CRYPTOASSETS: POTENTIAL FRAMEWORK EVOLUTIONS

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European supervision: the case for convergence

The architecture of the European Capital Markets Union (now the Saving and Investments Union) is shifting its center of gravity from the proliferation of harmonised rules to the consistency of their application. To achieve a uniform landscape, two approaches emerge: [a] centralising supervision under a single European authority; or [b] refining supervisory convergence within a decentralised network of National Competent Authorities (NCAs). While the MISP proposes shifting CASP oversight to ESMA, an expansive application of supervisory convergence tools offers a better approach. This framework cultivates a unified institutional culture and reciprocal trust, facilitating seamless cross-border business without the bureaucratic upheaval of centralised supervision.

Conceptually, supervisory convergence constitutes a structured methodology aimed at fostering a common supervisory culture and ensuring the uniform application of Union law across the EU. At the level of ESMA, it operates through a strategic, risk-based deployment of a diversified toolkit categorised into: [a] preparatory instruments like supervisory briefings; [b] implementation mechanisms like peer reviews; and [c] remediation tools like the breach of Union law methodology. The ESMA Senior Supervisors Forum (SSF), composed of the Heads of Supervision from NCAs, acts as the institutional engine bridging policy and practice. Operating across multiple sectoral configurations, the SSF seeks to ensure that supervisory engagement is applied consistently in different Member States, thereby mitigating supervisory arbitrage and strengthening the Internal Market.

Central to this effort is the Supervisory Convergence Heatmap, a diagnostic instrument driving a risk-based cycle of oversight. This annual exercise evaluates systemic threats to investor protection, market orderliness, or financial stability, directly informing ESMA's Annual Work Programme, and national risk assessments and supervisory priorities. Paired with risk-based principles, this iterative process ensures that monitoring at national level is an active response to identified risks at European level, which are prioritised, i.e. where risks are greatest.

> Instead of centralising supervision, the EU should enhance ESMA's convergence framework.

The digital asset ecosystem provides a compelling empirical case for convergence over centralisation. ESMA has strategically deployed supervisory briefings to harmonise CASP authorisations under the Markets in Crypto-Assets (MiCA) regulation. This instrument provides NCAs with granular guidance on the oversight of market participants, establishing precise expectations across the Union. This mechanism serves as a pre emptive strike against supervisory arbitrage, ensuring a passported license represents a consistent "gold standard" of compliance, irrespective of the issuing Member State. Expanding peer reviews and fast-track assessments further fortifies this structure, turning evaluations into an instrument of accountability.

To fully address the cross-border nature of digital assets, the Union must transition from mere coordination to deep institutional synergy, transforming the NCA network into an integrated, high-performance ecosystem. This requires the centralisation of data and harmonised analytical tools to guarantee convergent evaluative outcomes across jurisdictions. Additionally, reinforcing supervisory knowledge networks through specialised workshops will organically align professional judgment, while direct ESMA participation in national engagements will offer this Authority localised supervisory insights.

Lastly, by establishing "centers of excellence" to concentrate technical expertise and introducing a common risk management framework with mandatory minimum engagement levels, the EU could ensure high-risk entities face identical inspection cycles regardless of geography. Under this approach, specific NCAs would leverage their existing operational strengths to anchor highly technical domains, such as smart contract auditing or decentralised finance risk tracking. Instead of isolating this proficiency at the centre, these designated hubs would spearhead Union wide knowledge transfer and develop unified diagnostic tools to upskill the broader supervisory network. This structured dispersion of capability ensures high-standard, identical oversight across all Member States, effectively neutralising supervisory arbitrage while avoiding the friction of a centralised supervision. Ultimately, the future of European market integrity lies in evolving this decentralised model into a sophisticated supervisory central nervous system, achieving the consistency of a single supervisor, while retaining national expertise to realise a frictionless Internal Market.

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MiCA's next test: convergence over structural overhaul and bridges over silos

Payward, Kraken's parent, shares the European Commission's ambition to deepen capital markets integration, strengthen investor protection, and build a genuinely competitive digital asset ecosystem across the EU. A well-functioning single market for crypto-assets is essential for Europe's competitiveness, and MiCA was a landmark step toward it. Now, regulation should bring a forward-looking, bridge-building instinct to MiCA's next phase. Payward went through a similar shift itself: what began as Kraken, a crypto exchange, has grown into a group bridging crypto and traditional finance, from derivatives to tokenized equities and payments.

MiCA replaced a patchwork of national regimes with a single rulebook and a passport that works. This was welcomed across the industry and positioned Europe as a global pioneer in digital asset regulation, bringing legal certainty and stronger consumer protection. Payward committed to the regulated path early and received its MiCA licence last year. Our experience since has been positive: a growing number of authorised CASPs - now nearly 300 - reflects healthy market participation, the absence of major crypto-related incidents in Europe suggests regulation and transparency are contributing to stability, and the market is visibly maturing, with firms engaging more closely and constructively with their supervisors.

