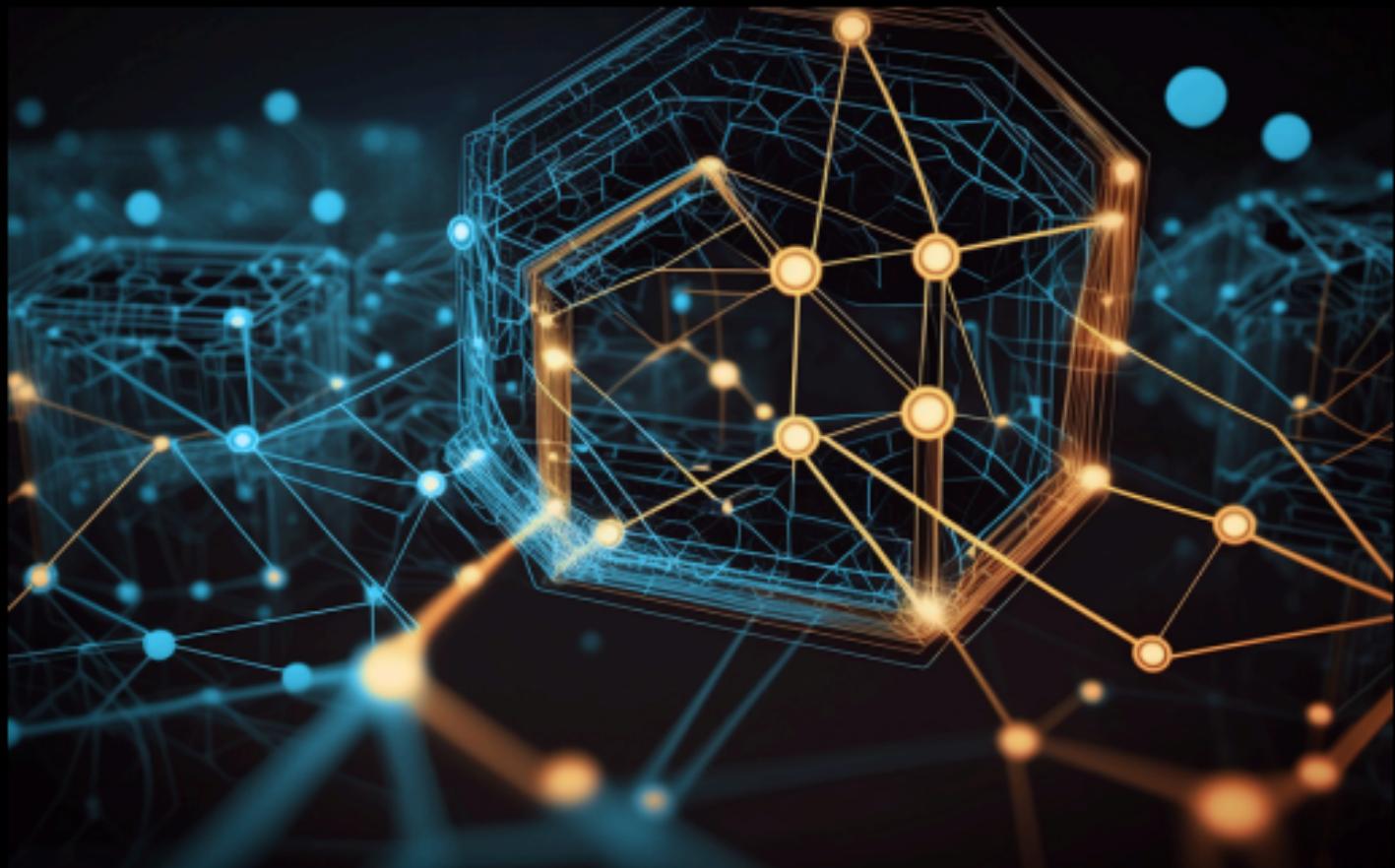


DIGITAL ASSETS LAWS & REGULATIONS

The UK's Crypto ETN Revolution
A New Era for Digital Asset Investment



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Introduction

After years of regulatory restraint, the Financial Conduct Authority's (FCA) decision to lift the ban on retail access to crypto exchange-traded notes (cETNs) marks a pivotal moment for the UK's financial landscape. This change signals an evolution in how regulators perceive the crypto industry no longer as a speculative fringe market, but as an emerging component of diversified investment portfolios. The move reflects a balance between innovation and investor protection, acknowledging both market maturity and the need for structured oversight. For investors, it introduces a new avenue to gain exposure to digital assets through established investment platforms. For brokers and fund managers, it represents both opportunity and responsibility, requiring them to adapt compliance frameworks and risk assessments. Ultimately, this development could position the UK as a major hub for regulated crypto investment if implemented effectively.

