



White paper:

An analysis of FCA consultation
CP25/42 in relation to minimum
capital requirements for
cryptoasset firms

1 Introduction

- 1.1 This note aims to assess the Financial Conduct Authority's ("**FCA**") recent consultation CP25/42, which proposes a prudential regime for cryptoasset firms. The focus of this note will be placed on the minimum capital requirements to regulate cryptoasset firms, in particular the 'K-factor', which is being proposed by the FCA. The K-factor is a critical metric for assessing the amount of own funds that a cryptoasset firm is required to hold, such that they adequately cover the risks associated with cryptoasset activity.
- 1.2 This paper will compare the UK's proposed approach with international benchmarks and consider the implications of the integration of the K-factor within minimum capital requirements¹. To understand the practical implications of the proposed K-factor approach, we considered two crypto trading firms (undertaking market making and/or other trading activity in the UK) and also a retail-focussed exchange undertaking activity in the UK. All three would fall under the remit of FCA's proposed rules².
- 1.3 We obtained the data for our analysis through the UK Cryptoasset Business Council ("**UKCBC**"), a trade body that represents UK cryptoasset firms and engages with policymakers on the development of the UK crypto regulatory framework. UKCBC was able to secure the support of members who contributed the business metrics for each of the three example cases used in this analysis³.
- 1.4 In light of the results of the application of the capital rules on these three cases, we drew conclusions regarding the implications of the proposed minimum capital requirements for cryptoasset firms operating in the UK, including a comparison with capital requirements that would arise for the same business in a sample of other existing crypto regulatory regimes in other regions.⁴
- 1.5 The analysis within this whitepaper can be useful for the FCA to consider as it seeks to implement a regulatory regime that is both rigorous and internationally competitive.

¹ For the purposes of this paper, we have not considered rules relating to the 'composition' of capital/own funds. The focus of this paper is on the proposed rules regarding the calculation of capital 'requirements'.

² We have not considered any potential implications of the proposed rules on more traditional financial services businesses, who may also be undertaking activities in cryptoassets.

³ The data we obtained from UKCBC was sufficiently detailed for us to undertake a high-level analysis of the implications of the FCA's proposed rules, and to undertake a comparison with rules on capital requirements in a sample of other jurisdictions. Where data was in aggregate form, we make certain assumptions to undertake the detailed calculations. The results were not aimed at providing a fully accurate, auditable set of calculations, and should not be relied upon as such. The example firms selected for this analysis should not be taken as entirely representative of the cryptoasset market in the UK.

⁴ European Economic Area, Hong Kong, Singapore and Dubai.

2 International benchmarks

2.1 The following section examines how the UK's proposed minimum capital requirements for cryptoasset firms compare with those implemented by a sample of other international regulators.

FCA proposal of minimum capital requirement

2.2 The K-factor measurement was initially introduced in the FCA consultation CP25/15 for stablecoins and cryptoasset custody activities.⁵ This latest consultation CP25/42 extends the K-factor framework to all other cryptoasset activities, thereby broadening the scope of risk-based capital measurement across all activities.

2.3 This approach aligns with prudential standards applied in other financial sectors while addressing the specific characteristics of cryptoasset markets.⁶

2.4 Under the FCA's proposal, firms would be required to hold own funds that exceed the higher of:

- (a) a permanent minimum capital requirement, i.e.⁷
 - (i) £75,000 for "*dealing as agent in qualifying cryptoassets*" or for "*arranging deals in qualifying cryptoassets*";
 - (ii) £150,000 for "*operating a cryptoasset trading platform*" or for engaging in "*qualifying cryptoasset staking*";
 - (iii) £750,000 for "*dealing as principal in qualifying cryptoassets*".
- (b) one quarter of fixed overheads during the last 12 months;⁸ and
- (c) the K-factor requirement.

