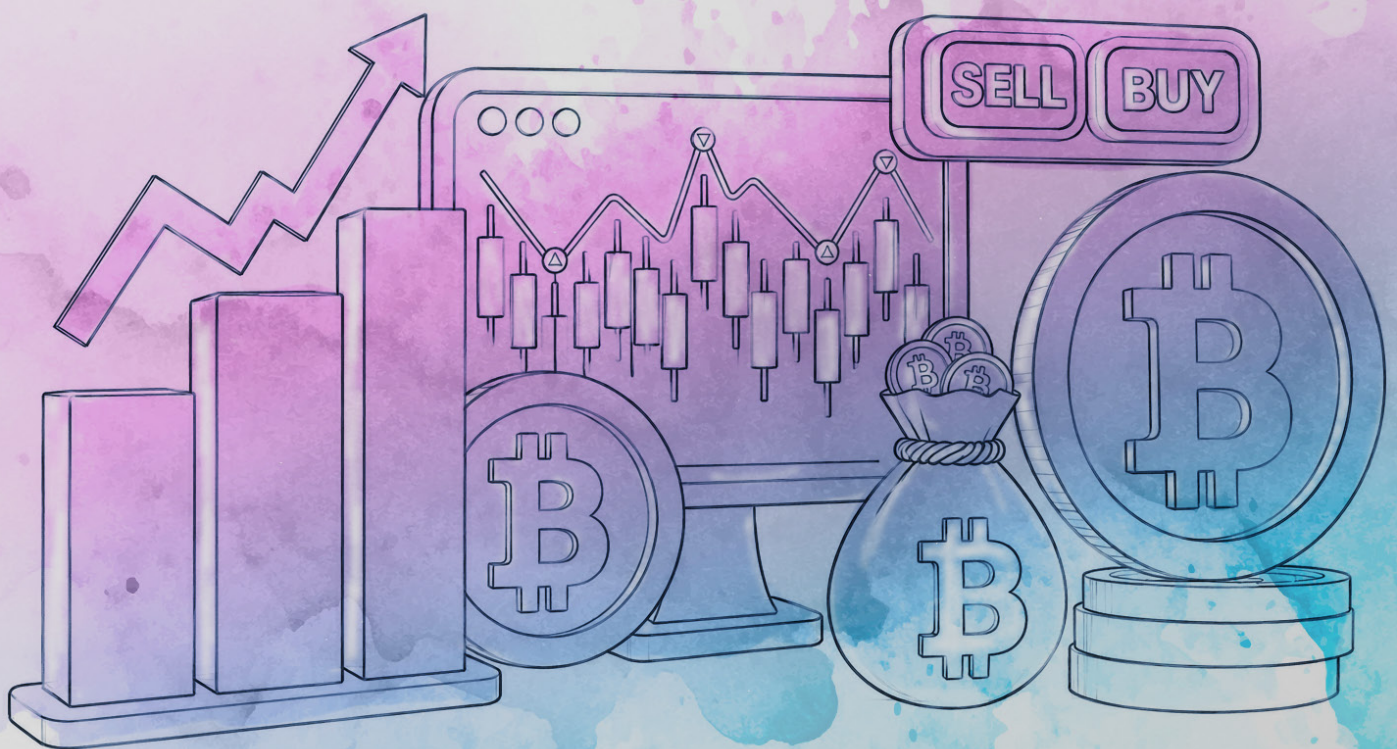


REGULATORY CAPITAL FOR CRYPTOASSET FIRMS



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.

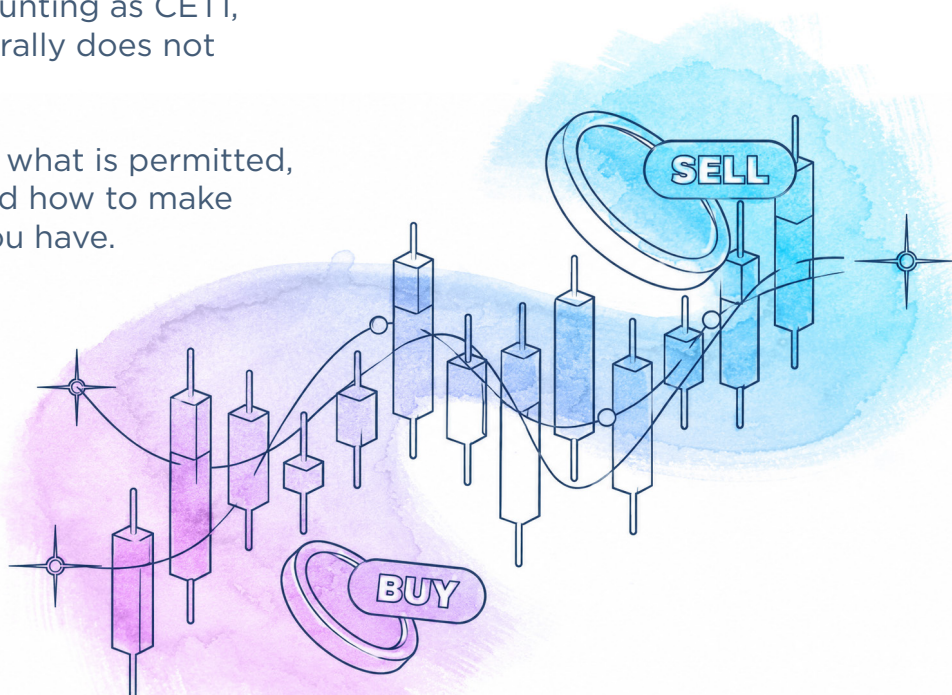
COMMON ISSUES FOR HIGH GROWTH FIRMS

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.

