



MiCA

# Summary of Shortcomings & Improvement Proposals

January 11, 2021

*Adan and EU Crypto Initiative*

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## Overview

On September 24, 2020, the European Commission unveiled its proposed framework for crypto-asset markets, an opportunity to clarify the legal framework applicable to industry players: **"MiCA"** for the Markets in Crypto-Assets Regulation<sup>1</sup>. The stated goal of this proposal is to stimulate innovation while preserving financial stability and protecting crypto-asset users.

The Commission's regulatory proposal is part of its *Digital Finance Package* and, more broadly, of its 2018 FinTech Action Plan. In particular, the Commission has organised public consultations with stakeholders to prepare these drafts. Adan had the opportunity to respond to two consultations: one on [the framework applicable to the crypto-assets markets](#), the other on [the FinTech action plan](#).

During its webinar held on October 7, [Adan presented and analyzed the European Commission's proposal](#). The Association also expressed its concerns about the potential threats MiCA poses to innovation.

Adan is thankful to the European Commission for allowing the expression of industry players in this open feedback period. The Association's objectives are to help create the more favourable environment in the EU for the development of a crypto-asset industry competitive with other regions of the world.

This document aims to present solutions with the goal of improving MiCA's framework and, thus, promote the competitiveness of the European crypto industry. It was written in conjunction with industry actors in France, but also key players of the crypto-asset industry across Europe, as well as other national associations promoting the use and development of crypto-asset and blockchain technologies on the Old Continent. In particular, positions expressed in this document have been developed in the context of the European Crypto Initiative (EUCI).

Adan is available for any question and further discussions related to this paper.

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<sup>1</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020PC0593>

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# Introduction

**Crypto-assets are improving economic infrastructure worldwide, creating new jobs, promoting financial inclusion and providing novel opportunities for both public and private actors.** Markets in crypto-assets - MiCA - reflects the growing awareness around such opportunities and the significant traction gained over the last years: the tokenized assets market is estimated to reach 1.4T€ by 2024<sup>2</sup>.

The European Commission decided to make financial innovation one of its key priorities in order to make Europe fit for the digital age<sup>3</sup>. A stated objective of the Markets in Crypto-Assets Regulation ("**MiCA**") is to provide a common EU framework that **supports and stimulates innovation** in this sector, thereby increasing the competitiveness and attractiveness of Europe and supporting Europe's global leadership in digital finance.

As such, MiCA is a **welcomed initiative by innovators in the field** as it provides policies that should instill the necessary clarity and confidence into businesses, users, investors and financial conduct authorities to continue to innovate and develop the sector. MiCA indeed contains policies to such effect, i.e. targeted rules that will help businesses to scale.

Several provisions in MiCA do, however, raise **significant concerns vis-a-vis the still nascent crypto-asset industry** - as they appear to fully go against the objective to support and stimulate innovation - and would clearly **decrease the competitiveness of Europe**. Competition to lead the sector is fierce and global, and is happening now.

The **main shortcomings** identified are:

1. **Prohibition or hinderance of innovation** taking place through increasingly **decentralised use cases** (e.g., so-called decentralised finance, or "DeFi")
2. Insufficient **proportionality** to cater for different business models in the sector
3. **Barriers to entry** too high for newcomers, and too low for incumbents
4. Certain **operational provisions** are out of sync with market practice

Below we provide more details on each of these shortcomings and provide recommendations for addressing such.

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<sup>2</sup> Source: [Plutoneo Consulting](#)

<sup>3</sup> Ursula Von der Leyen Proposed Program A *Union that strives for more* - political guidelines for the next European Commission, 9 October 2019

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# I. Challenge for Decentralized Finance Applications and Other Blockchain-Based Use Cases

## Problems Identified

Decentralized Finance and other decentralized use cases (self-custody, decentralized organizations, decentralized identity, etc.) are seeing significant traction and growth. Making full use of the smart-contracts innovations, they are deployed on open and publicly accessible blockchain networks and made available to businesses and consumers as well as developers and any other interested party. Those components are fully interoperable thanks to the underlying blockchain being shared and can therefore be mixed together to create new and advanced use cases (also referred to as “composability”). The low barrier to entry and increasing utility of those use cases puts them at the forefront of innovation enabled by public blockchain networks. Decentralized finance protocols have seen tremendous growth in the last few months, reaching more than 10 billion USD in assets under management

Rightly so, the MiCA proposal states that preserving innovation is a key objective, mentioned in the very first sentence of the Recitals. However, analysis of the planned measures indicate that the text in its current form would, in fact, **stifle those innovations by hindering or banning all the use cases that are not deployed and controlled by a centralized entity.**

Please find below a short list of shortcomings identified.

