Charltons Quantum – Quantum Updates 43 – May 2025

[Online version](https://charltonsquantum.com/quantum-updates-43-uk-fca-expands-pre-application-support-service/)

**United Kingdom Financial Conduct Authority Expands Pre-Application Support Service (PASS) for Cryptoasset, Payment, and Wholesale Firms**

On 08 April 2025, the United Kingdom Financial Conduct Authority (**UK FCA**) updated its Pre-Application Support Service (**PASS**), to promote regulatory clarity and facilitate business growth within the payments sector, cryptoasset, and wholesale market sectors. PASS offers prospective applicants an opportunity to engage with the UK FCA early in their authorisation or registration journey, improving application quality and reducing approval timelines.

PASS initiative offers the pre-application meeting, available free of charge to cryptoasset firms, payments firms, and wholesale market participants considering applying for registration or authorisation in the United Kingdom. During these meetings, firms meet directly with a designated case officer who outlines regulatory expectations, explains common challenges, and directs firms to critical resources. In many cases, the same case officer who participates in the pre-application meeting will also oversee the formal assessment of the firm’s application, ensuring continuity and deeper contextual understanding throughout the process.

Firms interested in booking a pre-application meeting must submit a request through the UK FCA’s Connect platform. Applicants are asked to provide essential details, including their proposed business model, corporate structure, profiles of key individuals, and specific areas where guidance is sought. This preliminary information allows the UK FCA to tailor its support, identify focus areas, and better prepare the applicant for the formal authorisation stage.

United Kingdom Financial Conduct Authority actively collaborates with advisers, trade bodies, and business associations operating within the cryptoasset, payments, and wholesale sectors. The UK FCA offers speaker engagements at industry events, roundtables, and conferences, sharing insights into the authorisation process and providing practical guidance to firms navigating regulatory pathways. Requests for UK FCA speakers can be submitted by email or through the agency’s speaker request form, with further assistance available through direct contact with any UK FCA office.

The United Kingdom Financial Conduct Authority provides extensive supporting materials to assist firms in understanding sector-specific authorisation or registration requirements. For cryptoasset firms, detailed guidance is available on registering under the Money Laundering Regulations (**MLRs**), including examples of good and poor-quality applications to enhance success rates. Payment firms receive step-by-step instructions on whether to seek authorisation or registration, with specific resources for payment institutions, electronic money institutions, and registered account information service providers. Wholesale market applicants, including fund managers, benchmark administrators, custodians, investment managers, multilateral trading facilities, and principal trading firms are directed to sector-specific regulatory pathways and preparation guidelines.

By expanding the reach and resources of the Pre-Application Support Service, the United Kingdom Financial Conduct Authority aims to reduce regulatory friction, improving application quality, and accelerating market access for firms contributing to innovation and economic growth. PASS supports a proportionate, agile, and business-friendly regulatory environment for fintech, crypto, and wholesale financial services innovation.

(Source: <https://www.fca.org.uk/firms/authorisation/pre-application-support-service>)

**United Kingdom Financial Conduct Authority Strengthens AML/CTF Registration Requirements for Cryptoasset Firms**

On 17 April 2025**, t**he United Kingdom Financial Conduct Authority (**UK FCA**) updated the anti-money laundering and counter-terrorist financing (**AML/CTF**) registration regime and thereby reaffirmed its commitment to combatting money laundering, terrorist financing, and proliferation financing in the cryptoasset sector. As the designated AML/CTF supervisor of United Kingdom cryptoasset businesses under the United Kingdom Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 ([**MLRs**](https://www.legislation.gov.uk/uksi/2017/692/data.pdf)), the UK FCA mandates that any firm providing cryptoasset services within the scope of the MLRs must be formally registered before commencing operations.

Firms intending to operate cryptoasset businesses “by way of business” within the United Kingdom must assess their activities against Regulations 8, 9, and 14A of the MLRs. This includes businesses already authorised or registered with the UK FCA under other frameworks, such as payment institutions, electronic money institutions, and firms authorised under the United Kingdom Financial Services and Markets Act 2000 ([**FSMA**](https://assets.publishing.service.gov.uk/media/5a79a91ded915d07d35b72a2/consolidated_fsma050911.pdf)). The UK FCA will assess on a case-by-case basis whether an activity qualifies as being conducted in the course of business within the jurisdiction.

