FINANCIAL CONDUCT AUTHORITY

Consultation Paper

CP25/42***

A prudential regime for cryptoasset firms

December 2025

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Chapter 1

Summary

1.1 In December 2025, the Treasury introduced the Financial Services and Markets Act 2000 (Cryptoassets) Regulations 2025 ('the Cryptoasset Regulations') to bring new cryptoasset activities within our regulatory remit. This expands our role which is currently limited to how cryptoassets are promoted and making sure firms meet expected anti-money laundering, counter terrorist financing, and proliferation financing standards.

1.2 In this Consultation Paper (CP) we set out our proposed prudential requirements for all cryptoasset firms that will need to be authorised by us. This includes the "new cryptoasset activities" introduced through the change in legislation. This CP builds on proposals in our earlier CP25/15. It extends the scope to the remaining cryptoasset activities, namely operating a qualifying cryptoasset trading platform (CATP), staking, arranging deals, dealing as agent and dealing as principal in qualifying cryptoassets. It also contains additional proposals that were deferred from CP25/15 in relation to the overall prudential regime for cryptoasset firms. This CP should also be read in conjunction with CP25/40 and CP25/41, which are published alongside this one.

1.3 Our recently published consultation papers CP25/14, CP25/15, and CP25/25 explain how our proposals align with our Strategy and statutory objectives. Our proposals in this CP are also aligned with our primary strategic and operational objectives – consumer protection, market integrity, and effective competition – and advance our secondary international competitiveness and growth objective, as far as reasonably possible.

1.4 We have also engaged with statutory panels when building our proposals. These include the Financial Services Consumer Panel, Practitioner Panel, Smaller Business Practitioner Panel, Markets Practitioner Panel, and Listing Authority Advisory Panel. We consulted the Cost Benefit Analysis (CBA) Panel and have summarised its main recommendations and our subsequent changes in our CBA (Annex 2).

1.5 Our proposals take account of the novelty of the cryptoasset market and the business models of the firms within it. We also recognise the variances in different types of cryptoassets (for example, stablecoin and other unbacked cryptoassets). Regulation will not be able to limit all the risks in the sector. Anyone who buys cryptoassets should be aware of the risks involved – including that they might lose all the money they invest and the significant volatility of cryptoassets' value. We know there are trade-offs in designing a regulatory regime for cryptoassets, and we are open to feedback on our proposals.

Who this applies to

1.6 The draft rules in this CP cover firms seeking authorisation and regulation for the Regulated Activities outlined in the Cryptoasset Regulations.

1.7 Who else needs to read this document:

- Firms that participate in, or support the services of, regulated cryptoasset activities.
- Industry groups, law firms and trade bodies representing firms in the cryptoasset sector.
- Professional advisors in the cryptoasset sector and law firms.
- Consumers and groups representing consumer interests.

1.8 It may also interest:

- Policy makers and other regulatory bodies.
- Academics and think tanks.
- Industry experts and commentators.

Measuring success

1.9 Proportionate prudential standards will support the development of cryptoasset markets in the UK while maintaining their integrity. They also aim to reduce the potential harms that firms in these markets can cause. We expect to see benefits such as:

- Reduced firm failure, measured by comparing rates of firm failure before and after regulation.
- Reduced harm from disorderly firm failure (reduced market disruption and impact on consumers), measured by comparing rates of disorderly firm failure before and after regulation.
- Improved market confidence and resilience, measured by market research.
- Effective and proportionate prudential risk management, measured through firm assessment.
- Effective competition, measured by firm participation in the UK market.
- Increased likelihood that firms can use own funds to restore consumer positions where it is liable for consumer harm.
- Prudently managed firms with adequate financial resources that are more likely to deliver better conduct outcomes for consumers.

1.10 We will use data from regulated cryptoasset firms to track changes in firms and the market over time and identify firms that fail to meet our prudential standards. We will take action as appropriate.

1.11 We will evaluate the wider prudential regime for cryptoassets when the industry has had time to adapt to the new requirements. We will examine evidence on firms' adaptation to the new regime. This will focus on their adherence to our rules and other relevant factors to determine whether the regime is delivering good outcomes.

1.12 We discuss our intended improvements to consumer and market outcomes in more detail in the Cost Benefit Analysis (CBA) (see link in Annex 2).

Next steps

1.13 We welcome feedback on our questions, proposed rules and guidance in this consultation by 12 February 2026. You can submit responses through the form on our website or by email to cp25-42@fca.org.uk. If responding by email, please indicate whether you wish your response to be treated as confidential and, separately, if you are content to be named as a respondent.

1.14 As well as requirements covered in this CP and previous CPs, firms will also be subject to FCA Handbook requirements covered in a forthcoming consultation on the Consumer Duty, COBS, PROD Sourcebook, and access to the Financial Ombudsman Service. This is expected to be published in Q1 2026. Rules consulted in the forthcoming CP will supplement but not change the rules consulted in this CP.

1.15 Following consideration of responses to all the consultations as part of the Crypto Roadmap, as well as other related consultations, our final rules and guidance will then be set out in policy statements.

Chapter 2

Scope of this consultation

2.1 In CP25/15 we introduced two new prudential sourcebooks – COREPRU and CRYPTOPRU. CP25/15 covered some aspects of the prudential regime for regulated cryptoasset firms, with a particular focus on stablecoin issuers and custodians of cryptoassets. This CP builds on those proposals and focuses on the remaining cryptoasset activities, namely operating a qualifying cryptoasset trading platform (CATP), staking, arranging deals, dealing as agent and dealing as principal in qualifying cryptoassets. The activity of dealing as principal includes firms that offer lending and borrowing products.

2.2 We intend to publish policy statements which cover both this CP and CP25/15 in 2026. To aid interpretation, we have attached the full instrument to this CP, including rules that we proposed as part of CP25/15. We have underlined the new text that has been added from this CP, and these collectively form our final proposed draft rules.

2.3 In CP25/15 we highlighted the different components of our regime and at which stage we would consult on these. Table 1 summarises the split across the two CPs.

Table 1

Area	CP25/15	This CP
Overall Financial Adequacy	X	
Definition of Own Funds	X	
Own funds requirement (overall calculation)	X	
Permanent minimum requirement – Stablecoin and Custody	X	
Permanent minimum requirement – remaining activities		X
Fixed overhead requirement	X	
K-factor requirements – Stablecoin and Custody	X	
K-factor requirements – remaining activities		X
Concentration risk requirements	X	X
Basic liquid asset requirement	X	
Issuer liquid asset requirement	X	
Overall risk assessment		X
Public disclosure of prudential information		X

2.4 There are two key changes from CP25/15 to be aware of. We have updated the terminology for the internal capital adequacy and risk assessment (ICARA) process to the overall risk assessment (see chapter 4). Furthermore, we no longer intend to create a bespoke set of requirements for groups of cryptoasset firms. Instead, we expect firms

to consider group risk as part of their overall risk assessment. Additionally, firms would be required to disclose information on their group as part of their public disclosure requirements (see chapter 5).

2.5 As described in CP25/15, the overall prudential framework for cryptoasset firms is set out across two separate sourcebooks, COREPRU and CRYPTOPRU. This is consistent with our broader strategy to be a smarter regulator and make the FCA prudential framework more accessible and consistent for solo regulated FCA firms.

2.6 We intend to develop and apply COREPRU only to firms carrying on regulated cryptoasset activities initially. We will consult on moving other types of regulated firms into COREPRU in the future.

Table 2 summarises where the respective rules will be for each proposal in this CP.

Table 2

COREPRU	CRYPTOPRU
Overall financial adequacy	Permanent minimum requirement
Own funds	K-factor requirement
Own funds requirement (overall)	Issuer liquid asset requirement
Fixed overheads requirement	Disclosure of prudential information
Concentration risk monitoring	Overall risk assessment (sectoral requirements)
Basic liquid asset requirement	
Overall risk assessment (general provisions)	

Interaction with other prudential regimes

2.7 Our proposals for cryptoasset firms bear a strong resemblance to our existing Prudential sourcebook for MiFID investment firms (MIFIDPRU). In CP25/15, we explained how cryptoasset firms should calculate their own funds requirement where they are also subject to MIFIDPRU. In this section, we explain how other components of MIFIDPRU and other prudential regimes across FCA and PRA rules interact with COREPRU/CRYPTOPRU.

2.8 We propose that the other components of COREPRU/CRYPTOPRU will interact with MIFIDPRU as follows:

2.9 The basic liquid asset requirement will be the same in both COREPRU and MIFIDPRU. However, the list of core liquid assets differs – as MIFIDPRU also includes trade receivables.

- Firms will only need to complete one overall risk assessment (still known as the ICARA process in MIFIDPRU), encompassing both cryptoasset and MIFID business.

- Disclosure requirements must be met across both regimes. However, to avoid unnecessary duplication and reduce operational burden, firms may publish a single, consolidated set of prudential disclosures that covers all the requirements for both regimes.

2.10 We recognise that existing investment firm groups may also include cryptoasset firms. The Treasury intends to amend the definition of an 'Investment Firms Prudential Regime financial institution' to include such firms. We intend to consult on amending our rules for investment firm groups to accommodate cryptoasset firms at a later date.

2.11 Where a firm subject to COREPRU/CRYPTOPRU is also subject to another FCA prudential regime, we propose that these regimes will interact in the same manner as MIFIDPRU interacts with other prudential regimes. As we explained in CP25/15, we intend to consult on moving other types of regulated firms into COREPRU in the future.

2.12 COREPRU/CRYPTOPRU will not apply to firms that are prudentially regulated by the PRA.

Reporting

2.13 Prudential regulatory returns give us up-to-date information on firms' financial position enabling effective supervision. We recognise that this sector will be new to regulation and compliance. Our intention is to collect data that is appropriate and proportionate to the size and complexity of firms' business models.

2.14 To achieve this goal, we intend to collect prudential data from cryptoasset firms through proportionate regular ad-hoc returns in the first instance and 'test' what works for industry and the FCA as we begin to supervise this sector. So, we do not plan to consult on rules for prudential regulatory returns at present, however we plan to cover cross-cutting regulatory reporting in our upcoming consultation paper in Q1 2026.

Third country considerations

2.15 Our proposals are designed to apply proportionate and risk-sensitive prudential requirements to firms operating in cryptoasset markets. In doing so, we have focused on making sure the framework reflects the specific risks and regulatory standards applicable within the UK.

2.16 We recognise that firms may engage with cryptoassets, counterparties, or arrangements originating in third countries, including jurisdictions with differing regulatory approaches. In some cases, this may raise questions about how prudential requirements should apply.

2.17 One example is the treatment of stablecoins. Under the current proposals, certain exclusions (for example, from position risk requirements) apply only to qualifying stablecoins that comply with UK requirements. We are not extending these exclusions to third country stablecoins at this stage. But we acknowledge that this may be an area for future consideration, particularly where regulatory outcomes are broadly aligned. We will also consider other third country issues in a similar manner.

Chapter 3

Own funds requirements

3.1 In CP25/15 we introduced the own funds requirement (OFR). This is the minimum amount of own funds we would expect a cryptoasset firm to always maintain. The OFR is the highest of three limbs: the permanent minimum requirement (PMR), the fixed overhead requirement (FOR) and K-factor requirement (KFR).

3.2 This chapter covers the permanent minimum requirement (PMR) and K-factor requirement (KFR) for the various RAO activities not covered in CP25/15. Where appropriate, we have aligned these with traditional finance (tradfi) equivalents. We also assess whether any unique risks within cryptoasset business models justify divergence from tradfi standards. We explained our proposals for the FOR in CP25/15, which we intend to apply to all firms subject to CRYPTOPRU. In this consultation, we are proposing a small number of additional items which may be deducted as part of the FOR, which relate to firms that trade in qualifying cryptoassets.

3.3 A firm's minimum own funds requirement represents the baseline level of regulatory capital it must maintain. As part of the overall risk assessment, a firm may determine that a higher amount of own funds is necessary to adequately cover its risks. As the cryptoasset sector continues to evolve, we intend to keep our initial calibration under review and may revise the minimum requirements based on data collected from firms and other relevant considerations.

Ongoing permanent minimum requirement (PMR)

3.4 In DP23/4, we proposed that cryptoasset firms should be required to meet a permanent minimum requirement (PMR) on an ongoing basis. There were no specific concerns raised with the concept of a PMR, and we still consider it a suitable approach. A cryptoasset firm should, at all times, operate with a minimum level of own funds based on the cryptoasset services and activities it has permission to undertake. This is its PMR. The table below sets out the PMR we propose for each regulated crypto activity covered in this consultation paper.

Table 3

PMR (£)	Regulated Activity
75,000	Dealing as agent in qualifying cryptoassets
75,000	Arranging deals in qualifying cryptoassets
150,000	Operating a cryptoasset trading platform
150,000	Qualifying cryptoasset staking
750,000	Dealing as principal in qualifying cryptoassets

3.5 The activities a cryptoasset firm wishes to carry out may change over time, resulting in variations in permission that may affect its PMR. Where a cryptoasset firm is conducting multiple activities, its PMR will be the one that is highest across those activities.

Question 1: **Do you agree with the proposed PMR for the various activities that cryptoasset firms will need to comply with?**

Operational risk K-factor requirements

3.6 The K-factor capital requirements are either activity or exposure based. Activity based K-factors typically seek to address the operational risk associated with the relevant activity. Exposure based K-factors only apply to those firms that take trading book positions in cryptoassets, and typically cover market, credit and concentration risk.

3.7 Which K-factors will apply to an individual cryptoasset firm will depend on the activities it undertakes, with the amount of each requirement growing with the scale of activity. Where a firm conducts multiple regulated cryptoasset activities, the overall K-factor would be the sum of the K-factors for each cryptoasset activity undertaken by the firm.

3.8 We proposed two operational risk K-factors in CP25/15, for the activities of qualifying stablecoin issuance (K-SII) and safeguarding of qualifying cryptoassets (K-QCS).

3.9 In line with the inclusion of relevant specified investment cryptoassets in the safeguarding activity under the Cryptoasset Regulations (article 9N), we are proposing to expand the definition of K-QCS to include specified investment cryptoassets. Where this may lead to amounts being captured both under our MIFDIPRU and CRYPTOPRU sourcebooks, we propose that the relevant MIFIDPRU K-factor (K-ASA) is disapplied and K-QCS applies instead.

3.10 There are two general provisions that sit across our proposed operational risk K-factor rules. These are:

- All relevant metrics (for example, amount of stablecoins in issuance, value of client orders handled, etc.) must be expressed in the firm's functional currency for the purpose of the K-factor calculations. Where firms need to convert any amounts into their functional currency, they must use an appropriate market rate to determine the conversion.
- Firms will require 9 months' worth of data of the relevant metrics to complete K-factor calculations. In CP25/15 (see paragraph 4.32 and 4.42), we proposed a modified calculation for firms that have less than 9 months' worth of data for K-SII and K-QCS. We propose to extend this modification to the operational risk K-factors proposed in this CP.

K-CCO

3.11 The K-factor capital requirement for client cryptoasset orders (K-CCO) is designed to cover the operational risk arising from a cryptoasset firm handling client orders. K-CCO applies to the following elements of arranging deals in qualifying cryptoassets and dealing as agent in qualifying cryptoassets:

- execution of orders on behalf of the client; and
- reception and transmission of client orders

3.12 We propose that the K-CCO requirement for a cryptoasset firm is 0.1% of the average cryptoasset orders. This is aligned with the tradfi equivalent under our MIFIDPRU sourcebook.

3.13 A cryptoasset order is an order that relates to the sale or purchase of a qualifying cryptoasset. The proposed value of a cryptoasset order is the amount paid or received on the trade. We propose that a cryptoasset firm must use the total of the absolute value of each buy and sell order.

3.14 Firms must include in their measurement of K-CCO any orders that are part of a chain (that is, when the transaction includes more than two parties).

3.15 We propose that a cryptoasset firm can exclude the transaction cost from the value of an order to reflect the amount received or paid by the client for the relevant instruments. This should only be the case when the cost is not paid separately to the cryptoasset firm, but is reflected in the amount paid for the order itself. Transaction cost may be inclusive of gas fees associated with a cryptoasset trade.

3.16 We propose that a cryptoasset firm is not required to include the following in its measurement of client cryptoasset orders (CCO):

- Orders executed in its own name (including where executing an order in its own name on behalf of a client).
- Arrangements in which a person is introduced to an authorised person.
- Arrangements which do not result in a transaction to which the arrangements relate to.

3.17 A firm operating a cryptoasset trading platform (CATP) must include in the measurement of its CCO any orders it handles solely in the capacity of operating that CATP. Additionally, a cryptoasset firm executing orders on an external CATP must also include these orders in its measurement of CCO. However, if the cryptoasset firm executes these orders in its own name, they must be included in its measurement of K-CTF (see paragraph 3.22) instead.

3.18 Arrangements which do not result in a transaction may arise where a cryptoasset firm receives a client order, but that order is not ultimately executed. Firms do not have to include the value of these orders in their measurement of CCO. However, as part of its overall risk assessment, a cryptoasset firm should consider whether the fact that an order has not been executed creates any material risks to the firm or to its clients. This may depend upon the reasons why client orders have not been executed.

3.19 To arrive at average CCO, a firm would:

- Take the total amount of CCO, measured at the end of each business day, for the previous 9 months.
- Exclude the values for the most recent 3 months.
- Calculate the arithmetic mean of daily values for the remaining 6 months.

3.20 K-CCO is then calculated on the first calendar day of each calendar month.

K-CTF

3.21 The K-factor capital requirement for cryptoasset trading flow (K-CTF) is designed to cover the operational risk relating to the value of the trading activity a cryptoasset firm conducts throughout each business day.

3.22 CTF measures the daily value of transactions a cryptoasset firm carries out in its own name, including on behalf of clients. It does not include the value of orders handled for clients, in the name of clients, that are covered within the scope of K-CCO.

3.23 We propose that the K-CTF requirement for a cryptoasset firm is 0.1% of the average cryptoasset orders.

3.24 A cryptoasset order is an order that relates to the sale or purchase of a qualifying cryptoasset. The value of a cryptoasset order is the amount paid or received on the trade.

3.25 To arrive at average cryptoasset trading flow (CTF), a firm would:

- Take the total amount of CTF, measured at the end of each business day, for the previous 9 months.
- Exclude the values for the most recent 3 months.
- Calculate the arithmetic mean of daily values for the remaining 6 months.

3.26 K-CTF is then calculated on the first calendar day of each calendar month.

K-CCS

3.27 The K-factor capital requirement for clients' cryptoassets staked (K-CCS) is designed to cover the operational risk relating to the value of cryptoassets staked on behalf of clients. The operational risk profile of staking platforms resembles that of cryptoasset custodians, due to similar risks such as cyber threats, reconciliation issues and human error.

3.28 We propose that the K-CCS requirement for a cryptoasset firm is 0.04% of the average clients' cryptoassets staked (CSS).

3.29 When measuring CCS, a firm must include all client qualifying cryptoassets for which the qualifying cryptoasset staking service has been provided. We recognise that not all

cryptoassets used for qualifying cryptoasset staking will be participating in blockchain validation. This may be due to them being in a 'queue' prior to blockchain validation occurring or being in the process of being 'unstaked'. Firms should include in their measure of CCS any amounts of cryptoassets that are in the process of being staked or unstaked as part of the qualifying cryptoasset staking activity. Firms should make sure these metrics are consistent with the record-keeping and reconciliation requirements set out in CP25/40.

3.30 We acknowledge that certain business models may involve firms undertaking both safeguarding and staking activities. Where a cryptoasset is already included in a firm's measurement of safeguarding qualifying cryptoassets (QCS), then it can be excluded from the measurement of CCS, where safeguarding and staking are happening at the same time. This approach reflects our view that the risks associated with both activities are similar, warranting consistent treatment in the prudential framework.

3.31 Where a firm has appointed a third party to stake qualifying cryptoassets, or has itself been appointed by a third party to stake qualifying cryptoassets, the firm must include the value of those qualifying cryptoassets in the measurement of its CCS. It also has responsibilities in its arrangements for appointing a third party for staking. The selection, appointment and periodic review of any third party which the firm has appointed for staking is a source of additional operational risk, caused by the increased operational complexity and the additional controls and oversight required. We consider that a cryptoasset firm should not reduce its level of CCS by appointing a third party for the purposes of staking.

3.32 For example, Firm A receives instructions from a client to stake assets. Firm A approaches firm B to enable the assets to be staked. As firm A is contracting with the client and making arrangements for cryptoasset staking, they must include the relevant assets in their measurement of CCS. Firm B must also include these assets in their measurement of CCS as they are making arrangements for Firm A.

3.33 To arrive at average CCS, a firm would:

- Take the total amount of CCS, measured at the end of each business day, for the previous 9 months.
- Exclude the values for the most recent 3 months.
- Calculate the arithmetic mean of daily values for the remaining 6 months.

3.34 K-CCS is then calculated on the first calendar day of each calendar month.

Question 2: **Do you have any views on the operational risk K-factors we are proposing for cryptoasset firms?**

Exposure based K-factor requirement

3.35 Firms that trade in cryptoassets in their own name will be subject to exposure risk. This manifests itself through exposures to a firm's counterparties and the market price of cryptoassets.

3.36 In this section, we cover the K-factors that will apply to cryptoasset firms that trade in their own name, including where they do so on behalf of clients.

3.37 The K-factors that only apply to cryptoasset firms that trade in their own name are:

- Net cryptoasset position (K-NCP) – a requirement based on the cryptoasset firm's market risk.
- Cryptoasset counterparty default (K-CCD) – a requirement based on the risk of a counterparty failing to meet their obligations to the cryptoasset firm.
- Concentration risk (K-CON) – a requirement based on any concentrated exposures to a single client or group of connected clients.

Trading book positions

3.38 These K-factors apply to positions a firm has in their trading book. For the purposes of CRYPTOPRU, we define trading book as all positions in qualifying cryptoassets held by a firm that are held with trading intent, or held to hedge positions with trading intent. This includes the firm's own proprietary positions and positions arising from client servicing. We would generally expect all positions in qualifying cryptoassets to be recorded in the trading book.

3.39 We are proposing to apply the same requirements for managing and valuing trading book positions in qualifying cryptoassets as those applied to MIFIDPRU firms. This means firms must follow the standards set out in MIFIDPRU 4.11.3R, which incorporates principles from the UK Capital Requirements Regulation (UK CRR). For example, under UK CRR Article 104, firms are required to maintain systems that ensure positions are appropriately assigned to the trading book, and that they are subject to daily monitoring and risk control processes. This includes ensuring that positions held with trading intent are clearly documented, and that firms can demonstrate the rationale for their inclusion in the trading book. These controls aim to ensure that firms are not misclassifying exposures to reduce capital requirements and that they maintain a robust framework for managing position risk.

3.40 Firms must also apply an additional valuation adjustment (AVA) of 0.1% to the base value of trading book positions, calculated as the absolute value of fair-valued assets and liabilities. These AVAs are reflected as a deduction to common equity tier 1 (CET1) capital. This adjustment ensures that valuations reflect potential market uncertainty and are not overstated. Certain exclusions apply, such as positions in qualifying stablecoins compliant with CASS 16, exactly matching offsetting positions, and assets whose valuation changes do not impact CET1 capital.

Question 3: **Do you have any views on our proposals for positions in the trading book, including the definition, management and additional value adjustments?**

K-NCP

3.41 This section sets out our proposed capital requirement for cryptoasset firms that hold positions in qualifying cryptoassets in their own name as part of the trading book. The K-NCP requirement is intended to cover the market risk arising from fluctuations in the value of cryptoassets held by the firm, including where those positions are held on behalf of clients.

3.42 A firm must calculate its K-NCP requirement by reference to any position it holds in qualifying cryptoassets in its own name, excluding:

- Positions in UK authorised qualifying stablecoins.
- Positions already deducted under COREPRU 3.
- Positions in financial instruments, foreign exchange or commodities subject to K-NPR or K-CMG under MIFIDPRU requirements, except where the firm applies the netting approach described below.

3.43 Where a firm is subject to both CRYPTOPRU and MIFIDPRU, it may be required to calculate position risk requirements under both frameworks. Our policy is that firms should not be required to recognise the same economic exposure to a cryptoasset twice. And firms may net or offset positions by including certain exposures in the K-NCP requirement instead of MIFIDPRU's K-NPR or K-CMG, where appropriate.

3.44 Firms must calculate their K-NCP requirement by:

- Identifying positions in scope.
- Netting long and short positions in identical qualifying cryptoassets.
- Valuing each net position in the firm's functional currency.
- Applying the relevant position risk adjustment.
- Summing the resulting capital requirements.

3.45 Cryptoassets are considered identical if they enjoy the same rights in all respects and are fungible with one another.

3.46 We propose the following position risk adjustments based on the classification of qualifying cryptoassets:

- Category A cryptoassets: 40% of net exposure value.
- Category B cryptoassets: 100% of net exposure value.

3.47 Our proposed 40% exposure requirement for Category A cryptoassets derives from an assessment of the maximum expected shortfall over a 5-day holding period, based on price data from the past 5 years. This analysis indicated expected shortfall values of 40% and above for the largest tokens by market capitalisation. The capital requirements

are intended to align with potential value-at-risk scenarios without unduly restricting authorised firms' business activities.

3.48 To determine whether a qualifying cryptoasset falls into Category A, a firm must assess the cryptoasset against the conditions set out below. Category A cryptoassets are characterised by higher levels of market maturity, liquidity and resilience.

- **Trading Venue:** The cryptoasset must be traded on a UK qualifying cryptoasset trading platform (CATP).
- **Exchangeability:** The firm must be able to exchange the cryptoasset directly for its functional currency or a qualifying stablecoin denominated in that currency.
- **Operational Resilience:** The cryptoasset must demonstrate a stable operational history, with typically at least three years of trading. Firms should consider incidents such as ledger hacks and the robustness of the governance framework.
- **Active market:** The cryptoasset must have an active and sizeable market, assessed through metrics such as daily bid-ask spread and trading volume over the past 12 months.
- **Volatility:** The cryptoasset must not exhibit extreme volatility. To meet this condition, the FCA generally expects average daily volatility to be below 5% over the past 12 months.
- **Correlation:** There must not be a high correlation between price range and trading volume, which could indicate manipulation or instability.
- **Data Availability:** Reliable data must be available to support the firm's assessment of the above conditions. While we would generally expect firms to use UK CATP data, other reliable sources may be used if necessary.

3.49 A firm must maintain documented systems and controls that demonstrate how it assesses each condition. This includes the sources of information used, the consistency of its approach across different cryptoassets, and the frequency of review. The FCA expects firms to apply these assessments in a structured and repeatable manner, making sure classification decisions are evidence-based and transparent.

3.50 If a cryptoasset fails to meet one or more of these conditions, it must be classified as a Category B cryptoasset, attracting a higher capital charge of 100% of net exposure value.

3.51 Firms must monitor their total K-NCP requirement on an intra-day basis. Before executing any trade, firms must be able to recalculate the requirement to determine whether their own funds exceed the requirement.

3.52 To showcase how the K-NCP works for a simple trading book, we have provided an example calculation, assuming the following trading book positions:

Cryptoasset	Category	Long	Short
Asset A	A	£5,000	£3,000
Asset B	B	£10,000	£0

Step 1: ascertain net positions

Asset A: £5,000 (long) – £3,000 (short) = £2,000 net long.

Asset B: £10,000 (long) – £0 (short) = £10,000 net long.

Step 2: apply position risk adjustment based on category

Asset A: £2,000 x 40% = £800

Asset B: £10,000 x 100% = £10,000

Step 3: total K-NCP requirement across assets

£800 + £10,000 = £10,800

Question 4: **Do you have any views on the categorisation of cryptoassets, particularly on the conditions attached to a cryptoasset being included in Category A? Do you agree with the proposed capital charges for each category under our net cryptoasset position (K-NCP) proposals?**

K-CCD

3.53 This section sets out our proposed capital requirement for cryptoasset counterparty default (K-CCD).

3.54 The K-CCD requirement applies to firms that regularly enter into transactions involving qualifying cryptoassets which expose them to counterparty default risk that lasts longer than the standard settlement period for a spot trade. This includes, for example, lending cryptoassets to a counterparty. It does not apply to firms that only spot trade cryptoassets, where settlement is immediate or near immediate.

3.55 Firms must calculate their K-CCD requirement for any transaction in qualifying cryptoassets that creates counterparty default risk beyond the standard settlement period, excluding:

- Cryptoassets already deducted under COREPRU 3.
- Transactions subject to the K-TCD requirement in MIFIDPRU 4.14.

3.56 Our rules have been designed with cryptoasset lending platforms in mind and the types of transactions we see occurring. We would welcome views on whether there are other types of transactions that cryptoasset firms could be engaging in that give rise to counterparty credit risk.

3.57 The K-CCD requirement for each transaction is calculated using the formula:

$$K\text{-}CCD = \alpha \times EV \times RF$$

Where:

- α is a scalar of 1.2;
- EV is the exposure value;
- RF is the risk factor based on counterparty type.

3.58 The exposure value for each transaction is calculated using the formula:

Exposure value = Max(0; RC – C)

Where:

- RC is the replacement cost of the cryptoasset due from the counterparty, adjusted upwards for volatility.
- C is the value of collateral received, adjusted downwards for volatility.

3.59 The risk factor varies by counterparty:

- 1.6% for central governments, central banks, public sector entities, credit institutions, investment firms and CRYPTOPRU firms.
- 8% for other counterparties.
- 83.33% for retail clients.

3.60 We are proposing a higher risk factor for retail clients to align with our proposals in CP25/40 – that firms will have no recourse to retail clients to recover cryptoassets loaned to them, beyond the collateral that has been received from the retail client. For such clients, the risk factor effectively requires firms to hold capital equivalent to the full exposure value after accounting for collateral. We consider this appropriate, as firms should make sure that these transactions are significantly overcollateralised. This recognises the loss where repayment is not made or a counterparty defaults.

3.61 When calculating the exposure value for a relevant transaction, firms must adjust both the value of the collateral received and the replacement cost of the cryptoasset due from the counterparty to reflect market volatility. These adjustments make sure that firms do not overestimate the protection provided by collateral or underestimate the potential loss from counterparty default. The volatility adjustment varies depending on the asset class:

- UK authorised qualifying stablecoins attract a 0% adjustment.
- Category A cryptoassets attract a 40% adjustment.
- Category B cryptoassets attract a 100% adjustment.
- Other assets are adjusted in line with the volatility rates set out in MIFIDPRU 4.14.25R.

These adjustments are applied symmetrically: the replacement cost is increased by the relevant volatility adjustment, while the collateral value is decreased by the same. This approach makes sure the capital requirement reflects the true risk of the transaction, even where collateral is present.

3.62 To illustrate a calculation for a particular transaction in scope of K-CFT, we have provided the following example:

A cryptoasset firm lends out £8,000 worth of a UK authorised qualifying stablecoin to a retail client. The transaction is collateralised with £11,200 worth of a Category A cryptoasset.

Step 1: Calculate Exposure Value (EV)

Formula:

EV = Max(0; RC – C)

Where:

- RC = Replacement cost of the cryptoasset lent (adjusted for volatility)
- C = Value of collateral received (adjusted for volatility)

RC = £8,000 × (1 + 0%) = £8,000
(Qualifying stablecoins attract a 0% volatility adjustment)

C = £11,200 × (1 – 40%) = £6,720
(Category A cryptoassets attract a 40% volatility adjustment)

EV = Max(0; £8,000 – £6,720) = £1,280

Step 2: Calculate K-CCD Requirement

Formula:

K-CCD = α × EV × RF

Where:

- α = 1.2
- RF = Risk factor based on counterparty type

As the counterparty is a retail client, RF = 83.33%

K-CCD = 1.2 × £1,280 × 83.33% = £1,280

Question 5: **Do you have views on our framework for calculating cryptoasset counterparty default requirements (K-CCD) for cryptoasset firms? Are there any transactions that you think would give rise to counterparty credit risk but are not covered by our proposed rules?**

K-CON

3.63 In CP25/15 we introduced proposals for firms to monitor their sources of concentration risk. These obligations extend to all regulated cryptoasset firms. Firms that trade in their own name must also calculate capital requirements for concentrated exposures arising

from their trading book. This section covers how a firm must calculate this requirement, K-CON.

3.64 K-CON is designed to cover the risks that arise when a firm has significant exposures to individual clients or groups of connected clients. These exposures can create vulnerabilities in a firm's financial position. This is particularly where the failure or distress of a single counterparty could lead to material losses or disrupt the firm's ability to operate effectively.

3.65 Our aim in introducing K-CON under CRYPTOPRU is to make sure cryptoasset firms are subject to a consistent and proportionate framework for managing concentration risk, aligned with the standards already applied to investment firms under MIFIDPRU. This reflects our broader objective of integrating cryptoasset regulation into the UK's existing prudential architecture, while recognising the specific characteristics of cryptoasset markets.

3.66 Our proposals adopt the same core methodology as MIFIDPRU 5.4 to 5.10. They include the use of soft limits to identify excessive exposures and the calculation of additional own funds requirements where those limits are breached. However, we have made targeted modifications to make sure the framework captures cryptoasset-specific exposures. CRYPTOPRU extends the scope of concentration risk to include:

- Exposures arising from cryptoasset counterparty default (captured under the K-CCD requirement).
- Net long positions in qualifying cryptoassets (captured under the K-NCP requirement), where the cryptoassets are issued by or where supply is controlled by a particular client or group of connected clients.

Exposure value

3.67 Our proposals require cryptoasset firms to calculate an exposure value (EV) for each client or group of connected clients. In this context, client means any counterparty of the cryptoasset firm.

3.68 The EV is calculated by adding together the following items:

- The positive excess of long positions over short positions in the trading book where the cryptoassets are either issued by, or where supply is controlled by, the client or group of connected clients. Firms should use the approach for K-NCP to calculate the net position in each relevant cryptoasset.
- The exposure value of transactions with the client in question, calculated using the approach in K-CCD.

3.69 For firms subject to both CRYPTOPRU and MIFIDPRU, the exposure value must also include any exposures captured under MIFIDPRU 5.4.1R. This makes sure the firm's total exposure to a client is assessed holistically, across both traditional financial instruments and cryptoassets.

Concentration risk soft limit

3.70 K-CON only applies if the EV to a client or group of connected clients exceeds the concentration risk soft limit.

3.71 The concentration risk soft limit will generally be 25% of a cryptoasset firm's own funds.

3.72 However, where the client is, or the group of connected clients contains, a CRYPTOPRU firm, credit institution or investment firm, the soft limit is the higher of:

- 25% of the firm's own funds; or
- £150 million or 100% of the firm's own funds, whichever is lower

Calculating the exposure value excess

3.73 A firm that exceeds the concentration risk soft limit for a client or group of connected clients will then be required to calculate the exposure value excess (EVE). The EVE will be used to calculate K-CON.

3.74 The EVE for an individual client or group of connected clients is to be calculated using the following formula:

EVE = EV – L

where EV = the exposure value, and L = the concentration risk soft limit.

Calculating the K-CON requirement

3.75 A firm must calculate the concentration risk capital requirement (K-CON) for as long as it exceeds the concentration risk soft limit for one or more clients or groups of connected clients. The key elements needed to calculate K-CON on any concentrated exposure to a client or to a group of connected clients are the EV, EVE, the own funds requirement (OFR) relating to that exposure, and the number of days that the excess has persisted.