### For crypto-asset issuance

- **Illegality of decentralized stablecoins.** These stablecoins are issued directly by end users that interact with a protocol deployed on an open and publicly available blockchain network. They cannot, by construction, respect e-money token obligations such as emission by a legal entity, own fund requirements, etc. Article 43 is adamant on the fact that “No electronic money tokens shall be offered to the public in the Union or shall be admitted to trading on a trading platform for crypto-assets unless...”. Issuance of such crypto-assets would therefore be prohibited in the EU, although such a ban would be difficult, if not impossible, to enforce. These decentralized stablecoins represent approximately 20 % of the DeFi market.
- **Illegality of decentralized representations of other crypto-assets** (e.g., tBTC or rBTC, which are decentralized representations of Bitcoin on the Ethereum blockchain network).

The definition of assets-referenced tokens (article 3, §3) is unclear - the meaning of “that purports to maintain a stable value” is uncertain, as it could be considered that an asset that reference another crypto-asset such as BTC or ETH does not “purports to maintain a stable value” but only to replicate the price of another volatile crypto asset.

Due to this uncertainty and the general terms employed, decentralized representations of other

crypto-assets may very well fall into the asset-referenced tokens category. Being decentralized and not issued by a legal entity, they cannot respect, by construction, the relevant obligations (see above on decentralized stablecoins). Issuing and trading those assets would therefore be forbidden in the EU.

- **Incomplete understanding of token use cases may lead to unsuitable issuance obligations.** White paper requirements imply that all token issuances are conducted for the purpose of financing of projects, which is inaccurate. As an example, an application operated by a smart contract may issue tokens to a user as a reward for an action, as a means of participating in protocol governance, or for any number of reasons programmed by a developer in said application.

Due to the large definition of “issuance”, these tokens have a high risk of regulatory capture regulation (notably following the extremely narrow definition of “offered for free” in Article 4, §2). However, by virtue of the fact that these tokens are either innovative issuance mechanisms that are not captured by the strict structure of the white paper obligations, nor issued for the purpose of financing a project, they are incapable of fulfilling the requirements of the text.

- **Mis-consideration of tokens issued with no legal entity.** Tokens may be issued with no relation to a legal entity. This is notably the case where the tokens are created through the deployment of an open blockchain network (e.g., Bitcoin), or through interaction with an application deployed by an individual, such as a smart contract. The current definition of “issuance”<sup>4</sup> brings two potential issues:
  - By defining “issuer” as “a legal entity”, it excludes de facto all the assets not issued by a legal entity from the application Title 2, with adverse consequences on its recognition (notably for trading venues, see below)
  - By expanding the definition of issuer to “a legal entity that seeks the admission of such crypto-assets to a trading platform for crypto-assets”, the definition captures natural and legal persons that may not in any way control the targeted crypto-assets but who are merely interested in exchange opportunities - which is inconsistent with the objective of those obligations.

## For CASPs

- **Prohibition to list decentralized tokens renders EU service providers uncompetitive.** Article 68§1 subparagraph 10 of the regulation stipulates that trading venues serving EU customers are banned from listing any tokens whose issuer did not provide a white paper if no exemption applies. Tokens issued without a legal entity are entirely out of the scope of the regulation and therefore cannot in any capacity respect the white paper obligation nor are they specifically exempted. This creates a de facto prohibition for the listing of those tokens.

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<sup>4</sup> “a legal person who offers to the public any type of crypto-assets or seeks the admission of such crypto-assets to a trading platform for crypto-assets”

## For both issuers and CASPs

- **Prohibition on the servicing of interest will render innovative use cases illegal.** The ban on servicing of interest on stablecoins as provided by Article 36 and 45 is unclear and could hinder their competitiveness compared to entities located in other jurisdictions that will be able to serve those interests. The service of interests is also a significant DeFi use case – approximately 70 % of the market<sup>5</sup>.

