



EU Introduces MiCA for Crypto Regulation

For Prelims: [Crypto Currency](#), [Virtual Digital Assets](#), [Bitcoin](#)

For Mains: [Regulatory challenges in the cryptocurrency market](#), Cryptocurrency and its impact on the economy, [Cryptocurrency and money laundering](#), [India's approach towards Crypto](#)

Why in News?

Recently, the **European Parliament has approved the Markets in Crypto Assets (MiCA)** regulation, the world's first comprehensive set of rules that aims to bring largely **unregulated cryptocurrency markets under government regulation**.

- The regulation will **come into force after formal approval by member states**.
- The European Parliament is the legislative body of the [European Union](#)

What is MiCA?

▪ About:

- MiCA will bring **governance practices to crypto firms**. By regulating the crypto industry, MiCA can prevent financial sector-like routs and contagions that could affect the wider economy.
 - "Rout" means when **people sell cryptocurrency in a panic**, causing **prices to fall sharply**.
 - "Contagion" means the **danger of a collapse in one market affecting other markets**, financial institutions, and the overall economy.
- The **regulation prescribes different sets of requirements for crypto asset service providers (CASPs) depending on the type of [crypto assets](#)**.

▪ Assets Covered under MiCA:

- The MiCA legislation will apply to crypto assets, which are broadly defined as **"a digital representation of a value or a right that uses cryptography for security and is in the form of a coin or a token or any other digital medium which may be transferred and stored electronically, using distributed [ledger technology](#) or similar technology"**.
- This definition implies that it will apply not only to traditional cryptocurrencies like [Bitcoin](#) and [Ethereum](#) but also to newer ones like [stablecoins](#).
 - MiCA will also establish new rules for three types of stablecoins.

▪ Assets Out of MiCA's Scope:

- MiCA will **not regulate digital assets that would qualify as transferable securities and function like shares** or their equivalent and other crypto assets that already **qualify as financial instruments under existing regulation**.
- It will also exclude [nonfungible tokens \(NFTs\)](#).
- MiCA will also **not regulate [central bank digital currencies](#)** issued by the **European Central Bank** and digital assets issued by **national central banks of [EU member countries](#)** when acting in their capacity as monetary authorities, along with crypto assets-

related services offered by them.

▪ **New Rules under MiCA:**

◦ **Regulation of CASPs:**

- CASPs must be **incorporated as a legal entity in the EU**.
- They can get authorized in any **one member country and operate across all 27 countries**.
- Regulators such as the **European Banking Authority** will supervise CASPs.
- CASPs must demonstrate **stability, soundness, and ability to keep user funds safe**.
- CASPs must be able to **defend against market abuse and manipulation**.

◦ **White Paper Requirements for Stablecoin Service Providers:**

- Stablecoin service providers must provide a **white paper with key information about the crypto product** and the main participants in the company, the terms of the offer to the public, the type of blockchain verification mechanism they use, the rights attached to the crypto assets in question, the **key risks involved for the investors**, and a **summary to help potential purchasers** make an informed decision regarding their investment.

◦ **Reserve Requirements for Stablecoin Issuers:**

- Issuers of stablecoins will be required to **maintain sufficient reserves corresponding to their value to avoid liquidity crises**.
- Insufficient reserves can have significant implications for **users of stablecoins and can result in significant losses**.

◦ **Transaction Limits for Stablecoin Firms (Non-Euro Currencies):**

- Stablecoin firms pegged to non-euro currencies will have to **cap their transactions at a daily volume of €200 million (\$220 million)** in a specified region.
- The transaction limit is intended to **manage the risks associated with stablecoins** and their impact on financial stability.

◦ **Anti-money Laundering Measures for Crypto Companies:**

- Crypto companies must send information about senders and recipients of crypto assets to their **local anti-money laundering authority**, to prevent **money laundering and terror financing activities**.
- Failure to comply with anti-money laundering requirements can have significant legal and reputational implications for crypto companies.

▪ **Need for Such a Law:**

- About **22% of the global crypto industry is concentrated in central, northern, and western Europe** (\$1.3 trillion worth of crypto assets); having a comprehensive framework like MiCA will **give the EU a competitive edge in its growth compared to the US or UK** which lack regulatory clarity.
- Increasing investments and the size of the crypto industry have led policymakers worldwide to feel the need to **bring governance practices in crypto firms to ensure stability**.

▪ **Importance:**

- It will protect **consumers against deception and fraud**, regaining their trust in the sector that was damaged by the FTX collapse.
- It will bring **compliance to the issuers of crypto-assets and CASPs**.

Where does India Stand in terms of Regulating Cryptocurrency?

- **India is yet to have a comprehensive regulatory framework** for crypto assets; however, a draft legislation on the same is reportedly in the works.
- In 2017, the **RBI** issued a warning that virtual currencies/cryptocurrencies are not legal tender in India.
 - However, no ban on virtual currencies took place.
- In 2019, RBI issued that trading, mining, holding, or transferring/use of cryptocurrencies is subject to punishment in India with a financial penalty or/and imprisonment up to 10 years.
 - In 2020, the **Supreme Court of India** removed the ban on cryptocurrencies imposed by RBI.
- In 2022, the Government of India clearly mentioned in the **Union budget 2022-23 transfer of any**

virtual currency/cryptocurrency asset will be subject to 30% tax deduction.

- In July 2022, the RBI recommended a ban on cryptocurrencies citing 'destabilizing effects' for the country's monetary and fiscal health.
 - India launched its [Central Bank Digital Currency \(CBDC\)](#) or [e-rupee](#) in December 2022. It is still in its pilot phase.
- **The Govt** has also set up a panel to explore the **potential use of blockchain technology** and the possibility of issuing a [Central Bank Digital Currency \(CBDC\)](#).
- More recently, the Union Ministry of Finance, through a gazette notification, has brought [Virtual Digital Assets \(VDA\)](#) or the [Crypto Currency under PMLA](#).

UPSC Civil Services Examination Previous Year Question (PYQ)

Prelims

Q. With reference to “Blockchain Technology”, consider the following statements: (2020)

1. It is a public ledger that everyone can inspect, but which no single user controls.
2. The structure and design of blockchain is such that all the data in it are about cryptocurrency only.
3. Applications that depend on basic features of blockchain can be developed without anybody's permission.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 1 and 2 only
- (c) 2 only
- (d) 1 and 3 only

Ans: (d)

Mains

Q. Discuss how emerging technologies and globalization contribute to money laundering. Elaborate measures to tackle the problem of money laundering both at national and international levels. (2021)

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