

Cryptoassets and EU financial markets

1. Market trends and challenges

An industry speaker highlighted that digital assets are causing a deep transformation in the financial markets. An increasing number of investors are engaging with digital assets and crypto funds and seeking to understand their characteristics, risks and investment potential. There is a growing willingness among these investors to experiment with digital assets in practice.

Another industry representative emphasised the transformative potential of the digital asset industry, including crypto, stablecoins and tokenised assets, for investment activities and the funding of businesses. These innovations promise to address several persistent issues in traditional financial markets. However, there is no shared vision of the long-term evolution of the digital asset sector for the time being. This uncertainty may discourage investment and hamper strategic planning. Despite the many promising use cases, the absence of long term vision and the lack of predictable regulatory guidance are limiting innovation in the sector and reducing its ability to enhance EU competitiveness. There must be greater trust in the digital asset space. It will require a concerted effort to create a shared narrative and ensure the development of robust regulatory frameworks that can deliver tangible benefits. Most discussions about innovation are not clear enough on the expected outcomes. The sector must focus on producing concrete benefits, better understanding new risks and reaching a consensus on its strategic direction. Data can help to improve asset allocation by enabling more effective risk management, but data quality and accessibility remain insufficient.

2. Markets in Crypto-Assets (MiCA): opportunities and challenges

2.1. Benefits from the introduction of MiCA

An industry speaker emphasised that MiCA represents a paradigm shift in the crypto industry. Three months into implementation, crypto firms are starting to secure EU licences for their core crypto operations. Overall, MiCA is viewed positively by the industry, as it offers regulatory clarity and a path to licensing, which facilitates firms' strategic planning and ability to commit to the EU market. MiCA also capitalises on the best practices from traditional finance (TradFi) in terms of consumer protection, while being tailored to the specificities of the crypto industry, including its vertically integrated business model.

A regulator considered that MiCA is a major milestone towards a comprehensive regulatory regime for digital assets. It also puts the EU in a leadership position in this space. MiCA should bring clarity, trust and confidence to a sector that has long lacked them, which will benefit industry participants and investors. The regulation of

digital assets began with the implementation of anti money laundering (AML) rules, which were focused on governance, operating models and internal controls rather than broader supervision. When crypto asset service providers (CASPs) registered under the AML registry, they were only monitored for AML compliance. In contrast, MiCA covers the entire spectrum of a CASP's services. Over time, supervisory authorities have built up the expertise and tools needed for effective sector oversight. While there have been delays in finalising MiCA's regulatory technical standards (RTSs), the authorisation process is moving forward. National competent authorities (NCAs) are actively working, coordinated by European Securities and Markets Authority (ESMA), to ensure consistent implementation. It is crucial to get implementation right from the start. It is always more difficult to restore trust after it has been lost. Some delay can be justifiable if it leads to convergence and a robust supervisory framework.

An industry speaker agreed that MiCA will bring important benefits, particularly by enhancing security in the use of cryptoassets by retail investors. This is an essential factor in building trust and encouraging greater investment in cryptoassets. The EU digital regulatory framework including DORA and AML requirements should also significantly mitigate concerns around cyberattacks and fraud.

An official concurred that the implementation of MiCA offers a clear opportunity to develop the crypto market. Crypto can positively impact financial markets over time by supporting further digitalisation. It has already boosted retail investment largely because of the increased accessibility enabled by its underlying technology. In Poland, for instance, there are around 3 million crypto platform users, which exceeds the 2 million traditional investment accounts, of which only 250,000 are active. Although the risk of scams persists, crypto's improved user experience is likely to enhance investment participation. Traditional providers are now under pressure to offer comparable digital services.

2.2. Remaining challenges in MiCA implementation

A regulator highlighted the tight authorisation deadlines as one of the key challenges to MiCA implementation. MiFID regulated firms seeking to offer crypto services often have complex corporate structures, third party dependencies and potential conflicts of interest, all of which take time to address in the licencing process. This high level of complexity poses a significant challenge for NCAs. The crypto sector has long operated without a European regulatory framework. Guiding firms toward compliance is not straightforward. There will only be a smooth transition with continuous engagement between regulators and market participants.

