Cryptoasset firms given extra time to register as few gain authorisation

With only five per cent of cryptoasset businesses currently meeting FCA registration requirements, the regulator has extended its Temporary Registrations Regime (TRR) to help more of them carry on in business while seeking authorisation.

Data released from the Financial Conduct Authority shows that only five firms are fully registered, while 89 remain on temporary permission. In announcing the extension — from 9 July 2021 to 31 March 2022 — the FCA said: "A significantly high number of businesses are not meeting the required standards under the Money Laundering Regulations. This has resulted in an unprecedented number of businesses withdrawing their applications."

When the regulator launched the TRR in December last year, it explained the move by saying: "The FCA was not able to assess and register all firms that have applied for registration, due to the complexity and standard of the applications received, and the pandemic restricting the FCA's ability to visit firms as planned." It may be that the same issues continue to hinder progress. Only one firm, Digivault Limited, has succeeded in becoming fully registered in 2021. All five registered firms are London-based, as are over 80 per cent of those in the TRR.

While FCA authorisation for these firms requires complying with the Money Laundering Regulations, it does not provide consumer protection. The regulator stresses that cryptoassets are highly speculative and can lose value quickly. "Even if a firm is registered with the FCA, it is not responsible for making sure cryptoasset businesses protect client assets (ie, customers' money), among other things," notes the regulator. "It is unlikely that consumers will have access to the Financial Ombudsman Service or Financial Services Compensation Scheme, irrespective of whether a firm has temporary or full registration."

Moreover, the FCA's seesaw handling of the issue has drawn criticism. "The Financial Conduct Authority's approach in relation to money laundering has been overall unhelpful to the UK crypto industry," commented Nigel Brahams, a partner at Collyer Bristow. "The FCA brought forward the deadline for compliance with registration from January 2021 back to December 2020, leaving firms which had not yet applied completely high and dry. The latest announcement does nothing for those firms and deters firms from doing business here.

"Those firms which did apply in time (representing only a percentage of the UK crypto industry) are still making their way through the FCA's processes and it's taking a terribly long time and I expect that this can will be kicked further down the road. The reason for the delay is two-fold. The FCA did not expect so many applicants and despite this being a registration rather than authorisation, the FCA are going into extreme levels of due diligence on firms. It would be quicker for the firms to apply for a full-scale authorisation and indeed I have advised clients to do just that."

By **Neasa MacErlean**