ICAEW
REPRESENTATION 58/25

CP25/14: STABLECOIN ISSUANCE AND CRYPTOASSET CUSTODY

Issued 25 July 2025

ICAEW welcomes the opportunity to comment on the CP25/14: Stablecoin issuance and cryptoasset custody published by the Financial Conduct Authority in May 2025, a copy of which is available from this link.

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This response of 25 July 2025 has been prepared by the ICAEW Financial Services Faculty with support from ICAEW's CASS Working Party and Digital Asset Working Party. The ICAEW Financial Services Faculty is a leading centre for thought leadership on financial services, the faculty brings together different interests and is responsible for representations on behalf of ICAEW on governance, regulation, risk, auditing and reporting issues facing the financial services sector. The faculty draws on the expertise of its members and more than 25,000 ICAEW members involved in financial services.

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EXECUTIVE SUMMARY

1. We are overall supportive of the FCA's proposals for the custody of cryptoassets and the issuance of stablecoins.
2. We agree with the FCA's focus on reducing retail customer harm in this nascent space where risks are still emerging, and where the establishment of a trustworthy framework will be integral to the success of this new asset class.
3. We fully support proposals for the segregation of client assets, strong record-keeping, and frequent reconciliations overseen by independent audit, as vital to protecting the retail customer. We also appreciate the flexibility introduced around backing assets compared to other jurisdictions.
4. While not directly referred to in the consultation paper, we encourage the FCA to consider lessons learned from recent regulatory developments, particularly the evolving safeguarding regime for Payment Institutions (PIs) and Electronic Money Institutions (EMIs), when finalising the proposed CASS 16 and 17 rules. In particular:
    - **Scope clarification:** Greater clarity is needed on the scope of the stablecoin and cryptoasset custody regimes – including how the rules apply to different legal entities, group companies of issuers and custodians, and third-country firms serving UK customers. Further guidance would be helpful on the application of CASS 16.1.4G, especially which specific rules apply to group entities rather than issuers directly.
    - **Interplay with other CASS regimes:** We recommend closer coordination between the existing CASS, safeguarding, and prudential policy teams to ensure consistency. For example, CASS 16 and 17 currently do not include mechanisms such as the prudent segregation policy (as found in CASS 7.13.41), which allows a firm to address potential shortfalls proactively – it is unclear whether this omission is intentional.
    - **Audit and assurance:** As with the PI/EMI regime, we suggest the FCA provide clarity on the applicable audit/assurance frameworks, transition expectations, and whether ethical standards (e.g. those applied to statutory auditors, CASS auditors) are required. Guidance on these matters would help support consistent assurance practices.
    - **Cross-jurisdictional considerations:** Custody definitions vary across jurisdictions, creating fragmentation. The FCA should consider whether equivalence provisions, similar to those in existing CASS rules and AML regimes, could support cross-border operations without requiring full onshoring of custody arrangements.
    - **Compliance burden and market access:** The complexity and cost of compliance may disproportionately affect new entrants and discourage traditional financial institutions (TradFi) from offering stablecoin services. It is important to consider whether the regulatory burden strikes an appropriate balance between resilience and innovation. Operating separate regimes for TradFi and cryptoassets in silo may hinder alignment. Consider whether a separate rulebook (vs. integration with existing frameworks) is optimal in the long term.
    - **Systemic vs non-systemic stablecoins:** While the Bank of England will oversee systemic stablecoins and we are expecting a forthcoming CP with more detail on proposals, more clarity is needed on how non-systemic stablecoins will interact with that framework, particularly to avoid creating unintended disadvantages for smaller or GBP-pegged stablecoin issuers.
    - **Reconciliation and recordkeeping:** To mitigate differences that may always exist due to structural mismatch from the use of blockchains, the FCA can consider token unit mapping, instead of fiat mapping for token reconciliation, i.e. reconciling the notional quantity, not the value. Related issues include the absence of a reporting threshold, considerations around prudent segregation or liquidity buffers (and where these should be held), as used in CASS 7, to enhance operational resilience alongside balancing client asset protection.
    - **Interaction with critical third parties:** Further guidance would be welcome on how the regime applies to critical third-party service providers – including wallet

infrastructure, Hardware Security Modules (HSMs), and cloud service providers – and how custodians are expected to oversee these entities within the framework of CASS 16 and 17.

