



Crypto-assets and EU Markets Regulation (MiCA)

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The European Union has taken an important step towards regulating crypto-assets. In 2020, the European Commission (EC) adopted an expansive new Digital Finance Package aiming to transform the European economy in the coming years. The Digital Finance Package, includes among others, a comprehensive framework which facilitates distributed ledger technology (DLT) and crypto-assets in the financial sector called Markets in Crypto-Assets (MiCA).

This new 168 -page draft regulatory framework, aims to further promote the potential of digital finance, to help streamline innovation and competition while reducing risks, protecting users and investors. The framework explains what constitutes a "crypto-asset," and provides definitions for different token subcategories. It will also provide rules on digital asset custody and capital requirements, while stipulating what the relationship between the token issuer and the token holder will be, including the provision of a procedure for investors to file complaints against projects. As Valdis Dombrovskis, executive vice-president of the European commission, stated: "We must pro-actively embrace digital transformation while mitigating any potential risks".

The abovementioned document also focuses on rules to regulate currently out-of-scope crypto-asset types such as stablecoins, following issues raised by several finance EU authorities within 2020, as well as crypto-asset service providers, referred to as CASPs. For example, stablecoin issuers and CASPs whose market volumes exceed "significant" thresholds will be required to submit a whitepaper and will be subject to due diligence requirements.

European Commission (EC), prepared this regulation, aiming to reduce volatility in cryptocurrency trading, and to provide more regulatory certainty for investors. Crypto trading companies, by being approved in one EU member state, acquire European approval, which can be passported in any EU country, which results to a decrease in market fragmentation in Europe. EC claims further that "the requirements imposed on crypto asset service providers are proportionate to the risks created by the services provided."

The framework will be applicable in all 27-member states and the Commission expects to complete it by 2024. When adopted it would make the EU among the most regulated centres for cryptotrading and crypto-assets worldwide.

MiCA could be pivotal for adoption in all countries, however, with any new regulation, education becomes fundamental. Lack of education can impact its further implementation. Its thoughtful implementation can foster innovation and provide consumer protection without being over restrictive.

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