2.5 The K-factor works as a risk-sensitive metric that quantifies a firm's exposure to key risk drivers, thereby influencing the required level of capital to be held. Rather than relying solely on fixed capital requirements, the K-factor introduces a dynamic approach, linking capital to the specific activities and risk profile of each firm. This ensures that firms engaged in higher-risk cryptoasset activities are required to maintain greater capital reserves to safeguard market participants.⁹

2.6 The FCA determines the K-factor as the sum of all "sub K-factors" associated with each cryptoasset activity:¹⁰

- (a) K-CTF and K-CCO for operational risks related to order and trades;¹¹

⁵ FCA (December 2025), Consultation Paper CP25/42, A prudential regime for cryptoasset firms ("**FCA CP25/42**"), Table 1.

⁶ FCA CP25/42, paragraphs 3.1 and 3.2.

⁷ FCA CP25/42, Table 3.

⁸ FCA (May 2025), Consultation Paper CP25/15, A prudential regime for cryptoasset firms ("**FCA CP25/15**"), paragraph 4.11.

⁹ FCA CP25/42, paragraphs 3.6. and 3.7.

¹⁰ FCA CP25/42, paragraphs 3.7 and 5.12.

¹¹ FCA CP25/42, paragraphs 3.11 and 3.21.

- (b) K-CCS and K-QCS for operational risks related to cryptoassets staked;
- (c) K-SII for operational risks related to the issuance of qualifying stablecoins;
- (d) K-NCP for market exposure risks depending on the type of cryptoasset orders; and
- (e) K-CCD and K-CON for exposure to counterparty default depending on the type of counterparty.

2.7 All the capital requirements are cumulative and aim to cover all types of cryptoasset activities. It implies that if a cryptoasset firm does not undertake a particular activity (e.g. issuance of qualifying stablecoin), the corresponding K-factor for this activity (e.g. K-SII) is assigned a value of zero.

Comparison of the FCA with other regulations

2.8 Comparison with international benchmarks helps to identify common and distinct requirement between the FCA's approach and requirements in other prudential regimes.

2.9 For the purposes of comparing international benchmarks, the focus will be placed on the types of cryptoasset firms that fall within the scope of the FCA consultation CP25/42. Regulatory regimes governing cryptoasset advisory firms, for instance, will not be considered.

Europe

2.10 The European Union's prudential requirements for cryptoasset service providers are detailed in the Markets in Crypto-Assets ("**MiCA**") regulation, which came into effect in June 2023.¹² MiCA establishes harmonised rules across the EU for cryptoassets that fall outside the scope of existing financial services regulation. The framework applies to entities involved in issuing and trading cryptoassets, including asset-referenced tokens and e-money tokens.

2.11 Regarding the prudential capital requirements, Article 67 of the MiCA regulation requires that "*crypto-asset service providers shall, at all times, have in place prudential safeguards equal to an amount of at least the higher of the following:*

- (a) *the amount of permanent minimum capital requirements indicated in Annex IV, depending on the type of the crypto-asset services provided;*
- (b) *one quarter of the fixed overheads of the preceding year, reviewed annually.*"¹³

¹² European Securities and Markets Authority, Markets in Crypto-Assets Regulation (MiCA). Available at: <https://www.esma.europa.eu/esmas-activities/digital-finance-and-innovation/markets-crypto-assets-regulation-mica> (accessed on 12 February 2026).

¹³ European Union (31 May 2023), Regulation (EU) 2023/1114 of the European Parliament and of the Council, Article 67. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02023R1114-20240109&qid=1770309010315> (accessed on 12 February 2026).

- 2.12 In particular, Annex IV outlines the permanent minimum capital requirements based on the type of cryptoasset activity as follows:¹⁴
- (a) EUR 50,000 (£43,676) for Class 1 firms acting as agents on behalf of clients, or for those providing portfolio management services of cryptoassets;
 - (b) EUR 125,000 (£109,189) for Class 2 firms, i.e. Class 1 firms that additionally provide custody services of cryptoassets or facilitate exchange of cryptoassets for funds or for other cryptoassets; and
 - (c) EUR 150,000 (£131,027) for Class 3 firms, i.e. Class 2 firms that additionally operate trading platform services.¹⁵
- 2.13 Exchanges operating a multilateral trading platform are categorised as Class 3 firms under the MiCA regulation. Market makers are not explicitly assigned to any specific Class, but trading firms of the type we included as examples (offering market-making and/or other trading services, but not operating a multilateral trading platform) are likely to be categorised as Class 2 firms.