MiCA has only been fully applicable for 18 months and NCAs are in the early stages of operationalising the framework with market and supervisory practices still settling. Some early friction, such as transition regimes expiring at different times across member states, has already been worked through. This is exactly why the priority now should be to let MiCA's effectiveness materialise before considering structural change to how it is supervised. Firms have invested significantly to get licensed and to build working relationships with their supervisors; regulatory stability is not a nicety, it is a signal to anyone weighing whether to build in Europe.

Effective supervision has clear ingredients: deep familiarity with the entities supervised, proactive engagement, clear accountability, ability to act quickly, and cross-border coordination that matches how this industry actually operates. That coordination should drive consistent outcomes across jurisdictions, not substitute for the direct supervisory relationships that make everything else possible. Responsible firms are not looking to avoid supervision; we are looking for supervision that works: clarity on expectations, a supervisor who understands the business, timely guidance where rules are ambiguous, and ongoing dialogue rather than enforcement after the fact.

Convergence should be judged on outcomes, not on which body holds the pen.

Fragmentation concerns are real, but they can be addressed within the existing architecture. Binding mediation powers, common supervisory handbooks, structured peer reviews and stronger coordination mechanisms, with ESMA driving convergence, can deliver consistency without discarding the local market knowledge, direct entity relationships and operational capacity NCAs have built through the licensing process itself. Nor should any reform differentiate supervision by size or significance: splitting CASPs across two regimes would add complexity, tilt the playing field and fragment the very market the reform aims to integrate. Every authorised CASP should sit under one consistent model. Any restructuring must also weigh its fiscal and operational costs, for institutions and industry alike, against benefits that have not yet been demonstrated.

The MiCA review itself should follow the same logic: targeted fixes, not a wholesale overhaul, focused on gaps that have emerged in practice. One clear area is where MiCA and MiFID don't yet connect for products that sit across both like crypto derivatives. MiFID does not currently recognise crypto assets as eligible collateral, forcing firms to run complex, costly operational workarounds simply to let clients trade in a capital-efficient way. This is not an argument for less regulation; it is a case for MiFID to evolve to accommodate crypto-native mechanisms, or for clear regulatory guidance on how the two frameworks interact. A second area is emerging innovative products like perpetual futures. The EU should adopt a risk-based, proportionate, and outcomes-based approach underpinned by product governance leveraging the existing MiFID framework and industry best practices. Any interventions in new products should be evidence-led and targeted at demonstrated investor detriment rather than applied by analogy, so that Europe does not inadvertently push activity toward unregulated, offshore venues, and remains a competitive jurisdiction while protecting investors and market integrity.

We welcome the continued, constructive dialogue with EU institutions, member states and market participants on how to make the framework and its supervision effective, consistent, proportionate and open to innovation. Dublin is the right place to continue that conversation.

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The next chapter of European capital markets

Tokenization is often framed as a debate between crypto and traditional finance. That is the wrong starting point. The real question is whether we can use new infrastructure to build better, more accessible and more efficient capital markets in Europe, and ultimately whether we can create a financial system where value and opportunity are more evenly distributed.

At etoro, we have already seen what happens when technology lowers barriers to entry. By introducing fractional shares, we helped millions of people access global equity markets in a simple and intuitive way. That was not a philosophical shift, it was an infrastructure shift. We used digital tools to make participation easier and more flexible.

Tokenization is the next step in that evolution. It applies the same playbook, fractional access, intuitive distribution and global reach, on a native digital infrastructure. By enabling assets to be owned in smaller units and distributed more efficiently, tokenization does more than improve markets, it opens up new opportunities for wealth creation to a much broader audience. It moves us closer to a system where participation is not limited by geography, ticket size or complexity.

Moving assets on-chain allows ownership to be represented in a programmable format, opening the door to new forms of distribution, transfer and utility. The goal is not technology for its own sake. The goal is to expand what investors can own, how they can use it, and who can participate, while maintaining transparency, safety and trust.

Scaling, however, does not happen because a new technology exists. It happens when demand, liquidity and infrastructure align. The real breakthrough moment for tokenized capital markets will come when retail distribution connects seamlessly with institutional-grade custody, market-making and settlement.

We are already seeing that bridge form. Hedge funds, custodians and liquidity providers are approaching us to explore how they can support tokenized assets. They see the demand from a new generation of investors who are digital-first and globally connected. Tokenization is not about replacing traditional finance, it is about extending it onto new rails. It creates new avenues for partnership, not disruption for its own sake.

