin is issued in the UK, the legislation will allow the FCA to create rules and requirements for these stablecoins with a view to ensuring they are truly stable, for instance on backing assets, redemption, and the making of offers.

6.6 To note in relation to the assets held to stabilise the value of a qualifying stablecoin, the stability mechanism is the holding of fiat currency funds or other assets for the purpose of stabilising the value of the qualifying stablecoin. Those funds and assets may also be used for other ancillary purposes, such as to meet redemption demands relating to the token. However, the instrument makes clear that the assets held to maintain the stable value of a qualifying stablecoin will not include assets held by a person carrying on the activity in article 5 of the RAO (accepting deposits) for the purpose of complying with its general prudential requirements or meeting its liabilities generally. That notwithstanding, the legislation does not preclude such deposit acceptors from either issuing qualifying stablecoin or from offering other tokenised instruments such as tokenised deposits.

6.7 A "specified investment cryptoasset" is defined as something that meets both the FSMA definition of a "cryptoasset" and the FSMA definition of a "specified investment" (for instance an equity or a bond). It should also meet the different elements of the definition of "qualifying cryptoassets" other than the requirement to not be a specified investment cryptoasset. An example of this would be a token on a blockchain that represents an interest in or right to an equity.

6.8 The new regulated activities created by this instrument are:

6.9 Issuing qualifying stablecoin in the UK (new article 9M of the RAO): There are three components to this activity, which are: offering, redemption, and maintaining the value of a qualifying stablecoin. Firms undertaking all three of these activities – or arranging for them to be undertaken on their behalf – from an establishment in the UK

will be brought within the regulatory perimeter for issuance. An overseas firm that is arranging for all three of these limbs to be carried out in the UK on its behalf will also require authorisation as a UK issuer. Outside of this scenario, stablecoins issued overseas will be treated in line with other qualifying cryptoassets, meaning they will be subject to the same 'Qualifying cryptoasset public offers and admissions to trading' requirements as other qualifying cryptoassets (set out under Chapter 1 of Part 2 of the instrument). New article 9AZA provides legal clarity to ensure that stablecoin issuers are not at risk of being deemed to be accepting deposits.

6.10 Safeguarding and arranging safeguarding of qualifying cryptoassets and relevant specified investment cryptoassets (new articles 9N - 9R of the RAO): Safeguarding or 'custody' of cryptoassets refers to the method that holders of cryptoassets choose to store their assets and their means of access to them. Firms safeguarding qualifying cryptoassets on behalf of others in the UK or for UK consumers will require authorisation by the FCA and will need to comply with the FCA's rules for the new cryptoasset safeguarding activity. There is an exception for firms carrying on the safeguarding activity where they do so at the direction of a person who is themselves authorised to carry on that activity.

6.11 In addition to qualifying cryptoassets, this activity extends to specified investment cryptoassets that are securities or contractually based investments. This is because securities and contractually based investments are within scope of the existing safeguarding regime for specified investments; bringing their tokenised versions into this new activity for qualifying cryptoassets will ensure the FCA can make rules to address the specific safeguarding risks.

6.12 Article 9R seeks to ensure that qualifying cryptoassets that are held on behalf of another temporarily and specifically for the purpose of settling trades - both inward and outward flows - are excluded from the definition of cryptoassets safeguarding.

6.13 Operating a qualifying cryptoasset trading platform (new article 9S of the RAO): This is defined as a system in which multiple third-party buying and selling trading interests in qualifying cryptoassets are able to interact within the system and which brings together multiple third-party buying and selling interests in qualifying cryptoassets in a way that results in a contract for the exchange of qualifying cryptoassets for: (a) money, including electronic money; or (b) other qualifying cryptoassets. This will ensure a clear perimeter between activities associated with cryptoasset trading, and those for the trading of traditional securities, including those in tokenised form.

6.14 Dealing in cryptoassets (new articles 9T – 9Z5 of the RAO) as principal, agent, or arranging deals (the provisions are also intended to capture cryptoassets lending and borrowing services).

6.15 Qualifying cryptoasset staking (new articles 9Z6 – 9Z9 of the RAO): Staking is a means of validating blockchain transactions. Firms that make arrangements for another person for qualifying cryptoasset staking in the UK or for UK consumers will require authorisation by the FCA and will need to comply with the FCA's rules for qualifying cryptoasset staking.

