



# FCA Cryptoasset CP Archax Response

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An institutional digital securities  
exchange





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**Archax Ltd MTF (FRN: 838656 pending authorisation) response to the Financial Conduct Authority's (FCA) consultation paper CP19/3 Guidance on Cryptoassets.**

Archax Ltd, a forthcoming institutional focused Trading Venue and FCA Regulated MTF for Security Tokens, pending authorisation, welcomes the opportunity to respond to the FCA CP19/3 Guidance on Cryptoassets, published January 2019.

While cryptoassets have become an area of increased focus for the investment and capital markets community over the last few years the activity has been largely unregulated, and where regulated based in smaller, sometimes offshore, jurisdictions. Archax believes that for cryptoassets to evolve and mature that regulation of the instruments, where applicable, and the venues where they are traded must be akin to the current regulatory standards of infrastructure that are currently enjoyed by market participants.

Investors should be comfortable that the Trading Venues on which they execute are operating to the highest standards of market integrity and honesty, backed by the appropriate levels of regulatory oversight, to foster confidence in the markets and those instruments made available for trading.

The work of the FCA and HMT in addressing these issues is appreciated and encouraged by Archax.

***Q1: Do you agree that exchange tokens do not constitute specified investments and do not fall within the FCA's regulatory perimeter? If not, please explain why.***

Archax broadly agrees that exchange tokens (bitcoin etc), do not fall within the regulatory perimeter as currently defined, notwithstanding that this perimeter may expand to include further cryptoassets following the HMT consultation during 2019. This view, however, appears to ignore somewhat the risks to UK consumers purchasing cryptoassets without access to adequate investment information and via unregulated trading venues, and the objectives of the FCA, which include the objective to secure an appropriate degree of protection for consumers.

While it is difficult to imagine a regulatory perimeter that includes exchange tokens, given the decentralised nature of these instruments it is difficult to categorise the regulatory grip that the relevant authority would be able to exert, and over whom, it is not difficult to imagine a regulatory regime that supervises the conduct of those trading venues that offer the trading of exchange tokens, holding them to the same standards as other UK regulated venues. This could take the form of some sort of opt in regime, perhaps not dissimilar to the Loi Pacte framework proposed in France to regulate intermediation activities in cryptoassets.

**Q2: Do you agree with our assessment of how security tokens can be categorised as a specified investment or financial instrument? If not, please explain why.**

Archax agrees that, depending on the entitlements that individual tokens provide to holders, it is entirely sensible that security tokens can be categorised as specified investments or financial instruments and, therefore, fall within the regulatory perimeter. Indeed, we believe so strongly in this that we are currently going through the authorisation process to build what we believe will be the first FCA authorised trading venue, an MTF, for the listing and trading of security tokens.

**Q3: Do you agree with our assessment of utility tokens? If not, please explain why.**

It seems appropriate in most cases that utility tokens fall outside the regulatory perimeter where they don't exhibit the features associated with financial instruments. It is of course possible that a currently defined utility token could morph into or from a security token or e-money at some stage of its development, depending on the services and rights it provides.

**Q4: Do you agree with our assessment that exchange tokens could be used to facilitate regulated payments?**

Using cryptoassets to facilitate regulated payments, especially where that use promotes faster and cheaper payments, appears to be a sensible use case.

**Q5: Are there other use cases of cryptoassets being used to facilitate payments where further Guidance could be beneficial? If so, please state what they are.**

No, the guidance appears consistent for the current environment.

**Q6: Do you agree with our assessment of stablecoins in respect of the perimeter?**

Yes, we agree that fiat backed stablecoins likely meet the definition of e-money and should be regulated as such, and that, again depending on the entitlements or how the stablecoin is structured, they could also be classed as specified investments and therefore fall within the regulatory perimeter.

**Q7: Do all the sections above cover the main types of business models and tokens that are being developed in the market?**

We broadly agree that the FCA approach appears to cover the main types of business model we have seen.

**Q8: Are there other significant tokens or models that we haven't considered?**

No, although we would propose caution in trying to be overly specific with taxonomy; where cryptoassets have the potential to convert between different types of instrument and evolve new labels there will be a need to examine the properties of the assets on a case by case basis to inform any new judgements.

**Q9: Are there other key market participants that are a part of the cryptoasset market value chain?**

Where we are commenting on instruments and activities that fall within the regulatory perimeter Archax would like to see all firms acting within the cryptoasset value chain appropriately regulated, in the interests of market trust and consumer protection.

**Q10: Are there activities that market participants carry on in the cryptoasset market that do not map neatly into traditional securities?**

N/A