CRYPTOASSETS: ARE REGULATORS ON THE CURVE?

JOSÉ MANUEL CAMPA

Chairperson - European Banking Authority (EBA)

Preparing for MiCA: The early mover advantage

In June 2022, the Council of the European Union and European Parliament reached a provisional political agreement on the European Commission's landmark proposal for a regulation on markets in crypto-assets (MiCA).[1] The agreement sets out a holistic approach to the regulation of crypto-asset activities in the European Union and marks the beginning of a new phase as both the financial sector and supervisory authorities turn their attention to readiness for application.[2]

For the financial sector, firms active in the sector need to gain an early understanding of the new obligations deriving from the regulatory framework, and to adopt a 'compliance by design' philosophy as crypto-asset products and services come to market in the transition phase. Moreover, those firms also need to ensure the proper marketing of products and customer profiling to make sure that consumers possess the skills they need to actually understand crypto-asset features and the value provided to them.

From a supervisory perspective, relevant supervisory authorities need to strengthen their abilities to understand better crypto-asset products and services. Such understanding should namely cover crypto-assets regulatory classification, distribution channels, and the interconnectedness both within and beyond the traditional financial sector. Furthermore, supervisory authorities need to continuously monitor the crypto-asset sector, including the marketing of crypto-assets via non-traditional channels, such as social media.

To support capacity-building by supervisory authorities, the European Banking Authority will continue its actions to facilitate monitoring and assessment of emerging crypto-assets and use cases across the European Union. With strengthened monitoring, we can equip ourselves with the information needed to ensure an effective enforcement of the requirements under MiCA and surveillance of new or emerging activities that may fall outside its scope but could warrant inclusion in the future.

Firms need to gain an understanding of the new requirements and a compliance-by-design philosophy.

The European Banking Authority will also continue to act where needed to mitigate any immediate risks, as demonstrated by our warning to consumers in March 2022[3] issued jointly with the other European Supervisory Authorities, and ongoing thematic analysis. The assessment of risks arising from new developments or uses in this front will continue to be a priority going forward. A case is crypto-asset staking and lending as highlighted in the European Banking Authority's May 2022 report on non-bank lending.[4] Another is decentralised finance, also known as "DeFi".

The European Banking Authority will also commence actions to prepare to deliver the extensive number of Level 2 mandates assigned to it under MiCA, for which the European Banking Authority will initiate early industry outreach. This outreach will namely include round tables and the publication of at least one discussion paper in addition to the normal consultation process. Crucially, the European Banking Authority will also begin the build-up of its new supervision function for issuers of significant asset-referenced and e-money tokens.

Strengthening the work of international standard-setters, including bodies such as the Basel Committee on Banking Supervision and the Financial Stability Board, and ensuring global coordination, in view of the importance of ensuring a globally consistent approach to the regulation of crypto-asset activities to secure the effective mitigation of risks and the unlocking of opportunities should continue to be a highest priority.

[1] Link to the EU regulation on markets in crypto-assets: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020PC0593.

[2] The EU regulation on markets in crypto-assets is expected to enter into force in 2023, with asset-referenced and e-money token provisions applying from 12 months from entry into force, and the rest 18 months after said entry into force.

[3] Link to the European Supervisor Authorities' warning from 17 March 2022: https://www.eba.europa.eu/eu-financial-regulators-warn-consumers-risks-crypto-assets. For all European Banking Authority publications on crypto-assets and FinTech, see the European Banking Authority's FinTech Knowledge Hub: https://www.eba.europa.eu/financial-innovation-and-fintech/fintech-knowledge-hub.

[4] Link to the European Banking Authority's report on non-bank lending from 4 May 2022: https://www.eba.europa.eu/eba-provides-its-advice-eu-commission-non-bank-lending#:~:text=In%20this%20Report%2C%20the%20EBA,new%20players%20entering%20the%20market.