In addition to the general AML/CTF obligations, cryptoasset firms that intend to communicate financial promotions in the United Kingdom under the expanded scope of the Financial Promotions Regime must also seek registration under the MLRs. This ensures alignment between anti-money laundering supervision and consumer protection initiatives.

Applications for registration must be submitted through the UK FCA’s Connect system. Prior to filing, firms are strongly encouraged to review the cryptoasset registration application forms, guidance on good and poor-quality applications, and the detailed informational requirements outlined by the UK FCA. The authority has made it clear that poor-quality, incomplete, or misleading applications will be rejected outright without further assessment. Only once all necessary information has been received will the UK FCA begin its three-month statutory clock to render a decision.

Recognising the complexity of the regime, the UK FCA offers firms the opportunity to request pre-application meetings to discuss expectations, clarify application processes, and introduce business models. These meetings, while highly valuable, do not constitute pre-approval or advice. Firms seeking such meetings must submit key information in advance, including corporate details, relevant regulatory questions, a summary deck outlining business models and product offerings, and the cryptoasset activities intended to be pursued.

Registration fees apply under Category 6 of the UK FCA’s application pricing structure, with additional periodic or annual fees applicable for registered firms. Income is defined for fee purposes as the gross inflow of economic benefits generated from providing cryptoasset services during the reporting year.

Fit and proper assessments form a core pillar of the registration review process. The UK FCA will scrutinise not only the applicant business but also all relevant individuals, including directors, managers, nominated officers for anti-money laundering compliance, and beneficial owners, in accordance with Regulation 58A of the MLRs. Criteria considered include criminal convictions, regulatory compliance history, financial soundness, honesty, integrity, competence, and the risk profile presented by the applicant in the context of money laundering and terrorist financing vulnerabilities.

The UK FCA has issued a stern reminder that non-disclosure of relevant information during the application process is treated extremely seriously. Any deliberate withholding of information or submission of false or misleading facts may result in automatic rejection of the application and potential criminal proceedings.

Throughout the registration process, applicants are expected to demonstrate a proactive understanding of their regulatory obligations, a strong culture of compliance, and operational readiness to meet ongoing AML/CTF requirements.

Firms seeking further guidance or clarification regarding the cryptoasset registration regime are encouraged to contact the United Kingdom Financial Conduct Authority’s dedicated email channel at [firm.queries@fca.org.uk](mailto:firm.queries@fca.org.uk).

(Source: <https://www.fca.org.uk/news/speeches/global-responses-digital-asset-regulation>)

**US CFTC’s Kristin N. Johnson Champions Responsible Innovation and Global AI Collaboration at Africa Fintech Summit 2025**

On 24 April 2025, Commissioner Kristin N. Johnson of the United States Commodity Futures Trading Commission (**US CFTC**) delivered a powerful [speech](https://www.cftc.gov/PressRoom/SpeechesTestimony/opajohnson18) at the Africa Fintech Summit 2025 in Washington, D.C., calling for deeper international collaboration in artificial intelligence (**AI**), fintech innovation, and inclusive digital asset development. The Africa Fintech as a platforms for dialogue among entrepreneurs, investors, and regulators, Commissioner Johnson underscored Africa’s unique role as a global hub of fintech creativity, noting the continent’s accelerating influence in reshaping the financial services landscape.

Reflecting on her personal journey from family entrepreneurship to a federal commissioner overseeing derivatives markets with notional values exceeding $730 trillion globally, Johnson highlighted the exponential growth of emerging technologies—including blockchain, cryptocurrencies, and AI—in transforming financial systems. She noted that the US CFTC’s remit is evolving, with courts and Congress signalling an expanding mandate over these technologies as part of broader financial market oversight.

Recognising Africa’s dynamic fintech ecosystem, Commissioner Johnson praised the continent’s top innovators—PalmPay, Flutterwave, Kuda, MTN, Piggvest, and Yoco—as global leaders in inclusive finance. She described her visits to South Africa, Kenya, Zambia, and Ghana, where she directly observed the curiosity, ambition, and technological sophistication that distinguish African fintech entrepreneurs. Many of these firms, Johnson said, are leveraging partnerships with global technology leaders such as Google, Microsoft, and Amazon Web Services to scale advanced tools like distributed ledger technology and AI in a way that deepens financial inclusion and empowers underserved populations.

