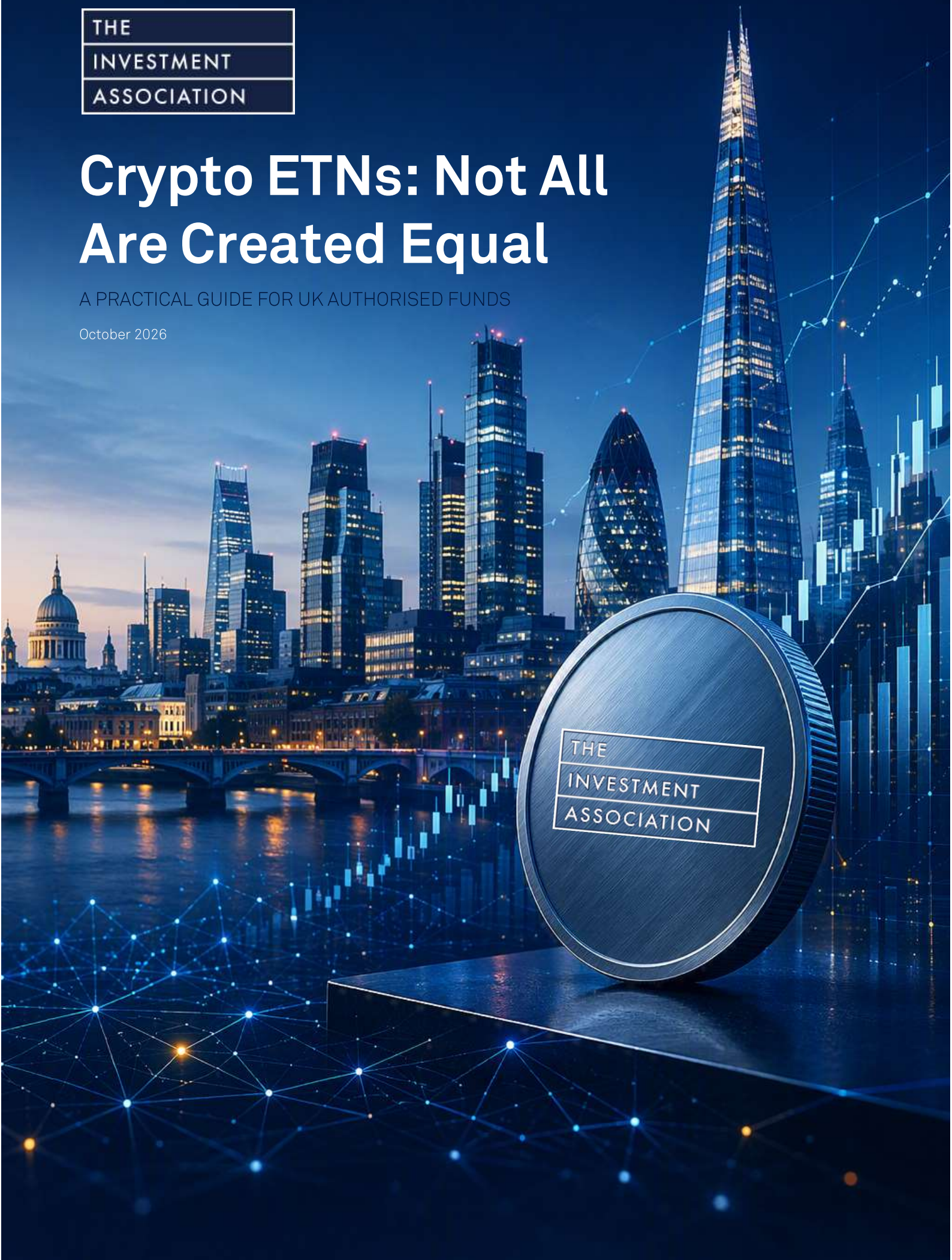
THE INVESTMENT ASSOCIATION

Crypto ETNs: Not All Are Created Equal

A PRACTICAL GUIDE FOR UK AUTHORISED FUNDS

October 2026



About the Investment Association and the Contributors

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £11.1 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 53% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally.

BlackRock

is the world's largest asset manager, with the largest digital asset ETP platform, managing over US$54 billion in digital asset ETP AUM globally. Drawing on decades of investment expertise, institutional risk management and market-leading technology, BlackRock provides digital asset ETPs designed to offer investors efficient, transparent and secure access to cryptocurrencies through exchange-traded investment vehicles. Its European Bitcoin ETP has captured 60% of net inflows into European bitcoin ETPs since launching in March 2025.