Historic Approach

Early Caution

The UK has long been conservative in its stance towards cryptocurrency regulation. In 2021, the FCA banned the sale, marketing and distribution of derivatives and ETNs referencing unregulated transferable crypto-assets to retail clients, citing concerns about volatility, fraud, and investor protection. The regulator argued that most retail investors lacked the expertise to evaluate such complex products. This decision aligned with a broader global caution during the early years of widespread crypto speculation. However, it also limited legitimate innovation and slowed institutional participation compared to other jurisdictions.

The FTX Collapse and Regulatory Reform

The 2022 collapse of the FTX exchange underscored the risks of underregulated crypto markets and triggered renewed urgency for reform. UK policymakers intensified their focus on transparency, segregation of client assets, and anti-money laundering standards. The crisis, while damaging globally, served as a catalyst for maturing market oversight. This event reshaped global sentiment and motivated regulators to develop more sophisticated, risk-based approaches rather than outright prohibitions.

Growing Confidence and Increasing Consumer Choice

Market Maturity

Since 2021, cryptocurrencies, particularly Bitcoin, have demonstrated resilience through global economic challenges, improving their perception among both retail and institutional investors. The asset class has evolved from speculative trading to being recognised as a legitimate portfolio diversifier. This steady performance during inflationary cycles and banking instability has increased confidence in Bitcoin as a long-term store of value. Institutional adoption, including participation by asset managers and pension funds, has also lent credibility to the sector. These trends collectively strengthened the FCA's belief that the market could now sustain regulated retail participation without excessive systemic risk.

Investor Statistics

Public adoption has grown rapidly, reflecting increasing comfort with digital asset exposure. According to recent data, around 12% of British adults now hold some form of cryptocurrency, up sharply from 4% in 2021. A survey by IG showed that 30% of adults expressed interest in crypto ETNs, with interest peaking at 50% among investors aged 18-24. This demographic trend illustrates how digital assets are becoming an integral part of younger generations' financial planning. The FCA recognised that demand was not a passing trend but a structural change in investor behaviour.

Institutional and Global Developments

Institutional momentum has been further reinforced by developments abroad. The launch of spot Bitcoin and Ethereum ETFs in the United States in 2024 helped normalise regulated crypto exposure. These milestones, coupled with growing corporate adoption and improved custody solutions, highlighted that digital assets could coexist with traditional finance. The UK's decision to reintroduce cETNs reflects both competitive pressure and regulatory pragmatism acknowledging that the market's infrastructure and transparency have advanced significantly.

UK vs. US: ETNs vs. ETFs

Structural Differences

While both products provide investors with crypto exposure, their mechanics and risk profiles differ. Exchange-traded funds (ETFs) hold the underlying crypto assets directly, granting investors a share of actual ownership. In contrast, exchange-traded notes (ETNs) are unsecured debt instruments issued by financial institutions that replicate the price movements of crypto indices. ETNs therefore depend on the issuer's solvency; if the issuer defaults, investors may lose their entire investment regardless of crypto price performance. ETFs offer transparency and direct asset backing, while ETNs rely on trust in the issuer's creditworthiness. Understanding this distinction is vital for investors assessing risk-adjusted returns.

Investor Implications

The structural difference between ETFs and ETNs has practical implications for UK retail investors. ETNs provide easier access and lower administrative costs but carry higher counterparty risk. They can be advantageous for short-term exposure or diversification but may not suit long-term, risk-averse investors. ETFs, on the other hand, are viewed as safer and more transparent but remain unavailable for crypto in the UK. As a result, cETNs represent an important intermediary step in the UK's path towards broader crypto integration within traditional markets. This divergence also reflects regulatory philosophy: the UK favours controlled access, while the U.S. emphasises product structure and disclosure.

The Current Tax Position

ISA Eligibility

Initially, cETNs were made available within Stocks & Shares Individual Savings Accounts (ISAs), allowing investors to gain tax-free exposure to crypto through a regulated, familiar framework. This marked the first time retail investors could integrate crypto into long-term, tax-efficient portfolios alongside equities and bonds. The move enhanced market legitimacy and widened participation by lowering barriers to entry. For many, this development represented a practical way to experiment with crypto exposure without leaving the traditional financial system.

Upcoming IFISA Reclassification

However, this favourable structure will change on 6 April 2026, when cETNs are reclassified as qualifying investments under the Innovative Finance ISA (IFISA) regime. The reclassification aims to categorise cETNs more consistently with their debt-based nature. Yet, it introduces challenges since most investment platforms do not currently support IFISAs. This shift may disrupt existing portfolios and complicate tax planning. Investors will need to reassess their positions to avoid forced sales or unplanned transfers into taxable accounts.