An official agreed that there will be some difficulties and delays in implementing MiCA. First, MiCA contains a very large number of legislative requirements and their

implementation requires close cooperation with market participants. Many member states are still in the process of implementation. A key difficulty lies in the diversity of the transition arrangements across the 27 EU member states. The efforts of the European Commission and the European supervisory authorities (ESAs) to enhance supervisory convergence will be critical due to the cross border nature of digital services. Additional implementation challenges have also emerged, such as the interface between MiCA and the Payment Services Directive (PSD2), which could have been anticipated earlier in the process. Furthermore, cybersecurity and consumer protection remain significant risks for the sector.

An industry speaker observed that there are both short term challenges associated with the framework's implementation and longer term issues arising from its design, particularly when compared to the regulatory approaches in other jurisdictions. The short term implementation issues, such as the divergence in transition periods across Member States and the uneven readiness of NCAs, should be manageable over the next six to 18 months. However, these challenges will create market uncertainty in the meantime. The work on regulatory convergence led by ESMA and the NCAs will help to overcome this uncertainty. While some additional challenges are created by the unfinished state of several of the level 2 and 3 measures, significant progress should be possible over the coming year.

A second industry speaker pointed out significant differences in how CASP licensing is being handled across member states. MiCA has prompted regulators to engage with crypto firms more extensively than prior national frameworks. The mandated 40 day period for evaluating applications is proving difficult. Some firms have encouraged regulators to take more time to reach well founded decisions. Several market participants have also expressed the concern that firms previously licensed under national regimes may struggle to obtain a MiCA licence. Overall, the licensing process remains slow. Only a limited number of CASPs have been approved in certain jurisdictions, but the grandfathering clause allows firms to operate while awaiting approval. It is expected that a more harmonised licensing process will emerge over time.

A third industry representative underlined the importance of digital sovereignty in the context of MiCA, particularly in relation to reverse solicitation and the preservation of the level playing field. Crypto firms that are active in the EU should be physically based within the Union. The virtual asset service provider (VASP) registration process has shown the need for clear enforcement to identify non compliant entities, notably regarding AML rules, and prevent them from operating in the EU. The industry representative welcomed ESMA's strong guidelines on reverse solicitation, though not all market players share this view. There are some concerns about MiCA's interaction with existing frameworks, especially MiFID. Despite ESMA's clarifications, there is still ambiguity in some of the definitions, such as asset referenced tokens (ARTs). There is also a question around the status of e money tokens (EMTs) under PSD2. Finally, there is a degree of misalignment between MiCA's level 1 and 2 texts. The latter, which have still not been finalised, occasionally goes beyond the level 1 requirements. This

overreach has been criticised by parts of the industry. Some of the RTSs were halted by the European Commission for this reason.

3. International regulatory developments

An official explained that the international crypto landscape is changing with the policy actions undertaken by the new US administration. The current administration supports crypto innovation by promoting public blockchains and dollar-denominated stablecoins and banning central bank digital currencies (CBDCs) to leave space for private cryptoassets. Despite an overarching deregulatory trend, new rules for stablecoins have been introduced to formally legitimise them, as well as unbacked cryptoassets. The Office of the Comptroller of the Currency (OCC) is also introducing new rules or reinterpretations of existing ones, allowing financial institutions to carry out crypto-related activities without prior regulatory approval, and a crypto reserve has been established. The regulation of stablecoins is probably the most significant ongoing legislative development in the US. Stablecoins can support more efficient settlement of tokenised assets and improve cross-border payment efficiency. If they become more widespread, however, this could create risks to market integrity, consumer protection and monetary sovereignty. These risks grow with the scale of adoption but can be mitigated through regulation aligned with global standards.