3.76 K-CON involves a 2-step calculation. The first step is an exposure-based calculation, known as the own funds requirement for the excess (OFRE). The second step involves applying a multiplying factor to the OFRE (or applying different multiplying factors to tranches of the OFRE) based on the length of time for which the exposure has persisted and by how much (as a percentage of own funds) the EV exceeds the 'soft' limit.

3.77 For the purposes of the first step:

- the OFRE is determined by applying the following formula:
- OFRE = (OFR/EV)*EVE
- the OFR is the total amount calculated for K-CCD for an individual client, and the total K-NCP for a qualifying cryptoasset where that cryptoasset is issued or controlled by the client
- the OFR for a group of connected clients is calculated by adding together the exposures to individual clients in the group

3.78 For the purposes of the second step:

- the OFRE has a multiplying factor applied to it, determined by the length of time the exposure has exceeded the 'soft' limit and by how much (as a percentage of own funds) the EV exceeds the 'soft' limit
- in measuring the length of time the exposure has exceeded the soft limits, we propose to only include business days

3.79 Our proposed rules set out in detail how to calculate K-CON. Below we provide two simplified worked examples to help explain how to do this. The first example covers where an excess has existed for 10 business days or fewer. The second is where an excess continues to exist after 10 business days, and where additional steps are required.

Worked example 1: How to calculate the K-CON own funds requirement for an exposure to a client that has existed for 10 business days or fewer

1	A cryptoasset firm has:	
	a	Own funds of 1,000,000
	b	Its concentration risk soft limit (L) is 100% of own funds as the client is another CRYPTOPRU firm and the firm's own funds are lower than £150 million. (see paragraph 3.72 above) 1,000,000 x 100% = 1,000,000
	c	An exposure value (EV) of 1,700,000
	d	Its exposure value excess (EVE) is its EV minus its soft limit (L) EVE = 1,700,000-1,000,000 EVE = 700,000
2	In this example, the exposure is due to a lending transaction to another regulated cryptoasset firm that gives rise to a K-CCD requirement. The K-NCP exposure for this client is 0. The K-CCD requirement for this exposure is $\alpha \times EV \times RF$ K-CCD = 1.2 x 1,700,000 x 1.6% K-CCD = 32,640	
3	To calculate the own funds requirement excess (OFRE) OFRE = OFR/EV * EVE OFRE = 32,640/1,700,000 * 700,000 OFRE = 13,440	
4	The exposure has persisted for less than 10 business days. This means that the OFRE needs to be multiplied by 200% K-CON = 13,440 x 200% = 26,880	

Worked example 2: How to calculate the K-CON own funds requirement for an exposure to a client that has existed for more than 10 business days.

<table>
<tr><td>1</td><td colspan="2">A cryptoasset firm has:</td></tr>
<tr><td></td><td>a</td><td>Own funds of 1,000,000</td></tr>
<tr><td></td><td>b</td><td>Its concentration risk soft limit (L) is 25% of own funds as the client is not a credit institution, CRYPTOPRU firm or investment firm.
1,000,000 x 25% = 250,000</td></tr>
<tr><td></td><td>c</td><td>An exposure value (EV) of 780,000</td></tr>
<tr><td></td><td>d</td><td>Its exposure value excess (EVE) is its EV minus its soft limit (L)
EVE = 780,000-250,000
EVE = 530,000</td></tr>
<tr><td>2</td><td colspan="2">In this example, the exposure is due to a lending transaction to an 'other counterparty' that gives rise to a K-CCD requirement.
The K-NCP exposure for this client is 0.
The K-CCD requirement for this exposure is α × EV × RF
K-CCD = 1.2 x 780,000 x 8%
K-CCD = 74,880</td></tr>
<tr><td>3</td><td colspan="2">To calculate the own funds requirement excess (OFRE)
OFRE = OFR/EV * EVE
OFRE = 74,880/780,000 * 530,000
OFRE = 50,880</td></tr>
<tr><td>4</td><td colspan="2">The exposure has persisted for more than 10 business days.
The OFRE should be allocated to the appropriate EVE band in the following table:
<table><tr><th>EVE as a percentage of own funds</th><th>Factor</th></tr><tr><td>Up to 40%</td><td>200%</td></tr><tr><td>From 40% to 60%</td><td>300%</td></tr><tr><td>From 60% to 80%</td><td>400%</td></tr><tr><td>From 80% to 100%</td><td>500%</td></tr><tr><td>From 100% to 250%</td><td>600%</td></tr><tr><td>Over 250%</td><td>900%</td></tr></table>
Each allocation is then multiplied by the applicable band factor</td></tr>
<tr><td>5</td><td colspan="2">In this example, 40% of own funds is 400,000, and 60% of own funds is 600,000.
The EVE is 530,000, so 400,000 falls in the first band and 130,000 falls in the second band</td></tr>
</table>

<table>
<tr><td>6</td><td>The proportion of the OFRE that relates to the first 400,000 of the EVE needs to be multiplied by 200%
The proportion of the OFRE that relates to the remaining 130,000 of the EVE needs to be multiplied by 300%
<table>
<tr><th></th><th>EVE split by bands</th><th>Allocating the OFRE across the bands</th><th>CON own funds requirement (OFRE x factor for that band)</th></tr>
<tr><td>a</td><td>400 (200% band)</td><td>400,000/530,000 * 50,880 = 38,400</td><td>38,400 x 200% = 76,800</td></tr>
<tr><td>b</td><td>130 (300% band)</td><td>130,000/530,000 * 50,880 = 12,480</td><td>12,480 x 300% = 37,440</td></tr>
</table></td></tr>
<tr><td>7</td><td>The total K-CON requirement for this exposure is the sum of the CON requirement for a and b.
K-CON = 76,800 + 37,440 = 114,240</td></tr>
</table>

Question 6: **Do you have any views on the proposed framework for calculating concentration risk requirements (K-CON)?**

Chapter 4

Overall risk assessment

4.1 In DP23/4 we discussed the possibility of requiring firms to conduct a prudential risk assessment on an ongoing basis, similar to the internal capital adequacy and risk assessment (ICARA) set out in chapter 7 of MIFIDPRU. We are now formally consulting on this basis.

4.2 This chapter explains the proposed policy framework:

- We propose to add to COREPRU a chapter on the overall risk assessment that will apply across sectors. The rules relevant to this chapter will sit in COREPRU 7.
- We propose to add to CRYPTOPRU specific rules and guidance on the overall risk assessment to be undertaken by cryptoasset firms alongside those in COREPRU 7. The rules relevant to cryptoasset firms will sit in CRYPTOPRU 7.

4.3 A cryptoasset firm that is a qualifying stablecoin issuer and subject to the issuer liquid asset requirement will also need to refer to the rules and guidance on systems and procedures to identify, measure and manage risks in relation to its backing assets. The proposed rules will be set out in the Client Assets Sourcebook (CASS) as consulted on in CP25/14.

4.4 The proposed rules on the overall risk assessment will not apply to a cryptoasset firm that is also a MIFIDPRU investment firm. These firms will instead apply the rules set out in MIFIDPRU 7 (Governance and risk management).

4.5 Next year, we plan to consult on non-Handbook guidance that will support firms with their overall risk assessment.

Overview

4.6 The proposed overall risk assessment is the collective term for the internal systems and controls that a firm must operate on an ongoing basis. The assessment should identify, monitor and, if proportionate, reduce all risks from the operation or winding down of its business that may cause material harm.

4.7 This process builds upon the threshold condition to have appropriate resources, Principle 3 (Management and Control), Principle 4 (Financial Prudence), the rules under Senior Management Arrangements, Systems and Controls (SYSC) where a firm must have robust governance arrangements and our guidance 'FG20/1 Assessing Adequate Financial Resources'. The overall risk assessment requirement would be part of COREPRU 7.

4.8 A cryptoasset firm would also be subject to specific rules and guidance on the overall risk assessment in CRYPTOPRU 7. A cryptoasset firm must make sure it maintains own funds and liquid assets that are adequate in both amount and quality for the business it undertakes.

Key Principles

4.9 Our proposed approach for the overall risk assessment for cryptoasset firms is underpinned by the following key principles:

- Firms are to consider and account for risks that may cause material harm to consumers and counterparties, as well as to the markets they operate in.
- Our expectation of firms is proportionate to the risks that may cause material harm. Our proposals for the overall risk assessment contains requirements that will apply across sectors for firms subject to COREPRU. Where appropriate we may propose specific sectoral requirements which will be found in the relevant sectoral prudential sourcebook. For cryptoasset firms this will be the proposed rules in CRYPTOPRU 7.
- The overall risk assessment is the centrepiece of a firm's risk management process. It must be embedded within the firm's business model, strategic decision making and any existing risk management frameworks applied by the firm.
- Senior management is responsible for ensuring the appropriateness of their risk management. As set out in CP25/25, we proposed applying all existing elements and rules of SM&CR to cryptoasset firms, in line with the current approach for authorised firms. This would include the application of all relevant senior management functions. Our expectation is that it is the responsibility of a firm's senior management to identify, monitor and, if proportionate, reduce all risks from the ongoing operation or winding down of the firm's business that may cause material harm.

Summary of our proposed rules

4.10 The remainder of this chapter sets out our proposals, and what this means in practice.

4.11 The rules in COREPRU will cover:

- identification, monitoring and mitigation of risks that may cause material harm
- calculation of the own funds threshold requirement and liquid asset threshold requirement
- reviewing and documenting the overall risk assessment
- embedding the overall risk assessment within the firm's business model

For cryptoasset firms it will also cover:

- business model planning and forecasting; stress testing; recovery and wind-down planning
- assessing the adequacy of financial resources

4.12 In summary, through these rules, we propose to:

- Place specific emphasis on a firm's own risk management practices to determine the non-financial and financial resources necessary on an ongoing basis, and to

wind-down. Where necessary, this will include holding own funds and liquid assets to mitigate risks that may cause material harm.
- Establish the overall risk assessment as the central means through which this is monitored and delivered by firms.

Overall financial adequacy rule

4.13 In CP25/15 we proposed introducing the overall finance adequacy rule (OFAR) as a cross sectoral requirement. This requires that, at all times, a firm must maintain financial resources that are adequate in both amount and quality for the business it undertakes. The OFAR covers all activity undertaken by a firm and forms the basis for which a firm conducts its overall risk assessment.

4.14 The OFAR builds upon our general approach in FG20/1 requiring firms to assess the adequacy of their financial resources. It supplements the threshold condition to have and maintain appropriate resources. So, firms should use the overall risk assessment to identify whether they comply with the overall financial adequacy rule.

4.15 We propose to monitor the OFAR by introducing the own funds threshold requirement and the liquid asset threshold requirement. Firms will determine these requirements through their overall risk assessment process. These will represent the cryptoasset firm's view of what is required to meet the OFAR. Not meeting these requirements would be evidence that the cryptoasset firm has breached our threshold conditions.

4.16 We will expect cryptoasset firms to take action to address any breach. We may also make specific interventions. If these do not resolve the breach, we will expect the cryptoasset firm's governing body to determine it is unable to meet its threshold conditions and begin winding down. In the event that the governing body does not do so, the FCA will consider the full range of its powers.

Overall risk assessment: Overview

4.17 The overall risk assessment will be a continuous process through which a firm should:

- **Identify and monitor risks:** Operate systems and controls to identify and monitor all risks that may cause material harm.
- **Undertake risk mitigation:** Consider and put in place appropriate financial and non-financial mitigants to minimise the likelihood of crystallisation and/or impact of risks that may cause material harm.

4.18 For cryptoasset firms, we are proposing that they should also:

- **Undertake business model assessment, planning and forecasting:** Forecast capital and liquidity needs, both on an ongoing basis and for a wind-down scenario. Including expected and stressed scenarios.

- **Undertake recovery action planning:** Determine appropriate and credible recovery actions to restore own funds or liquid resources where there is a risk of breaching threshold requirements.
- **Undertake wind-down planning:** Set out a credible wind-down plan. This should include timelines and triggers for when and how to execute the plan and an assessment of the amount of own funds and liquid assets required.
- **Assess the adequacy of own funds and liquidity requirements:** Where, in the absence of adequately mitigating risks through systems and controls, the firm assesses that own funds and liquid assets are required to cover the risks that may cause material harm.

4.19 The assumptions behind a firm's overall risk assessment should be consistent and coherent and any findings should be considered holistically. This will help make sure the overall risk assessment is effective.

4.20 We propose that the firm's governing body will document and sign off the overall risk assessment annually.

Identifying and monitoring risks

4.21 We propose that a firm's responsibilities under the overall risk assessment will be to monitor and mitigate risks that may cause material harm to clients, counterparties and markets.

4.22 Our expectations of firms when identifying risks that may cause material harm will be proportionate to the amount of harm posed. For example, larger firms may have greater impact on consumers or markets should risks crystallise, so we would expect them to carry out more significant analysis.

Risk mitigation

4.23 We are also proposing that firms should consider whether the risks that may cause material harm can be reduced through proportionate measures. It may not be possible or appropriate to mitigate every risk that may cause material harm to clients, counterparties and markets. However, we do expect firms to have considered, through the overall risk assessment, the appropriateness of different financial and non-financial measures they can take.

4.24 The nature of any potential measures will vary depending on the firm's business and operating model. Some firms may assess that non-financial mitigants alone will not appropriately address identified risks and therefore may hold additional financial resources. We expect all firms to have appropriate systems and processes in place to make this decision.

4.25 The application, and our expectations, will vary reflecting the level of risk that may cause material harm. We expect that all firms approach this assessment using the following steps:

- considering the risks before any controls are taken into account
- assessing the significance of the risks and what controls are in place to mitigate them
- assessing how much residual risk of material harm remains after applying the controls, and determine if additional financial resources are necessary

4.26 Firms may make use of non-financial resources to mitigate risks where appropriate. This includes:

- implementing additional internal systems and controls
- strengthening governance and oversight processes
- changing how it undertakes certain lines of business

The application and appropriateness of these measures should reflect the firm's risk appetite.

Business model assessment, capital and liquidity planning and stress testing

4.27 We are proposing that as part of the overall risk assessment, a cryptoasset firm must also consider business model assessment, capital and liquidity planning and stress testing, in addition to risk identification, monitoring and mitigation.

4.28 The purpose of a cryptoasset firm setting out their business model and strategy is to help it, and us, understand its vulnerabilities. Risks posed to a cryptoasset firm's capacity to generate sustainable profits have an impact on its ability to maintain adequate financial resources.

4.29 We propose that it is not enough for a cryptoasset firm to only consider the impact of a business model and strategy on its current and future cash-generative powers. We also expect it to identify misalignments between the business model and the interests of clients and the wider market. This is directly linked to one of the prudential drivers of harm identified in FG20/1. If a business model can only be cash-generative through activities that boost returns at the expense of consumers' interests, the risk of material harm to consumers is heightened.

4.30 Our proposals require a cryptoasset firm to conduct a forward-looking assessment of capital and liquidity requirements as part of business, capital and liquid assets planning. This must include an assessment of how a severe, but plausible economic or idiosyncratic stress could affect its ability to meet the OFAR. The firm should also consider reverse stress testing. A cryptoasset firm should set out the assumptions that underpin its chosen scenarios, and the impact on individual business lines and portfolios, as well as the firm overall.

4.31 Where a firm is conducting reverse stress testing, it should identify a range of adverse circumstances that would cause its business model to become unviable, and to assess the likelihood that these will occur. Where this risk is found to be higher than the

cryptoasset firm's risk appetite, we would expect it to take steps to mitigate it. This may include making appropriate changes to its business model or operating model.

Recovery actions

4.32 We propose that a cryptoasset firm should identify appropriate recovery actions as part of the overall risk assessment that will:

- help it to avoid a breach of the OFAR
- restore compliance with the OFAR where it is breached

4.33 We expect all cryptoasset firms to do recovery planning. This should identify quantitative and, if appropriate, qualitative indicators that provide an early signal that the firm is running into capital, liquidity or funding difficulties. It also covers setting out credible management actions the firm will take, linked to these indicators, to try to improve the situation.

4.34 Recovery planning needs to be linked to the firm's own business model forecasting and scenarios. We expect cryptoasset firms to consider how they would recover from a credible stress scenario and prepare accordingly.

4.35 To be credible, a recovery action must have a reasonable likelihood of success in the context of the anticipated wider economic and business environment. The firm must also set out the required governance arrangements for executing the recovery action, and likely impediments to it such as requiring regulatory approval. A credible recovery plan will also set out what success looks like. This is important as we will expect cryptoasset firms to begin carrying out their wind-down plans where they have exhausted all credible recovery actions without success. We expect the overall risk assessment document to also set out the assumptions underpinning recovery plans.

Wind-down planning

4.36 Wind-down planning aims to reduce the impact of a firm's closure on its clients, counterparties and the wider market. This includes the inability to pay redress, return or transfer money and client assets as wholly and as quickly as possible, or interruptions to continuity of service.

4.37 Through its wind-down plan, a cryptoasset firm will:

- identify the steps and resources needed to make sure it can wind down without causing material harm and can terminate its business over a realistic timescale
- evaluate the risks arising from winding down and actions required to mitigate these risks
- apply consistent assumptions between these steps and other elements of the overall risk assessment, including business model forecasting and scenarios

4.38 Our expectations for wind-down planning for cryptoasset firms reflect our 'Wind-Down Planning Guide and Finalised Guidance' in the Handbook.

4.39 Wind-down planning should also be reflected in the level of own funds and liquid assets the firm determines are necessary to ensure the wind-down of its business without causing material harm, for the purposes of the OFAR. This should not result in an amount lower than the Fixed Overhead Requirement (FOR) for own funds, or lower than the Basic Liquidity Assets Requirement (BLAR) for liquid assets.

Assessing and monitoring the adequacy of own funds and liquid assets

4.40 A cryptoasset firm should first consider the adequacy of its controls to mitigate risks that may cause material harm. It may need to hold additional own funds and liquid asset resources to comply with the OFAR where its controls alone are not enough to cover the risk.

4.41 We propose that a cryptoasset firm should consider the extent to which any residual risk that may cause material harm is covered by its own funds requirements, basic liquid asset requirement, and any sectoral liquidity requirement when determining an appropriate level of overall own funds and liquid assets.

4.42 We will expect a cryptoasset firm to compare the nature of the identified risk against what is typically covered under the relevant requirement to determine if additional financial resources may be needed. This may be the case where the identified risk is unusual and therefore not covered by a specific own funds requirement or is particularly severe.

4.43 For example, K-CCS has been aligned with K-QCS due to the operational risk profile of the two activities being similar. However, there may be instances where staking-specific risks may be heightened for an individual firm beyond the standard operational risks we see for safeguarding. Where this is the case, we would expect firms to consider and mitigate the additional risks through the overall risk assessment. Cryptoasset firms also need to consider the risks that may cause material harm from any regulated non-crypto activities and from any unregulated activities.

4.44 This determination should cover both a cryptoasset firm's ability to remain financially viable throughout the economic cycle and to make sure it can wind down without causing material harm.

Determining the own funds threshold requirement

4.45 A cryptoasset firm's own funds requirement can be driven by the PMR, FOR or KFR. These requirements serve different purposes. The FOR is a proxy for the amount of own funds we expect all cryptoasset firms to hold to allow them to wind down without causing material harm. The KFR is the amount of own funds required to cover the risk of

harm from the ongoing operation of the firm's business. The PMR is a minimum level of own funds based on the cryptoasset services and activities the firm has permission to undertake. Unlike the FOR and KFR, the PMR does not scale with potential harm.

4.46 The PMR, FOR and KFR are standard requirements that apply to all cryptoasset firms and form the own funds requirement. Meeting these alone may not be enough to mean that the firm is meeting threshold conditions.

4.47 We propose that a cryptoasset firm will need to estimate the financial impact of any risks that may cause material harm and are not covered by its PMR, FOR or KFR. This will help it to determine the overall amount of own funds it will need to hold to meet the OFAR. This will be its own funds threshold requirement. The firm will need to meet this requirement at all times. If it does not, we propose that it will be in breach of threshold conditions.

4.48 If a firm considers that it does not need to hold any additional financial resources, then the firm's own funds threshold requirement will be equal to its own funds requirement. However, this may not be the case if the firm's scale, complexity and risk profile mean additional financial resources are required.

4.49 To comply with the OFAR, we propose that a cryptoasset firm will set its own funds threshold requirement (OFTR) at the higher of the amount of its:

- Own funds requirement.
- Total own funds necessary to fund its ongoing business operations, taking into account potential periods of financial stress during the economic cycle, or own funds as necessary for wind-down without causing material harm.

A firm's own funds threshold requirement cannot be lower than its own funds requirement.

4.50 Unless otherwise specified by the FCA, we propose that a cryptoasset firm should meet its own funds threshold requirement using the same proportions of own funds as set out in COREPRU 3 (see CP25/15). This means that at least:

- 75% of the own funds threshold requirement must be met by the sum of common equity tier 1 capital and additional tier 1 capital.
- 56% of the own funds threshold requirement must be met with common equity tier 1 capital.

Determining the liquid asset threshold requirement

4.51 The basic liquid assets requirement (BLAR) is based on a cryptoasset firm having a minimum amount of core liquid assets that will allow it to begin wind-down without causing material harm. The issuer liquid asset requirement (ILAR) makes sure a cryptoasset firm that is a qualifying stablecoin issuer can top up the backing pool using its own liquidity in the required timeframe.

4.52 The BLAR and ILAR (where applicable) are the minimum liquidity requirements for a cryptoasset firm. Meeting these requirements may also not be enough to mean the firm is meeting threshold conditions.

4.53 As part of the overall risk assessment, we propose that a cryptoasset firm must assess and calculate the amount of liquid assets it is required to hold to fund its ongoing business operations. The firm should also produce a reasonable estimate of the amount of liquid assets needed to wind down without causing material harm. This will help it to determine the overall amount of liquid assets it will need to hold to meet the OFAR.

4.54 If a firm considers it does not need to hold any additional liquid resources, then the firm's liquid asset threshold requirement will be equal to its BLAR and ILAR (where applicable). However, this may not be the case if the firm's scale, complexity and risk profile mean additional liquid resources are required.

4.55 We propose a cryptoasset firm will set its liquid asset threshold requirement as the sum of the basic liquid assets requirement, issuer liquidity asset requirement (where applicable), and the higher of:

- the amount of liquid assets the firm requires to fund ongoing operations, taking into account potential periods of financial stress
- the additional liquid assets required to begin its wind-down without causing material harm

4.56 The assessment and calculation of a cryptoasset firm's liquidity should take into account any risks that may cause material harm that it has identified as part of the overall risk assessment but has not been able to reduce through systems and controls.

4.57 The firm must update its liquidity assessment and calculations following any material changes to its business or operating model. It must also ensure it has reliable management information systems in place to provide timely and forward-looking information on its liquidity position.

Liquid assets to fund ongoing operation

4.58 When assessing the amount of liquid assets required to fund ongoing business operations, we propose that a cryptoasset firm must assess its liquidity needs over a rolling 90-day period and calculate the amount of liquid assets it is required to hold as a result of this assessment.

4.59 We are also proposing that a cryptoasset firm should consider its funding profile as frequently as appropriate. This assessment must include:

- producing a reasonable estimate of the firm's funding needs over the next 12 months, considering the results of its stress testing
- identifying funding sources for the next 12 months, taking into account any risk to the roll-over of funding during that period (including due to potential stressed conditions)

- identifying actions to mitigate funding gaps arising from the potential withdrawal or unavailability of funding arrangements, or from significant increases in the cost of funding

4.60 Where a firm's funding profile assessment indicates that the firm has funding gaps that cannot be fully mitigated, the firm must, on a daily basis, assess if such funding gaps occur during the next 90-day rolling period. The firm must make sure it holds additional liquid assets sufficient to cover the total value of any funding gap over the relevant period.

4.61 The assessment of a firm's funding profile will allow the firm to plan and determine where future daily funding gaps may occur beyond the next 90-day rolling period. This may lead the firm to hold additional liquid assets to meet those future gaps as the 90-day periods roll forward. We have provided an example of how a cryptoasset firm would make this assessment in CRYPTOPRU.

4.62 When assessing the amount of liquid assets required to fund its ongoing operations, a cryptoasset firm should consider, among other factors:

- the basic level of liquid assets the firm would typically need to operate its business
- any risks that may cause material harm during the next 12 months and their potential impact on the firm's liquidity position
- any liquid assets the firm may need to use as collateral or to meet margining requirements
- any estimated funding gaps including periods of stress
- any risk to the roll-over funding due to potential stressed conditions, such as changes to lenders' risk appetite
- any estimated gaps between liquidity inflows and outflows
- the stability of funding sources

Non-core liquid assets

4.63 Our proposals for core liquid assets to meet the basic liquid asset requirement are described in Chapter 5 of CP25/15. We also propose to introduce non-core liquid assets for cryptoasset firms. These are liquid assets that are not core liquid assets but can still be easily and promptly converted into cash, even in stressed market conditions. Examples include liquid non-UK government bonds or other liquid financial instruments.

4.64 A cryptoasset firm will not be able to treat as a non-core liquid asset any asset that either:

- belongs to a client
- is encumbered or
- is issued by the firm or an affiliated entity

4.65 A cryptoasset firm will have to consider applying 'haircuts' to determine the value of non-core liquid assets that contribute to meeting the liquid asset threshold requirement. The haircut should reflect the potential loss of value when converting the asset into cash during stressed market conditions. We have proposed guidance

in CRYPTOPRU on the minimum haircuts we expect a cryptoasset firm to apply for different types of non-core liquid asset.

4.66 We propose that a cryptoasset firm will be able to hold any combination of non-core liquid assets and core liquid assets to comply with the portion of the liquid asset threshold requirement that is above the basic liquid assets requirement and issuer liquidity requirement.

Reviewing and documenting the overall risk assessment

4.67 We propose that all firms review their overall risk assessment at least once every 12 months. Firms should also review this immediately following a material change to their business model or operating model, keeping records of the assessment for a period of at least 3 years from the date it is approved.

4.68 The documents and records produced for this assessment will be the overall risk assessment document. For cryptoasset firms, we propose this document should contain:

- An overview of its business model assessment and capital and liquidity planning.
- A summary of the risks that may cause material harm and any steps taken to mitigate them.
- An analysis of the effectiveness of its systems and controls to identify, monitor, and reduce risks that may cause material harm.
- An explanation of how it is complying with the OFAR. This should include a clear statement of available own funds, available liquid assets, and its assessment of its own funds and liquid assets threshold requirements.
- A summary of any stress testing it has carried out.
- The levels of own funds and liquid assets that, if reached, the firm has identified as part of its recovery actions may indicate that there is a credible risk that the firm will breach its own funds threshold requirement and its liquid asset threshold requirement.
- The potential recovery actions that the firm has identified.
- An overview of its wind-down planning, including any key assumptions or qualifications.

Governance and Senior Manager oversight of the overall risk assessment

4.69 It is important that senior management clearly understand their responsibility for the overall risk assessment. Under our proposals, the overall risk assessment is central to a cryptoasset firm's management of the risks that may cause material harm. The overall risk assessment for a cryptoasset firm brings together planning and forecasting, risk identification, assessment and mitigation, recovery and wind-down planning. It is the responsibility of the cryptoasset firm's senior management to make sure the overall risk assessment meets our expectations. We will hold senior management and governing

bodies responsible for this, and our proposals clarify cryptoasset firms' risk management responsibilities under SM&CR.

4.70 Because we view the overall risk assessment as a key requirement of the regulatory system for cryptoasset firms, we expect senior managers will take an active role in the required analysis and embedding the requirements in their business areas. We refer these staff to the relevant provisions in the code of conduct sourcebook (COCON), specifically COCON 3 and 4.

Firms forming part of a group

4.71 Some cryptoasset firms are part of larger groups, and some groups may contain other cryptoasset firms or other entities that are authorised persons, such as MIFIDPRU investment firms.

4.72 It is important for cryptoasset firms to consider the risks that can arise from group membership. We propose that a cryptoasset firm which is part of a group, irrespective of whether the group includes authorised persons or where it is located, must take into account group risks as part of its overall risk assessment. These are risks that may cause material harm as a result of the firm's relationship with other members of that group or the group as a whole.

4.73 A group, for the purpose of the overall risk assessment, is considered to be one that includes any entity to which a firm is linked by a material level of shared ownership or control.

4.74 As part of its assessment of group risk, a cryptoasset firm must identify and monitor any risks arising from its group membership that may cause material harm. This includes:

- Direct financial exposure to another group member, such as trading activity, intra group lending arrangements, the provision of guarantees.
- Indirect financial exposure to another group member, such as reliance on another group member for revenue generation, services or functions, expectation that the firm will provide financial resources.
- Risks that may result from other aspects of group membership, such as shared reputation, clients, policies or control frameworks.

4.75 A cryptoasset firm, where proportionate, must also reduce any group risks that may cause material harm. It should do this by assuring itself of the financial and non-financial resources of the relevant group members. It should also make sure the firm itself has sufficiently independent decision-making so that the interests of other group members are not prioritised above that of the cryptoasset firm and its clients.

4.76 Where a cryptoasset firm has not been able to adequately reduce any group risk that may cause material harm, it should assess whether it should hold own funds and liquid assets to address this. Irrespective of its group membership, a cryptoasset firm itself should ensure it has adequate financial resources and can be wound down without causing material harm.

4.77 Where two or more cryptoasset firms are members of the same group, each firm should document the overall risk assessment on an individual basis.

Question 7: **Are our expectations of firms regarding the overall risk assessment sufficiently clear? If not, which areas could benefit from further clarification?**

Chapter 5

Public disclosure of prudential information

5.1 We propose to introduce a tailored public disclosure framework for cryptoasset firms, set out in CRYPTOPRU 8. This framework is designed to make sure there is transparency around firms' prudential position and risk management practices.

5.2 The disclosure requirements aim to support market discipline by enabling stakeholders, including clients, counterparties and regulators, to assess the prudential soundness of cryptoasset firms. These requirements apply to all cryptoasset firms on an individual basis. They must be complied with at least annually, either at the time of publishing annual financial statements or, where these are not published, on the date on which a firm submits its confirmation statement to Companies House.

5.3 The framework will also include guidance on good practice. Firms should also consider updating their disclosures more frequently than annually if their business undergoes a significant change that could affect the content of their disclosures. This may be the case if there is a material change to the business model, a merger or acquisition. Firms are expected to apply the principle of proportionality in their disclosures, making sure the level of detail is appropriate to their size, internal organisation, and the nature, scope, and complexity of their activities.

5.4 We propose firms should publicly disclose certain information on the following areas:

- risk management
- own funds
- own funds requirements
- group arrangements

5.5 Disclosures must be made in a manner that is:

- Easily accessible and free to obtain.
- Clearly presented and easy to understand.
- Consistent with previous disclosure periods or otherwise enables comparability.
- Accompanied by a summary highlighting any significant changes from prior disclosures.

5.6 While the FCA expects firms to publish disclosures on their websites, alternative methods may be used. This may be where a firm does not maintain a website, or cannot use a website to publish information required without breaching the law of another jurisdiction. Firms should make sure that they still meet the overarching accessibility and clarity requirements when using alternative methods.

Risk management

5.7 Firms must disclose a concise statement approved by the governing body describing key risks and any potential material harm associated with the firm's business strategy and

operating model. Where appropriate, firms must include a summary of the strategies and processes used to manage each category of risk.

5.8 Firms may draw on their overall risk assessment to explain their risk appetite, governance arrangements, and how they assess the effectiveness of their risk management processes.

Own funds

5.9 We are proposing that firms should disclose a breakdown of the composition of their own funds, and a reconciliation of this with the capital recorded in the firm's audited balance sheet. We also propose that there should be a description of the main features of the own funds instruments issued by the firm. The features that firms may disclose will depend on the instrument but examples include:

- Type of instrument
- Amount recognised in regulatory capital
- Perpetuity
- Maturity date
- Details of any coupons/dividends
- Convertibility

5.10 We propose to introduce a template for disclosing own funds, to provide consistency and comparability in disclosure.

Own funds requirements

5.11 Disclosing the own funds and own funds requirements of a firm allows potential investors to assess its strength. We are proposing that firms must disclose:

- The permanent minimum capital requirement.
- The K-factor requirement listed.
- The fixed overheads requirement.

5.12 For the K-Factor requirement, we are proposing firms must disclose their total K-Factor, which reflects its operational risks and exposure risks divided into:

- The sum of K-CTF, K-CCO, K-CCS, K-QCS and K-SII requirements.
- The K-CCD requirement, broken down by type of counterparty.
- The K-NCP requirement, broken down by category of cryptoasset.

Threshold requirements

5.13 Firms must disclose the following information from their overall risk assessment:

- The amount of their liquid asset threshold requirement.
- The amount of their own funds threshold requirement.

Group arrangements

5.14 We propose that where a cryptoasset firm is part of a group, it must disclose general information on its membership of the group:

- The name, jurisdiction and principal place of business of its ultimate parent and any intermediate parent undertakings.
- Any direct financial exposures to other group members. For example, trading activity, intra group lending, guarantees between the firms.

5.15 Any indirect financial exposures to other group members. For example, reliance on group members for revenue generation, expectations that cash or dividends will be up streamed to meet financial liabilities incurred by other group members.

5.16 The amount of any additional own funds or liquid assets held to address group-related harms identified in the overall risk assessment.

Firms with 'Dealing' activity

5.17 The above disclosures apply to all cryptoasset firms. Where a firm undertakes the activity of 'dealing in qualifying cryptoassets as principal', the firm must also disclose the following financial information relating to the ultimate parent undertaking:

- Statement of financial position (balance sheet).
- Liabilities as reported in its statement of financial position and any related notes.
- Details of any encumbered assets.

5.18 The FCA considers it good practice to present management information in a balance sheet format that fairly reflects the firm's financial position, particularly where formal accounts are not prepared. If the firm has a different corporate structure, such as a limited liability partnership, the financial information should be adapted accordingly to make sure all assets, liabilities, and equity or capital accounts are disclosed. Where local accounting standards differ significantly from UK-adopted international accounting standards, reconciling items or explanatory notes should be provided to clarify any material differences.

5.19 Additionally, when disclosing encumbered assets, firms should explain whether assets are pledged as security or collateral, or subject to other legal restrictions that may affect the firm's ability to liquidate, sell, transfer, or assign the asset.

Question 8: **Do you have any views on our proposals for the public disclosure of prudential information, in particular on group arrangements and for firms that undertake dealing in cryptoassets?**

Annex 1

Questions in this paper

Question 1: Do you agree with the proposed PMR for the various activities that cryptoasset firms will need to comply with?

Question 2: Do you have any views on the operational risk K-factors we are proposing for cryptoasset firms?

Question 3: Do you have any views on our proposals for positions in the trading book, including the definition, management and additional value adjustments?

Question 4: Do you have any views on the categorisation of cryptoassets, particularly on the conditions attached to a cryptoasset being included in category A? Do you agree with the proposed capital charges for each category under our net cryptoasset position (K-NCP) proposals?

Question 5: Do you have views on our framework for calculating cryptoasset counterparty default requirements (K-CCD) for cryptoasset firms? Are there any transactions that you think would give rise to counterparty credit risk but are not covered by our proposed rules?

Question 6: Do you have any views on the proposed framework for calculating concentration risk requirements (K-CON)?

Question 7: Are our expectations of firms regarding the overall risk assessment sufficiently clear? If not, which areas could benefit from further clarification?

