

Cryptoassets: market developments and policy implementation

1. Progress in the implementation of MiCA

A regulator underlined the main objectives of MiCA, which was designed to create a consistent, EU-wide framework allowing the cryptoasset market to develop responsibly, foster innovation, and position the EU as a leader in this field. Its aims are to harmonise rules, safeguard investors and consumers, and strike the right balance between growth, competitiveness, and investor protection while maintaining systemic stability.

The regulation was expected to deliver three main benefits: first, reducing fragmentation by establishing a Europe-wide regime from the outset; second, providing legal clarity so markets can build sustainable business models with a long-term perspective; and third, ensuring fair competition within the single market.

Effective implementation is key to achieving these goals, and the European Supervisory Authorities (ESAs) together with national competent authorities (NCAs) have already carried out extensive work to this end. This includes policy guidance, supervisory briefings, and Q&As, all aimed at adapting the rules to market realities and clarifying issues as they arise.

Another regulator agreed that there has been unprecedented effort and collaboration between the ESAs and the NCAs to implement MiCA in a consistent way, including extensive case studies on key entities and the elaboration of essential guidance. At ESMA this work was coordinated by the Digital Finance Standing Committee, which has become an effective hub for knowledge sharing and building a collective understanding of complex Cryptoasset Service Provider (CASP) operations. NCAs are now in the process of granting authorisations.

An industry representative considered that the Level 1 MiCA text provides a well-structured regulatory framework for CASPs, with similarities to MiFID in its licensing approach and its integration of market abuse rules. Many of these features are now being adopted internationally. At Level 2, however, some measures appear to go beyond the Level 1 requirements. As these provisions are still being finalised, there remains an opportunity to refine them. Efficiency, practicality, and international comparability should guide this process, with rules revisited and adjusted early on, based on initial implementation experience. In this way, MiCA can remain flexible, incorporating practices from other jurisdictions as global standards evolve, and fostering a more competitive European market.

2. Regulatory and supervisory challenges in the crypto space

2.1 Transition period and level playing field issues

A regulator observed that while MiCA is fit for purpose and provides a stable framework, significant challenges remain. One major difficulty concerns the transition period for CASPs already authorised under national regimes. Although MiCA's application dates are harmonised across the EU, member states were allowed to grant transitional arrangements of up to 18 months. This has led to parallel regimes, with some CASPs continuing under domestic licences while others shift to the new framework. The situation is further complicated by the fact that some countries had pre-existing regimes and others did not, creating divergences that resulted in regulatory uncertainty. This complexity was underestimated when the compromise on transitional arrangements was agreed.

Another regulator agreed that much complexity stems from differing transition periods across member states, ranging from 6 to 18 months, which has complicated the shift to MiCA across Europe. More granular Level 1 provisions will be needed to address these implementation issues.

The chair recalled that ESMA's very first statement on MiCA urged member states to coordinate on a common transition deadline. In practice, however, implementation developed into a patchwork across jurisdictions, giving rise to the challenges already described.

An industry representative noted that licensing and the transition period are where the main challenges have emerged. Divergent implementation across member states, with each following its own rules, must be avoided as it risks creating a fragmented and inefficient outcome at EU level.

Achieving a level playing field across the EU in the implementation of MiCA is indeed a priority. Once the transition period ends, all European clients should be served by EU-licensed firms. ESMA has already provided useful guidance through FAQs and supervisory tools, but these must translate into consistent, practical licensing and supervision approaches, while preventing competition among member states based on the speed of approvals. Clearer and more standardised procedures for submitting applications and granting licences are essential to ensure fairness and predictability across the Union. Establishing such a level playing field will enable European crypto firms to expand across the Union, innovate, and reach the scale needed to compete in a globalised market dominated by large firms.

2.2 Authorisation procedures and supervisory challenges

A regulator noted that the authorisation stage has already exposed several difficulties. Divergences of opinion have emerged across the EU on how the Level 1 provisions should be applied in practice. A particular concern is the way Article 60 operates: under this provision, financial institutions already authorised for other activities can simply notify supervisors if they intend to provide crypto services. However, there is no requirement for a compliance assessment and no mechanism for supervisors to reject such notifications, even in cases where the notified entity may lack the operational, technical, or risk-management capacity to provide crypto services safely and effectively.

Rigid timelines also create pressure. NCAs have 25 working days to assess the completeness of applications and only three months to issue final authorisations. These deadlines are too short to properly assess the wide variation in application quality or to examine complex aspects such as governance structures, prudential requirements, ICT and AML frameworks, and cross-border business models.

The chair echoed the challenge of working under these strict deadlines while also grappling with highly complex business models and group structures that must be assessed quickly and consistently.