We understand that **these consequences were not the intended objective of the Commission. Thus we propose targeted adjustments to correct these side effects.**

## Proposed Amendments

We propose targeted changes to the scope of the text, to exclude tokens related to decentralized use cases and allow EU trading venues to list them.

### Proposal 1: Remove unnecessary restrictions on trading platform listing requirements

Trading platforms should be allowed to freely list all tokens including DeFi tokens, which are banned under the current drafting of MiCA, article 86§1 subparagraph 10.

Within article 68§1, requirements set from points a to c are sufficient to ensure that trading platforms will list crypto-assets with the suitable caution and responsibility. Any other limitation would appear unnecessary.

**Proposal:** Remove MiCA, article 68§1, Subparagraph 10

~~“For the purposes of point (a), the operating rules shall clearly state that a crypto asset shall not be admitted to trading on the trading platform, where a crypto asset white paper has been published, unless such a crypto asset benefits from the exemption set out in Articles 4(2).~~

### Proposal 2: Change the scope of rules applying to public offerings of crypto-assets, including asset-referenced tokens & e-money tokens

It should be made clear that:

- Only the issuers of crypto-assets - and not the entities that seek the admission of those assets in CASPs - should be considered by the white paper obligation set forth in Title 2.

<sup>5</sup> Source: DefiPulse - <https://defipulse.com/>

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- Only crypto-assets **effectively controlled**<sup>6</sup> by legal persons shall be subject to the MiCA rules regarding issuance of crypto-assets (including asset-referenced tokens and e-money tokens).

**Effective control in this sense should refer to the power to unilaterally issue, execute or indefinitely prevent a crypto-asset transaction<sup>7</sup>.**

Regarding **stablecoins** (asset-referenced tokens and e-money tokens), “algorithmic tokens”<sup>8</sup> should be exempted from the application of MiCA’s requirements. For those stablecoins, the issuer has no control over the reserve assets.

One example of an algorithmic stablecoin is DAI. DAI is a USD-referenced stablecoin distributed directly to end users by a smart contract deployed on the Ethereum blockchain. The entity responsible for developing the smart-contract code, the Maker Foundation, **is not** the issuer of DAI nor do they control the application – they merely deploy application logic on the Ethereum blockchain. Any party who wishes to interact with the MakerDAO application may send transactions to the smart contract, which, in turn, issues DAI as a counterpart to collateral deposits (in Ether or other cryptocurrencies). Such individuals or companies, that could be analyzed as “issuers” of DAI, have neither redemption rights on the Maker Foundation, as the Foundation is not the issuer, nor any control over the reserve, which is managed by the smart-contract. To this end, under such functioning, the MiCA regime is simply unadapted as this regulation never considers tokens issued with no legal entity.

In such use cases, it has to be noted that the only identifiable issuer is the user of the smart-contract. However, it would be inefficient and harmful to apply MiCA obligations to those issuers, that are highly technical, numerous, located anywhere in the world, and hard to identify.

To regulate those use cases efficiently, one could craft a regulatory framework that would regulate the organization responsible for the development and deployment of the protocol and apply obligations to this organization that are adapted to the level of control that such entity is retaining on the crypto-asset. However, the creation of this adapted regulation framework necessitates a significant amount of work and is currently a blank page, as no country has performed this analysis and regulation work.

Therefore, regarding those decentralized use cases, we believe that the best way forward is:

- Excluding those use cases from current MiCA framework, in order to allow for the maximum level of innovation on blockchain-based use cases;
- Add a revision clause to MiCA to complete it with an additional regulation targeting decentralized or semi-decentralized use cases in the near future.

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<sup>6</sup> Inspired by Coincenter’s definition of control regarding digital assets - <https://www.coincenter.org/the-ulcs-model-act-for-digital-currency-businesses-has-passed-heres-why-its-good-for-bitcoin/>

<sup>7</sup> See notably the notion of control developed in Etherdelta case: <https://www.lexology.com/library/detail.aspx?g=4897fc91-42e7-44a1-94bb-c40f56220703>

<sup>8</sup> Algorithmic stablecoins are use cases where the issuance rules and reserve assets of the stablecoins are not under the effective control of their issuer but rather under the control of rules defined by the protocol deployed on a blockchain network (so-called “smart-contract”).

