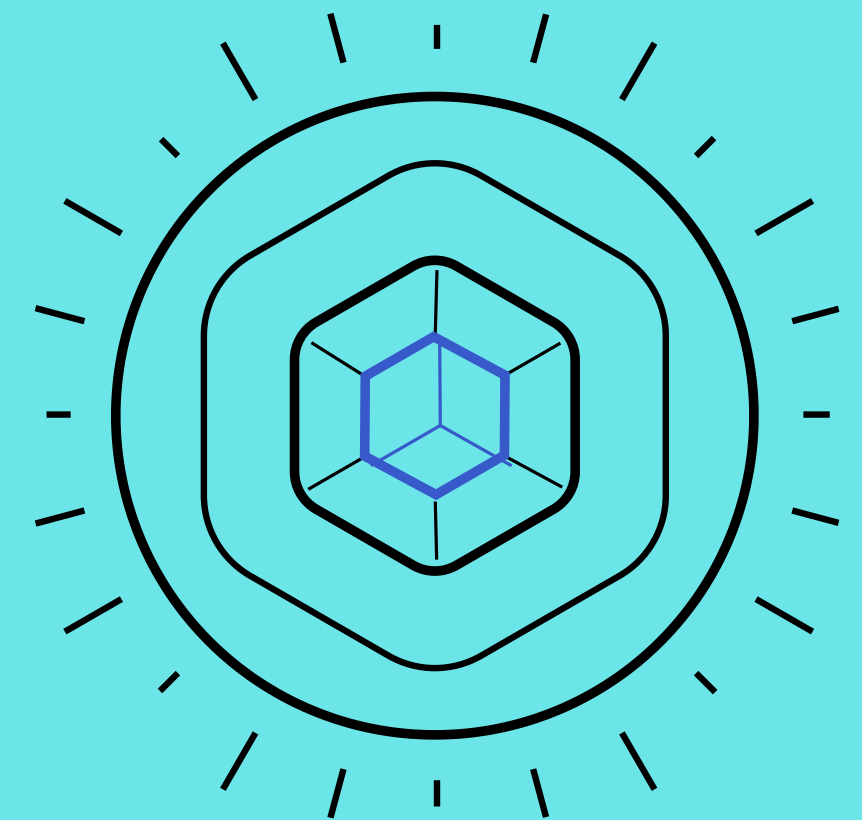




Paving the Regulated-Crypto Way Forward

**MiCA Regulation Unveiled: Are You Ready to Navigate the
Future of the Crypto Industry?**

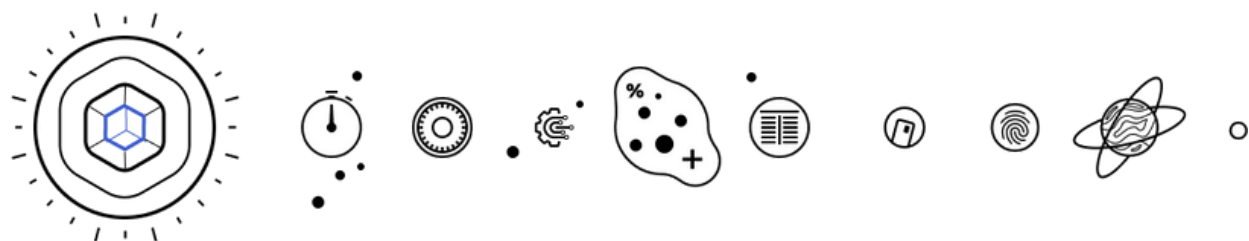
**Discover Valuable Findings from the
2023 Q1 Perfinal Regulated-Crypto Survey**



Navigating crypto regulations? Seeking a trusted benchmark?

This report is your compass, featuring:

1. A forward-thinking foreword
2. MiCA Regulation Unveiled: A Transformative Landscape for the Crypto Industry – TLDR version
3. Exploring the Pulse of the Market: The Comprehensive MiCA Regulatory Survey by Perfinal
4. Diving into the Data: A Close Look at Survey Participants and Their Perspectives
5. Decoding the Numbers: Revealing Key Insights and Trends from the Survey Results
6. Ready for the Heavyweight? Let's have a succinct intro to what to expect!



Foreword

by Mate Brezovszki, CEO of Perfinal



The introduction of MiCA in Europe marks a significant milestone in the journey of the crypto industry, paving the way for more transparent and secure operations, as well as long-awaited institutional participation.

Although crypto regulation may seem like uncharted territory, its essence lies in safeguarding client funds - a concept that is far from new and undeniably necessary. Implementing MiCA will ensure that our industry operates with the highest levels of integrity and security, fostering trust among clients and stakeholders.

Though there remain areas that require further clarification, such as the intricacies of decentralization and specific operational questions surrounding new asset types, MiCA currently stands as the most comprehensive guide for market participants.

It provides a solid foundation upon which the industry can build and refine its understanding, ensuring a secure and compliant environment for all stakeholders.

I am convinced that adopting MiCA signals the next wave of progress for the crypto industry - the final and most critical step toward mainstream acceptance. As we embrace this change, it is our responsibility as service providers to adapt and evolve, ensuring that we continue to deliver exceptional value to our clients while maintaining compliance with the regulatory framework.

I am excited and confident about the future of our industry as we navigate this transformative period. Together, let us seize this opportunity to shape the future of crypto and unlock its full potential.

MiCA Regulation Unveiled: A Transformative Landscape for the Crypto Industry - TLDR version

On April 20th 2023, the EU Parliament voted overwhelmingly in favor of the Markets in Crypto-Assets (MiCA), marking a significant milestone for the digital asset industry. The approval of MiCA reflects the consensus among lawmakers and the support from the industry and the public, as it aims to establish a clear and robust legal framework for digital assets within the EU. By fostering a secure, transparent, and compliant environment for the crypto industry, MiCA paves the way for the mainstream acceptance of cryptocurrencies and a transformative era for the European crypto landscape.

However, it's important to remain cautious, as future guidelines from regulatory bodies such as the EBA and ESMA may change the status of exclusions and provide clarity on ambiguities, for instance related to full decentralization.

MiCA Asset Taxonomy

- Crypto-asset: Digital representation of value or rights, transferable and storable electronically via DLT.
- Utility token: Provides access to goods/services supplied by issuer.
- Asset-referenced token (ART): Stabilizes value by referencing a basket of assets.
- E-money token (EMT): Stabilizes value by referencing a single fiat currency.

MiCA Exclusions

- European Central Bank (ECB)
- National central banks
- European Investment Bank
- European Financial Stability Facility
- European Stability Mechanism
- Public international organizations

MiCA Objectives

- Protect consumers in the crypto market.
- Harmonize regulations for EU-wide operations.
- Provide legal certainty for fair competition and innovation.
- Establish global leadership in crypto regulation.

Key Ambiguities

- Regulatory treatment of NFTs issued in large series or collections.
- Fractional parts of NFTs.
- DeFi exclusion may not be absolute.

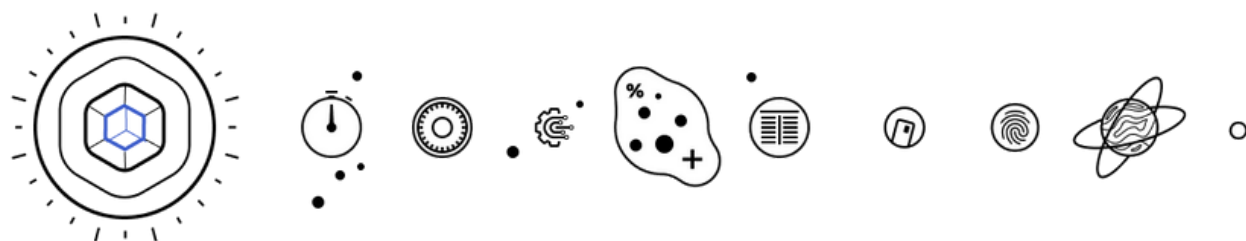
Understand the Why to Forecast the What: MiCA's Objectives Unveiled

MiCA's Transformative Effects

- Harmonize regulations across 27 EU member countries.
- Boost competitiveness and encourage institutionalization.
- Lead to market share gains for regulated businesses at the expense of offshore, unregulated competitors.