Question 8: Do you have any views on our proposals for the public disclosure of prudential information, in particular on group arrangements and for firms that undertake dealing in cryptoassets?

Annex 2

Cost benefit analysis

1. Please refer to CP25/40 for the cost benefit analysis.

Annex 3

Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules:

a. is compatible with its general duty, under section 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives;
b. so far as reasonably possible, advances the secondary international competitiveness and growth objective, under section 1B(4A) FSMA; and
c. complies with its general duty under section 1B(5)(a) FSMA to have regard to the regulatory principles in section 3B FSMA.

3. The FCA is also required by s 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

4. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (section 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.

5. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s 1JA FSMA about aspects of the economic policy of His Majesty's Government to which we should have regard in connection with our general duties.

6. This Annex includes our assessment of the equality and diversity implications of these proposals.

7. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

8. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective of protecting the integrity of the UK financial system. They are also relevant to the FCA's competition objective.

9. The proposals advance the integrity objective by setting requirements regarding: permanent minimum requirements and K-factor requirements for the remaining cryptoasset activities, namely operating a qualifying cryptoasset trading platform (CATP), staking, arranging deals, dealing as agent and dealing as principal in qualifying cryptoassets; the firm's overall risk assessment to ensure it complies with the overall financial adequacy rule; and public disclosures. As a result, cryptoasset firms will be more financially sound and if they need to wind down will be able to do so in a more orderly manner. Crypto markets and any interconnected markets will benefit from increased stability and resilience.

The relevant proposals are set out in Chapters 3, 4 and 5 of this CP. We consider these proposals are also compatible with the FCA's strategic objective of ensuring that the relevant markets function well. For the purposes of the FCA's strategic objective, "relevant markets" are defined by section 1F FSMA.

10. In drafting these proposals we have had regard for matters relating to the effectiveness of competition in the market, notably ease of new entry to the market and encouraging innovation.

11. We consider these proposals comply with the FCA's secondary objective in advancing competitiveness and growth because CRYPTOPRU will help to create a sound and resilient UK market for cryptoassets and these are attractive features for market participants. Our minimum requirements for own funds do not disadvantage the United Kingdom when compared to other jurisdictions that are also developing prudential regimes for firms undertaking cryptoasset activities.

In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s 3B FSMA.

The need to use our resources in the most efficient and economic way

12. Our proposals are designed to be as proportionate as possible and ensure that our expectations are clear to firms. The information received from firms under the proposals will give us a better understanding of firms' capital and liquidity requirements. This will make our firm supervision more effective and help us better understand prudential risks.

The principle that a burden or restriction should be proportionate to the benefits

13. Please refer to the link for the Cost Benefit Analysis in Annex 2.

The need to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target) and section 5 of the Environment Act 2021 (environmental targets)

14. We do not think there is any contribution the proposals outlined in this consultation can make to these targets.

The general principle that consumers should take responsibility for their decisions

15. The proposals in this Consultation Paper, as set out in Chapter 4 on the Overall Risk Assessment, are primarily concerned with reducing the risks that may cause material harm that firms performing regulated activities for cryptoassets could cause on an ongoing basis and in wind-down. They focus on the actions of the firms themselves rather than decisions made by consumers. We will be consulting on public disclosures in our Admissions and Disclosures Consultation Paper.

The responsibilities of senior management

16. Our proposed approach to SM&CR for regulated cryptoasset activities was introduced in CP25/25. We proposed to apply SM&CR, a regime which aims to reduce harm to consumers and strengthen market integrity by creating a system that enables firms and regulators to hold people to account. The SM&CR regime is designed to be sufficiently broad to apply across sectors regulated by the FCA. We will consider responses to our proposals before final rules.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

17. We believe our proposals do not undermine this principle, and that we have appropriately had regard to the variety of firms affected by tailoring them to different firm types.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

18. We have had regard to this principle and believe our proposals are compatible with it, including through our proposed rules on the information cryptoasset firms should disclose.

The principle that we should exercise our functions as transparently as possible

19. We continue to engage with industry and other stakeholders to obtain feedback during the consultation process. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s 1B(5)(b) FSMA). These proposals concern prudential requirements and do not relate to financial crime per se. However, a regime that requires sound financial management of firms is likely to disincentivise their use for financial crime.

Expected effect on mutual societies

20. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies.

Compatibility with the duty to promote effective competition in the interests of consumers

21. In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers.

22. We consider that consumers will benefit from the existence of regulated prudential requirements and that cryptoasset markets and participants will gain closer prudential parity with their traditional financial counterparts as a result of these proposals.

23. We have also kept the competition objective in mind when framing how these proposals should be implemented, with a particular focus on whether there is a risk of weakening competitive pressure or disadvantaging smaller firms and potential new entrants.

Equality and diversity

24. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to: eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act; advance equality of opportunity between persons who share a relevant protected characteristic and those who do not; foster good relations between people who share a protected characteristic and those who do not.

25. As part of this, we have considered the equality and diversity issues that may arise from the proposals in this CP.

26. Overall, we do not consider that the proposals have a differential impact on any group sharing one of the characteristics protected under the Equality Act 2010. But we will continue to consider the equality and diversity implications of the proposals during the consultation period, and will revisit them when making the final rules.

Environmental, social and governance considerations

27. We have considered the environmental, social and governance (ESG) implications of our proposals, including our duty under s. 1B(5) and 3B(c) of FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net-zero emissions target under section 1 of the Climate Change Act 2008 and environmental targets under s. 5 of the Environment Act 2021. While we do not consider these proposals to be relevant to those targets, we welcome consultation feedback on any ESG implications.

Legislative and Regulatory Reform Act 2006 (LRRA)

28. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance and consider that the proposals will help firms understand and meet prudential requirements, leading to better outcomes for consumers and market integrity. We also believe the proposals are proportionate and take account of the variety of firms in scope.

29. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance and consider that the proposals are proportionate and do not create an unnecessary burden on firms, or adversely affect competition.

HM Treasury recommendations about economic policy

30. The HM Treasury recommendations most relevant to our proposals, specifically on the government's economic policy, are:

- growing the financial services sector and increasing its international competitiveness, while enhancing its role in financing growth, safeguarding financial stability and consumer protection
- aspects of the government's economic policy on maintaining and enhancing the UK's position as a world-leading global finance hub and a destination of choice for international financial services business

We believe that our proposals support the Treasury's recommendations on international competitiveness of the UK.

Annex 4

Abbreviations used in this paper

Abbreviation	Description
AVA	Additional Valuation Adjustment
BLAR	Basic Liquid Assets Requirement
CASS	Client Assets Sourcebook
CATP	Qualifying Cryptoasset Trading Platform
CBA	Cost Benefit Analysis
CET1	Common Equity Tier 1 (capital)
COBS	Conduct of Business Sourcebook
COREPRU	Core Prudential Sourcebook
CP	Consultation Paper
CRYPTOPRU	Cryptoasset Prudential Sourcebook
ESG	Environmental, Social & Governance
EV	Exposure Value
EVE	Exposure Value Excess
FCA	Financial Conduct Authority
FG20/1	FCA Guidance 20/1: Assessing Adequate Financial Resources
FOR	Fixed Overhead Requirement
FSMA	Financial Services and Markets Act 2000
ICARA	Internal Capital Adequacy and Risk Assessment
ILAR	Issuer Liquid Asset Requirement
K-ASA	K-factor for Assets Safeguarded and Administered (MIFIDPRU)
K-CCD	K-factor for Cryptoasset Counterparty Default

Abbreviation	Description
K-CCO	K-factor for Client Cryptoasset Orders
K-CCS	K-factor for Clients' Cryptoassets Staked
K-CON	K-factor for Concentration Risk
K-CTF	K-factor for Cryptoasset Trading Flow
K-QCS	K-factor for Qualifying Cryptoasset Safeguarding
K-SII	K-factor for Stablecoin Issuance
KFR	K-factor Requirement
LATR	Liquid Asset Threshold Requirement
LRRA	Legislative and Regulatory Reform Act 2006
MIFIDPRU	Markets in Financial Instruments Directive Prudential Sourcebook
OFAR	Overall Financial Adequacy Rule
OFRE	Own Funds Requirement Excess
OFTR	Own Funds Threshold Requirement
PMR	Permanent Minimum Requirement
PRA	Prudential Regulation Authority
PROD	Product Intervention and Product Governance Sourcebook
PS	Policy Statement
RAO	Financial Services and Markets Act 2000 (Regulated Activities) Order 2001
RC	Replacement Cost
RF	Risk Factor
SM&CR	Senior Managers and Certification Regime
UK CRR	UK Capital Requirements Regulation
WDPG	Wind-Down Planning Guide

Appendix 1

Draft Handbook text

COREPRU AND CRYPTOPRU (No 2) INSTRUMENT 2025

Power exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of:

(1) the following powers and related provision in the Financial Services and Markets Act 2000 ("the Act"), including as applied by articles 98 and 99 of the Financial Services and Markets Act (Regulated Activities) Order 2000 (as amended by the Financial Services and Markets Act 2000 (Regulated Activities and Miscellaneous Provisions) (Cryptoassets) Order 2025):

(a) section 98 (application of section 137B of the Act to backing assets for qualifying stablecoin);
(b) section 99 (application of section 137B of the Act to safeguarding qualifying cryptoassets and relevant specified investment cryptoassets)
(c) section 137A (The FCA's general rules);
(d) section 137T (General supplementary powers);
(e) section 138C (Evidential provisions);
(f) section 138D (Actions for damages); and
(g) section 139A (Power of the FCA to give guidance); and

(2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA's Handbook.

B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Amendments to the FCA Handbook

[*Editor's note*: The Annexes to this instrument take into account the proposals and legislative changes suggested in the consultation paper 'A prudential regime for cryptoasset firms' (CP25/15) as if they were made final.]

D. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Core Prudential sourcebook (COREPRU)	Annex B
Prudential sourcebook for CRYPTOPRU firms (CRYPTOPRU)	Annex C

Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)	Annex D
Interim Prudential sourcebook for Investment Businesses (IPRU-INV)	Annex E

E. The FCA confirms and remakes in the Glossary of definitions any defined expressions used in the modules of the FCA's Handbook of rules and guidance referred to in paragraph D where such defined expressions relate to any UK legislation that has been amended since those defined expressions were last made.

Notes

F. In the annexes to this instrument, the notes (indicated by "**Note:**" or "*Editor's note*:") are included for the convenience of readers, but do not form part of the legislative text.

Citation

G. This instrument may be cited as the COREPRU and CRYPTOPRU (No 2) Instrument 2025.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

[*Editor's note*: This Annex takes into account the proposals and legislative changes included in the following consultation papers as if they were made final:

(1) 'Updating the regime for Money Market Funds' (CP23/28);
(2) 'Stablecoin issuance and cryptoasset custody' (CP25/14);
(3) 'A prudential regime for cryptoasset firms' (CP25/15); and
(4) 'Regulating cryptoasset activities' (CP25/40).

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Insert the following new definitions in the appropriate alphabetical position. The text is all new and is not underlined.

average CCO	the rolling average of a *firm's CCO* calculated in accordance with *CRYPTOPRU* 4.7.9R.
average CCS	the rolling average of a *firm's CCS* calculated in accordance with *CRYPTOPRU* 4.6.7R.
average CTF	the rolling average of a *firm's CTF* calculated in accordance with *CRYPTOPRU* 4.8.4R.
category A cryptoasset	has the meaning in *CRYPTOPRU* 4.9.19R.
category B cryptoasset	has the meaning in *CRYPTOPRU* 4.9.36R.
CCO	*cryptoasset client orders*.
CCS	*client cryptoassets staked*.
client cryptoassets staked	the total daily value of *qualifying cryptoassets* for which the *firm* makes arrangements on behalf of another *person* (whether as *principal* or agent) for *qualifying cryptoasset staking*, calculated in accordance with *CRYPTOPRU* 4.6.
COREPRU firm	a *firm* to which *COREPRU* applies in accordance with *COREPRU* 1.1.1R.
cryptoasset client orders	the value of *cryptoasset orders*, as calculated in accordance with *CRYPTOPRU* 4.7, that a *firm* handles for *clients* when providing the following: (1) reception and transmission of *cryptoasset orders*; and

(2) *execution of orders on behalf of clients*.

cryptoasset order	an order relating to the purchase or sale of a *qualifying cryptoasset*.
cryptoasset trading flow	the daily value of *cryptoasset orders* that a *CRYPTOPRU firm* enters in its own name.
CTF	*cryptoasset trading flow*.
K-CCD requirement	the part of the *K-factor requirement* calculated on the basis of cryptoasset counterparty default risk in accordance with *CRYPTOPRU* 4.10.
K-CCO requirement	the part of the *K-factor requirement* calculated on the basis of the *CCO* of a *CRYPTOPRU firm* in accordance with *CRYPTOPRU* 4.7.
K-CCS requirement	the part of the *K-factor requirement* calculated on the basis of the *CCS* of a *CRYPTOPRU firm* in accordance with *CRYPTOPRU* 4.6.
K-CTF requirement	the part of the *K-factor requirement* calculated on the basis of the *CTF* of a *CRYPTOPRU firm* in accordance with *CRYPTOPRU* 4.8.
K-NCP requirement	the part of the *K-factor requirement* calculated on the basis of net cryptoasset position risk in accordance with *CRYPTOPRU* 4.9.
overall risk assessment	has the meaning in *COREPRU* 7.2.1R, which, in summary, is the systems, controls and procedures operated by a *firm* to: (a) identify, monitor and, if proportionate, reduce all risks from the ongoing operation or winding down of the *firm's* business that may cause material harm; and (b) assess whether the *firm* should hold *own funds* or *liquid assets* to mitigate risks that may cause material harm.
overall risk assessment document	has the meaning in *COREPRU* 7.2.9R, which, in summary, is the documentation used to record the *firm's* review of the adequacy of its *overall risk assessment*.
standard spot settlement period	(in *CRYPTOPRU*) means the period generally accepted in the market as the standard delivery period for a spot transaction in *qualifying cryptoasset*.

Amend the following definitions as shown.

average QCS	the rolling average of a *CRYPTOPRU firm's QCS* calculated in accordance with ~~*CRYPTOPRU* 4.4.5R~~ *CRYPTOPRU* 4.5.6R.
average SII	the rolling average of a *CRYPTOPRU firm's SII* calculated in accordance with ~~*CRYPTOPRU* 4.5.3R~~ *CRYPTOPRU* 4.4.3R.

basic liquid assets requirement	the requirement to hold a minimum amount of *core liquid assets*:	
	(1)	(in *COREPRU* and *CRYPTOPRU*) as set out in *COREPRU* 6.2.1R.
	(2)	(in *MIFIDPRU*) as set out in *MIFIDPRU* 6.2.1R for a *MIFIDPRU investment firm*.
client	…	
	(B)	in the *FCA Handbook*:
		…
		(2A) (in *MIFIDPRU* 5 and *CRYPTOPRU* 5) a counterparty of the ~~*investment firm*~~ *firm*.
		…
core liquid asset	(1)	(in *COREPRU* and *CRYPTOPRU*) has the meaning in *COREPRU* 6.3 (Core liquid assets).
	(2)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 6.3 (Core liquid assets).
CRYPTOPRU activity	any of the following activities:	
	(a)	~~*safeguarding qualifying cryptoassets*~~ *safeguarding qualifying cryptoassets and relevant specified investment cryptoassets*; ~~and~~
	(b)	*issuing qualifying stablecoins*~~.~~;
	(c)	*dealing in qualifying cryptoassets as agent*;
	(d)	*arranging deals in qualifying cryptoassets*;
	(e)	*operating a qualifying CATP*;
	(f)	*arranging qualifying cryptoasset staking*; and
	(g)	*dealing in qualifying cryptoassets as principal*.
CRYPTOPRU firm	a *firm* with *permission* to carry on any *CRYPTOPRU activity* that is not a *PRA-authorised person*.	
exposure value	(1)	(in *MIFIDPRU* 5) the value of a *firm's* exposure to a *client* or *group of connected clients*, calculated in accordance with *MIFIDPRU* 5.4.

	(2)	(in *CRYPTOPRU* 5) the value of a *firm's* exposure to a *client* or *group of connected clients*, calculated in accordance with *MIFIDPRU* 5.4 as modified by *CRYPTOPRU* 5.
fixed overheads requirement	(1)	…
	(2)	(in *COREPRU* and *CRYPTOPRU*) the part of the *own funds requirement* calculated in accordance with *COREPRU* 4.3.
	(3)	(in *IPRU(INV)*) the part of the *own funds* requirement calculated in accordance with *IPRU(INV)* 11.3.3R (Fixed overheads requirement).
	(4)	(in *MIFIDPRU*) the part of the *own funds requirement* calculated in accordance with *MIFIDPRU* 4.5 (Fixed overheads requirement).
investment management firm	a *firm* whose *permitted activities* include *designated investment business*, which is not an *authorised professional firm*, *bank*, *MIFIDPRU investment firm*, *COREPRU firm*, *collective portfolio management firm*, *credit union*, *energy market participant*, *friendly society*, *ICVC*, *insurer*, *media firm*, *oil market participant* or *service company*, whose *permission* does not include a *requirement* that it comply with *IPRU-INV* 3 (Securities and futures firms) or *IPRU-INV* 13 (Personal investment firms) and which is within (a), (b) or (c):	
	…	
issuer liquid ~~asset~~ assets requirement	an amount of *on demand deposits* that a *CRYPTOPRU firm* must hold, in accordance with *CRYPTOPRU* 6.1.4R to *CRYPTOPRU* 6.1.11R.	
K-CON requirement	the part of the *K-factor requirement* that accounts for *concentration risk* in the *trading book* ~~of a *MIFIDPRU investment firm*~~, calculated in accordance with *MIFIDPRU* 5.7 (including, where relevant, as applied and modified by *CRYPTOPRU* 5).	
K-SII requirement	the part of the *K-factor requirement* calculated on the basis of the *SII* of a *CRYPTOPRU firm*, in accordance with *CRYPTOPRU* ~~4.5~~ 4.4.	
non-core liquid asset	~~has the meaning in *MIFIDPRU* 7.7.8R, which is any of the following, except to the extent excluded by *MIFIDPRU* 7.7.8R(2)~~:	
	(1)	~~short-term deposits at a *credit institution* that does not have a *Part 4A permission* in the *UK* to *accept deposits*;~~ [deleted]
	(1A)	~~short-term non-sterling deposits at a *UK credit institution*;~~ [deleted]

(2) ~~assets representing claims on, or guaranteed by, multilateral development banks or international organisations;~~ [deleted]

(3) ~~assets representing claims on or guaranteed by any *third country* central bank or government;~~ [deleted]

(4) ~~*financial instruments*; and~~ [deleted]

(5) ~~any other instrument eligible as collateral against the margin requirement of an *authorised central counterparty*.~~ [deleted]

(6) (in *MIFIDPRU*) has the meaning in *MIFIDPRU* 7.7.8R.

(7) (in *CRYPTOPRU*) has the meaning in *CRYPTOPRU* 7.4.9R.

overall financial adequacy rule

…

(2) (in *MIFIDPRU*) the requirement in *MIFIDPRU* 7.4.7R(1) (Overall financial adequacy rule), which is the obligation for a *MIFIDPRU investment firm* to hold *own funds* and *liquid assets* which are adequate, both as to their amount and quality, to ensure that:

(a) it is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities; and

(b) its business can be wound down in an orderly manner, minimising harm to *consumers* or to other market participants.

(3) (in *COREPRU* and *CRYPTOPRU*) the requirement in *COREPRU* 2.3.1R.

personal investment firm

a *firm* whose *permitted activities* include *designated investment business*, which is not an *authorised professional firm*, *bank*, *MIFIDPRU investment firm*, *COREPRU firm*, *building society*, *collective portfolio management firm*, *credit union*, *energy market participant*, *ICVC*, *insurer*, *media firm*, *oil market participant* or *service company*, whose *permission* does not include a *requirement* that it comply with ~~*IPRU(INV)*~~ *IPRU-INV* 3 (Securities and futures firms) or *IPRU-INV* 5 (Investment management firms), and which is within (a), (b) or (c):

…

regulated covered bond

(in *RCB* and *CRYPTOPRU* 7) (as defined in Regulation 1(2) of the *RCB Regulations*) a *covered bond* or *programme* of *covered bonds*, as the case may be, which is admitted to the register of *regulated covered bonds* maintained under Regulation 7(1)(b) of the *RCB Regulations*.

securities and futures firm	a *firm* whose *permitted activities* include *designated investment business* or *bidding in emissions auctions*, which is not an *authorised professional firm*, *bank*, *MIFIDPRU investment firm*, *COREPRU firm*, *building society*, *collective portfolio management firm*, *credit union*, *friendly society*, *ICVC*, *insurer*, *media firm* or *service company*, whose permission does not include a *requirement* that it comply with ~~*IPRU(INV)*~~ *IPRU-INV* 5 (Investment management firms) or *IPRU-INV* 13 (Personal investment firms), and which is within (a), (b), (c), (d), (e) , (f), (g) or (ga) : …
threshold requirement	either of the following in relation to a *MIFIDPRU investment firm* or a *firm* subject to *CRYPTOPRU* 7: (1) the *liquid assets threshold requirement*; or (2) the *own funds threshold requirement*.
trading book	… (6) … (7) (in *COREPRU*) all positions held by a *firm* in a *financial instrument*, commodity and *qualifying cryptoasset* that are: (a) *positions held with trading intent*; or (b) held to hedge *positions held with trading intent*. (8) (in *CRYPTOPRU*) all positions held by a *firm* in a *qualifying cryptoasset* that are: (a) *positions held with trading intent*; or (b) held to hedge *positions held with trading intent*.

The following definitions were proposed to be introduced in the consultation paper 'A prudential regime for cryptoasset firms' (CP25/15) and are reproduced here for convenience.

COREPRU	the Core Prudential sourcebook.
CRYPTOPRU	the Prudential sourcebook for CRYPTOPRU firms.
K-QCS requirement	the part of the *K-factor requirement* calculated on the basis of the *QCS* of a *CRYPTOPRU firm*, in accordance with *CRYPTOPRU* 4.4.
level 1 asset	a *short-term government debt instrument* or a *long-term government debt instrument* that has been issued by:

(a) Canada;

(b) France;

(c) Germany;

(d) Netherlands;

(e) *United Kingdom*; or

(f) United States.

level 2 asset a *short-term government debt instrument* or a *long-term government debt instrument* that has been issued by:

(a) Australia;

(b) Austria;

(c) Belgium;

(d) Denmark;

(e) Finland;

(f) Ireland;

(g) Italy;

(h) Japan;

(i) Luxembourg;

(j) New Zealand;

(k) Norway;

(l) Portugal;

(m) Spain;

(n) Sweden; or

(o) Switzerland.

level 3 asset a *short-term government debt instrument* or a *long-term government debt instrument* that has been issued by a member of the *OECD* not listed in the definition of *level 1 asset* or *level 2 asset*.

QCS the value of *qualifying cryptoassets* that a *CRYPTOPRU firm* is safeguarding.

sectoral liquidity requirement	a requirement on liquidity set out in a *sectoral prudential sourcebook*.	
sectoral prudential sourcebook	any of the following:	
	(a)	the Prudential sourcebook for CRYPTOPRU firms (CRYPTOPRU); or
	(b)	[to follow]
SII	the *qualifying stablecoins* that the *qualifying stablecoin issuer* is liable to redeem, excluding any amount deducted in accordance with *COREPRU* 3.3.36R.	

The following existing definitions were proposed to be amended in the consultation paper 'A prudential regime for cryptoasset firms' (CP25/15) and the relevant parts of the definitions are reproduced here for convenience. The text shown below takes account of the proposed amendments as if they were made final.

additional tier 1 capital	(1)	(in *COREPRU*) has the meaning in *COREPRU* 3.4.2R.
	(2)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 3.4A.2R.
additional tier 1 instrument	(1)	(in *COREPRU*) a capital instrument that complies with the conditions in *COREPRU* 3.4.3R to *COREPRU* 3.4.15R and that is not a *common equity tier 1 instrument*.
	(2)	(in *MIFIDPRU*) a capital instrument that complies with the conditions in *MIFIDPRU* 3.4A.3R to *MIFIDPRU* 3.4A.15R and that is not a *common equity tier 1 instrument*.
additional tier 1 item	(1)	(in *COREPRU*) has the meaning in *COREPRU* 3.4.2R.
	(2)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 3.4A.2R.
additional tier 1 or comparable instrument	(1)	(in *COREPRU*) has the meaning in *COREPRU* 3.4.22R.
	(2)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 3.4A.22R.
common equity tier 1 capital	(1)	(in *COREPRU*) has the meaning in *COREPRU* 3.3.2R.
	(2)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 3.3A.2R.

common equity tier 1 instrument	(1)	(in *COREPRU*) a capital instrument that complies with the conditions in *COREPRU* 3.3.3R to *COREPRU* 3.3.16R.
	(2)	(in *MIFIDPRU*) a capital instrument that complies with the conditions in *MIFIDPRU* 3.3A.3R to *MIFIDPRU* 3.3A.16R.
common equity tier 1 item	(1)	(in *COREPRU*) has the meaning in *COREPRU* 3.3.2R.
	(2)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 3.3A.2R.
common equity tier 1 or comparable instrument	(1)	(in *COREPRU*) has the meaning in *COREPRU* 3.3.29R.
	(2)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 3.3A.29R.
K-factor requirement	(1)	(in *MIFIDPRU*) the part of the *own funds requirement* calculated in accordance with *MIFIDPRU* 4.6.
	(2)	(in *COREPRU* and *CRYPTOPRU*) the part of the *own funds requirement* calculated in accordance with *COREPRU* 4.4.
own funds	…	
	(4A)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 3.2A.2R.
	(4B)	(in *COREPRU* and *CRYPTOPRU*) has the meaning in *COREPRU* 3.2.2R.
	…	
own funds requirement	(1)	(in *MIFIDPRU*) the requirement for a *MIFIDPRU investment firm* to maintain a minimum level of *own funds* specified in *MIFIDPRU* 4.3.
	(2)	(in *COREPRU*) the requirement for a *firm* to maintain a minimum level of *own funds* specified in *COREPRU* 4.1.
permanent minimum capital requirement	(1)	(in *MIFIDPRU*) the part of the *own funds requirement* calculated in accordance with *MIFIDPRU* 4.4.
	(2)	(in *COREPRU* and *CRYPTOPRU*) the part of the *own funds requirement* calculated in accordance with *COREPRU* 4.2.
relevant expenditure	(1)	(in *MIFIDPRU* 4, *MIFIDPRU* 6 and *IPRU(INV)* 11) relevant expenditure as calculated under *MIFIDPRU* 4.5.3R.

	(2)	(in *COREPRU*) relevant expenditure as calculated under *COREPRU* 4.3.3R.
tier 2 capital	(1)	(in *COREPRU*) has the meaning in *COREPRU* 3.5.2R.
	(2)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 3.5A.2R.
tier 2 instruments	(1)	(in *COREPRU*) a capital instrument that complies with the conditions in *COREPRU* 3.5.3R to *COREPRU* 3.5.11R and is not a *common equity tier 1 instrument* or an *additional tier 1 instrument*.
	(2)	(in *MIFIDPRU*) a capital instrument that complies with the conditions in *MIFIDPRU* 3.5A.3R to *MIFIDPRU* 3.5A.11R and is not a *common equity tier 1 instrument* or an *additional tier 1 instrument*.
tier 2 item	(1)	(in *COREPRU*) has the meaning in *COREPRU* 3.5.2R.
	(2)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 3.5A.2R.
tier 2 or comparable instrument	(1)	(in *COREPRU*) has the meaning in *COREPRU* 3.5.17R.
	(2)	(in *MIFIDPRU*) has the meaning in *MIFIDPRU* 3.5A.17R.

[*Editor's note*: the consultation paper 'A prudential regime for cryptoasset firms' (CP25/15) proposed amendments to the existing Glossary terms 'K-factor average metric' and 'K-factor metric'. The proposed amendments are now withdrawn.]

Annex B

Amendments to the Core Prudential sourcebook (COREPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

[*Editor's note*: the provisions set out in CP25/15 that are not proposed to be amended are reproduced in full for convenience.]

1 Application

1.1 Application and interaction with sectoral prudential sourcebooks

Application

1.1.1 R *COREPRU* applies to a *CRYPTOPRU firm*.

1.2 COREPRU and the sectoral prudential sourcebooks

1.2.1 G *COREPRU* contains the prudential requirements that apply to the *firms* listed in *COREPRU* 1.1.1R.

1.2.2 G The prudential requirements in this chapter are cross-cutting requirements that are intended to apply across multiple sectors. These cross-cutting requirements are supplemented by sector-specific requirements in the *sectoral prudential sourcebooks*, such as *CRYPTOPRU*. *COREPRU* should therefore be read alongside any *sectoral prudential sourcebooks* which apply to a *firm*.

1.2.3 G For example, a *CRYPTOPRU firm* needs to comply with the *own funds requirement* in *COREPRU* 4.1. The *own funds requirement* has a variety of components, some of which are cross-cutting and defined in *COREPRU*, whilst others are sector-specific and defined in the *sectoral prudential sourcebooks* (which, in the case of a *CRYPTOPRU firm*, would mean *CRYPTOPRU*).

1.3 Actions for damages

1.3.1 R A contravention of any *rule* in *COREPRU* does not give rise to a right of action by a *private person* under section 138D of the *Act* (and each of those *rules* is specified under section 138D(3) of the *Act* as a provision giving rise to no such right of action).

2 Overall financial adequacy

2.1 Purpose

2.1.1 G *COREPRU* contains *rules* and *guidance* which supplement the overarching requirements under:

(1) the appropriate resources *threshold condition* in Schedule 6 to the *Act* (as explained in *COND* 2.4) under which a *firm* must have appropriate resources in relation to the *regulated activities* that it carries on; and

(2) *Principle* 4 (Financial prudence) under which a *firm* must maintain adequate financial resources.

2.1.2 G The overall purpose of the requirements in *COREPRU* is to ensure that a *firm*:

(1) holds financial resources that are adequate for the business it undertakes; and

(2) has appropriate systems and controls in place to identify, monitor and, where proportionate, reduce all potential material harms that may result from the ongoing operation of its business or winding down its business.

2.1.3 G The *FCA*:

(1) recognises that there is a vast range of potential harms and it will not be possible for the *FCA* or *firms* to eliminate all potential risks and sources of harm;

(2) considers that *firms* should focus on material harms, adopting a proportionate and risk-based approach to their business and operating models; and

(3) recognises that some *firms* may still fail, but considers that *firms* should aim to ensure that any wind-down of those *firms* occurs in an orderly manner, minimising the impact on *consumers* and the wider market.

2.2 Voluntary application of stricter requirements

2.2.1 R No provision in *COREPRU* or the *sectoral prudential sourcebooks* prevents a *firm* from:

(1) holding *own funds* (or components of *own funds*) or *liquid assets* that exceed those required by an applicable *rule*; or

(2) applying other measures that are stricter than those required by an applicable *rule*.

2.2.2 G If a *firm* wishes to apply a stricter measure but is unsure of whether that measure would meet the prudential requirements applicable to it, it should discuss the proposal with the *FCA* before applying the measure.

2.3 Overall financial adequacy rule

2.3.1 R (1) A *firm* must, at all times, maintain *own funds* and *liquid assets* that are adequate in both amount and quality for the business it undertakes.

(2) The requirement in (1) is known as the *overall financial adequacy rule*.

2.3.2 R The remainder of *COREPRU* expands upon the *overall financial adequacy rule* as follows:

(1) *COREPRU* 3 explains how a *firm* must quantify its *own funds*;

(2) *COREPRU* 4 explains how a *firm* must calculate an *own funds requirement* in accordance with a quantified methodology prescribed by the *FCA*;

(3) *COREPRU* 5 contains requirements relating to concentration risk;

(4) *COREPRU* 6 explains how a *firm* must calculate its *basic liquid assets requirement* in accordance with a quantified methodology prescribed by the *FCA*; and

(5) *COREPRU* 7 explains how a *firm* carries out its *overall risk assessment*.

3 Own funds

3.1 Purpose and interpretation

Purpose

3.1.1 G This chapter explains how a *firm* must calculate its *own funds*. *Own funds* is the term the *FCA* commonly uses to describe a *firm's* regulatory capital.

Principles underlying the definition of own funds

3.1.2 G By requiring a *firm* to maintain an appropriate level of *own funds*, the *FCA* helps ensure that:

(1) a *firm* can absorb losses whilst continuing to operate as a going concern;

(2) a *firm* can absorb losses in *liquidation* in an orderly way that minimises harm to clients, markets and the wider financial system;

(3) *own funds* are calculated in a consistent and transparent way, allowing the *FCA* and other stakeholders to assess a *firm's* loss-absorbing capacity; and

(4) the interests of a *firm's* owners are appropriately aligned with the long-term interests of the *firm* itself.

Interpretation

3.1.3 R A *firm* must categorise and value its assets and off-balance sheet items in accordance with the applicable accounting framework, unless a *rule* specifies otherwise.

3.1.4 G Every provision in the *Handbook* must be interpreted in the light of its purpose (*GEN* 2.2.1R). A *firm* must therefore look beyond the legal form of its capital

arrangements and consider their economic substance. This includes considering matters not set out in the terms of a capital instrument.

Mutual societies

3.1.5 G The *FCA* recognises that a mutual society may require modification of certain requirements in this chapter. The *FCA* will generally use the *own funds* rules for mutual societies in the *PRA Rulebook* as the starting point for such modifications, but will discuss this with relevant mutual societies.

3.2 Composition of own funds

3.2.1 G The *FCA* divides *own funds* into categories, or tiers, reflecting differences in the extent to which the capital concerned meet the purposes set out in *COREPRU* 3.1.2G.

3.2.2 R The *own funds* of a *firm* are the sum of its:

(1) *common equity tier 1 capital*;

(2) *additional tier 1 capital*; and

(3) *tier 2 capital*.

3.2.3 G The *FCA* generally prefers a *firm* to hold *common equity tier 1 capital* because it provides the highest quality of loss absorption and permanence. *Common equity tier 1 capital* can be used to meet a *firm's* capital requirements without limit. Other tiers of capital are subject to limits as set out in *COREPRU* 3.2.4R.

3.2.4 R A *firm* must, at all times, have *own funds* that satisfy all the following conditions:

(1) the *firm's common equity tier 1 capital* must be equal to or greater than 56% of the *firm's own funds requirement* under *COREPRU* 4.1;

(2) the sum of the *firm's common equity tier 1 capital* and *additional tier 1 capital* must be equal to or greater than 75% of the *firm's own funds requirement* under *COREPRU* 4.1; and

(3) the *firm's own funds* must be equal to or greater than 100% of the *firm's own funds requirement* under *COREPRU* 4.1.

3.3 Common equity tier 1 capital

3.3.1 G (1) *Common equity tier 1 capital* has the following core characteristics:

(a) it is able to absorb losses as they occur;

(b) it ranks below all other claims in *liquidation*;

(c) it is permanent;

(d) there is no obligation to make a *distribution*; and

(e) the level of *distributions* is not capped.

(2) The remainder of *COREPRU* 3.3 contains the detailed *rules* and *guidance* for calculating *common equity tier 1 capital*.

3.3.2 R A *firm* must calculate its *common equity tier 1 capital* in accordance with the first column of the following table. The second column indicates where relevant *rules* and *guidance* are found.