Commissioner Johnson identified AI as one of the defining forces shaping fintech’s future. She detailed how AI has already improved medical diagnosis, agricultural sustainability, and financial market efficiency, including applications in algorithmic trading, price prediction, and automated risk management. With global investment in AI projected to reach $97 billion by 2027, she explained, financial services firms are moving rapidly to adopt these tools across advisory, trade execution, compliance, and fraud prevention functions.

Commissioner Johnson warned of inclusion barriers, particularly for emerging market firms and smaller competitors. The high cost of AI infrastructure, dependence on large language models, and need for high-performance computing environments often exclude early-stage or regional players from full participation. She praised recent efforts to reduce these barriers, including Cassava Technologies’ collaboration with Nvidia to build Africa’s first AI factory in South Africa to bridge the digital divide.

At the regulatory level, Johnson outlined the US CFTC’s ongoing dialogue with market participants on the governance of AI in financial services. She reiterated her call for a robust, principles-based regulatory framework that includes safeguards such as explainability, bias mitigation, data controls, and transparency. She also reiterated her advocacy for the formation of an AI Fraud Task Force and interagency regulatory coordination in the United States. These mechanisms, she said, are essential to mitigating systemic risk and consumer harm in AI-enabled markets.

The Commissioner also discussed global standard-setters’ growing focus on these challenges. The Financial Stability Board (**FSB**) and the International Organization of Securities Commissions (**IOSCO**) have each issued guidance on responsible AI integration, while countries like Singapore have operationalised sandbox frameworks through the Monetary Authority of Singapore to allow fintechs to trial AI-based innovations within safe, controlled regulatory environments. She called for greater harmonisation of global standards, noting that fragmentation poses significant compliance challenges, especially for emerging market innovators.

Citing Kenya’s M-Pesa platform as a model for mobile-first innovation, Johnson emphasised that African firms have proven highly capable of democratising access to finance at scale. M-Pesa, she noted, enables users to store, send, and redeem money via SMS, breaking through historical barriers to financial services for millions. Commissioner Johnson described her meeting with the M-Pesa leadership and officials at the Central Bank of Kenya as emblematic of the kind of cross-border dialogue needed to manage retail participation and protect consumers as markets open.

In her concluding remarks, Commissioner Johnson urged sustained collaboration between African fintech pioneers, African and US regulators, and global capital and technology partners. Such cooperation, she argued, is critical to advancing responsible innovation, protecting consumers, and building a more inclusive and resilient global financial system. The Africa Fintech Summit, she said, offers not just a venue for conversation, but a launchpad for collective action.

(Source: <https://www.cftc.gov/PressRoom/SpeechesTestimony/opajohnson18>)

**United Kingdom Financial Conduct Authority Signals Pro-Innovation Regulatory Commitment at The City UK International Conference 2025**

On 24 April 2025, Jessica Rusu, Chief Data, Information and Intelligence Officer at the United Kingdom Financial Conduct Authority (**UK FCA**), delivered a Speech at ‘The City UK’ International Conference 2025, outlining the FCA’s evolving approach to digital asset regulation, artificial intelligence, financial innovation, and regulatory modernization. Against the backdrop of global market uncertainty, Rusu positioned the United Kingdom as a steady and trusted financial centre — offering the clarity, stability, and proportionate regulation that innovative firms require to start up, scale, and thrive.

Opening her remarks with reflections on the resilience of financial markets during volatile times, Rusu highlighted how technological advancements, particularly artificial intelligence, have fundamentally reshaped the financial services sector in the past year. She noted that the United Kingdom remains a global leader in key markets such as commercial insurance, derivatives, debt issuance, foreign exchange, and commodities trading. Underpinning this leadership is a world-class outcomes-based regulatory regime that balances market dynamism with systemic stability.

Rusu elaborated on the United Kingdom Financial Conduct Authority’s new five-year strategy, launched just weeks before the conference, which focuses on deepening trust, recalibrating risk management, and supporting sustainable economic growth. She argued ‘Entrepreneurs, seek predictability and regulatory certainty, and the UK FCA is committed to providing an environment that is pro-innovation, stable, and globally competitive’.