The US approach contrasts with the EU's more risk-focused regulatory framework, the official observed. The GENIUS Stablecoin Act, currently under discussion in the US Senate, provides greater flexibility in terms of eligible issuers, backing assets, and the possibility of remuneration, though it remains uncertain whether remunerated stablecoins will ultimately be permitted. This combination of features could be very disruptive and lead to a reduction of intermediation in the financial system. While many banks welcome the opportunities offered by crypto, these developments raise some challenges. The US aims to boost the global role of the US dollar through dollar-based stablecoins, while Europe prioritises orderly development and risk mitigation. If adopted, the US framework could pressure the EU and other jurisdictions to adapt. The GENIUS Act includes reciprocity provisions with equivalent regulatory frameworks that may lead to convergence discussions. However, the EU's current position does not promote stablecoins domestically or internationally. It remains uncertain whether loosening safeguards would provide net benefits.

The Chair observed that the standards developed by the Financial Stability Board's and the International Organization of Securities Commissions (IOSCO) seek to establish common rules, but diverging jurisdictional decisions are creating ripple effects and prompting some countries to reconsider their approaches.

An industry speaker observed that several G20 jurisdictions—including the UK, the US, and Australia—are making notable advances in shaping their own crypto regulatory frameworks. MiCA stands out for lacking third-

country provisions, which are typically embedded in traditional financial regulation. Regulators and industry will have to determine how to deal with foreign players operating under third-country frameworks. Options include reliance on FSB standards, bilateral MOUs (memoranda of understanding) or encouraging global regulatory dialogue to promote convergence.

4. Opportunities and preconditions of integrating crypto in the SIU

A regulator noted that the current legislative momentum around the Savings and Investments Union (SIU) should lead to numerous initiatives in the coming years. Crypto is not yet a central focus of the SIU, but integrating crypto and digital assets into the SIU could enable the development of innovative ways to unlock capital, enhance transparency and efficiency in investment processes, expand the investor base and accelerate the adoption of tokenisation. These advances could foster innovation, entrepreneurship and growth across the EU. However, these opportunities come with risks to investor protection and concerns around financial stability, as the sector grows. The crypto industry is still immature, but it has entered a regulatory phase. Its evolution under regulation will determine the extent to which it can be integrated into the SIU.

An industry representative considered that with the adoption of MiCA, crypto must now be considered as part of the Single Investment Union (SIU). Despite the heterogeneity of the crypto ecosystem—which includes centralized and decentralized platforms, a variety of cryptoassets, and differing underlying technologies—there is a clear opportunity for crypto to contribute to the creation of a cross-border, digitally native single market within the EU. This could facilitate both retail investment and everyday payments, offering a more accessible and efficient financial environment for citizens across Member States. To realise this potential, there are three key policy priorities. First, improving financial literacy is essential. Citizens and firms must understand the benefits and risks of capital markets to participate meaningfully in the SIU. Indeed, risk is an inherent part of any investment ecosystem. Investors must make informed choices, firms must accept uncertainty in listing decisions, and regulators must recognise that eliminating all risk would ultimately stifle innovation. Secondly, regulators must strike the right balance between innovation and oversight. This ambition is reflected in MiCA Level 1, though not always consistently carried through in the Level 2 text. Thirdly, maintaining legal certainty is critical to ensuring trust and cross-border operability.

The industry speaker also stressed that ultimately the full integration of crypto into the SIU depends on overcoming several important challenges. While MiCA provides a foundational regulatory framework, it is not sufficient. Crypto must be meaningfully included in ongoing policy debates about SIU, and certain regulatory obstacles, such as the 1,250% risk weighting applied to cryptoassets under Basel 3.5, which contradicts the spirit of MiCA, need to be addressed. There is also a need for greater

professionalisation across all levels of the crypto industry, including among CASPs and issuers. For crypto to be a credible part of the SIU, the sector must shift its focus towards assets with clear economic relevance and move away from speculative, low-value instruments such as meme coins.