5. We support the FCA's objective to **safeguard backing assets independently** to enhance consumer protection. While we agree that third-party custodians and banks can mitigate insolvency and group risks, we note that mandating full independence goes beyond existing CASS standards. We believe this approach is appropriate given the current risks (known and unknown) and the relative immaturity in the custody practices of emerging players in this space. An approach in line with CASS 6 could be considered later as the sector risks are better understood.
6. We agree **issuers should back stablecoins they hold themselves** to avoid unbacked issuance and support market integrity. Similarly, we support signed acknowledgment letters (as in CASS 7) to confirm that assets are held on trust, though a single letter per institution covering multiple assets would be more practical than requiring one per asset type.
7. On **record-keeping and reconciliations**, we support robust requirements but request clarification around definitions (e.g. "business day" in a 24/7 market), reconciliation cut-off points, and expectations in a DLT environment. Consideration should be given to the use liquidity buffers and prudent segregation tools for operational resilience, and reconciliation frequency should be risk-based, with daily reconciliations likely necessary for high-volume firms.
8. We support **prompt resolution of discrepancies** but seek clarity on when and how cryptoassets – rather than backing assets – can be adjusted, and under what timeframes.
9. Regarding **redemption**, we support the proposed T+1 timeline but recommend clearer rules on cut-off times, allowance for batch processing, and limited flexibility in exceptional circumstances. We also support universal redemption rights but recommend a statutory model (as in the EU's Markets in Crypto-Assets Regulation (MiCA)) over contractual privity, which is impractical in decentralised or self-custodial environments. If a contract model is retained, the FCA should clarify how rights are formed (e.g. via terms of use) and limit their scope.
10. We support **independent reviews of backing asset disclosures** by qualified auditors but note the need for a clearly defined assurance framework. Reviews should not be limited to statutory auditors of the entity, and issuers should disclose "last update" dates and archive historical versions for transparency.
11. We agree that **Consumer Duty alone is insufficient** to govern cryptoasset custody, and support a more prescriptive, rules-based regime.
12. **Non-statutory trusts** offer flexibility but carry complexity and cost. Omnibus wallets are common and acceptable if records are accurate and controls are robust. Clients should be offered a choice between pooled and segregated accounts, and additional safeguards (e.g. wallet size limits, secure key management, and segregated lending arrangements) should be considered.
13. We support the proposed **record-keeping requirements** and recommend that CASS 17.5.5 G (3) explicitly require documenting all third parties involved in safeguarding means of access, including technology providers and storage solutions. Records should include client-specific details to aid in insolvency. Custodians should also document oversight of third parties supplying ownership data, including data sources, update frequency, and monitoring controls.
14. We agree **frequent reconciliations** are necessary in cryptoassets, with guidance needed on timing, shortfall resolution, and clarification of rules that allow firms to disown responsibility for shortfalls. This must be narrowly defined to avoid under-segregation.
15. For **organisational arrangements**, the FCA should clarify what is included (e.g. governance, IT controls, third-party oversight) and reflect crypto-specific needs such as cyber security and vendor oversight assurance. Clear rules and guidance are essential to minimise risk and ensure orderly asset return in the event of failure.

16. We support the **key management framework** but caution that a technology-agnostic stance on means of access poses risks, especially since third-party technology providers play a crucial role in client protection. Stronger standards for private key security, segregation of duties, and secure backups should be mandated. 'Comply or explain' expectations could help address inconsistent practices across custodians.
17. We agree with the **liability approach** for loss of qualifying cryptoassets but believe the FCA should provide clearer guidance on what constitutes control and consider standardised contractual wording. Firms should be accountable for preventable losses through a defined framework, clearly communicated to consumers.
18. Regarding **use of third parties**, the scope should clearly include critical tech providers (e.g. HSMs and wallet infrastructure), and baseline oversight expectations should be set, including assurance reports. Due diligence should reflect crypto-specific risks, and more frequent monitoring may be appropriate given market immaturity.
19. We also note that the **estimated audit costs** are likely too low and recommend the FCA leverage recent work from its Safeguarding Cost Benefit Analysis team to provide a more realistic cost range.
20. We have focused on considering custody-related matters in our response and not wider matters such as tax or financial reporting, but we recognise **a cross-regulatory effort is essential for a coherent UK stablecoin framework**. Broader legal, tax, financial reporting, and assurance questions must be addressed in parallel to financial regulation to ensure trust and reduce friction. We welcome continued collaboration and stand ready to assist through our member base and technical working groups.

ANSWERS TO SPECIFIC QUESTIONS

1. Do you agree that the Consumer Duty alone is not sufficient to achieve our objectives and additional requirements for qualifying stablecoin issuers are necessary?

21. We agree that Consumer Duty alone is not sufficient and that additional requirements for qualifying stablecoin issuers are necessary, given that the rules will be new and the regime is not mature at present. Rules, especially those around operational and financial resilience and third-party outsourcing, and any accompanying framework will need to include adequate detail, including the specifics of how they can be complied with, for the firms subject to them.
22. As per our response to DP 23/4, in principle, we believe that the Consumer Duty should apply to regulated stablecoin issuers and custodians. There may, however, be issues that need further investigation to determine whether there are practical challenges to applying the Consumer Duty, and whether in those cases it would be appropriate to do so – for example, there seems an inherent limitation in the ability of the issuer to apply the Consumer Duty to customers that acquire stablecoins on a secondary exchange, as the issuer will not know who the customer is at the point of sale.

2. Do you agree that issuers of multi-currency qualifying stablecoins should be held to similar standards as issuers of single-currency qualifying stablecoins unless there is a specific reason to deviate from this? Please explain why? In your answer please include: i. Whether you agree with our assessment of how multi-currency stablecoins may be structured, and whether there are other models. ii. Whether there are specific rules proposed which do not work for multicurrency qualifying stablecoins, and explain why. iii. Whether there are any additional considerations, including risks and benefits, we should take into account when applying our regulation to multi-currency qualifying stablecoins.