MINDAUGAS LIUTVINSKAS
Vice Minister of Finance of the Republic of Lithuania

Encompassing the crypto sector into the regulatory perimeter

New financial technologies have an increasingly crucial part in delivering cutting-edge services and products to consumers. They can make financial products more accessible and effective, enhance those already available, and meet market demands. Particularly, decentralized finance and crypto assets are becoming prominent industry keywords that are gaining more attention from both market participants and public institutions.

In order to guarantee investor safety while supporting innovation and maintaining Europe's competitiveness on a global scale, we, as policymakers, must keep up with these changes and apply appropriate regulatory adjustments. Furthermore, market participants are also becoming more outspoken about their concerns regarding cryptocurrencies as a means of wealth storage, which adds to concerns about their long-term durability as an asset class, especially in the changing interest rate environment.

Increased risks of illegal money laundering and terrorist financing activities involving such assets at an international scale, have demonstrated the need for efficient regulation and oversight of business operations in the crypto industry. In contrast to regulated traditional financial instruments, many services linked to crypto-assets are still mostly unregulated. This issue has become even more acute in the context of Western economic and financial sanctions against Russia in due to its war of aggression against Ukraine, with crypto assets providing a potential bypass of the sanctions regime. All this calls for action at the regulatory front.

In this regard the upcoming EU Regulation on Markets in Crypto-assets (MiCA) is very welcome and timely. It will introduce a wide range of regulatory requirements including prudential and conduct of business rules, a bespoke licencing regime and additional supervisory instruments. These new standards – in essence expanding the regulatory perimeter to cover crypto assets – will offer increased legal certainty and enable sustainable development of this market segment. Efficient and unified EU-level safeguards will be put in place, ensuring enhanced market stability and protecting investors' interests.

Awaiting pan-EU regulation to kick-in, Lithuania moves with enhancing domestic crypto regulation.

Lithuania has been an active supporter of the MiCA Regulation alongside with the Transfer of Funds Regulation, as both will bring better consumer protection, legal clarity and help ensure a level playing field for the crypto-sector market as well as create new legal instruments for the supervisors in terms of risk management. In this regard, we welcome the recent agreement along the co-legislators on the Regulations and look forward to their timely implementation. This crypto-tailored regulation puts the EU ahead of the curve globally.

While the EU level agreement is indeed a positive step forward, the new Regulations will come into force after a transitional period, with implementation of most elements expected to start in 2025. Taking this into account and reflecting on the domestic market developments, Lithuania has taken proactive steps – by "doing our homework" and upgrading the national regulatory framework – along the lines of the upcoming EU-level regulation – to tackle the potential risks heads-on and increase transparency and sustainability of this rapidly expanding market segment.

In June, 2022, Lithuania amended its national AML/CFT regulations applicable to the crypto assets sector. The amendments – which are seen as an interim step awaiting for unified EU regulations to kick-in – introduce a number of regulatory changes. For instance, it significantly increases capital requirements for crypto asset service providers, establishes a more immediate connection to the domestic market, strengthens reputational requirements and ensures more thorough customer identification procedures – including via prohibition to open anonymous accounts and obligation to identify transactions parties from a given threshold. The regulatory changes also enhance transparency of this market segment by establishing a public list of all crypto-asset service providers operating in Lithuania.

These amendments will increase regulatory clarity, enabling sound and balanced development of the sector and substantially enhancing risk management capacities – be it AML/CFT or risk of avoidance of the international sanctions regime. These changes allow Lithuania to remain one step ahead in the broader Fintech regulation context and lay the groundwork for broader pan-EU regulatory changes that will be brought about by MiCA.

As a jurisdiction, Lithuania will continue with a proactive and balanced approach, providing well-defined regulatory climate and promoting innovation in the financial sector, bringing benefits to consumers, investors and the broader economy.

