
2. Markets in Crypto Assets (MiCA)

Why in News?

- The European Parliament has recently 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.

Highlights

- 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.
- 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.
- 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