23. We agree that issuers of multi-currency qualifying stablecoins should be held to similar standards as issuers of single-currency qualifying stablecoins – there should be consistently applied regulatory standards – but we currently do not yet see a use case for multi-currency stablecoins.

3. Do you agree with our proposals for requirements around the composition of backing assets? If not, why not?

24. We support the FCA's proposals regarding the composition of backing assets, agreeing that stablecoin issuers should be required to hold low-risk, secure, and sufficiently liquid assets such as short-term cash deposits and government treasury instruments maturing in one year or less.
25. These measures are appropriate to protect client assets and promote financial stability. We welcome the clarity provided on permissible asset classes and note the flexibility to expand the asset pool, subject to FCA notification. We note the approach to backing assets differs globally and the current FCA proposed regime appears more flexible than the EU legislation around Markets in Crypto-Assets Regulation (MiCA).
26. Drawing from the FCA's existing safeguarding regime for Payments and E-Money Institutions, which requires FCA approval for the use of liquid assets, we believe a similar approval requirement for stablecoin backing assets would be consistent and proportionate.
27. However, as per our response to DP 23/4, we note that fixed one-year term deposits, while permissible, may introduce liquidity risk due to their non-tradable nature, in contrast to government bonds.
28. We note proposals include allowance for allocation into UK government debt long dated maturities. While these are generally considered high quality liquid assets, we do caution that they are vulnerable to significant pricing movements in response to the interest rate cycle which would impact an issuer's ability to retain a 1-for-1 backing of the value of assets to tokens issued.

4. Do you have any views on our overall proposed approach to managing qualifying stablecoin backing assets? Particularly: i) the length of the forward time horizon; ii) the look-back period iii) the threshold for a qualifying error.

29. We have no comment.

5. What alternative ways would you suggest for managing redemption risk, which allow for firms to adopt a dynamic approach to holding backing assets?

30. We have no comment.

6. Do you think that a qualifying stablecoin issuer should be able to hold backing assets in currencies other than the one the qualifying stablecoin is referenced to? What are the benefits of multi-currency backing, and what risks are there in both business-as-usual and firm failure scenarios? How might those risks be effectively managed?

31. We support the flexibility for stablecoin issuers to hold backing assets in currencies other than the one to which the qualifying stablecoin is referenced, provided that the issuer can demonstrate appropriate liquidity, stability and foreign exchange risk management. Examples of this may include annual credit assessments or minimum credit ratings for foreign jurisdictions or institutions whose currencies are being held.
32. This approach could offer firms greater flexibility and potentially enhance their ability to manage currency fluctuation risks, including through the use of currency hedging strategies.
33. Firms would also need to have appropriate controls and processes in place to ensure that the backing asset pool maintains a 1:1 peg with the stablecoins issued and that there is no diminution to client's cryptoassets.

7. Do you agree that qualifying stablecoin issuers should hold backing assets for the benefit of qualifying stablecoin holders in a statutory trust? If not, please give details of why not.

34. We agree that qualifying stablecoin issuers should hold backing assets for the benefit of stablecoin holders in a statutory trust, as this would enhance client asset protection in the event of issuer insolvency and help to build market confidence.
35. However, we note that implementation will depend on the willingness of banks and custodians to accept stablecoin-related assets into statutory trust arrangements, particularly in light of previous feedback to the safeguarding consultation.
36. We also note that the US and the EU stablecoin regimes both do not require a statutory trust structure and that this will be a consideration for issuers seeking to operate in multiple jurisdictions.
37. While the use of statutory trusts aligns well with existing CASS 7 provisions for money, we highlight concerns around the proposal in CP paragraph 3.87 that backing assets for each stablecoin product be held under separate trusts.
38. This diverges from the approach taken in the CASS 6 regime, where custodians typically use omnibus accounts supported by detailed, client-specific records and robust daily reconciliation processes.
39. If the omnibus approach is deemed fit for purpose under CASS 6 and has proven to work effectively in practice, we would question the need for a different model under the proposed CASS 16 and 17 regimes.
40. Additionally, we note some confusion between the proposed requirement that backing assets be held by independent third-party custodians (as per CASS 16.6.1) and language elsewhere in the CP that appears to suggest issuers would hold these assets directly. Clarity on this point would be welcome.

8. Do you agree with our proposal that qualifying stablecoin issuers are required to back any stablecoins they own themselves? If not, please provide details of why not.

41. Yes, we agree with the proposal that qualifying stablecoin issuers should be required to back any stablecoins they own themselves. If not, there would be a mismatch between stablecoins in issue and backing assets, which would create operational, accounting and other complexities. This would also help to ensure that, in the case of a hack, unbacked qualifying stablecoins do not enter into the cryptoassets ecosystem, undermining the trust and integrity.

9. Do you agree with our proposal to require third parties appointed to safeguard the backing asset pool to be unconnected to the issuer's group?

