Relative Humidity and its role in global warming

Published On: 24-04-2023

Why in News: The European Parliament, the legislative body of the 27-country block European Union, has approved the world's first set of comprehensive rules to bring largely unregulated cryptocurrency markets under the ambit of regulation by government authorities. The regulation called the Markets in Crypto Assets (MiCA), will come into force after formal approval by member states.

Rationale behind the regulation

• According to Chainalysis, about 22% of the global crypto industry was concentrated in central, northern, and western Europe, which received $1.3 trillion worth of crypto assets

• Having a comprehensive framework like MiCA for 27 countries in Europe not only harmonises the crypto industry but also gives the EU a competitive edge in its growth compared to the U.S. or the U.K. which lack regulatory clarity

• More importantly, 2022 saw some of the biggest failures and wipeouts in the crypto industry involving bankruptcies and fraud scandals, be it the collapse of the crypto exchange FTX and its spat with Binance or the failure of Terra LUNA cryptocurrency and its associated stablecoin

• The liquidity shortage caused by these shocks led other crypto-lending platforms to halt customer transfers and withdrawals before filing for bankruptcy.

• As investments and the size of the crypto industry grow, European and other regulators have felt the need to bring governance practices in crypto firms to ensure stability and financial sector-like rout and contagion

• European Parliament member Stefan Berger, who is the lead for the MiCA regulation explained that the law will protect consumers against deception and fraud, and "the sector that was damaged by the FTX collapse can regain trust".

Kind of assets covered under MiCA

• The MiCA legislation will apply to 'cryptoassets', which are broadly defined in the text 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.

• Stablecoins are digital tokens that aim to stay pegged in value with a more stable asset — a fiat currency like the U.S. dollar or other stable cryptocurrencies

• MiCA will establish new rules for three types of stablecoins — asset-referenced tokens, which are linked to multiple currencies, commodities, or cryptocurrencies, e-money Tokens, which are linked to a single currency and utility tokens, which are intended to provide access to a good or service that will be supplied by the issuer of that token.

• As for the assets that will be out of MiCA's scope, it 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, for the most part, 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 cryptoassets-related services offered by them.

The new rules for regulation

• MiCA will impose compliance on the issuers of crypto assets, who are defined as the "legal person who offers to the public any type of crypto-assets"

• It will apply to crypto-asset service providers (CASPs) providing one or more of these services — the operation of a trading platform like CoinBase, custody, and administration of crypto assets on behalf of third parties (customers), the exchange of crypto assets for funds/other crypto-assets, the execution of orders for crypto assets, the placing of crypto assets, providing transfer services for crypto assets to third parties, providing advice on cryptoassets and crypto-portfolio management.

• The regulation prescribes different sets of requirements for CASPs depending on the type of cryptoassets. The base regime will require every CASP to get incorporated as a legal entity in the EU

• They can get authorised in any one member country and will be allowed to conduct their services across the 27 countries

• They will then be supervised by regulators like the European Banking Authority and the European Securities and Markets Authority, who will ensure that the companies have the required risk management and corporate governance practices in place

• CASPs will have to demonstrate their stability and soundness, ability to keep the funds users safe, implementation of controls to ensure they are not engaging in proprietary trading; avoidance of conflicts of interest, and their ability to defend against market abuse and manipulation.

• Besides authorisation, service providers of stablecoins also have to furnish key information in the form of a white paper mentioning the details of 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 cryptoassets in question, the key risks involved for the investors and a summary to help potential purchasers make an informed decision regarding their investment

• Issuers of stablecoins will also be required to maintain sufficient reserves corresponding to their value to avoid liquidity crises

• Those 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.

• Another legislation passed with MiCA requires crypto companies to send information of senders and recipients of cryptoassets to their local anti-money laundering authority, to prevent laundering and terror financing activities.

Crypto analysis in India

• India is yet to have a comprehensive regulatory framework for crypto assets. A draft legislation on the same is reportedly in the works.

• A full-fledged regulation aside, the Indian government has taken certain steps to bring cryptocurrencies under the ambit of specific authorities and taxation

• In the Union Budget for 2022, the Finance Ministry said that cryptocurrency trading in India has seen a "phenomenal increase" and imposed a 30% tax on income from the "transfer of any virtual digital asset."

• In March this year, the government placed all transactions involving virtual digital assets under the purview of the Prevention of Money Laundering Act (PMLA).

• However, statements by ministers and bureaucrats after the Budget seem to suggest that the legality of cryptocurrencies in the country is still a grey area

• India is now calling for consensus in the G20 grouping, where it currently holds the presidency, to have a globally coordinated policy response on crypto assets that takes into consideration the full range of risks, including those specific to emerging markets and developing economies.