

**Insights**

## **REGULATING STABLECOINS AND CRYPTO CUSTODY - FURTHER STEPS ON THE FCA'S CRYPTO ROADMAP**

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Late last week, the FCA published two further consultation papers on cryptoasset regulation as part of their broader crypto roadmap, which aims to create a comprehensive regulatory framework for cryptoassets in the UK.

### **KEY TAKEAWAYS**

These are pivotal papers. They signal the FCA's commitment to support innovation in digital assets whilst ensuring they operate within a robust regulatory framework and, in so doing, mark a significant shift towards more mainstream adoption of cryptoassets, with stablecoins positioned as the lowest-risk entry point. This move is expected to bolster consumer protection, mitigate financial crime risks, and promote market integrity. Additionally, it aligns the UK with international regulatory trends in the adoption and regulation of digital assets, facilitating cross-border transactions and attracting international investors into the UK.

The current proposals do not propose bringing firms conducting payments using qualifying stablecoins within the regulatory perimeter. However, the FCA's expectation is that this will change as use cases develop. So, whilst the crypto roadmap only plans to 2026, the FCA's vision for cryptoassets regulation extends further. The FCA states that its aim is to position the UK as a location where issuers and custodians of cryptoassets will choose to set up.

### **CP25/14: STABLECOIN ISSUANCE AND CRYPTOASSET CUSTODY**

In CP25/14, the FCA outlines its proposed regulations and guidance for issuing qualifying stablecoins and safeguarding qualifying cryptoassets (including stablecoins). These activities will be classified as specified activities through amendments to the Regulated Activities Order as per the recently published draft legislation (read more on this [Regulating crypto - next steps on the FCA's crypto roadmap](#), Samantha Paul).

### **Headline proposals concerning qualifying stablecoins**

- **Backing assets:** Qualifying stablecoins must be backed with secure, liquid assets held in a statutory trust for the benefit of stablecoin holders. These assets should be held by a third-party custodian who is not part of the issuer's group.
- **Redemption:** Issuers must offer redemption of qualifying stablecoins in exchange for money to all holders. Payment orders to transfer redeemed funds should be placed by the end of the next business day following receipt of a redemption request.
- **Disclosure:** Issuers must clearly disclose their redemption policy and the composition of backing assets to consumers.

### Headline proposals concerning qualifying cryptoassets

- **Asset segregation:** Custodians must segregate client cryptoassets from their own.
- **Trust holding:** Custodians must hold qualifying cryptoassets on behalf of clients in a trust.
- **Record keeping:** Custodians must maintain accurate books and records of clients' cryptoasset holdings.
- **Governance and controls:** Custodians must have adequate controls and governance to protect clients' cryptoasset holdings.

We can expect further proposals on additional measures to protect qualifying cryptoassets, including prudential and operational resilience measures.

### CP25/15: PROPOSED PRUDENTIAL REGIME FOR CRYPTOASSET FIRMS

The FCA propose creating two new sourcebooks: COREPRU and CRYPTOPRU. COREPRU is a new integrated prudential sourcebook, which will initially only apply to regulated cryptoasset activities, but with the long-term plan of moving other regulated firms into this regime. COREPRU will be accompanied by sector-specific requirements, which for firms doing regulated cryptoasset activities will be the proposed new CRYPTOPRU sourcebook.

### Headline prudential requirements

- **Regulatory capital requirements:** To ensure financial resilience, stablecoin issuers must hold at least £350,000 in own funds and cryptoasset custodians at least £150,000. Firms conducting both activities must meet the higher threshold. Additional capital is required based on the scale of operations calculated using K-factor metrics equivalent to the approach for MIFIDPRU investment firms, as well as to cover three months of fixed overhead expenses. On the interaction with MIFIDPRU more generally, we will need to await the FCA's consultation paper projected for Q4 2025 or Q1 2026.

- **Liquidity requirements:** Firms need to hold a minimum pool of liquid assets to meet short-term obligations, ensuring operational resilience.
- **Concentration risk limits:** Rules will limit over-exposure to any single counterparty or asset, preventing firms from placing all reserves in one bank or asset type.

## WHAT NEXT?

Feedback on these papers is due by 31 July 2025. Meanwhile, as set-out in the crypto roadmap, we can expect further consultation papers throughout 2025 and into 2026, including a consultation on governance rules (including the application of the SM&CR and Consumer Duty to cryptoasset issues and custodians). Final policy statements are projected shortly thereafter, with the resulting new regime going live in 2026, presumably with a transition period.

The consultation papers also foreshadow the issuance of further consultation papers later this year by the Bank of England, setting out the categories of “systemic scale” stablecoins that will need to be dual regulated (by the FCA and PRA).

The challenge for the government, the Bank of England and the regulators will be striking the appropriate balance between constructing a regulatory environment that is designed to promote the UK as a competitive location for cryptoasset issuers and custodians, and achieving consistency across its diverse regulated markets concerning the application of onerous UK-specific regulator regimes e.g. Consumer Duty and SM&CR, which do not exist in alternative jurisdictions.

David Geale, executive director for payments and digital finance at the FCA, said:

‘At the FCA, we have long supported innovation that benefits consumers and markets. At present, crypto is largely unregulated in the UK. We want to strike a balance in support of a sector that enables innovation and is underpinned by market integrity and trust.’

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