42. We support the principle that backing assets should be safeguarded with appropriate independence from the issuer to ensure adequate protection in the event of insolvency. Requiring third-party custodians to be unconnected to the issuer's group can help ring-fence these assets and reduce group-wide risk exposure.
43. We believe this approach is appropriate at present given the current risks and the relative immaturity in the custody practices of emerging players in this space.
44. However, we note the proposal in CP paragraph 3.92, to mandate full independence of custodians from the issuer's group, goes beyond what is required by the existing CASS 6 and 7 regimes.
45. Under CASS 7, for example, client money can be held with a bank within the same group, subject to additional safeguards. Firms subject to annual CASS audits and equipped with robust systems and controls have the option, where appropriate, to safeguard assets themselves or appoint connected custodians, provided adequate protections are in place.
46. A similar proportionate approach could be considered here as the sector risks are better understood. This would mirror current custody practices in TradFi (assuming same risk, same regulation), support flexibility and future-proof the regime, while still maintaining strong standards of client asset protection.

10. Do you consider signed acknowledgement letters received by the issuer with reference to the trust arrangement to be appropriate? If not, why not? Would you consider it necessary to have signed acknowledgement letters per asset type held with each unconnected custodian?

47. We support the requirement for signed acknowledgement letters between issuers and custodians to confirm that backing assets are held on trust, and we agree that a standardised template (similar to CASS 7) should be provided within the rules to promote consistency across the industry.
48. However, we question the practicality of requiring separate acknowledgement letters for each asset type. A more efficient and proportionate approach would be to allow a single acknowledgement letter per institution that can cover multiple asset types.
49. Requiring multiple letters increases operational complexity and the risk of error – particularly when asset names change or business models evolve – leading to unnecessary redrafting and higher compliance costs. Inadequate or outdated letters could also undermine asset protection in the event of insolvency.

11. Do you agree with our proposals for record keeping and reconciliations?

50. We agree with the proposed requirements for robust record-keeping and reconciliations between internal records and the custodians holding backing assets, which are essential for maintaining the integrity of client asset protections.
51. However, we believe that several areas require further clarification to ensure the rules are both effective and operationally feasible.
52. First, the FCA should clarify its intended definition of a "business day"—whether it aligns with the traditional Monday to Friday model used in CASS 6, or with the broader definition in draft

CASS 15, which reflects the 24/7 nature of crypto trading and includes weekends and bank holidays (albeit we understand further clarification on this definition will be provided when CASS 15 is issued in final). We call attention to the challenges and potential clarifications by the FCA on this point in draft CASS 15.

53. Second, we ask the FCA to confirm whether reconciliation can be based on records extracted at the close of business on the previous day, in line with existing CASS practice.

54. Third, with respect to proposed rule CASS 16.3.3(3), which requires backing asset pools to be "managed independently" from other stablecoin products, we request clarification on what is meant by "managed independently," given that firms often operate under a single governance framework.

55. Fourth, the FCA should provide guidance on what constitutes "internal books and records" in a distributed ledger context, as well as how external reconciliations are expected to be conducted in such a setting. We note the potential challenges of reconciling the issuers record of token holdings to the blockchain. To mitigate differences that may always exist due to structural mismatch from the use of blockchains, the FCA can consider token unit mapping, instead of fiat mapping for token reconciliation, i.e. reconciling the notional quantity, not the value.

56. Fifth, unlike existing CASS 7 provisions, the draft CASS 16 and 17 rules currently do not appear to permit mechanisms such as prudent segregation, which allow firms to pre-emptively address potential shortfalls. Including such tools would enhance operational resilience and client asset protection. Liquidity buffers could be used to do the same, but it is unclear where an issuer would hold this, be it in the omnibus account or elsewhere.

57. Finally, while daily reconciliations may be appropriate in many cases, we recommend that firms be required to justify their reconciliation frequency based on the nature, volume, and speed of their transaction activity, potentially adjusting it upwards where necessary.

12. Do you agree with our proposals for addressing discrepancies in the backing asset pool? If not, why not?

58. We agree with the proposals for addressing discrepancies in the backing asset pool and that discrepancies should be resolved promptly to ensure accurate reporting.

59. We note that CASS 16.4.15 R (2) provides the option of adjusting the qualifying stablecoins instead of the backing assets. We caution against this proposal as it introduces undue risk to the retail customer, allowing firms to adjust down the number of tokens issues to address an identified deficit in backing assets.

60. Should it remain, the rules will need to further clarify and add more detail to this option to allow firms to use it, given the current section on "Record-keeping and Reconciliation" is highly focused on adjusting the backing assets in cases of discrepancies. If the qualifying stablecoins are to be adjusted, whether through minting or burning excesses, the rules should detail the time requirement for this and for the resolution of discrepancies.

13. Do you agree with our proposed rules and guidance on redemption, such as the requirement for a payment order of redeemed funds to be placed by the end of the business day following a valid redemption request? If not, why not?