Hong Kong

- 2.14 In Hong Kong, the licensing regime for virtual assets¹⁶ trading platforms (“**VATP**”) entered into force on 1 June 2023, following the Securities and Futures Commission’s (“**SFC**”) public consultation.¹⁷ In December 2025, the SFC published the consultation conclusions on the regulation virtual assets dealing services (“**VA Dealing**”) and virtual asset custodian services (“**VA Custodian**”).¹⁸ These varying regulatory requirements are designed to address the distinct risks and activities associated with different types of cryptoasset firms.
- 2.15 In relation to minimum capital requirements, the VA regulatory regimes generally follow a similar model across the different types of activities, requiring both a minimum paid-up share capital and a minimum level of liquid capital. In addition to these capital thresholds, the VATP regime mandates that firms maintain liquid assets exceeding their operating expenses for the previous twelve months. These requirements are summarised in Table 2.1.

¹⁴ European Union (31 May 2023), Regulation (EU) 2023/1114 of the European Parliament and of the Council, Annex IV.

¹⁵ Exchange rates are HMRC February 2026 figures.

¹⁶ For the purposes of this note, the terms “cryptoasset” and “virtual asset” will be used interchangeably, acknowledging that terminology varies between jurisdictions.

¹⁷ (1) Securities and Futures Commission (23 May 2023), Consultation Conclusions on the Proposed Regulatory Requirements for Virtual Asset Trading Platform Operators Licensed by the Securities and Futures Commission. Available at: <https://apps.sfc.hk/edistributionWeb/api/consultation/conclusion?lang=EN&refNo=23CP1> (accessed on 19 February 2026).

(2) Slaughter and May (June 2023), New Regulatory Requirements for virtual Asset Trading Platform Operators Come Into Effect. Available at:

https://www.slaughterandmay.com/media/z1wjeixt/new_regulatory_requirements_for_virtual_asset_trading_platform_operators_come_into_effect_4391.pdf.pdf (accessed on 19 February 2026).

¹⁸ King & Wood Mallesons (20 January 2026), “Hong Kong’s virtual assets licensing regime: What lies ahead in 2026”. Available at: <https://www.kwm.com/hk/en/insights/latest-thinking/hong-kong-virtual-assets-licensing-regime-what-lies-ahead-in-2026.html> (accessed on 12 February 2026).

Table 2.1: Minimum capital requirements under VA Dealing, VA Custodian and VATP

Virtual asset regime	Permanent minimum requirement	Operating expenses requirement
VA Dealing ¹⁹	Minimum paid-up capital: HKD 5 million (£478,190) Minimum liquid capital: HKD 3 million (£286,914)	Flexibility to require that liquid assets exceed 12 last months of operating expenses
VA Custodian ²⁰	Minimum paid-up capital: HKD 10 million (£956,380) Minimum liquid capital: HKD 3 million (£286,914)	None
VATP ²¹	Minimum paid-up capital: HKD 5 million (£478,190) Minimum liquid capital: HKD 3 million (£286,914)	Liquid assets exceed 12 last months of operating expenses

Source: Hong Kong Securities and Futures Commission, HMRC. Note: Exchange rates are HMRC February 2026 figures.

2.16 We understand that that exchanges are regulated under the VATP regime, while trading firms that undertake market making and other trading-related activities are regulated under the VA Dealing regime.