Item	Relevant rules and guidance
Common equity tier 1 items:	
(1) *common equity tier 1 instruments*;	*COREPRU* 3.3.3R to *COREPRU* 3.3.16R
(2) share premium accounts related to the *common equity tier 1 instruments*;	
(3) *retained earnings*;	
(4) interim or provisional year-end profits;	*COREPRU* 3.3.17R and *COREPRU* 3.3.18G
(5) *accumulated other comprehensive income*;	
(6) *other reserves*;	
Note: (3) to (6) may only be recognised as *common equity tier 1 items* if they are available to the *firm* for unrestricted and immediate use to cover risks or losses as soon as these occur.	
LESS	
Deductions from *common equity tier 1 items*:	*COREPRU* 3.3.19G
(7) losses for the current financial year;	*COREPRU* 3.3.20R
(8) *intangible assets*;	*COREPRU* 3.3.21R
(9) deferred tax assets that rely on future profitability;	*COREPRU* 3.3.22R
(10) defined benefit pension fund assets;	*COREPRU* 3.3.23R

(11) direct, indirect and synthetic holdings of own *common equity tier 1 instruments*;	*COREPRU* 3.3.24R, 3.3.30R and 3.3.31G
(12) direct, indirect and synthetic holdings of *common equity tier 1 or comparable instruments* of *financial sector entities* where those entities have a *reciprocal cross-holding* with the *firm*;	*COREPRU* 3.3.25R, *COREPRU* 3.3.26G, and *COREPRU* 3.3.29R to *COREPRU* 3.3.31G
(13) direct, indirect and synthetic holdings of *common equity tier 1 or comparable instruments* of *financial sector entities* which are not held in the *trading book*;	*COREPRU* 3.3.27R to *COREPRU* 3.3.31G
(14) any excess of AT1 deductions above the *firm's additional tier 1 capital*;	*COREPRU* 3.3.32R
(15) foreseeable tax charges relating to *common equity tier 1 items*;	*COREPRU* 3.3.33R
(16) *qualifying holdings* outside the financial sector;	*COREPRU* 3.3.34R
(17) (for *partnerships* or *limited liability partnerships*) excess withdrawals;	*COREPRU* 3.3.35R
(18) direct, indirect or synthetic holdings of *qualifying cryptoassets* issued by, or where the supply is controlled by, the *firm* or a connected entity;	*COREPRU* 3.3.36R and *COREPRU* 3.3.37G
ADJUSTED FOR	
Prudential filters for *common equity tier 1 capital*:	
(19) cash flow hedges and changes in the value of own liabilities due to own credit standing; and	*COREPRU* 3.3.38R and *COREPRU* 3.3.39G
(20) additional valuation adjustment for the *trading book*.	*COREPRU* 3.3.40R

Prior permission and notification of issuances of common equity tier 1 instruments

3.3.3 R (1) A *firm* must not classify an issuance of a capital instrument as a c*ommon equity tier 1 instrument* unless:

(a) it has obtained prior permission from the *FCA*; or

(b) (i) it is issuing new instruments on terms which are substantially the same as instruments for which the *firm* has already received the *FCA's* prior permission; and

(ii) it notifies the *FCA* sufficiently far in advance of classifying the new instruments as *common equity tier 1 instruments*.

(2) The *FCA* will grant the permission in (1)(a) if it is satisfied that the capital instrument meets the criteria in *COREPRU* 3.3.5R to *COREPRU* 3.3.16R.

3.3.4 G The *FCA* generally expects to receive a notification of a new issuance of an existing form of *common equity tier 1 instrument* under *COREPRU* 3.3.3R(1)(b)(ii) at least 20 *business days* before the *firm* intends to classify that issuance as *common equity tier 1 instruments*.

Common equity tier 1 instruments: loss absorption

3.3.5 R (1) A *common equity tier 1 instrument* must be classified as equity within the meaning of the applicable accounting framework.

(2) A *firm's* obligations under the instrument must not constitute a liability (including a contingent or prospective liability) that would be relevant for the purposes of section 123(2) of the Insolvency Act 1986.

(3) The holder of the instrument must not have any right, arising from the non-payment of any sums connected to the instrument, to petition for the winding up or administration of the *firm*, or any similar procedure.

(4) The instrument must not be secured by, or subject to, a guarantee or other arrangement which enhances the legal or economic seniority of the claim.

(5) (a) The *common equity tier 1 instruments* must rank below all other claims in the event of *liquidation*, except for claims from holders of other ordinary *shares* which rank pari passu with the instruments.

(b) The *common equity tier 1 instruments* must entitle their owners to a claim on the residual assets of the *firm* which, in the event of *liquidation* and after payment of all senior claims, is proportionate to the amount of such instruments issued and is not fixed or subject to a cap, except that a claim specified as a percentage of residual assets does not constitute a fixed or capped claim.

(c) Each *common equity tier 1 instrument* must absorb losses to the same degree as all other *common equity tier 1 instruments*, and all

common equity tier 1 instruments must absorb losses before any other *own funds instruments* issued by the *firm*.

3.3.6 R Whilst the conditions in *COREPRU* 3.3.5R(5) require *common equity tier 1 instruments* to absorb losses before any other *own funds instruments*, the fact that an *additional tier 1 instrument* or *tier 2 instrument* may be permanently written down does not prevent these conditions from being met.

3.3.7 R (1) A *common equity tier 1 instrument* must be fully paid and the proceeds of issue immediately and fully available to the *firm*.

(2) Where an instrument is partly paid, only the paid-up portion is eligible as a *common equity tier 1 instrument*.

3.3.8 G *COREPRU* 3.3.7R requires that the full amount of capital has been irrevocably received by the *firm*, is fully under the *firm's* control, and does not directly or indirectly expose the *firm* to the credit risk of the investor. This condition is stricter than the definition of fully paid in the Companies Act 2006, which may be met by an undertaking to pay.

3.3.9 R (1) A *common equity tier 1 instrument* must not be funded directly or indirectly by the *firm* itself.

(2) (1) does not apply if the funding is provided in the ordinary course of the *firm's* business.

3.3.10 G (1) *COREPRU* 3.3.9R prevents the artificial inflation of a *firm's own funds* by prohibiting a *firm* from funding its own capital instruments. This includes situations where:

(a) a *firm* grants a loan or other funding to an investor that is used to purchase the *firm's* own capital instruments;

(b) a *firm* grants any funding to an existing investor in its capital instruments;

(c) a *firm* provides a guarantee, enters into a credit derivative, or enters into some other form of arrangement so that the credit risk in a capital instrument is or may be transferred to the *firm*; or

(d) the funding in (a), (b) or (c) is provided to an external investor indirectly, for example by a member of the *firm's group* or via another intermediary.

(2) However, there is an exception for funding that is provided in the ordinary course of a *firm's* business. This covers situations where:

(a) funding is provided as part of a *firm's* normal trading or business operations;

(b) the terms are comparable to the terms the *firm* offers for third-party instruments; and

(c) the funding is not designed to support the *firm's* capital position.

(3) For example, a market maker providing standard margin lending that happens to involve the market maker's own capital instruments is likely to qualify for the exception. However, a structured arrangement specifically designed to fund purchases of the *firm's* capital instruments would not qualify.

Common equity tier 1 instruments: perpetuity

3.3.11 R (1) A *common equity tier 1 instrument* must be perpetual, with a *reduction of capital* only permissible where:

(a) the *firm* is in *liquidation*; or

(b) the *firm* carries out a *reduction of capital* which complies with *COREPRU* 3.6.4R or *COREPRU* 3.6.6R.

(2) A *firm* must not do anything to create an expectation that it will or might carry out a *reduction of capital* under (1)(b) when it issues the instrument, and the statutory or contractual terms of the instrument must not contain any feature which would or might give rise to such an expectation.

3.3.12 G (1) A *firm* generally has the right to carry out a *reduction of capital* under company law. However, *COREPRU* 3.6.4R requires that any *reduction of capital* is generally first approved by the *FCA*.

(2) The *FCA* recognises that relevant documentation may acknowledge the fact that a *firm* is able to carry out a *reduction of capital*. However, the *firm* must not create an expectation that it would or might carry out a *reduction of capital* when it issues the relevant instrument.

(3) An expectation that a *firm* would or might carry out a *reduction of capital* may be created by:

(a) a term which creates an economic incentive for the *firm* to carry out a *reduction of capital* at a particular point in time;

(b) a term which suggests that a *reduction of capital* may be carried out at a particular point in time, or at the initiative of any *person* other than the *firm*, even if this is conditional upon the approval of the *firm's management body* and the *FCA*; or

(c) any other contractual or non-contractual indication that the *firm* would or might carry out a *reduction of capital* on a particular date, or in particular circumstances.

Common equity tier 1 instruments: perpetuity, partnerships and limited liability partnerships

3.3.13 R (1) This *rule* applies to:

(a) a *partner's* account in a *firm* that is a *partnership*; and

(b) a member's account in a *firm* that is a *limited liability partnership*.

(2) References to a *partner* or a *partnership* in this *rule* include a member and a *limited liability partnership* respectively.

(3) A *partner's* account satisfies the conditions in *COREPRU* 3.3.11R if:

(a) capital contributed by *partners* is paid into the account; and

(b) the terms of the partnership agreement ensure that (otherwise than with prior *FCA* consent under *COREPRU* 3.6.4R or in the circumstances set out in *COREPRU* 3.6.6R) capital may only be withdrawn from the account by a *partner* ('A') if:

(i) A ceases to be a *partner* and an equal amount is contributed to another *partner's* account by A's former *partners* or any *person* replacing A as their *partner*;

(ii) any reduction in the capital credited to A's account is immediately offset by an equal contribution to other *partner* accounts by one or more of A's *partners* (including any *person* becoming a *partner* of A at the time that the additional contribution is made);

(iii) the *partnership* is wound up or dissolved; or

(iv) the *firm* ceases to be *authorised* or no longer has a *Part 4A permission*.

Common equity tier 1 instruments: distributions

3.3.14 R A *common equity tier 1 instrument* must meet the following conditions regarding *distributions* (subject to *COREPRU* 3.3.16R):

(1) the instrument must not provide or allow for the payment of preferential *distributions* over other *common equity tier 1 instruments* or any other capital instruments;

(2) the instrument must not include a cap on *distributions* or any other restriction on the maximum amount payable;

(3) the level of *distributions* must not be linked to the amount for which the instrument was purchased at issuance;

(4) there must be no circumstances in which *distributions* are obligatory, including where non-payment triggers some other obligation (for example, to make payments in kind); and

(5) failure to make *distributions* must not constitute an event of default.

3.3.15 G (1) *COREPRU* 3.3.14R(1) prohibits differentiated levels of *distributions*, or preferences in factors such as the order or timing of *distributions*, subject to the exception for instruments with fewer or no voting rights in *COREPRU* 3.3.16R.

(2) *COREPRU* 3.3.14R(5) means that a failure to make *distributions* must not have contractual or other consequences associated with an event of default, such as by engaging rights of termination, early repayment, additional voting rights, or other similar consequences.

Common equity tier 1 instruments: dividend multiples on instruments with fewer or no voting rights

3.3.16 R A *common equity tier 1 instrument* may pay a dividend multiple relative to another *common equity tier 1 instrument* if:

(1) the higher dividend multiple applies to *common equity tier 1 instruments* with fewer or no voting rights;

(2) the dividend multiple is set contractually or under the *firm's* constitution;

(3) the dividend multiple is not revisable;

(4) the same dividend multiple applies to all instruments with a dividend multiple;

(5) the dividend multiple is no more than 125% of the *distribution* on one voting *common equity tier 1 instrument*; and

(6) the total amount of *distributions* paid on all *common equity tier 1 instruments* during a 1-year period does not exceed 105% of the amount that would have been paid if instruments with fewer or no voting rights received the same *distributions* as voting instruments.

Inclusion of interim profits or provisional year-end profits in common equity tier 1 capital

3.3.17 R A *firm* must not include interim profits or year-end profits in its *common equity tier 1 capital* before its formal decision confirming final profit or loss for the year, unless:

(1) those profits have been verified by a *person* who is independent of the *firm* and is responsible for the auditing of the accounts of that *firm*;

(2) the verification provides an adequate level of assurance that those profits have been evaluated in accordance with the principles set out in the applicable accounting framework;

(3) the *firm* is satisfied that any foreseeable charge or dividend has been deducted from the amount of those profits on a prudent and conservative basis; and

(4) the *firm* notifies the *FCA* as soon as reasonably practicable after including the profits in its *common equity tier 1 capital*.

3.3.18 G (1) When deducting foreseeable dividends under *COREPRU* 3.3.17R(3), a *firm* should consider:

(a) any formal decisions about dividends that have been taken by the *firm's management body*;

(b) the upper end of any dividend policy;

(c) the ratio of dividends to income paid out in previous years; and

(d) any other factors that might reasonably affect the *firm's* approach to *distributions* for the relevant period.

(2) When deducting foreseeable charges under *COREPRU* 3.3.17R(3), a *firm* should consider:

(a) any tax charges attributable to the profits being verified;

(b) any other charges that are attributable to the relevant period but have not yet been reflected in the *firm's common equity tier 1 capital* calculation; and

(c) any other factors that might reasonably be expected to affect the final profit or loss figure for the period.

Deductions and filters for common equity tier 1 capital

3.3.19 G (1) Deductions and filters help to ensure that a *firm* measures its *own funds* in a way that reflects its ability to absorb losses in stressed conditions or *liquidation*.

(2) They achieve this by adjusting accounting values, for example because those values:

(a) are subject to significant valuation uncertainty;

(b) may not reflect realisable values in stressed conditions;

(c) include unrealised or market-value gains and losses that may reverse with changing market conditions; or

(d) are only realisable if the *firm* continues to operate as a going concern.

Deduction of losses for the current financial year

3.3.20 R (1) A *firm* must deduct losses for the current financial year, save where the losses have already resulted in a reduction in its *common equity tier 1 items*.

(2) For the purposes of (1), a *firm* must:

(a) apply the same accounting policies and standards as used for the year-end financial report;

(b) prudently estimate and assign income and expenses to the interim period in which they are incurred;

(c) recognise material or non-recurrent events in full and without delay in the interim period during which they arise; and

(d) determine profits, gains and losses, and deduct any resulting losses, as they arise.

Deduction of intangible assets

3.3.21 R (1) A *firm* must deduct *intangible assets*.

(2) For the purposes of (1):

(a) a *firm* must also deduct any *intangible assets* included in the valuation of its *qualifying holdings*;

(b) where the *qualifying holding* in (2)(a) is not wholly owned or controlled by the *firm*, the *firm* must only deduct the portion of *intangible assets* corresponding to its percentage of ownership or control; and

(c) a *firm* must reduce the amount to be deducted by the amount of associated deferred tax liabilities that would be extinguished if the *intangible assets* became impaired or were derecognised, under the applicable accounting framework.

Deduction of deferred tax assets that rely on future profitability

3.3.22 R (1) A *firm* must deduct deferred tax assets that rely on future profitability.

(2) For the purposes of (1):

(a) a *firm* may offset deferred tax liabilities against associated deferred tax assets if:

(i) the *firm* has a legally enforceable right to set off those current tax assets against current tax liabilities;

(ii) the deferred tax assets and the deferred tax liabilities arise from the same tax authority and for the same taxable entity; and

(iii) the deferred tax liabilities do not reduce the amount of *intangible assets* or defined pension fund assets deductible under *COREPRU* 3.3.21R or *COREPRU* 3.3.23R; and

(b) for the calculation of deferred tax assets and liabilities at consolidated level, a taxable entity includes any number of entities which are members of the same tax group, fiscal consolidation, fiscal unity or consolidated tax return.

Deduction of defined benefit pension fund assets on the firm's balance sheet

3.3.23 R (1) A *firm* must deduct the value of any defined benefit pension fund assets on its balance sheet.

(2) For the purposes of (1):

(a) a *firm* must net off pension fund assets against its obligations under the fund; and

(b) a *firm* must reduce the amount to be deducted by the amount of associated deferred tax liabilities which would be extinguished if the assets became impaired or were derecognised, under the applicable accounting framework.

Deduction of holdings of own common equity tier 1 instruments

3.3.24 R (1) A *firm* must deduct direct, indirect and synthetic holdings of its own *common equity tier 1 instruments*.

(2) For the purposes of (1):

(a) a *firm* must also apply the deduction where it could be obliged to purchase its own *common equity tier 1 instrument* as a result of an existing contractual obligation;

(b) a *firm* must deduct its gross long position unless (2)(c) applies; and

(c) a *firm* may deduct its net long position if:

(i) the long and short positions are in the same underlying exposure;

(ii) the short positions are cleared through an *authorised central counterparty* or subject to appropriate margining requirements; and

(iii) the long and short positions are both held in the *trading book* or are both held outside the *trading book*.

Deduction of holdings of common equity tier 1 or comparable instruments where a firm has a reciprocal cross-holding designed to inflate own funds artificially

3.3.25 R (1) A *firm* must deduct direct, indirect and synthetic holdings of the *common equity tier 1 or comparable instruments* of *financial sector entities* where those entities have a *reciprocal cross-holding* with the *firm* that is designed to inflate the *own funds* of the *firm* artificially.

(2) For the purposes of (1), a *firm* must deduct holdings based on its gross long position.

3.3.26 G The following factors indicate a *reciprocal cross-holding* designed to inflate *own funds* artificially:

(1) the cross-holding does not serve a genuine business purpose;

(2) the timing and circumstances of the cross-holding suggest an intention to boost regulatory capital; or

(3) other connections between relevant entities which might indicate coordinated capital management.

Deduction of holdings of common equity tier 1 or comparable instruments of financial sector entities

3.3.27 R (1) A *firm* must deduct direct, indirect and synthetic holdings of *common equity tier 1 or comparable instruments* of *financial sector entities* which are held outside of the *trading book*, unless *COREPRU* 3.3.28R applies.

(2) A *firm* must calculate holdings based on its gross long position unless (3) applies.

(3) A *firm* may calculate holdings based on its net long position where:

(a) (i) the maturity date of the short position is the same as, or longer than, the maturity date of the long position; or

(ii) the residual maturity of the short position is at least one year; and

(b) the long and short positions are held outside of the *trading book*.

Holdings of common equity tier 1 instruments issued by a financial sector entity within an investment firm group

3.3.28 R A *MIFIDPRU investment firm* is not required to deduct holdings of *common equity tier 1 instruments* of a *financial sector entity* under *COREPRU* 3.3.27R if all of the conditions in *MIFIDPRU* 3.3A.27R are met.

Common equity tier 1 or comparable instruments

3.3.29 R A *common equity tier 1 or comparable instrument* means:

(1) (for an entity subject to *COREPRU* or *MIFIDPRU*) a *common equity tier 1 instrument*;

(2) (for an *insurer* subject to the Solvency II Firms part of the *PRA Rulebook*) 'Tier 1 own funds' as defined in the Own Funds (Solvency II Firms) part of the *PRA Rulebook*, the inclusion of which is not restricted by Own Funds 4A.3 in the Solvency II Firms part of the *PRA Rulebook*; and

(3) (for a *financial sector entity* not subject to (1) or (2)) any capital instrument that ranks below all other claims in *liquidation*.

Identifying and valuing indirect and synthetic holdings

3.3.30 R For the purposes of *COREPRU* 3.3.24R, *COREPRU* 3.3.25R and *COREPRU* 3.3.27R:

(1) An indirect holding means an economic exposure through an intermediate entity such as a holding company or special purpose vehicle.

(2) A *firm* must calculate the amount to be deducted for indirect holdings by:

(a) identifying any intermediate entities or structures through which it may be exposed to a deductible *common equity tier 1 instrument*;

(b) making a prudent estimate of the full economic exposure of the intermediate entities or structures to deductible instruments; and

(c) deducting the proportion of economic exposure that is attributable to the *firm*.

(3) A *firm* is not required to treat a holding in a *fund* as an indirect holding.

(4) A synthetic holding means an economic exposure through a derivative instrument, guarantee, credit protection, or other similar arrangement.

(5) A *firm* must calculate the amount to be deducted for synthetic holdings by determining the maximum potential loss that would arise if the underlying deductible *common equity tier 1 instrument* or equivalent economic exposure had zero value, taking into account:

(a) all contractual obligations relating to the position; and

(b) any other features that could increase the *firm's* economic exposure.

3.3.31 G (1) *COREPRU* 3.3.30R explains how a *firm* should identify and value any indirect or synthetic holdings for the purposes of *COREPRU* 3.3.24R, *COREPRU* 3.3.25R and *COREPRU* 3.3.27R.

(2) The *FCA* generally considers it disproportionate to require a *firm* to look through a *fund* for these purposes, given the limited exposures to a *firm's* own capital instruments and those of other *financial sector entities* that are likely to arise through most *funds*.

(3) However, *COREPRU* 3.1.4G reminds *firms* to consider the economic substance of its capital arrangements. The *FCA* does not expect to see *firms* entering into arrangements intended to arbitrage this or other such concessions. Where a *fund* has a purpose or mandate to invest mainly in the capital instruments of *financial sector entities*, a *firm* should apply the relevant capital deductions accordingly.

Deduction of excess AT1 deductions

3.3.32 R A *firm* must deduct from *common equity tier 1 items* the amount by which any items required to be deducted from *additional tier 1 capital* under *COREPRU* 3.4.2R exceed *additional tier 1 items*.

Deduction of foreseeable tax charges relating to common equity tier 1 items

3.3.33 R (1) This deduction applies if a *firm* does not calculate its *own funds* in accordance with *UK-adopted international accounting standards*.

(2) Where this deduction applies, a *firm* must:

(a) deduct any foreseeable current and deferred tax charges relating to *common equity tier 1 items* that are not yet accounted for in its *common equity tier 1 capital*;

(b) calculate the amount to be deducted using the approach in *UK-adopted international accounting standards*; and

(c) deduct the amount of foreseeable current and deferred tax charges without netting off against any unrecognised deferred tax assets.

Deduction of qualifying holdings outside the financial sector

3.3.34 R (1) A *firm* must deduct any amounts in excess of the following limits:

(a) a *qualifying holding* in a *non-financial sector entity* which exceeds 15% of the *firm's own funds*; and

(b) the total of all the *qualifying holdings* of the *firm* in *non-financial sector entities* which exceeds 60% of the *firm's own funds*.

(2) When calculating the amounts in (1), a *firm* must treat a *fund* as a *non-financial sector entity*.

(3) When calculating the amounts in (1), a *firm* must exclude:

(a) shares held in the name of the *firm* on behalf of others; and

(b) shares held in the *trading book*.

Deduction of excess partnership withdrawals

3.3.35 R A *firm* that is a *partnership* or a *limited liability partnership* must deduct the amount by which the aggregate of any amounts withdrawn by its *partners* or members exceeds the profits of the *firm*, except to the extent that the amount:

(1) has already been deducted from the *firm's own funds* as a loss under *COREPRU* 3.3.20R;

(2) was repaid in accordance with *COREPRU* 3.3.13R(3); or

(3) is already reflected in a reduction of the *firm's own funds* that was permitted under *COREPRU* 3.6.4R or *COREPRU* 3.6.6R.

3.3.36 R (1) A *firm* must deduct any direct, indirect or synthetic holding of a *qualifying cryptoasset* issued by, or where supply is controlled by:

(a) the *firm*;

(b) a member of the same *group* as the *firm*;

(c) a *controller*, shareholder or member of the *firm*;

(d) a *director*, other *officer* or *employee* of the *firm*, or any member of the same *group* as the *firm*; or

(e) a *close relative* of a *person* falling within (c) or (d).

(2) (1) does not apply if:

(a) the *qualifying cryptoasset* is a *qualifying stablecoin* that is compliant with the requirements in *CASS* 16; or

(b) the *qualifying cryptoasset* is deducted in accordance with another *rule* in *COREPRU* 3.3.

3.3.37 G When considering whether it has control of supply of a *qualifying cryptoasset*, a *firm* should consider factors such as:

(1) any contractual or non-contractual arrangements which give the *firm* control of supply; and

(2) whether the *firm* holds a position in the relevant *qualifying cryptoasset* that enables it to behave independently of other market participants to control supply.

Adjustment for cash flow hedges and changes in the value of own liabilities

3.3.38 R A *firm* must exclude the following from its *common equity tier 1 items*:

(1) any unrealised gain or loss on cash flow hedges of financial instruments that are not measured at fair value, except where:

(a) the hedged item itself is measured at fair value; or

(b) the unrealised gain or loss represents effective net investment hedges of foreign operations; and

(2) any gain or loss arising from changes in the value of its liabilities that are due to changes in the *firm's* own credit standing.

3.3.39 G (1) *COREPRU* 3.3.38R(1) prevents unrealised gains or losses that arise from cash flow hedges from being included in *common equity tier 1 capital* where the hedged financial instruments are not measured at fair value. This filter is necessary because these hedge-related gains or losses may reverse over time, while not being matched by corresponding changes in the value of the hedged item in the regulatory capital calculation.

(2) *COREPRU* 3.3.38R(2) ensures that a deterioration in a *firm's* own creditworthiness does not increase its *common equity tier 1 capital*. For example, if a *firm's* creditworthiness deteriorates, this could result in the fair value of its liabilities decreasing, resulting in an accounting gain. This gain is counterproductive from a prudential perspective because the *firm's* financial condition is actually worsening. *COREPRU* 3.3.38R(2) filters this out to ensure capital reflects true loss-absorbing capacity.

Additional value adjustment for the trading book

3.3.40 R (1) A *firm* with a *trading book* must deduct the additional valuation adjustment in (2) from its *common equity tier 1 items*.

(2) A *firm* must calculate the additional valuation adjustment as 0.1% of the base value of positions in the *trading book*.

(3) The base value of positions in the *trading book* is the sum of the absolute value of fair-valued assets and liabilities stated in its financial statements under the applicable accounting framework, except that:

(-a) positions in a *qualifying stablecoin* that is compliant with the requirements in *CASS* 16 must be excluded;

(a) exactly matching offsetting fair-valued assets and liabilities must be excluded;

(b) where a change in the accounting valuation of fair-valued assets and liabilities would only partially be reflected in *common equity tier 1 capital*, the value of those assets or liabilities must only be included in proportion to the impact of the relevant valuation change on *common equity tier 1 capital*; and

(c) where a change in the accounting valuation of fair-valued assets and liabilities would have no impact on *common equity tier 1 capital*, the value of those assets or liabilities must be excluded.

3.4 Additional tier 1 capital

3.4.1 G (1) *Additional tier 1 capital* has the following core characteristics:

(a) it converts into *common equity tier 1 capital*, or is written down, upon the occurrence of one or more trigger events;

(b) it has no fixed maturity;

(c) there is no inescapable obligation to make a *distribution*; and

(d) *distributions* do not accelerate when the *firm* experiences stress.

(2) The remainder of *COREPRU* 3.4 contains the detailed *rules* and *guidance* for calculating *additional tier 1 capital*.

3.4.2 R A *firm* must calculate its *additional tier 1 capital* in accordance with the first column of the following table. The second column indicates where relevant *rules* and *guidance* are found.

Item	Relevant rules and guidance
Additional tier 1 items:	
(1) *additional tier 1 instruments*;	*COREPRU* 3.4.3R to *COREPRU* 3.4.16G
(2) share premium accounts related to the *additional tier 1 instruments*;	
LESS	
Deductions from *additional tier 1 items*:	
(3) direct, indirect and synthetic holdings of own *additional tier 1 instruments*;	*COREPRU* 3.4.17R and *COREPRU* 3.4.23R
(4) direct, indirect and synthetic holdings of *additional tier 1 or comparable instruments* of *financial sector entities*	*COREPRU* 3.4.18R, *COREPRU* 3.4.19G, *COREPRU* 3.4.22R and *COREPRU* 3.4.23R

where those entities have a *reciprocal cross-holding* with the *firm*;	
(5) direct, indirect and synthetic holdings of *additional tier 1 or comparable instruments* of *financial sector entities* which are not held in the *trading book*;	*COREPRU* 3.4.20R to *COREPRU* 3.4.23R
(6) any excess of tier 2 deductions above the *firm's tier 2 capital*; and	*COREPRU* 3.4.24R
(7) foreseeable tax charges relating to *additional tier 1 items*.	*COREPRU* 3.4.25R

Additional tier 1 instruments: loss absorption

3.4.3 R (1) If one or more trigger events occurs, the full principal amount of the *additional tier 1 instrument* must be written down on a permanent or temporary basis, or the instrument converted into a *common equity tier 1 instrument*, in accordance with the requirements of *COREPRU* 3.4.9R to *COREPRU* 3.4.12R.

(2) A *firm's* obligations under the instrument must not constitute a liability (including a contingent or prospective liability) that would be relevant for the purposes of section 123(2) of the Insolvency Act 1986.

(3) An *additional tier 1 instrument* must not be secured or subject to a guarantee or other arrangement which enhances the legal or economic seniority of the claim.

(4) The instrument must rank below any *tier 2 instrument* in *liquidation*.

(5) The instrument must not be subject to set-off or netting arrangements that would undermine its capacity to absorb losses.

(6) The provisions governing the instrument must not include any feature that could hinder the recapitalisation of the *firm*.

3.4.4 G For the purposes of *COREPRU* 3.4.3R(6), a feature that could hinder the recapitalisation of the *firm* includes:

(1) a provision that requires the *firm* to compensate existing holders of capital instruments where a new capital instrument is issued; and

(2) other terms that could discourage the *firm* from issuing new capital instruments for recapitalisation.

3.4.5 R (1) An *additional tier 1 instrument* must be fully paid and the proceeds of issue must be immediately and fully available to the *firm*.

(2) Where an instrument is partly paid, only the paid-up portion is eligible as an *additional tier 1 instrument*.

3.4.6 G *COREPRU* 3.3.8G applies to *additional tier 1 instruments* as it applies to *common equity tier 1 instruments*.

3.4.7 R (1) An *additional tier 1 instrument* must not be funded directly or indirectly by the *firm* itself.

(2) (1) does not apply if the funding is provided in the ordinary course of the *firm's* business.

3.4.8 G *COREPRU* 3.3.10G applies to *additional tier 1 instruments* as it applies to *common equity tier 1 instruments*.

Additional tier 1 instruments: Trigger events

3.4.9 R (1) A *firm* must specify one or more trigger events in the terms of an *additional tier 1 instrument*.

(2) The trigger events specified under (1) must include a trigger event that occurs where the *common equity tier 1 capital* of the *firm* falls below a level specified by the *firm* that is no lower than 64% of the *firm's own funds requirement*.

(3) The full principal amount of an *additional tier 1 instrument* must be written down or converted when a trigger event occurs.

(4) The amount recognised for *additional tier 1 instruments* and any associated share premium accounts must not exceed the amount of *common equity tier 1 items* that would be generated if there was a write down or conversion.

(5) Where a trigger event occurs, a *firm* must:

(a) convene the *management body* or other *relevant body* without delay to determinate that a trigger event has occurred;

(b) immediately inform the *FCA*;

(c) inform the holders of the *additional tier 1 instruments*; and

(d) write down or convert the instruments without delay, and within 1 *month*.

3.4.10 G (1) *COREPRU* 3.4.9R requires that the principal amount of an *additional tier 1 instrument* converts into *common equity tier 1 instruments* or is written down if the *firm's common equity tier capital* falls below a specified level.

(2) This level must be set at no lower than 64% of the *firm's own funds requirement* but a *firm* may set the relevant trigger at a higher level (such as 70% of its *own funds requirement*) if it wishes.

(3) A *firm* may also specify additional trigger events alongside the required trigger event in *COREPRU* 3.4.9R(2).

Additional tier 1 instruments: write down

3.4.11 R Where a *firm* issues *additional tier 1 instruments* that write down:

(1) the write-down must extinguish:

(a) the claim of the holder in *liquidation*;

(b) any amount required to be paid in the event of call or redemption of the instrument; and

(c) any *distribution* on the instrument;

(2) the write-down must apply to all holders of *additional tier 1 instruments* that include the same trigger; and

(3) in the case of a write-up after temporary write-down:

(a) any write-up must be based on profits after the *firm* has taken a formal decision confirming the final profits;

(b) any write-up must be at the full discretion of the *firm* (subject to (3)(c) to (3)(e) below), and there must be no obligation on the *firm* to operate or accelerate a write-up under specific circumstances;

(c) write-up must be operated on a pro rata basis among *additional tier 1 instruments* with the same trigger that was subject to write-down;

(d) the maximum amount that can be written up must be calculated using the formula:

M = P * A/T

where:

- M = the maximum amount that can be written up;
- P = the profit of the *firm*;
- A = the aggregate nominal value (before write-down) of all *additional tier 1 instruments* that were subject to a write-down; and
- T = the sum of the *common equity tier 1 capital* and *additional tier 1 capital* of the *firm*; and

(e) any write-up amount must be treated as a payment that reduces the *firm's common equity tier 1 capital*.

Additional tier 1 instruments: conversion into common equity tier 1

3.4.12 R Where a *firm* issues *additional tier 1 instruments* that convert into *common equity tier 1 instruments*, it must:

(1) specify in the provisions governing the *additional tier 1 instruments* either:

(a) the rate of such conversion; or

(b) a range within which the instruments will convert into *common equity tier 1 instruments*;

(2) retain all necessary authorisations for converting all of its *additional tier 1 instruments* into *common equity tier 1 instruments*; and

(3) ensure there are no procedural impediments to conversion under its constitutional or contractual arrangements.

Additional tier 1 instruments: perpetuity

3.4.13 R (1) An *additional tier 1 instrument* must be perpetual, with a *reduction of capital* only permissible where:

(a) the *firm* is in *liquidation*; or

(b) the *firm* carries out a *reduction of capital* which:

(i) complies with *COREPRU* 3.6.4R or *COREPRU* 3.6.6R; and

(ii) does not take place before 5 years after the date of issuance, unless the conditions in *COREPRU* 3.6.6R(1) or (2) are met.

(2) The *additional tier 1 instrument* must not include any incentive for the *firm* to carry out a *reduction of capital*.

(3) A *firm* must not explicitly or implicitly indicate that the *additional tier 1 instrument* would be redeemed or repaid other than in *liquidation*, and the terms of the instrument must not provide such an indication.

(4) Where the *additional tier 1 instrument* includes one or more early redemption options including call options, the options must be exercisable at the sole discretion of the *firm*.

(5) A *firm* must not indicate explicitly or implicitly that the *FCA* would consent to a *reduction of capital*.

3.4.14 G (1) An incentive to carry out a *reduction of capital* in *COREPRU* 3.4.13R(2) includes any feature that provides, at the date of issuance of a capital instrument, an expectation that the capital instrument is likely to be redeemed.

(2) Examples of (1) include:

(a) a term which creates an economic incentive for the *firm* to carry out a *reduction of capital* at a particular point in time; and

(b) marketing of the instrument in a way which suggests to investors that the instrument will be called.

Additional tier 1 instruments: distributions

3.4.15 R An *additional tier 1 instrument* must meet the following conditions regarding *distributions*:

(1) the *firm* must at all times have full discretion to cancel *distributions* on the instruments for an unlimited period and on a non-cumulative basis;

(2) the *firm* must be able to use cancelled *distributions* to meet its obligations as they fall due, without restriction;

(3) failure to make *distributions* must not constitute an event of default;

(4) the *additional tier 1 instrument* must not include a requirement:

(a) to make a *distribution* in the event of a *distribution* being made on another instrument that ranks the same or more junior;

(b) that, if a *distribution* is not made on that instrument, a *distribution* cannot be made on another capital instrument; or

(c) substituting the obligation to make a *distribution* with any other obligation to make payment in any other form; and

(5) the level of *distribution* must not change in a way that is linked to the credit standing of the *firm* or any member of the *firm's group*;

3.4.16 G *COREPRU* 3.4.15R(3) means that a failure to make *distributions* must not have contractual or other consequences associated with an event of default, such as by engaging rights of termination, early repayment, additional voting rights, or other similar consequences.