61. We broadly support the FCA's proposed requirement that a payment order must be placed by the end of the business day following a valid redemption request (T+1). This approach strikes a reasonable balance between user protection, operational feasibility, and liquidity risk management. However, we recommend that the FCA clarify and refine the redemption expectations in the following areas:

    - **Cut-off times**: It should be explicitly stated that redemption requests submitted after a defined daily cut-off (e.g. 16:00 or 17:00 UK time) are considered received on the following business day for T+1 calculation purposes. This provides issuers with clarity for operational execution and aligns with standard banking settlement cycles.

- **Batch processing**: Many stablecoin issuers use net or batch settlement models to process large volumes of redemption activity efficiently and to optimise reconciliation with reserve accounts. We believe batch processing should be explicitly recognised as compatible with the redemption rule, as long as the payment order reflecting the net redemption position is placed by the end of the next business day.
- **Exceptional circumstances**: The FCA may wish to consider incorporating language that allows for limited flexibility in the event of disruptions outside the issuer's control (e.g. payment system outages, banking holidays, cyber incidents), provided issuers communicate such events clearly and act in good faith to fulfil redemptions as soon as possible.
- **Redemption thresholds**: While we are supportive that redemption should be made available to all holders with no minimum thresholds, we note that this is not currently the norm – it would be useful to understand from industry whether there is a good operational reason for this other than minimising redemption overheads. We note that many issuers currently operate on a business-to-business level with considerable levels of market activity conducted away from the issuer in the equivalent of third-party trading venues (and may, initially at least, be off-chain).
- **Interaction with Payment Services Regulations (PSRs)**: If in time, stablecoin redemption constitutes a payment order, issuers will need clarity on PSRs applicability and potential exemptions.

14. Do you believe qualifying stablecoin issuers would be able to meet requirements to ensure that a contract is in place between the issuer and holders, and that contractual obligations between the issuer and the holder are transferred with the qualifying stablecoin? Why/why not?

62. We fully support the FCA's objective of ensuring stablecoin holders have a clear and enforceable right to redeem at par value.
63. However, requiring a bilateral contract between the issuer and each successive holder is unlikely to be workable in practice, particularly in decentralised or self-custodial environments. As retail customers currently interact with third parties rather than the ultimate issuer, direct relationships would have to be established.
64. In current market structures, stablecoins are often:
    - Held in cold storage or self-custodial wallets, where the issuer has no ongoing relationship with the user,
    - Traded or pooled via permissionless DeFi smart contracts, which may obscure or anonymise the end-user,
    - Transferred across a global user base without direct interaction with the issuer or intermediaries.
65. In such cases, establishing or enforcing a direct contract between the issuer and each new holder is legally uncertain and operationally impractical. The issuer cannot reliably identify downstream holders or ensure they have agreed to specific terms, especially if those holders are not subject to onboarding and AML checks at the time of acquisition.
66. This also raises a concern regarding how anti-money laundering (AML) and counter-terrorist financing (CTF) safeguards interact with the proposed contractual framework. Redemption of stablecoins should always require appropriate onboarding and identity verification in line with AML/CTF obligations.
67. However, if the right to redeem is made contingent on the existence of a prior contractual relationship between the issuer and the holder (i.e. contractual privity), this could create unnecessary legal uncertainty or even disincentivise issuers from recognising legitimate redemption requests from lawfully acquired tokens held in self-custody or DeFi addresses, simply because there is no pre-existing contract.

68. Conversely, assuming contractual relationships without identity verification (e.g. through token transfers alone) would be inconsistent with AML obligations and create compliance risks.
69. In contrast, Article 49 of the EU's Markets in Crypto-Assets Regulation (MiCA) resolves this issue with a statutory right of redemption: *"Holders of e-money tokens shall have a claim on the issuer of such tokens. The issuer shall ensure that the e-money token holders can exercise the right of redemption at any time and at par value."*
70. This approach avoids complex contract transfer mechanisms by granting all lawful holders a guaranteed right to redemption, regardless of how the token was acquired. It assumes issuers implement effective AML procedures at the redemption stage, not necessarily at every point of token transfer, striking a practical balance between compliance and interoperability.
71. The FCA can consider adopting a similar statutory-right model, which:
    - Guarantees redemption rights to all holders (subject to applicable AML checks at redemption);
    - Avoids the legal and operational burden of contract re-formation at each transfer; and
    - Supports broader compatibility with self-custody and decentralised protocols.
72. If a contractual model is retained, we suggest clarifying the means of how a contract is formed:
    - Through public terms of use binding on holders upon acquisition or redemption (e.g. via token metadata, website publication),
    - And that it may be limited in scope, focusing on redemption rights, procedural details, and standard disclosures (e.g. fees, settlement timeframes).
73. This would allow for legal enforceability under UK law (e.g. via unilateral offer and acceptance) without imposing excessive friction or restricting token utility.

15. Do you agree with our proposed requirements for the use of third parties to carry out elements of the issuance activity on behalf of a qualifying stablecoin issuer? Why/why not?