Fidelity International

has been an early mover among traditional asset managers in digital assets. Since its launch in 2022, the Fidelity Physical Bitcoin ETP (FBTC) has provided investors with regulated, secure and convenient access to Bitcoin through major European exchanges, including the London Stock Exchange. FBTC is 100% physically backed, with all Bitcoin held in institutional-grade custody by Fidelity Digital Assets, National Association.

WisdomTree

launched its first crypto exchange-traded product (ETP) in 2019. Today, it offers a curated range of twelve physically backed crypto ETNs, providing investors with direct exposure to individual digital assets as well as diversified crypto baskets. All products are 100% physically backed, with no coin lending. Digital assets are held in segregated wallets and secured through institutional-grade cold storage arrangements across three regulated custodians.

21shares

launched the world's first physically-backed crypto ETN in 2018, becoming one of the leading cryptocurrency ETN issuers globally, operating the largest suite of 100% physically-backed crypto ETNs in the market, with over sixty products available. The company has built a long track record of creating crypto ETNs listed on some of the world's biggest, most liquid securities exchanges, including the London Stock Exchange. 21shares is a subsidiary of FalconX, one of the world's largest digital asset prime brokers.

Contents

Executive summary 4

1. Why cETNs Matter 5

1a. Regulatory context: what has changed for UK authorised funds 5

1b. Routes to crypto exposure: why cETNs are the relevant route 5

1c. What is a cETN? 6

2. Why cETN structures differ 8

2a. Not All cETNs Are Created Equal: the core framework 8

2b. Legal form, collateralisation and investor claim 9

2c. Custody, safeguarding and operational dependencies 9

2d. Underlying exposure and product design 10

2e. cETNs listed on UK vs international markets 11

3. What authorised fund managers should check 12

3a. Key risk, liquidity and cost considerations 12

3b. Implications for authorised fund managers 12

3c. Practical due diligence checklist 15

Take Aways 15

Executive summary

The UK regulatory landscape for cryptoassets is entering a new phase. The FCA has permitted retail investors to access listed crypto exchange-traded notes (cETNs) and has confirmed its policy allowing UK authorised investment funds to invest in them on a limited basis. This makes cETNs a more visible route through which UK authorised funds may obtain professionally managed exposure to digital assets, while direct investment in cryptoassets remains prohibited.

For authorised fund managers, the relevance of cETNs lies in their practical accessibility. They can be purchased, held, valued and administered through existing securities infrastructure, reducing many of the operational complexities associated with direct cryptoasset ownership. This makes them a potentially useful route for limited crypto exposure within diversified portfolios.

However, operational familiarity should not be mistaken for structural simplicity. A cETN is legally a debt security that provides economic exposure to the performance of a cryptoasset without giving the investor direct ownership of that asset. The investor's claim is therefore against the issuer and depends on the product's legal, collateral, custody and operating arrangements.

The central message of this guide is that not all cETNs are created equal. Products with similar labels, and even products tracking the same cryptoasset, may differ materially in legal claim, collateralisation, custody model, investor protections, liquidity support, underlying exposure and product economics. These differences can affect the balance between market risk, issuer risk, counterparty risk and operational risk.

For UK-listed cETNs, regulatory and market standards may provide important safeguards, including collateralisation or physical backing and recognised exchange listing. Those safeguards are relevant, but they do not remove the need for product-level due diligence. Authorised fund managers still need to understand who the issuer is, what claim investors have, how assets are safeguarded, how liquidity is supported, and how the product would behave in stressed conditions.

The guide therefore sets out a practical framework – and a checklist – for assessing cETNs in authorised fund portfolios. It explains why cETNs matter in the current regulatory context, why cETN structures can differ, and what managers should check before investing. The key considerations include regulatory eligibility, product structure, collateralisation, custody and safeguarding, underlying exposure, liquidity, costs, governance, disclosure and ongoing monitoring.

A cETN's suitability will depend on the structure of the product, the role of the exposure within the fund, and the manager's ability to evidence appropriate due diligence, governance and risk controls. With that discipline, cETNs may play a useful and carefully managed role within authorised fund portfolios.

1. Why cETNs Matter

1a. Regulatory context: what has changed for UK authorised funds

The FCA has opened the authorised funds regime to crypto exposure by permitting investment in cETNs[1], while continuing to prohibit direct investment in cryptoassets themselves. The FCA allows both UK UCITS schemes and Non-UCITS Retail Schemes (NURS) to invest in cETNs up to a maximum of 10% of scheme property, provided that any exposure is consistent with the fund's stated investment objective, risk profile, diversification requirements and disclosure obligations. The FCA's rationale is that, following the lifting of the retail restriction on listed cETNs in 2025, it is now appropriate to allow a limited level of indirect crypto exposure within professionally managed, diversified retail funds. However, the FCA remains concerned about the speculative and volatile nature of the underlying cryptoassets and therefore considers a 10% cap necessary to preserve the integrity and consumer-protection credentials of the UCITS and retail fund brands.