The Looming IFISA Reclassification

Key Challenges

The reclassification to IFISA status presents three main challenges for retail investors. First, limited platform availability, most UK brokers do not offer IFISAs, creates logistical barriers. Second, forced liquidation risk arises if a platform fails to support the new structure, requiring investors to sell or transfer their cETNs within 30 days. Third, regulatory mismatch complicates compliance, as the IFISA framework was designed for peer-to-peer lending, not exchange-traded products. This misalignment risks confusing investors and undermining confidence. Together, these factors threaten to erode the progress achieved through the FCA's decision to reopen cETN access.

Market Impact

The market response to the upcoming reclassification has been mixed. Some investors are accelerating purchases ahead of the April 2026 deadline to capitalise on the current ISA status. Others remain cautious, waiting for clarity on tax implications and platform readiness. Industry experts warn that the FCA and HMRC must coordinate to prevent regulatory fragmentation. Without alignment, the UK's attempt to integrate crypto into mainstream investment products may lose momentum. A six-month window for pre-reclassification purchases remains a rare opportunity for investors to benefit from favourable tax conditions before the transition.

Implementation Delays and Broker Responses

Initial Rollout Issues

The rollout of cETNs following the FCA's announcement was less than seamless. Investors experienced nearly a week-long delay in gaining platform access after the ban was lifted, reflecting administrative bottlenecks. This delay highlighted the UK's struggle to synchronise regulatory approval with operational readiness. Market observers noted that such inefficiencies undermine confidence and deter participation. The episode reinforced the perception that, despite regulatory progress, execution remains a persistent challenge in the UK's digital asset policy.

Broker Reactions

Broker responses to the policy change have been uneven. Major players like Hargreaves Lansdown announced they would postpone offering cETNs until 2026, citing the need for internal risk reviews. In contrast, smaller or more agile platforms have begun introducing limited offerings, subject to strict due diligence and investor suitability assessments. This divide reflects a broader tension between innovation and compliance within the UK financial system. Until more platforms engage, accessibility will remain limited, slowing widespread adoption.

Looking Ahead

Opportunities and Risks

The lifting of the cETN ban marks a positive milestone but also introduces new complexities. Unresolved issues such as IFISA confusion, inconsistent broker participation, and infrastructure gaps pose serious obstacles.

Global Competitiveness

Globally, competition in digital asset regulation is intensifying. The U.S. has gained momentum with ETF approvals, while the EU's Markets in Crypto-Assets (MiCA) framework provides unified rules for all member states. For the UK to remain competitive, its regulators must provide clarity and consistency. Achieving regulatory alignment between the FCA and HMRC will be essential to maintaining investor confidence.

How Withers Can Help

Withers is an international law firm with crypto regulatory and tax specialists based in the UK, U.S., Hong Kong, Singapore, Italy and Japan. We offer strategic legal and tax guidance for individuals and institutions navigating the evolving crypto market. Our services include tax optimisation for ISA and IFISA portfolios, compliance audits for crypto businesses and continuous monitoring of global regulatory shifts. By combining cross-border insight with local expertise, Withers helps clients adapt to the UK's changing investment environment and safeguard their digital asset strategies.

Author Biography



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Haider is an associate in the intellectual property and commercial team. Haider works on a variety of matters across the team's practice, including the drafting and negotiation of commercial contracts and the protection and commercialisation of IP rights. Haider also advises on a wide range of financial regulatory matters, with a particular interest in those relating to crypto.



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Head of the UK Financial Services Regulatory team at Withers, Harvey advises owner-managed firms and senior executives as to how to handle their internal corporate and personal responsibilities and relationships in relation to regulatory notifications and supervision enquiries as to regulated and non-regulated business, internal investigations and externally with other regulated firms and individuals, the regulators and other civil and criminal enforcement agencies as well as any related potential civil and criminal proceedings and crisis management and prevention of financial crime issues.

Firm Biography

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We are recommended as a leading firm by Chambers' High Net Worth guide 2025 in 25 practice areas, way above our peer firms, illustrating the wide range of areas in which we can assist our clients. Our lawyers work as one team, inspired by providing consistently excellent services to our clients, as well as a commitment to rigour, adaptability and building strong and enduring relationships. We invest time in ensuring we understand exactly what our clients want to achieve, before developing solutions that are tailored to their needs. With 15 offices across the US, Europe and Asia, we offer legal advice that addresses each client's interests, locally and internationally. And with over 125 years' experience, there are few issues that we haven't helped clients navigate successfully.