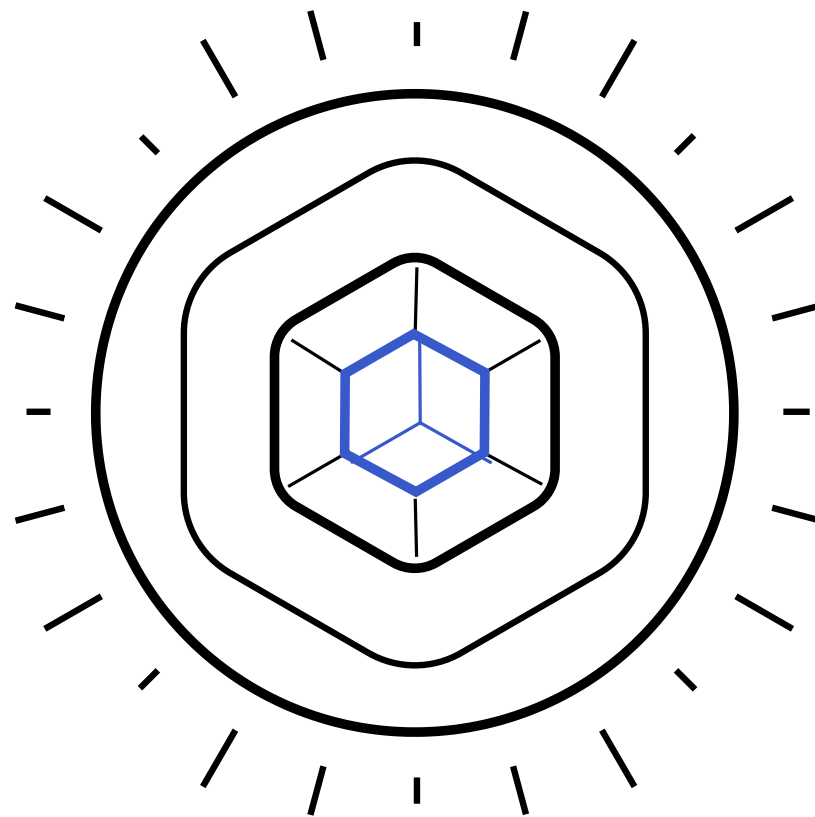
Top 10 Insights about MiCA

1. Comprehensive regulation covering a wide range of crypto-assets and service providers.
2. EU Parliament overwhelmingly supports MiCA, as well as the European Council
3. EU leads in global crypto regulation compared to the U.S. and U.K.
4. MiCA focuses on consumer protection and market clarity.
5. Crypto-asset issuers must draft detailed white papers and notify authorities.
6. MiCA excludes certain organizations and asset types but caveats remain.
7. Crypto-Asset Service Providers (CASPs) must meet specific regulatory requirements.
8. MiCA harmonizes regulations for streamlined operations across the EU.
9. MiCA will likely reshape the competitive landscape, favoring regulated businesses.
10. Enforcement of MiCA will foster a secure and compliant environment within the EU crypto industry.



Exploring the Pulse of the Market: A Comprehensive MiCA Preparation Benchmark Survey

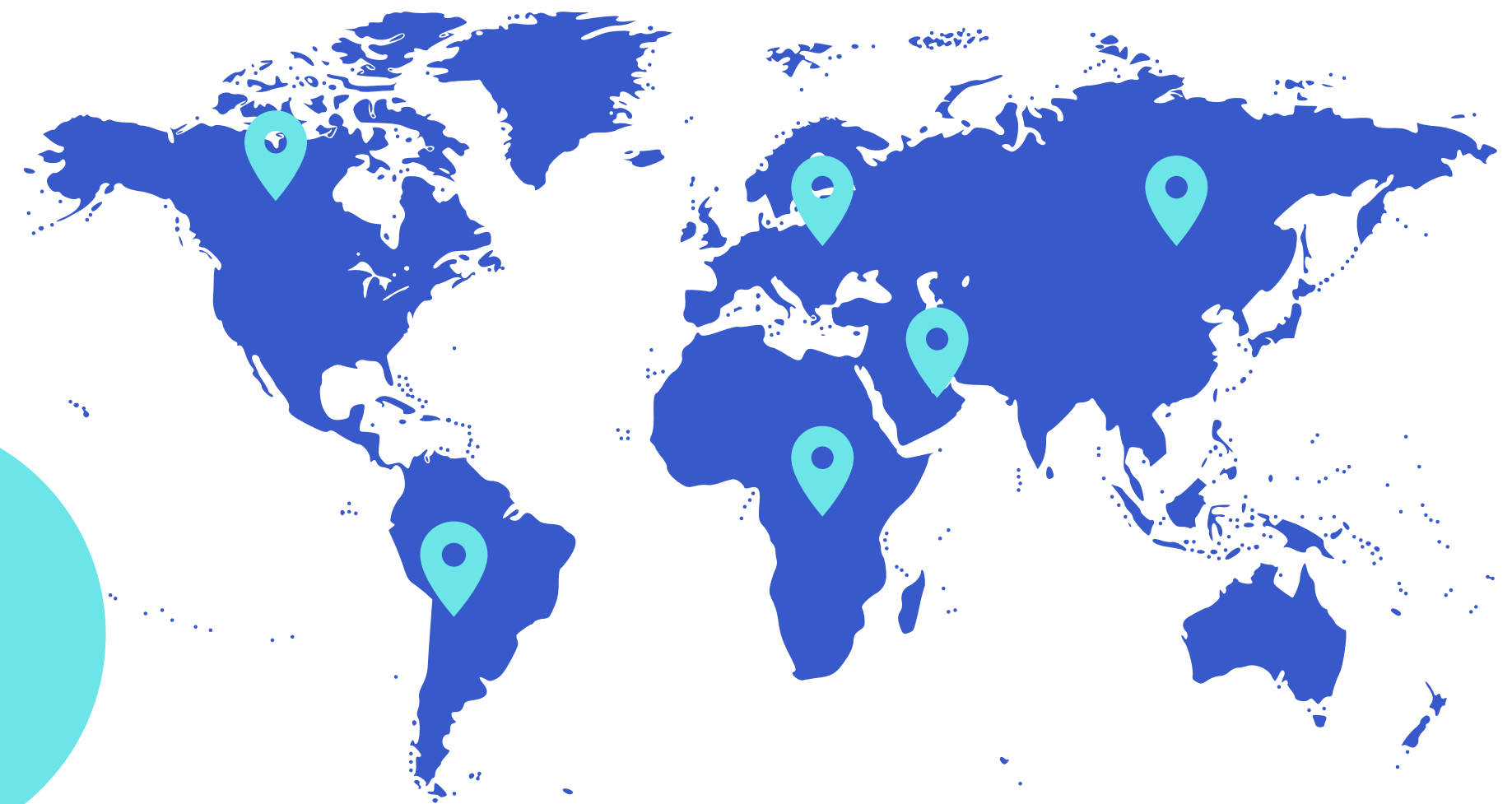
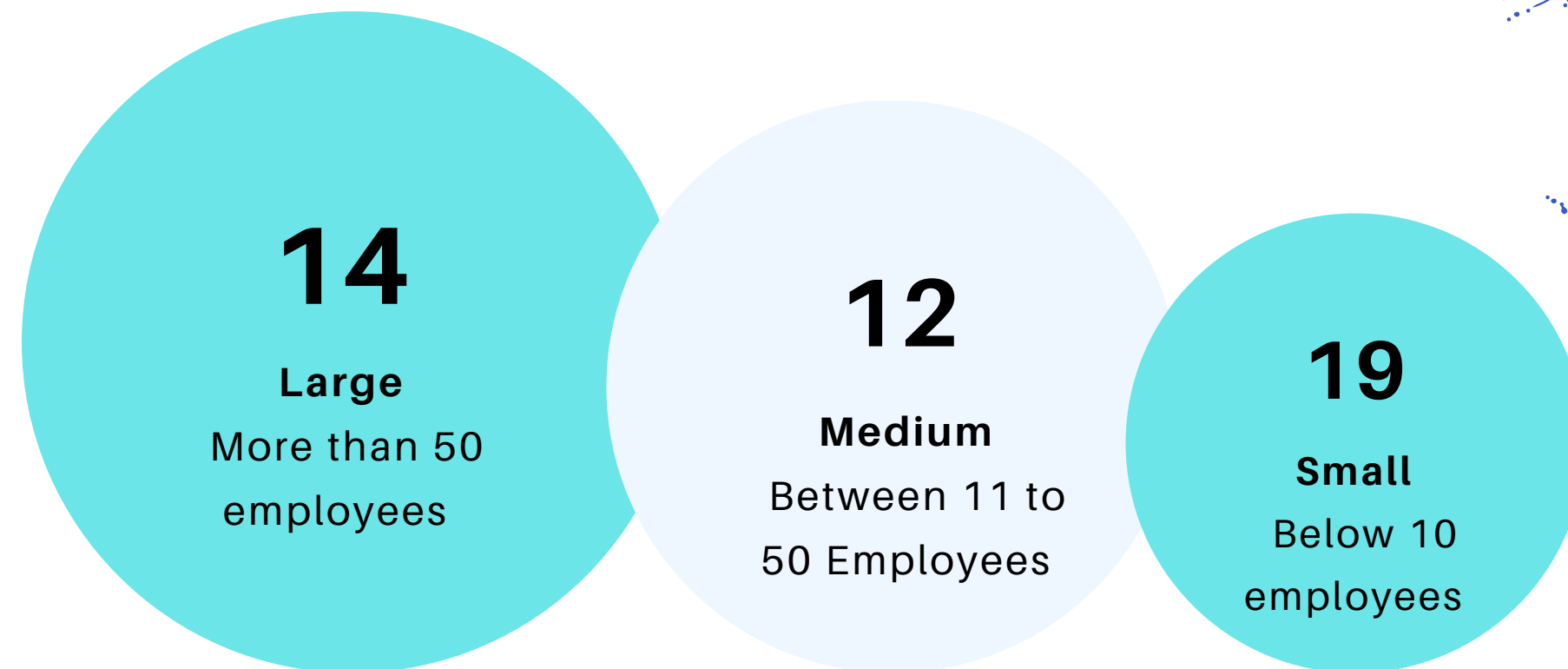
Perfinal conducted a market survey in Q1 2023 to gain insights into the perspectives and strategies of crypto businesses regarding the approval of MiCA. The report highlights the significance of this development and reveals the industry's optimism and readiness for the new era of crypto regulation. The survey covers key aspects such as the impact of MiCA on businesses, challenges and opportunities arising from the new framework, technical preparations required for compliance, and strategies for growth and competitiveness in the evolving regulatory landscape.



