

CRYPTOASSETS AND EU FINANCIAL MARKETS



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MiCAR implementation: challenges and opportunities for the EU crypto market

The Markets in Crypto-Assets Regulation (MiCAR) represents a landmark initiative in the European Union's effort to establish a comprehensive and harmonized framework for crypto-assets. As implementation progresses, its impact on risk mitigation, market efficiency, and investor protection remains a subject of discussion.

While MiCAR aims to unify crypto regulations across Member States, timely implementation, pending the various transition regimes, and supervisory convergence represent the current major challenges. National competent authorities across the EU are fully aware of these challenges and have intensified their joint efforts to work within ESMA, in strict collaboration with the EBA and

the European Commission, to ensure a smooth transition to MiCAR.

MiCAR's phased implementation - mid-2024 for stablecoin issuers and early 2025 for crypto service providers (CASPs) - coupled with differences in national grandfathering rules, has raised concerns regarding regulatory fragmentation. Whilst some Member States had pre-existing virtual assets regimes or national registration requirements only based on AML controls, others are approaching crypto regulation and supervision for the first time, potentially creating temporary divergences and risk of regulatory arbitrage. Additionally, the implementation of MiCAR raises doubts on the interpretation of key provisions, including the interplay with PSD2, the classification of crypto-assets, and reverse solicitation. ESMA, with the EBA and the European Commission, work to reduce uncertainties that may undermine legal certainty and create inconsistencies in regulatory application, ultimately hampering the good functioning of the EU passport, including market entry conditions and authorization processes.

On top of Q&As and Guidelines, ESMA has issued several public statements and opinions to provide clarity and promote convergence. For example, its statements on the transitional period and the treatment of non-compliant stablecoins clarify supervisory expectations during MiCAR's early stages. Additionally, ESMA's opinion on the broker model addresses concerns over global crypto group trading structures, while its supervisory briefing on authorization establishes guidelines for assessing CASPs during the review of the applications. These initiatives demonstrate ESMA's and national

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authorities' commitment to delivering consistent approaches in this evolving and complex sector.

Furthermore, competent authorities are actively exchanging information on thematic areas and individual cases to ensure harmonized supervisory outcomes, regardless of where authorization requests are filed. A notable focus is on developing a common approach to crypto custody, recognizing the unique challenges posed by blockchain technology compared to traditional finance. Recent cases have raised concerns regarding the segregation of client assets and security protocols, highlighting the need for further guidance to mitigate potential risks.

Ensuring that MiCAR is applied uniformly across the EU requires significant supervisory coordination, given the novel risks, diverse business models, and global reach of some crypto players. As a result, discussions are likely to emerge on the potential benefits of a more integrated supervisory approach at the EU level, particularly for large crypto-asset service providers. Centralizing oversight could enhance efficiency, consistency, and risk management in this inherently cross-border market, albeit pros and cons should be carefully considered.

In conclusion, MiCAR marks a milestone in the regulation of a unified European crypto market, consistently with the recent international standards developed by the Financial Stability Board (FSB) and IOSCO. However, its success depends on timely and consistent implementation across Member States. Also, the sector will likely be affected by the anticipated actions on crypto assets in the USA.

Addressing supervisory fragmentation and ensuring a balanced approach to regulation and innovation will determine whether the EU can fully harness the benefits of crypto-assets while safeguarding financial stability. As crypto markets evolve, further supervisory convergence at the EU level will be critical to fostering a cohesive, competitive, and trustworthy ecosystem. Additionally, a robust regulatory framework could increase investor confidence, allowing EU capital markets to benefit from the efficiencies of blockchain technology. Any future review of the current MiCAR framework should be based on an in-depth analysis of these considerations.



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New regulatory landscape for stablecoins

The US has recently adopted a notably innovation-friendly stance, particularly around payment stablecoins. Apparently, the main purpose of the new regulation is to promote the use of stablecoins, particularly outside the US, in order to further strengthen the ability and willingness of foreign agents to hold and use dollar-denominated digital assets. That could further help fund the relatively large public and trade US deficits.

In order to achieve that goal, US authorities have declared that there is a need to achieve regulatory clarity by introducing federal legislation. In turn, legislation has the potential to also help give stablecoins a stamp of legitimacy that could help promote their use by a wider segment of the domestic and foreign populations, not only for payments but also for store of value purposes.

