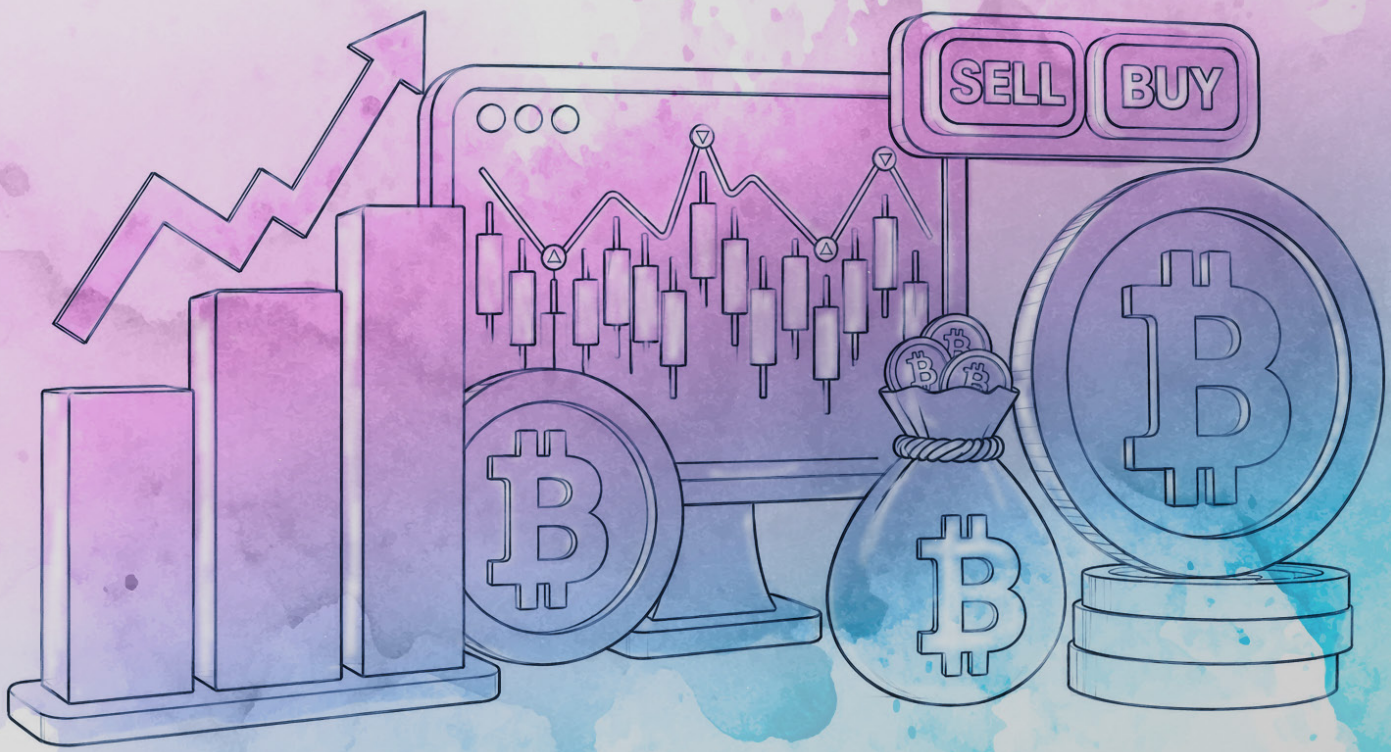
REGULATORY CAPITAL FOR CRYPTOASSET FIRMS



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The UK's new cryptoasset regime takes effect on 25 October 2027. Newly authorised firms will need to hold eligible regulatory capital (i.e., own funds), under the FCA's new prudential sourcebooks, COREPRU and CRYPTOPRU.

Regulatory capital requirements scale with your business, so a lack of appropriate capital will act as a restriction on the growth of your business. It should therefore be a foundational element of your business planning, and is a core component of the regulatory business plan you need as part of the FCA authorisation. The rules are complex, and we recommend taking specialist advice early in the process.

For cryptoasset firms, the aim of regulatory capital is to protect clients and markets by absorbing losses, and allow a distressed business to wind-down in an orderly way without affecting either.

In this guide we explain
1. what is regulatory capital for;
2. what instruments are eligible; and
3. how the requirements for a cryptoasset firm are calculated.