74. We agree with the proposed requirements for the use of third parties to carry out elements of the issuance activity on behalf of a qualifying stablecoin issuer, but these elements will need to be clarified, and sufficient due diligence would need to be performed on the third party before appointing them and periodically throughout to ensure their competence, with properly documented records kept of the due diligence.
75. As per our response to DP 23/4, we believe that firms should be permitted to use third parties, as there are clear advantages to using third parties. A separate third-party entity might be more specialised and capable of managing cryptoassets, which may bring increased benefits and reduce the risk of loss to clients.

16. Do you agree with our proposals on the level of qualifications an individual needs to verify the public disclosures for backing assets? If not, why not?

76. We agree that where an independent review is required to verify the public disclosures for backing assets, it should be provided by an auditor that meets the definition provided. We suggest that the auditor requirement is in line with other similar assurance engagements.
77. Clarification is however required on the below points:
    1. The proposed requirement for an "independent review of disclosures" (CRYPTO 2.5.31) lacks a clearly defined and accepted assurance framework. Auditors currently operate under established standards such as ISAE 3000 (reasonable assurance) or ISRS 4400 (agreed-upon procedures), and the absence of a recognised framework may lead to inconsistent reporting across the market.

2. We suggest the rules clarify that the "independent review of disclosures" need not be provided by the entity's statutory auditor, but rather by any auditor that meets the definition provided with the necessary expertise and resources to perform the exercise.

17. Do you agree with our proposals for disclosure requirements for qualifying stablecoin issuers? If not, why not?

78. We agree the proposals for disclosure requirements for qualifying stablecoin issuers. We suggest that for sections "Information that must be updated when it becomes inaccurate" and "Information that must be updated at least once in every three-month period", a "last update date" should be disclosed to the public and that a version of the previously published information should be made available as part of the archived files.
79. Access to historical disclosures of the "Information that must be updated" would be helpful to users and/or auditors alike.

18. Do you agree with our view that the Consumer Duty alone is not sufficient to achieve our objectives and additional requirements for qualifying cryptoasset custodians are necessary?

80. We agree that Consumer Duty alone is not sufficient to achieve the FCA's objectives. The nuanced nature of cryptoasset custody, specifically maintaining accurate records of client ownership in order to prove beneficial ownership and requirements around private keys, necessitate a more prescriptive, rules focused approach.

19. Do you agree with our proposed approach towards the segregation of client assets? In particular: i. Do you agree that client qualifying cryptoassets should be held in non-statutory trust(s) created by the custodian? Do you foresee any practical challenges with this approach? ii. Do you have any views on whether there should be individual trusts for each client, or one trust for all clients? Or whether an alternative trust structure should be permitted. iii. Do you foresee any challenges with firms complying with trust rules where clients' qualifying cryptoassets are held in an omnibus wallet? iv. Do you foresee any challenges with these rules with regards to wallet innovation (e.g. the use of digital IDs) to manage financial crime risk?

81. We agree that non-statutory trusts (NSTs) are an acceptable mechanism to hold client's cryptoassets.
82. We note that NSTs are less common in traditional finance than statutory trusts – the latter are simpler to establish and well-understood. NSTs offer greater operational flexibility and may mitigate some of the challenges relating to evidencing ownership rights for cryptoassets in the event that the custodian becomes insolvent.
83. However, NSTs are more complex to implement; it requires firms to obtain a legal opinion on the trust deed and trust set up.
84. Lack of familiarity of NSTs in the industry coupled with differing set up depending on legal opinion sought may lead to variations as to how NSTs are applied and operated and varying levels of compliance with the NST requirements. As business models adapt and change this will require updates to the NST Trust Deed. All of the above will add costs to the industry and could lead to different arrangements in practice.
85. Individual trusts for each client offer the most protection but may not align with how many firms hold cryptoassets in practice, i.e. in omnibus wallets, and may be difficult to implement as a result.
86. The proposed CASS 17 rules offer two additional options for operating a NST: i) setting up a trust per cryptoasset; or ii) a trust for certain wallet addresses.
87. While these are valid options and provide a degree of flexibility, a challenge arises where one client is holding cryptoassets in multiple trusts at the same custodian. Currently in the

proposed rules, specifically for the client specific qualifying cryptoasset record, there is no requirement to record which specific trust a client's cryptoassets are being held in.

88. We do not see any significant challenge regarding the use of omnibus wallets, however it is worth noting that the use of omnibus wallets significantly increases the importance of the client specific cryptoasset record being correct.

89. As per our response to DP 25/1, we noted several possible client asset segregation arrangements, including an omnibus wallet in which a pool of staked client assets was held in a single omnibus wallet, but where internal records were maintained to track each individual clients' holdings. Firms should clearly define the terms and conditions in client agreements regarding asset segregation.

90. As per our response to DP 23/4, we note the FCA's comments and agree that rules governing the registration and recording of safeguarding custody assets is key to developing a framework that protects the customer in the event of default. Whether these assets are registered in an omnibus account or in individual client wallets hinges on the trade-off between increased security at an increased cost. Whilst we think that custodians operating separate wallets for custody assets and firm assets protect against the risk of a claim against these assets in the event of insolvency, omnibus structures could be appropriate if the regulations and associated auditing requirements capture the different types of wallet structure that could be available. There would need to be controls to ensure that:

- Records are maintained such that the individual assets of each customer can be determined at any time and without delay;
- Trades are only executed where the customer has the necessary assets and there is no cross subsidisation of trades when processed (as this would present an elevated risk given both the volatility and liquidity in the market for crypto assets); and
- Omnibus wallets are appropriately secured consistent with the rest of the requirements.

