

FCA CONSULTATION  
PAPER CP19/3

**Extracts from  
'Guidance on  
Cryptoassets'**



# INTRODUCTION

These 'tokens' are *cryptoassets*, not *cryptocurrency*, because while they can be used as a means of exchange:

- They are too volatile to be a good store of value
- They are not widely accepted as a means of exchange
- They are not used as a unit of account



## HARM TO CONSUMERS?

Cryptoassets pose a range of substantial risks to consumers, which stem from consumers purchasing unsuitable products without having access to adequate information. This can include fraudulent activity, as well as the immaturity or failings of the market infrastructure and services.

Consumers may experience unexpected or large losses. While this is true of many types of investments, cryptoasset investors should be particularly aware of the volatility that many tokens experience, and the limited information available on how these tokens work.

The potential to misunderstand the nature of these assets can be compounded by poor practices in relation to advertising. Ads often overstate benefits and rarely warn of volatility risks.

# INITIAL COIN OFFERINGS

Whitepaper documents that typically accompany initial coin offerings (ICOs) are not standardised and often feature information considered to be exaggerated or misleading... evidence suggests there are significant risks associated with ICOs.

Consumers may buy cryptoassets without being aware of the limited regulatory protections for those cryptoassets that fall outside the FCA's regulatory remit, like the lack of recourse to the Financial Services Compensation Scheme.



## FINANCIAL CRIME

In the first half of 2018 alone, \$731 million worth of cryptoassets were stolen from exchanges. This included \$500 million from a hack on the Coincheck exchange and \$40 million from a hack on the Coinrail exchange. By October 2018, hacking of exchanges increased to \$927million.

Cryptoassets can sometimes offer potential anonymity and the ability to move money between countries and individuals. This lack of transparency and regulatory oversight for certain cryptoassets means that there are risks from financial crime, including money laundering and the financing of terrorism. Europol estimates that £3-4 billion is laundered using cryptoassets each year in Europe.

# FCA CLASSIFICATION OF CRYPTOASSETS

## SECURITY TOKENS

These are tokens with specific characteristics that mean they meet the definition of a [regulated] Specified Investment like a share or a debt instrument, and are within the perimeter

## EXCHANGE TOKENS

These are not issued or backed by any central authority and are intended and designed to be used as a means of exchange. These tokens are usually outside the [FCA regulatory] perimeter

## UTILITY TOKENS

These tokens grant holders access to a current or prospective product or service... they might meet the definition of e-money in certain circumstances (as could other tokens), in which case activities in relation to them may be within the perimeter.

## NEXT STEPS

This consultation, focused on the existing regulatory perimeter, represents the first important step for the FCA in delivering against the commitments set out in the Taskforce\* report.

This will also help inform future work we carry out on cryptoassets, both independently and as part of the Taskforce. This consultation means we can share our position on areas that we feel are complex or contentious, and provide regulatory clarity for firms and consumers.

\* In October 2018, the UK Cryptoassets Taskforce published a report that set out the UK's policy and regulatory approach to cryptoassets and Distributed Ledger Technology (DLT)

KNOWCO IS A SPECIALIST UK BANK SUPPORT  
RESOURCE FOR:

- ICAAP, ILAAP, RRP
- RISK APPETITE STATEMENT DEVELOPMENT  
AND ENHANCEMENT
- CRR COMPLIANT PILLAR 3 STATEMENTS
- STRATEGIC BUSINESS PLANNING AND  
MODELLING
- GOVERNANCE POLICIES, PROCESSES,  
ASSURANCE

OUR INTUITIVE AND TRANSPARENT SOFTWARE  
FACILITATES COMPLIANCE WITH REGULATORY  
REQUIREMENTS FOR:

- CREDIT RISK CAPITAL  
STRESS TESTING AND MANAGEMENT
- IRRBB STRESS TESTING AND  
MANAGEMENT
- LIQUIDITY RISK STRESS TESTING AND  
MANAGEMENT
- FUNDS TRANSFER PRICING
- IFRS 9 COMPLIANCE AND REPORTING

**PLEASE CONTACT**

Paul Ashton

[paul.ashton@knowco.co.uk](mailto:paul.ashton@knowco.co.uk)

Dr Lise Land

[lise.land@knowco.co.uk](mailto:lise.land@knowco.co.uk)

[www.knowco.co.uk](http://www.knowco.co.uk) 07799 113535