Dubai

2.17 In Dubai, the Virtual Asset Regulatory Authority (“**VARA**”) regulates cryptoasset activities and cryptoasset service providers since 7 February 2023.²² On 7 February 2023, VARA introduced the Virtual Assets and Related Activities Regulations 2023, establishing a comprehensive regulatory framework for cryptoassets designed around principles of economic sustainability and cross-border financial security. The Virtual Assets regulatory framework is aimed to provide regulatory certainty.²³ Cryptoasset firms that want to carry out regulated virtual asset activity must be licensed by VARA, for activities including broker-dealer services, custody services, exchange services.²⁴

¹⁹ Securities and Futures Commission (December 2025), Consultation Conclusions Legislative Proposal to Regulate Dealing in Virtual Assets and Further Public Consultation Legislative Proposal to Regulate Virtual Asset Advisory Service Providers and Virtual Asset Management Service Providers, paragraph 29. Available at: <https://apps.sfc.hk/edistributionWeb/api/consultation/conclusion?lang=EN&refNo=25CP6> (accessed on 12 February 2026).

²⁰ Securities and Futures Commission (December 2025), Consultation Conclusions Legislative Proposal to Regulate Virtual Asset Custodian Services, paragraph 42. Available at: <https://apps.sfc.hk/edistributionWeb/api/consultation/conclusion?lang=EN&refNo=25CP7> (accessed on 12 February 2026).

²¹ Securities and Futures Commission (June 2023), Guidelines for Virtual Asset Trading Platform Operators, paragraphs 6.1-6.3. Available at: <https://www.sfc.hk/-/media/EN/assets/components/codes/files-current/web/guidelines/Guidelines-for-Virtual-Asset-Trading-Platform-Operators/Guidelines-for-Virtual-Asset-Trading-Platform-Operators.pdf> (accessed on 12 February 2026).

²² Virtual Assets Regulation Authority, Regulatory Framework. Available at: <https://rulebooks.vara.ae/> (accessed on 12 February 2026).

²³ VARA (7 February 2023), Dubai’s VARA issues specialised regulations for Virtual Assets. Available at: <https://www.vara.ae/en/news/dubais-vara-issues-specialised-regulations-for-virtual-assets/> (accessed on 20 February 2026).

²⁴ Simmons&Simmons (10 February 2023), Dubai’s VARA publishes Full Market Product Regulations. Available at: <https://www.simmons-simmons.com/en/publications/cldy9b5i00z4u7l0teus0qm5/dubai-s-vara-publishes-full-market-product-regulations> (accessed on 16 February 2026).

- 2.18 Regarding prudential capital requirements, the VARA issued a compulsory company Rulebook that set out the capital requirements depending on whether the service provider is also using a licence to provide custody services.²⁵ The regulation requires that paid-up capital exceeds the higher of:
- (a) a fixed AED amount; or
 - (b) a percentage of fixed annual overheads.
- 2.19 The permanent minimum requirements and fixed overhead requirements per type of activity are summarised in Table 2.2.

Table 2.2: Minimum capital requirements under the Virtual Assets and Related Activities Regulations 2023

Virtual asset activity	Minimum paid-up capital requirement		Fixed overhead requirement	
	Licensed ⁽²⁾	Not licensed ⁽²⁾	Licensed ⁽²⁾	Not licensed ⁽²⁾
Broker-dealer services	AED 400,000 (£81,223)	AED 600,000 (£121,835)	15% of fixed annual overheads	25% of fixed annual overheads
Custody services	AED 600,000 (£121,835)		25% of fixed annual overheads	
Exchange services	AED 800,000 (£162,446)	AED 1,500,000 (£304,587)	15% of fixed annual overheads	25% of fixed annual overheads

Source: Dubai Virtual Assets Regulatory Authority, HMRC.

Notes: (1) Exchange rates are HMRC February 2026 figures. (2) The requirements are different depending on whether the broker-dealer services or exchanges services uses virtual asset service providers licensed by VARA to provide custody services.

- 2.20 In addition to the minimum capital requirements, the VARA requires that net liquid assets exceed 1.2 times monthly operating expenses.²⁶
- 2.21 We will assume that exchanges fall under the category of exchange services, and trading firms that undertake market making and other trading-related activities fall under the category of broker-dealer services.