As Analysis of the current drafts of the GENIUS and STABLE Acts, which are currently under discussion in the US Congress, suggests that the intention is to limit the issuance of stablecoins to depositary institutions and non-banks complying with specific licensing and regulatory requirements. This is less restrictive than the approach in the EU, where only credit and e-money

institutions can issue stablecoins, called e-money tokens. Importantly, draft US legislation does not explicitly ban stablecoin issuers (both banks and non-banks) from offering interest payments. If approved, this would contrast with the EU's framework, which explicitly prohibits interest payments on stablecoins.

The Markets in Crypto-Assets (MiCA) framework aims to ensure these tokens mimic the characteristics of e-money under existing EU directives while maintaining a clear distinction between these tokens and other financial instruments, like traditional banking products. That – arguably more restrictive – approach is consistent with the absence of any direct intention by EU authorities to promote the use of stablecoins. The argument has often been made that the existing payment infrastructure – particularly after the Single Euro Payments Area (SEPA) and the Instant Payments Regulation (IPR) – and the forthcoming introduction of the digital euro somehow weaken the public policy case of arguably less safe alternatives to process payments in the EU.

This scenario underscores potential competition issues could lie ahead if the proposals go ahead in the US between stablecoin arrangements in different jurisdictions. In particular, EU rules constrain the authorised issuers of stablecoins more and make them less attractive for users. Moreover, those regulatory discrepancies could indeed strengthen the international role of the US dollar vis-à-vis other currencies.

The case for a significant regulatory adjustment in the EU is, at best, unclear.

However, it is doubtful whether an attempt to mitigate the effect of diverging regulation on international currency competition would be enough to justify a sharp move towards more regulatory flexibility in the EU to mimic the approach taken in the US. This is so for several reasons:

- First, enhancing the international role of the euro has never been a direct policy objective for EU authorities. This has always been considered as simply a by-product of the stability-oriented policies in the euro zone. Moreover, more balanced fiscal and trade positions make international positions in euro-denominated assets somewhat less relevant than in the US.

- Second, the current EU legal framework allows European banks and other players to become active in promoting and supporting stablecoins. Moreover, MiCA already provides the stamp of legitimacy that is now sought by emerging legislation in the US.
- Third, more flexible requirements, especially the possibility for stablecoin issuers to remunerate balances, would immediately introduce an attractive substitute for bank deposits. Together with more flexibility for non-banks to issue stablecoins, that could potentially trigger significant disintermediation and damage commercial banks' business model, with potential financial stability implications.
- Finally, even with regulation, stablecoins could hardly achieve the same degree of safety as insured deposits or central bank money, which benefit from the trust central banks have built up. Therefore, wider use of those instruments would heighten the consumer protection concerns that were a key reason behind the current approach in MiCA.

Disclaimer: The views are those of the author and not necessarily of the Bank for International Settlements.



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MiCA should only be considered a starting point

MiCA represents a major step forward for the protection of investors in financial markets and its adoption, together with MiFID II and DORA, will make the markets intrinsically safer places. However, such is the pace of digitalisation in the market that MiCA should only be considered a starting point. The evidence clearly highlights that there is still much to be done to raise financial literacy levels so as to enable newly ‘empowered’ citizens to avoid making disastrous investment decisions. Thus, planned reforms must go hand in glove with education to raise levels of financial literacy. The urgency for financial education is more so now, because trading in crypto assets has drawn in many new, increasingly young, and sometimes financially illiterate investors to these emerging markets, where significant risks remain.

We believe that the Markets in Crypto-Assets Regulation will bring more legal certainty and lead to a more mature and stable EU crypto market. By putting in place clear and robust standards, it could limit speculative market practices, enhance consumer confidence and strengthen investor protection. The Regulation will likely facilitate the integration of crypto-assets into traditional financial markets, making it easier for banks and other financial

entities to offer crypto-related services to their customers such as custody, trading and payment solutions.

Such is the pace of digitalisation in the market that MiCA should only be considered a starting point and in particular, MiCA doesn’t cover the full spectrum of crypto assets, such as NFTs, which will remain outside its scope. Additionally, the issuance of stable coins will fall under central bank regulation, while trading and service provision will fall under ESMA and Securities and Exchange Commissions. But to address the question of risk mitigation head on, the urgency for financial education is rising, because trading in crypto assets has drawn in many new investors to these rapidly evolving markets.

Although the uptake of crypto within the traditional financial market has been relatively slow, crypto markets offer a new asset class, providing investors with the opportunity to diversify their portfolios. The tokenisation of financial assets is likely to reduce significantly operational costs, enhance market efficiency and reduce settlement risks. As we see it, technology is the bedrock for growth of the financial services industry. It is the role of regulators to recognise future trends and to anticipate potential risks and side effects. Better cooperation and coordination arrangements between financial Regulators and other authorities still need to be developed, not just to ensure we follow the same rules under MiCA, but also on matters of consumer protection, AML, cyber security, and our engagement with digital platforms.

