

Crypto Tendencies and hot topics before MiCA



With MiCA Regulation¹ knocking at the door of crypto-assets markets, the major effervescence of the mystique crypto world does not cease to produce. Dynamic phenomena in the crypto world are more innovative than ever being both difficult to understand and susceptible to impact the protection of consumers and investors, as well as financial stability.

In this respect, part of the current concerns in practice resulted in the need to enhance fields such as: Transparency in Crypto, Web3 economy, Decentralized Finance (DeFI), the European Blockchain Sandbox, as well as certain potential „superpowers” to be attributed to the already famous NFTs.

Many of the above initiatives and developments were also among the „STAR” topics discussed at the 6th edition of the *Blockchain Economy London Summit*, held during 27-28 February 2023, which we were delighted to recently attend. The *Blockchain Economy London Summit* featured, among others, key players from the biggest profile companies (e.g., OKX, Coinbase, FTI Technology, Microsoft), banks (e.g., HSBC), financial institutions (e.g., Revolut), law firms (e.g., Bird & Bird), and even Members of the UK Parliament.

Coming back to our main focus, namely in what regards - for the time being – the crypto tendencies and hot topics before MiCA, as per our preliminary findings and conclusions in connection with the current situation of the crypto environment, we mention the following:

1. Achieving transparency in crypto

Transparency is a main factor in building trust in any financial system. Also from a legal oriented standpoint, the need to ensure transparent and consistent lines is mandatory in any new field which is intended to be fixed and last on the market.

In the traditional financial world, transparency is achieved through regulations, audits, and financial reporting. Nevertheless, in the crypto world, transparency is being merely a challenge for the moment, due to the lack of regulators and the anonymity of users.

In this respect, Governments and financial institutions are now pressuring the crypto industry to adopt transparency measures to address these issues, in order to prevent becoming a heaven for illegal activities (e.g., money laundering, terrorist financing, tax evasion).

Note should be made that EU increases focus on NFTs in (leaked) draft of anti-money laundering bill. According to the latest news, the proposed change to the anti-money laundering (AML) rules fills a noticeable gap in the EU's landmark MiCA regulation, which currently quite excludes NFTs from its remit. According to the said proposal *"in order to close this gap and mitigate associated money laundering and terrorist financing risks, NFT platforms should therefore be included in the horizontal AML/CFT framework as a separate category of obliged entities."*².

Therefore, besides technologies and tools such as blockchain³ and smart contracts⁴, crypto space is forced to enhance to provide transparency, without compromising the privacy and security of users.

Hence, the right answer of the crypto world appears to be using of the Proof of Reserves (PoR)⁵ system. In this regard, for building the trust of the users that their funds are always safe and secure, it is extremely important for an exchange to (i) increase transparency of the exchange reserve and (ii) to provide a method for users to verify the exchange's reserve.

2. Web3 Economy

Decentralized Finance (DeFi) is already well-known to the majority of important market players who recognise DeFi as an umbrella term in the public blockchain space. DeFi has grown into a complete ecosystem of working apps and protocols, with great impact on savings, payments and trading, and many new elements by comparison to its precursor, Financial Technology (FinTech).

However, Web3⁶ appears as a new candidate to be switched to, since it aims to create a more decentralized and democratized internet that is controlled by its users rather than a few centralized intermediaries. This is achieved through the use of decentralized protocols, such as blockchain technology, that enable peer-to-peer transactions without the need for intermediaries. Web3 also focuses on the importance of privacy and security, which is achieved through the use of encryption and other privacy-focused technologies.

One of the key differences between DeFi and Web3 is the scope of the ecosystem. DeFi is primarily focused on the financial aspect of blockchain technology, while Web3 aims to create a more holistic decentralized ecosystem that goes beyond finance.

3. The European Blockchain Sandbox

The European Blockchain Sandbox is an initiative of the European Commission which aims to establish a pan-European framework for regulatory dialogues, to increase legal certainty for innovative blockchain technology solutions and facilitate the development of best practices.

Among others, its mission is to foster a regulatory dialogue between blockchain innovators and national and EU regulators; provide blockchain innovators with a better understanding of regulatory frameworks; raise awareness amongst legislators, regulators, and blockchain innovators to better understand potential regulatory issues and possible solutions; as well as identify best practices across sectors.

Moreover, participants in the Sandbox will have access to a wide range of benefits, including: free specialist legal regulatory advice; constructive regulatory dialogue and cooperation with national and EU regulators the opportunity to share and highlight needs regarding regulatory guidance and level certainty to regulators in a safe environment.

As regards, the application process, it should be stressed that applications for cohort 1 are now open until **April 14**

th to companies (including start-ups and scale-ups) and public entities based in Economic European Area. EEA - based companies can operate in a consortium with non - EEA companies provided that the beneficiary project in the Sandbox is under the lead of an EEA - based company.

4. NFTs' "superpowers"

While NFTs have primarily been associated with digital art and collectibles, they also have the potential to revolutionize many important financial operations.

Even though they are quite ignored by the MiCA Regulation, NFTs might offer alternatives for certain essential banking and financial operations (*e.g.*, mortgages, loans, funding) that can be more democratic and accessible.

There are actors on the market who are working for the NFTs to be traded on a decentralized marketplace, providing liquidity to investors and be more accessible to a wider range of investors – only one internet connection away (!).

Other claim that NFTs can also be used to incentivize community involvement and engagement in start-ups.

However, it is very important to note that there are potential risks associated with NFTs' involvement, given the lack of regulation in the crypto space which can make it easier for scammers to take advantage of unsuspecting investors.

In light of the above, it is important for investors to perform due diligence reports and researches before investing.

Therefore, having in mind all the above mentioned, irrespective whether you are starting out in the world of crypto or you are a seasoned investor, it becomes crystal clear that this innovative technology has the potential to revolutionize the way we perceive finance and the economy as a whole.

[1] Regulation on Markets in Crypto Assets

[2] EU increases focus on NFTs in leaked draft of anti-money laundering bill - CoinGeek

[3] technology that provides transparency by allowing anyone to access the ledger and view all the transactions that have been recorded, meaning that the transaction history of a cryptocurrency can be audited and verified by anyone.

[4] tools that provide transparency by allowing anyone to check the terms and execution of the contract.

[5] transparent auditing practice for cryptocurrency companies that provides an unbiased report of the companies' assets in reserve.

[6] a decentralized and fair internet where users control their own data, identity and financial destiny.