Rusu also discussed on the nation’s strong rule of law, business-friendly climate, and effective collaboration between Government, Parliament, regulators, and industry stakeholders. The country’s leadership in fintech is evident, with three times more fintechs than Germany or France, dozens of unicorns, and a healthy pipeline of high-growth “soonicorns”. These achievements, she said, are supported by pioneering initiatives like the world-first Regulatory Sandbox and the more recently launched Digital Sandbox, which now includes an AI Lab offering synthetic data assets for innovation testing.

Rusu shared tangible metrics demonstrating the success of the FCA’s innovation platforms. More than 90% of firms engaging with the FCA’s Innovation Services proceed to authorisation, and over 80% of firms that participated in the Regulatory Sandbox remain operational. Sandbox firms are not only surviving but thriving, being 50% more likely to raise funding and typically securing 15% more investment than peers.

Turning to digital asset regulation, Rusu acknowledged the accelerating pace of innovation in payments, digital assets, stablecoins, and crypto markets, particularly in the United States. She reiterated the United Kingdom’s intent to capitalise on opportunities in distributed ledger technology (**DLT**) and tokenisation, responding to calls from TheCityUK’s recent report advocating urgency in modernising the UK’s financial market infrastructures. Following the Government’s approach to crypto regulation, the United Kingdom Financial Conduct Authority published a comprehensive roadmap for developing a domestic crypto regime in late 2024. Rusu underlined that the FCA has already leveraged existing legislation, such as the Financial Services and Markets Act 2000, to impose robust standards and consumer protections in the crypto market. In the first year of its financial promotions regime, the FCA removed over 900 scam crypto websites and issued 1,700 consumer alerts.

She made it clear that the FCA is not operating in isolation, highlighting the United Kingdom’s active participation in international standard-setting bodies like IOSCO, the Financial Stability Board (**FSB**), and the Financial Action Task Force (**FATF**). By engaging internationally, the United Kingdom ensures that its domestic regulations remain competitive while influencing the global evolution of digital asset standards.

Beyond crypto, Rusu pointed to the transformative potential of Open Banking and Open Finance, noting that over 11 million consumers already use Open Banking services in the United Kingdom. She detailed efforts to expand Open Banking to new payment models, including variable recurring payments, and underscored initiatives like ‘Project Aperta’ — a collaboration with the Bank for International Settlements to develop cross-border data sharing frameworks that could reduce friction and cost in global finance.

Artificial intelligence featured prominently in Rusu’s vision for the future of financial services. With the UK FCA’s AI Lab now operational, the agency has embraced an “open for AI business” approach. She cited findings from a joint survey with the Bank of England showing that 75% of firms are already deploying AI solutions, with another 10% planning adoption. The UK FCA’s existing outcomes-based regulation, including the Consumer Duty and the Senior Managers and Certification Regime (**SM&CR**), offers the agility needed to manage risks emerging from AI technologies. Rusu stressed that the UK FCA’s AI Lab acts as a supercharged innovation space capable of testing cutting-edge GenAI (Generative Artificial Intelligence) applications.

Focusing on regulatory reform, Rusu detailed the United Kingdom Financial Conduct Authority’s ambitious efforts to streamline wholesale market regulation, overhaul listing and prospectus rules, and launch innovative capital market systems like PISCES (Private Intermittent Securities and Capital Exchange System). The UK FCA has also slashed capital regulatory burdens by 70% and introduced a pre-application support service (**PASS**) for wholesale, payments, and crypto firms, dramatically easing the pathway to authorisation.

Highlighting the drive toward a more user-centric regulatory system, Rusu outlined steps the UK FCA has taken to digitise interactions, simplify authorisation forms, decommission legacy data returns, and move toward a machine-readable version of the UK FCA Handbook. The new ‘My FCA’ portal consolidates data submissions, fee payments, and communications in one place, while AI-driven enhancements to the supervision hub have improved real-time guidance and consumer service redirection.

In closing, Rusu left delegates with three core messages: that the United Kingdom remains the best place globally to scale and grow businesses, that the United Kingdom Financial Conduct Authority is fully open for AI and digital asset innovation, and that the UK FCA’s proportionate and agile regulatory model is a global game-changer for modern finance.