TOMOKO AMAYA
Vice Minister for International Affairs - Financial Services Agency, Japan (JFSA)

Three major policy perspectives for financial regulators regarding crypto-assets

There are three major policy perspectives for financial regulators to consider concerning crypto-assets: financial stability, user protection, and AML/CFT. Crypto-asset related AML/CFT measures have been developed by FATF (Financial Action Task Force) since 2015. On the other hand, international regulatory discussion is still at an early stage in the areas of financial stability and user protection. In Japan, partly in response to the cases of massive hacking and spread of speculative transactions, a regulatory framework has been developed from all three policy perspectives. Most recently, amendments of relevant laws have been enacted and will enter into force by June 2023 to provide a regulatory framework for digital-money type stablecoins (e.g. fiat-currency backed stablecoins and equivalent ones).

Financial Stability

From the perspective of financial stability, particular attention should be paid to stablecoins, which are, or are claimed to be, linked to a fiat currency, since they are susceptible to runs. To address the risk of a run, policy measures need to be taken to ensure redemption at par and price stabilization.

To this end, in Japan, only banks, fund transfer service providers, and trust companies are entitled to issue stablecoins, and each is subject to the requirement to ensure redemption, as follows.

- Banks issue stablecoins as deposits. They are already subject to prudential regulations and stablecoin holders are protected by deposit insurance in the same manner as conventional bank deposits.
- Fund transfer service providers issue stablecoins as claims on outstanding obligations. They are required to secure the obligation through either money deposits with official depositaries, bank guarantees, or segregated safe assets, such as bank deposits and government bonds.
- Trust companies issue stablecoins as trust beneficiary rights. They are required to hold all the trusted assets in the form of bank deposits.

International discussion is at an early stage regarding financial stability and user protection.

In the Japanese regulatory framework, tokens that do not meet the above requirements are categorized as "crypto-assets," the same category as bitcoins. As explained later, crypto-asset exchange service providers are subject to advertising and solicitation regulations and are required to explain the risk of price fluctuations to customers. They may handle so-called stablecoins, but they have to explain that the prices are not necessarily stable. As of now, DAI is the only token, or so-called stablecoin, circulated in Japan.

Other policy measures to ensure financial stability include capital requirements for stablecoin intermediaries. In addition, traditional financial institutions' involvement in crypto-asset business is limited because of the scope of business regulations and supervisory guidance. The various user protection measures below also serve financial stability by enhancing confidence.

User Protection

User protection consists of various aspects, including the protection of user assets and the provision of sufficient information to users. From this perspective, crypto-asset exchange service providers, including custody service providers, should be subject to proper regulation and supervision and maintain proper internal control systems.

From the viewpoint of the protection of user assets, in Japan, service providers are obligated to preserve user assets, to have proper segregation of assets and financial statements audited, and to maintain system security. In particular, in response to the experience of major hacking incidents, service providers are required to manage crypto-assets deposited by customers in an off-line environment (so-called cold wallet), in principle.

From the viewpoint of the provision of sufficient information, crypto-asset exchange service providers are subject to advertising and solicitation regulations and prohibited from deceptive advertisement as well as solicitation enticing speculation. Furthermore, in order to avoid highly leveraged speculative transactions, a minimum margin of 50% is required for CFD transactions by retail users.

Stablecoin intermediaries are subject to similar requirements to protect user assets. In addition, they are required to enter into contractual agreements with issuers that stipulate the sharing of liability for losses in order to ensure proper coordination between the issuers and intermediaries in case of accidents.

Globally, the recent turmoil in crypto-asset markets has crystallized the vulnerabilities of crypto-asset markets and risks to financial stability as well as user protection. The FSB and international standard-setting bodies are intensively working on regulatory and supervisory approaches to address the risks posed by crypto-assets, including stablecoins.

This is a matter of urgency and JFSA will actively contribute to the discussion.

MORTEN BECH

Head of Innovation Hub Swiss Centre - Bank for International Settlements (BIS)

DeFi - crypto's microwave moment?