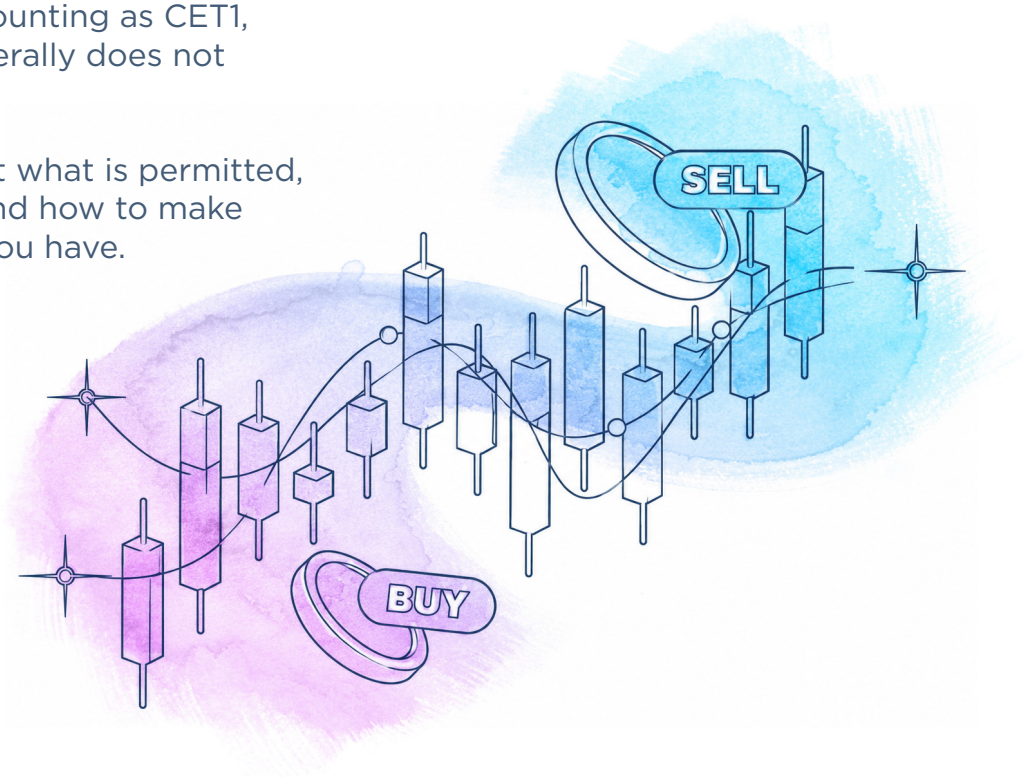
COMMON ISSUES FOR HIGH GROWTH FIRMS

Start-ups and high-growth firms often have complex capital structures built up over several funding rounds. Features that commonly cause problems include:

- Complex shareholding structures, including multiple classes of shares
- Shareholder agreements involving complex rights and interactions between different shareholders
- Advance subscription agreements (ASAs) and simple agreements for future equity (SAFEs)
- Convertible debt (including loan notes)

Redemption rights, preferences and fixed returns can stop shares counting as CET1, and convertible debt generally does not count until it converts.

We can help you work out what is permitted, where the red lines are, and how to make the most of the funding you have.



CALCULATING CAPITAL REQUIREMENTS

Regulatory capital requirement = the HIGHEST of these three measures

Below are the three parallel methods for calculating capital requirements, depending on your regulatory permissions. Cryptoasset firms must hold at all times the highest of these three measures.

1 Permanent minimum requirement (PMR)

Fixed floor, set by activity, in CRYPTOPRU

£750,000	Dealing in qualifying cryptoassets as principal
£350,000	Issuing a qualifying stablecoin
£150,000	Safeguarding, staking or operating a trading platform
£75,000	Dealing as agent; arranging deals

Highest applicable amount applies. Must be held from authorisation, with no transition.

2 Fixed overheads requirement (FOR)

The cost of an orderly wind-down

25% of the previous year's relevant expenditure

Roughly three months' costs: the time assumed for an orderly wind-down.

New firms use projections. A material change in expenditure triggers recalculation.

3 K-factor requirement

A value calculated by multiplying the relevant business activity by the scaling factor.

K-SII	Issuing a qualifying stablecoin	1%
K-RCS	Safeguarding qualifying cryptoassets and SICs	0.04%
K-CCS	Client cryptoassets staked	0.04%
K-CCO	Cryptoasset client orders	0.1%
K-CTF	Cryptoasset trading flow	0.1%
K-NCP	Net cryptoasset position	40% net position
K-CCD	Cryptoasset counterparty default	Exposure formula
K-CON	Concentration risk	Exposure formula

Applicable K-factors are added together.

- For firms also subject to MIFIDPRU, the highest applicable PMR applies, and the applicable K-factor requirements from both regimes must be aggregated. The firm then needs to hold the highest of its PMR, FOR and combined K-factor requirement.
- Firms must also meet the overall financial adequacy rule (OFAR) at all times, and run an overall risk assessment (ORA) that is reviewed every 12 months.
- Public disclosure only applies once the FOR or KFR sets the requirement, not when the PMR does.

WHAT CONSTITUTES ELIGIBLE CAPITAL?

There are three types of instruments eligible as regulatory capital, ranked by how readily they absorb losses. The rules are in COREPRU.

More loss-absorbing

CET1
Common Equity Tier 1

Ordinary shares, share premium, retained earnings and reserves. The most loss-absorbing form of regulatory capital and the bulk of the requirement.

Must be plain vanilla: perpetual, fully paid up, paid last in insolvency, with fully discretionary dividends.

What sets the types apart?

Loss absorption, subordination, permanence.

AT1
Additional Tier 1

Perpetual instruments that convert into CET1 or are written down on a contractual trigger if capital falls too low.

Coupons fully discretionary, so non-payment is not a default and cannot cause insolvency. Ranks between CET1 and Tier 2.

What mix of types do I need?

CET1 at least 56%, and CET1 plus AT1 at least 75%, of the requirement.

T2
Tier 2

Dated subordinated debt, with a minimum maturity of five years.

Ranks behind senior creditors.

Watch out: structured investments

VC-style investor rights (preferences, redemption rights, vetoes) can take shares outside CET1.

SOME ITEMS MUST BE DEDUCTED FROM REGULATORY CAPITAL

Certain items must be deducted from the headline value of your regulatory capital instruments.

Some illustrative examples of deductions from CET1 are set out below.

Own tokens	DEDUCTED	Tokens issued by the firm or a connected party, or whose supply it controls (UK qualifying stablecoins excepted).
Intangible assets (including certain cryptoassets)	DEDUCTED	Deducted from CET1 in full, including cryptoassets not admitted to a UK qualifying trading platform or not prudently valued.
Certain tax assets	DEDUCTED	Deferred tax assets that rely on future profitability and foreseeable tax charges

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