*Proposal:*

- Amend the definition of “issuer of crypto-assets” in MiCA, article 3 to remove “~~or seeks the admission of such crypto assets to a trading platform for crypto assets~~”.
- Define “**effective control**” in MiCA, article 3 as “**the power to unilaterally issue, execute or indefinitely prevent a crypto-asset transaction on a DLT**”
- Define “**algorithmic tokens**” in MiCA, article 3 as “**a type of crypto-asset that purports to maintain a stable value where the issuer has no effective control on the issuance rules or the reserve assets, where applicable**”

Option 1

- Complete MiCA, article 2 with a §2ter “**Titles III and IV of this Regulation do not apply to algorithmic tokens**”.

Option 2

- Complete MiCA, article 15§3 with a c) “**the issuer has no control over the reserve assets of asset-referenced tokens**”
- Complete MiCA, article 43§2 with c) “**algorithmic tokens**”

### Proposal 3: Adapt the rules that apply to CASP when they provide services on decentralised crypto-assets

It should be guaranteed that crypto-assets that are effectively controlled by their users after their deployment - and not by a legal entity - do not suffer from the prohibitions and/or restrictions that MiCA establish regarding the issuance and trade of crypto-assets. This would allow CASPs to freely provide services on such assets.

*Proposal:* **Adapt MiCA, Title V (articles 43 to 75)** to remove any limitations to the activities of CASPs regarding algorithmic crypto-assets.

### Proposal 4: Consider the critical issue of blockchain interoperability

*Proposal:* Where asset-referenced tokens are representations of other crypto-assets (i.e., the representation of a bitcoin on other blockchain networks), either exclude from the regulation (by adjusting definitions) or adapt the regime (e.g., allow for the use of blockchain-based proofs of reserve, allow for lighter own funds requirements, apply the rules based on custodian activity).

## **Proposal 5: Allow for the payment of interests on asset-referenced tokens and e-Money tokens**

Serving interests on loans denominated in stablecoins or other asset-backed tokens is a significant use case of those assets. It has to be clarified that this prohibition in the payment of interests on asset-referenced tokens and eMoney tokens does not prohibit the serving of interest when those payments are the consequence of the owner loaning the tokens to another individual or company.

*Proposal:* **Clarify MiCA, articles 36 and 45 or remove the limitation entirely.**

## II. Unsuitable Proportionality Rules

### Problems Identified

Although they are present in the text, **the proportionality rules defined are insufficient to allow for continuous innovation in Europe.**

**There are no proportionality rules for CASPs** - all the actors will be immediately regulated with no progressivity of the rules whatsoever.

**For the issuance of crypto-assets and asset-referenced tokens (including e-money tokens), they are so stringent that almost none of the existing actors can benefit from them.** On e-money tokens specifically, the weight of the obligations supported by the issuers are such that the activity may be rendered entirely non-viable economically for crypto-assets actors. This is a very significant issue as those assets are a critical part of the crypto-asset market infrastructures. 80 to 90 % of the total trading volume on crypto-assets markets are settled in stablecoins. By making issuance and use of privately issued stablecoins in the EU near impossible, the regulation will significantly negatively impact the development of the market in Europe.

Rule	Consequence
Exemption for crypto-assets issued to qualified investors only	Crypto-assets offered to the public are mainly purchased by retail investors, the biggest financial supporters for crypto-actors
Exemption for stablecoins for issuance < €5,000,000	<u>All</u> the stablecoins currently used by the market already have a higher issuance size (e.g., USDT, TUSD, USDC, USDS, EURS, DAI)
Exemption for regulated entities from MiCA rules to issue crypto-assets and provide related services	This is not an option for newcomers. This means the market will be taken over by incumbents stifling innovation.
Criteria for "significant" stablecoin	All the existing stablecoins already fall into the "significant" category.