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With the EU taking active steps to widen access to financial markets, it is critical that it takes into consideration that the risks can be higher in assets regulated under MiCA. As regulators we need to sharpen our knives to safeguard the financial system and protect investors. Inevitably, some participating firms will not survive within the intense regulatory environment that MiCA will create. This can only be a good thing because firms that have a strong compliance culture will thrive and the ones that do not will have to find homes in other industries.

The MiCA Regulation has the potential to unlock significant opportunities

for the EU’s financial markets, driving innovation and positioning the EU as a leader in digital finance. However, its implementation and enforcement might present challenges, particularly as different Member States will adopt varying transitional periods, which could complicate compliance across jurisdictions. This variation could lead to inconsistent application of the regulation and create uncertainty for businesses operating across borders. Additionally, some common criticisms regularly voiced by the crypto industry are that MiCA’s requirements could stifle innovation, especially for smaller companies and start-ups, by imposing high compliance costs and regulatory burdens.

Therefore, the reality is that given the constantly evolving nature of cryptocurrencies, coupled with the absence of a robust global regulatory framework, some responsibility for consumer protection must lie with investors themselves. Fortunes have been lost through fraud and scams, but with proper regulation risks from crypto assets, can be mitigated, but not completely banished. Investor education will remain key.



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The use of Blockchain by Finance will be regulated or will not happen

Rarely in the history of finance have we seen such an upheaval in infrastructure that allows us to foresee such a profound disruption in investment and payment methods. In 15 years, we have witnessed the emergence of blockchain technology, which was born with the promise of revolutionising the methods of transferring value, without the constraints of traditional finance. Technical efficiency was natively associated with the use of anonymity and absence of regulation.

Beyond the first technical weaknesses, it did not take long for some organisations and individuals to see the potential to circumvent regulations. The absence of regulation and the scandals and other scams that have resulted from it have caused important damage to the collective perception of the interests offered by this technology in terms of transparency, immediacy and immutability of records. For many years, traditional financial institutions have been extremely cautious about the use of blockchain, too often associating it with cryptocurrencies and the scandals that paved the way for the first steps of emerging financial activity into blockchain.

This explains why it is above all individuals who have rushed into the space opened up by the use of the blockchain with an assumed speculative objective. It was not until 2024 that some authorities began to gradually give some form of legitimacy to these digital assets that had previously been banned.

We are now experiencing a fundamental turning point in which a number of institutional and corporate investors are preparing to experiment with investing in digital assets, but with a very different approach. Indeed, the institutional investor is more concerned about the risks inherent in the custody of these assets, such as operational, counterparty, cybersecurity, compliance, and reputational risks.

The very rapid development of this technology on a global scale and the easy access of its use for individuals has allowed the emergence and development of pure players to this ecosystem and some of whom have reached a size comparable to many traditional finance players. However, when compared to traditional finance players, they have an undeniable advantage in terms of technological agility, but less expertise in applying the regulatory provisions imposed on the entire world of finance. Some national EU regulators have fostered the emergence of new national players by sometimes adopting less stringent regimes, which have created some distortion of competition with traditional finance players. With the entry into force of MiCA, we are witnessing a clear paradigm shift with rules strengthening at EU level and the beginning of standardisation of rules for all players in the blockchain ecosystem. The latter has also seen the development of new digital asset offerings from traditional finance players, driven by their clients new demand.

European regulators will strive to establish a level playing field across the Blockchain ecosystem.

There is no doubt that European regulators will strive to establish a level playing field across the Blockchain ecosystem, in particular by imposing similar monitoring obligations on all transactions.

These controls will include associating wallets with their holders and economic beneficiaries, ensuring the origin of assets, tracing their journey through the blockchain, identifying

suspicious transactions, and reporting fraudulent actors and assets. Regulatory developments in Europe are slowly moving away from the wild west view of blockchain, and are directing the EU financial industry towards a more regulated use of blockchain to reap the benefits in terms of operational efficiency without limiting protections against fraudulent activities.

Even if in detail, the regulatory burden weighing on these new Blockchain-native players is still not quite the same as that imposed on traditional finance players, a first fundamental step in Europe towards a more regulated use of the Blockchain has certainly been taken with MiCA and we can imagine that regulators will continue to enact standards aimed at guaranteeing standardised controls on financial transactions, whether they are carried out and operated on Blockchain or in traditional financial infrastructures.

