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To:
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Response to FCA consultation CP25/36: Client categorisation and conflicts of interest

Coinbase Global, Inc. (together with its UK subsidiary CB Payments Ltd., **Coinbase**) appreciates the opportunity to respond to CP 25/36 (**the Consultation Paper**) published by the Financial Conduct Authority (**FCA**).

Coinbase is a trusted service provider of crypto trading, custody, and infrastructure. Founded in 2012 and publicly listed in the United States, we offer a secure and user-friendly interface for millions of verified retail and institutional investors globally. We are committed to building an open financial system and are doing so with strong regulatory compliance and security protocols.

Coinbase supports the FCA's continued efforts to improve outcomes for consumers and businesses by removing barriers to access for products and services which meet their needs. We welcome the approach taken in this policy area, which is thoughtfully informed by industry feedback and in many areas proposes a well-balanced improvement to the regulatory framework.

We appreciate the opportunity to respond to this consultation and look forward to continued productive engagement going forward.

Yours sincerely,

Tom Duff Gordon, Vice President, International Policy, Coinbase

Keith Grose, UK CEO, Coinbase

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Introduction

We welcome the opportunity to respond to this important consultation, and commend the FCA for proposals which would bring significant improvements to rules on client categorisation and conflicts of interest. As set out in CP25/25 and confirmed in CP26/4, the FCA is proposing to apply client categorisation rules in chapter 3 of the Conduct of Business Sourcebook (COBS 3), and conflict of interest rules in chapter 10 of the Senior Management Arrangements, Systems and Controls Sourcebook (SYSC 10), to cryptoasset firms.

We are focusing our response on the proposals related to client categorisation. We acknowledge the benefits of a more streamlined and simplified approach to conflicts of interest rules, and agree that these leave the current scope and application of the rules for firms largely unchanged. We also recognise that CP26/4 sets out detail on the specific application of Handbook requirements to cryptoasset firms, including client categorisation, and we will respond to these proposals separately.

A well-functioning client categorisation route is vital to ensure clients of different types can access the products and services that best meet their needs. We believe many of the FCA's positions are particularly positive:

- **We strongly support the FCA's removal of the quantitative test**. This test is overly prescriptive and prevents many genuinely qualified clients from accessing products suited to them.
- **We are encouraged by the addition of a wealth test.** A simplified route to demonstrate suitability for elective professional status will reduce frictions in the client journey for those who meet it. However, because the £10 million threshold is set significantly too high, it dramatically reduces the proportion of clients that can see the benefits of this route.
- **The proposal to allow firms to proactively communicate with clients about elective professional status will allow firms to better serve their customers**, giving them greater access to information that allows clients to make decisions that are right for them.
- **Ongoing obligations are proportionate**. Event-driven reassessment, clarified record-keeping, and a one-off re-categorisation of existing clients strike a balanced approach. These proposals will strengthen the integrity of the regime without imposing ongoing, resource-intensive reviews.

We have focused our response on areas of the proposals where we believe the FCA can benefit from perspectives from the cryptoasset sector. While we support the FCA's overall approach on client categorisation, we believe specific areas merit revision:

- **The FCA should give firms more flexibility to give balanced information to their clients.** While we strongly support the ability to communicate with clients about professional status, restrictions against incentives, inducements, and suggestions of 'elevated status' will apply. Firms should not be limited to only sharing the 'downsides' of opting up, because this will not allow clients to make a fully informed assessment.

- **The wealth threshold of £10 million in net investible assets is restrictively high**. In some sectors this represents an almost 20-fold increase compared to jurisdictions such as Singapore. Unlike many jurisdictions, this will also come without an alternative income-based assessment through which to demonstrate financial capacity. We believe the FCA should align with the US accredited investor threshold of a net worth of $1 million or an income over $200k ($300k jointly with a partner).

- **Experience in crypto should not be disregarded when demonstrating financial experience.** The FCA proposes that experience in cryptoassets should not normally be taken as evidence of professional capability. For elective professional client status with a cryptoasset firm, experience in crypto is arguably the most directly relevant metric for demonstrating sufficient experience. Moreover, as a sector that will soon be subject to a comprehensive FCA regime, we believe experience in crypto should be an equally valuable indicator as other financial experience.