UK Fund Type	cETN Investment permitted?	Up to % of scheme property
UK UCITS	Yes	10%
NURS	Yes	10%
QIS	Yes	100% - no cap
LTAFs	No	

The position differs across fund types. Qualified Investor Schemes (QIS) face no quantitative limit because they are restricted to professional and sophisticated investors. By contrast, the FCA prohibits Long-Term Asset Funds (LTAFs) from holding cETNs at all. The FCA's position on LTAFs is that cryptoasset exposure is inconsistent with their intended purpose, which is to provide access to long-term illiquid assets. Importantly, the FCA is not permitting any authorised fund to hold cryptoassets directly for investment purposes[2]; only investment via eligible listed cETNs are allowed.

1b. Routes to crypto exposure: why cETNs are the relevant route

For UK authorised funds, the FCA's policy to permit investment in certain cETNs is significant because there are currently few practical routes through which funds can obtain exposure to digital assets.

In theory, some types of fund could gain exposure through direct ownership of cryptoassets, through asset-backed exchange-traded products, or through cETNs. In practice, however, direct investment in cryptoassets is unviable due to significant operational challenges even where permitted by regulation. These include custody arrangements, safeguarding requirements, cyber-security risks, private key management, valuation considerations and the need for specialist operational infrastructure. As a result, direct holdings are currently not a realistic option for most mainstream authorised fund managers.

Similarly, while some jurisdictions have developed spot crypto exchange-traded funds and other asset-backed structures, these products are not currently a widely available route for UK authorised funds. Regulatory treatment, product availability and eligibility requirements continue to limit their practical use within authorised fund portfolios.

Against this backdrop, cETNs are likely to be the most accessible route through which authorised funds can obtain crypto exposure. They can be purchased, held and administered through existing securities

[1] FCA Handbook Notice 144 https://www.fca.org.uk/publication/handbook/handbook-notice-144.pdf

[2] FCA CP26/17 notes that "We are not currently considering allowing authorised funds to hold cryptoassets directly… for investment purposes. This position will remain at least until we have further considered the overall impact of our incoming cryptoasset regulatory regime to authorised funds, including our rules for safeguarding of client cryptoassets. All assets that form part of the scheme property of an authorised fund must be entrusted to a depositary for safekeeping." https://www.fca.org.uk/publication/consultation/cp26-17.pdf

infrastructure and operating models, without opening an account with a cryptoasset trading venue or arranging direct crypto custody and so reducing many of the operational complexities associated with direct ownership of cryptoassets. For many fund managers, the question is therefore less whether to access crypto exposure through a cETN or an alternative structure, and more how to assess the suitability of different cETN products.

Why and how cETNs are being used

The growth of cETNs reflects the increasing integration of digital assets into traditional financial markets. For investors that do not wish, or are not permitted, to hold cryptoassets directly, cETNs can provide a listed-market route to crypto exposure using familiar trading, custody, valuation and reporting processes.

One of the main attractions is operational simplicity. Direct investment in cryptoassets requires specialist infrastructure, including digital wallets, private key management, cryptoasset trading venues and bespoke safeguarding arrangements. By contrast, cETNs allow exposure to be accessed through existing securities market infrastructure. This can reduce the need for investors to build or manage their own cryptoasset operational capability, although it does not remove the need to understand the issuer's own custody, safeguarding and service-provider arrangements.

There is also a governance and control dimension. Because cETNs are listed instruments, they can be incorporated more readily into existing investment, risk, oversight and reporting processes than direct cryptoasset holdings. This may make them more practical for authorised fund managers that need to manage crypto exposure within established fund governance and operational frameworks.

cETNs may also provide a route for incorporating limited crypto exposure into diversified portfolios. Their exchange-traded nature allows them to be treated alongside other listed instruments for many operational purposes, including dealing, valuation and portfolio administration. However, this operational familiarity should not be mistaken for structural equivalence with traditional asset classes. As the following sections explain, cETNs can differ materially in legal claim, collateralisation, custody arrangements, liquidity support and underlying exposure.

