

# New EU Regulations: Shaping the Future of the Crypto Currency Market

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The European Council recently passed a comprehensive package of rules, entitled *The Markets in Crypto Assets* (MiCA), to regulate the crypto sector. This legislation represents the EU's first-ever attempt to establish a comprehensive regulation for digital assets. It is on track to become law later in 2024, putting the EU ahead of the other jurisdictions when it comes to regulating the cryptocurrency and digital asset industry.

Continental Europe attracted 47.6% of crypto VC investment in Q1 2023 – up from 5.9% in Q1 2022. Patrick Hansen, Circle EU Strategy Chief, tweeted in May 2023: “Regulatory clarity attracts capital and entrepreneurs from around the world.” He called this “the MiCA effect.” More specifics on the proposed regulations follow, as well as a related [summary chart](#).

## Goals

The MiCA proposal has five broad objectives:

1. To provide legal certainty for crypto assets not covered by existing EU financial services legislation
2. To establish uniform rules for crypto asset service providers and issuers at the EU level
3. To replace existing national frameworks applicable to crypto assets not covered by existing EU financial services legislation
4. To establish specific rules for regulating the issuance and trading of stablecoins, which are cryptocurrencies pegged to external assets
5. To provide clarity by defining various types of crypto assets, including crypto currencies, utility tokens and asset-backed tokens

## MiCA Provisions

Once fully implemented, the regulation will require any crypto-related company in the EU to register in one of the member states. The European Banking Authority and the European Securities and Markets Authority will oversee the registration process, ensuring crypto firms adhere to the established rules and have proper risk management and governance processes in place. Through MiCA, the EU is trying to create a reliable framework that builds trust through legal certainty.

In addition, MiCA will ensure that every new token is reviewed for approval to check that the business model does not threaten the stability of the cryptocurrency, which creates more transparency for investors. Crypto asset issuers, including crypto exchanges and wallet providers, need national authorities' authorization to comply with specific prudential and conduct requirements. Measures would be implemented to enhance consumer protection, including a uniform classification of assets, explicit information provision, risk disclosures and rules against market manipulation.

Crypto asset issuers and crypto asset service providers (CASPs) would be required to provide transparency in their operations, including the disclosure that coin issuers must offer a white paper that discloses all relevant information about the coins, such as their energy consumption and environmental impact, prospectuses and regular reporting.

Issuers and service providers are also required to implement security measures and anti-money laundering compliance, as liabilities will also fall on CASPs and other wallet custodians in the event of hacks, data breaches, or preventable operational failures. Those issuing stablecoins will need real reserves to back them up and holders can demand redemption at any time. Only authorized credit or e-money institutions will be allowed to issue electronic money tokens, which are tokens pegged to a single fiat currency.

## UK

MiCA will not directly apply in the UK, but its effect could be significant for several reasons. Crypto assets covered by MiCA will likely be viewed as safer investments, therefore increasing the appeal of the European crypto asset markets. As credibility increases over time for crypto assets through increased regulation, it will likely result in banks and other established credit institutions moving into the crypto asset space. Because of market pressures, the UK will probably publish similar proposals shortly so that London can retain its reputation as Europe's financial capital.

## Going Forward

While MiCA is the first global regulatory framework of its kind to address crypto currencies, it will certainly not be the last. Governments around the world are formulating their own regulatory controls to address much needed gaps in crypto currency markets following recent high-profile failures in exchanges and market downturns. To quote Jean-Baptiste Graftieaux, CEO of Bitstamp, "now is the time for financial institutions to fully embrace the topic of crypto currency regulation and compliance and for crypto platforms-currencies to demonstrate their commitment in this area and to ensure that customers are informed of these major changes."

## Contact Us

Navigating the complexities of crypto currency regulations, security and investigations is a challenge that continues to grow. New laws, new threat actors and rapid changes in the crypto currency market space are disruptive elements that generate significant risk to any person or organization in this space. To discuss how we can help you, please reach out to us directly:

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