

# **Regulating Crypto-related Mergers and Acquisitions: Building a Coherent Framework for Innovation, Competition and Financial Stability**

by Dhuwaraka Balamyuran



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## **Executive Summary Draft**

The ambiguity of the regulations around rising crypto-related mergers and acquisitions creates risks to consumer protection and market integrity, as there is insecurity about the status of crypto assets as financial instruments (Odinet and Tosato, 2023).

There are many risks with this emerging sector in M&A, including gaps in consumer protection, especially when cross-border acquisitions complicate accountability. Another risk is with anti-money laundering, as weak oversight in regulation can raise exposure to illicit finance, and as anonymity and weak control in virtual markets are exposed by criminals and terrorist actors (PwC, 2025). There are also many risks with consumer protection concerns and threats to market stability, as cryptocurrency buyers often lack safeguards and the inconsistencies in regulation can allow vulnerabilities in these acquired entities to spill into mainstream finance. Regulators must pre-emptively prevent the risk of spillovers when traditional finance actors acquire or partner with crypto firms. Finally, the Financial Stability Board notes that the international and fast evolving nature of crypto markets raises risks of fragmentation and arbitrage. Entities may relocate and restructure, including through M&A, to evade regulation by operating in foreign jurisdictions with weaker standards. This contradicts fair competition, as it allows some companies to benefit from lack of compliance burdens, while still operating globally (Financial Stability Board, 2023).

However, there are also many opportunities involved in crypto-related M&A, as they accelerate the institutionalisation of markets for digital assets, allowing innovation and investment in the private sector to grow. The OECD highlights that the increasing institutional involvement in crypto markets could aid the development of more efficient financial services globally. These innovations allow jurisdictions to strengthen their competitive position, especially where clear regulation encourages responsible crypto adoption and high value investments (Organisation for Economic Co-operation and Development, 2022). Additionally, Zhang discusses the potential of stablecoins to enhance payment infrastructure, expand cross border financial services and support new business models in the digital economy (Zhang et al., 2024).

## **Background & Problem Definition**

Crypto-asset mergers and acquisitions play a key role in shaping the digital economy, as nearly half of recent deals were in the Investing & Trading, Infrastructure and Brokers & Exchanges verticals (Areta, 2024). This highlights that crypto is becoming more institutionalised; as when traditional

financial institutions merge with or acquire core crypto services, crypto integrates within the mainstream financial system. This will therefore amplify both the opportunities and risks that flow into the wider financial system.

Mergers and acquisitions (M&A) refer to transactions in which companies combine operations through merger or where one firm acquires control of another through purchase of equity or assets (Corporate Finance Institute, n.d.). In the context of this paper, crypto-related M&A refers to mergers or acquisitions involving firms whose core business activities relate to crypto-assets, such as decentralised finance applications (Organisation for Economic Co-operation and Development, 2022).

In this paper, I define cryptocurrency as a ‘digital asset secured by cryptography, recorded on a public ledger called a blockchain’ (Owl Explains, n.d.). I also define blockchain as a database that is distributed across a peer-to-peer network and each computer on the network (node) stores the same information, making it less susceptible to attack (Owl Explains, n.d.).

Crypto related mergers and acquisitions raise significant policy concerns because existing financial regulations and frameworks for competition law were built for centralised financial institutions and tangible financial instruments, meaning they are not applicable directly to crypto markets. Traditional regulatory systems rely on clearly defined relationships between the issuer, intermediary and the consumer, however crypto systems are often decentralised, with lots of functions carried out by distributed networks or automated smart contracts (International Monetary Fund, 2023a). The pseudonymity, cross-border operations and algorithmic governance of crypto markets also make them difficult to align with existing financial regulation (Organisation for Economic Co-operation and Development, 2022). These discrepancies make it harder for regulators to apply rules on market conduct, consumer protection, competition and financial stability to crypto-business models, increasing the risk of M&A activity integrating irregularly into the mainstream financial system.

Beyond their immediate commercial impact, crypto-related M&A raise broader policy concerns because they affect the risks in the financial system. Unlike organic growth, M&A can rapidly concentrate activities, such as trading and payment services within a single corporation, often across multiple jurisdictions (Organisation for Economic Co-operation and Development, 2022). This concentration can obscure lines of accountability and complicate regulatory oversight, particularly where crypto firms operate through different corporate structures that do not map onto traditional supervisory models (International Monetary Fund, 2023a).

Therefore, there is a growing gap between the scale and complexity of consolidation in digital asset markets and the capacity of existing regulatory frameworks to manage and assess the associated

risks. This explains the need to examine how current regulatory approaches address crypto-related M&A and whether they are sufficient to safeguard consumers.