Diving into the Data: A Close Look at Survey Participants and Their Perspectives

Perfinal's recent survey offers valuable overview about the ambitions and plans of crypto issuers and service providers regarding their pursuit of regulatory compliance in Europe under the Markets in Crypto-Assets Regulation (MiCA). The anonymous survey, with generalized results, captures the industry's current licensing status, market relevance, and operational strategies as companies gear up for the forthcoming MiCA regulation.

Our sincere gratitude to all diverse companies for their input.



Crypto Issuers and Service Providers Share Plans for Obtaining MiCA Regulation in Europe

The Perfinal survey garnered a diverse pool of 45 institutional participants, representing a balanced mix of large, medium, and small companies. The participants provided a well-rounded and comprehensive snapshot of the crypto industry, offering crucial insights into the industry's plans and preparations for navigating MiCA regulation.

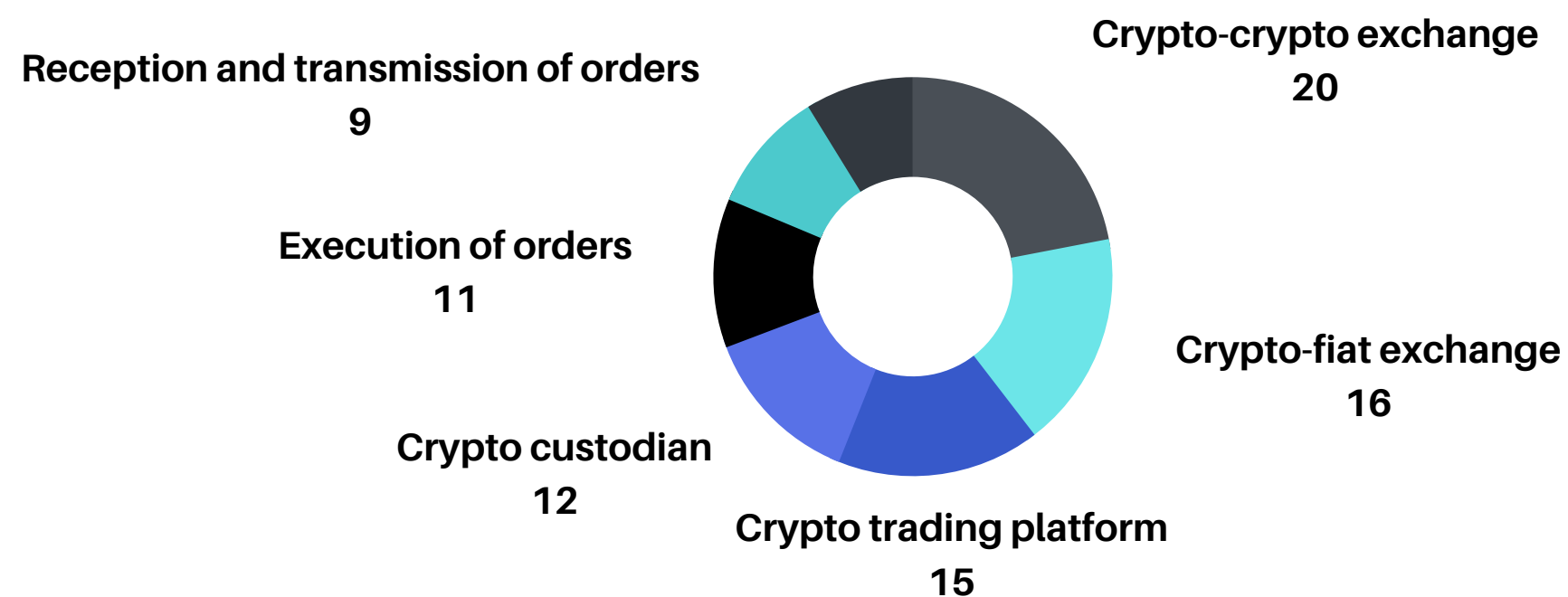
Emergence of a New Asset Type & The Dominance of Crypto Trading

The most significant fields of operation for the service providers are the exchange of crypto-assets for other crypto-assets, the exchange of crypto-assets for fiat currency that is legal tender, and the operation of a trading platform for crypto-assets. On the other hand, for asset issuers, utility tokens, and NFTs are the most common types of crypto-assets issued.