91. Our view is that individual client wallets should not be "mandated". Customers should be allowed a choice, either to i) allow their assets to be pooled in an omnibus account with all other customers' assets, which has the benefit of lower costs to maintain but perhaps at the cost of lower security in the event of default of the custodian; or, ii) that customers have the right to request their assets are held in an individual client wallet, not dissimilar to the 'designated client account' option available in traditional client money accounts.

92. At this time, the following matters should also be considered, though we would also note that new technology may also emerge which might make these matters redundant while introducing new issues to consider:

- Whether to place a limit on the total value or nature of assets to be held in a single omnibus wallet to reduce the risk of a single point of failure where one hack could compromise all assets and the solvency of the custodian as a whole;
- The requirements around how the custodian holds keys (including omnibus keys) to ensure they are not held centrally in a single location; and
- Mandating separate wallets for any assets held in lending or collateral arrangements (subject to these being permitted) such that there is no risk that assets held under these arrangements are comingled with those of the customers or the firm.

20. Do you agree with our proposed approach towards record-keeping? If not, why not? In particular, do you foresee any operational challenges in meeting the requirements set out above? If so, what are they and how can they be mitigated?

93. Overall, we agree with the record-keeping requirements set out. However, we note the requirement under CASS 17.5.5 G (3) should also include a requirement to note down any third parties used in the safeguarding of means of access (i.e. not just where a third party holds a part of the key). This should include technology providers and physical or online forms of storage for private keys. While this is included in the requirement under CASS 17.4.9 R (2), in an insolvency scenario, having this information at a client specific level would prove useful.

94. Furthermore, ownership data held by the custodian is only as good as that provided to them by the trading venues or owners themselves, therefore we would encourage some level of documentation of the third parties responsible for providing data, frequency of update, as well as oversight and monitoring controls over such third parties.
95. As per our response to DP 25/1, we agree that firms should be required to maintain accurate records, consistent with existing CASS requirements where possible, of any staked assets and rewards that are due to clients, with sufficient controls in place to ensure these books and records are kept up to date in line with real world movements.
96. Our response to DP 23/4 recommended consideration for the use of CASS 6 Internal System Evaluation Method be used to allow firms to establish a process that evaluates the completeness and accuracy of a firm's internal records for cryptoassets custody. We note current proposals reflect a similar assessment and is appropriate.

21. Do you agree with our proposed approach for reconciliations? If not, why not? In particular: i. Do you foresee operational challenges in applying our requirements? If so, please explain. ii. Do you foresee challenges in applying our proposed requirements regarding addressing shortfalls? If so, please explain.

97. Overall, we agree with the proposals for reconciliations. However, we note the following challenges:
    a) Given the 24/7 nature of crypto markets and volume of trading, more frequent reconciliations may be appropriate; it may be appropriate to issue a guidance note, to prompt firms, where possible to perform reconciliations more than once a day. In addition, the FCA should take into account challenges posed in the safeguarding consultation regarding the definition of business days.
    b) The rules are not clear regarding the data cut off for reconciliations. We welcome clarification on whether the reconciliations should be performed using the books and records as at COB on T-1 or at the time of the reconciliation.
    c) Consideration should be given as to how practical is it to resolve shortfall same day, especially when third parties are involved.
    d) Provisions in CASS 17.5.14(3)(d), which allow firms to determine that neither they nor the third-party custodian are responsible for a shortfall, could create risks to client asset protection. Specifically, there is a risk that firms may apply this exemption inappropriately, and only later, following FCA review, discover that the shortfall should have been addressed through segregation. This could result in delayed remediation and potential harm to clients. We recommend that the FCA provide clearer guidance on the types of scenarios where this provision is intended to apply, to ensure consistent interpretation and reduce the risk of under-segregation.
98. As per our response to DP 25/1, reconciliations provide back up in case of insolvency, hacking, or client disputes. Recommended frequency should be driven by various factors including understanding the nature of the entity or volume of transactions.

22. Do you agree with our proposed approach regarding organisational arrangements? If not, why not?

99. We agree with the proposed approach regarding organisational arrangements.
100. It would be helpful for the proposed CASS rules to clarify the following:
    a) what constitutes 'organisational requirements', including whether it includes governance, oversight of third parties, IT general controls, training obligations, etc.;
    b) whether there is a need for a rule-by-rule risk assessment; and
    c) along with guidance on other components that constitute adequate organisational arrangements.
101. We propose this could be added as a guidance note in the CASS 17 rules.