Singapore

- 2.22 In Singapore, virtual asset service providers must secure a licence from the Monetary Authority of Singapore (“**MAS**”) to operate. The licensing framework is designed to ensure that these providers adhere to regulatory standards, including strict anti-money laundering and counter-terrorism financing requirements. In this context, virtual assets usually encompass digital payment tokens (“**DPTs**”) and other digital assets used for payments or investment purposes. Cryptocurrencies such as Bitcoin and Ether are classified as DPTs and are subject to regulation under the Payment Services Act (“**PSA**”).

²⁵ Virtual Assets Regulation Authority (19 May 2025), Company Rulebook, Part VI – Capital and Prudential Requirements. Available at: https://rulebooks.vara.ae/sites/default/files/en_net_file_store/VARA_EN_36_VER20250519.pdf (accessed on 12 February 2026).

²⁶ Virtual Assets Regulation Authority (19 May 2025), Company Rulebook, Part VI – Capital and Prudential Requirements.

Any business engaging in services such as the transfer, exchange, or custody of these tokens is required to obtain a licence from MAS.²⁷

- 2.23 For businesses to be licensed, the regulation requires the base capital to exceed SGD 250,000 (around £145,298) and the ability to cover at least 6 to 12 months of operating expenses, regardless of the type of business.²⁸

Key findings from the international benchmark comparison

- 2.24 The comparison of the different capital requirements is presented in Table 2.3.

Table 2.3: Comparison of minimum capital requirements between FCA (proposals) and other existing prudential regimes

Jurisdiction	Comparison metric	Permanent minimum requirement	Fixed overhead requirement	K-factor
EU MiCA	Capital	Yes	Yes	No
Hong Kong Virtual Asset regulation	Paid-up capital and liquid capital	Yes	Yes	No
Dubai Virtual Asset regulation	Paid-up capital	Yes	Yes	No
Singapore Digital Token guidelines	Base capital	Yes	Yes	No
FCA proposal CP25/42	Own funds	Yes	Yes	Yes

Source: AlixPartners analysis.

- 2.25 There are common features across prudential regimes for cryptoassets in relation to minimum capital requirements. The current regulatory frameworks adopt a rule whereby firms must maintain a capital that is the higher of a fixed permanent minimum requirement and/or a measure based on operating expenses.
- 2.26 First, the comparison of permanent minimum requirements shows that the FCA generally sets requirements (see paragraph 2.4) that are between those of other jurisdictions (neither the highest nor the lowest), except in cases of cryptoasset activities involving dealing as a principal, where the FCA imposes higher standards.
- (a) The EU MiCA regulations set lower standards of the permanent minimum requirements than the FCA.
 - (b) In Hong Kong and Dubai, the required paid-up capital is set at a higher level than in the FCA.

²⁷ Charltons Quantum (April 2025), An overview of the regulation of virtual assets in Singapore. Available at: <https://charltonsquantum.com/wp-content/uploads/docs/singapore-crypto-guide.pdf> (accessed on 12 February 2026).

²⁸ Monetary Authority of Singapore, Financial Services and Markets Act 2022, Guidelines on licensing for digital token service providers, paragraph 3.2.5. Available at: <https://www.mas.gov.sg/-/media/guidelines-on-licensing-for-digital-token-service-providers.pdf> (accessed on 12 February 2026).

- (c) The Singaporean regulations are flat SGD 250,000 (£145,298) regardless of the type of activity. This threshold exceeds the FCA's requirement for firms operating as agents, yet remains below the FCA's standards for other categories of firms.
- (d) It is worth highlighting that direct comparison is complicated by the fact that each regulator employs different metrics to assess capital adequacy (e.g. own funds, paid-up capital or liquid capital), resulting in inconsistencies across regions.

2.27 Second, the requirements for operating expenses differ across jurisdictions.

- (a) In the EU, Dubai and the FCA proposal, firms are required to adhere to whichever is the higher of the permanent minimum capital requirement or the fixed overheads. The fixed overheads requirements are either 15% (Dubai with licence) or 25% (UK, Europe and Dubai without licence) of annual fixed overheads.
- (b) In Hong Kong and Singapore, the regulations impose higher and cumulative thresholds for operating expenses, prioritising greater capital buffers to support ongoing operations. For example, the Hong Kong regulation imposes an additional requirement that liquid assets are higher than operating expenses incurred over the last 12 previous months (although the SFC does not necessarily have to apply this requirement beyond virtual asset trading platforms). In the same way, the Singaporean regulation requires the additional condition that the base capital covers at least 6 to 12 months of operating expenses. In contrast, the Dubai regulation requires that liquid assets cover 1.2 times monthly operating expenses.