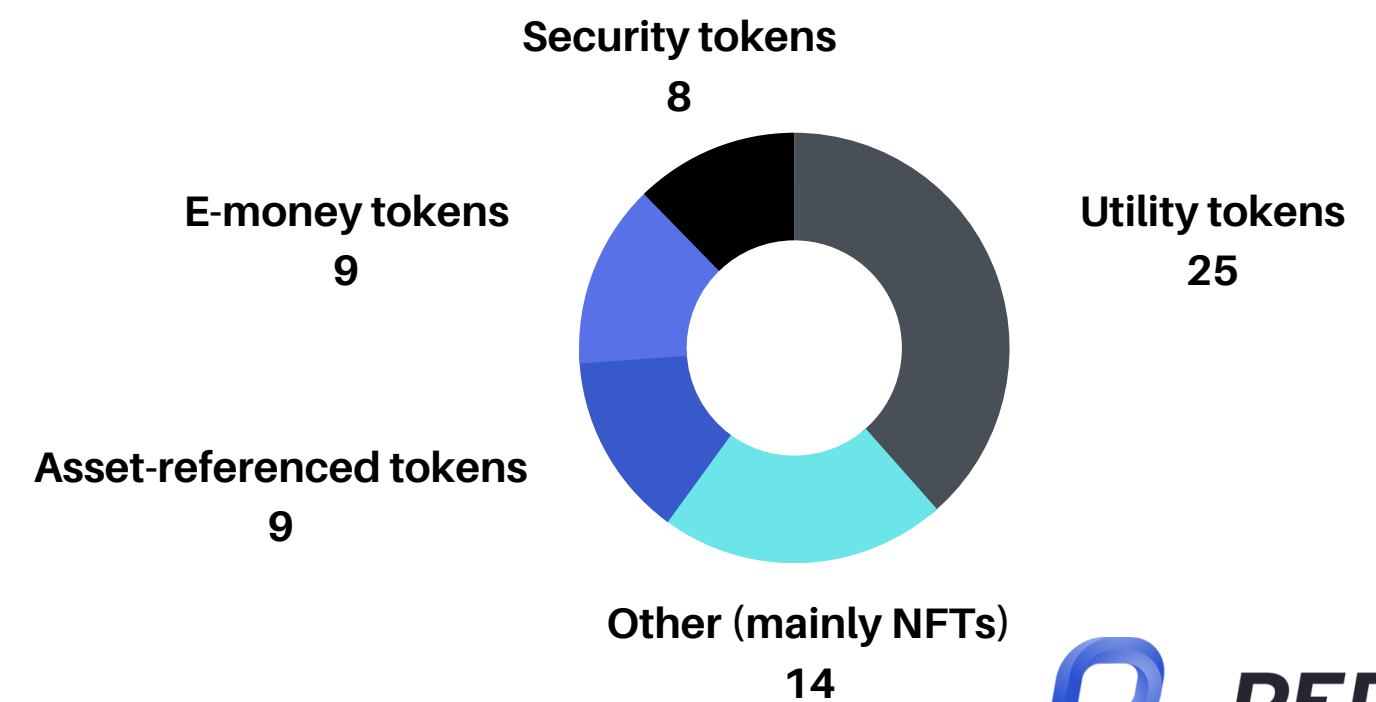
The results highlight the diversity of services offered by the crypto industry and that different regulatory approaches will be required for each type of service.

The high number of service providers offering trading and exchange services also emphasizes the importance of the MiCA regulation, which will regulate these services and help establish a level playing field for all providers.

Offered services



Tokens involved

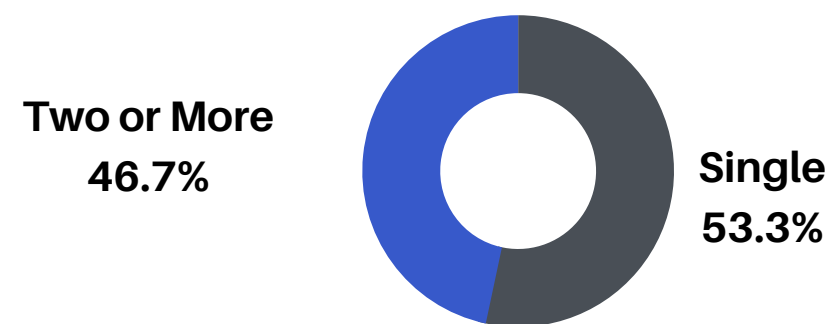


Adapting to the Global Regulatory Landscape: The Need for Geo-Flexible Solutions

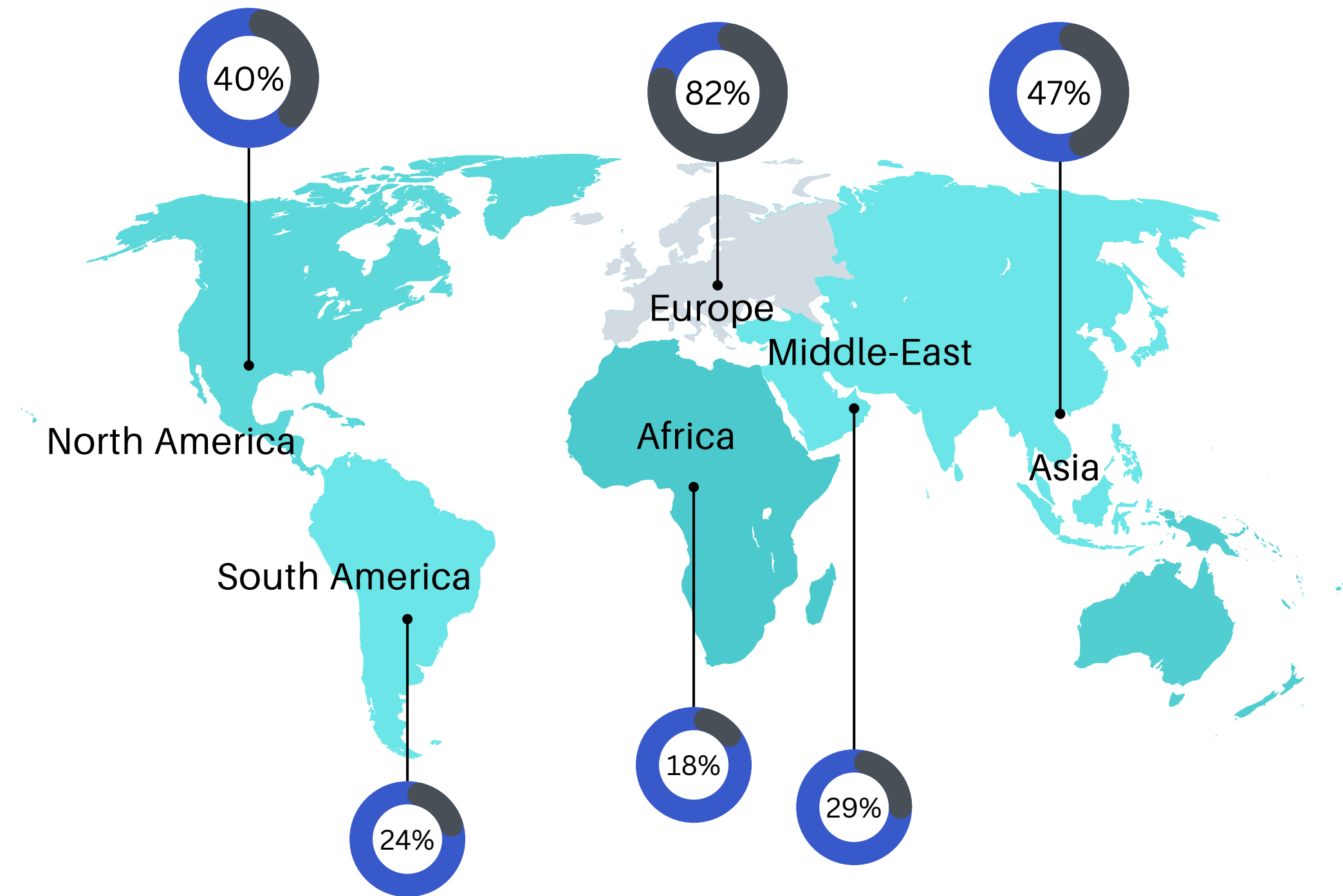
The survey results confirm the extensive geographic reach of crypto companies, highlighting the importance of flexible and geo-specific operations.