In 1945, engineer Percy Spencer was experimenting with radar. While testing a machine called a magnetron, he noticed that the heat it produced melted a chocolate bar in his pocket. Additional tests with popcorn and eggs cooked food quickly. Spencer then developed a metal box to keep the energy trapped and voilà: the microwave oven was born.

The history of science is full of ground-breaking discoveries made almost by accident, as by-product of research on something else. It might be the case again with cryptocurrencies. Cryptocurrencies do not perform money's fundamental functions and their shortcomings have been well known-for some time.[1] Today, in an era where the focus is on energy conservation, crypto now gobbles up as much power as Argentina and its 40 million inhabitants, according to research by The Cambridge Centre for Alternative Finance.

Crypto's microwave oven might well be decentralised finance – "DeFi". DeFi seeks to replace traditional financial intermediaries (like banks, custodians and settlement companies) and centralised systems with smart contracts, self-executing pieces of code governed by the blockchain. These new decentralised systems could offer a glimpse of features to enhance the current monetary system. The ability of DeFi to safely hold assets directly might help to broaden access to financial markets. New governance arrangements might spread control of infrastructure more equitably. Blockchains could make infrastructure more operationally resilient by removing single points of failure. Smart contracts could automate processes that require intermediaries today. Put together, these improvements might also streamline the processes for cross-border payments.

But DeFi still requires trust – trust in both its code and its governance. And even more importantly, it requires of its users both technical and financial nouse. Today crypto insiders are exploiting users' lack of experience. Activities that are illegal in traditional wholesale markets (eg front-running), are carried out with impunity in the crypto sector. Money launderers too love crypto.

So can DeFi be saved and its merits put to use for the public good? Earlier this year the BIS Innovation Hub held a conference on DeFi with the Swiss National Bank.[2] Much of the discussion centred on this question. For many, the answer was the same as traditional finance – "regulation" is required. But what exactly do people mean by this?

Safer DeFi is possible with the right regulation.

Regulation is broad. Starting from the foundations, the acronym soup of KYC, AML and CFT is the equivalent of regulatory hygiene, boring but necessary for the integrity of the system. But, as in day-to-day life, basic hygiene is necessary but not sufficient for success. Regulation should mean a lot more than just compliance and can be a business enabler as it can foster trust. Good compliance does not prevent algorithmic stablecoins from incorporating feedback loops that exacerbate stress rather than dampen it (eg so-called "death spirals"). Nor does it require other stablecoins to be backed with sufficient, diverse and high-quality assets. It prevents neither hacking nor front-running. Neither does it outlaw opaque governance structures that subvert control of seemingly decentralised arrangements.

Put simply, DeFi needs to instill more trust. It needs accredited auditors and reliable due diligence for code. It needs clear requirements for stablecoins where possible. And decentralised systems need to meet clear standards. Oversight could then look like traditional infrastructure oversight: those responsible are held to standards and censured if they fall short. The focus is on the participants and the overall system. Enforceability may be more difficult than today (ie there may be no operator to censure) but as data are all public, risks could be assessed. Changes to system design and governance could be accomplished indirectly, for example by requiring supervised intermediaries to participate in safe infrastructure.

Safer DeFi is possible with the right regulation. But no financial system is really safe unless it is built on stable money. Central banks are currently wrestling with the question whether to issue their own digital currencies, which might run on new distributed ledger-based technology. The BIS Innovation Hub is collaborating with central banks on how these new currencies might also interconnect across borders.[3]

Issuing a central bank digital currency for use in DeFi might be the next policy frontier. It might help make DeFi successful and sustainable. Yet the basics need to be in place first. "Radarange", the first commercially available microwave oven, was 1.80 meter tall, weighed over 300 kilos and cost over 60,000 US dollars in today's money. Today they are in most kitchens because regulation made them safe enough to trust while innovation made them small, cheap and efficient. Both are needed, as well as responsible use. Cooking something unattended on full power usually results in a hot mess.