6.16 To note this activity includes liquid staking (staking models involving the issuance of tokens representing the underlying staked assets); however, the issuance of liquid staking tokens is covered by the dealing activity, and therefore a person engaging in such activity will require the necessary separate or additional permission from the

FCA. Staking firms may also engage in safeguarding qualifying cryptoassets, in which case they will need a safeguarding permission.

6.17 Articles 9Z7, 9Z8 and 9Z9 respectively seek to ensure the following are excluded from the definition of qualifying cryptoasset staking: (1) services provided solely for the purpose of introducing a person to an authorised person that is authorised to carry on qualifying cryptoasset staking; (2) providing means by which one party to an arrangement or potential arrangement is able to communicate with other such parties; and (3) the operation of a validator node.

6.18 The instrument amends section 418 of FSMA to make provision for when a person will be deemed to be carrying on an activity in the UK. For the following activities, firms that are involved in the sale or subscription of a qualifying cryptoasset to, or by, a UK consumer will need to be authorised in the UK regardless of whether the firm is based in the UK or overseas: a) operating a qualifying cryptoasset trading platform; b) dealing in qualifying cryptoassets as principal; c) dealing in qualifying cryptoassets as agent; and d) arranging deals in qualifying cryptoassets.

6.19 However, where a UK authorised trading platform or dealer as principal, intermediates between the firm and the UK consumer in the relevant sale or subscription, then the firm will not need to be authorised in the UK.

6.20 Overseas cryptoasset firms carrying on the above activities but serving only UK institutional customers will not be required to be authorised, assuming those institutional customers are not acting as an intermediary to a UK consumer.

6.21 Firms will need to be authorised by the FCA if they are carrying on the following activities in the UK or on behalf of a consumer in the UK: a) safeguarding qualifying cryptoassets and relevant specified investment cryptoassets; and b) qualifying cryptoasset staking.

6.22 There is an exception for firms carrying on either activity where they do so at the direction of a person who is themselves authorised to carry on that activity.

6.23 For firms issuing qualifying stablecoin, the firm that created the qualifying stablecoin, or on whose behalf it was created, will be required to be authorised if they are carrying on the activity of issuing qualifying stablecoin from an establishment in the UK, or if they are arranging for one or more entities to carry out all three limbs of the activity in the UK.

6.24 Part 5 of the instrument amends the Financial Promotion Order (FPO) to update its existing definition of "qualifying cryptoasset" so that it aligns with the new definition in this SI, and also to insert the new definition of "qualifying stablecoin".

6.25 It also inserts the following as new FPO controlled activities: (i) safeguarding of qualifying cryptoassets and relevant specified investment cryptoassets; (ii) operating a qualifying cryptoasset trading platform; and (iii) qualifying cryptoasset staking, along with a carve out for this activity from the existing FPO controlled activity of 'arranging deals'.

6.26 Where new cryptoasset activities have not been added to the FPO, this is because they are judged to be accounted for under the existing FPO controlled activities. For the avoidance of doubt, qualifying cryptoasset staking has been added as a new activity for clarity, but it is recognised that some staking models are likely to have already been within the scope of existing FPO controlled activities.

6.27 Furthermore, Part 5 removes the current provisions allowing cryptoassets firms that are registered with the FCA under the MLRs to approve their own financial

promotions. These provisions were always intended to be temporary and reflected the fact that there were no FSMA regulated activities for cryptoassets. With the creation of the new regulated activities for cryptoassets in this SI, firms that are authorised for these activities in future will be able to approve their own financial promotions in line with other FSMA authorised firms.

6.28 Part 6 makes consequential amendments to other secondary legislation to reflect the new regulatory perimeter in the amendments to the RAO.

6.29 Regulation 46 amends the Electronic Money Regulations 2011 to clarify the border between e-money and stablecoin, such that a thing is only one or the other.