This increased complexity poses a significant challenge for companies, as they must navigate diverse regulatory landscapes and implement solutions that can be tailored to each region. To overcome this hurdle, businesses will need to invest in flexible operational models and technologies that can accommodate varying regional requirements.

By embracing adaptable systems, companies can ensure compliance with diverse regulatory requirements while maintaining the agility necessary to thrive in the rapidly evolving crypto industry.



Regional overlap

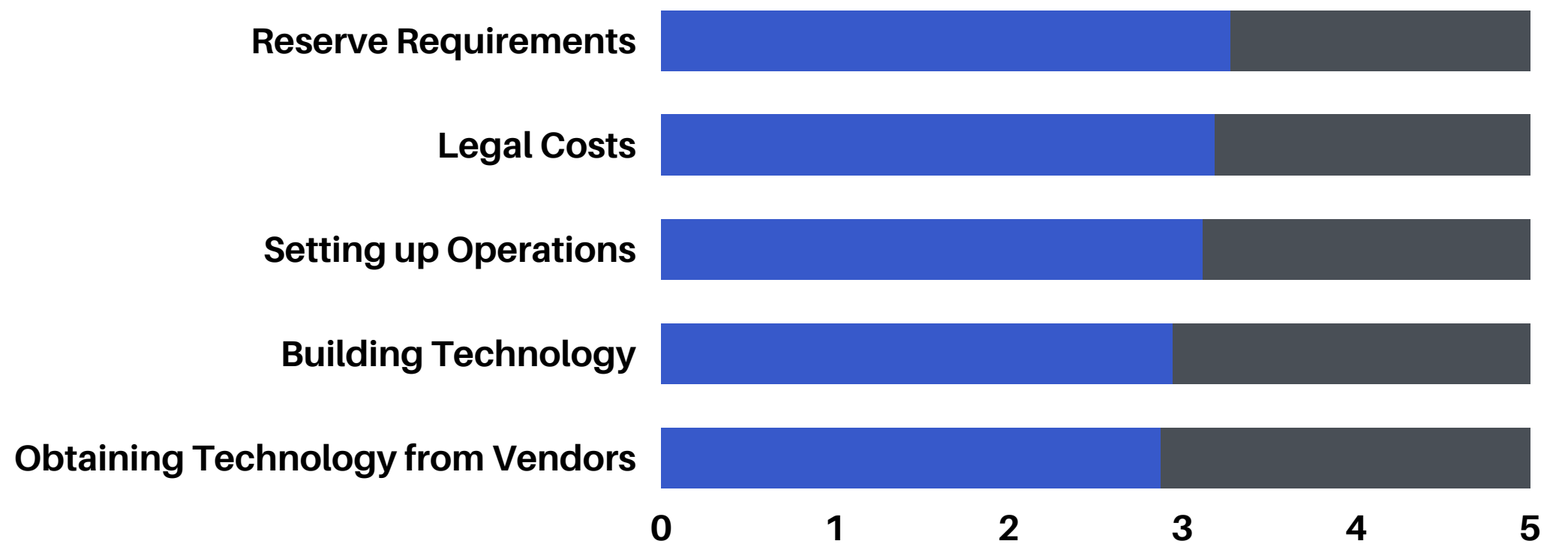


Regions Served by survey participants

Decoding the Numbers: Revealing Key Insights and Trends from the Survey Results

Difficulty Ratings for Aspects of MiCA Compliance

The survey participants were asked to rate the difficulty of various aspects of MiCA compliance on a scale of 1-5, with 5 being the most difficult. The results reveal that the top three aspects of difficulty anticipated by the participants are reserve requirements (3.27), legal costs (3.18), and setting up operations (3.11). These findings suggest that participants are aware of the challenges associated with complying with the MiCA regulation and are actively considering the potential impact on their businesses.

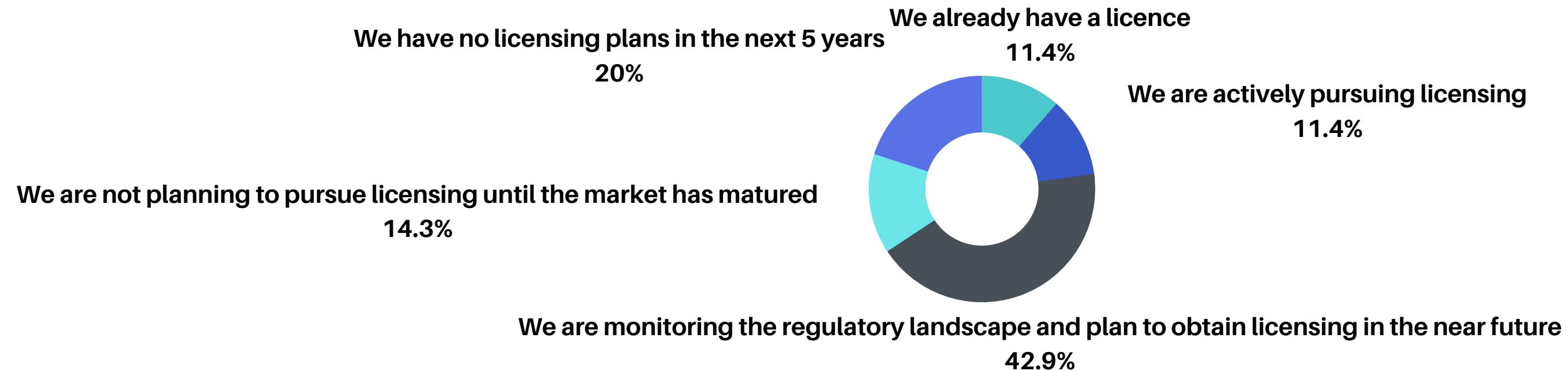


Concerns Regarding Regulation in the Crypto Industry by Company Size

Medium-sized companies, with 11 to 50 employees, are more concerned about the lack of clarity around regulatory requirements (75%) and the complexity of technology and systems needed (42%) than their smaller and larger counterparts. This suggests that these businesses, which may be more focused on staying afloat in a bear market, face greater challenges in adapting to the upcoming regulations than their counterparts. Large companies, having already gone through licensing and advanced system implementation projects, may possess stronger execution capabilities in these areas, yet still exhibit uncertainty on how to approach the upcoming regulations (50%).

	Small (<10 employees)	Medium (11-50 employees)	Large (>50 employees)
Lack of clarity around regulatory requirements	58%	75%	50%
High cost of compliance	47%	50%	21%
Complexity of technology and systems needed	16%	42%	21%
Uncertainty around future developments and changes in regulations	68%	67%	50%

A strong 65% of participants are gearing up to obtain authorization in the next few years!



