IMPACT OF PROPOSED CRYPTO EU REGULATION

Executive summary:

Right from the boom of bitcoin, different institutions and systems have been upset by it. Down the line, myriads of other cryptocurrencies have also come into existence, thereby creating a vibrant ecosystem for cryptocurrencies. This economy gets its share of ups and down, this has real-life implications for nations. Governments are charged with protecting their interest which is why the EU has come forward with the Markets in crypto regulation. But the formation of these regulations floods the hearts of many with questions, all of which need answering.



Image credit: CryptoSlate

Decentralization, the most lauded feature of cryptocurrencies is one of the things that have spiked interest in mainstream society, even attracting investors to the field. However, governments must protect investors as everything that happens with crypto affects investors which in turn affects national economies. Different countries have brought have explored CBDCs as a means to replicate cryptocurrencies but with centralization and government control. The idea has never quite stuck. With CBDCs being rolled out by different countries, governments around the world have been actively looking for ways to have some say in the space. The conversation around this started becoming interesting as scams and rug pulls became rampant. However, the stroke that broke the camel's back would be the crash of Terra Luna, an algorithmic stablecoin, which signalled the start of one of the longest death spiral and biggest losses in the crypto space. Different legislators and players have called for measures that protect investors to be put in place. The most massive and recent of these measures would be the agreement reached on European crypto-assets regulation (MiCA).

Bruno Le Maire describes the regulation as being an urgent need," MiCA will better protect Europeans who have invested in these assets. And prevent the misuse of crypto-assets, while being innovation-friendly to maintain the EU's attractiveness. This landmark regulation will put an end to the crypto wild west and confirm the EU's role as a standard-setter for digital topics". This is the biggest governmental meddling in the crypto space and it does raise a lot of questions from people who wish to understand the move and its consequences on the space.

One such question is if organizations need to be on a crypto register? The MiCA "regulation includes an authorization system which requires CASPs to register their office in a Member state of the Union and get authorized by the competent authority at national level." With this arrangement in place, one begins to wonder how DAOs and Defi platforms will be regulated? Will it be based on who runs them or where they are based? Mica does not specifically refer to DeFi at any point because of how young the technology is. However, the only part of DeFi that falls under the jurisdiction of MiCA is stablecoins, especially algorithmic ones. It addresses it as "So-called algorithmic stablecoins that aim at maintaining a stable value, ……., provided they do not aim at stabilizing their value by referencing one or several other assets". MiCA states that the issuers of asset-referenced tokens will be valid if they are established in the union, "except their offer exceed 5000000 Euros over 12 months and addressed to qualified investors". With the promises DeFi platforms make and deliver, is Europe worried that if DeFi takes hold, central banks would lose control? Perversely stablecoin or correctly labelled pegged coins offer governments more control to meet the challenge of the shadow economy in the EU which is 10%- 25% of GDP. It is interesting to see Swarm markets licensed by Bafin in German as a DeFi platform, Tokeny in Luxembourg, Archax London, and SDX in Switzerland.

One of the notable facts about the regulation is that NFTs have been left out of it. The FSA defines crypto-assets as, "A cryptographically secured digital representation of value or contractual rights that is powered by forms of distributed ledger technology and can be stored, transferred or traded electronically". So, are NFTs crypto assets? Yes, but the European Commission through MiCA feels "the value of a specific NFT does not depend on the value of another NFT nor the status of an existing NFT market," the council concludes that these features are a limitation to the financial use of NFTs, hence curtailing the risk for users and economy. But is that the case? Does this mean there are no risks for users on NFT marketplaces? No, pirates are very much looking to attack. Perhaps, something might change in the 18 months window leading to 2024 when the EU will report back. Although regulation tones down the decentralization of these digital assets, the crux of MiCA is to protect investors. The cyberpunks will shudder but clarity and regulation will offer comfort to institutions and hopefully protect investors.

#	Coin		Price	24h Volume	Exchanges	Market Capitalization	30d
1	Tether	USDT	$1.01	$99,266,189,740	423	$73,950,807,085	3.9%
2	USD Coin	USDC	$1.00	$5,113,635,991	288	$37,677,748,022	15.2%
3	Binance USD	BUSD	$1.01	$9,212,078,537	101	$13,048,200,260	1.8%
4	Dai	DAI	$1.00	$922,837,930	219	$8,801,352,978	19.8%
5	TerraUSD	UST	$1.01	$145,298,296	20	$7,353,336,244	164.1%
6	Magic Internet Money	MIM	$1.00	$315,381,948	14	$3,368,692,508	56.8%
7	TrueUSD	TUSD	$1.00	$222,575,943	157	$1,286,672,749	2.1%
8	Frax	FRAX	$1.01	$27,466,117	14	$1,145,778,457	119.0%
9	Pax Dollar	USDP	$1.00	$20,482,891	89	$1,141,676,624	15.3%
10	Liquity USD	LUSD	$1.00	$26,537,169	7	$917,280,210	49.0%

Top ten stablecoins before Luna crashed

Image credit: Bitcoin.com

Also, the EU proposed the regulation of Stablecoins that become too big, they risk being limited to 200 million Euros daily transactions. Tether is welcoming of the arrangement being proposed. Paolo Ardoino, chief technology officer of Tether described, "MiCA is one of the more progressive initiatives to date and is focused on driving crypto innovation and adoption in the European region." This will come particularly handy as Tether has expanded its operation and now has other crypto pegged to other fiat currencies asides from USD. USDC's Circle chief strategy officer, Dante Disparte, described MiCA as a significant milestone. Many other bodies such as exchanges in the crypto space are already warming up to the idea of a governmental body regulating the space. Katherine Minarik, vice president of legal at Coinbase, believes MiCA will help the exchange expand into members of the EU. Just as MiCA stipulated, Coinbase is actively trying to be licensed in EU countries including France.



Image credit: Eames Bot/Shutterstock

But that's not all about MiCA, it also seeks to address the energy concerns about cryptocurrencies, firms would now have to divulge how much energy they consumed and its impact on the environment. This is an upgrade from the proposal to scrap crypto mining in March, it wasn't approved by legislators. MiCA is likely to give solace to investors and institutions as the risks of losing their investments are now alleviated. Bank for International Settlement's Basel committee recently recommended that banks' exposure to crypto should be kept at 1%, this way banks will protect from being exposed to any single firm in case things go south. With recommendations like this warming banks to the idea of cryptocurrencies, the Industry is left to create a new path for itself. Mica could be what Paolo Arduino describes as the equivalent of what GDPR was to privacy.