6.30 Regulation 48 amends the MLRs so that firms authorised for the new cryptoasset activities (or firms authorised for other activities carried on in relation to specified investment cryptoassets) will not be required to separately apply for registration as "cryptoasset exchange providers" or "custodian wallet providers" under the MLRs; they only need to notify the FCA. This change is to avoid unnecessary and duplicative compliance burdens for firms that are submitting applications to become authorised or vary their existing authorisation. However, other than the requirement to register, the existing requirements of the MLRs will continue to apply to these authorised firms in full, as they would have done previously when the firms were required to register. This approach reflects feedback on Government consultation on this point, including the consultation on improving the effectiveness of the MLRs published in February 2024.

6.31 In relation to qualifying stablecoin, regulation 43 amends the Financial Services and Markets Act 2000 (Collective Investment Schemes) Order 2001 and regulation 47 amends the Alternative Investment Fund Managers Regulations 2013 such that the stabilisation mechanism/backing assets for the stablecoin are not to be considered either a collective investment scheme or an alternative investment fund.

B) Cryptoassets admissions and disclosures regime.

6.32 Chapter 1 of Part 2 creates new designated activities under section 71K of FSMA for public offers of qualifying cryptoassets and the admission of qualifying cryptoassets to trading on a qualifying cryptoasset trading platform.

6.33 Qualifying cryptoasset disclosure documents and supplementary disclosure documents (regulation 6) are defined as documents required to be published under designated activity rules or by relevant authorised operators of cryptoasset trading platforms. The purpose of these documents is to provide key information about qualifying cryptoassets that are offered to the public or admitted to trading.

6.34 Regulation 7 specifies activities relating to public offers: offering a qualifying cryptoasset to the public, advertising (or otherwise disclosing information about) an offer to the public, and disclosures to the public about qualifying stablecoin.

6.35 Regulation 8 specifies activities relating to admissions to trading: requesting or obtaining the admission of a qualifying cryptoasset to trading on a platform, advertising (or otherwise disclosing information about) the admission or proposed admission to trading, and admitting a qualifying cryptoasset to trading.

6.36 Regulation 10 introduces a general prohibition of public offers of qualifying cryptoassets unless an exemption set out in the legislation (Schedule 1) applies. For example, when made to fewer than 150 persons in the UK or when only available to qualified investors, such as institutional investors.

6.37 Public offers that fail to comply with at least one of the exemptions in Schedule 1 will be a criminal offence (as a result of the application with modifications of section 85 FSMA). To note, for the purposes of this legislation, the publication of the bid or offer prices alone is unlikely to constitute a public offer.

6.38 Regulation 11 includes requirements around the disclosure of information where an offer falls within the scope of the exemptions set out in the legislation and the total consideration of the offer amounts to at least £500,000. Any material information provided by or on behalf of a person responsible for the offer to a potential buyer, whether orally or in writing, must be included in the relevant qualifying cryptoasset disclosure document, supplementary disclosure document, or other document if such documents are required by FCA or platform rules or, in any case, disclosed to any other person to whom the offer is addressed.

6.39 Regulation 12 provides that designated activity rules may make provision about responsibility for qualifying cryptoasset disclosure documents and supplementary disclosure documents. Regulation 13 sets out general requirements to be met by a qualifying cryptoasset disclosure document or supplementary disclosure document, including the necessary information that must be included to enable investors to make informed decisions about buying or subscribing for qualifying cryptoassets. Regulation 14 includes provisions concerning the rights of investors to compensation for loss suffered as a result of untrue or misleading statements in or omissions from qualifying cryptoasset disclosure documents and supplementary disclosure documents. Those responsible for these documents are liable for compensation if they contain untrue or misleading statements or omit required information, subject to certain exemptions.

6.40 Where relevant, it is intended that the person responsible for the offer should include in a cryptoasset disclosure document the details of the offeror, the creator, the person on whose behalf the cryptoasset was created, and, where the qualifying cryptoasset is a stablecoin, the person issuing the stablecoin. This is intended to capture any characteristics or matters relating to these persons which could affect the price or value of the cryptoasset.

6.41 The instrument includes powers for the FCA to make rules governing public offers, admissions to trading, the content of, and responsibility for, disclosure documents, liability, and withdrawal rights.

6.42 More specifically, in Chapter 3 of Part 2, the instrument confers a power of direction on the FCA pursuant to section 71O of FSMA. This enables the FCA to impose such requirements on a person, or description of persons, relating to the carrying on of designated activities as the FCA considers appropriate. It is intended to be a broad and flexible power that enables the regulator to act in a wide variety of circumstances, as appropriate.