102. Additionally, organisational requirements for cryptoassets may differ from those in traditional finance, for example, a greater emphasis on cyber security controls and SOC reporting over third party vendors. Reflecting these differences within the CASS framework would help ensure the rules remain relevant and proportionate to cryptoassets.
103. As per our response to DP 23/4, for the purpose of promoting consistency and ensuring firms can deliver their obligations under the Consumer Duty, we believe the appropriate starting point for a regulated stablecoin regime is to leverage the existing FCA organisational requirements – so for example within Senior Management Arrangements, Systems and Controls Sourcebook (SYSC) (including Senior Managers and Certification Regime (SMCR)), operational resilience, financial crime, or Conduct of Business Sourcebook (COBS).
104. We agree with the FCA that having adequate organisational arrangements is a fundamental and over-riding principle in minimising the risk of loss or diminution of clients' cryptoassets, as this will promote credibility and trust from the outset as well as developing an appropriate mindset and expectations. There needs to be supporting controls and measures clearly setting out what that means in practice for firms involved, such that if a firm fails, there is minimal delay when returning assets to the beneficial owner.
105. We believe that custodians holding clients' cryptoassets must establish key controls around their end-to-end systems and processes, especially when external or public distributed ledger technologies (DLT) are used, and that they must have robust internal IT governance controls. We also agree that custodians should have policies and procedures that are reviewed regularly.
106. There needs to be clear legislation so that firms cannot avoid their responsibility for loss, and there should be a requirement for cryptoassets custodians to have insurance arrangements protecting them against the risk of loss.

23. Do you agree with our proposed approach regarding key management and means of access security?

107. We agree with the proposed approach regarding key management and means of access security. However, we note the following challenges:
    a) A technology agnostic approach with regard to means of access may give rise to significant risk, particularly given how critical technology providers are to achieving client protection (e.g. if wallet management is outsourced to a third-party technology provider, and the wallet provider fails, firms will be unable to access or reconcile client's cryptoassets).
    b) Currently certain technology providers are not in scope of regulation, so it would be difficult to apply the CASS rules for those that do come into scope (through holding a shard of a private key).
    c) Proposed rules cover key recovery, but it is unclear whether it covers key record backup. Given the pivotal role of private key management, consider mandating stronger security requirements over the private key record, including a secure back-up of the record, and enforced segregation of duties in managing the record.
    d) Some custodians already have SOC1/ISAE 3402 and/or SOC2 independent assurance reports. However, even amongst this population there lacks a consistent level of minimum private key security. We would support detailed requirements for firms to adhere to on a 'comply or explain' basis.

24. Do you agree with our proposed approach to liability for loss of qualifying cryptoassets? In particular, do you agree with our proposal to require authorised custodians to make clients' rights clear in their contracts?

108. We support the proposed approach to liability for loss of qualifying cryptoassets, but note that relying on contractual terms, rather than clear legal or regulatory standards, could introduce ambiguity. There is a risk that firms may structure contracts in ways that limit or obscure their liability.

109. To mitigate this, we recommend the FCA provide greater clarity on what constitutes events within a custodian's or third party's control and consider introducing standardised wording for contractual terms to ensure consistency and protect clients.
110. As per our response to DP25/1, while we believe that firms should be held accountable for preventable operational/technical losses borne by retail customers, this requirement would need to be specific in the form of a framework that sets out the types of operational and technological failures in scope, and specific about the types of loss events that the FCA considers to be preventable. This requirement would need to be communicated with retail consumers.
111. We encourage the FCA to consider the second order consequences to non-retail customers, where there would not be equivalent rights to cover losses.

25. Do you agree with the requirements proposed for a custodian appointing a third party? If not, why not? Do you consider any other requirements would be appropriate? If not, why not?

112. We agree with the proposed requirements for custodians appointing third parties but believe further clarity and strengthening of expectations are needed. In particular:
    - Scope of third parties: It should be clarified whether providers of wallet infrastructure, Hardware Security Modules (HSMs), and other critical technology services fall within the scope of CASS 17. These third parties often play a fundamental role in safeguarding cryptoassets and may warrant being subject to oversight requirements.
    - Even if the entities above are not brought into scope, the CASS rules should outline baseline requirements that firms should have in place over such entities, such as a SOC/ISAE report – such that the firm, its auditor and regulator can gain comfort over the reliability of such systems.
    - The due diligence requirements should specify cryptoasset specific considerations when appointing a third party, such as the security mechanisms in place over wallets, the locations and security arrangements over private keys, whether held physically or in the cloud and any potential use of key sharding at the appointed third parties.
    - Given the immaturity of some of the third parties, compared to incumbent third parties used to hold traditional safe custody assets, it may be appropriate that due diligence and ongoing monitoring be conducted more frequently than under traditional CASS rules.

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

113. An estimated audit cost of £36,000 (as detailed in para 159) appears to be low, especially considering CASS 15 para 130 estimates audit costs for a medium firm at £100,000 and a large firm at £200,000, and even this is currently under FCA revision due to underestimation concerns. We recommend collaboration with the FCA team running Safeguarding CBA to leverage the work they have done to establish a potential grid of illustrative audit costs.

27. Do you have any views on the cost benefit analysis, including our analysis of costs and benefits to consumers, firms and the market?

114. Please see our answer to question 26, above.