- **The professional client status tests do not align with the sophisticated investor tests under the financial promotions regime**. We believe there is a missed opportunity to align these processes, or allow clients who pass one to avoid another full assessment under the other. Otherwise, clients will need to jump through multiple hoops using different evidence, to access products which are suitable for them.

Given the volume and complexity of proposals that have been developed as part of the cryptoasset regime, we support the sequential approach to consultation that has been taken. However, the concurrent nature of wider Handbook changes and crypto consultations creates a challenge for assessing the overall impact of rules on cryptoasset firms as they are proposed. We encourage the FCA to provide opportunities for stakeholders to respond to the regime as a whole prior to the finalisation of Policy Statements, to ensure that interacting elements and unintentionally adverse effects can be identified and resolved.

Answers to specific questions

Question 1: Do you agree with the deletion of the mandatory quantitative criteria from the qualitative assessment, (other than for local authorities)?

Yes we agree. The quantitative criteria are overly rigid and would bar many suitably qualified clients from accessing products and services that meet their needs. Overall, deleting the mandatory numeric criteria strikes the right balance. It prevents clients from being misclassified based on check-box thresholds and instead centres the decision on their actual sophistication.

Question 2: Do you agree with the proposal to introduce a new alternative for clients above a certain wealth threshold to opt out of retail protections, subject to informed consent and wider FCA client protection rules?

Yes we agree, but it is important that a wealth threshold is not the only method by which a client can demonstrate their suitability to opt out of retail protections. Given broader client protection rules would apply even to professional clients, the FCA should ensure there is a diversity of routes available to avoid disproportionately restricting access to certain products and services. In addition to the wealth assessment and the qualitative criteria, an income-based assessment would add a similarly objective route through which a client could demonstrate their suitability. This would align well with other jurisdictions with similar frameworks in place.

Building on the work of the UK-US Taskforce, we believe moving towards equivalent levels as Accredited Investors in the US would best support the adoption and success of digital assets. The US level of $1 million in net worth, excluding primary residence, or an income of $200k (or $300k jointly with a partner) still sets a high bar for clients to be able to benefit from the route. Unlike the currently proposed FCA threshold though, this level recognises different sources of wealth, and allows this assessment route to bring meaningful burden reductions for firms and clients, rather than being available only to a negligible proportion. Given broader client protections would remain in place even if some retail protections are removed, we do not believe this accessible route to professional client status needs to only be available to the very wealthiest, particularly if fair and balanced information is provided on the consequences of the decision.

Question 3: Do you agree that the threshold for this assessment, set at £10 million, is an appropriate level to balance client protection with reducing regulatory burden on firms?

While we support the introduction of a wealth assessment we believe the threshold is set far too high, and exceptionally high compared to other jurisdictions. This will dramatically impact the attractiveness and success of UK products and services compared to other jurisdictions.

We appreciate the FCA's objective to ensure that there is a low risk of harm, and understand that the logic behind a high wealth threshold is that professional status under the FCA regime is less time- and transaction-limited than in comparable jurisdictions. The value of a wealth-based assessment for reducing regulatory and client burden is that it provides a simple route to demonstrate suitability for elective professional client status, which would be significantly less burdensome than the more extensive assessment required under the qualitative test. A £10 million threshold greatly reduces the proportion of clients who would be able to access this route, and we believe that the scale of divergence from other jurisdictions is not sufficiently justified, and would act as a significant barrier to professional clients accessing UK services.

The FCA should reconsider the level of this threshold in line with its aim to provide consumers with the ability to take appropriate risks with informed consent. £10 million is more than 12 times higher than the US threshold for 'Accredited Investors' and significantly higher than thresholds in Hong Kong, Singapore and Switzerland. Given a streamlined wealth assessment at substantially lower levels is available to high-net-worth clients in other jurisdictions, this could have the effect of pushing them towards offshore or non-UK regulated entities to access products that are restricted for retail users in the UK. As above, we would strongly advocate for the FCA to align with the $1 million net worth or $200k (or $300k jointly with a partner) income threshold set in the US, which would aid fair market access and a competitive, aligned regime, without compromising an appropriately high bar.

Question 4: Do the proposed Relevant Factors allow firms flexibility in demonstrating how they have determined a client has acquired the capability to be treated as a professional client? Are there any other factors that firms should be required to consider?