(Source: <https://www.fca.org.uk/news/speeches/global-responses-digital-asset-regulation>)

**US SEC Commissioner Uyeda Urges Clarity and Competition for Crypto Asset Custody Solutions at US Crypto Roundtable**

On 25 April 2025, United States Securities and Exchange Commission (**US SEC**) Commissioner Mark T. Uyeda, during the Crypto Task Force’s third roundtable on custody, called for regulatory clarity and enhanced competition in the custody of crypto assets. In her [speech](https://www.sec.gov/newsroom/speeches-statements/uyeda-remarks-crypto-task-force-roundtable-custody-042525) she discussed the withdrawal of Staff Accounting Bulletin No. 121 as a positive development, Commissioner Uyeda advocated for expanded custodial options for investment advisers and registered entities. He also raised concerns regarding outdated interpretations that may unnecessarily restrict investment strategies within the digital asset sector.

Commissioner Uyeda’s statement emphasised that proper custody standards is the cornerstone of investor protection which must evolve to accommodate the realities of crypto assets. He noted that following the withdrawal of Staff Accounting Bulletin No. 121, barriers to crypto custodial services had been lifted. However, he urged the US SEC to recognise state-chartered limited purpose trust companies (such as those chartered in New York or California) as qualified custodians for crypto assets, in line with competition policies between state and federal banks and consider reforms to the “special purpose broker-dealer” regime, proposing interim guidance and eventual codification to allow compliant custody of crypto asset securities, non-securities, and traditional securities. US SEC must clarify the meaning of “funds” within the US SEC Custody Rule (17 C.F.R. § 275.206(4)-2), noting that prior overbroad interpretations have wrongly forced investment advisers to treat all crypto assets as securities or funds, thereby limiting investment opportunities. Commissioner Uyeda expressed agreement with Commissioner Hester M. Peirce’s position that most crypto assets are not securities, advocating for a more nuanced, facts-based analysis rather than blanket classifications.

Commissioner Mark T. Uyeda argues that both federally-chartered and state-chartered trust companies authorised as fiduciaries should be permitted to serve as qualified custodians for crypto assets and calls for revisiting and possibly sunsetting restrictions under the current broker-dealer framework, enabling a broader custody model for digital assets. She urges clarification around whether crypto assets constitute “funds” for custody purposes to remove regulatory uncertainty harming investment options. While advocating for opening the custody sector to more entities, thereby encouraging competition, innovation, and improved services for digital asset investors.

The United States Securities and Exchange Commission is officially pivoting from enforcement-driven ambiguity towards structured regulatory clarity for crypto assets with collaboration between the US SEC, the Executive Branch (Trump Administration), and Congress signals a high-level strategic consensus on integrating digital assets into the regulated financial mainstream.

(Source: <https://www.sec.gov/newsroom/speeches-statements/uyeda-remarks-crypto-task-force-roundtable-custody-042525>)

**Evolving Crypto Custody Regulations in United States: US SEC Commissioner Caroline A. Crenshaw Warns Against Eroding Investor Protections**

On 25 April 2025, United States Securities and Exchange Commission (**US SEC**) Commissioner Caroline A. Crenshaw delivered [speech](https://www.sec.gov/newsroom/speeches-statements/crenshaw-remarks-crypto-roundtable-042525) at the US Crypto Task Force’s third roundtable on custody. Commissioner Crenshaw warned against creating a separate, potentially weaker regulatory framework for crypto asset custody, asserting that innovation must not compromise the investor protection principles embedded in United States federal securities laws. Drawing powerful analogies from real-world trust scenarios, and supported by historical and legal precedents, Commissioner Crenshaw made it clear that blockchain-specific risks — including hacking, smart contract failures, and insolvency risk — demand even greater vigilance and regulatory robustness, not exemptions. Commissioner Crenshaw discussed the need to maintain the SEC’s “gold standard” of investor protection under the Custody Rule (17 C.F.R. § 275.206(4)-2), even in the face of technological evolution. She cautioned that differences between blockchain-based assets and traditional securities do not automatically justify relaxed custodial protections.

Definitions

Qualified Custodian:  A financial institution such as a bank, broker-dealer, futures commission merchant, or trust company that meets the regulatory standards under Rule 206(4)-2 of the United States Investment Advisers Act of 1940 to securely hold client assets.

Omnibus Wallets: Aggregated crypto wallets holding assets for multiple clients, relying on internal records rather than blockchain entries for tracking individual ownership.