A regulator emphasised that achieving a convergent approach to authorisations is a central priority, so that decisions on which players may operate in the EU are taken in a fair and consistent way. Detailed analysis of business models and authorisation files is a demanding task still underway, and for the largest operators this work is being conducted collectively at EU level to build a common supervisory culture. To date, 57 CASPs have been authorised across 10 member states, with about 200 applications pending, and uncertainty remains over how many firms previously licensed under national regimes will receive authorisation under MiCA.

Supervisors also face broader challenges, beginning with the need to provide timely clarifications for market participants on areas such as DeFi, custody, and interactions with other legislation. Supervisory authorities must work together to provide coherent responses. Another difficulty is the complexity of large group structures spanning multiple licences and jurisdictions, which makes cooperation essential. Within ESMA, discussions have considered whether the largest firms with significant cross-border operations should come under European-level supervision. Such an approach could ensure consistency, shorten time to market, and improve efficiency, while domestically focused CASPs, which represent the majority of players, would remain under national oversight.

3. Key trends in the European crypto market

3.1. Opportunities and risks

An industry speaker emphasised that crypto is no longer a niche product, pointing to growing institutional

adoption by banks, asset managers, and payment firms. This trend is increasingly blurring the lines between traditional finance and crypto. To seize these opportunities, CASPs must invest in custody and safekeeping solutions, often in partnership with established financial players. They are also expanding into tokenisation of real-world assets. Another important development is the rise of payment services based on stablecoins.

A regulator reported that the cryptoasset market reached \$3 trillion in June 2025, with stablecoins already exceeding \$200 billion. Some very optimistic projections suggest the stablecoin market alone could grow to \$3 trillion by 2030, a prospect that raises serious concerns for investor protection and financial stability and requires close vigilance from the supervisors. The collapse of a large stablecoin could destabilise not only the crypto market but also spill over into traditional financial systems. The regulator also drew attention to the specific risks of multi-issuance models, where the same issuer distributes fungible tokens in different jurisdictions backed by separate reserve pools, which could pose major vulnerabilities if not properly monitored. With institutional adoption increasing, interlinkages with traditional finance are also growing through instruments such as derivatives, ETFs, and custody services, all of which demand careful oversight.

Another regulator noted that tokenisation is emerging as the next major issue to tackle for regulators. Because the same technology underpins both cryptoassets and tokenised real-world assets, MiCA provides valuable lessons on what aspects of regulation work effectively and where gaps remain. Supervisors must stay ahead of the curve by closely following these developments and ensuring they understand how tokenisation is evolving. This requires continuous dialogue with market participants and active input from the industry.

An industry speaker added that crypto also provides important lessons for the development of EU capital markets. Around 50 million people already hold cryptoassets, a level of retail engagement that, if achieved in equity markets under the Capital Markets Union project, would have been considered a major success. The EU should analyse what drives this adoption and how those factors could be applied to equity markets. What attracts users is not only the assets themselves, but also the way they are presented and made accessible and understandable to clients despite the risks. These lessons should guide the design of more inclusive and accessible markets that better integrate crypto with traditional finance.

3.2 Decentralised Finance (DeFi) regulatory implications

The chair highlighted that decentralised finance (DeFi) falls outside MiCA's scope. A recital in the regulation makes clear that fully decentralised systems are excluded, leaving this area unaddressed for now.

An industry speaker noted that DeFi represents a narrower segment of the crypto market, where regulatory approaches vary. Implementing MiCA absorbs significant resources, creating a risk that areas

outside its scope, such as DeFi, may be overlooked. DeFi players are much like CASPs before MiCA: operating in a regulatory grey zone, not prohibited but lacking clear rules. Some Member States have allowed innovation to proceed, while others have only issued risk warnings as they awaited EU legislation.

Although MiCA regulates cryptoassets, it is not suited to fully decentralised systems without legal entities. Supervisors remain uncertain about how to address arrangements that combine non-custodial software, autonomous protocols, and limited human involvement, alongside services where users assume greater responsibility. Simply applying MiCA would risk stifling innovation, so discussions on how to regulate DeFi must remain open.

The EU has effectively postponed the issue, signalling that DeFi will be revisited once it reaches sufficient scale. Other jurisdictions initially adopted the same stance, but some are now moving ahead. The UK has launched consultations specifically on DeFi. In the US, the pending CLARITY Act, complementing the GENIUS Act focusing on stablecoins, would exempt developers from liability for simply publishing code, a step towards clarifying responsibility in the DeFi context. In the APAC region, regulators are largely waiting to see how developments in the US and EU unfold. The Japanese FSA, however, has examined bespoke rules for non-custodial wallets, focusing on marketing standards, consumer protection, disclosures, and security requirements, echoing earlier French initiatives. One option would be to apply principles and security standards directly to the underlying protocols, so that anyone building on or using them would automatically be subject to these protections, even without a central operator.