We agree with the FCA's aim to ensure a holistic assessment of a client's suitability is made, and welcome the increased flexibility from a risk-based approach that moves away from prescriptive criteria. We welcome the adoption of a broader 'occupational experience' factor which is more reflective of an investor's ability than a rigid assessment of employment history. Access to investment opportunities is greater than ever before, and clients should have the ability to demonstrate relevant experience in all its forms, rather than being limited to the financial sector. We also support the more flexible approach to financial resilience and capacity for loss.

We do not agree that a personal investment history in cryptoassets or leveraged products should limit a client from using this to indicate professional capability, and nor do we agree that it is appropriate to group such products together without further articulation. The cryptoasset sector encompasses a large range of products and services which mirror, and in some cases exceed, the diversity of the traditional financial sector. For assessments made by cryptoasset firms in particular, experience in crypto investment is a highly relevant indicator for suitability and this should be accommodated within the relevant factors and accompanying guidance.

While the criteria proposed are comparatively more flexible than those currently in place, this holistic assessment constitutes a significant burden for firms and clients. This is particularly burdensome when the criteria do not align with the assessment required for sophisticated investor status under the Financial Promotions regime. The FCA should consider how to better align these processes to reduce the significant frictions in place within the client journey.

Question 6: Do you agree that financial resilience as a Relevant Factor should be outcome-based, without any minimum financial threshold? If yes or no, please explain your answer.

We agree that financial resilience should be assessed in an outcome based way, with no hard minimum threshold. While we advocate for a wealth and income based assessment using an objective numeric test, this alternative qualitative assessment should maintain a flexible approach to support clients who can demonstrate their capability in other ways.

The outcome-based approach means firms can consider whether a client can absorb potential losses from the investments they intend to make, relative to their overall financial resources. This is sensible and ensures that, for clients who do not qualify via the wealth assessment, we still check that opting up won't jeopardise their financial well-being – but we can tailor that evaluation. We appreciate this flexibility as it aligns with how we think about our clients: we want to be sure any professional client can bear losses, through contextual evaluation. This approach is also consistent with the Consumer Duty focus on good outcomes – it prompts us to ask, "would a loss here be within this client's capacity?" rather than just checking a box.

Question 7: Do you agree with our proposal to continue to allow opting out in relation to specific products and services, or generally in relation to all products and services?

We agree. This approach provides greater flexibility for clients to tailor their preferences to the products and services that meet their needs while retaining consumer protections where they seek to retain them. This approach is particularly beneficial for firms offering a range of services. Given the burdensome nature of the opting out process we would ask that the FCA ensures it is no more difficult to opt out generally than it is to opt out in relation to specific products and services, as long as a client sufficiently demonstrates suitability.

Question 9: Do you agree with the proposed requirement that firms must obtain the client's informed consent to opting out of retail protections and being treated as a professional client?

We question whether the proposed reinforcement of the informed consent requirement is necessary, given that the existing framework already provides an adequate and proportionate safeguard. Under the current regime, firms are required to obtain a clear indication that the client understands the implications of being treated as a professional client and agrees to that categorisation. In practice, this is routinely achieved through a written declaration or electronic confirmation, often implemented as a tick-box acknowledgment accompanied by clear explanatory text.

This approach is effective and well understood. A tick-box mechanism, when supported by fair, clear and not misleading disclosures setting out the key consequences of opting out of retail protections, provides a clear evidential record of consent and is operationally robust. It also aligns with established FCA practice across other areas of the Handbook where client consent or acknowledgment is required. Requiring more elaborate or prescriptive consent mechanics risks adding formality without materially improving client understanding or outcomes.

We therefore consider that the current informed consent requirement is sufficient, provided it continues to be underpinned by clear disclosure and record-keeping. Further specification risks encouraging defensive over-engineering of consent processes, increasing compliance burden and client friction without clear incremental benefit.

Question 11: Do you agree with our proposals to allow firms to initiate discussions with clients about opting out of retail permissions, where they have a reasonable basis for believing the client will meet the professional client threshold, and to the proposed conditions for such communications?

We welcome the FCA's recognition that a lack of awareness of elective professional status is a significant barrier to clients, and agree that firms should be able to initiate discussions with those they reasonably believe will meet the threshold.