She supported her caution with examples from United States financial history’s infamous frauds like United States v. Madoff, No. 09 Cr. 213 (S.D.N.Y. 2009) and SEC v. Stanford International Bank, Ltd., Civil Action No. 3:09-CV0298 (N.D. Tex. 2013) which caused catastrophic investor losses when custodial trust broke down. Recent enforcement against crypto-focused firms, such as SEC v. Galois Capital (Press Release No. 2024-111, September 3, 2024), reinforced how custody failures in the digital asset space continue to pose serious risks. Commissioner Crenshaw further explained that history shows even well-intentioned market participants need strong regulatory frameworks. She referenced the paperwork crisis of the 1960s-70s, which led to the dematerialisation of United States securities into electronic form to combat inefficiencies and custodial vulnerabilities (DTCC Whitepaper, September 2020). She also pointed to the vital role played by the United States Securities Investor Protection Corporation (SIPC) under the United States Securities Investor Protection Act of 1970 (15 U.S.C. § 78aaa et seq.) in safeguarding traditional brokerage assets in cases of insolvency, protections not yet mirrored for crypto assets.

Crenshaw firmly opposed bifurcating custody regulations, warning that a “crypto-lite” standard would expose investors to unacceptable risks. Shared wallets heighten operational and external risks; stricter standards for segregation and real-time transparency may be necessary. Self-custody models for advisers could open floodgates to fraud, theft, and operational failure unless bound by the full rigor of the Custody Rule. Inconsistent state standards could lead to fragmented protections unless harmonised through federal-state regulatory collaboration. Clear investor education and disclosures must highlight the differences between crypto custody risks and traditional custodial protections.

Market and Compliance Implications

1. Stricter Custody Controls: Expect regulatory proposals to mandate rigorous independent verification of client assets, annual surprise examinations, and fortified operational policies — consistent with historic US SEC rules (United States Investment Advisers Act Release No. 2968, December 30, 2009).
2. Disclosure Mandate Expansion: Firms offering crypto custody will likely be required to disclose asset control mechanics, counterparty risks, and insolvency protection gaps under fiduciary standards.
3. Rising Compliance Burdens for Exchanges: Major crypto trading platforms operating integrated brokerage-custody models may face mandates to eliminate omnibus pooling and segregate customer assets.

The United States Securities and Exchange Commission is setting the groundwork for equal or heightened regulatory standards for crypto asset custody compared to traditional financial custody. Custody failures will be met with aggressive enforcement, as seen in the Galois Capital action in 2024. Custody reform will likely be paired with broader fiduciary, insolvency, and disclosure frameworks specific to the crypto environment.

(Source: <https://www.sec.gov/newsroom/speeches-statements/crenshaw-remarks-crypto-roundtable-042525>)

**United States Securities and Exchange Commission Commissioner Hester M. Peirce Calls for Practical, Innovation-Friendly Crypto Custody Framework at Crypto Task Force Roundtable**

On 25 April 2025, United States Securities and Exchange Commission (**US SEC**) Commissioner Hester M. Peirce delivered a [statement](https://www.sec.gov/newsroom/speeches-statements/peirce-lava-lamps-opening-remarks-crypto-custody-roundtable-042525) at the Crypto Task Force’s latest roundtable on custody. Using a vivid metaphor likening the current regulatory landscape to a perilous “lava game,” Commissioner Peirce argued that the absence of clear, practical regulations on crypto custody is stifling market development, forcing regulated entities into risky darkness while disincentivising safe innovation. She urged US SEC to build clear legal pathways (“walkways over the lava”) rather than obstructing market evolution, and proposed that regulations must accommodate blockchain-native custody methods such as self-custody, smart contracts, and tokenized securities, without forcing traditional intermediation models.

Definitions

Crypto Custody: The safeguarding of digital assets (such as cryptocurrencies or tokenized securities) by an intermediary, regulated custodian, or through self-custody by the owner.

Special Purpose Broker-Dealer Framework: A regulatory carve-out permitting certain broker-dealers to custody digital asset securities under specific conditions, established by the United States Securities and Exchange Commission in 2020.

Self-Custody: Ownership and direct control of crypto assets by the individual or entity without relying on an intermediary, enabled by private keys and blockchain wallets.

Tokenized Securities: Traditional financial instruments (like shares, bonds) represented digitally on a blockchain, with programmable features like embedded compliance, voting rights, and settlement protocols.