6.43 This could include:

- Requiring a person to suspend, restrict, withdraw or prohibit an offer of a qualifying cryptoasset to the public;
- Requiring a person to suspend, restrict, withdraw or prohibit the trading or proposed admission to trading of a qualifying cryptoasset on a qualifying cryptoasset trading platform;
- Requiring a person not to advertise the offer of a qualifying cryptoasset, to suspend any existing advertisement, or to withdraw an advertisement;

- Requiring remedial or redress action in respect of conduct, including past conduct by a person where it appears that such conduct may have caused harm to consumers; and
- Requiring a qualifying cryptoasset trading platform to suspend investigations that it is conducting under its rules or not conduct such an investigation that is proposed.

C. Market abuse regime for cryptoassets.

6.44 Chapter 2 of Part 2 creates new designated activities under section 71K of FSMA in order to define and prohibit: insider dealing, unlawful disclosure of inside information, and market manipulation. The provisions also place obligations around public disclosure of inside information.

6.45 More specifically, regulation 18 defines "inside information" which is non-public, precise information relating to the relevant issuer, relevant person responsible for the offer, trading platform operator, or the relevant qualifying cryptoasset or related instrument, which would likely have a significant effect on the price of the relevant qualifying cryptoasset or related instrument if disclosed. It also includes information about clients' pending orders provided to those executing trades, where such information could impact the price. This definition extends to actual or anticipated events, circumstances, and intermediate steps, as long as the information is specific enough to influence investment decisions.

6.46 Prohibitions on insider dealing (regulation 22) include trading, attempting to trade, or recommending or inducing others to trade based on inside information. Engaging in these activities knowing, or where the person ought to have known, that the information is inside information is forbidden. This prohibition applies to company officers, shareholders, employees, those who acquire information through criminal activity, and anyone who knows or should know the information is inside information.

6.47 Under regulation 23, legitimate cryptoasset market practice, such as certain conduct or a situation that arises in a particular way, is excluded from the prohibition. Similarly, the FCA may set by rules that in certain circumstances a person may not be considered to have used the inside information and breached the prohibition in regulation 22.

6.48 Regulation 24 covers the prohibitions on the disclosure of inside information. It is unlawful for individuals possessing inside information about a relevant qualifying cryptoasset or related instrument to disclose that information to others, unless the disclosure occurs in the normal course of their employment, profession, or duties. This prohibition applies to company officers, shareholders, employees, those who acquire information through criminal activity, and anyone who knows or should know the information is inside information. Onward disclosure of recommendations or inducements based on inside information is also prohibited. Exclusions (regulation 25) exist for legitimate market practices conducted in accordance with FCA rules and for journalistic dissemination, provided that the disclosure is for the purposes of journalism and not for profit or with intent to mislead the market.

6.49 A relevant person must publicly disclose inside information that directly concerns them as soon as possible, ensuring the information is accessible, complete, and accurate. The FCA may set requirements for how and when such disclosures are made, and disclosures must also be filed with specified bodies. Disclosure can be delayed if permitted by FCA rules, which set out the conditions and procedures for such delays.

6.50 Market manipulation (regulations 19, 28 and 29) involves activities such as creating false or misleading signals about the supply, demand, or price of a qualifying cryptoasset, securing prices at abnormal or artificial levels, or using deception to affect prices. It also includes disseminating false information, exploiting media access to profit from price movements without disclosing conflicts of interest, and disruptive trading behaviours like placing orders to destabilise trading platforms. Engaging in or attempting market manipulation is prohibited, except where the activity is a legitimate market practice conducted in line with FCA rules or, for journalism, that the disclosure is for the purposes of journalism and there is no profit motive or intent to mislead the market.

6.51 The instrument includes requirements for market abuse related systems. It provides the FCA with the relevant investigatory, direction and enforcement powers to pursue breaches where appropriate.

6.52 Accordingly, the FCA will be able to exercise the powers contained within sections 122B, 122G, 122H, 122I, 123, 123A, 123B and 129 of FSMA, in relation to breaches of this regime. And in the case of section 129, in relation to breaches of requirements (including requirements imposed in rules) imposed by this regime. To note, for the purposes of the 'Market abuse in qualifying cryptoassets and related instruments' provisions, the act of creating or minting a relevant qualifying cryptoasset does not, on its own, make someone an issuer or amount to issuing. Separately, the term 'financial markets' in the UK as it relates to the exercise of part 8 FSMA powers (relating to market abuse) includes any UK crypto markets.