The following table shows that the main existing stablecoins would immediately qualify as “significant”:

Participants <sup>9</sup>	Market cap / Issuance size <sup>10</sup>	Daily transactions <sup>11</sup>	Reserve assets <sup>12</sup>	Cross-border activities	Interconnectedness with the financial system	Significant ?
<b>DAI (MakerDAO)</b>						
203 545 addresses	€957 464 612	€68 001 332	\$1 425 473 854 USD	"Over 400 apps and services have integrated Dai"	No metrics in MiCA	<b>YES</b>
<b>USDT (Tether)</b>						
1 883 333 addresses	€14 356 258 971	€38 253 776 771	\$14.6 billion	Work on several blockchains. Listed on the biggest exchanges: Binance, OKEx, HitBTC, Huobi Global	No metrics in MiCA	<b>YES</b>
<b>USDC (USD Coin by Circle and Coinbase)</b>						
317 512 addresses	\$2 908 141 135 USD	\$304 330 066 USD	\$2 907 562 499 USD	List of wallets, exchanges, platforms, app providers and service providers: <a href="https://www.centre.io/usdc-ecosystem">https://www.centre.io/usdc-ecosystem</a>	No metrics in MiCA	<b>YES</b>
<b>GUSD (Gemini dollar by Gemini)</b>						
3 465 addresses	\$15 421 273 USD	\$2 952 170 USD	\$15 536 805 USD	List of exchanges and platforms: <a href="https://gemini.com/dollar">https://gemini.com/dollar</a>	No metrics in MiCA	<b>%: this will depend on the interconnectedness criterium</b>
<b>PAX (Paxos Standard by Paxos)</b>						
95 480 addresses	\$245 126 301 USD	\$256 168 129 USD	\$244 951 954 USD	"Listed on over 150 exchanges, OTC desks, and wallets"	No metrics in MiCA	<b>%: this will depend on the interconnectedness criterium</b>

<sup>9</sup> Etherscan, 4 November 2020

<sup>10</sup> Coinmarketcap, 4 November 2020

<sup>11</sup> Coinmarketcap, 4 November 2020

<sup>12</sup> Coinmarketcap, 4 November 2020 based on the circulating supply

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## Proposed Amendments

We have identified a broad need for reassessment of the proportionality of the text. This could lead to the following measures.

### Proposal 1: Increase thresholds for exemptions

*Proposal (non-exhaustive):*

- MiCA, articles 4§2, 15§3 and 43§2: Raise the issuance thresholds to be exempted from rules related to the issuance of crypto-assets
- MiCA, article 39: Raise significantly the criteria to be considered “significant”; in this regard, (i) increase minimum daily transactions size, issuance size / market capitalisation and size of the reserve assets and (ii) do not consider the “significance of the cross-border activities”

### Proposal 2: Adapt the requirements progressively based on the size and maturity of actors

*Proposal (non-exhaustive):*

- MiCA, articles 31 and 60: Ease own funds requirements and the possible adjustment by competent authorities from +/- 20 % to +/- 10 %
- MiCA, article 119: The delegated act on supervision fees to be adopted by the Commission should take into account the impact of such fees on issuers of stablecoins regarding their size and stage of development. This should be reflected in a progressive fee scale. The level of fees should not be such as to deter actors willing to participate in EU crypto-markets.

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### Proposal 3: Significantly decrease the regulatory burden on issuers of e-money tokens

Such a measure would ensure that token issuance would remain economically viable.

In addition, allow crypto-asset infrastructures such as trading platforms to list and use those tokens as settlement instruments with no additional financial regulation requirements.

*Proposal:*

- Ease the requirements applied to e-money token issuers, notably the own funds requirements.
- Complete MiCA, article 68.1 with an additional subparagraph: **“For the purposes of point (h), the settlement of crypto-asset transactions may be carried out through e-money tokens”**.

## III. Unequal Opportunities Between Incumbents and Newcomers

### Problems Identified

The current draft of MiCA heavily favours entities already regulated in the EU over current crypto players and newcomers, which conflicts with the professed aim of being innovation- and competition-friendly.

The access to crypto-asset markets is highly facilitated for regulated entities through many waiver mechanisms and monopolies. See notably the exemptions of rules for credit institutions wishing to issue crypto-assets, equivalences for investment firms that wish to provide crypto-asset services, monopoly granted to credit institutions and e-money institutions for the issuance of e-money token...

At the same time, the EU proposal creates significant obstacles to newcomers. The procedure to get authorised is very long (up to 6 months for stablecoins issuers), some rules are not proportionate to their stage of development, like prudential requirements (e.g., up to 2 % of e-money tokens issued), the additional compliance costs are significant for smaller financial actors like new entrants, e.g., due to the costs that they will have to support for their own supervision... and the monopoly granted on issuance of e-money tokens will force them to become traditional actors, even though those regimes are supposed to promote innovation.