Licensing Intentions of Survey Participants

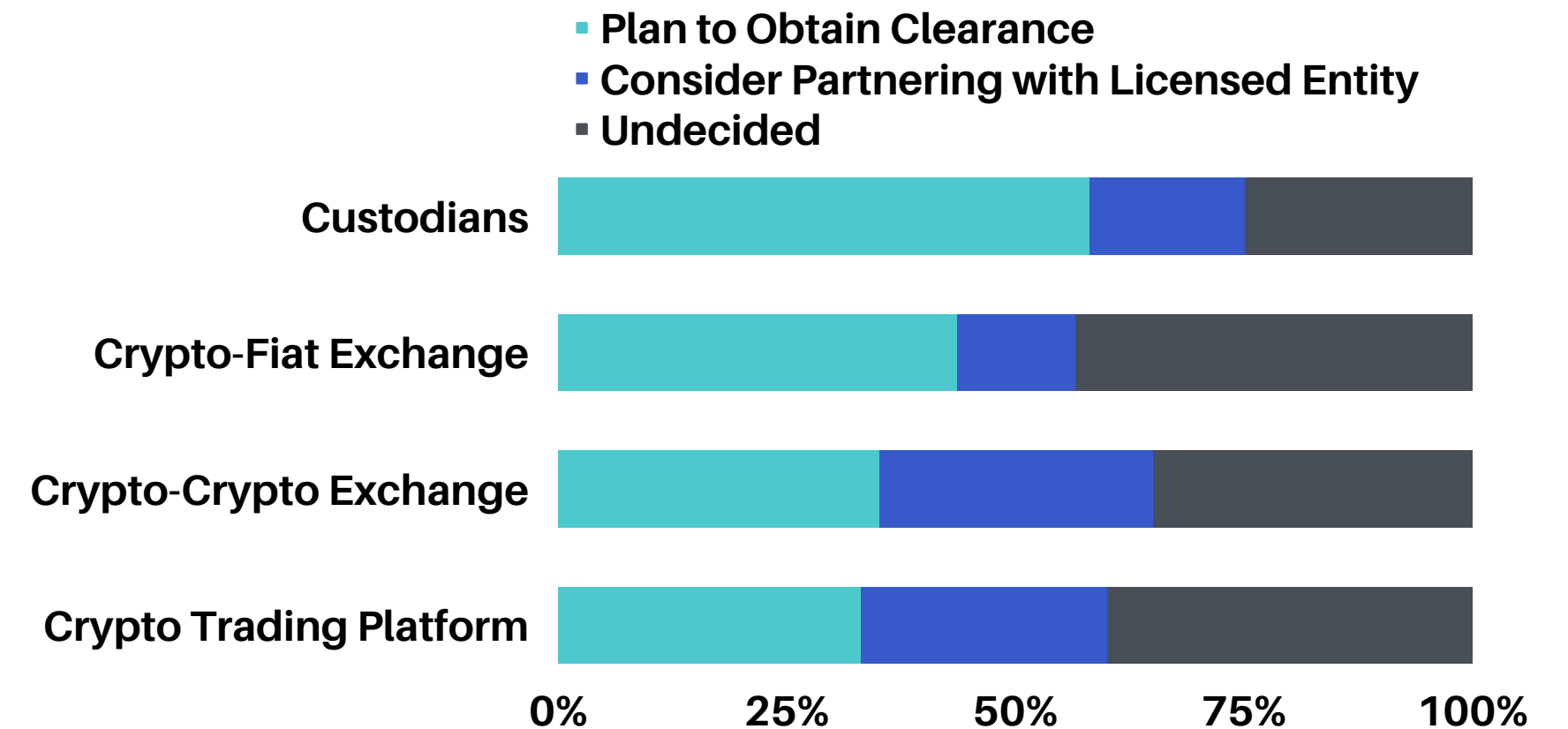
A significant majority of the survey participants (65%) indicate optimism towards licensing in the crypto industry. Among the 45 participants, 11% already have a license and plan to update it accordingly, while another 11% are actively pursuing authorization with plans to be among the first to obtain it. Additionally, 43% are monitoring the regulatory landscape and intend to obtain licensing in the near future.

The overall optimism towards licensing demonstrates the growing recognition of the importance of a clear regulatory framework for the crypto industry. This positive outlook suggests that crypto companies are increasingly willing to embrace regulations and work within the evolving legal environment. For crypto advisors, this presents an opportunity to provide support and guidance on application processes, helping clients navigate the regulatory landscape and capitalize on the opportunities that come with compliance.

Licensing Plans for Different Types of Crypto Service Providers

Custodians and crypto-fiat exchange operators are actively preparing for MiCA, which is already a common practice throughout Europe. However, the situation for crypto-crypto exchanges and trading platforms is less clear, with a higher percentage considering partnering with a licensed entity. This may be due to the less regulated nature of these operations and lack of experience with licensing processes.

Crypto service providers, especially those operating crypto-crypto exchanges and trading platforms, should evaluate their readiness for obtaining clearance under MiCA regulation. For some, partnering with a licensed entity might be a more efficient approach to ensure compliance, while others might prefer to navigate the licensing process themselves. Regardless of the chosen path, understanding the regulatory requirements and making informed decisions is crucial to the future success of these businesses in the evolving regulatory landscape.



Licensing Intentions of E-money, Asset-referenced, and Utility Token Issuers

Asset-referenced token issuers display the highest intention to obtain a permit (88%), followed by e-money token issuers (63%). Utility token issuers demonstrate the lowest interest in pursuing licensing (43%).

The differences in licensing intentions among the issuer types could be attributed to several factors, as below.



Potential Reasons for Variations in Licensing Intentions:

- 1. Regulatory requirements:** Asset-referenced and e-money tokens are more closely tied to traditional financial instruments, making them more likely to face stricter regulatory scrutiny. As a result, issuers of these tokens may feel a greater urgency to obtain a license to ensure compliance and maintain their operations within the regulatory framework.
- 2. Business model:** The business models of asset-referenced and e-money token issuers might inherently involve more interaction with regulated financial markets, making licensing a higher priority for these issuers.
- 3. Risk perception:** Utility token issuers might perceive a lower regulatory risk compared to asset-referenced and e-money token issuers, as utility tokens are often designed for a specific platform or service, rather than having direct links to financial instruments. This perception of lower regulatory risk could contribute to the reduced interest in obtaining a license among utility token issuers.

Leveraging External Providers: A Rising Approach for Regulatory Conformity

The survey aimed to understand the source of technology applied in the current or future operations of crypto service providers across various software modules. The results reveal a significant proportion of respondents already utilize external software solutions for various modules, indicating the industry's openness to collaborating with third-party providers to address specific needs. Moreover, even those with built-in software modules may need to make adjustments to ensure compliance with upcoming regulatory requirements. This highlights the importance of adaptable and flexible solutions in navigating the evolving regulatory landscape in the crypto industry.

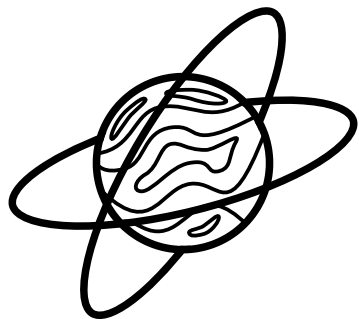
Embracing external compliance solutions can be a game-changer for businesses navigating the complex regulatory landscape. Companies with in-house software modules may need to rethink their approach to balance and transaction management technologies to ensure compliance with forthcoming regulatory requirements. In this situation, partnering with specialized providers could be a wise strategic choice. By taking advantage of the expertise and compliant software solutions offered by such providers, businesses can effectively navigate the changing regulatory environment and fulfill the required guidelines effortlessly and confidently.



Ready for the Heavyweight? Let's have a succinct intro to what to expect!

MiCA's Transformative Effects

In the crypto landscape, entities resembling financial institutions face analogous regulations. Under the MiCA guidelines, crypto entities must adhere to stringent prudential standards akin to those in the traditional EU financial sector.



Here are some upcoming critical regulatory aspects to consider:

1. **Own Funds:** Adherence to specific requirements related to the scale, composition, and management of own funds is crucial. This ensures financial resilience.
2. **Reserve of Assets (RoA):** Effective management of asset reserves is essential, serving as a financial buffer in volatile market conditions.
3. **Investment of RoA:** Regulators have explicit expectations regarding the investment of your Reserve of Assets, promoting stability and prudent management.
4. **Data Reporting:** Entities are obligated to provide regular, comprehensive data reports to Central Banks or the Competent Authority, ensuring transparency and oversight.
5. **Minimum Capital Requirements (MCR) for CASPs:** CASPs must maintain a predetermined minimum capital, helping mitigate potential financial risks.

Listen up! Crypto-asset services resembling traditional finance are treated likewise - no ifs, ands, or buts!