### **Current regulatory landscape**

Currently, in the UK crypto assets are not regulated as a single category. Instead, the Financial Conduct Authority uses a functional approach assessing that if a token behaves like a share, bond or derivative, it may be regulated, but if it does not it may fall outside the regulatory guidelines. Therefore, the FCA mainly regulates through activity-based rules, not asset-based rules. An example of this is with financial promotions, where marketing of crypto assets to UK consumers is now subject to financial promotion restrictions (Financial Conduct Authority, 2019). Hence, many tokens can fall outside the regulatory perimeter. This creates uncertainty in M&A, as when a crypto firm is acquired, it is reviewed through general M&A frameworks, not crypto specific ones. The CMA is responsible for dealing with competition issues (Competition and Markets Authority, 2023), whilst acquisitions are subject to the National Security Investment Act 2021 (HM Government, 2021). Therefore, crypto M&A may trigger national security scrutiny even where financial regulation remains unclear, highlighting how fragmented current regulation is. This presents the key obstacle of classifying whether a crypto asset is a security, investment or unregulated token.

### **Analysis: Key challenges in regulating crypto related M&A**

Crypto-related M&A creates distinctive AML risks, due to the cross-border nature of crypto business models, which can facilitate transactions that are harder to track, especially in decentralised networks. International AML standards recognise that virtual assets need regulating, including licensing and due diligence, because existing tools to do so do not appropriately translate to crypto markets (Financial Action Task Force, 2021). Academic work similarly argues that effective AML compliance for digital assets depends on adapting supervision and enforcement to the operational realities of crypto, rather than trying to impose traditional compliance models (Rouan, 2025). Therefore, in acquisitions, firms can inherit compliance weaknesses that are difficult for regulators to assess across jurisdictions.

Risks to consumer protection are a policy concern because crypto markets can often produce expectation gaps, as consumers may assume that protections exist that do not or their assumptions may not align with their jurisdictional protections, especially when services resemble familiar financial products (Parry, 2023). This same issue can occur in M&A, as after an acquisition it can be unclear which entity is responsible for losses or disruptions, particularly across borders or when businesses are multifunctional. The treatment of customer assets is often unclear, which undermines the predictable

outcomes when firms fail or restructure (Parry, 2023). Therefore, in short, M&A in crypto can transfer consumer facing vulnerabilities into mainstream finance.

## **Policy Options & Recommendations**

### ***1. Mandate enhanced due diligence for crypto-related M&A***

Crypto business models create heightened AML risks that require tailored due diligence before approving mergers involving crypto firms. This would involve AML audits, transaction monitoring reviews and cybersecurity and custody assessments to ensure client assets are properly segregated and protected (Financial Action Task Force, 2021). Traditional AML models do not transfer directly to crypto business models, due to crypto's pseudonymity and flexibility in cross-border transactions, which can heighten risks of financial crimes (Rouan, 2025). This is even more important in M&A, as AML weaknesses can be scaled or inherited in these transactions, so any weak governance or compliance can be amplified (Financial Stability Board, 2023a). The aim of this policy is to identify and mitigate AML and consumer protection risks before they are amplified by acquisition, ensuring that consolidation in the crypto sector does not undermine market integrity or expose consumers to avoidable harm.

### ***2. Require Post-Merger Reporting and Monitoring***

Post merger reporting and ongoing monitoring should be required for crypto-related M&A to ensure that AML and consumer protection risks are effectively managed beyond the point of deal approval. Unlike traditional financial markets, crypto asset risks are highly dynamic and may intensify after integration, as the scale of transactions can be amplified as the business model evolves, whilst compliance systems are evolving (Financial Stability Board, 2023b). Ongoing obligations, such as periodic AML compliance reports, disclosure of custody arrangements and monitoring of consumer complaints, would allow regulators to detect emerging risks early and intervene where necessary (International Monetary Fund, 2023b). This policy recognises that pre-merger due diligence alone is insufficient in fast-moving and technologically complex markets and that sustained oversight is essential to ensure compliance is maintained.

## **Conclusion**

Crypto-related mergers and acquisitions sit at the intersection of financial innovation and regulatory risk. As crypto markets become increasingly institutionalised, the limitations of existing

regulatory frameworks, designed for traditional financial instruments and institutions, become more pronounced. This paper has highlighted that regulatory ambiguity surrounding crypto assets and how this creates risks that require intense anti-money laundering regulation and consumer protection policies, particularly in cross-border businesses. Without tailored regulatory oversight, M&A activity risks transferring compliance weaknesses from the crypto sphere into the mainstream financial system.

At the same time, crypto M&A present vast opportunities to enhance investment and innovation in the development of more efficient financial services. Therefore, the challenge for policymakers is to balance restricting crypto transfers, whilst ensuring that market integrity is preserved. I proposed the policy options of mandate enhanced due diligence and requiring post-merger reporting and monitoring, as these offer targeted responses to the specific risks identified. By strengthening oversight both before and after acquisitions, regulators can better identify inherited risks and adapt supervision to the realities of crypto markets and reduce the likelihood of risks being transferred into traditional financial markets.

Ultimately, effective regulation of crypto-related mergers and acquisitions should not seek to inhibit innovation, but to ensure that consolidation occurs within a clear and coherent regulatory framework. Therefore, crypto can be integrated into mainstream financial systems in a way that promotes long term resilience, trust and sustainable innovation.

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