6.53 The regime is scoped to capture activities concerning any relevant qualifying cryptoassets in and outside the UK, irrespective of whether the activity takes place on a qualifying cryptoasset trading platform.

6.54 Finally, technological developments and market practices in the cryptoasset space evolve more rapidly than in traditional financial markets. That is why the instrument includes provisions (regulation 34) to allow the FCA to specify activities as 'legitimate cryptoasset market practice' to future-proof the framework and prevent any market developments being captured inadvertently under the prohibitions in this framework where it would not be appropriate. This could, for example, cover activities such as market making and executing orders in good faith.

Why was this approach taken to change the law?

6.55 It was considered right to bring cryptoassets regulation within the existing financial services regulation framework established by FSMA. This approach is also based on the principle of "same risk, same regulatory outcome", with regulation of cryptoassets consistent with traditional finance where appropriate. This aligns with recommendations from the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB) to regulate cryptoassets in the same way as traditional financial products where they share similar characteristics.

6.56 HM Treasury consulted on this approach in 2023. Respondents generally agreed with the assessment that this was a pragmatic and flexible way of bringing cryptoasset activities into the regulatory perimeter, addressing the most critical risks and creating a more level playing field between cryptoasset market participants and traditional financial services firms.

6.57 The admissions and disclosures framework, as well as the market abuse regime for cryptoassets are based where appropriate on the Public Offers and Admissions to Trading Regulations 2024 (S.I. 2024/105) and the assimilated UK Market Abuse

Regulation (Regulation (EU) No 596/2014 of the European Parliament and of the Council), respectively, but tailored to the specific requirements for cryptoassets markets.

6.58 The Designated Activities Regime was introduced in order to allow activities related to financial markets to be regulated within a framework which is compatible with the comprehensive FSMA model. Rules made under the Designated Activities Regime apply more broadly than rules made under section 137A FSMA, which apply only to authorised persons. It is necessary for both the market abuse rules and the admissions and disclosures framework to apply not only to authorised persons, but to market participants more broadly. Accordingly, the Designated Activities Regime is the appropriate mechanism to provide these rules.

6.59 To note, HM Treasury and regulators are separately undertaking wider work to replace assimilated EU law with UK-specific regulations set by the regulators in relation to the UK Market Abuse Regulation for traditional finance. It is important that the cryptoasset market abuse provisions are not seen as setting a precedent for, or front running, that wider piece of work.

7. Consultation

Summary of consultation outcome and methodology

7.1 In October 2023[5,] HM Treasury published its response to a consultation and call for evidence on the future financial services regulatory regime for cryptoassets. Alongside this, HM Treasury also published a policy paper detailing the planned approach to regulating stablecoin in the UK. The cryptoasset consultation response set out proposals to create new regulated activities for cryptoassets such as 'the operation of a cryptoasset trading platform', requiring firms wishing to provide associated services in or to the UK to be authorised and supervised by the FCA. Supporting these new regulated activities would be further admissions and disclosures, and market abuse frameworks.

7.2 For stablecoins, the proposals were to create a new regulated activity of issuing fiat-referenced stablecoins in the UK, and to amend the Payments Services Regulations 2017 (PSRs 2017) to bring payments using these stablecoins within the regulatory perimeter for payments. Beyond this, stablecoins, including those issued in the UK, would be regulated in the same way as other cryptoassets, for instance in relation to safeguarding services.

7.3 The consultation received a total of 131 responses. Around 50% of these were from firms and around 25% from trade associations. 12% of responses were from members of the public or universities, 4% from law and consulting firms, 3% from not-for-profits / consumer associations and 4% came from other categories of respondent (e.g. media organisations).