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## Proposed Amendments

### Proposal 1: Amend the waivers granted to incumbents.

Incumbents should probably not be considered as respecting automatically all the conditions of the crypto-asset service provider (CASP) regime. The same authorisation procedure should apply to everyone. In this current drafting, it is assumed that such actors do not need to justify their procedure for the segregation of client's crypto-assets and funds, their custody policy, the executing policy or operating rules in the context of a crypto-asset activity, their knowledge to give advice on crypto-assets, etc. However being regulated as a credit institution or an investment firm does not mean that such requirements are met, as crypto-assets and financial assets are very different in nature and in uses.

In addition, some requirements that the incumbents can circumvent with the exemptions granted to them could be questioned. As an example, articles 7§3 and 16§2.d in MiCA relating to the authorisation of issuers of crypto-assets require applicants to either demonstrate or to give a legal opinion that their crypto-assets do not qualify as financial instruments, electronic money, deposits or structured deposits. This means that there is a "presumption of guilt" for newcomers only. There are no objective nor fair reasons to impose such obligation to new entrants and not on regulated entities.

*Proposal:*

- MiCA, article 2: refine §4 to §6 to define requirements that all applicants must meet - irrespective of their regulatory status - to issue crypto-assets and/or provide services on crypto-assets.
- Remove MiCA, article 15§4 "~~Paragraph 1 shall not apply where the issuers of asset referenced tokens are authorised as a credit institution in accordance with Article 8 of Directive 2013/36/EU. Such issuers shall, however, produce a crypto asset white paper as referred to in Article 17, and submit that crypto asset white paper for approval by the competent authority of their home Member State in accordance with paragraph 7.~~"
- Remove MiCA, articles 7§3 and 16§2.d.

## Proposal 2: Do not limit the e-money token issuance to financial regulated actors

This use case should be opened to new and innovative actors, provided that they respect obligations defined by MiCA, that allow for an adequate balance between risks and innovation.

### *Proposals:*

- Complete MiCA, article 43§1, point a) : “is authorised as a credit institution or as an ‘electronic money institution’ within the meaning of Article 2(1) of Directive 2009/110/EC **or as a Crypto-Assets Service Provider.**”
- Create a new article in Title IV of MiCA to establish the set of requirements that actors who are neither credit institutions nor e-money institutions should meet in order to be authorised as an issuer of e-money tokens.

## Proposal 3: Restore equal opportunities to all

It could be assumed that crypto newcomers wishing to become crypto-assets service providers have comparative advantage regarding innovative use cases over traditional actors, e.g their understanding of blockchain and crypto-assets, the provision of crypto activities, their greater potential to explore decentralisation and innovative use cases, their speed to innovate, etc.

Such elements should be part of the analysis and taken into account when considering access to crypto-markets. Notably, this means that the regulation should provide for a higher level of trust placed on the actors, notably to decide which assets have a sufficient level of quality to be listed and traded (see part II proposal 1).

*Proposal:* MiCA, article 16§2: include additional requirements to all applicants - irrespective of their regulatory status - aiming at checking their level of expertise and experience in the crypto-asset sector, their past activities, the history of technical developments on crypto-assets, the existence of any registration related to one national regime for crypto-actors, etc.

## Proposal 4: Ensure that the incumbents will provide the necessary infrastructure to the newcomers

Compliance with some MiCA requirements relies on the willingness of regulated entities to provide their services. The monitoring and safeguarding of funds collected during the issuance of crypto-assets must be kept in custody by a credit institution (MiCA, article 9§2) ; client’s funds must be placed with a Central bank or a credit institution (MiCA, article 63§3) ; payment services related to crypto-asset service must be provided by a payment institution (MiCA, article 63§4) ; etc.

However, crypto players have generally not been able to establish standard commercial relationships with the financial and banking sector. This leads to persistent difficulties: the systematic refusals to open a bank account for these new entrants and to provide them with credit or payment services ; when it is open, the first opportunity is seized to break off relations ; banks set obstacles for their customers wishing to use crypto-asset services, etc. In France, actors that are registered with the national regulators still experience the same difficulties<sup>13</sup>.

This situation threatens the access of crypto-markets for crypto newcomers as they could de facto not comply with the EU framework.

