

Chapter 10

Appropriateness (for non-advised services) (non-MiFID and non-insurance-based investment products provisions)

Assessing appropriateness: qualifying cryptoassets

This Annex belongs to ■ COBS 10.2.9G(1)(n).

When determining whether a *retail client* has the necessary knowledge to understand the risks involved in relation to a *qualifying cryptoasset*, a *firm* should consider asking the *client* questions that cover, at least, the matters in (1) to (12).

Firms may need to ask additional or alternative questions to ensure that the *retail client* has the necessary knowledge to understand the risks involved in relation to the specific type of *qualifying cryptoasset* offered.

The matters are:

- (1) the role of the business offering or marketing the *qualifying cryptoasset* (the business) and the scope of its services, including what the business does and does not do on behalf of *clients*, such as what due diligence is and is not undertaken by the business on any underlying investments;
- (2) the nature of the *client's* rights and obligations with the business, in particular the nature of the legal and beneficial ownership of the *qualifying cryptoasset* and the risks associated with those rights;
- (3) that the *client* can lose all of the money that they invest in a *qualifying cryptoasset*;
- (4) the potential complexity of investments in *qualifying cryptoassets* and the associated difficulty of understanding the risks of the investment;
- (5) that the performance of many *qualifying cryptoassets* can be highly volatile and that the value of an investment in a *qualifying cryptoasset* can fall as quickly as it can rise;
- (6) the risk of losing money or any *qualifying cryptoassets* purchased as a result of operational risks (such as through cyber-attacks, loss of private keys, comingling of funds) or financial crime;
- (7) the risk to any management and administration of the *client's* investment in the event of the business becoming insolvent or otherwise failing;
- (8) that the *client* may not be able to readily sell their *qualifying cryptoasset* investment, including as a result of market illiquidity or operational outages;
- (9) the regulated status of the business offering or marketing the *qualifying cryptoasset* and the investment activity and the implications of this in relation to FCA regulation;
- (10) the extent to which the protection of the *Financial Ombudsman Service* or FSCS apply to the investment activity (including the fact that these services do not protect investors against poor investment performance and that the *Financial Ombudsman Service* cannot ordinarily consider complaints in relation to *unauthorised persons*);

- (11) that investing in, and holding, *qualifying cryptoassets* is not comparable to investing in mainstream *investments* such as listed or exchange-traded securities; and
- (12) the benefits of diversification and that *retail clients* should not generally invest more than 10% of their net assets in *restricted mass market investments*.