Deduction of holdings of own additional tier 1 instruments

3.4.17 R (1) A *firm* must deduct direct, indirect and synthetic holdings of its own *additional tier 1 instruments*.

(2) For the purposes of (1):

(a) a *firm* must also apply the deduction where it could be obliged to purchase the *additional tier 1 instrument* as a result of an existing contractual obligation;

(b) a *firm* must deduct its gross long position unless (2)(c) applies; and

(c) a *firm* may deduct its net long position if:

(i) the long and short positions are in the same underlying exposure;

(ii) the short positions are cleared through an *authorised central counterparty* or subject to appropriate margining requirements; and

(iii) the long and short positions are both held in the *trading book* or are both held outside of the *trading book*.

Deduction of holdings of additional tier 1 or comparable instruments where a firm has a reciprocal cross-holding designed to inflate own funds artificially

3.4.18 R (1) A *firm* must deduct direct, indirect and synthetic holdings of the *additional tier 1 or comparable instruments* of *financial sector entities* where those entities have a *reciprocal cross-holding* with the *firm* designed to inflate the *own funds* of the *firm* artificially.

(2) For the purposes of (1), a *firm* must calculate holdings based on its gross long position.

3.4.19 G The factors in *COREPRU* 3.3.26G indicate a *reciprocal cross-holding* designed to inflate *own funds* artificially.

Deduction of holdings of additional tier 1 or comparable instruments of financial sector entities

3.4.20 R (1) A *firm* must deduct direct, indirect and synthetic holdings of *additional tier 1 or comparable instruments* of *financial sector entities* which are held outside of the *trading book*, unless *COREPRU* 3.4.21R applies.

(2) A *firm* must calculate holdings based on its gross long position unless (3) applies.

(3) A *firm* may calculate holdings based on its net long position where:

(a) (i) the maturity date of the short position is the same or later than the maturity date of the long position; or

(ii) the residual maturity of the short position is at least one year; and

(b) the long and short positions are held outside of the *trading book*.

Holdings of additional tier 1 instruments issued by a financial sector entity within an investment firm group

3.4.21 R A *MIFIDPRU investment firm* is not required to deduct holdings of *additional tier 1 instruments* of a *financial sector entity* under *COREPRU* 3.4.20R if all of the conditions in *MIFIDPRU* 3.4A.21R are met.

Additional tier 1 or comparable instruments

3.4.22 R An *additional tier 1 or comparable instrument* means:

(1) (for an entity subject to *COREPRU* or *MIFIDPRU*) an *additional tier 1 instrument*;

(2) (for an *insurer* subject to the Solvency II Firms part of the *PRA Rulebook*) 'Tier 1 own funds' as defined in the Own Funds (Solvency II) part of the *PRA Rulebook*, the inclusion of which is restricted by Own Funds 4A.3 in the Solvency II Firms part of the *PRA Rulebook*; and

(3) (for a *financial sector entity* not subject to (1) or (2)) any capital instrument that does not rank below all other claims in *liquidation* but absorbs losses on a going concern basis.

Identifying and valuing indirect and synthetic holdings

3.4.23 R *COREPRU* 3.3.30R (Identifying and valuing indirect and synthetic holdings) applies to holdings of *additional tier 1 instruments* as it applies to holdings of *common equity tier 1 instruments*.

Deduction of excess T2 deductions

3.4.24 R A *firm* must deduct from *additional tier 1 items* the amount by which any items required to be deducted from *tier 2 items* under *COREPRU* 3.5.2R exceed *tier 2 items*.

Deduction of foreseeable tax charges relating to additional tier 1 items

3.4.25 R (1) This deduction applies if a *firm* does not calculate its *own funds* in accordance with *UK-adopted international accounting standards*.

(2) Where this deduction applies, a *firm* must:

(a) deduct any current and deferred tax charges relating to *additional tier 1 items* that are not yet accounted for in its *common equity tier 1 capital*;

(b) calculate the amount to be deducted using the approach in *UK-adopted international accounting standards*; and

(c) deduct the amount of foreseeable current and deferred tax charges without netting off against any unrecognised deferred tax assets.

3.5 Tier 2 capital

3.5.1 G (1) *Tier 2 capital* has the following core characteristics:

(a) it ranks below ordinary creditors in *liquidation*;

(b) it has an original maturity of at least 5 years;

(c) it amortises over the final 5 years; and

(d) *distributions* do not accelerate when the *firm* experiences stress.

(2) The remainder of *COREPRU* 3.5 contains detailed *rules* and *guidance* for calculating *tier 2 capital*.

3.5.2 R A *firm* must calculate its *tier 2 capital* in accordance with the first column of the following table. The second column indicates where relevant *rules* and *guidance* are found.

Item	**Relevant rules and guidance**
Tier 2 items:	
(1) *tier 2 instruments*;	*COREPRU* 3.5.3R to *COREPRU* 3.5.11R
(2) share premium accounts related to the *tier 2 instruments*;	
LESS	
Deductions from *tier 2 items*:	
(3) direct, indirect and synthetic holdings of own *tier 2 instruments*;	*COREPRU* 3.5.12R and *COREPRU* 3.5.18R
(4) direct, indirect and synthetic holdings of *tier 2 or comparable instruments* of *financial sector entities* where those entities have a *reciprocal cross-holding* with the *firm*; and	*COREPRU* 3.5.13R, *COREPRU* 3.5.14G, *COREPRU* 3.5.17R and *COREPRU* 3.5.18R
(5) direct, indirect and synthetic holdings of *tier 2 or comparable instruments* of *financial sector entities* which are not held in the *trading book*.	*COREPRU* 3.5.15R to *COREPRU* 3.5.18R

Tier 2 instruments: loss absorption

3.5.3 R (1) The claim on the principal amount of a *tier 2 instrument* must be wholly subordinated to the claims of all non-subordinated creditors.

(2) A *tier 2 instrument* must not be secured or subject to a guarantee or other arrangement which enhances the legal or economic seniority of the claim.

(3) A *tier 2 instrument* must not be subject to set-off or netting arrangements that would undermine its capacity to absorb losses.

3.5.4 R (1) A *tier 2 instrument* must be fully paid and the proceeds of issue immediately and fully available to the *firm*.

(2) Where an instrument is partly paid, only the paid-up portion is eligible as a *tier 2 instrument*.

3.5.5 G *COREPRU* 3.3.8G applies to *tier 2 instruments* as it applies to *common equity tier 1 instruments*.

3.5.6 R (1) A *tier 2 instrument* must not be funded directly or indirectly by the *firm* itself.

(2) (1) does not apply if the funding is provided in the ordinary course of the *firm's* business.

3.5.7 G *COREPRU* 3.3.10G applies to *tier 2 instruments* as it applies to *common equity tier 1 instruments*.

Tier 2 instruments: duration

3.5.8 R (1) A *tier 2 instrument* must have an original maturity of at least 5 years, with a *reduction of capital* prior to maturity only permissible where:

(a) the *firm* is in *liquidation*; or

(b) the *firm* carries out a *reduction of capital* which:

(i) has been approved by the *FCA* under *COREPRU* 3.6.4R; and

(ii) does not take place before 5 years after the date of issuance, unless the conditions in *COREPRU* 3.6.6R(1) or (2) are met.

(2) A *tier 2 instrument* must not include any incentive for the principal amount to be redeemed or repaid prior to maturity, or a right to accelerate early redemption or repayment.

(3) A *firm* must not explicitly or implicitly indicate that the *tier 2 instrument* would be redeemed or repaid prior to maturity other than in *liquidation*, and the terms of the instrument must not provide such an indication.

(4) Where the *tier 2 instrument* includes one or more early redemption options including call options, the options must be exercisable at the sole discretion of the *firm*.

3.5.9 G (1) An incentive for the principal amount to be redeemed or repaid in *COREPRU* 3.5.8R(2) includes any feature that provides, at the date of issuance of a capital instrument, an expectation that the capital instrument is likely to be redeemed before its stated maturity date.

(2) An incentive under (1) includes:

(a) a term which creates an economic incentive for the *firm* to reduce or repay the principal before maturity; and

(b) marketing of the instrument in a way which suggests to investors that the instrument will be called before maturity.

Tier 2 instruments: amortisation

3.5.10 R Where a *tier 2 instrument* has a residual maturity of 5 years or less, the proportion of the instrument which qualifies as a *tier 2 item* must be calculated by multiplying A and B, where:

- A is the notional amount of the instrument on the first day of the final 5-year period of their contractual maturity divided by the number of *days* in that period; and
- B is the number of remaining *days* of contractual maturity of the instrument.

Tier 2 instruments: distributions

3.5.11 R A *tier 2 instrument* must meet the following conditions regarding *distributions*:

(1) the holder of the instrument must have no right to accelerate the future scheduled payment of *distributions*, other than in *liquidation*; and

(2) the level of *distribution* must not change in a way that is linked to the credit standing of the *firm* or any member of the *firm's group*.

Deduction of holdings of own tier 2 instruments

3.5.12 R (1) A *firm* must deduct direct, indirect and synthetic holdings of its own *tier 2 instruments*.

(2) For the purposes of (1):

(a) a *firm* must also apply the deduction where it could be obliged to purchase the *tier 2 instrument* as a result of an existing contractual obligation;

(b) a *firm* must deduct its gross long position unless (2)(c) applies; and

(c) a *firm* may deduct its net long position if:

(i) the long and short positions are in the same underlying exposure;

(ii) the short positions are cleared through an *authorised central counterparty* or subject to appropriate margining requirements; and

(iii) the long and short positions are both held in the *trading book* or are both held outside of the *trading book*.

Deduction of holdings of tier 2 or comparable instruments where a firm has a reciprocal cross-holding designed to inflate own funds artificially

3.5.13 R (1) A *firm* must deduct direct, indirect and synthetic holdings of the *tier 2 or comparable instruments* of *financial sector entities* where those entities have a *reciprocal cross-holding* with the *firm* designed to inflate the *own funds* of the *firm* artificially.

(2) For the purposes of (1), a *firm* must calculate holdings based on its gross long position.

3.5.14 G The factors in *COREPRU* 3.3.26G indicate a *reciprocal cross-holding* designed to inflate *own funds* artificially.

Deduction of holdings of tier 2 or comparable instruments of financial sector entities

3.5.15 R (1) A *firm* must deduct direct, indirect and synthetic holdings of *tier 2 or comparable instruments* of *financial sector entities* which are held outside of the *trading book*, unless *COREPRU* 3.5.16R applies.

(2) A *firm* must calculate holdings based on its the gross long position unless (3) applies.

(3) A *firm* may calculate holdings based on its net long positions where:

(a) (i) the maturity date of the short position is the same or later than the maturity date of the long position; or

(ii) the residual maturity of the short position is at least 1 year; and

(b) the long and short positions are held outside of the *trading book*.

Holdings of tier 2 instruments issued by a financial sector entity within an investment firm group

3.5.16 R A *MIFIDPRU investment firm* is not required to deduct holdings of *tier 2 instruments* of a *financial sector entity* under *COREPRU* 3.5.15R if all of the conditions in *MIFIDPRU* 3.5A.16R are met.

Tier 2 or comparable instruments

3.5.17 R A *tier 2 or comparable instruments* means:

(1) (for an entity subject to *COREPRU* or *MIFIDPRU*) a *tier 2 instrument*;

(2) (for an *insurer* subject to the Solvency II Firms part of the *PRA Rulebook*):

(a) 'Tier 2 basic own funds' as defined in the Own Funds (Solvency II Firms) part of the *PRA Rulebook*; and

(b) 'Tier 3 own funds' that are 'basic own funds' as those terms are defined in the Own Funds (Solvency II Firms) part of the *PRA Rulebook*; and

(3) (for a *financial sector entity* not subject to (1) or (2)) any subordinated instrument that does not absorb losses on a going-concern basis.

Identifying and valuing indirect and synthetic holdings

3.5.18 R *COREPRU* 3.3.30R (Identifying and valuing indirect and synthetic holdings) applies to holdings of *tier 2 instruments* as it applies to holdings of *common equity tier 1 instruments*.

3.6 General requirements for own funds instruments

3.6.1 R An *own funds instrument* must not provide or allow for the payment of *distributions* in a form other than cash or *own funds instruments*.

3.6.2 R For the purposes of the deductions in *COREPRU* 3.3.24R, *COREPRU* 3.3.27R, *COREPRU* 3.4.17R, *COREPRU* 3.4.20R, *COREPRU* 3.5.12R and *COREPRU* 3.5.15R, a *firm* may reduce the amount of a long position in a capital instrument by the portion of a short position in an index that is made up of the same underlying exposure, provided that:

(1) the positions are either both held in the *trading book*, or are both held outside of the *trading book*; and

(2) the positions are held at fair value on the *firm's* balance sheet.

3.6.3 R An *own funds instrument* and any associated share premium account immediately ceases to count towards *own funds* if it ceases to meet any applicable requirement in *COREPRU* 3.

Reduction of own funds instruments

3.6.4 R Save in the circumstances set out in *COREPRU* 3.6.6R, a *firm* must obtain the prior permission of the *FCA* to:

(1) carry out a *reduction of capital* in relation to any of its *common equity tier 1 instruments*;

(2) reduce, distribute or reclassify as another *own funds* item the share premium accounts related to any of its *own funds instruments*;

(3) carry out a *reduction of capital* in relation to an *additional tier 1 instrument*, whether on a call date or otherwise; or

(4) carry out a *reduction of capital* in relation to a *tier 2 instrument* prior to maturity.

3.6.5 R The *FCA* will grant the permission in *COREPRU* 3.6.4R if it is satisfied that the *firm* will continue to exceed its *own funds threshold requirement* by a margin sufficient to ensure adequate financial resilience for the foreseeable future.

3.6.6 R A *firm* is not required to obtain the permission in *COREPRU* 3.6.4R if:

(1) the instrument is being repurchased for market making purposes; or

(2) all of the following conditions are met:

(a) either of the conditions in *COREPRU* 3.6.7R are met;

(b) at least 20 *business days* before the *day* on which the *reduction of capital* is proposed to occur, the *firm* has notified the *FCA* of:

(i) the proposed *reduction of capital*; and

(ii) the basis on which the *firm* has concluded that either condition in (2)(a) is satisfied; and

(c) the *FCA* has not notified the *firm* of any objection to the proposal before the *day* on which the *reduction of capital* is proposed to occur.

3.6.7 R The conditions referred to in *COREPRU* 3.6.6R(2)(a) are that:

(1) before or at the same time as the *reduction of capital*, the *firm* replaces the relevant *own funds instruments* with *own funds instruments* of equal or higher quality on terms that are sustainable for the income capacity of the *firm*, so that:

(a) the profitability of the *firm* will continue to be sound and will not see any negative change in the foreseeable future after the replacement of the original *own funds instruments* with *own funds instruments* of equal or higher quality; and

(b) the assessment of profitability in the foreseeable future in (1)(a) takes into account the *firm's* profitability in stressed situations; or

(2) the *firm* is redeeming *additional tier 1 instruments* or *tier 2 instruments* within 5 years of their date of issue and either:

(a) there is a change in the regulatory classification of the instruments that is likely to result in their exclusion from *own funds* or reclassification as a lower quality form of *own funds*, and both the following conditions are met:

(i) there are reasonable grounds to conclude that the change is sufficiently certain; and

(ii) the regulatory reclassification of the instruments was not reasonably foreseeable at the time of their issuance; or

(b) there is a change in the applicable tax treatment of those instruments which is material and was not reasonably foreseeable at the time of their issuance.

Notification of issuance of additional tier 1 and tier 2 instruments

3.6.8 R (1) A *firm* must notify the *FCA* at least 20 *business days* before the intended issuance date of the *firm's* intention to issue:

(a) *additional tier 1 instruments*; or

(b) *tier 2 instruments*.

(2) The notification requirement in (1) does not apply if:

(a) the *firm* has previously notified the *FCA* of an issuance of the same class of *additional tier 1 instruments* or *tier 2 instruments*; and

(b) the terms of the new instruments are identical in all material respects to the terms of the instruments in the issuance previously notified to the *FCA*.

(3) The notification under (1) must include the following:

(a) confirmation of whether the instruments are intended to be classified as *additional tier 1 instruments* or *tier 2 instruments*;

(b) confirmation of whether the instruments are intended to be issued to external investors or only to other members of the *firm's group* or connected parties;

(c) a copy of the term sheet and details of any features of the capital instrument which are novel, unusual or different from a capital instrument of a similar nature previously issued by the *firm* or widely available in the market;

(d) confirmation from a member of the *firm's senior management* or *governing body* who has oversight of the intended issuance that the instrument meets the conditions in *COREPRU* 3.4 or *COREPRU* 3.5 (as applicable) to be classified as *additional tier 1 instruments* or *tier 2 instruments*; and

(e) a properly reasoned legal opinion from an appropriately qualified *individual*, confirming that the capital instruments meet the conditions in (3)(d).

3.6.9 G *Firms* that are proposing to classify an issuance of capital instruments as *common equity tier 1 capital* should refer to the obligations and *guidance* in *COREPRU* 3.3.3R and *COREPRU* 3.3.4G. In particular, *firms* must obtain the *FCA's* prior permission for the first issuance of a class of instruments that is intended to comprise *common equity tier 1 capital*.

3.6.10 G Submitting a notification in accordance with *COREPRU* 3.6.8R does not guarantee that the relevant instruments meet the required conditions in *COREPRU* 3.4 or *COREPRU* 3.5 to qualify as *own funds*. The *firm* or *parent undertaking* must ensure that an instrument continues to meet the conditions to be counted as *own funds*, including if its terms are varied on a later date.

4 Own funds requirements

4.1 Own funds requirement

4.1.1 R A *firm* must at all times maintain *own funds* that are at least equal to its *own funds requirement*.

4.1.2 R The *own funds requirement* is the highest of:

(1) the *permanent minimum capital requirement*;

(2) the *fixed overheads requirement*; or

(3) the *K-factor requirement*.

4.1.3 G *Authorised payment institutions* and *electronic money institutions* who are also subject to *COREPRU* should note that they need to meet any capital requirements imposed under the *Payment Services Regulations* and the *Electronic Money Regulations* separately and in addition to any applicable *own funds requirement*.

4.2 Permanent minimum capital requirement

4.2.1 R The *permanent minimum capital requirement* is the highest of the applicable requirements in the following table:

Category of firm	Applicable requirement

A *CRYPTOPRU firm*	The applicable requirement in *CRYPTOPRU* 4.2.1R (Permanent minimum capital requirement)
A *MIFIDPRU investment firm*	The applicable requirement in *MIFIDPRU* 4.4 (Permanent minimum capital requirement)

4.3 Fixed overheads requirement

4.3.1 R (1) The *fixed overheads requirement* is an amount equal to one quarter of a *firm's relevant expenditure* during the preceding year.

(2) When calculating its *fixed overheads requirement* in (1), a *firm* must use the figures resulting from the accounting framework applied in accordance with *COREPRU* 4.3.2R.

(3) This *rule* is subject to *COREPRU* 4.3.5R and *COREPRU* 4.3.7R.

4.3.2 R (1) For the purposes of the calculation in *COREPRU* 4.3.1R, a *firm* must use the figures in its most recent:

(a) audited *annual financial statements*; or

(b) unaudited *annual financial statements*, where audited *annual financial statements* are not available.

(2) If a *firm* has used unaudited *annual financial statements* in accordance with (1)(b) and audited *annual financial statements* subsequently become available, the *firm* must update the calculation in *COREPRU* 4.3.1R using the audited figures.

(3) Where the financial statements in (1) do not cover a 12-*month* period, the *firm* must:

(a) divide the amounts included in those statements by the number of *months* the financial statements cover; and

(b) multiply the result of the calculation in (3)(a) by 12 to produce an equivalent annual amount.

4.3.3 R (1) For the purpose of *COREPRU* 4.3.1R(1), a *firm* must calculate its *relevant expenditure* by:

(a) calculating the *firm's* total expenditure before distribution of profits; and

(b) deducting any of the items in (2) from the total expenditure in (1)(a) to the extent that those items have been included in the expenditure.

(2) The items that a *firm* may deduct from its total expenditure are:

(a) any of the following, if they are fully discretionary:

(i) staff bonuses and other variable *remuneration*;

(ii) *employees'*, *directors'*, *partners'* and *limited liability partnership* members' shares in profits; and

(iii) other appropriations of profits;

(b) shared commission and fees payable that meet all of the following conditions:

(i) they are directly related to commission and fees receivable;

(ii) the commission and fees receivable are included within total revenue; and

(iii) the payment of the commission and fees payable is contingent on receipt of the commission and fees receivable;

(c) non-recurring expenses from non-ordinary activities;

(ca) fees, brokerage and other charges paid to trading venues, intermediate brokers and central counterparties for the purposes of executing, registering and clearing transactions, provided that the fees, brokerage and charges are directly passed on and charged to customers, unless *COREPRU* 4.3.3AR applies;

(cb) 80% of the value of any fees, brokerage and other charges paid to trading venues, intermediate brokers and central counterparties for the purposes of executing, registering and clearing transactions, unless:

(i) the fees, brokerage or other charges have already been deducted under (ca); or

(ii) *COREPRU* 4.3.3AR applies;

(d) taxes where they fall due in relation to the annual profits of the *firm*;

(da) losses from trading in *financial instruments* or *qualifying cryptoassets*;

(e) payments related to contract-based profit and loss transfer agreements according to which the *firm* is obliged to transfer its annual profit to the *parent undertaking* following the preparation of the *firm's annual financial statements*;

(f) other expenses, to the extent that their value has already been reflected in a deduction from *own funds* under *COREPRU* 3; and

(g) (for a *MIFIDPRU investment firm*) any other deductions permissible under *MIFIDPRU* 4.5.3R and *MIFIDPRU* 4.5.4R.

4.3.3A R The deducted amounts in *COREPRU* 4.3.3R(2)(ca) and (cb) must not include fees and other charges necessary to maintain membership of, or otherwise meet loss-sharing financial obligations to, trading venues or central counterparties.

Expenses incurred on behalf of the firm by third parties

4.3.4 R (1) A *firm* must add any fixed expenses that have been incurred on its behalf by a third party to the *firm's* total expenditure for the purposes of *COREPRU* 4.3.3R in accordance with this *rule*.

(2) A *firm* is not required to add fixed expenses which are already included in the figures resulting from *COREPRU* 4.3.3R.

(3) Where a breakdown of the third party's expenses is available, the *firm* must add its share of the third party's expenses.

(4) Where a breakdown of the third party's expenses is not available, the *firm* must:

(a) add its share of the third party's expenses as projected in the *firm's* business plan; or

(b) (if the *firm* does not have a business plan that projects the third party's expenses) reasonably estimate the share of those expenses that are attributable to the *firm's* business and add that estimated share of expenses to the *firm's* total expenditure.

Material change to projected relevant expenditure during the year

4.3.5 R (1) This *rule* applies where:

(a) there is an increase of 30% or more in the *firm's* projected *relevant expenditure* for the current year; or

(b) there would be an increase of £2 million or more in the *firm's fixed overheads requirement* based on projected *relevant expenditure* for the current year.

(2) Where this *rule* applies, a *firm* must:

(a) immediately recalculate its *fixed overheads requirement* by applying the methodology in *COREPRU* 4.3.3R to the projected *relevant expenditure*, taking into account the increase in (1);

(b) immediately substitute the revised *fixed overheads requirement* that results from the calculation in (2)(a) for the *firm's* previous *fixed overheads requirement* under *COREPRU* 4.3.1R(1); and

(c) immediately recalculate its *basic liquid assets requirement* using the revised *fixed overheads requirement* in (2)(b) and substitute the updated amount for its previous *basic liquid assets requirement*.

4.3.6 G (1) Where there is a material increase in the *firm's* projected *relevant expenditure* that triggers the obligation in *COREPRU* 4.3.5R, a *firm* should also consider the potential impact on its ~~*ICARA* process~~ *overall risk assessment* and the conclusions documented in its last ~~*ICARA document*~~ *overall risk assessment document*.

(2) The review in (1) is particularly important if the *firm's own funds requirement* was determined by the *fixed overheads requirement* immediately before the change occurred.

4.3.7 R (1) This *rule* applies where:

(a) there is a decrease of 30% or more in the *firm's* projected *relevant expenditure* for the current year; or

(b) there would be a decrease of £2 million or more in the *firm's fixed overheads requirement* based on projected *relevant expenditure* for the current year.

(2) Where this *rule* applies, a *firm* may:

(a) recalculate its *fixed overheads requirement* by applying the methodology in *COREPRU* 4.3.3R to the projected *relevant expenditure*, taking into account the decrease in (1); and

(b) if it has obtained prior permission from the *FCA*, substitute the revised *fixed overheads requirement* that results from the calculation in (2)(a) for the *firm's* original *fixed overheads requirement*.

(3) To obtain the permission in (2), a *firm* must demonstrate all of the following:

(a) that one of the conditions in (1)(a) or (1)(b) is met and the projected reduction in the *firm's relevant expenditure* is a reasonable projection;

(b) that the *firm* has adequately considered the impact of the reduction on the *firm*'s ~~*ICARA process*~~ *overall risk assessment* and the conclusions documented in the *firm's* last ~~*ICARA document*~~ *overall risk assessment document*; and

(c) that there is a reasonable basis to conclude that, following the reduction in the *firm's fixed overheads requirement*, the *firm* will continue to hold sufficient *own funds* and *liquid assets* to comply with its obligations under the *overall risk assessment*.

4.3.8 G (1) Under *COREPRU* 4.3.1R, a *firm* is required to calculate its *fixed overheads requirement* based on its *relevant expenditure* as set out in its *annual financial statement* for the previous year.

(2) Under *COREPRU* 4.3.5R, if there is a material increase in the *firm's* projected *relevant expenditure* for the current year, the *firm* must recalculate its *fixed overheads requirement* on the basis of the projected increased *relevant expenditure*, taking into account the impact of that change.

(3) However, under *COREPRU* 4.3.7R, if there is a material change that results in a decrease in the *firm's* projected *relevant expenditure* for the current year, the *firm* must obtain permission from the *FCA* before substituting a reduced *fixed overheads requirement* calculated based on the projected decrease.

(4) In many cases, a material change of the type specified in *COREPRU* 4.3.5R(1) or *COREPRU* 4.3.7R(1) would result from planned changes to the *firm's* business. Examples of these changes may include:

(a) starting or ceasing a major business line;

(b) acquiring or disposing of a major business; or

(c) undertaking a significant investment, upgrade or restructuring programme.

(5) A *firm* that is planning to implement a material change to its business should calculate the anticipated impact of that change on its *fixed overheads requirement* (and its broader *own funds requirement*) before executing the relevant change. This should include considering the potential impact on its ~~*ICARA process*~~ *overall risk assessment*.

Firms in business for less than 1 year

4.3.9 R (1) This *rule* applies where a *firm* has been in business for less than 1 year.

(2) For the purposes of the calculation in *COREPRU* 4.3.1R, a *firm* must use the *relevant expenditure* included in its projections for the first 12 *months'* trading, as submitted in its application for *authorisation*.

4.4 Overall K-factor requirement

4.4.1 The *K-factor requirement* is the sum of all the applicable requirements in the following table:

Type of firm	Applicable requirements
A *CRYPTOPRU firm*	The requirements in *CRYPTOPRU* 4.3.1R.
A *MIFIDPRU firm*	The requirements in *MIFIDPRU* 4.6.1R.

4.4.2 G (1) The *sectoral prudential sourcebooks* contain specific *K-factor requirements* for a variety of activities.

(2) A *firm* is only required to consider *K-factor requirements* which are applicable to it. The application of each *K-factor requirement* is explained in the relevant *sectoral prudential sourcebook*.

(3) If a *firm* is subject to multiple *sectoral prudential sourcebooks*, it must sum the applicable *K-factor requirements* from each sourcebook.

5 Concentration risk

5.1 Monitoring obligation

5.1.1 R A *firm* must monitor and control its concentration risk using sound administrative and accounting procedures and robust internal control mechanisms.

5.1.2 G *COREPRU* 5.1.1R requires a *firm* to monitor and control all sources of concentration risk. It includes any concentration risk that may arise from the following:

(1) the location of any assets safeguarded in accordance with the Client Asset sourcebook (*CASS*);

(2) a *firm's* own cash deposits; and

(3) earnings.

6 Basic liquid assets requirement

6.1 Purpose

6.1.1 G This chapter contains *rules* and *guidance* about a *firm's* liquidity. It contains:

(1) a *basic liquid assets requirement* for a *firm* (*COREPRU* 6.2);

(2) *rules* and *guidance* on which assets count as *core liquid assets* for the purposes of the *basic liquid assets requirement* (*COREPRU* 6.3); and

(3) a *rule* excluding double counting of *core liquid assets* (*COREPRU* 6.3.7R).

6.1.2 G A *firm's basic liquid assets requirement* provides a minimum level of *core liquid assets* that the *firm* must maintain at all times. The purpose of the *basic*

liquid assets requirement is to ensure that the *firm* always has a minimum stock of *liquid assets* to fund the initial stages of its wind-down process if wind-down becomes necessary. The *firm* cannot, therefore, use the value of the *core liquid assets* that it holds to meet the *basic liquid assets requirement* as *liquid assets* for any supplementary *sectoral liquidity requirement* or the liquidity needs of its ongoing business.

6.1.3 G A *firm* should also refer to the *rules* and *guidance* on any supplementary *sectoral liquidity requirement* that applies to it.

6.1.4 G The relevant *sectoral prudential sourcebook* may contain requirements relating to a *firm's* systems and controls for identifying, monitoring and reducing liquidity risks that may cause material harm.

6.1.5 G The *basic liquid assets requirement* in this chapter is based on a proportion of a *firm's fixed overheads requirement* and any guarantees provided to *clients*. A *firm* may need to hold more *liquid assets* to comply with its *liquid assets threshold requirement*.

6.2 Basic liquid assets requirement

6.2.1 R A *firm* must hold an amount of *core liquid assets* equal to the sum of:

(1) one third of the amount of its *fixed overheads requirement*; and

(2) 1.6% of the total amount of any guarantees provided to *clients*.

6.2.2 R Where a *firm* calculates a total amount for guarantees under *COREPRU* 6.2.1R(2), it must calculate:

(1) the total value of guarantees that the *firm* has outstanding at the end of each *business day*; or

(2) an average value for the guarantees that the *firm* has had outstanding over an appropriate time period, which must be updated at regular, appropriate intervals.

6.2.3 G (1) *COREPRU* 6.2.2R(2) is intended to allow a *firm* to smooth out its liquidity requirement for guarantees, where the value of its outstanding guarantees fluctuates on a daily basis.

(2) An appropriate time period for calculating and updating this amount is likely to be a period that produces an average value that is representative of the overall liquidity risk arising out of the provision of guarantees to *clients*.

6.3 Core liquid assets

6.3.1 R Subject to *COREPRU* 6.3.3R to *COREPRU* 6.3.5R, a *core liquid asset* means any of the following, when denominated in pound sterling:

(1) coins and banknotes;

(2) short-term deposits at a *UK-authorised credit institution*;

(3) assets representing claims on, or guaranteed by, the UK government or the Bank of England;

(4) units or shares in a *short-term MMF*; and

(5) units or shares in a *third country* fund that is comparable to a *short-term MMF*.

6.3.2 G When assessing whether a *third country* fund is comparable to a *short-term MMF*, a *firm* should consider factors such as:

(1) whether the restrictions on instruments eligible for inclusion in the fund are comparable to the restrictions on instruments in article 10(1) of the *Money Market Funds Regulation*; and

(2) whether the fund is subject to requirements concerning portfolio diversification and risk management which are comparable to the requirements applicable to *short-term MMFs* in the *Money Market Funds Regulation*.

6.3.3 R (1) If a *firm's relevant expenditure* is incurred in a currency other than pound sterling, the *firm* may also treat the following assets as *liquid assets*, when denominated in that currency:

(a) coins and banknotes;

(b) short-term deposits at a *credit institution*;

(c) assets representing claims on, or guaranteed by, a central bank or government in a *third country*;

(d) units or shares in a *short-term MMF*; and

(e) units or shares in a *third country* fund that is comparable to a *short-term MMF*.

(2) The proportion of *core liquid assets* denominated in any currency other than pound sterling that a *firm* can rely upon to meet its *basic liquid assets requirement* must be no greater than:

(a) for the requirement in *COREPRU* 6.2.1R(1), the proportion of *relevant expenditure* incurred in that currency; and

(b) for the requirement in *COREPRU* 6.2.1R(2), the proportion of *guarantees* provided in that currency.

(3) This *rule* is subject to *COREPRU* 6.3.5R.

6.3.4 G The effect of *COREPRU* 6.3.3R(2) is illustrated by the following example:

(1) A *firm* has *relevant expenditure* with a value of £1,200,000, of which:

(a) 20%, equivalent to £240,000, is incurred in US dollars (USD); and

(b) 5%, equivalent to £60,000, is incurred in Swiss francs (CHF).

(2) In addition, the *firm* has provided total guarantees to *clients* with a value of £10,000,000, of which 50%, equivalent to £5,000,000, is denominated in USD.

(3) The *firm's fixed overheads requirement* (one quarter of its *relevant expenditure* calculated in accordance with *COREPRU* 4.3) is £300,000.

(4) Under *COREPRU* 6.2.1R, the *firm's basic liquid assets requirement* is £260,000, which reflects:

(a) £100,000 in respect of the requirement in *COREPRU* 6.2.1R(1) (one third of the amount of its *fixed overheads requirement*); and

(b) £160,000 in respect of the requirement in *COREPRU* 6.2.1R(2) (1.6% of the total amount of any guarantees provided to *clients*).

(5) To meet its requirement in *COREPRU* 6.2.1R, a *firm* may choose to use *liquid assets* listed in *COREPRU* 6.3.3R denominated in a currency other than pound sterling, up to a maximum equivalent to £105,000 in accordance with *COREPRU* 6.3.3R(2), as follows:

(a) for the requirement in *COREPRU* 6.2.1R(1), up to the equivalent of:

(i) £20,000 may be held in USD denominated *liquid assets* (20% of 100,000 = 20,000); and

(ii) £5,000 may be held in CHF denominated *liquid assets* (5% of 100,000 = 5,000); and

(b) for the requirement in *COREPRU* 6.2.1R(2), up to the equivalent of £80,000 (50% of 160,000 = 80,000) may be held in USD denominated *liquid assets*.

6.3.5 R A *firm* must not treat any of the following as a *core liquid asset*:

(1) any asset that belongs to a *client*; and

(2) any other asset that is encumbered.

6.3.6 G (1) For the purposes of *COREPRU* 6.3.5R(1), an asset may belong to a *client* even if the asset is held in the *firm's* own name. Examples of assets belonging to a *client* include money or other assets held under the *FCA's client asset rules*.

(2) For the purposes of *COREPRU* 6.3.5R(2), an asset may be encumbered if it is pledged as security or collateral, or subject to some other legal restriction (for example, due to regulatory or contractual requirements) which affects the *firm's* ability to liquidate, sell, transfer or assign the asset.

