

Harriett Baldwin MP
Chair
Treasury Select Committee
House of Commons
SW1A 0AA

19 January 2023

Our ref: C221215C

Dear Harriett

Re: Follow up to the FCA evidence session on the cryptoasset industry

Thank you for the opportunity to give evidence to the Committee's inquiry on the cryptoasset industry on 7 December. I hope Members found our evidence helpful. In the session we agreed to write with further detail on a number of questions.

Proportion of applications that have seen criminal activity when assessing firms through registration and prosecutions in relation to information shared with law enforcement agencies

Rushanara Ali MP asked whether there had been any prosecutions following us sharing information with enforcement agencies about potential criminal activity we identified through the recent registration process. She also asked about the proportion of applications where we have seen criminal activity.

Around 85% of those cryptoasset firms that applied for registration were unable to demonstrate they met the required, minimum standards. As part of the registration process we identified significant failures in relation to key controls such as customer due diligence, risk assessments, transaction and ongoing monitoring, governance and Management Information. In many cases, key personnel lacked appropriate knowledge, skills and experience to carry out allocated roles and control risks effectively and were unable to evidence they met the standards for registration.

As mentioned in the session, just because a firm is not able to satisfy us that it meets the standards we would expect in terms of its anti-money laundering systems and controls, it does not necessarily follow that there is criminal activity. Some firms who withdraw from registration will re-submit their applications once they believe they can meet our standards.

Overall, in the small number of cases where we have identified likely financial crime or direct links to organised crime we have referred these to law enforcement agencies. Some of those law enforcement investigations remain ongoing. The FCA took a robust position during authorisation so that the risk of criminality was significantly reduced, thus the high rejection rate.

Latest estimate on numbers of UK investors affected by the collapse of FTX and scale of consumer harm

In the session you asked for the best estimate of the number of FTX investors in the UK affected by the FTX collapse and for any details there may be on their profiles. Rushanara Ali MP also asked about the scale of the collapse and how it compared to other collapses over the past 20 years.

FTX was not licensed, authorised or registered by the FCA and so we have limited powers in relation to FTX-related consumer impacts. In September 2022, we issued a public warning about FTX providing services to consumers in the UK without FCA authorisation. The warning made clear that consumers would not be protected by the Financial Services Compensation Scheme or have access to the Financial Ombudsman Service should they lose their money.

We are continuing to monitor the firms registered with us for impacts resulting from FTX's failure. However, they have not identified significant consumer detriment at this stage.

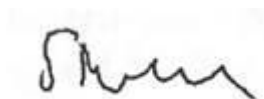
As FTX is not registered in the UK, we cannot know the exact number of FTX's UK customers.

We note that public court filings at the United States Bankruptcy Court, District of Delaware, dated 22 November 2022 stated that 8% of the Group's global customer presence was in the UK, and that there may be up to one million creditors. This has led to an extrapolation by media that 80,000 customers may be affected.

We remain in close contact with US regulators so that we can understand any broader lessons from the collapse of FTX or the wider impact for the UK as the investigation develops.

I hope this is helpful and look forward to the Committee's report.

Yours sincerely



Sarah Pritchard
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Supervision, Policy and Competition