The major players, particularly in the banking world, have now understood this and have taken note of their strength. Beyond the technological gap which was rapidly filled, they benefit from a positioning reinforced by the wide range of traditional solutions they can also offer to their clients, with hybrid capabilities in their digital and traditional asset custody and distribution offerings, while delivering risk management and applying regulatory compliance framework that has a strong track-record.

Blockchain's pioneers were motivated by disintermediation and anonymity. However today, we are witnessing the paradox that the initial use of this unregulated ecosystem has highlighted the importance of defining a usage framework that replicates the conventional financial objectives and practices.



CHRISTIAN STEINER

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The crypto industry can help to attain the Savings and Investments Union (SIU)

What are the objectives of the SIU?

The reasons are stated in the Commission's "Call for Evidence" (CfE) on the SIU: *"The report of Mario Draghi and Enrico Letta highlighted remaining inefficiencies in EU's capital markets, in particular a significant savings and investment mismatch in the EU, where citizens' wealth is being underserved by low-yielding deposits, and companies, particularly young and innovative ones, are struggling to meet their capital needs due to inadequate financing options."*

The Mission Letter to the Financial Commissioner summarised the objectives:

- To develop SIU and leverage the enormous wealth of private savings support the wider objectives
- Focus action on supporting people to save better
- Fostering capital for innovation, unlocking digital finance, and ensuring competitiveness

Crypto industry an essential part for the SIU and financial growth

Open up private savings | support wealth creation

The peak of the global crypto market reached \$3,8T in Dec. 2024. For context, Gold's market capitalization is approximately \$19,6T, Apple's is around \$3.4 trillion, and Bitcoin's is around \$1,6T as of March 2025. This demonstrates that the crypto industry grew strongly over the last decade. Globally, approximately 563M citizens own crypto assets (data 2024). In the EU, this is about 49,2M owners in 2024, whereas in 2023, it was around 30,7M. Crypto-interested investors are more likely to deposit money in traditional brokerage than non-interested (NBER, 2024). Interestingly, the CfE states that in 2023, EU citizens held €11,63 trillion or 31,01% of their savings in currency and deposits.

Crypto supports the SIU, innovation, digital finance, education, blockchain, investments, crypto.

The numbers clearly show the significant interest in financial markets and specifically crypto. The crypto sector could empower and democratise finance by being an alternative asset-class that can hedge against inflation and currency debasement independently from standard structures. Crypto-assets are de facto investments in innovation and wealth creation that also motivate the traditional sector to enhance and upgrade. This is remarkable given that the crypto industry was **unregulated or loosely regulated** before MiCAR.

Support investment | Unlock digital finance | Bolster Competition

The crypto industry can support redefining established concepts of the legacy financial system. Like the advent of the internet, crypto ushers in a new era of digital finance. Here are some non-exhaustive examples of how the crypto sector contributes to SIU's objectives:

Blockchain settlement-operated banking systems: These offer real-time settlement, which is more efficient, transparent and secure.

Tokenisation of securities, real-world assets, bonds, and commodities: This

simplifies investment and creates new ways of funding in diversified vehicles.

Banking the unbanked: Providing financial inclusion and participation without intermediaries. DeFi platforms offer interest-bearing (staking) while smart contracts render investment processes more efficient, secure, transparent, and accessible.

Increased transparency and security: Blockchain's features of traceability and immutability can help build trust in the financial system.

Cross-border and Early-stage funding: Investment without borders and traditional limits, accessible 24/7 year-round. New option for early investors taking risks in innovation, new products.

Financial education: The foundation to a successful SIU. Crypto encourages people to explore monetary science and investment principles. Understanding the inception of Bitcoin requires studying the history of money and key financial concepts like gold value, interest rates, and inflation – highlighting the importance of financial literacy that will build investment culture.

How does MiCAR support these objectives, and what is the evidence?

MiCAR brings about a balanced and tailor-made crypto regulatory framework. It fills the regulatory vacuum by providing concrete solutions. Specifically, MiCA establishes a customer protection framework and imposes new prudential requirements as well as a wide set of governance, conduct, and supervisory elements. It further lays down rules on crypto-assets and the authorisation process. Altogether, it ensures a level playing field and fair competition, rising standards and professionalism. Therefore, this empowers MiCAR to support the SIU by sealing the **credibility and recognition** of the sector. There is strong evidence that crypto will continue to grow under MiCAR, as reflected in its increasing institutional adoption, rising mainstream interest, greater retail participation in diverse crypto projects and improved regulatory clarity for new fintechs.