Requirement to exclude double counting of core liquid assets

6.3.7 R A *firm* must not use the same *core liquid assets* to meet the *basic liquid assets requirement* in *COREPRU* 6.2.1R and any supplementary *sectoral liquidity requirement*.

Interaction between COREPRU and MIFIDPRU

6.3.8 G Where a *firm* is subject to the Core Prudential Sourcebook (*COREPRU*) and the Prudential Sourcebook for MiFID Investment Firms (*MIFIDPRU*), a *firm* can use the same *core liquid assets* to meet the *basic liquid assets requirement* in *COREPRU* 6.2.1R and *MIFIDPRU* 6.2.1R.

Insert the following new chapters, COREPRU 7 and COREPRU 8, after COREPRU 6 (Basic liquid assets requirement). All the text is new and is not underlined.

7 Overall risk assessment

7.1 Overall risk assessment

Application

7.1.1 R *COREPRU* 7 (Overall risk assessment) does not apply to a *firm* that is both a *CRYPTOPRU firm* and a *MIFIDPRU investment firm*.

7.1.2 G The effect of *COREPRU* 7.1.1R is that, where a *firm* is both a *CRYPTOPRU firm* and a *MIFIDPRU investment firm*, only the requirements in *MIFIDPRU* 7 (Governance and risk management) apply.

Purpose

7.1.3 G The overall purpose of *COREPRU* 7 is to ensure that a *firm*:

(1) has appropriate systems and controls in place identify, monitor and, if proportionate, reduce all risks from the ongoing operation or winding down of the *firm's* business that may cause material harm; and

(2) holds financial resources that are adequate for the business it undertakes.

7.1.4 G (1) *COREPRU* 7 contain *rules* and *guidance* which supplement:

(a) the appropriate resources *threshold condition* in Schedule 6 to the *Act*, under which a *firm* must have appropriate resources in relation to the *regulated activities* that it carries on;

(b) *Principle* 3 (Management and control), under which a *firm* must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems;

(c) *Principle* 4 (Financial prudence), under which a *firm* must maintain adequate financial resources; and

(d) the systems and controls requirements in *SYSC*, in particular *SYSC* 4.1.1R, under which a *firm* must have robust governance arrangements, which include effective processes to identify, manage, monitor and report the risks it is or might be exposed to, and internal control mechanisms.

(2) The requirement for a *firm* to carry out an *overall risk assessment* is the articulation of the requirements in (1).

7.1.5 G This chapter builds on the requirements in *COREPRU* 7.1.4G and explains how a *firm* applies them to carry out its *overall risk assessment*.

7.1.6 G The *rules* and *guidance* in *COREPRU* 7 also build on the *FCA's* general approach to assessing the adequacy of financial resources, as explained in Finalised Guidance, FG20/1 (Our framework: assessing adequate financial resources). *Firms* should refer to that *guidance* when considering their obligations under *COREPRU* 7.

7.1.7 G A *firm* should also refer to the *rules* and *guidance* on any supplementary requirements on the *overall risk assessment* in the *sectoral prudential sourcebooks* (as applicable).

7.2 Overall risk assessment

Overall risk assessment: baseline requirement

7.2.1 R (1) Reflecting the requirement in *SYSC* 4.1.1R, a *firm* must have in place appropriate systems and controls to identify, monitor and, if proportionate, reduce all risks from the ongoing operation or winding down of the *firm's* business that may cause material harm:

(a) to the *firm's clients* and counterparties; or

(b) to the markets in which the *firm* operates.

(2) If any risks that may cause material harm remain after a *firm* has implemented the systems and controls in (1), the *firm* must assess whether to hold *own funds* or *liquid assets* to mitigate those risks.

(3) The requirements in this *rule* apply to a *firm's* entire business, including:

(a) all *regulated activities*; and

(b) any *unregulated activities*.

(4) The systems, controls and procedures operated by a *firm* to comply with the requirements in this *rule* are known as the *overall risk assessment*.

7.2.2 R A *firm's overall risk assessment* must be proportionate to the nature, scale and complexity of the business carried on by the *firm*.

7.2.3 G (1) A *firm's overall risk assessment* is the collective term for the internal systems and controls that a *firm* must operate on an ongoing basis to identify, monitor and, if proportionate, reduce all risks from the ongoing operation or winding down of the *firm's* business that may cause material harm.

(2) As part of its *overall risk assessment*, a *firm* should consider what proportionate measures it can take to reduce risks that may cause material harm. The nature of such measures will vary depending on the *firm's* business and operating model. Examples may include implementing additional internal systems and controls, strengthening governance and oversight processes or changing how the firm conducts certain business. A *firm* will need to form a judgement about what is proportionate for its particular circumstances. That judgement will be informed by the *firm's* risk appetite.

(3) A *firm* must assess whether it should hold *own funds* or *liquid assets* to mitigate risks that may cause material harm that it has identified under its *overall risk assessment*. This may be the case where the *firm* cannot identify other proportionate measures to mitigate risks that may cause material harm, or where it has applied these measures, but a residual risk of material harm remains. Any assessment must be realistic and based on severe but plausible assumptions.

(4) A *firm* should therefore use its *overall risk assessment* to ensure it complies with the *overall financial adequacy rule*.

Overall financial adequacy rule

7.2.4 G *COREPRU* 2.3 sets out the *overall financial adequacy rule*, which is the standard that the *FCA* applies to determine whether a *firm* has adequate financial resources.

Calculating the own funds threshold requirement and liquid assets threshold requirement

7.2.5 R (1) Subject to (2) and (3), a *firm* must use the assessment in *COREPRU* 7.2.1R(2) to calculate:

(a) its *own funds threshold requirement*; and

(b) its *liquid assets threshold requirement*,

to comply with the *overall financial adequacy rule*.

(2) The amount of the *own funds threshold requirement* is the higher of:

(a) the *firm's own funds requirement*; and

(b) the amount of *own funds* resulting from the *firm's overall risk assessment*.

(3) The amount of the *liquid assets threshold requirement* cannot be lower than the sum of:

(a) the *firm's basic liquid assets requirement*; and

(b) any applicable *sectoral liquidity requirement*.

7.2.6 G *COREPRU* 7.2.5R complements the requirement in *COREPRU* 7.2.1R on the *overall risk assessment* by setting how the *firm* determines the amount of *own funds* and *liquid assets* that it needs to hold to comply with the *overall financial adequacy rule*. The resulting *own funds threshold requirement* cannot be lower than the *firm's own funds requirement*. The resulting *liquid assets threshold requirement* cannot be lower than the sum of the *firm's basic liquid assets requirement* and any *sectoral liquidity requirement*.

7.2.7 G A *firm* should also refer to any supplementary *rules* and *guidance* on the *overall risk assessment* in any applicable *sectoral prudential sourcebook*.

Reviewing and documenting a firm's overall risk assessment

7.2.8 R A *firm* must:

(1) carry out its *overall risk assessment* on an ongoing basis; and

(2) review the adequacy of its *overall risk assessment*:

(a) at least once every 12 *months*; and

(b) irrespective of any review carried out under (a), following any material change in the *firm's* business model or operating model.

7.2.9 R (1) A *firm* must:

(a) document any review carried out under *COREPRU* 7.2.8R(2);

(b) keep adequate records of its *overall risk assessment*; and

(c) retain the record in (2) for at least 3 years from the date on which the relevant document was approved.

(2) The documentation and records produced by the *firm* to comply with (1) are referred to as the *overall risk assessment document*.

Embedding the overall risk assessment

7.2.10 R A *firm* must embed the *overall risk assessment* within the *firm's* business model and strategic decision making.

8 Disclosure

8.1 Purpose

8.1.1 G (1) *COREPRU* 8 does not contain *rules* and *guidance* on disclosure.

(2) However, a *firm* may be subject to disclosure requirements in a *sectoral prudential sourcebook*.

Amend the following as shown.

Sch 1 Record keeping requirements

Sch 1.1 G (1) ~~There are no record keeping requirements in *COREPRU*.~~ The aim of the *guidance* in the following table is to provide an overview of the relevant record keeping requirements in *COREPRU*.

(2) ~~*Firms* are reminded of the general record keeping obligations that apply under *SYSC* 9 (Record keeping).~~ It is not a complete statement of those requirements and should not be relied on as if it were.

Handbook reference	Subject of record	Content of record	Trigger events	Time allowed
COREPRU 7.2.9R	*Overall risk assessment document*	The *firm's overall risk assessment document*	At the time that the *overall risk assessment document* is approved by the *firm*	3 years from the date on which the *overall risk assessment document* is approved by the *firm*

Sch 2 Notification requirements

Sch 2.1 G (1) The aim of the *guidance* in the following table is to provide an overview of the relevant notification requirements in *COREPRU*.

(2) It is not a complete statement of those requirements and should not be relied on as if it were.

Handbook reference	Subject of notification	Trigger events	Time allowed
COREPRU 3.3.3R(1)	Notification of subsequent issuance of capital instruments qualifying as *common equity tier 1 instruments*	Proposed issuance of capital instruments of an existing class of *common equity tier 1 instruments*	No fewer than 20 *business days* before the issuance
COREPRU 3.3.17R(4)	Notification of inclusion of interim profits or year-end profits in the *firm's common equity tier 1 capital* where the conditions in *COREPRU* 3.3.17R are met	Inclusion of the interim profits or year-end profits in the *firm's common equity tier 1 capital* where the conditions in *COREPRU* 3.3.17R are met	Prompt notification
COREPRU 3.6.6R	Notification of proposed *reduction of capital* where the conditions in *COREPRU* 3.6.6R(2) are met	Proposed *reduction of capital* where the conditions in *COREPRU* 3.6.6R(2) are met	No later than the 20th *business day* before the *day* on which the *reduction of capital* will occur
COREPRU 3.6.8R	Notification of proposed issuance of *additional tier 1 instruments* or *tier 2 instruments*	Proposed issuance of *additional tier 1 instruments* or *tier 2 instruments*	At least 20 *business days* before the intended issuance date

Sch 3 Fees and other payment requirements

Sch 3.1 G *COREPRU* does not contain any *rules* that directly impose fees or other payments.

Sch 4 Rights of action for damages

Sch 4.1 G (1) The table below sets out the *rules* in *COREPRU*, contravention of which by an *authorised person* may be actionable under section 138D of the *Act*

(Actions for damages) by a *person* who suffers loss a result of the contravention.

(2) If 'Yes' appears in the column headed 'For private person', the *rule* may be actionable by a *private person* under section 138D (or, in certain circumstances, that *person's* fiduciary or representative: see regulation 6(2) and 6(3)(c) of the Financial Services and Markets Act 2000 (Rights of Action) Regulations 2001 (SI 2001/2256)). If 'Yes' appears in the column headed 'Removed', this indicates that the *FCA* has removed the right of action under section 138D(3) of the *Act*. If so, a reference to the *rule* in which the right of action is removed is also given.

(3) The column headed 'For other person' indicates whether the *rule* may be actionable by a *person* other than a *private person* (or that *person's* fiduciary or representative) under article 6(2) and (3) of those Regulations. If so, an indication of the type of *person* by whom the *rule* may be actionable is given.

Chapter/Appendix	**Rights of action under section 138D of the Act**		
	For private person	**Removed**	**For other person**
All *rules* in *COREPRU*	No	Yes – *COREPRU* 1.3.1R	No

Sch 5 Rules that can be waived or modified

Sch 5.1 G The *rules* in *COREPRU* may be waived or modified by the *FCA* under section 138A of the *Act* (Modification or waiver of rules) where the conditions in that section are met.

Annex C

Amendments to the Prudential sourcebook for CRYPTOPRU firms (CRYPTOPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

[*Editor's note*: the provisions set out in CP25/15 that are not proposed to be amended are reproduced in full for convenience.]

1 Application

1.1 Application and purpose

Application

1.1.1 G Each chapter of *CRYPTOPRU* explains which *CRYPTOPRU firms* it applies to.

Purpose

1.1.2 G The purpose of *CRYPTOPRU* is to set out sectoral prudential requirements for *CRYPTOPRU firms*.

1.1.3 G *CRYPTOPRU* supplements the core requirements in *COREPRU* and should be read in conjunction with the prudential requirements set out there.

1.1.4 G Generally, the *rules* in *CRYPTOPRU* are intended to cover the *CRYPTOPRU activities* undertaken by a *CRYPTOPRU firm*, but certain requirements apply to a *firm* as a whole.

1.1.5 G The requirements in *CRYPTOPRU* expand upon the basic requirements under the appropriate resources *threshold condition* (referred to in *COND* 2.4) and the requirement in *Principle* 4 for a *firm* to maintain adequate financial resources.

1.2 Actions for damages

1.2.1 R A contravention of any *rule* in *CRYPTOPRU* does not give rise to a right of action by a *private person* under section 138D of the *Act* (and each of those *rules* is specified under section 138D(3) of the *Act* as a provision giving rise to no such right of action).

2 Overall financial adequacy for CRYPTOPRU firms

2.1 Guidance

2.1.1 G *CRYPTOPRU firms* are required to comply with the requirements on overall financial adequacy that are set out in *COREPRU* 2. There are no sectoral *rules* on overall financial adequacy for these *firms*.

3 Own funds for CRYPTOPRU firms

3.1 Guidance

3.1.1 G *CRYPTOPRU firms* are required to comply with the requirements on *own funds* that are set out in *COREPRU* 3. There are no sectoral *rules* on *own funds* for these *firms*.

4 Sectoral own funds requirement for CRYPTOPRU firms

4.1 Application

4.1.1 R This chapter applies to a *CRYPTOPRU firm*.

4.2 Permanent minimum requirement

4.2.1 R The *permanent minimum capital requirement* is the highest of the applicable requirements in the following table:

Category of firm	Permanent minimum requirement
A *firm* with permission for *dealing in qualifying cryptoassets as principal*	£750,000
A *firm* with *permission* for *issuing qualifying stablecoins*	£350,000
A *firm* with *permission* for ~~*safeguarding qualifying cryptoassets*~~ *safeguarding qualifying cryptoassets and relevant specified investment cryptoassets*	£150,000
A *firm* with permission for *arranging qualifying cryptoasset staking*	£150,000
A *firm* with permission for *operating a qualifying CATP*	£150,000
A *firm* with permission for *dealing in qualifying cryptoassets as agent*	£75,000
A *firm* with permission for *arranging deals in qualifying cryptoassets*	£75,000

4.3 CRYPTOPRU K-factor requirement

4.3.1 R The *K-factor requirements* in *CRYPTOPRU* are:

(1) the ~~*K-QCS requirement*~~ *K-SII requirement*; ~~and~~

(2) the ~~*K-SII requirement.*~~ *K-QCS requirement*;

(3) the *K-CCS requirement*;

(4) the *K-CCO requirement*;

(5) the *K-CTF requirement*;

(6) the *K-NCP requirement*;

(7) the *K-CCD requirement*; and

(8) the *K-CON requirement*.

[*Editor's note*: the section entitled 'K-factor requirement for stablecoins in issuance (K-SII)' was consulted on in CP25/15 under CRYPTOPRU 4.5. It has now been moved to CRYPTOPRU 4.4. Changes to the text proposed in CP25/15 are shown using underlining and striking through.]

[*Editor's note*: this section takes into account the proposal for the definition of 'burning' in CP25/14 (Stablecoin Issuance and Cryptoasset Custody) as if it were final.]

~~4.5~~ 4.4 K-factor requirement for stablecoins in issuance (K-SII)

~~4.5.1~~ 4.4.1 R The *K-SII requirement* of a *firm* that is *issuing qualifying stablecoins* is equal to 2% of its *average SII*.

~~4.5.2~~ 4.4.2 R A *firm* must calculate its *K-SII requirement*:

(1) on the first *business day* on which *CRYPTOPRU* applies to the *firm*; and

(2) thereafter, on the first *business day* of each *month*.

Calculating SII

~~4.5.3~~ 4.4.3 R A *firm* must calculate its *average SII* by:

(1) taking the total *SII* as measured at the end of each *business day* for the previous 9 *months*;

(2) excluding the values for the most recent 3 *months*; and

(3) calculating the arithmetic mean of the daily values for the remaining 6 *months*.

~~4.5.4~~ ~~R~~ ~~(1) When measuring the value of *SII* for a particular *business day*, a *firm* must convert any amounts in foreign currencies into the *firm's* functional currency.~~

~~(2) For the purposes of the currency conversion in (1), a *firm* must:~~

~~(a) determine the conversion rate by reference to an appropriate market rate; and~~

~~(b) record the rate used.~~

~~4.5.5 G (1) *CRYPTOPRU* 4.4.4R(1) addresses the situation where a *firm* issues a *qualifying stablecoin products* that references a fiat currency other than its functional currency.~~

~~(2) It does so by requiring the *firm* to convert its *SII* for each such stablecoin into sterling before calculating its *average SII*.~~

~~(3) The relevant daily spot exchange rate against sterling that the Bank of England publishes is an example of an appropriate market rate which a *firm* for could use the purpose of this currency conversion.~~

~~4.5.6~~ 4.4.4 G (1) As the definition of *SII* includes any *qualifying stablecoin* that the *qualifying stablecoin issuer* is liable to redeem, this:

(a) includes *qualifying stablecoins* that were *minted* at any time, including before *CRYPTOPRU* came into force;

(b) includes *qualifying stablecoins* that have been *minted* by a *person* other than the *qualifying stablecoin issuer* (which could include *qualifying stablecoins minted* outside the *UK*) if they are fungible with the relevant *qualifying stablecoins*; but

(c) excludes *qualifying stablecoins* that have been *burned*.

(2) The definition of *SII* excludes *qualifying stablecoins* the value of which have been deducted from the *qualifying stablecoin issuer's own funds*, in accordance with *COREPRU* 3.3.36R. Such *qualifying stablecoins* will not therefore be included in the calculation of *average SII*.

Firms with less than 9 months of data on SII

~~4.5.7~~ 4.4.5 R Where a *firm* has been *issuing qualifying stablecoins* for less than 9 *months*, it must calculate its *average SII* as follows:

(1) during the first *month* in which it is *issuing qualifying stablecoins*, the *firm* must:

(a) make a best efforts estimate of expected *SII* for that *month*; and

(b) use that estimate as its *average SII*; and

(2) during the subsequent 8 *months*, the *firm's average SII* must be calculated in accordance with ~~*CRYPTOPRU* 4.6.1R(2)~~ *CRYPTOPRU* 4.11.1R(2).

[*Editor's note*: the section entitled 'K-factor requirement for qualifying cryptoassets that are safeguarded (K-QCS)' was consulted on in CP25/15 under CRYPTOPRU 4.4. It has now been moved to CRYPTOPRU 4.5. Changes to the text proposed in CP25/15 are shown using underlining and striking through.]

~~4.4~~ 4.5 K-factor requirement for qualifying cryptoassets that are safeguarded (K-QCS)

~~4.4.1~~ 4.5.1 R The *K-QCS requirement* of a *firm* that is ~~*safeguarding qualifying cryptoassets*~~ *safeguarding qualifying cryptoassets and relevant specified investment cryptoassets* is equal to 0.04% of its *average QCS*.

~~4.4.2~~ 4.5.2 G (1) The definition of *QCS* only includes the *qualifying cryptoassets* and relevant *specified investment cryptoassets* that a *firm* is safeguarding. Any other *qualifying cryptoassets* and relevant *specified investment cryptoassets* do not therefore need to be included in a *firm's* calculation of the *K-QCS requirement* (except to the extent that *CRYPTOPRU* 4.5.3R applies).

(2) ~~A *firm* should still consider any potential material harms that may arise in connection with those *qualifying cryptoassets*, as part of its *ICARA process.*~~ As part of its overall risk assessment, a *firm* should also consider risks arising from amounts it may be obliged to return to a *client*, but that are not treated as *qualifying cryptoassets* and relevant *specified investment cryptoassets* for the purposes of *CASS* 17. An example would be obligations to a *client* under a *title transfer collateral arrangement*.

4.5.3 R Where a *firm* is subject to both *CRYPTOPRU* and *MIFIDPRU*, it is not required to include in the calculation of *K-QCS* relevant *specified investments cryptoassets* already captured in the *K-ASA requirement*.

~~4.4.3~~ 4.5.4 R If a *firm* is unsure whether *qualifying cryptoassets* and relevant *specified investment cryptoassets* are held in the course of ~~*safeguarding qualifying cryptoassets*~~ *safeguarding qualifying cryptoassets and relevant specified investment cryptoassets*, it must treat those *qualifying cryptoassets* and relevant *specified investment cryptoassets* as held in the course of ~~*safeguarding qualifying cryptoassets*~~ *safeguarding qualifying cryptoassets and relevant specified investment cryptoassets* for the purposes of calculating *K-QCS*.

Calculating QCS

~~4.4.4~~ 4.5.5 R A *firm* must calculate its *K-QCS requirement*:

(1) on the first *business day* on which *CRYPTOPRU* applies to the *firm*; and

(2) thereafter, on the first *business day* of each *month*.

~~4.4.5~~ 4.5.6 R A *firm* must calculate its *average QCS* by:

(1) taking the total *QCS* as measured at the end of each *business day* for the previous 9 *months*;

(2) excluding the values for the most recent 3 *months*; and

(3) calculating the arithmetic mean of the daily values for the remaining 6 *months*.

~~4.4.6~~ 4.5.7 R A *firm* must include the value of the relevant *qualifying cryptoassets* and relevant *specified investment cryptoassets* in its measurement of *QCS* in both of the following situations:

(1) the *firm* has appointed a third party to carry out the activity of ~~*safeguarding qualifying cryptoassets*~~ *safeguarding qualifying cryptoassets and relevant specified investment cryptoassets* which the *firm* has undertaken to its *client* to safeguard; or

(2) a third party has appointed the *firm* to carry out the activity of ~~*safeguarding qualifying cryptoassets*~~ *safeguarding qualifying cryptoassets and relevant specified investment cryptoassets*.

~~4.4.7~~ 4.5.8 G The effect of ~~*CRYPTOPRU* 4.4.6R~~ *CRYPTOPRU* 4.5.7R is that a *firm* will not reduce its level of *QCS* by appointing a third party to carry out the activity of ~~*safeguarding qualifying cryptoassets*~~ *safeguarding qualifying cryptoassets and relevant specified investment cryptoassets*. However, a *firm* will increase the level of its *QCS* by accepting the appointment from a third party to carry out the activity of ~~*safeguarding qualifying cryptoassets*~~ *safeguarding qualifying cryptoassets and relevant specified investment cryptoassets*. This reflects the harm that may result from a breach of the *firm's* direct safeguarding responsibilities or the *firm's* responsibilities in relation to the selection, appointment and periodic review of any third party which the *firm* has appointed to carry out the activity of ~~*safeguarding qualifying cryptoassets*~~ *safeguarding qualifying cryptoassets and relevant specified investment cryptoassets*.

~~4.4.8 R When measuring *QCS*, a *firm* must:~~

~~(1) use the market value of the *qualifying cryptoassets*; or~~

~~(2) where a market value is not available for a *qualifying cryptoasset*, use an alternative measure of fair value, which may include an estimated value calculated on a best-efforts basis.~~

~~4.4.9~~ ~~G~~ ~~The values used by a *firm* under *CRYPTOPRU* 4.5.8R should be consistent with the information on *qualifying cryptoassets* in any relevant regulatory data reported by the *firm* to the *FCA*, and in any internal or external reconciliations and records maintained in accordance with *CASS* 17.5 (Records of qualifying cryptoassets and reconciliations) unless a *rule* or relevant *guidance* requires the *firm* to take a different approach.~~

Firms with less than 9 months of data on QCS

~~4.4.10~~ 4.5.9 R Where a *firm* has been ~~*safeguarding qualifying cryptoassets*~~ *safeguarding qualifying cryptoassets and relevant specified investment cryptoassets* for less than 9 *months*, it must calculate its *average QCS* as follows:

(1) During the first *month* in which it is ~~*safeguarding qualifying cryptoassets*~~ *safeguarding qualifying cryptoassets and relevant specified investment cryptoassets*, the *firm* must:

(a) make a best-efforts estimate of expected *QCS* for that *month*; and

(b) use that estimate as its *average QCS*.

(2) During the subsequent 8 *months*, the *firm's average QCS* must be calculated in accordance with ~~*CRYPTOPRU* 4.6.1R(2)~~ *CRYPTOPRU* 4.11.1R(2).

[*Editor's note*: the section entitled 'Modified calculation for CRYPTOPRU firms performing CRYPTOPRU activities for less than 9 months' was consulted on in CP25/15 under CRYPTOPRU 4.6. It has now been moved to CRYPTOPRU 4.11.]

Insert the following new sections, CRYPTOPRU 4.6, CRYPTOPRU 4.7, CRYPTOPRU 4.8, CRYPTOPRU 4.9 and CRYPTOPRU 4.10, after CRYPTOPRU 4.5 (K-factor requirement for qualifying cryptoassets that are safeguarded (K-QCS). All the text is new and is not underlined.

4.6 K-factor requirement for client cryptoassets staked (K-CCS)

4.6.1 R The *K-CCS requirement* of a *firm* that is *arranging qualifying cryptoasset staking* is equal to 0.04% of its *average CCS*.

4.6.2 R A *firm* is not required to include in its measurement of *CCS* any *qualifying cryptoassets* already included in its calculation of *K-QCS*.

4.6.3 G In some cases, *firms* may be simultaneously *arranging qualifying cryptoassets staking* and *safeguarding qualifying cryptoassets and relevant specified investment cryptoassets* in relation to the same *qualifying cryptoassets*. In those situations, we expect *firms* to apply the rule in *CRYPTOPRU* 4.6.2R and not include the relevant *qualifying cryptoassets* in the measurement of *CCS*. As a consequence, the risks inherent to *qualifying cryptoasset staking* would not be considered as part of *K-CCS* or *K-QCS*.

Therefore, the *firm's overall risk assessment* should consider any potential material risks that may arise in connection with *arranging qualifying cryptoassets staking* that are not captured in the definition of *CCS* and *QCS*.

4.6.4 G Where a *firm* is *arranging qualifying cryptoasset staking* in its own name (as *principal*), but on behalf of a *client*, it should include the relevant *qualifying cryptoassets* within the *firm's* measurement of *CCS* under *CRYPTOPRU* 4.6.1R.

4.6.5 R The definition of *arranging qualifying cryptoasset staking* includes both arrangements for *qualifying cryptoasset staking* as *principal* and as agent. Where the *firm* makes arrangements for *qualifying cryptoasset staking* as *principal* but it is unclear about whether such arrangement is for the *firm*'s own benefit or the *client's*, it must include those *qualifying cryptoassets* in the calculation of its *K-CCS* until it is satisfied that it is not *arranging qualifying cryptoassets staking*.

Calculating CCS

4.6.6 R A *firm* must calculate its *K-CCS requirement*:

(1) on the first *business day* on which *CRYPTOPRU* applies to the *firm*; and

(2) thereafter, on the first *business day* of each *month*.

4.6.7 R A *firm* must calculate its *average CCS* by:

(1) taking the total *CCS* as measured at the end of each *business day* for the previous 9 *months*;

(2) excluding the values for the most recent 3 *months*; and

(3) calculating the arithmetic mean of the daily values for the remaining 6 *months*.

4.6.8 R A *firm* must include *client cryptoassets staked* in its measurement of *CCS* in both of the following situations:

(1) the *firm* has appointed a third party to carry out *arranging qualifying cryptoasset staking* which the *firm* has undertaken to its *client* to carry out; or

(2) a third party has appointed the *firm* to carry out *arranging qualifying cryptoasset staking*.

4.6.9 G The effect of *CRYPTOPRU* 4.6.8R is that a *firm* will not reduce its level of *CCS* by appointing a third party to carry out *arranging qualifying cryptoassets staking*. However, a *firm* will increase the level of its *CCS* by accepting the appointment from a third party to carry out *arranging qualifying cryptoassets staking*. This reflects the harm that may result from a breach of the *firm's* direct responsibilities for *arranging qualifying*

cryptoassets staking or the *firm's* responsibilities in relation to the selection, appointment and periodic review of any third party which the *firm* has appointed to carry out *arranging qualifying cryptoassets staking*.

Firms with less than 9 months of data on CCS

4.6.10 R Where a *firm* has been *arranging qualifying cryptoassets staking* for less than 9 *months*, it must calculate its *average CCS* as follows:

(1) During the first *month* in which it is *arranging qualifying cryptoassets staking*, the *firm* must:

(a) make a best-efforts estimate of expected *CCS* for that *month*; and

(b) use that estimate as its *average CCS*.

(2) During the subsequent 8 *months*, the *firm's average CCS* must be calculated in accordance with *CRYPTOPRU* 4.11.1R(2).

4.7 K-factor requirement for cryptoasset client orders (K-CCO)

4.7.1 R The *K-CCO requirement* of a *CRYPTOPRU firm* is equal to 0.1% of its *average CCO*.

4.7.2 G The definition of *CCO* includes *cryptoasset orders* that a *firm* handles when carrying on:

(1) reception and transmission of *cryptoasset orders*; and

(2) *execution of orders on behalf of clients*.

4.7.3 R A *firm* is not required to include a *cryptoasset order* executed by a *firm* in its own name (including where the *firm* executes an order in its own name on behalf of a *client*) in its measurement of *CCO*.

Execution of cryptoasset orders in the firm's own name

4.7.4 G Where a *firm* executes a *cryptoasset order* in its own name (irrespective of whether the order is ultimately for the benefit of a *client*), the order is included within the *firm's* measurement of its *CTF* under *CRYPTOPRU* 4.8 (*K-CTF requirement*) and not within its measurement of *CCO* under this section.

Introduction to an authorised person

4.7.5 G Arrangements that are solely arrangements under which *persons* will be introduced to an *authorised person* authorised to carry on a *regulated activity* specified in chapter 2B of the *Regulated Activities Order* do not need to be included in the measurement of *CCO*.

Arrangements which do not bring about transactions

4.7.6 G Arrangements which do not, or would not, bring about the transaction to which the arrangements relate do not need to be included in the measurement of *CCO*.

4.7.7 G The basic definition of *CCO* includes both:

(1) *cryptoasset orders* that the *firm* executes when providing execution services for a *client*; and

(2) *cryptoasset orders* that the *firm* has received from a *client* and transmitted to another entity for execution.

Calculating CCO

4.7.8 R A *firm* must calculate its *K-CCO requirement*:

(1) on the first *business day* on which *CRYPTOPRU* applies to the *firm*; and

(2) thereafter, on the first *business day* of each *month*.

4.7.9 R A *firm* must calculate the amount of its *average CCO* by:

(1) taking the total *CCO* as measured throughout each *business day* over the previous 9 *months*;

(2) excluding the daily values for the most recent 6 *months*; and

(3) calculating the arithmetic mean of the daily values of the remaining 6 *months*.

4.7.10 R (1) When measuring its *CCO*, a *firm* must use the sum of the absolute value of each buy order and sell order.

(2) The value in (1) is the amount paid or received on the order at the time at which it is executed, unless the *firm* has applied the approach in *CYRPTOPRU* 4.7.12R.

(3) A *firm* may calculate the value of a *cryptoasset order* by deducting any transaction costs to reflect the consideration received or paid by the *client* for the relevant *cryptoasset order*, provided that the transaction costs are not paid separately to the *firm* by the *client*.

4.7.11 G (1) Under the general approach in *CRYPTOPRU* 4.7.10R(2), a *firm* determines the gross value of an order by multiplying the market price of the *qualifying cryptoasset* by the quantity of the *qualifying cryptoasset* being purchased or sold.

(2) However, *CRYPTOPRU* 4.7.10R(3) permits (but does not require) a *firm* to calculate the value of a *cryptoasset order* by reference to the consideration paid or received by the *client* for the *cryptoasset order* (ie, net of transaction costs), provided that the transaction costs are

included in the gross value of the order and are not paid by the *client* to the *firm* separately.

(3) For example, Firm A executes a *cryptoasset order* on behalf of a *client*. The total cost, including transaction costs, is £100. The *client* receives *qualifying cryptoassets* worth £88, after Firm A uses £12 to cover transaction costs. Under the standard approach in *CRYPTOPRU* 4.7.10R(2), Firm A may record the value of the *cryptoasset order* in its *CCO* as £100 (ie, the gross cost of the order). The *firm* may, for example, choose this approach for reasons of simplicity and administrative convenience.

(4) Alternatively, in the example above, the *firm* may apply the approach under *CRYPTOPRU* 4.7.10R(3) to record the value of the *cryptoasset order* in its *CCO* as £88 (ie, net of transaction costs paid by the *client* in relation to the transaction).

(5) However, a *firm* cannot rely on *CRYPTOPRU* 4.7.10R(3) to reduce the value of a *cryptoasset order* by transaction costs that are paid separately by the *client* to the *firm*. For example, Firm B executes a *cryptoasset order* to buy 100 *qualifying cryptoassets*. The total cost of the *cryptoasset order* is £100. The *client* additionally pays £12 to Firm B for transaction costs. In this case, Firm B must record the net value of the *cryptoasset order* under *CRYPTOPRU* 4.7.10R(2) in its *CCO* as £100 (and not £88), as the transaction costs have been paid separately.

4.7.12 R (1) By way of derogation from *CRYPTOPRU* 4.7.10R(2), a *firm* that receives and transmits an order that is a *cryptoasset order* may apply the approach in this *rule* to determine the value of that order for the purposes of measuring *CCO*.

(2) Where a *firm* applies the approach in this *rule*, the value of the *cryptoasset order* is determined by reference to:

(a) for an order which specifies a fixed price or limit price at which the order should be executed, that price; or

(b) for an order which does not specify a price, the market price of the relevant order at the end of the day on which the order is transmitted by the *firm*.

(3) A *firm* that applies the approach in this *rule* must apply it either:

(a) in relation to all *cryptoasset orders* that the *firm* receives and transmits; or

(b) only in relation to *cryptoasset orders* that the *firm* receives and transmits where it does not receive timely information from the executing entity about the terms on which the order was executed.

(4) A *firm* that applies the approach in this *rule* must document which basis in (3) applies.

Firms with less than 9 months of data on CCO

4.7.13 R Where a *firm* has been handling *cryptoassets orders* constituting *CCO* for less than 9 *months*, it must calculate its average under *CRYPTOPRU* 4.7.9R as follows:

(1) During the first *month* in which it is handling *cryptoassets orders* constituting *CCO*, the *firm* must:

(a) make a best-efforts estimate of expected *CCO* for that *month*; and

(b) use that estimate as its *average CCO*.

(2) During the subsequent 8 *months*, the *firm's average CCO* must be calculated in accordance with *CRYPTOPRU* 4.11.1R(2).

4.8 K-factor requirement for cryptoasset trading flow (K-CTF)

4.8.1 R The *K-CTF requirement* of a *CRYPTOPRU firm* is equal to 0.1% of *average CTF*.

4.8.2 G The definition of *CTF* includes *cryptoasset orders* that a *firm* enters in its own name.

Calculating CTF

4.8.3 R A *firm* must calculate its *K-CTF requirement*:

(1) on the first *business day* on which *CRYPTOPRU* applies to the *firm*; and

(2) thereafter, on the first *business day* of each *month*.

4.8.4 R A *firm* must calculate the amount of its *average CTF* by:

(1) taking the total *CTF* as measured throughout each *business day* in each of the previous 9 *months*;

(2) excluding the daily values for the most recent 3 *months*; and

(3) calculating the arithmetic mean of the daily values for the remaining 6 *months*.