2.28 In conclusion, the FCA's approach to both the permanent minimum requirement and fixed overheads sits in the middle of the global comparator range. The FCA generally imposes permanent minimum requirements that are neither the strictest nor the most permissive, except for principal dealing activities where its standards are higher relative to agency business. The increase in requirements for dealing as principal in the UK (i.e. 10 times the requirement for dealing as agent) is considerably higher than that of other jurisdictions – Hong Kong, Singapore and Dubai maintain the same requirement for agency business and principal dealing activity. In contrast, the European MiCA imposes that permanent minimum requirement for principal dealing activity is 2.5 times larger than that for agency business.

2.29 With regard to fixed overheads, the FCA's requirements are aligned with those of the EU and Dubai, mandating that firms hold the higher of the permanent minimum or a percentage (typically either 15% or 25%) of annual fixed overheads.

Interim conclusion

2.30 Disregarding the K-factor our analysis demonstrates that components of the FCA regime are well aligned with international benchmarks.

2.31 It should be noted that the K-factor approach is specific to the FCA, and we will explore the implications of this additional metric in greater detail in the next section.

3 Key takeaways from example cases

3.1 The following section examines the proposed K-factor approach within the FCA framework, highlighting its sensitivity to underlying assumptions, the comparison with international benchmarks, and the implications for capital requirements in the context of cryptoasset regulation.

3.2 See Table 3.1 below to see comparative, estimated capital requirements for the three examples we used.

Table 3.1: Comparison of capital requirements for the three example firms (in GBP)

Jurisdiction	Capital requirements	Example firm A: Trading firm	Example firm B: Trading firm	Example firm C: Exchange
UK FCA Consultation	<i>Permanent capital requirement</i>	750,000	750,000	150,000
	<i>K-factor</i>	6,031,006	417,469,889	2,500,000
	<i>Fixed overheads</i>	1,125,000	2,700,000	375,000
	Highest capital requirement	Own funds > 6,031,006	Own funds > 417,469,889 ⁽⁷⁾	Own funds > 2,500,000
EU MiCA	<i>Permanent capital requirement</i>	125,000	125,000	150,000
	<i>Fixed overheads</i>	1,125,000	2,700,000	375,000
	Highest capital requirement	Capital > 1,125,000	Capital > 2,700,000	Capital > 375,000
Hong Kong Virtual Asset regulation ⁽¹⁾	Permanent capital requirement	Paid-up capital > 478,190	Paid-up capital > 478,190	Paid-up capital > 478,190
		Liquid capital > 286,914	Liquid capital > 286,914	Liquid capital > 286,914
	Additional requirement (Opex)	Liquid assets > 6,000,000 (flexible ⁽²⁾)	Liquid assets > 15,600,000 (flexible ⁽²⁾)	Liquid assets > 22,500,000
Dubai Virtual Asset regulation ⁽³⁾	<i>Permanent capital requirement⁽⁴⁾</i>	81,223 (licence), or 121,835 (no licence)	81,223 (licence), or 121,835 (no licence)	162,446 (licence), or 304,587 (no licence)
	<i>Fixed overheads⁽⁴⁾</i>	675,000 (licence), or 1,125,000 (no licence)	1,620,000 (licence), or 2,700,000 (no licence)	225,000 (licence), or 375,000 (no licence)
	Highest capital requirement	Paid-up capital > 1,125,000	Paid-up capital > 2,700,000	Paid-up capital > 375,000
	Additional requirement (Opex)	Net liquid assets > 600,000	Net liquid assets > 1,560,000	Net liquid assets > 2,250,000
Singapore Digital token guidelines ⁽⁵⁾	Permanent capital requirement	Base capital > 145,298	Base capital > 145,298	Base capital > 145,298
	Additional requirement (Opex) ⁽⁶⁾	Base capital > 3,000,000	Base capital > 7,800,000	Base capital > 11,250,000

Source: AlixPartners analysis. General note: Based on the information on existing capital we received from member firms of UKCBC, we have highlighted in green those requirements that the firms would meet, and in yellow those requirements that the firms would not meet.