The views expressed in the article are those of the author and not necessarily the views of the BIS.

[1] *https://www.bis.org/publ/arpdf/ar2022e3.htm*
[2] *https://www.bis.org/events/220404_defi.htm*
[3] *https://www.bis.org/publ/othp51.pdf*

FARYAR SHIRZAD

Chief Policy Officer - Coinbase

Seizing the potential of Crypto for Europe

Well-designed and appropriately implemented crypto regulation will put economies at the forefront of the digital finance revolution and the advent of Web3. The recent EU agreements on the Markets in Crypto Assets (MiCA) and Transfer of Funds (TFR) regulations are groundbreaking: Europe now has the most comprehensive regulatory regime globally and a single rule book for crypto assets across the world's largest economy. This provides important legal and regulatory certainty to the market so that firms have the confidence to invest and grow within Europe.

The innovative potential of crypto technology presents enormous opportunities for Europe. These opportunities fall into three buckets: crypto as an investment, as a new financial system, and as an application platform. They are closely connected, but each explains a different use case as to why crypto could be transformative for the global economy.

Crypto as an investment is the use case most people are familiar with. Making such an investment shows a belief not only in crypto and blockchain technology generally, but also that the token being invested in has some characteristic, be it technological or otherwise, that makes it worthy of investment consideration. This investment in a still somewhat nascent market is driving the innovation and use cases of tomorrow.

Crypto as a financial system means creating new digital tools and services beyond buying and selling, as the needs of crypto customers broaden. Decentralized finance, smart contracts, and other new technologies will drive financial inclusion, and exponentially expand opportunities to improve our financial system around the world. Europe must decide what role it sees for stablecoins in this new financial system, versus CBDC and fractional reserve banking; for now, it appears the EU will be a challenging market for stablecoin issuers.

While the first two areas are critical, the one with the most opportunity for creativity, innovation and expansion into different industries is crypto as the next app platform and the basis of Web3. The decentralized ownership afforded by crypto gives users the opportunity to develop new financial and non-financial applications. In content creation for example, crypto increases the ability for creators and owners to monetize their content by allowing owners to track their content indefinitely, and be paid when content is transferred. This is the premise of Web 3 - giving users ownership over their content, data and assets via crypto and blockchain technology.

The innovative potential of crypto technology presents enormous opportunities for Europe.

It's crucial that Europe makes the right policy choices now, so that it is well positioned to capitalize on the next wave of technological innovation for the future. There is an important debate around personal wallets (self hosted wallets) and the right level of privacy, balanced against the potential illicit finance risks. The reality is that personal wallets reduce cyber risks, break open monopolies, and are essential for advancing user ownership in Web3. Like all crypto, they are an exceptionally weak tool for money laundering because of their transparency, traceability, and permanence; this is why the threat of crypto enabled financial crime is insignificant relative to Tradfi. Principles of privacy should be upheld, and the potential innovation personal wallets can foster should be recognized.

Europe has been grappling with the appropriate regulatory treatment for crypto assets to foster this important innovation, whilst also addressing the risks. MiCA has the potential to drive a legitimate and trusted industry of Crypto Asset Service Providers (CASPs). Key to this is ensuring consistently high standards applied by national authorities in the assessment and awarding of MiCA licenses - ESMA will have a critical role to play to ensure consistency in supervisory outcomes and full compliance by CASPs. The EU must also take a stance against entities that have strong links with jurisdictions that have weak or no regulatory or AML standards. Standards must be raised across the sector: this means that firms offering services to EU customers must adhere to important regulatory, AML, illicit finance and sanctions rules.

Countries around the world are watching carefully to see if the EU has the balance right: between fulfilling the important regulatory objectives of financial stability, market integrity and consumer protection, and creating the right conditions to spur innovation and growth.