4.8.5 R (1) When measuring its *CTF*, a *firm* must use the sum of the absolute value of each buy order and sell order.

(2) The value in (1) is the amount paid or received on the order.

4.8.6 G When measuring *CTF* for the purposes of *CRYPTOPRU* 4.8.4R, a *firm* must include transactions executed by a *firm* in its own name either for itself or on behalf of a *client*.

Firms with less than 9 months of data on CTF

4.8.7 R Where a *firm* has had *cryptoasset orders* for less than 9 *months*, it must calculate its *average CTF* under *CRYPTOPRU* 4.8.4R as follows:

(1) During the first *month* in which it has had *cryptoasset orders*, the *firm* must:

(a) make a best-efforts estimate of expected *CTF* for that *month*; and

(b) use that estimate as its *average CTF*.

(2) During the subsequent 8 *months*, the *firm's average CTF* must be calculated in accordance with *CRYPTOPRU* 4.11.1R(2).

4.9 K-factor requirement for net cryptoasset position (K-NCP)

Scope

4.9.1 R This section applies to a *firm* that enters into positions in a *qualifying cryptoasset* that are recorded in the *trading book*.

Meaning of 'position'

4.9.2 R For the purposes of this section, a position in *qualifying cryptoasset* includes:

(1) any *qualifying cryptoasset* that a *firm* owns beneficially;

(2) any *qualifying cryptoasset* that a *firm* has an existing contractual right to receive in the future (for example, under an arrangement in which it has lent the cryptoasset to a *client*); and

(3) (in the case of a short position) any *qualifying cryptoasset* that a *firm* has an existing contractual obligation to deliver in the future (for example, under an arrangement in which it has borrowed the cryptoasset from a *client*).

4.9.3 G (1) A *firm* that trades in *qualifying cryptoassets* in its own name, including where on behalf of clients, must calculate the *K-NCP requirement*.

(2) A *firm* must calculate the *K-NCP requirement* even where it seeks to match or offset trades in such a way that it is not immediately exposed to movements in market prices.

(3) However, where a *firm* only execute trades in the name of the client, or as a custodian, it is not required to calculate the *K-NCP requirement*.

Managing the trading book

4.9.4 G The definition of *trading book* includes both a *firm's* own proprietary positions and positions in its own name arising from client servicing. The *FCA* would therefore generally expect all of a *firm's* positions in a *qualifying cryptoasset* to be recorded in the *trading book*.

4.9.5 R A *firm* must manage its *trading book* for *qualifying cryptoasset* in accordance with *MIFIDPRU* 4.11.3R, reading any references to 'financial instrument' as references to *qualifying cryptoasset*.

4.9.6 G The requirement in *CRYPTOPRU* 4.9.5R applies when a *firm* values any *qualifying cryptoasset* held in the *trading book* for the purposes of both:

(1) calculating its *own funds* under *COREPRU* 3; and

(2) calculating its *K-factor requirements* under *CRYPTOPRU* 4.

4.9.7 R A *firm* must not mark any positions in a *category A cryptoasset* to model.

General rule

4.9.8 R A *firm* must calculate its *K-NCP requirement* by:

(1) identifying positions in *qualifying cryptoassets* which are in scope;

(2) netting positions in identical *qualifying cryptoassets*;

(3) expressing the value of each net position in its functional currency;

(4) calculating a requirement for each net position based on the category of *qualifying cryptoasset*; and

(5) summing the resulting requirements for each *qualifying cryptoasset*.

Monitoring of K-NCP

4.9.9 R A *firm* must be able to monitor its *K-NCP requirement* on an intra-day basis, and, before executing any trade, must be able to recalculate the *K-NCP requirement* to the level of detail necessary to establish whether the *firm's own funds* exceed its *own funds requirement*.

Positions in scope of K-NCP

4.9.10 R A *firm* must calculate its *K-NCP requirement* by reference to any position it holds in the *trading book* in any *qualifying cryptoasset*, except:

(1) a position in a *qualifying stablecoin* which complies with the requirements in *CASS* 16;

(2) a position in a *qualifying cryptoasset* which has already been deducted under *COREPRU* 3; or

(3) a position in a *financial instrument*, foreign exchange or commodity to which a *firm* applies the *K-NPR requirement* or the *K-CMG requirement* under *MIFIDPRU*, except where the *firm* applies the netting approach in *CRYPTOPRU* 4.9.14R.

Interaction between position risk requirements in CRYPTOPRU and MIFIDPRU

4.9.11 G (1) A *firm* may trade in both *qualifying cryptoassets* and *financial instruments*, in which case it may be subject to both *CRYPTOPRU* and *MIFIDPRU*, and may be required to calculate a position risk requirement under this section (K-NCP), and a position risk requirement under *MIFIDPRU* 4.12 (K-NPR) or *MIFIDPRU* 4.13 (K-CMG). Its total *K-factor requirement* will be the sum of all applicable *K-factor requirements* in these sourcebooks (*COREPRU* 4.4.1R).

(2) The *FCA's* general policy is that such a *firm* should not be required to recognise the same exposure twice, and should be permitted to net or off-set positions appropriately.

(3) The definition of *qualifying cryptoasset* generally excludes a *specified investment cryptoasset*. This means that a tokenised *financial instrument* in the *trading book* will not be subject to the *K-NCP requirement*, and will instead be subject to the *K-NPR requirement* or the *K-CMG requirement*.

(4) However, a *firm* may also hold a *financial instrument* which gives economic exposure to a *qualifying cryptoasset* – for example, a derivative over a cryptoasset, or a *fund* invested in a cryptoasset. In this case, *CRYPTOPRU* 4.9.10R(3) avoids double-counting by ensuring that such a position is only subject to one net position risk requirement.

(5) While a position in a *financial instrument* which gives economic exposure to a *qualifying cryptoasset* will generally be subject to the *K-NPR requirement* or the *K-CMG requirement*, *CRYPTOPRU* 4.9.14R allows the *firm* to include this position in its *K-NCP requirement* instead. This permits the recognition of potential hedging effects for exposures in identical *qualifying cryptoassets*.

Netting positions in identical qualifying cryptoasset

4.9.12 R A *firm* must not net long and short positions in a *qualifying cryptoasset* unless the positions are in an identical *qualifying cryptoasset*.

4.9.13 G *Qualifying cryptoassets* are identical if they:

(1) enjoy identical rights in all respects; and

(2) are fungible with one another.

4.9.14 R (1) This *rule* applies where a *firm* has:

(a) a position in a *qualifying cryptoasset* in scope of the *K-NCP requirement*; and

(b) a position in a *financial instrument* in scope of the *K-NPR requirement* or the *K-CMG requirement* which gives economic exposure to an identical *qualifying cryptoasset* as in (1)(a).

(2) Where this *rule* applies, a *firm* may:

(a) exclude the position which gives economic exposure to a *qualifying cryptoasset* from the *K-NPR requirement* or the *K-CMG requirement*; and

(b) include both positions in the *K-NCP requirement*, to arrive at its net long or short position in each *qualifying cryptoasset*.

4.9.15 G (1) An example of *CRYPTOPRU* 4.9.14R is as follows. Firm Z has 3 of a particular *qualifying cryptoasset*. Firm Z has entered into a forward contract which gives it long exposure to 3 more of this *qualifying cryptoasset*. Firm Z is required to deliver 5 of this *qualifying cryptoasset* to a counterparty in 3 months' time.

(2) Firm Z therefore has a net long position of 1 in the relevant *qualifying cryptoasset*.

(3) In effect, forward positions are treated as being equivalent to spot positions for the purposes of calculating the *K-NCP requirement*.

4.9.16 R Where a *firm* has economic exposure to a *qualifying cryptoasset* through a *fund*, it may not apply the approach in *CRYPTOPRU* 4.9.14R unless it is aware of the actual *qualifying cryptoasset* the *fund* is invested in, and only nets off identical *qualifying cryptoasset*.

Calculating the K-NCP requirement

4.9.17 R The *K-NCP requirement* for each net position in a *qualifying cryptoasset* must be calculated by multiplying the value for each net position in a *qualifying cryptoasset* (ignoring the sign) by the appropriate position risk adjustment from the table below.

Table: position risk adjustments

Category of qualifying cryptoasset	Position risk adjustment
Category A cryptoasset	40%
Category B cryptoasset	100%

Classifying qualifying cryptoassets

4.9.18 R (1) A *firm* must maintain systems and controls that allow it to classify and regularly review the classification of *qualifying cryptoassets* as *category A cryptoassets* or *category B cryptoassets*.

(2) The systems and controls must enable the *firm* to document:

(a) how the *firm* assesses whether a particular *qualifying cryptoasset* meets the conditions to qualify as a *category A cryptoasset*, including the quantitative thresholds it applies for *CRYPTOPRU* 4.9.26R, *CRYPTOPRU* 4.9.28R and *CRYPTOPRU* 4.9.31R;

(b) the sources of information that the *firm* uses for assessing these conditions;

(c) how the *firm* ensures that its approach to assessing different *qualifying cryptoassets* is consistent; and

(d) how the *firm's* classification criteria are reviewed in line with the *firm's overall risk assessment*.

Category A cryptoassets

4.9.19 R A *category A cryptoasset* is a *qualifying cryptoasset* which:

(1) meets the conditions in *CRYPTOPRU* 4.9.21R to *CRYPTOPRU* 4.9.33R; and

(2) is not excluded under *CRYPTOPRU* 4.9.10R.

4.9.20 R Where a *qualifying cryptoasset* ceases to meet any of the conditions in *CRYPTOPRU* 4.9.21R to *CRYPTOPRU* 4.9.33R, a *firm* must immediately cease treating the relevant cryptoasset as a *category A cryptoasset*.

Condition 1

4.9.21 R A *category A cryptoasset* must be traded on a *UK QCATP*.

Condition 2

4.9.22 R A *firm* must be able to exchange a *category A cryptoasset* directly for:

(1) the *firm's* functional currency; or

(2) *qualifying stablecoin* denominated in the *firm's* functional currency.

Condition 3

4.9.23 R A *category A cryptoasset* must demonstrate a stable operational history.

4.9.24 G When assessing this condition, a *firm* should consider:

(1) the track record of the cryptoasset;

(2) any operational incidents involving the cryptoasset, such as the hacking of the cryptoasset ledger; and

(3) the governance framework of the cryptoasset ledger.

4.9.25 G The *FCA* would generally expect a *category A cryptoasset* to have been operational and trading for at least 3 years to demonstrate a stable operational history.

Condition 4

4.9.26 R The *category A cryptoasset* must have an active and sizeable market.

4.9.27 E Compliance with both of the following would tend to establish compliance with *CRYPTOPRU* 4.9.26R:

(1) tight daily bid-ask spread over the last 12 *months* relative to the price of the asset; and

(2) significant daily trading volume over the last 12 *months* relative to the amount of cryptoasset in issuance.

Condition 5

4.9.28 R The market in a *category A cryptoasset* must not exhibit extreme volatility.

4.9.29 R When assessing this condition, a *firm* must consider the average daily volatility of the cryptoasset over at least the last 12 *months*.

4.9.30 E Average daily volatility of less than 5% would tend to establish compliance with *CRYPTOPRU* 4.9.28R.

Condition 6

4.9.31 R Price range and trading volume in a *category A cryptoasset* must not be highly correlated.

4.9.32 R When assessing this condition, a *firm* must consider the average daily correlation over at least the last 12 *months* between:

(1) the trading volume each *day*; and

(2) the difference between the highest and lowest price recorded for that *day*.

Condition 7

4.9.33 R Reliable data must be available to inform the *firm's* assessment of *CRYPTOPRU* 4.9.26R to *CRYPTOPRU* 4.9.32R.

4.9.34 G (1) A *firm* should generally assess *CRYPTOPRU* 4.9.26R to *CRYPTOPRU* 4.9.32R using data made available by a *UK QCATP*.

(2) However, where such data is not available (for example, because the cryptoasset has not yet been traded on a *UK QCATP* for a 12-*month* period), a *firm* may use other reliable sources of data.

4.9.35 G *CRYPTOPRU* 4.9.7R prevents a *firm* from marking positions in *category A cryptoassets* to model. This means that a *firm* must not classify any cryptoasset as a *category A cryptoasset* if it cannot mark that cryptoasset to market.

Category B cryptoassets

4.9.36 R A *category B cryptoasset* is a *qualifying cryptoasset* which:

(1) does not meet one or more of the conditions in *CRYPTOPRU* 4.9.21R to *CRYPTOPRU* 4.9.33R; and

(2) is not excluded under *CRYPTOPRU* 4.9.10R.

4.10 K-factor requirement for cryptoasset counterparty default (K-CCD)

Scope

4.10.1 R The *K-CCD requirement* applies to a *firm* that enters into a *trading book* transaction involving a *qualifying cryptoasset* which exposes it to a risk of counterparty default that persists for longer than the *standard spot settlement period*.

4.10.2 G (1) The *FCA* does not expect a *firm* that simply trades in spot *qualifying cryptoassets* to calculate the *K-CCD requirement*.

(2) However, where a *firm* enters into any *qualifying cryptoasset* transaction in the *trading book* that takes longer to complete – for example, by lending *qualifying cryptoassets* to a counterparty – it must calculate the *K-CCD requirement*.

(3) A *firm* must calculate the *K-CCD requirement* even if it receives collateral to help mitigate against the risk of counterparty default. The *K-CCD requirement* recognises collateral as part of the calculation.

General rule

4.10.3 R A *firm* must calculate its *K-CCD requirement* by:

(1) identifying transactions in *qualifying cryptoassets* which are in scope in accordance with *CRYPTOPRU* 4.10.4R;

(2) calculating the exposure value for each transaction in its functional currency in accordance with *CRYPTOPRU* 4.10.5R;

(3) using each exposure value to calculate a requirement for each transaction in accordance with *CRYPTOPRU* 4.10.9R; and

(4) summing the resulting requirements for each transaction.

Transactions in scope of K-CCD

4.10.4 R A *firm* must calculate its *K-CCD requirement* by identifying every transaction and contract involving any *trading book qualifying cryptoasset* which exposes it to a risk of counterparty default that persists for longer than the *standard spot settlement period*, except:

(1) a transaction or contract involving a *qualifying cryptoasset* which has already resulted in a deduction under *COREPRU* 3; or

(2) a transaction or contract to which a *firm* applies the *K-TCD requirement* in *MIFIDPRU* 4.14.

Calculating the exposure value

4.10.5 R The exposure value must be calculated using the following formula:

Exposure value = Max (0; RC– C)

where:

(1) RC = the replacement cost calculated in accordance with *CRYPTOPRU* 4.10.6R; and

(2) C = collateral as calculated in accordance with *CRYPTOPRU* 4.10.7R.

Replacement cost

4.10.6 R The replacement cost is the current market value of the asset that the *firm* is due to receive from the counterparty to the transaction, increased by the volatility adjustment in *CRYPTOPRU* 4.10.8R.

Collateral

4.10.7 R The value of C is the current market value of any collateral received by the *firm*, decreased in accordance with the relevant volatility adjustment specified in *CRYPTOPRU* 4.10.8R.

Volatility adjustment

4.10.8 R The volatility adjustment for each asset class is specified in the table below.

Asset class	Volatility adjustment
Qualifying stablecoin which is compliant with the requirements in *CASS* 16	0%
Category A cryptoasset	40%
Category B cryptoasset	100%
Any asset class referred to in *MIFIDPRU* 4.14.25R	The applicable volatility adjustment listed in Column (B) of *MIFIDPRU* 4.14.25R

Calculating the K-CCD requirement

4.10.9 R The *K-CCD requirement* for each transaction must be calculated using the following formula:

α * EV * RF

where:

(1) α = 1.2;

(2) EV = the exposure value calculated in accordance with *CRYPTOPRU* 4.10.5R; and

(3) RF = the risk factor applicable to the counterparty type as set out in *CRYPTOPRU* 4.10.10R.

Risk factor

4.10.10 R The risk factor for a counterparty is set out in the following table:

Counterparty type	Risk factor
Central governments, central banks and public sector entities	1.6%
Credit institutions, *investment firms* and *CRYPTOPRU firms*	1.6%
retail client	83.33%

Other counterparties	8%

[*Editor's note*: the section entitled 'Modified calculation for CRYPTOPRU firms performing CRYPTOPRU activities for less than 9 months' was consulted on in CP25/15 under CRYPTOPRU 4.6. It has now been moved to CRYPTOPRU 4.11. Changes to the text proposed in CP25/15 are shown using underlining and striking through.]

~~4.6~~ 4.11 Modified calculation for CRYPTOPRU firms performing CRYPTOPRU activities for less than 9 months

~~4.6.1~~ 4.11.1 R (1) This provision applies to the calculation of:

(a) ~~*average QCS* (for the purpose of *CRYPTOPRU* 4.4.10R(2)); and~~ *average SII* (for the purpose of *CRYPTOPRU* 4.4.5R(2));

(b) ~~*average SII* (for the purpose of *CRYPTOPRU* 4.5.7R(2)).~~ *average QCS* (for the purpose of *CRYPTOPRU* 4.5.9R(2));

(c) *average CCS* (for the purpose of *CRYPTOPRU* 4.6.10R(2));

(d) *average CCO* (for the purpose of *CRYPTOPRU* 4.7.13R (2)); and

(e) *average CTF* (for the purpose of *CRYPTOPRU* 4.8.7R (2)).

(2) For the purpose of calculating the values in (1), a *firm* must calculate the arithmetic mean of the daily values over the previous *n months* - *y months*.

Where:

- *n* = the number of *months* that have elapsed since *CRYPTOPRU* began to apply (with the *month* during which *CRYPROPRU* begins to apply being counted as *month* 1); and
- y = the greater of 0 and (*n* - 6) *months*.

Insert the following new section, CRYPTOPRU 4.12, after CRYPTOPRU 4.11 (Modified calculation for CRYPTOPRU firms performing CRYPTOPRU activities for less than 9 months). All the text is new and is not underlined.

4.12 Conversion of amounts into the firm's functional currency

4.12.1 R This section applies to the calculation of:

(1) *SII*;

(2) *QCS*;

(3) *CCS*;

(4) *CCO*; and

(5) *CTF*.

4.12.2 R (1) When measuring the value of the relevant metric in *CRYPTOPRU* 4.12.1R for a particular *business day*, a *firm* must convert all amounts into the *firm's* functional currency.

(2) For the purposes of the currency conversion in (1), a *firm* must:

(a) determine the conversion rate by reference to an appropriate market rate; and

(b) record the rate that was chosen.

4.12.3 G The effect of *CRYPTOPRU* 4.12.2R(1) is that, when measuring the value of the relevant metric at the end of each *business day*, a *firm* must convert all amounts into its functional currency using an appropriate market rate. The relevant metric for each preceding *business day* should continue to be measured by reference to the conversion rate that was applicable on that preceding day.

4.12.4 R The values used by a *firm* under *CRYPTOPRU* 4.12.2R(2) should be consistent with the information on *qualifying cryptoassets* and relevant *specified investment cryptoassets* in any relevant regulatory data reported by the *firm* to the *FCA*, and in any internal or external reconciliations and records maintained in accordance the *FCA*'s record keeping requirements, unless a *rule* or relevant *guidance* requires the *firm* to take a different approach.

Insert the following new chapter, CRYPTOPRU 5, after CRYPTOPRU 4 (Sectoral own funds requirement for CRYPTOPRU firms). The chapter heading is changed from that consulted on in CP25/15 as set out below. Otherwise, all the text is new and is not underlined.

5 ~~Sectoral concentration risk requirements for CRYPTOPRU firms~~ Concentration risk

5.1 K-factor requirement for concentration risk (K-CON)

Scope

5.1.1 R This chapter applies to a *firm* that enters into a *trading book* transaction involving a *qualifying cryptoasset*.

5.1.2 G (1) This chapter operates by cross-applying and modifying the concentration risk requirements in *MIFIDPRU* 5.4 to *MIFIDPRU* 5.10.

(2) Where a *firm* is in scope of both this chapter and *MIFIDPRU* 5.4 to *MIFIDPRU* 5.10, the effect is that:

(a) it is required to calculate a single *concentration risk soft limit* for its exposures to each *client* or *group of connected clients* in accordance with *MIFIDPRU* 5.5.1R;

(b) when calculating whether its exposures exceed the *concentration risk soft limit*, it must sum:

(i) exposures caught by *MIFIDPRU* 5.4.1R;

(ii) exposures caught by *CRYPTOPRU* 4.10.4R (Transactions in scope of K-CCD); and

(iii) any other exposures to a *qualifying cryptoasset* which is issued by, or where supply is controlled by, a particular *client* or *group of connected clients*;

(c) it must calculate a single *K-CON requirement* for any exposures that exceed the *concentration risk soft limit*; and

(d) when calculating whether its exposures exceed the hard limits in *MIFIDPRU* 5.9, it must sum the exposures in (2)(b).

(3) Where a *firm* is in scope of this chapter but not *MIFIDPRU* 5.4 to *MIFIDPRU* 5.10, the effect is that:

(a) it is required to calculate a *concentration risk soft limit* for its exposure to each *client* or *group of connected clients* in accordance with *MIFIDPRU* 5.5.1R;

(b) when calculating whether its exposures exceed the *concentration risk soft limit*, it is only required to consider:

(i) exposures caught by *CRYPTOPRU* 4.10.4R (Transactions in scope of K-CCD); and

(ii) other exposures to a *qualifying cryptoasset* which is issued by, or where supply is controlled by, a particular *client* or *group of connected clients*;

(c) it must calculate a *K-CON requirement* for any exposures that exceed the *concentration risk soft limit*; and

(d) when calculating whether its exposures exceed the hard limits in *MIFIDPRU* 5.9, it must sum the exposures in (3)(b).

Firms in scope of both CRYPTOPRU and MIFIDPRU

5.1.3 R (1) The modifications in this *rule* apply to a *firm* in scope of both this chapter and *MIFIDPRU* 5.4 to *MIFIDPRU* 5.10.

(2) *MIFIDPRU* 5.1.7R applies as if it read:

‘*MIFIDPRU* 5.3 to *MIFIDPRU* 5.10 apply to a *firm* when:	
(1)	*dealing on own account* in relation to transactions that are recorded in the *trading book*; and
(2)	entering into *trading book* transactions involving *qualifying cryptoassets*.’

(3) *MIFIDPRU* 5.3.1G applies as if, after the words ‘that is *dealing on own account*’ there were inserted ‘or trading in *qualifying cryptoassets*’.

(4) *MIFIDPRU* 5.4.1R applies as if it read:

‘For the purposes of *MIFIDPRU* 5.5 to *MIFIDPRU* 5.10, a *firm* must calculate an *exposure value* (*EV*) for each *client* or *group of connected clients* by adding together the following items:		
(1)	the positive excess of the *firm’s* long positions over its short positions in all the *trading book financial instruments* issued by the *client* in question, using the approach specified for K-NPR in *MIFIDPRU* 4.12.2R to calculate the net position for each instrument;	
(2)	the exposure value of contracts and transactions referred to in *MIFIDPRU* 4.14.3R with the *client* in question, calculated using the approach specified for K-TCD in *MIFIDPRU* 4.14.8R;	
(3)	the exposure value of contracts and transactions referred to in *CRYPTOPRU* 4.10.4R with the *client* in question, calculated using the approach specified for K-CCD in *CRYPTOPRU* 4.10.5R; and	
(4)	the positive excess of the *firm’s* long positions over its short positions in all the *trading book qualifying cryptoassets*:	
	(a)	which are issued by the *client* or *group of connected clients*; or
	(b)	where supply is controlled by the *client* or *group of connected of connected clients*,

	and using the approach specified for K-NCP in *CRYPTOPRU* 4.9 to calculate the net position for each cryptoasset.'

(5) The definition of *MIFIDPRU-eligible institution* applies as if it included a *CRYPTOPRU firm*.

(6) *MIFIDPRU* 5.7.3R(2) applies as if it read:

'(a)	The *OFR* for an individual *client* is the sum of:		
	(i)	the *TCD own funds requirement* for exposures to that *client*;	
	(ii)	the *K-NPR requirement* for exposures to that *client*, subject to (b);	
	(iii)	the *K-CCD requirement* for exposures to that *client*; and	
	(iv)	the *K-NCP requirement* for exposures in a relevant *qualifying cryptoasset*:	
		(A)	which are issued by the *client* or *group of connected clients*: or
		(B)	where supply is controlled by that *client* or *group of connected clients*.
(b)	Where exposures arise from the positive excess of a *firm's* long positions over its short positions in all the *trading book financial instruments* issued by the *client* in question, the net position of each instrument calculated using the approach specified for the *K-NPR requirement* in *MIFIDPRU* 4.12.2R only includes specific-risk requirements.		
(c)	A *firm* that calculates a *K-CMG requirement* for a portfolio must calculate the *OFR* using the approach specified for *K-NPR requirement* in *MIFIDPRU* 4.12.2R, subject to (b).		
(d)	The *OFR* for a *group of connected clients* must be calculated by adding together the exposures to individual *clients* within the group, and then determining a single own funds requirement for exposures to the group as if the group were a single *undertaking*. '		

5.1.4 R (1) This *rule* applies to a *firm* that is in scope of this chapter but which is not in scope of *MIFIDPRU* 5.4 to *MIFIDPRU* 5.10.

(2) A *firm* to which this *rule* applies must apply *MIFIDPRU* 5.1.11G to *MIFIDPRU* 5.1.19G and *MIFIDPRU* 5.4 to *MIFIDPRU* 5.10, with the modifications below.

(3) *MIFIDPRU* 5.4.1R applies as if it read:

'For the purposes of *MIFIDPRU* 5.5 to *MIFIDPRU* 5.10, a *firm* must calculate an *exposure value* (*EV*) for each *client* or *group of connected clients* by adding together:		
(1)	the exposure value of contracts and transactions referred to in *CRYPTOPRU* 4.10.4R with the *client* in question, using the approach specified for K-CCD in *CRYPTOPRU* 4.10.5R; and	
(2)	the positive excess of the *firm's* long positions over its short positions in all the *trading book qualifying cryptoassets*:	
	(a)	which are issued by the *client* or *group of connected clients*; or
	(b)	where supply is controlled by the *client* or *group of connected clients*;
	and using the approach specified for K-NCP in *CRYPTOPRU* 4.9 to calculate the net position for each cryptoasset.'	

(4) The definition of *MIFIDPRU-eligible institution* applies as if it included a *CRYPTOPRU firm*.

(5) *MIFIDPRU* 5.7.1R and *MIFIDPRU* 5.10.1R(1) apply as if the references to a *MIFIDPRU investment firm* are replaced with references to a *CRYPTOPRU firm*.

(6) *MIFIDPRU* 5.7.3R(2) applies as if it reads

'(a)	The *OFR* for an individual *client* is the sum of:	
	(i)	the *K-CCD requirement* for exposures to that *client*; and
	(ii)	the *K-NCP requirement* for exposures in a relevant *qualifying cryptoasset*:

		(A)	which are issued by the *client* or *group of connected clients*; or
		(B)	where supply is controlled by that *client* or *group of connected clients*.
(b)	The *OFR* for a *group of connected clients* must be calculated by adding together the exposures to individual *clients* within the group, and then determining a single own funds requirement for exposures to the group as if the group were a single *undertaking*.'		

Amend the following as shown.

6 Sectoral liquidity requirement

6.1 Application and purpose

Application

6.1.1 R This chapter applies to a *CRYPTOPRU firm* that is carrying out the activity of *issuing qualifying stablecoins*.

Purpose

6.1.2 G This chapter contains *rules* and *guidance* on the amount of *on demand deposits* that a *qualifying stablecoin issuer* must hold to ensure it has adequate financial resources and can comply with the requirement in *CASS* 16.2.1R(3) at all times (its '~~*issuer liquid asset requirement*~~' '*issuer liquid assets requirement*').

6.1.3 G The ~~*issuer liquid asset requirement*~~ *issuer liquid assets requirement* supplements the *basic liquid assets requirement* that *COREPRU* 6 requires all *CRYPTOPRU firms* to meet.

Issuer liquid ~~asset~~ assets requirement

6.1.4 R A *qualifying stablecoin issuer* must calculate its ~~*issuer liquid asset requirement*~~ *issuer liquid assets requirement* based on the following assets in its *backing asset pool*:

(1) *core backing assets*, excluding *on demand deposits*; and

(2) *expanded backing assets*.

6.1.5 G Where a *firm* issues multiple *qualifying stablecoins*, it must calculate its ~~*issuer liquid asset requirement*~~ *issuer liquid assets requirement* based on the *backing asset pool* for each *qualifying stablecoin*.

6.1.6 R (1) For a unit in a *public debt CNAV MMF* or an *EU MMF*, a *qualifying stablecoin issuer* that is aware of the underlying investments on a daily basis may look through and calculate its ~~*issuer liquid asset requirement*~~ *issuer liquid assets requirement* based on the underlying government debt securities.

(2) For the purpose of (1), where the underlying investments include a *repurchase transaction*, the *qualifying stablecoin issuer* must calculate its ~~*issuer liquid asset requirement*~~ *issuer liquid assets requirement* in accordance with *CRYPTOPRU* 6.1.7R.

(3) If a *qualifying stablecoin issuer* cannot look through in accordance with (1) and (2), or chooses not to do so, it must (instead of performing the calculation in *CRYPTOPRU* 6.1.9R) calculate its ~~*issuer liquid asset requirement*~~ *issuer liquid assets requirement* by multiplying the notional value of the unit by 5%.

6.1.7 R For a *repurchase transaction*, a *qualifying stablecoin issuer* must calculate its ~~*issuer liquid asset requirement*~~ *issuer liquid assets requirement* based on any government debt securities that have been exchanged for the duration of the contract.

6.1.8 G The effect of *CRYPTOPRU* 6.1.7R is that a *qualifying stablecoin issuer* must calculate its ~~*issuer liquid asset requirement*~~ *issuer liquid assets requirement* based on any government debt securities that have been exchanged as part of a *repurchase transaction*, irrespective of whether it is a *repurchase transaction* or a reverse *repurchase transaction*.

6.1.9 R A *firm* must calculate its ~~*issuer liquid asset requirement*~~ *issuer liquid assets requirement* by:

(1) determining whether an asset is a *level 1 asset*, a *level 2 asset* or a *level 3 asset*;

(2) determining the charge for each asset, in accordance with the table in *CRYPTOPRU* 6.1.11R;

(3) multiplying the notional value of each asset by the relevant charge; and

(4) adding together the output from step (3) for all the assets to which *CRYPTOPRU* 6.1.4R applies.

6.1.10 G (1) The calculation of the ~~*issuer liquid asset requirement*~~ *issuer liquid assets requirement* in *CRYPTOPRU* 6.1.4R is illustrated by the following example.

(2) In accordance with *CASS* 16.2.1R, a *qualifying stablecoin issuer* holds the following *core backing assets* and *expanded backing assets* in its *backing asset pool* for the *qualifying stablecoin* that it has issued:

(a) £30,000 in *long-term government debt instruments* issued by the *UK* (a *level 1 asset*) with a residual maturity of 5 years and a coupon of 4%;

(b) £50,000 in *short-term government debt instruments* issued by the *UK* (a *level 1 asset*) with a residual maturity of 3 *months* and a coupon of 5%; and

(c) £20,000 in *on demand deposits*.

(3) The ~~*issuer liquid asset requirement*~~ *issuer liquid assets requirement* should be calculated by multiplying the notional value of the *long-term government debt instrument*s and the *short-term government debt instruments* by the charge found in the table in *CRYPTOPRU* 6.1.11R as follows:

£30,000 x 3.50% = £1,050

£50,000 x 0.20% = £100

(4) *On demand deposits* are not included in the calculation (this reflects the fact that the aim of the ~~*issuer liquid asset requirement*~~ *issuer liquid assets requirement* is to capture price risk).

(5) The ~~*issuer liquid asset requirement*~~ *issuer liquid assets requirement* is £1,150.

6.1.11 R This table belong to *CRYPTOPRU* 6.1.9R(2):

Asset charge					
Maturity bands	**Level 1 - Coupon ≤ 3%**	**Level 1 - Coupon >3%**	**Level 2 - Coupon ≤ 3%**	**Level 2 - Coupon >3%**	**Level 3 (No coupon)**
0 ≤ 1 *month*	0.00%	0.00%	0.50%	0.50%	3.0%
> 1 ≤ 3 *months*	0.20%	0.20%	0.50%	0.50%	3.0%
> 3 ≤ 6 *months*	0.40%	0.40%	0.50%	0.50%	3.0%
> 6 ≤ 12 *months*	0.70%	0.70%	0.70%	0.70%	3.0%
> 1 ≤ 2 years	1.50%	1.50%	1.50%	2.00%	5.0%
> 2 ≤ 3 years	1.75%	2.25%	2.25%	2.75%	5.0%
> 3 ≤ 4 years	2.25%	2.75%	2.75%	3.25%	6.0%
> 4 ≤ 5 years	2.75%	3.50%	3.25%	4.00%	6.0%

> 5 ≤ 7 years	3.50%	3.75%	3.75%	5.00%	8.0%
> 7 ≤ 10 years	3.75%	6.00%	4.50%	7.00%	8.0%
> 10 ≤ 15 years	6.00%	8.50%	7.00%	10.00%	12.0%
> 15 ≤ 20 years	6.00%	8.50%	7.00%	13.00%	15.0%
> 20 ≤ 25 years	8.50%	12.50%	10.00%	16.00%	20.0%
> 25 ≤ 30 years	8.50%	15.00%	10.00%	18.00%	25.0%
>30 years	12.50%	20.00%	15.00%	25.00%	30.0%

Permissible assets

6.1.12 R For the purposes of meeting the ~~*issuer liquid asset requirement*~~ *issuer liquid assets requirement*, the *on demand deposits* must:

(1) be held at a *UK-authorised credit institution*, except where the *reference currency* of the *qualifying stablecoin* is not in pound sterling, in which case it may be held at a *credit institution*; and

(2) be denominated in the *reference currency* of each relevant *qualifying stablecoin*.

6.1.13 G A *firm* must not use the same *on demand deposits* to meet the *basic liquid assets requirement* in *COREPRU* 6.2.1R and the ~~*issuer liquid asset requirement*~~ *issuer liquid assets requirement*.

Insert the following new chapters, CRYPTOPRU 7 and CRYPTOPRU 8, after CRYPTOPRU 6 (Sectoral liquidity requirement). All the text is new and is not underlined.

7 Overall risk assessment for CRYPTOPRU firms

7.1 Application

7.1.1 R This chapter applies to a *CRYPTOPRU firm*.

7.1.2 R *CRYPTOPRU* 7 (Overall risk assessment) does not apply to a *firm* that is both a *CRYPTOPRU firm* and a *MIFIDPRU investment firm*.

7.1.3 G The effect of *CRYPTOPRU* 7.1.2R is that, where a *firm* is both a *CRYPTOPRU firm* and a *MIFIDPRU investment firm*, only the requirements in *MIFIDPRU* 7 (Governance and risk management) apply.