Notes: (1) The regulation requires that all three conditions (paid-up capital and liquid capital requirements, and additional requirement related to opex) be met concurrently for the exchange. (2) The additional requirement related to opex does not necessarily apply for the trading firms, but can be considered by the regulator. (3) The regulation requires that both conditions (capital requirement and additional requirement related to opex) be met concurrently. (4) As mentioned in paragraph 2.18, the capital requirements are different depending on whether the service provider is also using a licence to provide custody services. (5) The regulation requires that both conditions be met concurrently. (6) It is assumed that the additional requirement mandates base capital to exceed six months of operating expenses. (7) The K-factor reflects a total loan exposure of nearly £583 million across all cryptoassets.

Sensitivity of the K-factor to FCA assumptions and classifications

3.3 The calculation of risk-exposure K-factors is sensitive to underlying assumptions, particularly the classification of specific cryptoassets and counterparties.

3.4 First, assigning a cryptoasset to category A or category B in the calculation of exposure K-factors can result in the application of substantially different risk factors – category A will attract a risk factor of 40%, whereas category B could be assigned a much higher risk factor of 100%.²⁹ Positions in “UK-*authorised qualifying stablecoins*” are excluded from the K-NCP requirements.³⁰ The distinctions arising from such categorisation can materially affect the overall capital requirement for a firm, which can be illustrated for our example firms as follows:

(a) For example A (trading firm):

- (i) If Bitcoin and Ethereum were reclassified from category A to category B, the K-factor would increase from £6,031,006 to £10,831,006. Scenarios that could result in such assets falling under Category B would include average daily volatility being greater than 5% over a 12-month period.
- (ii) If stablecoins were excluded from the K-NCP calculation on account of their recognition as ‘UK-*authorised qualifying stablecoins*’, then the K-factor would decrease to £3,231,006.

(b) For example B (trading firm):

- (i) If Bitcoin, Ethereum and Solana were reclassified from category A to category B, the K-factor would increase from £417,469,889 to £490,526,458.
- (ii) If stablecoins were excluded from the calculation, then the K-factor would drop to £288,932,311.

(c) For example C (exchange):

- (i) The data we obtained suggested it would not be sensitive to the classification in category A or B as it did not hold loans or open trading positions.

3.5 As can be seen from the high-level sensitivity analysis above, the current categorisation of cryptoassets warrants critical scrutiny. By establishing three distinct, and substantially different, rating

²⁹ FCA CP25/42, paragraphs 3.48-3.50.

³⁰ FCA CP25/42, paragraph 3.42.

thresholds (0%, 40% or 100%), the cost to firms of an asset failing to meet certain criteria, or switching between criteria over the life of a holding can be substantial.

- 3.6 For example, the trading of relatively established cryptocurrencies like Bitcoin could attract the same rating as other, far more volatile, cryptoassets held within a firm's trading book if Bitcoin's average daily volatility increased to >5%, or if by the time firms are required to comply with the capital requirements, no cryptoasset trading platform on which Bitcoin trades has become a 'UK qualifying cryptoasset trading platform' (CATP).
- 3.7 Similarly, stablecoins are specifically designed to minimise volatility, yet there is a possibility that they will attract the same weighting as other cryptoassets if their issuers fail to obtain FCA authorisation for the activity of issuing stablecoins. We would note that stablecoins are not necessarily 'low risk' products overall when taking into account peg and reserve, liquidity and operational risks.
- 3.8 Second, the type of counterparty involved in transactions influences the risk factor applied to the calculation of the K-CCD, which is related to the risk of counterparty default. Exposures to state-related and regulated financial institutions will be subject to a 1.6% risk factor, corporate counterparties would attract an 8% factor and retail clients would carry a risk factor of 83.33%. Whilst noting the FCA's rationale for such a high risk factor for retail exposures, there is likely a strong case to monitor the potential influence of this risk factor on firms' strategic decisions regarding retail offerings. The authorisation status of other cryptoasset firms with which a firm is dealing will also potentially have a material impact on the K-CCD requirement.