The next wave of technological innovation is upon us, and the rewards are there for the taking.

ANTONIO ALVAREZ

Chief Compliance Officer - Crypto.com

Mainstreaming of crypto-assets: the next frontier

The current financial system needs an upgrade. Our historical system is built on slow and expensive capabilities, leaving many underserved or even poorly banked completely. With its promise of borderless access, transparency, auditability, and programmability, blockchain and the tokenization of assets can help create a financial system that is more affordable, efficient, inclusive and secure.

Blockchain technology has the potential to reshape many industries beyond finance, and be the most significant disrupter since the Internet. Many governments globally are investigating and encouraging the adoption of blockchain technology across several sectors, such as energy, telecoms, healthcare, and supply chain management. Responsible innovation through blockchain is possible, and most effective, when governments, multilaterals and the private sector work together.

We are also seeing greater institutional interest in the crypto asset market and accompanying regulation which is positive: it signals a maturing crypto asset industry. Regulation tailored to crypto asset service providers and issuers of crypto assets is key to our long-term success.

A globally connected economy must have global standards. They ensure safe, secure, and responsible behavior across the ecosystem on which more impactful end products can be built. The building blocks for a comprehensive regulatory environment no matter which country are, amongst others: Consumer Protection, Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT), Sustainability, Data Privacy and Security across the entire customer journey, including the on/off ramp into the crypto industry.

I believe that there are three key areas on which industry and policy-makers must collaborate to lay the foundation for an even broader segment of society to participate in the crypto economy in a safe and secure way.

Firstly, effective AML and CFT rules and KYC policies are core to the continued growth and success of the crypto industry. Policy-makers must encourage the adoption and use of next generation compliance solutions, including best-in-class digital onboarding, identity and verification solutions as well as use of blockchain analytical tools for ex-post monitoring of transactions. And as importantly, policy-makers must rely and accept the standards, controls and supervision imposed by other policy-makers deemed to comply with FATF's global standard. Blockchain technology is inherently global, so there is no concept of domestic versus cross-border transactions.

Regulation tailored to crypto asset service providers and issuers is key to our long-term success.

Secondly, high standards for transparency, market integrity, resilience, security and investor and consumer protection are non-negotiables in any safe crypto market. This means proportionate regulation of stablecoins, in particular with respect to the composition and transparency of their reserves and customer redemption rights. We believe that the EU Markets in Crypto Asset (MiCA) Regulation will be an important reference point for other jurisdictions in this regard.

Thirdly, we believe that sustainability disclosure requirements and increased regulatory scrutiny of the consensus mechanisms used to validate crypto transactions may both accelerate the transition to Proof of Stake - a trend that incentivises greater use of renewables in Proof of Work mining, which is already in train. And ultimately, as crypto assets become increasingly mainstream with institutional participation, an additional driver to reduce the carbon footprint of Proof of Work will come into play.

Our principled approach to regulation is to support an approach that balances open access to global crypto markets with a local presence to exercise supervision. MiCA affords the possibility to passport services across borders, which supports this balance.

At the macro level, international alignment and consistency on areas such as AML/CFT rules is important: consistent global regulation and implementation reduces regulatory and jurisdictional arbitrage and makes the business environment easier. Efforts by the Financial Action Task Force (FATF), International Organization of Securities Commission (IOSCO) and the Financial Stability Board (FSB) to set minimum global standards for the crypto industry are welcome and partnership with industry on setting these standards will be critical.

The importance and utility of the underlying technologies and principles of crypto assets are constant and irrefutable. Whilst the industry is cyclical - like many others - industry and regulators must stay focused on advancing the expansive opportunities for crypto.

We believe that forward-looking, globally aligned, tailored regulations will enable an environment for even more responsible innovation by the crypto industry, and critically protect consumers and uphold market integrity in all its facets.