A generation of investors has grown up with crypto markets that are real-time, transparent and accessible across borders. For them, digital and always-on access is the norm. Tokenized equities can bring traditional capital markets closer to that environment. With the right market design and safeguards, extended access models and programmable features can deepen participation and increase liquidity. Liquidity follows utility. When assets become easier to access and more versatile in how they can be used, participation broadens, and with it, the distribution of value across a wider base of investors.

Tokenization is not crypto versus finance; it is about building better markets.

Europe is not standing still in this process. The European Union has moved from experimentation to scaling. The Market Integration Package expands the DLT Pilot framework, raises thresholds and explicitly targets interoperability to enable institutional-scale tokenization. At the same time, the ECB's work on settlement through Project Pontes and the longer-term exploration of native on-chain central bank money recognises that credible cash-settlement solutions are essential to sustainable growth.

MiCA has provided regulatory clarity for crypto-asset service providers and stablecoin issuers, even as debates around MiCA 2.0 and DeFi signal that supervision will deepen as markets evolve. The political direction in Brussels is clear, innovation is welcome, but it must sit alongside strong AML standards, operational resilience and governance clarity. Interoperability and avoiding fragmented "digital islands" are core priorities, as tokenization is expected to support market integration and the Savings and Investments Union.

Europe has the opportunity to lead by enabling innovation that is both pro-consumer and pro-market. That means remaining technologically neutral and focused on outcomes, wider access, greater transparency, stronger resilience and robust investor protection. It also means building the bridges that allow platforms and institutions to scale safely together.

If we get the framework right, tokenization will not remain a niche experiment. It will become a meaningful upgrade in how Europeans access and participate in capital markets, and a powerful tool to expand wealth creation opportunities across society.

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What do the MiCA review and CASP supervision share? The concept of a quick fix

Part 1: Central supervision - The right way forward?

For the European single market and its compliant players, the ongoing issues of supervisory enforcement, regulatory discrepancies, and cumbersome bureaucratic friction between European Supervisory Authorities and National Competent Authorities (NCAs) are highly critical. Compliant companies spend millions of euros to play by the rules. When non-compliance is effectively rewarded through lax enforcement, it creates unfair competition that the EU simply cannot afford. If we want to foster innovation and business growth in Europe, we must reward regulatory compliance and bring swift, unified enforcement to the single market.

Centralised supervision under ESMA is often presented as a silver bullet, but the operational reality is far more complex. A rigid central framework risks adding bureaucratic complexity through sensitive political compromises. Crucially, partial solutions—such as a two-tiered model based on entity size or limited in scope to MiCA—risk entrenching the very fragmentation they seek to resolve. To prevent supervisory gaps as crypto and traditional finance converge, any shift toward centralisation should grant ESMA direct oversight of CASPs' MiFID licences, even when held as an ancillary service.

Moreover, current legislative projections estimating that some form of a centralized model will only become operational between 2029 and 2031 are highly optimistic—yet dangerously far off. Compliant market participants cannot wait a decade for the level playing field.

An Immediate, Scalable Solution

To promptly resolve current supervisory gaps, we must act now by maximizing existing convergence tools while proposing proportionate, politically viable solutions:

Enforce and expand ESMA guidelines and supervisory statements (e.g., targeting unfair market practices), mobilize rigorous peer reviews, and drive joint coordination via the Digital Finance Standing Committee.

Equip ESMA with legally binding opinions and/or own-initiative powers to take over cases (e.g., in cases of NCA inaction or significant cross-border market impact). This mimics the proven EU merger control model and carries lower political sensitivity.

These measures address the uneven playing field more rapidly in a time-critical environment. They can offer a concrete proof of concept for potential centralisation, helping define its appropriate scope and format while avoiding bureaucracy and complexity.

> Supervisory enforcement must happen now, not in a decade. MiCA needs fine-tuning, not an overhaul.

Part 2: MiCA review - What are the priorities?

The MiCA review should focus on targeted calibration rather than a major overhaul. With grandfathering just ending, the full impact of MiCA is only beginning to settle in. Policymakers must avoid opening a legislative Pandora's Box of stricter rules and overregulation that would stifle innovation and competitiveness. Instead, we should uphold technological neutrality, embrace strategic fine-tuning, and prioritize risk mitigation over risk aversion.

Main Focus

Reduce Level II and III: Generating 2,000 to 3,000 pages of technical standards for a 160-page MiCA framework is highly onerous and, at times, rules are inconsistent with Level 1 text. Together with TOFR and DORA, this cumulative weight does not enhance compliance or benefit client decision-making.

Rationalize EMTs & ARTs Rules: Unlock innovation in stablecoins to support Euro and global connectedness. Current volume and issuance limits are overly restrictive, and clearer boundaries are needed to separate EMTs from traditional payment services.

MiCA vs Mifid Interconnectedness: We need clearer, less risk-averse guidance on asset classification. A more pragmatic 'substance-over-form' test is essential to ensure the MiFID perimeter is not artificially expanded.