The industry speaker concluded that appetite for a "MiCA 2" or a bespoke DeFi regime remains limited while DeFi is still relatively small. As a first step, EU-level guidance to promote convergence on supervisory expectations would be valuable, since firms currently lack clarity on what supervisors will accept. The need for such guidance will increase as tokenised assets move on-chain, financial institutions assess whether they can use self-custody and DeFi protocols, and CASPs explore offering a broader range of assets and using DeFi protocols as new execution venues.

4. International regulatory developments

4.1 Progress made in key jurisdictions

A regulator noted that, internationally, MiCA has been a source of inspiration for other jurisdictions. Its design and objectives have received positive feedback, but the EU should also remain open to learning from approaches now being adopted elsewhere. Developments in the US deserve close monitoring in particular, as rapid policy shifts there can create incentives with global repercussions and directly affect European market participants.

An industry representative agreed that Europe has been a pioneer with MiCA, providing market stakeholders with clarity, consistency and the capacity to innovate. Yet other jurisdictions, notably the US, are catching up quickly. Until recently, US regulatory action relied mainly on enforcement, but new measures such as the FIT 21 Act and the GENIUS Act mark a shift, introducing the first federal law on stablecoins and establishing oversight of issuers.

In contrast with MiCA's comprehensive approach, the US is pursuing a phased regime, beginning with stablecoins and gradually extending to custody and exchanges. These developments have progressed quickly, and other international jurisdictions are also moving to regulate. Unlike traditional finance, where the G7 and G20 typically set the agenda, crypto's global reach is also prompting emerging markets to develop their own frameworks.

A patchwork of divergent regimes at the global level would be counterproductive for the industry. Strong EU leadership will be needed to foster international dialogue and promote greater alignment. Stablecoins already highlight this challenge: they are regulated differently in the US and Europe, creating inefficiencies for firms operating across borders.

An official emphasised the importance of international alignment and of learning from other jurisdictions' experiences. Three key aspects were underlined.

First, market access regimes: the UK's new approach to overseas recognition, announced in the latest Mansion House speech, raises questions about how it might apply to crypto and stablecoins, and how related risks can be managed while still seizing opportunities. A further challenge arises from differences across jurisdictions: the US GENIUS Act includes provisions on reciprocity, whereas MiCA does not currently address this issue. Second, international standard-setting bodies such as the FSB and IOSCO will play a vital role in ensuring harmonisation and consistency of rules in this area. Third, bilateral cooperation between major financial jurisdictions remains essential through structured dialogues. The upcoming EU-UK Financial Regulatory Forum, in particular, will provide an opportunity to coordinate approaches and share lessons in the regulation of cryptoassets and stablecoins. The UK is also closely monitoring developments in the US, particularly the proposed GENIUS Act on stablecoins.

The chair recalled that when the EU began regulating cryptoassets it faced two main risks: the framework could quickly become obsolete given the sector's rapid evolution, and, as a first mover, the EU risked future regulatory fragmentation. So far, EU rules are aligned with IOSCO and FSB standards. The main risk now lies in divergence with the regimes of key non-EU jurisdictions. In the case of the UK this risk appears well managed, but in the US the outlook remains more uncertain.

4.2 The UK approach to crypto regulation

An official explained that the UK's objective in developing crypto policy is to strike a balance between protecting cryptoasset users and creating incentives for firms to

invest and support economic growth. The proposed regime builds on the framework legislation introduced in 2023, which defined the concept of cryptoassets and gave the UK Treasury powers to set detailed rules. The original plan was to phase in regulation, beginning with stablecoins, but this has since shifted to a single package to reflect the interconnections between activities and to give firms greater certainty. Draft regulations were published recently, and final legislation is expected before year-end following industry feedback.

The regime sets out the types of cryptoassets in scope and requires FCA authorisation for activities such as operating trading platforms or dealing in cryptoassets. It also introduces a UK definition of stablecoins pegged to fiat currencies and creates a regulated activity for their issuance. Stablecoins issued in the UK will require authorisation, while those issued overseas may continue to access the UK market, provided they meet certain standards and conditions. The focus throughout is on ensuring protections for UK consumers when services are offered domestically.

Wrap up

The chair closed the session by highlighting two key themes. First, speed: the market is evolving rapidly, with rising client numbers and growing hybridisation between traditional finance and crypto. Second, complexity: different business models, fragmentation, and international developments all add to the challenge. There is already talk of a possible MiCA 2 to allow regulation to keep pace with market developments, particularly as new areas such as tokenisation and DeFi gain importance. Ongoing dialogue, cooperation and convergence will be essential to address these issues.