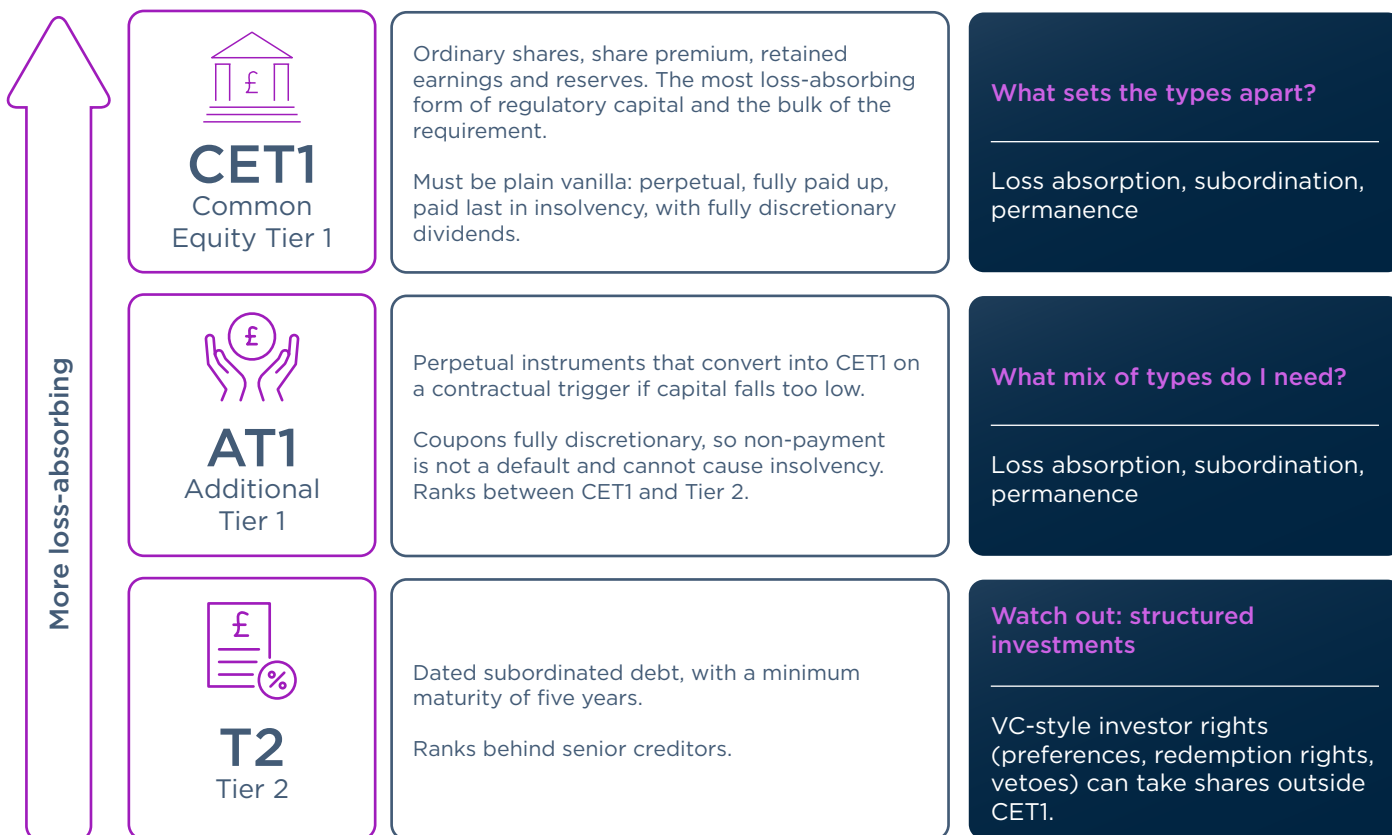
K-SII	Dealing in qualifying cryptoassets as principal	1%
K-RCS	Issuing a qualifying stablecoin	0.04%
K-CCS	Safeguarding, staking or operating a trading platform	0.04%
K-CCO	Dealing as agent; arranging deals	0.1%
K-SII	Dealing in qualifying cryptoassets as principal	0.1%
K-RCS	Issuing a qualifying stablecoin	40% net position
K-CCS	Safeguarding, staking or operating a trading platform	Exposure formula
K-CCO	Dealing as agent; arranging deals	Exposure formula

Applicable K-factors are added together.

- For firms also subject to MIFIDPRU, additional PMRs apply to MIFID activities, and the K-factor requirements from both regimes must be aggregated. The firm then needs to hold the highest applicable 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.



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 opposite.

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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