DANIEL KAPFFER

Chief Financial Officer & Chief Operating Officer - DekaBank Deutsche Girozentrale

Big, bigger Blockchain!

The EU efforts in harmonizing the market for crypto-asset issuers and service providers are impressive. MiCA, DORA, CSDR and the DLT Pilot Regime are important regulations to push Europe towards a digital technical leader in the financial sector. In these regards, we highly appreciate the regulation proposals of the Digital Finance Package.

In this context, blockchain technology plays a pivotal role. Essentially digital assets can only unleash their full potential when they are DLT based. It has inherent advantages (anti-counterfeiting, etc.) that no other technology can offer. On the long run, blockchain and DLT will lead to a convergence of pre- and post-trade processes into a trusted single point of truth for transactional data. Increasingly, digital assets are on the investors agenda. They hold digital assets and want to continue to increase allocation, while at the same time various institutions and infrastructure participants are expanding their digital asset capacities.

Undoubtedly digital assets need to take a significant portion of the securities market and the capital markets overall. Competition on digital assets is global!

However, the EU needs to be faster and more decisive in its regulatory plans. Obviously, blockchain is already becoming an arena for competition between countries. For example, as a result of the U.S. President's executive order on crypto the U.S. Treasury Department published a fact sheet stating the objective to reinforce "U.S. leadership in the global financial system". More from a technological stand point China has well understood the relevance of blockchain for its international ambitions.

In addition to emerging geopolitical and geo-economic challenges, political challenges also arise with the development of blockchain, as a truly decentralized blockchain challenges the ability of authoritarian governments to exercise tight control over their populations.

Currently, activities in the EU seem to be unfolding primarily in response to external pressure (LIBRA/DIEM, Chinese digital central bank money, etc.). In addition, they are highly focused on risks not opportunities – however missing out on the opportunities is quite frankly the biggest risk of all. This could lead to a further loss of competitiveness as a financial center in Europe.

The biggest risk is missing the boat and thus not being present in the market.

A current example for a pragmatic and quickly implemented regulation is the EU DLT Pilot Regime. The DLT Pilot Regime introduces an EU-wide regulatory sandbox within which companies willing to operate securities trading and settlement systems based on DLT, can be exempted from certain requirements that apply under the existing EU regulatory framework and that could hinder the use of DLT in securities trading. Thus, the regulation offers the possibility to examine how DLT-based projects can be developed for mass business.

Although these efforts are very welcome, further efforts need to be made at this stage to enable technical developments. First of all, the scope of action of the Pilot regime is very narrow. The DLT Pilot Regime will only apply to certain types of financial instruments. In addition, the aggregate market value of all the DLT financial instruments that are admitted to trading on a DLT market infrastructure shall not exceed EUR 6 billion. If this threshold is surpassed, the operators of the DLT market infrastructure must initiate a special transition strategy to reduce trading activity on their platform.

Given these limitations the EU DLT Pilot Regime might not be as attractive as the EU Commission would like and as it needs to be. The limited use should not be interpreted to mean that the industry does not need such a regime – the opposite is the case.

In principle, the European institutions have already recognized the blockchain as an emerging technology to invest in. Thus, the EU is already taking an active role in shaping of blockchain standards, but the standards landscape is complex, fragmented and competitive. Like the internet, blockchain raises a variety of political challenges and is already becoming a battlefield for competition between different types of political systems.

To sum up, the digital market is maturing and taking shape in the financial industry. So the more digital assets gain in importance, the greater the need for an ecosystem specialized in the needs and specifics of digital worlds. The classic financial architecture will not become obsolete. The new structures must be integrated, because the traditional structures offer far too many advantages that traditional banks in particular should not give up.

Therefore, we need to encourage the development of crypto assets and the wider use of DLT and support innovation in Europe. The biggest risk is missing the boat and thus not being present in a foreseeable significant part of the market. Let us ensure that the EU does not fall behind other jurisdictions.