Commissioner Peirce framed the current regulatory confusion around crypto custody as unsustainable without clear custody rules, brokers, investment advisers, and investment companies are hesitant or unable to participate in crypto markets. She notes that regulated markets and intermediaries are being handicapped, leaving space for unregulated and potentially riskier alternatives to dominate, harming American investors. The United States Securities and Exchange Commission must build transparent regulatory paths that facilitate both intermediated and self-custodied crypto assets, reflecting technological innovation instead of resisting it.

She specifically called for recognising that self-custody may be the safest, most effective model for certain crypto assets and aims at updating custody frameworks to allow for blockchain-native solutions (e.g., on-chain control, smart contracts). Further, reconsidering the Special Purpose Broker-Dealer regime and adapting rules like Rule 15c3-3 to better reflect blockchain asset realities and clarifying how US SEC rules on custody, settlement, and financial reporting apply when smart contracts or distributed ledgers are involved.

Commissioner Peirce’s remarks included ten targeted questions challenging whether United States laws like SIPA, the Uniform Commercial Code, and the US SEC’s existing broker-dealer and custody rules need urgent amendments to accommodate crypto asset innovations.

1. Call for Clear Custody Rules: The United States Securities and Exchange Commission must end regulatory ambiguity and explicitly define how brokers, advisers, and funds can custody crypto assets.
2. Legitimisation of Self-Custody: Self-custody models should be recognised as valid, regulated alternatives — especially for blockchain-native digital assets.
3. Smart Contract Settlement Recognised: Rules must adapt to brokers using blockchain protocols and smart contracts for clearing and settlement activities.
4. Structural Revisions Proposed: Commissioner Peirce raised the possibility of amending SIPA to address crypto-specific insolvency risks and called for adapting custody rules to tokenized securities.

Compliance and Market Implications

1. Broker-Dealer Compliance: Broker-dealers will require new guidance on handling tokenised securities, smart contract settlements, and holding non-securities crypto assets securely.
2. Custodian Evolution: New classes of qualified custodians could emerge — including blockchain-native entities — if rules incorporate qualitative standards instead of rigid entity lists.
3. Fund and Adviser Operations: Investment funds and advisers may soon have the ability to self-custody crypto assets under tailored fiduciary and safeguarding standards, expanding investment strategies.
4. Regulatory Innovation Needed: Without adaptive custody regulations, the United States risks pushing crypto market activity offshore or into unregulated sectors.

The United States Securities and Exchange Commission is being internally pushed toward adapting custody, capital, recordkeeping, and insolvency protections for a blockchain-native asset world. Recognition of self-custody and programmable smart contracts as legitimate components of financial infrastructure is gaining institutional acceptance. Custody rulemaking may bifurcate into asset-type-specific approaches — distinguishing between cryptocurrencies, tokenized securities, and hybrid instruments.

(Source: <https://www.sec.gov/newsroom/speeches-statements/peirce-lava-lamps-opening-remarks-crypto-custody-roundtable-042525>)

**US SEC Announces Crypto Roundtable Titled Tokenization: Moving Assets Onchain – Where TradFi and DeFi Meet**

The United States Securities and Exchange Commission’s Crypto Task Force will host its next roundtable, “Tokenization: Moving Assets Onchain – Where TradFi and DeFi Meet,” on 12 May 2025 from 1:00PM to 5:00PM ET.

Part of the US SEC’s ongoing series exploring regulatory approaches to crypto assets, the session will focus on tokenization’s potential to connect traditional finance (**TradFi**) with decentralised finance (**DeFi**). The roundtable is open for in-person registration, while the webcast will be available without registration. Tokenization has evolved from concept to commercial execution, with major institutions now piloting on-chain versions of bonds, funds, and real-world assets. TradFi giants like JPMorgan, BlackRock, and Citi are entering territory once native to DeFi becoming foundational to how assets will move and settle globally

Registration is now open for in-person attendance, while the virtual webcast remains freely accessible without registration. Those interested in contributing to the panel may contact crypto@sec.gov with “Potential Panelist” as the subject line.

This SEC roundtable appears to acknowledge that shift. By framing the discussion as a meeting ground for traditional finance and decentralised finance, the Commission is positioning itself at the centre of the convergence. Whether this results in policy clarity or tighter scrutiny remains to be seen — but the industry will be watching closely.

(Source: <https://www.sec.gov/newsroom/meetings-events/tokenization-moving-assets-onchain-where-tradfi-defi-meet>)

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