Implications of the K-factor on own funds requirements

- 3.9 One of the key features of the K-factor approach is that by focusing on the risk drivers relevant to each firm, the K-factor metric provides a more risk-based reflection of the capital needed to absorb potential losses, rather than applying a one-size-fits-all minimum capital requirement.
- 3.10 The K-factor is relevant mainly for larger firms. For small firms, the permanent minimum or fixed overheads requirement would likely remain the key contributor to their capital requirements, whereas for larger firms – particularly those with high trading volumes or significant counterparty exposures – the K-factor will become the main contributor.
- 3.11 As firms grow and increase their cryptoasset activities, the K-factor would rise. For instance, in our study, example firm B (trading firm) was involved in more cryptoasset transactions than example firm A (trading firm) and faced a significantly higher K-factor. Our analysis identified that the implication of this K-factor was such that its existing capital would be deficient under the proposed UK rules, whilst being sufficient under the existing rules of the other jurisdictions included in our analysis (with the possible exception of Hong Kong, if the regulator chose to impose additional liquid assets requirements on the firm).
- 3.12 Similarly, the impact of the K-factor on example firm C (exchange) was that its current capital level would be insufficient to meet the FCA's proposed capital requirements, whilst being sufficient under the rules in EEA and Singapore.

- 3.13 It is worth noting that compared to EEA, Singapore and Dubai, cryptoassets firms are subject to stricter capital requirements in Hong Kong, particularly in relation to liquid assets, which for exchanges must be sufficient to cover at least twelve months of operating expenses. For other firms, the SFC has discretion to apply a similar requirement – in which case none of the example firms in our study would hold sufficient capital.

4 Final remarks and considerations for the prudential regime

- 4.1 When considering the variables associated with the K-factor, it is likely that for smaller firms (trading lower volumes of cryptoassets), the regulatory burden does not present a significant barrier to entry, particularly when comparing it to existing capital regimes in the other regimes included in our analysis.
- 4.2 In contrast, for larger firms with substantial trading volumes, the K-factor is likely to become the driver behind the capital requirement. Our analysis using three example firms shows that:
- (a) The proposed UK capital requirements are highly sensitive to the categorisation of cryptoassets and counterparties, and any change in the categorisation due to changes in volatility or authorisation status of cryptoassets/counterparties could lead to material swings in capital requirements.
 - (b) The K-factor could establish a material difference in capital requirements for firms authorised in the UK, compared to the requirements they may face in other regions – particularly as the size of a business may grow.
- 4.3 Many firms undertaking activities in cryptoassets are in the process of considering their business models and regional strategies, as the regulatory framework is continuing to evolve globally. Capital requirements are a significant factor within such considerations and as the UK moves closer to establishing its formal regulatory regime, firms will be considering the potential capital implications of business activities in the region.
- 4.4 Given the potential for substantially different capital requirements in the UK, particularly for the larger organisations for whom the K-factor will dictate the requirements, there is value in the FCA taking into account the high-level, comparative results presented in this paper, as well as the analysis of key sensitivities to categorisations.
- 4.5 Further, more detailed analysis is recommended in order to determine the impact of proposed capital rules, given the high-level nature of our analysis and the small sample of firms included. However, our high-level analysis may assist the FCA as it seeks to strike the appropriate balance between establishing a robust and risk-based prudential regime, upholding market integrity and consumer protection, and competitiveness relative to other jurisdictions. The analysis may also inform a wider discussion amongst regulators to support further ‘global’ harmonisation of rules for crypto businesses.

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About us

For more than forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges—circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line—a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA—so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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