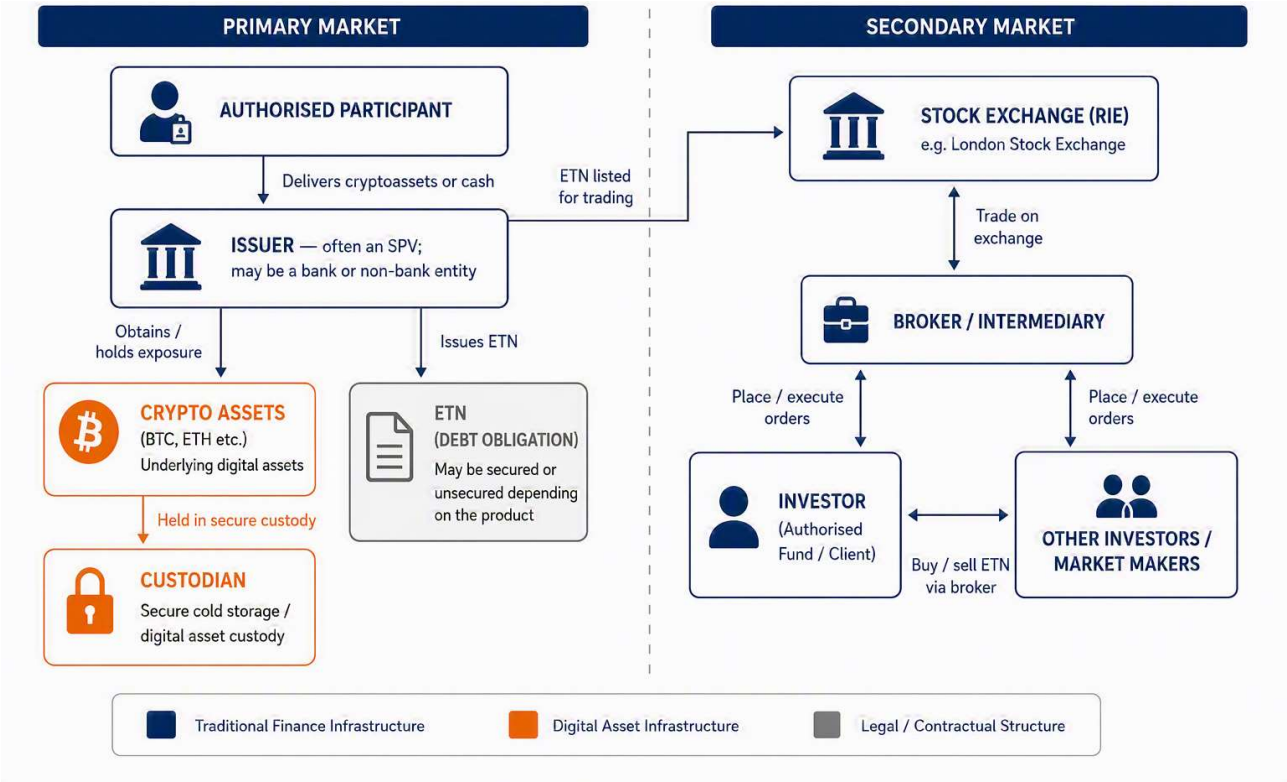
1c. What is a cETN?

Exchange-traded notes (**ETNs**) are financial instruments designed to provide investors with exposure to the price movements of an underlying asset without requiring direct ownership of those assets. Crypto ETNs (**cETNs**) are ETNs providing exposure to cryptoassets. While they are often grouped alongside other exchange-traded products, their legal and economic structure differs in important ways that have direct implications for investors.

Fundamentally, an ETN is a debt security issued by an entity established for that purpose, often a special purpose vehicle (SPV). When an investor purchases an ETN, they take exposure to the issuer's obligation to deliver a return linked to the referenced asset or index, typically after the deduction of fees. Unlike a fund, an ETN does not represent ownership of a pool of assets held directly on behalf of investors. The instrument is listed on an exchange and can be traded throughout the day while the exchange is open, making it operationally similar to traditional asset classes, such as equities and exchange-traded funds from a market access perspective.

A cETN is simply a form of this that provides investors exposure to the performance of a cryptoasset without conferring direct ownership of that asset. Instead of holding Bitcoin, Ether or other cryptoassets themselves, investors hold a claim on the issuer, whose obligation is to deliver a return linked to the reference asset.

Figure 1: Simplified Structure of a cETN



The investor purchases an ETN, gaining exposure through a contractual claim on the issuer. The distinction between economic exposure and legal ownership is a defining feature of the ETN structure.

The apparent simplicity of the listed instrument can obscure important differences in structure. The next section explains why those differences matter.

2. Why cETN structures differ

2a. Not All cETNs Are Created Equal: the core framework

A cETN label does not tell investors everything they need to know. Products may differ by legal claim, collateralisation, custody model, underlying exposure, use of derivatives or counterparties, and liquidity mechanism. While all cETNs are legally debt securities, their structures can differ materially in the extent to which exposure is supported by underlying cryptoassets. These differences can have a significant impact on the balance between market risk and issuer credit risk. Figure 2 illustrates this spectrum at a simplified level.

Figure 2: Variation in Structure and Risk

Differences in collateralisation and structure mean that products with similar labels can exhibit materially different risk profiles.