Conclusion

The crypto sector undeniably provided a positive impact on the current financial system and the social awareness of finances. The previous observations are strong evidence that the industry is here to stay as the new regulated asset class that can support and contribute to the SIU's objectives in many ways and even become a driving force.



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Europe needs MEGA regulatory reform to stay relevant

“The golden age of America begins right now.” President Donald Trump announced America is back. Next came swift policy changes to reverse the managed decline of the Biden years and spur American growth. It recalls President Reagan’s Morning in America. But what of Europe’s managed decline?

Brussels insiders smugly refer to the EU as a “regulatory superpower.” This, of course, is an oxymoron. It is also self-defeating — akin to tying one’s legs together before a race. Regulation makes markets neither stronger nor safer. It makes them less competitive, less innovative, and more expensive: conditions ideal for large foreign companies that can afford to subsidize the higher cost of European customers from more profitable operations elsewhere.

Last fall, former ECB President Mario Draghi published a damning report on Europe’s uncompetitiveness. One alarming finding was that the GDPR, crown jewel of the so-called “Brussels Effect,” reduces profits for small European tech firms by 12% to 15%! Add on the cumulative costs of the panoply of EU tech regs and you can see why European companies are at such a disadvantage. Inevitably, this causes promising European startups to fail or get acquired, such as the recent acquisition of Bit Stamp, Europe’s oldest

crypto exchange, by Robin Hood, a younger American competitor.

In February, Draghi issued a warning: *“Forget the US — Europe has successfully put tariffs on itself.”* Draghi has been sounding the alarm for months over the EU’s regulatory self-strangulation. In a recent op-ed he wrote, *“the EU has allowed regulation to track the most innovative part of services — digital — hindering the growth of European tech firms and preventing the economy from unlocking large productivity gains.”* Similarly, German Renew MEP Svenja Hahn pled directly to the Commission:

We need much more simplification, we need to reduce superfluous laws and regulations,... [W]e have to simplify the excessive digital laws. We finally have to be at the forefront of innovation, not regulation.

The first step to solving a problem is admitting you have one, and while Europe’s problems are clear, so are the solutions. Trump’s 3-part plan for the US economy would also work for Europe.

Slash spending and taxes

Economies don’t grow because of government; they grow in spite of it. And while a strong economy may eke out modest gains despite government drag, too much will eventually choke it. This is the story of the EU.

Trump unleashed the DOGE to cut trillions from the federal deficit while seeking to allow workers and entrepreneurs to keep more of what they earn. The combination is a powerful flywheel for growth, investment and R&D — things the EU economy desperately needs.

A government cannot regulate its way to market dominance, but it can regulate its way to irrelevance.

Don’t simplify; Deregulate

EU leaders now pay lip service to “simplification,” a hollow euphemism that belies their lack of will to deregulate. They talk of simplification while building a new regulatory agency called AMLA. This regulatory morass is crippling Europe’s tech industry. Pruning around the edges is not enough. EU tech regulations should be repealed wholesale. To fail to do so is to admit defeat.

Trump again points the way. Federal agencies froze new regulations and struck old ones. Federal offices have been shuttered. In his recent address to Davos, Trump pledged to eliminate 10 old regulations for every new one. The EU should cut more.

Prioritize innovation

While the EU regulates, Trump promotes disruptive technologies to extend America’s competitive advantage. He named David Sacks the first Crypto Czar and empowered him to shepherd pro-growth policies through the government. Trump signed an executive order establishing a first-of-its-kind Strategic Bitcoin Reserve. Trump’s pro-crypto agenda was capped at the first Crypto Summit at the White House where he declared the US will be the “crypto capital of the planet.”

In the end, Trump and Draghi are saying the same thing: bloated governments harm citizens by suppressing growth and restricting economic freedom. The diagnosis is the same, but the prescription differs greatly. EU leaders timidly talk of simplification while DOGE leader Elon Musk wields a literal chainsaw of deregulation.

To stay in the race the EU need simply to release the fetters it placed around the legs of European tech companies. Repeal disastrous regulations like MiCA, the TFR, the AI Act, and the Data Act. These laws’ thousands of pages are a noose of paper around the neck of EU tech. A government cannot regulate its way to market dominance, but it can regulate its way to irrelevance.

In 1981, a time not unlike today, Reagan famously said, *“In this present crisis, government is not the solution to our problem; government is the problem.”* To make Europe great again, the EU must make MEGA regulatory changes.