7.1.4 G The following table summarises the content of *CRYPTOPRU* 7.

Section	Summary of content
CRYPTOPRU 7.1	Application
CRYPTOPRU 7.2	Overall risk assessment: capital and liquidity planning, stress testing, wind-down planning and recovery planning
CRYPTOPRU 7.3	Overall risk assessment: own funds
CRYPTOPRU 7.4	Overall risk assessment: liquid assets
CRYPTOPRU 7.5	Overall risk assessment: review and document
CRYPTOPRU 7.6	Overall risk assessment: firms forming part of a group

Purpose

7.1.5 G (1) *COREPRU* 7 contains the general requirement for *firms* to carry out an *overall risk assessment*. This requirement is designed to ensure that a *firm*:

(a) has appropriate systems and controls in place to identify, monitor and, where proportionate, reduce all risks that may cause material harm which result from the ongoing operation or the winding down of its business; and

(b) holds financial resources that are adequate for the business it undertakes.

(2) A *firm* should therefore start by considering the *rules* and *guidance* on the *overall risk assessment* in *COREPRU* 7 (Overall risk assessment).

7.1.6 G *CRYPTOPRU* 7 contains *rules* and *guidance* which supplement the overarching requirements in *COREPRU* 7.

7.2 Overall risk assessment: capital and liquidity planning, stress testing, wind-down planning and recovery planning

Business model assessment and capital and liquidity planning

7.2.1 R As part of its *overall risk assessment*, a *firm* must:

(1) have a clearly articulated business model and strategy;

(2) have a clearly articulated risk appetite that is consistent with the business model and strategy identified under (1);

(3) identify any material risks of misalignment between the *firm's* business model and operating model and the interests of its *clients* and the wider

financial markets, and evaluate whether those risks have been adequately mitigated;

(4) consider on a forward-looking basis the *own funds* and *liquid assets* that will be required to meet the *overall financial adequacy rule*, taking into account any planned future growth; and

(5) consider severe but plausible stresses that could affect the *firm's* business and consider whether the *firm* would still have sufficient *own funds* and *liquid assets* to meet the *overall financial adequacy rule*.

Stress testing

7.2.2 G *CRYPTOPRU* 7.2.1R(5) requires a *firm* to use stress testing to consider whether it holds sufficient *own funds* and *liquid assets*. *Firms* should refer to Finalised Guidance, FG20/1 (Our framework: assessing adequate financial resources) for specific guidance on the *FCA's* expectations in relation to stress testing.

Recovery actions

7.2.3 R As part of its *overall risk assessment*, a *firm* must identify:

(1) levels of *own funds* and *liquid assets* that the *firm* considers, if reached, may indicate that there is a credible risk that the *firm* will breach the *overall financial adequacy rule*; and

(2) potential recovery actions that the *firm* would expect to take:

(a) to avoid a breach of the *overall financial adequacy rule* where the *firm's own funds* or *liquid assets* fall below the levels identified in (1); and

(b) to restore compliance with the *overall financial adequacy rule* if the *firm* were to breach it during a period of financial difficulty.

7.2.4 G A *firm* should adopt a proportionate approach to identifying potential recovery actions, taking into account the nature, scale and complexity of the *firm's* business and operating model. The actions that the *firm* proposes must be credible and justifiable, taking into account the circumstances in which the actions may be likely to be required.

Wind-down planning

7.2.5 G (1) *COREPRU* 7.2.1R contains the requirement on the *overall risk assessment*, which includes the analysis of the *firm's* winding-down.

(2) As part of its *overall risk assessment*, a *firm* should therefore:

(a) identify the steps and resources that would be required to ensure the wind-down and termination of the *firm's* business in a realistic timescale; and

(b) evaluate the risks arising from winding down the *firm's* business that may cause material harm, and identify how to mitigate them.

(3) When carrying out a wind-down planning assessment under (1) and (2), and determining the timeline and any required actions, a *firm* should refer to the *guidance* in *WDPG* and in Finalised Guidance, FG20/1.

7.2.6 R (1) A *firm* must use its wind-down analysis under *CRYPTOPRU* 7.2.5G to assess the amount of *own funds* and *liquid assets* that would be required to ensure the wind-down of its business without causing material harm.

(2) The *firm's* assessment in (1) must not result in amounts that are lower than:

(a) in the case of *own funds*, the *firm's fixed overheads requirement*; and

(b) in the case of *liquid assets*, the *firm's basic liquid assets requirement*.

7.3 Overall risk assessment: own funds

Purpose

7.3.1 G The purpose of this section is to supplement the general requirements on the *overall risk assessment* and the calculation of the *own funds threshold requirement* in *COREPRU* 7.

Compliance with the overall financial adequacy rule

7.3.2 G (1) *COREPRU* 2.3.1R sets out the *overall financial adequacy rule*.

(2) *COREPRU* 7.2.1R and *COREPRU* 7.2.5R set out the *firm's* requirements to assess and calculate its *own funds threshold requirement* to comply with the *overall financial adequacy rule*.

(3) To comply with the *overall financial adequacy rule*, a *firm* must therefore hold the higher of:

(a) the amount of *own funds* that the *firm* requires at any given point in time to fund its ongoing business operations, taking into account potential periods of financial stress during the economic cycle; and

(b) the amount of *own funds* that a *firm* would need to hold to ensure that the *firm* can be wound down without causing material harm.

Own funds threshold requirement: types of own funds

7.3.3 R (1) Unless (2) applies, a *firm* must meet its *own funds threshold requirement* with *own funds* that satisfy the following conditions:

(a) subject to (b), at least 75% of the *own funds threshold requirement* must be met with any combination of *common equity tier 1 capital* and *additional tier 1 capital*; and

(b) at least 56% of the *own funds threshold requirement* must be met with *common equity tier 1 capital*.

(2) The *FCA* may specify an alternative combination of *own funds* for the purpose of (1) in a requirement applied to a *firm*.

7.4 Overall risk assessment: liquid assets

Purpose

7.4.1 G The purpose of this section is to supplement the general requirements on the *overall risk assessment* in *COREPRU* 7. It sets out sectoral *rules* and *guidance* for the *firm's* assessment and calculation of its *liquid assets threshold requirement*.

Assessing and monitoring the adequacy of liquid assets

7.4.2 R (1) As part of its *overall risk assessment*, a *firm* must:

(a) for its ongoing business operations:

(i) assess its liquidity needs over a rolling 90-*day* period; and

(ii) calculate the amount of *liquid assets* it needs to hold to meet its liquidity needs under (a)(i); and

(b) produce a reasonable estimate of the amount of *liquid assets* required to ensure that the *firm* could be wound down without causing material harm.

(2) The assessment and calculations in (1) must take into account any risks that may cause material harm which the *firm* has identified under *COREPRU* 7.2.1R and that have not been fully mitigated through any measures taken.

(3) Without prejudice to the ongoing nature of its *overall risk assessment*, the *firm* must update the analysis in (1) immediately following any material change in the *firm's* business model or operating model.

(4) To produce the analysis in (1), the *firm* must ensure that it has in place reliable management information systems to provide timely and forward-looking information on its liquidity position.

7.4.3 R (1) As part of the *firm's* assessment of its liquidity needs, it must consider its funding profile by:

(a) producing a reasonable estimate of the *firm's* funding needs over the next 12 *months*, taking into account the results of the *firm's* stress testing under *CRYPTOPRU* 7.2.1R(5);

(b) identifying the *firm's* funding sources for the next 12 *months*, taking into account any risk to the roll-over of funding during that period (including due to potential stressed conditions); and

(c) identifying actions to mitigate funding gaps arising from the potential withdrawal or unavailability of funding arrangements or from significant increases in the cost of funding.

(2) Where a *firm* identifies funding gaps that it cannot fully close, it must, each *day*:

(a) assess its funding gap for the next 90-*day* rolling period; and

(b) ensure it holds *liquid assets* to cover that funding gap.

7.4.4 G (1) *CRYPTOPRU* 7.4.3R explains that a *firm* must consider its funding profile by estimating its funding needs and identifying its funding sources over the next 12 *months*. This allows the *firm* to plan and then to determine where future daily funding gaps may occur beyond the next 90-*day* rolling period. This may lead the *firm* to hold additional *liquid assets* to meet those future gaps as the 90-*day* periods roll forward. A *firm* will use such assessment on a daily basis to determine whether it needs to hold additional *liquid assets* to cover the total value of any funding gaps over the current 90-*day* rolling period. A *firm* should consider its funding profile as frequently as appropriate.

(2) The effect of *CRYPTOPRU* 7.4.3R(2) and *CRYPTOPRU* 7.4.4G(1) is illustrated by the following example:

(a) A *firm* carries out the assessment of its funding needs and sources under *CRYPTOPRU* 7.4.3R, and identifies a total funding gap of £200,000 over the current 90-*day* rolling period resulting from:

(i) a £110,000 peak margin call due on day 20;

(ii) an £80,000 payment of corporation tax payable on day 60; and

(iii) a £10,000 payment of staff bonuses on day 70.

(b) The *firm* takes an overdraft facility for £100,000 to partially mitigate the total funding gap of £200,000. This means that the *firm* still has a funding gap of £100,000 without mitigating actions.

(c) The *firm* must therefore hold additional *liquid assets* for the amount of £100,000 to cover the total value of the funding gap during the 90-*day* rolling period under *CRYPTOPRU* 7.4.3R(2).

Compliance with the overall financial adequacy rule

7.4.5 G (1) *COREPRU* 2.3.1R sets out the *overall financial adequacy rule*.

(2) *COREPRU* 7.2.1R and *COREPRU* 7.2.5R set out the *firm's* requirements to assess and calculate its *liquid assets threshold requirement* to comply with the *overall financial adequacy rule*.

(3) To comply with the *overall financial adequacy rule*, a *firm* must therefore hold at least the sum of:

(a) the *basic liquid assets requirement*;

(b) the *issuer liquid assets requirement*; and

(c) the higher of:

(i) the amount of *liquid assets* that the *firm* requires to fund its ongoing business operations (taking into account potential periods of financial stress) resulting from the *firm's* assessment of its liquidity under *CRYPTOPRU* 7.4.2R(1)(a); or

(ii) the amount of *liquid assets* that a *firm* would need to hold when commencing its wind-down process to ensure that the *firm* could be wound down without causing material harm under *CRYPTOPRU* 7.4.2R(1)(b).

(4) The *firm* should use the analysis it produces under *CRYPTOPRU* 7.4.2R to ensure that it complies with the *overall financial adequacy rule*.

(5) The *liquid assets threshold requirement* is the amount of *liquid assets* that a *firm* needs to hold at any given time to comply with the *overall financial adequacy rule*.

(6) This is illustrated by the example in *CRYPTOPRU* 7.4.6G.

7.4.6 G The following example illustrates how a *firm* determines its *liquid assets threshold requirement*:

(1) A *firm* has a *basic liquid assets requirement* of £2,000,000 under *COREPRU* 6.2.

(2) The *firm* has an *issuer liquid assets requirement* of £3,000,000 under *CRYPTOPRU* 6.1.

(3) Through its *overall risk assessment*, the *firm* assesses that it needs an amount of *liquid assets* of:

(a) £3,000,000 for its ongoing business operations to cover its liquidity needs over a 90-*day* rolling period under *CRYPTOPRU* 7.4.2R(1)(a); and:

(b) £4,000,000 for a wind-down without causing material harm under *CRYPTOPRU* 7.4.2R(1)(b).

(4) As the amount in (3)(b) (£4,000,000) is higher than in (3)(a) (£3,000,000), then the amount of £4,000,000 is added to the sum of the *basic liquid assets requirement* (£2,000,000) and the *issuer liquid assets requirement* (£3,000,000).

(5) The *firm's liquid assets threshold requirement* would, therefore, be £9,000,000 (the sum of the amounts in (1), (2) and (3)(b)).

7.4.7 G When considering its likely liquidity needs and funding profile under *CRYPTOPRU* 7.4.2R(1)(a) and *CRYPTOPRU* 7.4.3R, a *firm* should consider, among other factors:

(1) the ordinary level of *liquid assets* that would typically be required to operate the *firm's* underlying business, taking into account any seasonal variations;

(2) any risks that may realistically cause material harms during the next 12 *months* and their potential impact on the *firm's* liquidity position;

(3) any *liquid assets* that a *firm* may need to use as collateral or to meet margining requirements;

(4) any estimated gaps in funding, including during periods of severe but plausible stress;

(5) any risk to the roll-over of funding due to potential stressed conditions – for example, changes to lenders' risk appetites or financial resilience and significant increases in the cost of funding;

(6) any estimated gaps between liquidity inflows and outflows; and

(7) the stability of funding sources.

Liquid assets threshold requirement: types of liquid assets

7.4.8 R (1) Subject to (2) and (3), a *firm* may hold the *liquid assets* necessary to comply with its *liquid assets threshold requirement* in any combination of:

(a) any *core liquid asset*; or

(b) any *non-core liquid asset*, as defined in *CRYPTOPRU* 7.4.9R, provided that the *firm* applies an appropriate haircut in accordance with *CRYPTOPRU* 7.4.11R.

(2) This *rule* does not apply in relation to the *liquid assets* that a *firm* is holding to meet its *basic liquid assets requirement* or the *issuer liquid assets requirement*, which must be *core liquid assets*.

(3) A *firm* may only use a *non-core liquid asset* for the purpose in (1) if the *firm* is satisfied that the asset can easily and promptly be converted into cash, even in stressed market conditions.

Non-core liquid assets

7.4.9 R (1) Except as specified in (2), a *non-core liquid asset* means any of the following:

(a) short-term deposits at a *credit institution* that does not have a *Part 4A permission* in the *UK* to *accept deposits*;

(b) short-term non-sterling deposits at a *UK credit institution*;

(c) assets representing claims on, or guaranteed by, multilateral development banks and international organisations;

(d) assets representing claims on, or guaranteed by, any *third country* central bank or government; and

(e) *financial instruments*.

(2) A *firm* must not treat any of the following as a *non-core liquid asset*:

(a) any asset that belongs to a *client*;

(b) any other asset that is encumbered; or

(c) any asset issued by the *firm* or any of its affiliated entities, except a short-term deposit with an affiliated *credit institution*.

7.4.10 R (1) For the purposes of *CRYPTOPRU* 7.4.9R(2)(a), an asset may belong to a *client* even if the asset is held in the *firm's* own name. Examples of

assets belonging to a *client* include money or other assets held under the *FCA's client asset rules*.

(2) For the purposes of *CRYPTOPRU* 7.4.9R(2)(b), an asset may be encumbered if it is pledged as security or collateral, or subject to some other legal restriction (for example, due to regulatory or contractual requirements) which affects the *firm's* ability to liquidate, sell, transfer, or assign the asset.

7.4.11 R A *firm* must apply an appropriate haircut to the value of a *non-core liquid asset* to reflect the potential loss of value when converting the asset into cash during stressed market conditions.

7.4.12 G The *FCA* considers that a minimum haircut of no less than that in the range specified in the table in *CRYPTOPRU* 7.4.13G is likely to be appropriate for the purposes of *CRYPTOPRU* 7.4.11R.

7.4.13 G This table belongs to *CRYPTOPRU* 7.4.12G.

Non-core liquid asset	Haircut
Short-term deposits at a *credit institution* that does not have *Part 4A permission* in the *UK* to *accept deposits*	0%
Short-term non-sterling deposits at a *UK credit institution*	0%
Assets representing claims on, or guaranteed by, multilateral development banks or international organisations	0%
Assets representing claims on, or guaranteed by, any *third country* central bank or government	0% - 50%
Regulated covered bonds, or comparable covered bonds regulated in a *third country*	7% - 30%
Asset-backed securities eligible for 'STS' designation under the *Securitisation Regulations 2024*, and backed by residential loans, personal loans, leases or commercial loans for purposes other than commercial real estate development, or comparable asset-backed securities regulated in a *third country*	25% - 35%
High quality corporate debt securities	15% - 50%
Shares that form part of a major stock index	50%
Financial instruments not covered above for which there is a liquid market as defined in article 2(1)(17) of *MiFIR* or article 2(1)(17) of *EU MiFIR*	55%

7.4.14 G For the purposes of applying *CRYPTOPRU* 7.4.11R and 7.4.12G to shares or units in a *CIU*:

(1) where a *firm* is aware of the exposures underlying the *CIU*, it may look through to the underlying exposures to assign an appropriate haircut;

(2) where a *firm* is not aware of the exposures underlying the *CIU*, it should assume that the *CIU* invests, up to the maximum amount allowed under its mandate, in the highest risk assets permissible; and

(3) in either case, a *firm* should consider applying an additional haircut to reflect any additional loss of value that could result from the underlying exposures being held through a *CIU*.

Additional provisions on systems and procedures on the issuer liquid assets requirement

7.4.15 G A *qualifying stablecoin issuer* subject to the *issuer liquid assets requirement* should also refer to the *rules* and *guidance* on systems and procedures to identify, measure and manage risks in relation to its *expanded backing assets* in *CASS* 16.2.17R to *CASS* 16.2.25R.

[*Editor's note*: *CASS* 16.2.17R to *CASS* 16.2.25R were consulted on in the consultation paper 'Stablecoin Issuance and Cryptoasset Custody' (CP25/14).]

7.5 Overall risk assessment: review and document

Overall risk assessment document: content

7.5.1 R When documenting its *overall risk assessment* under *COREPRU* 7.2.9R, a *firm* must include the following in its *overall risk assessment document*:

(1) an overview of the business model assessment and capital and liquidity planning undertaken by the *firm* under *CRYPTOPRU* 7.2.1R;

(2) a summary of the risks identified by the *firm* under *COREPRU* 7.2.1R that may cause material harm and any steps taken to mitigate them;

(3) an analysis of the effectiveness of the *firm's* systems and controls to identify, monitor and, if proportionate, reduce all risks that may cause material harm;

(4) an explanation of how the *firm* is complying with the *overall financial adequacy rule*, including a breakdown of the following as at the review date:

(a) available *own funds*;

(b) available *liquid assets*; and

(c) the *firm's* assessment of its *threshold requirements*;

(5) a summary of any stress testing carried out by the *firm*;

(6) the levels of *own funds* and *liquid assets* that, if reached, the *firm* has identified under *CRYPTOPRU* 7.2.3R(1) may indicate that there is a credible risk that the *firm* will breach its *threshold requirements*;

(7) the potential recovery actions that the *firm* has identified under *CRYPTOPRU* 7.2.3R(2) and *CRYPTOPRU* 7.2.4G; and

(8) an overview of the *firm's* wind-down planning under *COREPRU* 7.2.1R and *CRYPTOPRU* 7.2.5G.

Senior management responsibility for the firm's overall risk assessment

7.5.2 R (1) The content of the *overall risk assessment document* must be reviewed and approved by the *firm's governing body* within a reasonable period after the review under *COREPRU* 7.2.8R has been completed.

(2) As part of its review under (1), the *governing body* must specifically review and approve the key assumptions underlying the overall risk assessment.

7.5.3 G (1) Under *COCON* 2.2.2R, *senior conduct rules staff members* must take reasonable steps to ensure that the business of the *firm* for which they are responsible complies with the relevant requirements and standards of the *regulatory system*.

(2) In particular, *COCON* 4.2.12G explains that *senior conduct rules staff members* should take reasonable steps to ensure that the business for which they are responsible:

(a) has operating procedures and systems with well-defined steps for complying with the detail of relevant requirements and standards of the *regulatory system*; and

(b) is run prudently.

(3) The *FCA* considers that the *overall risk assessment* is a key requirement of the *regulatory system* for *firms* subject to *CRYPTOPRU* 7 and is an essential part of a *firm's* internal systems and procedures for ensuring that the *firm's* business is run prudently. Accordingly, *senior conduct rules staff members* should take an active role in contributing to the analysis required under the *overall risk assessment* in respect of the business areas for which they are responsible and in embedding its requirements into those business areas.

(4) *Firms* and *senior conduct rules staff members* should refer to the provisions in *COCON*, and in particular the *guidance* in *COCON* 3 and

COCON 4, for further information on the *FCA's* general approach to assessing compliance with the relevant conduct rules.

7.6 Overall risk assessment: firms forming part of a group

Purpose

7.6.1 R The purpose of this section is to ensure that:

(1) a *firm* adequately considers the risks of *group* membership;

(2) a *firm* has adequate financial resources on an individual basis in light of its *group* risks; and

(3) a *firm's* membership of a *group* does not impede its ability to wind down individually without causing material harm.

Meaning of 'group'

7.6.2 R For the purposes of this section, *group* has an extended meaning which includes any entity to which a *firm* is linked by a material level of shared ownership or control.

Analysis of group risks by individual firms

7.6.3 R Where a *firm* is a part of a *group*, the *firm's overall risk assessment* must take into account any risks that may cause material harm and which are a result of the *firm's* relationship with other members of that *group* or the *group* as a whole ('*group* risks').

7.6.4 G The requirement in *CRYPTOPRU* 7.6.3R applies in relation to any relationship that the *firm* has with any member of that *group*, irrespective of whether the other entity is an *authorised person* or where it is located.

Identifying and monitoring group risks

7.6.5 R A *firm* must identify and monitor any *group* risks that may cause material harm, including:

(1) direct financial exposures to another *group* member, such as:

(a) trading activity between the *firm* and another *group* member;

(b) intra-group lending arrangements and other *group* treasury activity; and

(c) any guarantees provided by the *firm* for the benefit of another *group* member;

(2) indirect financial exposures to another *group* member, such as:

(a) reliance on another *group* member for revenue generation;

(b) reliance on another *group* member for services or functions; and

(c) expectations that the *firm* will provide financial resources to meet financial liabilities incurred by another *group* member, even if these expectations are not legally enforceable;

(3) risks that may result from other aspects of *group* membership, such as:

(a) shared reputation;

(b) shared *clients*; and

(c) shared policies or control frameworks.

Mitigating group risks

7.6.6 R Where proportionate, a *firm* must reduce any *group* risks that may cause material harm, including by:

(1) assuring itself of the non-financial resources (for example, control frameworks and back-office functions) of relevant *group* members;

(2) assuring itself of the financial resources and financial resilience of relevant *group* members; and

(3) ensuring sufficiently independent decision-making by the *firm*, so that the interests of the other *group* members are not prioritised by the *firm* over the interests of the *firm* itself and its *clients*.

Holding financial resources in the absence of other mitigants for group risks

7.6.7 R If any risk that may cause material harm remains after a *firm* has complied with *CRYPTOPRU* 7.6.5R, the *firm* must assess whether to hold *own funds* or *liquid assets* to mitigate risks that may cause those material harms.

7.6.8 G For example, if a *firm* identifies that it relies on functions performed by another *group* member which is not backed by adequate financial resources, the *firm* may hold *own funds* and *liquid assets* to ensure that in the event of failure of the relevant *group* member, it has the resources to procure the relevant functions.

Assessment of risk at group level

7.6.9 G Where two or more *CRYPTOPRU firms* are members of the same *group*, each *firm* should document its *overall risk assessment* on an individual basis in accordance with *CRYPTOPRU* 7.5.1R.

[*Editor's note*: this section takes into account the proposal for the definition of 'dealing in qualifying cryptoassets as principal' in CP25/25 (Application of FCA Handbook for Regulated Cryptoasset Activities) as if it were final.]

8 Sectoral prudential disclosure requirements for CRYPTOPRU firms

8.1 Application

8.1.1 R This chapter applies to a *CRYPTOPRU firm*.

Application: proportionality

8.1.2 R In complying with this chapter, a *firm* must provide a level of detail in its qualitative disclosures that is appropriate to its size and internal organisation, and to the nature, scope, and complexity of its activities.

Application: when?

8.1.3 R As a minimum, a *firm* must publicly disclose the information specified in this chapter annually:

(1) on the date it publishes its *annual financial statements*; or

(2) where it does not publish *annual financial statements*, on the date it submits its confirmation statement to Companies House under the Companies Act 2006.

8.1.4 G The *FCA* considers it would be appropriate for a *firm* to consider making more frequent public disclosure where particular circumstances demand it – for example, in the event of a major change to its business model or where a merger has taken place.

Application: how?

8.1.5 R A *firm* must publish the information required by this chapter in a manner that:

(1) is easily accessible and free to obtain;

(2) is clearly presented and easy to understand;

(3) is consistent with the presentation used for previous disclosure periods or otherwise allows a reader of the information to make comparisons easily; and

(4) highlights in a summary any significant changes to the information disclosed, when compared with previous disclosure periods.

8.1.6 G A *firm* should consider the best way to make the disclosed information easy to understand – for example, by using tables, charts or diagrams, or cross-references to other information, where relevant.

8.1.7 R A *firm* is not required to comply with *CRYPTOPRU* 8.1.5R to the extent that compliance would breach the law of another jurisdiction.

8.1.8 E Making the disclosures required by this chapter available on a website will tend to establish compliance with the *rule* in *CRYPTOPRU* 8.1.5R(1).

8.1.9 G While the *FCA's* expectation is that a *firm* will use a website for the purpose of complying with *CRYPTOPRU* 8.1.5R, if a *firm* does not maintain a website, or cannot use a website to publish some or all of the information required without breaching the law of another jurisdiction, it must nonetheless ensure that the alternative method of disclosure used complies with the overarching requirement in *CRYPTOPRU* 8.1.5R(1).

8.2 Risk management

8.2.1 R A *firm* must disclose:

(1) a concise statement approved by the *firm's governing body* describing any risks associated with the business strategy that may cause material harm; and

(2) a summary of the strategies and processes used to manage the risks in (1).

8.2.2 G The *FCA* would expect a *firm* to use information from its *overall risk assessment* to provide the disclosures in *CRYPTOPRU* 8.2.1R.

8.3 Own funds

8.3.1 R (1) Subject to (2), a *firm* must disclose the following information regarding its *own funds*:

(a) the composition of *own funds*, listing each of the following:

(i) *common equity tier 1 items*, *additional tier 1 items*, and *tier 2 items*;

(ii) all regulatory adjustments, filters and deductions applied; and

(iii) the resulting total for each tier of capital;

(b) a reconciliation showing how each item in (a) corresponds to specific line items in the balance sheet in the *firm's* audited financial statements; and

(c) a description of the main features of the *common equity tier 1 instruments*, *additional tier 1 instruments* and *tier 2 instruments* issued by the *firm*.

(2) A *firm* that is not required to publish *annual financial statements* is only required to disclose the information specified at (1)(a) and (c).

8.3.2 R A *firm* must disclose the information required by *CRYPTOPRU* 8.3.1R by completing a Disclosure: Composition of Own Funds template.

[**Note**: The Disclosure: Composition of Own Funds template can be found on the *FCA*'s website [*Editor's note*: The link will be inserted at the time of the final rules.].]

8.4 Own funds requirements

8.4.1 R A *firm* must disclose the following information regarding its compliance with *COREPRU* 4.1 (Own funds requirement) and *CRYPTOPRU* 4 (Sectoral own funds requirement for CRYPTOPRU firms):

(1) the *permanent minimum capital requirement*;

(2) the *K-factor requirements* broken down as follows:

(a) the sum of:

(i) the *K-CTF requirement*;

(ii) the *K-CCO requirement*;

(iii) the *K-CCS requirement*;

(iv) the *K-QCS requirement*; and

(v) the *K-SII requirement*;

(b) the *K-CCD requirement* broken down by type of counterparty as set out in *CRYPTOPRU* 4.10.10R; and

(c) the *K-NCP requirement* broken down by:

(i) *category A cryptoasset*; and

(ii) *category B cryptoasset*; and

(3) the *fixed overheads requirement*.

8.5 Own funds threshold requirement and liquid assets threshold requirement

8.5.1 R A *firm* must disclose the amount of its:

(1) *own funds threshold requirement*; and

(2) *liquid assets threshold requirement*.

8.6 Firms forming part of a group

Purpose

8.6.1 G This section contains:

(1) a *rule* on the general information a *firm* must disclose where it is a member of a *group*; and

(2) *rules* and *guidance* on the detailed financial information a *firm* must provide in relation to its ultimate *parent undertaking* ('A'), the content of which depends on whether the *firm* has *Part 4A permission* to carry on *dealing in qualifying cryptoassets as principal* or not.

Meaning of 'group' and 'A'

8.6.2 R For the purposes of this section:

(1) *group* has the meaning in *CRYPTOPRU* 7.6.2R;

(2) 'A' means the *firm's* ultimate *parent undertaking*, irrespective of whether it is located in the *UK*.

General group disclosures

8.6.3 R Where a *firm* is part of a *group*, the *firm* must disclose:

(1) any direct financial exposures the *firm* has to other *group* members, such as:

(a) trading activity between the *firm* and other *group* members;

(b) intra-group lending arrangements and other *group* treasury activity; and

(c) any guarantees provided by the *firm* for the benefit of other *group* members;

(2) any indirect financial exposures the *firm* has to other *group* members, such as:

(a) reliance on other *group* members for revenue generation; and

(b) expectations that the *firm* will upstream cash or dividends to meet financial liabilities incurred by other *group* members, even if these expectations are not legally enforceable;

(3) the amount of either or both of additional *own funds* or *liquid assets* held by the *firm* to address risks that may cause material harm in respect of group risk identified under *CRYPTOPRU* 7.6 as part of its *overall risk assessment*; and

(4) the name, the jurisdiction of incorporation and the principal place of business of A and any intermediate *parent undertakings* between the *firm* and A.

Financial information about the firm's ultimate parent undertaking

8.6.4 R Where a *firm* does not have *Part 4A permission* to carry on *dealing in qualifying cryptoassets as principal*, the *firm* must disclose the following financial information in relation to A:

(1) total assets;

(2) any investment in *group* undertakings;

(3) goodwill;

(4) other intangible assets; and

(5) equity items (or equivalent capital/members' interests).

8.6.5 R Where a *firm* has *Part 4A permission* to carry on *dealing in qualifying cryptoassets as principal*, the *firm* must disclose the following financial information in relation to A:

(1) A's complete statement of financial position (balance sheet), including all line items as reported and the related notes, prepared:

(a) where A is required to prepare accounts in the *UK*, in accordance with the *UK* accounting framework applicable to A; or

(b) where A prepares accounts under another jurisdiction's accounting framework (but it is not required to prepare accounts in the *UK*), in accordance with that jurisdiction's accounting framework, provided they give a true and fair view of A's financial position; or

(c) where A is not required to prepare accounts in any jurisdiction, on a basis consistent with the accounting framework applied by the *firm* or, where this is not practicable, on another reasonable and consistent basis; and

(2) A's encumbered and unencumbered assets.

8.6.6 G Where a *firm* discloses information under *CRYPTOPRU* 8.6.5R, the *FCA* considers it good practice for the *firm*:

(1) where A falls within *CRYPTOPRU* 8.6.5R(1)(c), to provide management information that presents all assets, liabilities and equity items in a balance sheet format that gives a fair view of A's financial position;

(2) where A has a different corporate form (for example, it is a limited liability partnership, a partnership, or an unincorporated entity), to adapt the financial information to reflect the relevant corporate structure while ensuring that all assets, liabilities and equity/capital accounts are disclosed;

(3) where local accounting standards differ materially from *UK-adopted international accounting standards*, to provide reconciling items or explanatory notes to aid understanding of material differences; and

(4) when disclosing encumbered and unencumbered assets under *CRYPTOPRU* 8.6.5R(2), to explain whether assets are pledged as security or collateral, or subject to some other legal restriction (for example, due to regulatory or contractual requirements) that affects the *firm's* ability to liquidate, sell, transfer, or assign the asset.

Compliance using website

8.6.7 G Where A is required to publish financial accounts in its country of incorporation that contain all the information required by *CRYPTOPRU* 8.6.4R or *CRYPTOPRU* 8.6.5R, a *firm* can demonstrate compliance with those disclosure requirements by providing a direct link to such accounts on its website.

[*Editor's note*: the schedules to CRYPTOPRU are not proposed to be amended but are reproduced in full for convenience.]

Sch 1 Record keeping requirements

Sch 1.1 G (1) There are no record keeping requirements in *CRYPTOPRU*.

(2) *CRYPTOPRU firms* are reminded of the general record keeping obligations that apply under *SYSC* 9 (Record keeping).

Sch 2 Notification requirements

Sch 2.1 G There are no notification requirements in *CRYPTOPRU*.

Sch 3 Fees and other payment requirements

Sch 3.1 G *CRYPTOPRU* does not contain any *rules* that directly impose fees or other payments.

Sch 4 Rights of action for damages

Sch 4.1 G (1) The table below sets out the *rules* in *CRYPTOPRU*, contravention of which by an *authorised person* may be actionable under section 138D of the *Act* (Actions for damages) by a *person* who suffers loss a result of the contravention.

(2) If 'Yes' appears in the column headed 'For private person', the *rule* may be actionable by a *private person* under section 138D (or, in certain circumstances, that *person's* fiduciary or representative: see regulation 6(2) and 6(3)(c) of the Financial Services and Markets Act 2000 (Rights of Action) Regulations 2001 (SI 2001/2256)). If 'Yes' appears in the column headed 'Removed', this indicates that the *FCA* has removed the right of action under section 138D(3) of the *Act*. If so, a reference to the *rule* in which the right of action is removed is also given.

(3) The column headed 'For other person' indicates whether the *rule* may be actionable by a *person* other than a *private person* (or that *person's* fiduciary or representative) under article 6(2) and (3) of those Regulations. If so, an indication of the type of *person* by whom the *rule* may be actionable is given.

Chapter/Appendix	**Rights of action under section 138D of the *Act***		
	For private person	**Removed**	**For other person**
All *rules* in *CRYPTOPRU*	No	Yes – *CRYPTOPRU* 1.2.1R	No

Sch 5 Rules that can be waived or modified

Sch 5.1 G The *rules* in *CRYPTOPRU* may be waived or modified by the *FCA* under section 138A of the *Act* (Modification or waiver of rules) where the conditions in that section are met.

Annex D

Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text.

4 Capital resources

…

4.2 Capital resources requirements

…

Capital resources requirement: firms carrying on regulated activities including designated investment business

4.2.5 R The capital resources requirement for a *firm* ~~(other than a *credit union*) carrying on *regulated activities*, including *designated investment business* and to which *IPRU(INV)* does not apply,~~ which is also a *MIFIDPRU investment firm* is the higher of:

(1) the requirement which is applied by this chapter according to the activity or activities of the *firm* (treating the relevant *rules* as applying to the *firm* by disregarding its *designated investment business*); and

(2) the financial resources requirement which is applied by the Prudential sourcebook for MiFID Investment Firms (*MIFIDPRU*).

4.2.5A G …

4.2.5B G A *firm* that is also a *COREPRU firm* is required to comply with *COREPRU* in addition to *MIPRU* 4.

…

4.4 Calculation of capital resources

The calculation of a firm's capital resources

4.4.1 R (1) A *firm* must calculate its capital resources only from the items which are eligible to contribute to a *firm's* capital resources from which it must deduct certain items (see *MIPRU* 4.4.4R).

(2) If the *firm* is subject to the Prudential sourcebook for MiFID Investment Firms (*MIFIDPRU*) or the Interim Prudential sourcebook for investment businesses (~~*IPRU(INV)*~~ *IPRU-INV*), the capital resources are the higher of:

(a) the amount calculated under (1); and

(b) the financial resources calculated under those sourcebooks.

…

Annex E

Amendments to the Interim Prudential sourcebook for Investment Businesses (IPRU-INV)

In this Annex, underlining indicates new text and striking through indicates deleted text.

1 Application and General Provisions

…

1.2 Application

…

1.2.2 R …

(2) *IPRU-INV* does not apply to:

…

(c) a *MIFIDPRU investment firm* (unless it is a *collective portfolio management investment firm*)~~.~~; or

(ca) a *COREPRU firm*.

…

…

…

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