However, it is important to ensure that the threshold for a reasonable basis is not overly restrictive, given the complexity of the holistic assessment required under the proposals. In many cases firms will have only limited information available until a client has provided information for a full assessment. Given the communications that can be made would themselves be regulated, and the removal of protections can only occur after a full assessment, we do not believe FCA rules need to add an additional restriction on who these initial communications can be made to. Otherwise, the risk of suitable clients being unaware of the options available to them is increased.

Question 12: Will our proposals for change, taken together, allow firms to have appropriate engagement with clients about opting out, without communicating financial promotions about specific professional-only products before a firm has met the conditions for categorising a client as elective professional?

While we welcome the ability to set out general information about products available to professional clients, we ask the FCA for further guidance on the balance within these communications. It is important that prospective elective professional clients understand what they will have access to in order to provide informed consent, rather than only the downsides of losing retail client protections. For the benefits of this change to be effective in allowing suitable clients to be informed, firms need sufficient confidence that the method of communicating this does not breach regulatory requirements.

We agree that imposing a routine periodic re-assessment for every elective professional client would be unnecessary, and we commend the more targeted approach of only re-assessing when there is reason to suspect the client no longer meets the criteria.

In our experience, once a client has demonstrated the expertise and resources to be a professional client, that status generally remains appropriate unless something significant changes. Conducting blanket annual or biennial re-tests for all such clients would create operational burden and could irritate clients (for example, successful professional investors might question why they are being "re-approved" each time). The FCA's proposal sensibly avoids this, instead obliging us to monitor and react to red flags.

Question 15: Do you agree with our proposed approach to rely on existing client safeguarding and governance rules (e.g. 'client's best interests' rule, fair clear and not misleading rules, SYSC rules and the Consumer Duty) rather than introducing new specific requirements in this area?

We agree that existing overarching rules and principles are sufficient to cover any safeguarding needed for the categorisation process, so no new bespoke requirements are necessary.

The FCA's decision to lean on standards like acting in the client's best interests, ensuring communications are fair, clear and not misleading, maintaining robust systems and controls (SYSC), and the Consumer Duty, makes sense because these already create a strong framework.

We appreciate, for instance, that the FCA is not layering on an additional certification or sign-off requirement beyond what's in those general rules – this helps to keep the process streamlined. The combination of the existing rules covers all relevant aspects, from treating customers fairly, to managing conflicts, to ensuring senior management oversight. Introducing new specific rules would risk duplication or inconsistency. By avoiding that, the FCA is reducing compliance friction, which we welcome. It also underscores the fact that treating a client as professional does not absolve firms from our broader duties – a point we fully accept.

Question 24: How might the differences between our proposed changes to client categorisation and the other regimes affect you?

As noted, the Financial Promotions Order requires classification of clients in a way which does not align with the proposed approach under COBS 3. Certification as a high-net worth individual under the FPO includes both income and wealth routes, set at substantially lower levels than the proposals in this consultation. Self-certification as a sophisticated investor under the FPO also requires meeting different conditions from the qualitative assessment outlined in this consultation. For clients, this adds additional friction to accessing suitable products to an already restrictive framework. We believe that there is an opportunity for the UK framework to consolidate assessments, streamlining the client journey and reducing the currently disproportionate burden on firms. An impactful method of doing so would be to allow clients who pass an assessment under one regime, to avoid a full re-assessment under the other.

Without change, these misaligned classification requirements act as a significant barrier for professional clients and would disincentivise professional clients from accessing products and services through UK-regulated platforms which help them to meet their financial objectives.

Question 25: Do you agree that a one off re-categorisation of existing elective professional clients is the right way to ensure the integrity of the elective professional regime going forward and achieve our goal of resetting how firms differentiate between retail and professional clients?

Yes, we agree that a one-time re-categorisation of all current elective professional clients is a necessary step to recalibrate the regime.

This “clean slate” approach makes sense because it ensures that legacy professional clients who may have been categorised under different criteria are brought up to the new standards. This is a way of affirming, across the industry, that going forward everyone who is classified as professional truly meets the refreshed criteria under the new rules.

That said, we acknowledge a reclassification is a significant undertaking for firms. It will involve reviewing files, gathering any missing information, and in some cases contacting clients for additional data or confirmations. For the industry at large, a year appears adequate, but firms will need to allocate significant resources to achieve this.

We believe this one-off exercise will ultimately strengthen confidence in the classifications, despite the short-term workload. We urge the FCA to offer guidance or suggested templates for notifying clients, to ensure consistency.