Another industry speaker considered that crypto is already connected to some of the SIU's key themes, such as the future of investing, simplification and international competitiveness. Crypto should be integrated into the broader SIU strategy, although it will require thoughtful action and time to determine the right course of action. Despite a decade of efforts to develop capital markets in the EU, bank financing continues to dominate. Crypto and its underlying technologies, notably tokenisation, are an opportunity to empower the next generation of investors to invest in the capital markets.

An official emphasised that crypto is already aligned with the SIU objectives in several ways. One of the key objectives of the SIU is to grow retail investor participation. Crypto has the potential to attract investors to the market, though this will require a higher level of financial literacy. The SIU aims to unlock new financing sources for the real economy. Cryptoassets and other digital asset solutions can support this goal through initiatives such as blockchain based SME bonds. These use cases can enhance access to funding. Eventually, digital and crypto firms could list on crypto exchanges rather than traditional ones. Furthermore, the underlying DLT technology and infrastructure can reduce investment costs in digital and traditional assets and improve accessibility. Faster transaction settlements and improved custody may simplify investing and ultimately increase retail investment.

5. Efficiency and competitiveness impacts

An industry representative emphasised that digital assets can expand global market access and foster a trusted environment for transactions. However, there are still psychological barriers between TradFi, digital assets and decentralised finance (DeFi). Market makers see strong demand for liquidity bridges between these environments. All market participants want optimal risk adjusted returns. Expanding the asset pool offers advantages to all players, but the digital asset system must be resilient and capable of managing risk at scale. Market makers can play a key role in creating interoperability by moving liquidity between TradFi and digital markets, thereby supporting the development of robust new infrastructure. This effort ties into a broader goal: finding the most efficient means to transfer liquidity between asset classes and regions. Over recent decades, the financial community has collectively invested heavily in infrastructure. The debates around fractionalisation and 24/7 or 24/5 market operations raise important questions about whether to upgrade existing systems or shift innovation to the digital space. If these overarching issues remain unresolved, there will be a proliferation of competing innovation paths, which will make it more difficult to create an effective regulatory environment. All

market participants must take responsibility for helping to shape a coherent digital asset adoption strategy.

An official considered that the existing EU regulatory framework, including MiCA, MiFID and the DLT Pilot Regime, provides a solid basis for integrating new technologies into the financial system. For instance, MiCA compliant stablecoins could serve as settlement instruments in tokenised securities transactions. However, stablecoins face limitations in scalability and elasticity and cannot replace central bank money. The focus should be on the broader benefits of the underlying technologies. Tokenised assets, especially tokenised deposits and government securities, should be promoted. Interoperability between platforms can be enhanced by developing common codes and standards and harmonising key aspects of the legislative framework, such as definitions of ownership for tokenised and programmable assets. A wholesale central bank digital currency (wCBDC) will be essential to ensure secure, flexible and scalable settlement mechanisms for tokenised transactions and realise the full benefit of DLT based infrastructure. Without a wCBDC, the potential for technological innovation to enhance the competitiveness and efficiency of the EU capital markets will remain constrained.

An industry speaker stated that blockchain technology has already delivered significant benefits beyond digital assets.

In a proof of concept, blockchain and stablecoins have been used to create a new type of money market fund offering instant order execution and instant NAV calculation. This innovation could lead to the emergence of entirely new fund structures, but it also raises new challenges that will require further regulatory discussions. There is clearly a need for market standards, particularly regarding stablecoins. EMT issuers currently propose their own versions of stablecoins. If stablecoins were backed by central bank money, they would gain significantly more credibility and adoption and would therefore have greater market impact.

Wrap up

The Chair concluded the session by stating that the implementation of MiCA over the next six to 18 months will give all the regulatory and industry stakeholders time to reflect on regulatory convergence and evaluate the international developments. There are financial stability risks that must be considered also. Historically, the sector has been relatively self contained, but there is now a growing interconnection between crypto and traditional finance.