Understanding where a product sits on this spectrum is critical when assessing its suitability for inclusion within an authorised fund portfolio. While cETNs simplify access to crypto exposure, they do not eliminate risk; rather, they package that risk in different ways depending on product structure.

The key point is that product categorisation alone is not a reliable guide to risk. A “Bitcoin cETN” may be physically backed and supported by segregated custody arrangements, or it may obtain exposure through a more complex collateralised or synthetic structure. Products may also differ in their issuer arrangements, default mechanics, custody model, liquidity support and underlying exposure.

These distinctions are often not immediately visible from product labelling. For authorised fund managers, this necessitates a deeper level of product analysis than may be required for more standardised instruments. A detailed understanding of structure, collateral, custody and exposure is therefore essential for informed investment decisions.

The following sections unpack these differences in turn. They focus first on the legal claim and collateral arrangements, then on custody and operational dependencies, and finally on the nature of the underlying

exposure and product design. Together, these factors determine whether a cETN provides a relatively straightforward route to cryptoasset exposure or a more complex combination of market, issuer, counterparty and operational risks.

2b. Legal form, collateralisation and investor claim

Although cETNs are traded on exchange and may appear operationally similar to other listed instruments, their legal form matters. An ETN is a debt security issued by an issuer, often through a SPV. The investor's legal relationship is therefore with the issuer, rather than with the underlying cryptoasset itself. This distinguishes cETNs from direct ownership of cryptoassets and from fund structures where investors may have an interest in a pool of assets held under a fund regime.

The key due diligence question is how far the investor's exposure to the issuer is mitigated by the structure of the product. At one end of the spectrum, an ETN may rely primarily on the issuer's ability to meet its obligations. In that case, the investor is exposed not only to the performance of the referenced asset, but also to the creditworthiness of the issuer. At the other end of the spectrum, a cETN may be fully collateralised or physically backed by holdings of the referenced cryptoasset, with those assets owned by the issuer but held in segregated issuer wallets, separately from the custodian's proprietary assets and those of its other customers.

Collateralisation can therefore materially alter the economic risk profile of a cETN. Where the product is fully backed by the underlying cryptoasset and those assets are held on a segregated basis, issuer credit risk may be significantly reduced. However, collateralisation does not remove all risks. Investors still need to understand the legal claim they have over the collateral, and the form of the collateral based on the underlying asset, the role of any security trustee or collateral agent, the circumstances in which collateral could be realised, and the process that would apply if the issuer or another key party defaulted.

This distinction is particularly important in stress scenarios. If an issuer were to default, the relevant question is not simply whether the product was described as collateralised or physically backed, but whether the legal arrangements are sufficiently robust to ensure that the collateral is available for the benefit of investors. Authorised fund managers should therefore assess the structure of the investor claim, the degree of legal segregation, the enforceability of security arrangements and the practical mechanics of recovery in a default scenario.

The same analysis applies where exposure is achieved through synthetic or counterparty-based arrangements. In those cases, the investor may be exposed to the performance of the referenced cryptoasset but also to the credit risk of a derivative counterparty or other transaction counterparty. Collateral may mitigate that risk, but the quality, frequency of margining, legal enforceability and liquidity of that collateral become important parts of the product assessment.

For authorised fund managers, the practical conclusion is that the label "cETN" is not enough. Two products that track the same cryptoasset may involve materially different investor claims, collateral arrangements and default outcomes. These differences should be assessed before the product is treated as a suitable route to crypto exposure within an authorised fund.

2c. Custody, safeguarding and operational dependencies

Custody is one of the most important structural features of a physically backed cETN. Where a product is backed by holdings of the underlying cryptoasset, the investor's protection depends not only on the existence of those assets, but also on how they are held, safeguarded and controlled. As with all other investments a fund makes, firms should ensure that they understand and have confidence in the arrangements and controls in place.

For physically backed UK-listed cETNs, the underlying cryptoassets will typically be held through secure custody arrangements, with significant emphasis on cold storage and institutional safeguarding. Cold storage can reduce exposure to certain cyber and operational risks by keeping private keys offline, but it does not remove the need for robust governance, access controls, segregation arrangements and

operational resilience. Fund managers should understand who the custodian is, whether it is regulated or authorised in a relevant jurisdiction, and what contractual protections apply.

The treatment of wallets and private keys is particularly important. Managers should consider whether assets are held in segregated wallets, whether omnibus arrangements are used, who has authority to move assets, and what controls exist around key generation, storage, transfer approval and recovery. These issues are specific to cryptoasset infrastructure and may not be fully captured by traditional securities custody due diligence.