7.4 Overall, respondents welcomed the consultation's ambitious approach with additional praise for the UK for being one of the leading jurisdictions in taking a proactive step in regulating the cryptoassets sector. Of those who responded to the specific question, 94% agreed or were generally in favour of HM Treasury's intention to bring financial services regulation of cryptoassets within the regulatory framework established by FSMA, rather than develop a standalone bespoke regime. Similarly, of those who responded to the specific questions, the majority agreed with HM Treasury's proposed

[5] Consultation outcome: Future financial services regulatory regime for cryptoassets available at https://www.gov.uk/government/consultations/future-financial-services-regulatory-regime-for-cryptoassets

regulatory outcomes for admissions and disclosures, and market abuse for cryptoassets.

7.5 In November 2024[6], the Government confirmed that it would proceed with implementing the October 2023 proposals largely unchanged and intended (parliamentary time allowing) to introduce the associated legislation by the end of 2025. The exception was that the Government said it would not proceed with proposals to amend the PSRs 2017 to bring UK-issued stablecoins into regulated payments at this time. This does not mean that stablecoins cannot be used for payments in the UK, but simply that they will not be regulated under payments rules for the time being. The Government considers that stablecoins have the potential to play a significant role in both wholesale and retail payments and intends to bring stablecoins into payments regulation as part of planned wider updates to the UK payments framework.

7.6 In April 2025[7], the Government published a draft statutory instrument pertaining only to the new cryptoasset regulated activities under the RAO, and their associated consequential amendments along with a request for technical feedback. Following publication, the Government undertook an industry engagement programme to secure technical feedback on the details of its approach.

7.7 The Government also received 48 written responses from a wide range of stakeholders, including firms, trade associations representing both the cryptoasset and traditional financial services sectors, and law firms. Overall, the sector was supportive of the Government's proposed approach, and various suggestions were made towards ensuring the instrument was well aligned with the Government's stated policy objectives. Where appropriate, the feedback has been incorporated into the final draft.

8. Applicable Guidance

8.1 None.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A de-minimis Impact Assessment is published alongside the Explanatory Memorandum on the legislation.gov.uk website.

Impact on businesses, charities and voluntary bodies

9.2 Given the regime will take full effect when the FCA finalises its detailed firm-facing rules and regulatory requirements, it is HM Treasury's view that the majority of the costs and benefits faced by firms cannot be fully quantified at this stage.

9.3 Overall, HM Treasury estimates that over an appraisal period of 10 years, the Equivalent Annual Net Direct Cost to Business is £2.7mn. The total cost to business in net present value is £24.02 million.

[6] Keynote address at the Tokenisation Summit (Nov 2024): UK government approach to tokenisation and regulation available at https://www.gov.uk/government/speeches/keynote-address-at-the-tokenisation-summit-uk-government-approach-to-tokenisation-and-regulation

[7] Regulatory regime for cryptoassets (regulated activities) – Draft SI and Policy Note available at https://www.gov.uk/government/publications/regulatory-regime-for-cryptoassets-regulated-activities-draft-si-and-policy-note

9.4 The direct costs stemming from the Government's legislation are considered to be in relation to firms initiating their authorisation processes with the FCA. This will include familiarisation with the legislation (estimated to be £1.09 million in present value), administrative costs with submitting the application and engaging with the FCA in the process (approx. £0.96 million in present value) and paying the authorisation fees (estimated to be £18.56 million in present value). Once authorised, firms will need to pay an annual levy to the FCA (estimated to be approx. £3.41 million in present value).

9.5 The indirect costs to firms will include those resulting from the FCA's rules and regulatory requirements. These could include changes to IT systems, governance costs, staff training etc. HM Treasury proposes to treat these costs as 'indirect' in relation to the Government's legislation as these changes will need to be in place when the FCA's regime is live. Exact costs will depend on the type(s) of activities being undertaken by the firm, and the FCA's detailed rules and regulatory requirements which are not yet finalised. Such costs are expected to be included in the FCA's cost-benefit analysis.

9.6 HM Treasury has not identified any direct costs to consumers resulting from this legislation. It is possible that once the full regime, including FCA rules, is in place there may be potential for consumers to face higher prices, if firms pass on any incremental costs (either of compliance or business model changes) to consumers.

9.7 It is also possible that firms may try to reduce operating costs by reducing the quality of their offering, which would also affect consumers. The framework is designed to minimise such a risk by tackling the information asymmetry between firms and consumers through various disclosure requirements and ensuring consumers are better informed of investment decisions.

