

CRYPTO-ASSETS EXPLAINED: WHAT MiCA MEANS FOR YOU AS A CONSUMER



What is a crypto-asset?

A crypto asset is a digital representation of a value or a right that can be transferred and stored electronically, using a distributed ledger¹ or other similar technology.

Well-known examples of crypto assets are BTC (Bitcoin) and ETH (Ethereum), but the crypto market encompasses a wide range of other assets such as so-called 'stablecoins'², 'meme coins'³ and non-fungible tokens (NFTs)⁴.

In the EU, the Markets in Crypto-Assets Regulation (MiCA) regulates activities involving certain crypto-assets. One of the objectives of MiCA is to have harmonised rules for crypto-assets and services across the EU, including to better protect consumers (e.g. access comprehensive information, transparent complaints-handling procedures etc.).

Depending on the type of crypto-asset or crypto-asset services (regulated, unregulated) and the provider (e.g. unauthorised, based outside the EU), you might face higher risks and varying levels of protection. Understanding the risks to which you might be exposed is key before buying any type of crypto-asset or using any crypto-asset services.

See the Joint European Supervisory Authorities warning to learn more about the risks [shorturl.at/rDusS].

¹ DISTRIBUTED LEDGER TECHNOLOGY (DLT):

A distributed ledger is a record of information, or database, that is shared across a network. The best-known type of distributed ledger is a blockchain, so named because it stores individual transactions in groups, or blocks, attached to each other in chronological order to form a chain.

Distributed ledger technology has been used to transfer different types of assets between buyer and seller.

² STABLECOINS:

A so called 'stablecoin' is a crypto-asset that purports to maintain a stable value by reference to one asset (e.g. a fiat currency) or several assets. Stablecoins may not be so stable overtime, especially in stressed market conditions.

³ MEME COINS:

Meme coins are crypto assets named after trends, humorous or fun topics. They are usually created to engage a community and can be used in peer-to-peer payments, speculative investing, or trading. In many cases, they are accompanied by websites with comical themes, sometimes nonsensical terms, and their creators and fans market a sense of community to attract others.

⁴ NON-FUNGIBLE TOKENS (NFTS):

They are unique and not fungible digital assets stored on a distributed ledger network, including digital art and collectibles.

Products that are interchangeable and marketed to consumers as NFT, but which are part of series or collection, might not be NFTs and might therefore be regulated under MiCA.

What crypto-asset is regulated under MiCA and what is not

MiCA covers three types of crypto-assets:

- ✓ **Electronic money tokens (EMTs)⁵:** crypto-assets that purport to maintain a stable value by referencing the value of one official currency e.g. Euro, Dollar. If you hold an EMT, you have the right to get your money back from the issuer at its full-face value, in the currency to which it references.
- ✓ **Asset-referenced tokens (ARTs)⁶:** crypto-assets that purport to maintain a stable value by referencing another value or right or a combination thereof (e.g. official currency, commodities, other assets). You can redeem an ART at the market value of the asset(s) it references.
- ✓ **Crypto-assets other than EMTs and ARTs:** utility tokens⁷ and "other" crypto-assets that are not EMTs nor ARTs or otherwise excluded from MiCA.

⁵ E-MONEY TOKENS:

- Types of crypto-asset that purports to maintain a stable value by referencing the value of an official currency (e.g. Euro, dollars etc.)
- Only credit institutions or e-money institutions can offer to the public or seek admission to trading of EMTs in the EU
- do not grant interests to holders;

⁶ ASSET REFERENCED TOKENS:

- Crypto-assets that are not EMTs
- Only credit institutions or MiCA authorized issuers can offer to the public or seek admission to trading of ARTs in the EU
- can be referenced to another asset, including one or more official currencies, other crypto-assets or their combination;
- do not grant interests to holders

⁷ UTILITY TOKENS:

They are a type of crypto-assets whose sole purpose is to provide access to a good or service offered by the issuer of this token.

MiCA does not apply to the following types of crypto-assets:

- ✗ Crypto-assets that are unique and non-fungible.** These are not readily interchangeable and their relative value in relation to another crypto-asset cannot be easily identified by means of comparison to an existing market or equivalent assets (e.g. virtual real estate, domain names and items requiring authenticity verification). So-called non-fungible token (NFTs) that are part of a series or collection may, however, still fall within the scope of MiCA.
- ✗ Tokens that are non-transferable** (such as points from loyalty schemes).
- ✗ Crypto-assets that already fall under existing financial services legislation** such as crypto-assets that qualify as MiFID financial instruments (e.g. derivatives contracts, transferable securities). When investing in these assets, you will benefit from consumer/investor protection rules applicable to tokenised traditional financial assets.

! *If you buy or sell crypto-assets, or use crypto-asset services, not regulated under MiCA or other EU financial services legislation, you may be exposed to significant risks and receive limited or no consumer protection.*



Providers of crypto-assets you may encounter



Crypto-assets and crypto-asset service providers regulated in the EU:

These firms offer products and services to consumers regulated under MiCA, including ARTs, EMTs, custody and administration of crypto-assets, and the operation of crypto-asset trading platforms and exchanges (to fiat⁸ or other crypto). To be able to provide services to consumers in the EU, crypto-asset service providers must be authorised, meaning meeting specific requirements related to governance, capital, conduct, and consumer protection.



You can check if a provider is an EU authorised provider by checking the ESMA register (shorturl.at/zZwVI) and the national financial regulator's website: Financial Market Authority Liechtenstein (FMA) (<https://www.fma-li.li/en>). For more details take a look at "What you should ask yourself before investing in crypto-assets" in the Joint ESAs warning [shorturl.at/rDusS]

⁸ FIAT:

Fiat currency is declared legal tender and issued by a central bank such as the U.S. Dollar, Euro, etc.,

Crypto-asset to fiat currency trading: it refers to the purchase, sale or trading of cryptocurrencies with fiat currency.



Crypto-assets and crypto-asset service providers unauthorised⁹ in the EU:

Even with MiCA in place, you might come across crypto-assets and crypto-asset services provided by firms unauthorised in the EU. Those firms may not be subject to any consumer protection rules, may lack proper governance, capital, or transparent operational practices and safeguards. Risks of fraud, mismanagement of assets, or insolvency might therefore be increased. This includes crypto-assets and services offered by firms based outside the EU



If you choose to engage with unauthorised providers, be aware that you may be exposing yourself to significant risks and have limited or no consumer protection rights at all. You may face losses, have limited or no possibility to recover any assets, and be left without any remedy in the event of disputes.

⁹ UNAUTHORISED FIRM:

All firms operating in the EU without a valid licence under MiCA are unauthorised. But not all unauthorised firms providing services are necessarily illegal (e.g. reverse solicitation, fully decentralised and other out of MiCA scope).