Institutional custody transfers the day-to-day responsibility for generating, storing and controlling private keys to a specialist custodian operating documented security, access-control and audit processes. A cETN may involve a range of these service providers, including administrators, calculation agents, market makers, authorised participants, collateral agents and trading counterparties. These parties work effectively together to strengthen the delivery of the product, though it should be noted that weaknesses or disruption at any of these points could affect the product's ability to operate as intended.

As with all other investments, operational dependencies should therefore form part of the product assessment. Authorised fund managers should consider whether the issuer has appropriate oversight of service providers, whether there are clear contingency arrangements, and whether the product has demonstrated resilience in stressed market conditions. The objective is not simply to confirm that custody exists, but to understand whether the custody and operating model provide an appropriate level of protection for a regulated fund investment.

2d. Underlying exposure and product design

Structural differences between cETNs are not limited to collateral and custody arrangements. Products may also differ materially in the nature of the underlying exposure they provide. This matters because the risk and return profile of a cETN will be shaped not only by the wrapper, but also by the cryptoasset, basket, index or strategy that the product tracks.

The simplest products provide exposure to a single established cryptoasset, such as Bitcoin or Ether. These assets are generally more liquid and have longer trading histories than many other cryptoassets, although they remain highly volatile. Other products may provide exposure to baskets of cryptoassets, thematic segments of the market or indices that rebalance over time. These products can offer broader exposure, but they may also introduce additional complexity, concentration risk, index methodology risk and liquidity considerations.

Some products may incorporate additional features such as staking, yield mechanisms, rebalancing rules or synthetic exposure. These features can affect the economics of the product and the risks borne by investors. For example, staking may generate additional returns but can also introduce operational, liquidity, or counterparty risks depending on how the product is structured.

Synthetic exposure may reduce the need for direct holding of the underlying asset, but it can introduce counterparty and collateral risks. Physically backed cETNs provide a transparent unit of exposure. Investors are able to identify the amount of cryptoasset represented by each security and monitor that entitlement alongside a published reference price. This can support valuation, reconciliation, portfolio monitoring and risk reporting

For UK authorised funds, these distinctions are important because product eligibility and product suitability are not the same question. A cETN may be eligible under the relevant regulatory framework, but managers still need to assess whether the underlying exposure is consistent with the fund's objective, investment policy, risk profile and target market. A Bitcoin or Ether cETN may raise different questions from a basket product, a staking-enabled product or a product referencing less liquid cryptoassets.

Product design should therefore be assessed as part of the same due diligence process as legal structure, collateralisation and custody. Authorised fund managers should understand exactly what exposure is being obtained, how the reference asset or index is calculated, how frequently the product rebalances if relevant,

what additional features are embedded in the product, and how those features may behave in stressed market conditions.

2e. cETNs listed on UK vs international markets

The FCA allows funds to hold products traded on UK recognised investment exchanges (RIEs), and those traded or dealt on other EU and global markets that comply with the existing 'eligible markets' tests for authorised fund assets and meet the broader requirements for fund assets.

The UK crypto ETN market remains relatively narrow compared with more developed European markets. In the UK, product availability is limited, with fewer issuers and a strong focus on core assets[3].

By contrast, European markets have seen a broader range of products and issuers. These include multi-asset exposures, niche crypto segments, and products incorporating additional features such as more wide-ranging use of staking. This diversity reflects both regulatory differences and longer-standing market development.

For UK authorised funds, this creates both opportunities and challenges. Accessing international products may provide broader exposure but also introduces additional complexity in terms of product structure, risk profile, and regulatory treatment.

[3] London Stock Exchange, Crypto ETN Admission Factsheet, June 2026, Admission Guidance: underlying cryptoassets must be physically backed, non-leveraged and have Bitcoin and/or Ethereum as the underlying cryptoassets. https://docs.londonstockexchange.com/sites/default/files/documents/crypto-etn-admission-factsheet-june-2026.pdf

3. What authorised fund managers should check

3a. Key risk, liquidity and cost considerations

The structural differences set out above translate into a range of risks that authorised fund managers will need to assess at both product and portfolio level. These risks should not be considered in isolation: market volatility, issuer exposure, collateral arrangements, custody, liquidity and cost can interact, particularly during periods of stress.

cETNs combine risks associated with structured products and cryptoassets. The most obvious risk is market risk, reflecting the volatility of the underlying cryptoasset. Even where exposure is obtained through a listed instrument, the value of the cETN will remain closely linked to the price movements, liquidity and market integrity of the underlying asset.

Issuer, counterparty and collateral risks also remain important. A physically backed product may reduce issuer credit risk where the underlying assets are properly segregated and available for the benefit of investors, but managers still need to assess the legal structure, default mechanics and operational arrangements that support that protection. Where exposure is synthetic or counterparty-based, counterparty credit risk and collateral quality become more prominent.