For instance, E-money tokens (EMT) issuers must adhere to the E-money Directive (EMD) requirements, such as prudential rules and safeguarding requirements. If you're operating under MiCA, prepare for AML and CFT obligations similar to traditional financial institutions - no one's dodging these bullets!

MiCA portfolio management for crypto-assets? It's like portfolio management under MiFID II, but with extra spice! And transfer services? They're akin to payment services in PSD2.

Let's cut to the chase - here are some examples:

- **Common Equity Tier 1 (CET1):** Just as credit institutions and investment firms need CET1 items under CRR regulation, ART issuers under MiCA need them too.
- **E-Money Token (EMT) Issuers:** They need authorization, Electronic Money Institutions (EMI) under PSD2.
- **Prudential Requirements:** EMT issuers, don't forget your EMD rules - safeguarding, initial capital, own funds, and more. No shortcuts here!
- **Anti-Money Laundering (AML) / Counter-Terrorist Financing (CFT):** CASPs under MiCA, you're on the hook for AML and CFT obligations.
- **Portfolio Management:** MiCA portfolio management? It's practically a Mifid II story!
- **Fraud and Incident Reporting:** CASPs, you're in the same boat as PSD2 providers - fraud reporting is a must.

A Comprehensive list of Guidelines: For The Resilient Only!

- **Markets in Crypto-assets**
 - P9_TA(2023)0117: [Link](#)
- **Prudential requirements for credit institutions and investment firms (CRR regulation)**
 - Regulation (EU) No 575/2013: [Link](#)
 - List of CET1 instruments: [Link](#)
- **Payment services in the internal market (PSD2)**
 - DIRECTIVE (EU) 2015/2366: [Link](#)
 - Guidelines for authorization of payment institutions under PSD2: [Link](#)
- **E-money Directive (EMD)**
 - Titles II and III of Directive 2009/110/EC: [Link](#)
 - Authorization of e-money institutions (EMI): [Link](#)
- **Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing**
 - Directive (EU) 2015/849: [Link](#)
 - EBA/GL/2021/15: [Link](#)
 - EBA/GL/2021/16: [Link](#)
 - EBA/GL/2022/05: [Link](#)
 - EBA/GL/2023/04: [Link](#)

Remember, the list we've compiled is extensive, yet not exhaustive. These guidelines are a stepping stone in your journey of understanding the ever-evolving landscape of financial regulations. They're a testament to your resilience in navigating the complex world of crypto-assets. Yet, as you dive in, be aware that new rules and amendments may emerge, necessitating continuous learning and adaptation. Brace yourself for the ride!

- **Markets in financial instruments (MiFID II)**
 - Directive 2014/65/EU: [Link](#)
 - ESMA/2016/1452 GL: [Link](#)
- **Prudential supervision of investment firms (IFD)**
 - DIRECTIVE (EU) 2019/2034: [Link](#)
 - EBA/GL/2021/13: [Link](#)
- **Solvency II Directive for insurance and reinsurance sector**
 - DIRECTIVE 2009/138/EC: [Link](#)
- **Electronic Identification and Trust Services (eIDAS)**
 - REGULATION (EU) No 910/2014: [Link](#)
 - ETSI EN 319 412-5: [Link](#)

Expert Legal Insights by Diana Mile, Partner and attorney at Mile & Partners Law Office



As we navigate these complex waters, it's crucial to understand that MiCA isn't the only regulatory framework at play. Additional regulations such as the AML6 (Anti-Money Laundering Directive 6) and TFR (Transfer of Funds Regulation) rules are also pivotal components of the EU's overarching approach to governing crypto-businesses.

In the following section, we're privileged to have the insights of Diana Mila, Partner and Attorney at Mile & Partners law office, who specialises in global crypto regulation. Together, we'll delve into the specifics of these regulations and explore their implications for the crypto industry, providing you with a well-rounded understanding of this critical and rapidly evolving field.

Anti-Money Laundering Directive 6 (AML6)

The European Union's Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) policy is a key component in the fight against illicit financial activities. An essential part of this policy is the 6th Anti-Money Laundering Directive (AMLD6). This package consists of several measures:

The EU "Single Rulebook" Regulation:

This regulation outlines the process for:

- Performing due diligence on customers
- Ensuring the transparency of beneficial owners
- Regulating the use of anonymous instruments like crypto-assets and new entities such as crowdfunding platforms
- Including provisions for "golden" passports and visas

The 6th Anti-Money Laundering Directive (6AMLD):

This includes stipulations regarding:

- National supervision and Financial Intelligence Units
- Access to beneficial ownership registers
- Assets stored in free zones

Establishment of the European Anti-Money Laundering Authority (AMLA)

This policy aims to set limits up to €7000 for cash payments and €1000 for crypto-asset transfers where the customer cannot be identified. Crypto Asset Service Providers will be required to verify their customers' identity, ownership, and who controls the company, amongst other rules.

Transfer of Funds Regulation (TFR)

The Transfer of Funds Regulation (TFR) is a part of the EU's strategy to enhance its Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) stance. This regulation ensures the traceability of crypto-assets transfers and aligns with the commencement date of the MiCA regulation.

The TFR is a response to the Financial Action Task Force (FATF)'s 2019 update to its Recommendation 16, known as the FATF travel rule. This rule mandates that originator and beneficiary data be shared between Virtual Asset Service Providers (VASPs = CASPs) for transactions exceeding \$1,000. **However, the TFR goes further, requiring data sharing for all amounts, a move that could significantly impact the digital assets industries.**

- **REGULATION (EU) 2015/847 on information accompanying transfers of funds: [Link](#)**

Key aspects of the TFR include:

CASP-to-Unhosted Wallet Transfers:

CASP will collect data when the unhosted wallet is also owned by the customer, requiring verification that the wallet belongs to the same person.

Unhosted Wallet-to-Unhosted Wallet Transfers:

Transfers between two unhosted wallets will initially be outside the scope of the TFR. However, the EU Commission will reassess this 18 months after the TFR's implementation.

Sanctions Compliance and AML Blacklisting requirements:

The TFR will ensure compliance with existing sanctions and blacklisting regulations.