Activities outside MiCA

Building a rigid regulatory framework around DeFi is premature while core concepts like genuine decentralisation—and our understanding of them—continue to evolve. Effective regulation and enforcement are essential, but they should not begin with immediate, top-down legislation that stifles market growth. European regulators should rather focus on open industry collaboration to demystify risks. A sensible first step would be establishing clear standards and recommendations grounded in ongoing International and European work.

Conclusion

There is no need to rush into major legislative reforms while MiCA's full impact is still unfolding. To succeed, Europe should focus instead on targeted adjustments—providing practical refinements to reduce regulatory burdens, enhance clarity, and guarantee active supervisory enforcement happens today, not years from now.

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Evolution of MiCA regulation on crypto assets and tokenisation

The introduction of the Markets in Crypto-Assets (MiCA) regulation has been a transformative event for financial institutions and crypto native entities within the European Union. The EU framework arrived at a pivotal moment, coinciding with a globally favourable alignment for the crypto ecosystem. This global regulatory benchmark is to evolve after an EC MiCA 2 consultation with a new legislative proposal amending MiCA.

Key Advantages of MiCA for Institutional Players

MiCA's comprehensive framework unlocks several specific opportunities for banks and asset servicers:

- Expanded Stablecoin and Payment Services: The regulation permits both banking and non-banking entities to issue stablecoins. It also enables the development of new payment rails for clients requiring instant and on-chain settlement.

- Enhanced Custody Solutions: Banks can offer custody services using individual client accounts with segregated holdings for digital assets. This moves away from the omnibus account model commonly used for crypto assets. By avoiding pre-funding or sub-custody arrangements with non-financial institutions, counterparty risk is significantly reduced.

- An EU-Wide Passport for Crypto Services: Achieving MiCA compliance, alongside obtaining a European Crypto-Assets Service Provider (CASP) licence, grants a passport to provide digital asset services across the entire EU. This offers a significant advantage over country-level Virtual Asset Service Provider (VASP) licences.

Persistent Regulatory Gaps and Challenges

Despite MiCA's progress, several regulatory gaps continue to hinder seamless institutional participation.

- Global Interoperability and Harmonisation: MiCA's scope is limited to the EU, leaving cross-jurisdictional harmonisation as global challenges. New crypto-asset regimes in the UK, US, Hong Kong, Singapore, and the Middle East have adopted differing approaches, particularly in their technical details, creating a fragmented international landscape.

- Technological and Operational Uncertainties: The lack of a unified approach for performing settlement 'on-chain' persists due to the diversity of blockchain protocols used.

> MiCA 2 and tokenisation add-ons could well be a watershed moment for the European digital asset land.

Financial instruments tokenisation is likely to be even more transformative.

- Use at large scale of Distributed Ledger Technology with traditional financial instruments. MiCA brings some insights to capital markets, notably on instant or near instant settlement cycle, automation/programmability with the use of smart contracts due to the use of common technical infrastructure. While tokenised securities fall under MiFID and the EU DLT Pilot Regime in the case of securities admitted to trading, shared solutions are also possible for the custody of respective assets,

- Unified Asset Servicing: When investment fund shares are tokenised, this can be managed by an asset servicing group's existing registrar and transfer agency functions. This ensures full integration with traditional services like fund administration and reporting. From issuance to consolidated reporting, institutional clients benefit from a unified solution covering both on chain and off chain liabilities and assets.

- Compatibility with Central Bank Solutions: from an industry perspective, an additional goal to ECB Eurosystem's DLT solutions - the short-term Pontes and long-term Appia – should be interoperable with the financial services industry existing solutions for tokenisation of financial instruments.

Financial institutions have to continue their efforts on the operational side to be at scale for mass adoption of crypto-assets and tokenisation.

Custody Digital Assets infrastructure is not yet fully standardised. Interoperability between custodians, trading platforms and execution venues should be the objective for efficient operations of tokenized capital markets.

Institutional settlement rails development. Reliance on crypto native execution venues is not optimal for financial institutions due to significant use of pre-funding model and sub custody arrangements with non-banks.

Financial Markets Infrastructures legacy IT systems should be made compatible with tokens issued natively and "digital twins". That also requires interoperability across blockchains and smart contracts likely to create the need for specific adaptations of software used.

Conclusion

MiCA 2 and tokenisation add-ons could well be a watershed moment for the European digital asset landscape, offering unprecedented legal clarity and a competitive advantage to institutions within the bloc. By enabling services from tokenisation to institutional grade custodial wallets, CACEIS is accompanying its clients in their journey for institutional engagement. However, work must continue for greater adoption of Distributed Ledger Technology by Financial Institutions and improved standardisation and interoperability.