Liquidity risk should also be assessed carefully. An open-ended creation and redemption mechanism can help market makers respond to investor demand and can support alignment between the trading price and the value of the underlying entitlement. Multiple authorised participants and market makers may also broaden the available sources of liquidity. These mechanisms support, but do not guarantee, liquidity or price alignment in stressed markets. As with other types of assets, reduced liquidity and wider bid–ask spreads during these volatile or stressed periods can affect execution quality and therefore the ability of an authorised fund to manage subscriptions and redemptions.

Investor protections are more limited than for many traditional investments. cETNs do not benefit from FSCS protection, and investors rely on the product's contractual, collateral and custody arrangements rather than on a fund regime such as UCITS. This reinforces the need for careful product due diligence and clear disclosure.

The cost structure of cETNs extends beyond headline issuer or management fees. The total cost of holding a cETN may include issuer fees, trading spreads, transaction costs, hedging or rebalancing costs, and any implicit costs arising from the way exposure is implemented. These costs may vary by product structure and may not always be fully captured in published fee metrics.

Trading costs should be assessed as part of the overall cost of exposure, rather than as a separate execution issue. Where the issuer needs to buy or sell underlying cryptoassets, rebalance collateral, or maintain synthetic exposure through a counterparty, transaction and implementation costs may affect realised returns. These costs may become more significant during periods of market volatility.

Product economics should also be assessed carefully. In some structures, the issuer may retain a portion of staking rewards, collateral income or other economic benefits generated by the underlying exposure or collateral arrangements. These features can alter the net return delivered to investors and should be understood alongside the headline fee.

For authorised funds, the key question is whether the product's liquidity and cost profile is compatible with the fund's investment strategy, expectations of the fund's target market investors, dealing frequency and redemption profile. Managers should assess both normal-market costs and how the product's overall cost and liquidity profile may change during periods of stress.

3b. Implications for authorised fund managers

For authorised fund managers, the structural differences between cETNs translate into a distinct set of portfolio, risk and governance considerations. The assessment should therefore go beyond individual

product features and consider how any proposed exposure fits within the fund's wider investment process, risk framework and client proposition.

From a portfolio construction perspective, firms should determine the intended role of any cETN exposure within the strategy. This may range from a short-term tactical position to a longer-term thematic allocation linked to digital assets or blockchain-related innovation. That distinction matters because it affects expected holding period, rebalancing approach, liquidity needs, client communication and the level of governance required. Given the volatility of cryptoassets, even small allocations can have a meaningful impact on portfolio risk, which reinforces the importance of careful sizing and diversification.

Risk management frameworks should reflect the hybrid nature of cETNs. These instruments combine cryptoasset market risk with issuer, counterparty, collateral, custody and liquidity risks. Firms should consider whether existing counterparty limits, liquidity risk processes and stress-testing frameworks adequately capture these features, including how the product may behave during periods of cryptoasset market volatility or wider market stress.

Liquidity management should be assessed in the context of the fund's own dealing terms and redemption profile. Although cETNs may trade on secondary markets, their liquidity can depend on the underlying cryptoasset market, market-maker activity and product creation or redemption mechanisms. Managers should therefore consider whether a proposed allocation remains manageable under both normal and stressed conditions.

Due diligence and governance should involve the relevant investment, risk, operations, legal, compliance and product teams. The assessment should cover not only the underlying cryptoasset, but also the issuer, product structure, collateral arrangements, custody model, service providers, disclosures and ongoing monitoring arrangements. Boards and committees should be able to evidence why a particular cETN is appropriate for the fund and how the associated risks will be overseen.

Finally, firms must ensure that their use of cETNs is consistent with regulatory obligations, including those relating to product governance and the Consumer Duty. Given the high-risk classification of these products, ensuring appropriate client outcomes will be a key consideration.

3c. Practical due diligence checklist

When assessing a cETN, authorised fund managers may wish to consider:

✓	Area	Questions for authorised fund managers
☐	**Regulatory eligibility**	Is the cETN eligible for investment by the relevant fund type, including any listing venue, asset, exposure limit and diversification requirements?
☐	**Product structure**	How is exposure created: through physical backing, collateralised exposure, a synthetic arrangement or another structure?
☐	**Collateralisation**	What assets collateralise the product, how frequently is collateral monitored, and is collateral held on a legally segregated basis for investors?
☐	**Issuer and investor claim**	Who is the issuer, what claim does the investor have, and what would happen if the issuer or any relevant counterparty defaulted?
☐	**Custody and safeguarding**	Where underlying cryptoassets are held, who is the custodian, how are assets safeguarded, and what controls apply to wallet segregation, cold storage and private key management?
☐	**Underlying exposure**	What cryptoasset, basket or index is being tracked, and are there features such as staking, leverage, rebalancing or synthetic exposure that alter the product's risk and return profile?
☐	**Liquidity and trading**	How liquid is the product in normal and stressed conditions, who supports secondary market trading, and how might bid–ask spreads, creation/redemption processes and underlying market liquidity affect execution?
☐	**Costs and economics**	What are the full costs of investing, including issuer fees, transaction costs, spreads, hedging costs and any retained staking or collateral-related economics?
☐	**Fund fit and portfolio impact**	How does the proposed holding fit with the fund's objective, investment policy, risk profile, liquidity profile, diversification requirements and prudent spread of risk assessment?
☐	**Governance and disclosures**	What internal approvals are required, and do the fund's prospectus, KIID/KID, risk disclosures, marketing materials and Consumer Duty assessment remain appropriate?
☐	**Ongoing monitoring**	What monitoring triggers should apply for changes in issuer risk, collateral arrangements, custody model, liquidity, spreads, regulatory status, underlying market conditions or product documentation?

In addition to product-level due diligence, firms should consider how any proposed cETN investment is implemented within the fund's wider governance, documentation and risk-management framework. In particular, they should:

- Review fund documentation and disclosures: assess whether the proposed use of cETNs remains consistent with the fund's objective, investment policy and risk profile, and whether prospectuses, KIIDs/KIDs, fund factsheets, marketing materials or other consumer-facing communications require updating.
- Assess prudent spread of risk at portfolio level: consider the contribution of any cETN holding to the fund's overall risk profile, including existing exposures to higher-risk assets, indirect cryptoasset exposure through other funds, and assets whose performance may be materially correlated with crypto markets.
- Confirm governance, approvals and monitoring arrangements: ensure that appropriate investment committee, risk, product governance and escalation processes are in place, and that liquidity, issuer risk, collateral arrangements and ongoing suitability can be monitored throughout the holding period.

These considerations are intended to support a disciplined and proportionate approach to cETN investment. They do not imply that cETNs are unsuitable for authorised funds, but they do mean that firms should be able to evidence why a particular product is appropriate for a particular fund, and how the associated risks will be governed over time.

Take Aways

cETNs offer a practical and increasingly accessible route for authorised funds to gain exposure to digital assets. Their compatibility with existing securities infrastructure makes them a potentially useful option for firms seeking limited, professionally managed exposure to crypto markets.

However, the apparent simplicity of the listed instrument should not obscure the structural differences that can exist between products. The cETN label is not enough. Legal claim, collateralisation, custody arrangements, underlying exposure, liquidity support and product economics can all materially affect risk and suitability.

For IA members, the key is to approach cETNs with the same rigour applied to other structured instruments, while recognising the distinctive characteristics of crypto markets. With appropriate product due diligence, fund-level governance and ongoing monitoring, cETNs may play a limited and carefully managed role within authorised fund portfolios.

The Investment Association (the "Association") has made available to its membership this Guide (the "Guide") informed by selected members with expertise in the matter (the "Collaborators"). The Guide has been made available for information purposes only and to assist member firms with the newly available permissions to invest in crypto exchange-traded notes ("cETNs").

The Guide does not constitute professional advice of any kind and should not be treated as professional advice of any kind. Firms should not act upon the information contained in the Guide without obtaining specific professional advice. The Association accepts no duty of care to any person in relation to this Guide and accepts no liability for your reliance on the Guide.

The Guide cannot supplant any Financial Conduct Authority rules or guidance, European Regulations, or any other relevant rule, regulation, guidance, recommendation or law that may be relevant or applicable, and firms should ensure that they understand and comply with those requirements. Firms should contact the Association if they have questions about the Guide.

All the information contained in this Guide was compiled with reasonable professional diligence, however, the information in this Guide has not been audited or verified by any third party and is subject to change at any time, without notice and may be updated from time to time without notice. Neither the Collaborators nor the Association nor any of its respective directors, officers, employees, partners, shareholders, affiliates, associates, members or agents ("the Parties") accept any responsibility or liability for the truth, accuracy or completeness of the information provided, and do not make any representation or warranty, express or implied, as to the truth, accuracy or completeness of the information in the Guide.

The Parties are not responsible or liable for any consequences of you or anyone else acting, or refraining to act, in reliance on this Guide or for any decision based on it, including anyone who received the information in this Guide from any source and at any time including any recipients of any onward transmissions of this Guide. Certain information contained within this Guide may be based on or obtained or derived from data published or prepared by third parties. While such sources are believed to be reliable, the Parties assume no responsibility or liability for the accuracy of any information obtained or derived from data published or prepared by third parties.

THE
INVESTMENT
ASSOCIATION

© The Investment Association 2026

theia.org