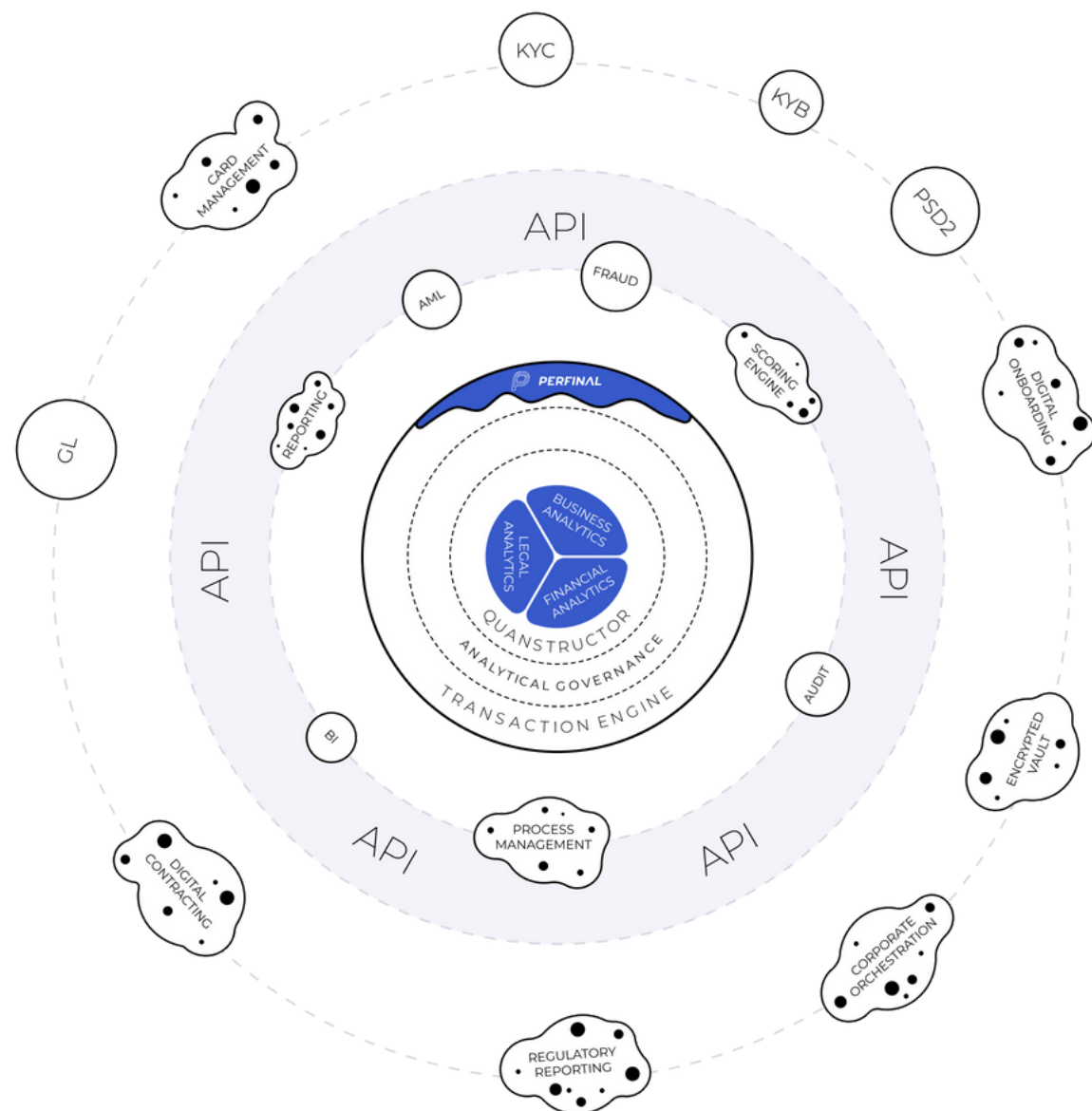
Data Protection:

Data protection concerns have been raised due to the amount of personally identifiable information being collected, creating potential honeypots for hackers.

Meet Perfinal

Your Partner in Compliant Crypto Operations

Navigating the intricate landscape of regulated crypto operations can be challenging. That's where Perfinal steps in. We're in the business of aiding pioneering web3 companies and banks to adopt regulated crypto operations. Our secret weapon? Harnessing the power of proven core banking technology to meet regulatory requirements with ease and confidence.



A Compliance-Centric System Reimagined for Crypto Assistance

At the heart of our operations lies Perfinal's FLUX, a powerful Virtual Account Management (VAM) system. This multi-currency, multi-level account management tool streamlines customer and corporate accounts, settlements, and asset transactions. It's uniquely designed to handle intricate economic event modeling for crypto use cases, always considering the latest anti-fraud and anti-money laundering guidelines that are affecting licensed financial institutions.

Beyond that, FLUX's automated accounting and reporting functionality significantly reduces administrative load while enhancing compliance performance. It's built with a third-party, integration-ready architecture to enable rapid ecosystem development.



Embarking on the Regulatory Path?

Start Here!

We're not just about technology. Our expert team offers comprehensive assistance throughout the licensing process, providing in-depth analysis of your existing technology and offering suggestions for compliant operations.

We offer a three-tiered proposition for potential partners:

1. **Planning and Scoping:**

- Identifying your unique path towards regulation and pinpointing necessary technological adjustments.

2. **Advisory and Custom Development:**

- Offering optional advisory services and custom development solutions to tackle regulatory preparation hurdles.

3. **Compliant Solution with Perfinal:**

- Providing compliant software solutions that support your regulated operations, eliminating tech-related challenges.

Ready to embark on your journey toward MiCA compliance?

**Schedule a strategic consultation
with Perfinal to start outlining your
journey!**

Book a meeting >

**We're excited to accompany you on
your journey toward becoming a
regulated crypto provider.**





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Their collective expertise and commitment to providing accurate, reliable information have been instrumental in the creation of this report.

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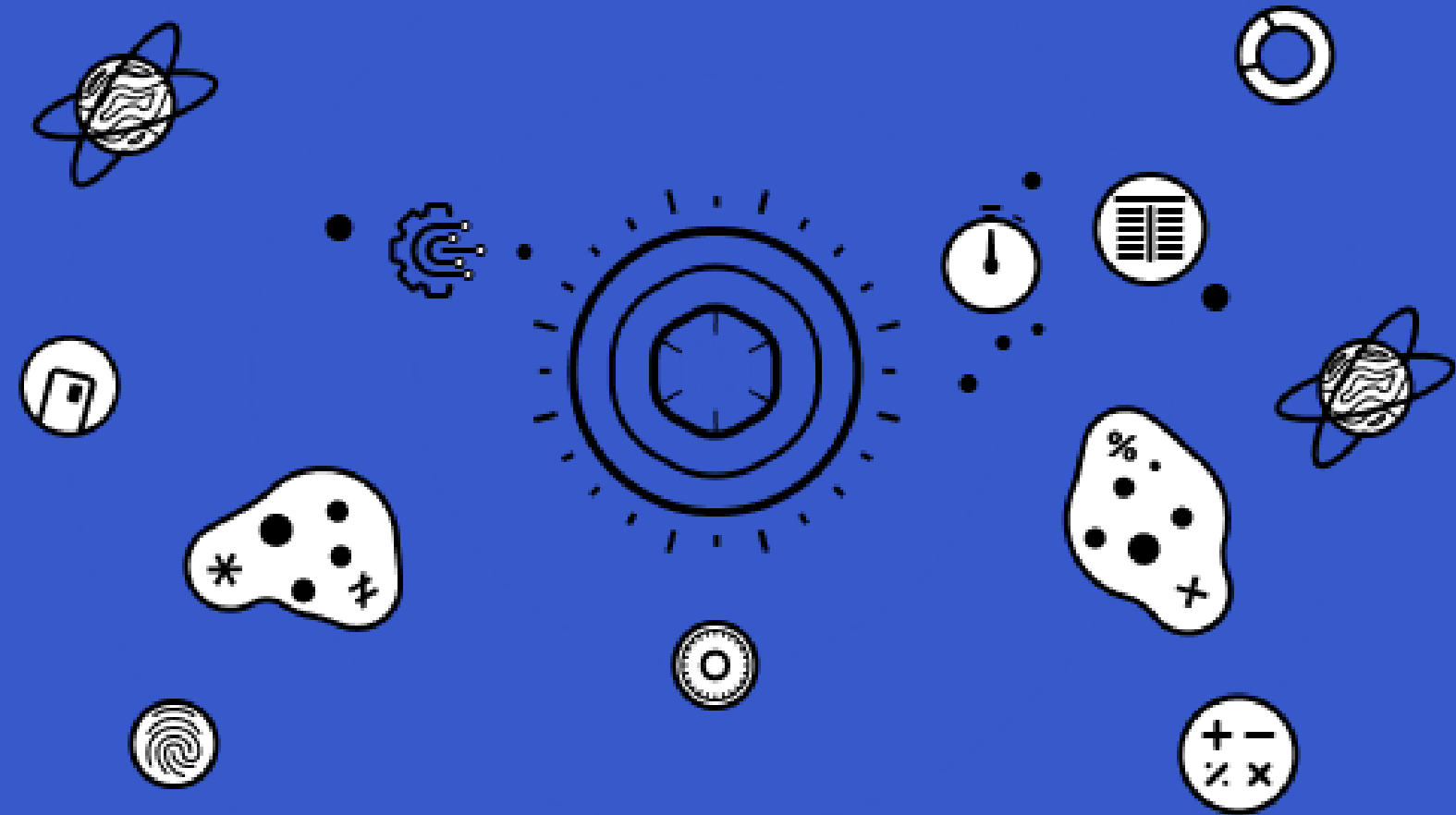
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