*Proposal:* Enforce an obligation for regulated entities to provide their services to actors who are engaged into an application procedure or are already authorized by their competent authority, when such services are necessary to comply with the EU regulations.

## IV. Operational Issues

### Problems Identified

Some details of the regulation are providing for operational obligations that are not in line with the market practice and not justified from a security or risk standpoint. Please find below a list of those obligations.

- Trading platforms must settle all transactions “on-chain” each day, which is neither useful nor economically viable. The market practice for exchange platforms is that the trades are settled on the exchange database in near real-time. The settlement on the blockchain is generally operated only at the withdrawal of the crypto-assets. Should the regulation impose near real-time blockchain settlement, transaction costs associated with such operations would likely render EU-regulated trading platforms economically non-viable.
- “Crypto-assets which have inbuilt anonymisation function” - as mentioned in MiCA, article 68§1, subparagraph 12 - known as privacy coins are banned. By definition, they cannot allow for the identification of the holder nor for the establishment of a transaction history, what this provision suggests. As this requirement is technically incorrect, this will automatically prevent trading platforms from listing such privacy coins. This question should be dealt with in the coming EU AML-CFT text.
- The service of “placing of crypto-assets” is defined in MiCA’s article 3.15 as “the marketing of newly-issued crypto-assets or of crypto-assets that are already issued but that are not admitted

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<sup>13</sup> See Adan’s report about the state of relations between the banking-financial sector and the crypto-asset industry in France, October 2020: <https://adan.eu/actualites/rapport-relations-banque-finance-actifs-numeriques>

to trading on a trading platform for crypto-assets, to specified purchasers and which does not involve an offer to the public or an offer to existing holders of the issuer's crypto-assets".

- On the one hand, we welcome that this definition is not inspired by the equivalent MiFID2 investment service as this "type" of placement does not exist in the crypto-asset universe.
- On the other hand, referring to "marketing" in this definition sets a very large scope of services so should be clarified. At the same time, article 71 requires service providers to specify and conduct business rules deriving from the MiFID2 framework for the placing of financial instruments which make no sense for providers of "placing of crypto-assets" under the meaning of MiCA.

Therefore the definition of "placing of crypto-assets" should be clarified and the related framework should be adapted.

## Proposed Amendments

### *Proposal:*

- Remove MiCA, article 68§8 : ~~"Crypto asset service providers that are authorised for the operation of a trading platform for crypto assets shall complete the final settlement of a crypto asset transaction on the DLT on the same date as the transactions has been executed on the trading platform."~~
- Remove MiCA, article 68§1, subparagraph 12: ~~"The operating rules of the trading platform for crypto assets shall prevent the admission to trading of crypto assets which have inbuilt anonymisation function unless the holders of the crypto assets and their transaction history can be identified by the crypto asset service providers that are authorised for the operation of a trading platform for crypto assets or by competent authorities."~~ **Provisions regarding privacy coins should be incorporated in the coming EU AML-CFT framework.**
- MiCA, articles 3§15 and 71: Clarify the definition and framework for providers of "placing of crypto-assets".

## About Adan

Adan is an industry body that brings together and represents digital asset and blockchain professionals in France and Europe. Our members cover a wide range of activities, including market makers, custody providers, payment service providers, investment management, analysis tools, events and marketing, and security. We are dedicated to all the companies that are interested in crypto-assets and are targeting the French market.

We believe that digital assets represent a transformational shift in finance and economics. Crypto-asset technologies challenge centuries-old foundations of economics and monetary theory and offer the potential to create a new social contract built on the principles of inclusion and openness.

Our mission is to be a pragmatic voice for the French and European digital asset industry, contributing to its growth and development through constructive dialogue and education.

**More information:** [www.adan.eu](http://www.adan.eu)

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## About EUCI

The EUCI is a European initiative focused on impacting future regulation in favor of decentralized use cases, open blockchains, and sustaining innovation in the blockchain space.

The Initiative brings together European industry-wide associations, individual industry players and individual supporters to create and disseminate information and proposals with respect to the EU regulation of cryptot-assets.

EUCI main supporters include:

- Adan (French crypto-assets association, 60+ member)
- Bundesblock (German blockchain association, 100+ members)
- Blockchain Think Tank Slovenia
- Ledger
- Gnosis
- Individual supporters

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**More information:** <https://euci.io>

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