9.8 An unintended consequence of regulation could be a "halo effect" where consumer harm may be caused from increased consumer confidence, if consumers believe they have greater levels of regulatory protection than they actually do.

9.9 There are no quantifiable benefits of this legislation. A clear regulatory framework will provide businesses with certainty and encourage firm entry in the market. This may further support effective competition, innovation and increased investor confidence. Regulation is likely to increase user trust and boost the opportunity for these firms to operate in the UK.

9.10 Increasing regulatory protections is likely to mean more people consider investing in cryptoassets. Increased demand would likely result in increased revenue to firms, which may in turn increase profits. Given that under the regime cryptoasset firms will be regulated entities, the Government also expects this to have a positive effect for firms' access to banking services.

9.11 HM Treasury expects there will be significant indirect benefits of the Government's legislation to consumers which cannot be quantified at this stage. The regulatory framework is intended to increase regulatory protections for consumers and reduce the incidence of harm. Regulation is intended to help reduce risk of asset losses through enhanced safeguarding requirements. The disclosure requirements will mean that consumers are likely to have better information to enable them to make more informed investment decisions.

9.12 Given regulation will support effective competition that delivers high quality offerings in the cryptoasset market, consumers will likely benefit from increased choice of

products. Regulation will also support accessibility to wider financial products and services.

9.13 There is no expected impact on charities or voluntary bodies.

9.14 The legislation does impact small or micro businesses. HM Treasury expects that firms of different sizes will likely incur different costs. That is why HM Treasury's calculations for familiarisation and gap analysis account for firm size using the FCA's standardised cost model. The legislation is likely to have a greater impact on small and medium firms relative to larger firms as the FCA authorisation fee is relatively constant regardless of firm size. However, the annual levy does take into consideration the firm's annual income.

9.15 The Government considered and rejected any exemptions or tiered requirements for small or micro businesses as this would be inconsistent with the overall policy approach of "same risk, same regulatory outcome" for the financial services activities being undertaken and/or provided by the firms. The nature and magnitude of risks to individual consumers and to overall market integrity are likely to arise equally from firms regardless of size.

9.16 The impact on the public sector is through the FCA incurring costs under the new regime. This is associated with authorising new firms, supervision, communication and development new rules, reviewing monthly safeguarding returns etc. These costs will be recovered through charging authorisation fees and its annual levy.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 HM Treasury will monitor the cryptoassets regulatory framework on an ongoing basis. The FCA will be responsible for implementing this regime and will continue to monitor its implementation and efficacy in the usual way.

10.2 A statutory review clause is included in the instrument with a commitment to review after 5 years of the legislation coming into force.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 The Economic Secretary to the Treasury has made the following statement regarding Human Rights:
"In my view the provisions of the Financial Services and Markets Act 2000 (Cryptoassets) Regulations 2025 are compatible with the Convention rights."

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").

Annex – Glossary of key terms

Distributed Ledger Technology (DLT): A distributed ledger is a digital store of information or data that is shared among a network of computers (known as "nodes") and may be available to other participants without the need for a central authority. Participants approve and eventually synchronise additions to the ledger through an agreed set of rules and procedures (known as a "consensus mechanism"). The protocols and supporting infrastructure (i.e. the technology systems) that enable the operation and use of a distributed ledger is known as DLT. Blockchain is a form of DLT.

Blockchain: A type of DLT which records data in a structured way. Data (such as transactions) is usually grouped in timestamped batches known as 'blocks' which are mathematically linked to form an immutable and auditable 'chain' of blocks (that provide a record of previous transactions).

Node: A computational device acting as a participant in a DLT network, including to store a copy of 'the ledger' (transactional data), check the validity of new blocks being added to a blockchain, and broadcast information to other nodes in the network.

Validator node: A node that participates in the consensus mechanism for verifying the validity of new transactions in a distributed ledger network, including to agree the addition of new 'blocks' to a blockchain. A validator node may obtain compensation or profit for performing this function.

Consensus mechanism: The rules and procedures by which agreement is reached by nodes in a blockchain network or other type of distributed ledger, to validate transactions.

Fungible: The state of one thing being interchangeable with another thing of a similar nature or kind.

Minting: The process of putting a cryptoasset on a blockchain or other distributed ledger network in a transferable form.