



Decoding MiCA

A practical guide to understanding MiCA and its data requirements



Covered in this guide:

- Background
- Scope
- Requirements
- Challenges
- Examples

Preparation for MiCA

Data will be at the heart of your preparation for MiCA. We created this guide to help you understand the upcoming requirements and adapt your data strategy. We will outline MiCA's scope, requirements, and challenges and at the end provide several case studies showing how Crypto Asset Service Providers (CASPs) and regulators can leverage data to stay compliant.

Covered in this guide:



Background

What is MiCA and why is it being introduced?



Scope

What organization types, territories, and tokens does MiCA cover?



Requirements

What does MiCA set out and what are its specific requirements?



Challenges

What are MiCA challenges and why is crypto so hard to regulate?



Examples

How can businesses and regulators use data?

Background

What is MiCA and why is it being introduced?

What is MiCA?

The Markets in Crypto-Assets (MiCA) is a new regulatory framework issued by the EU, designed specifically for cryptocurrencies and digital assets. This initiative marks the EU's first comprehensive effort to regulate cryptocurrencies, drawing on TradFi and the foundational principles established by the Markets in Financial Instruments Directive (MiFID I) and its successor, MiFID II.

Why is it being introduced?

The MiFID directives primarily aimed to ensure fair and orderly operations among financial market intermediaries. MiCA seeks to expand this vision beyond traditional finance and into the realm of digital assets.

The absence of unified EU regulation for cryptocurrencies has led to a fragmented landscape of national-level regulations and inconsistencies across the European Union, impacting businesses and consumers alike.

MiCA attempts to address these inconsistencies by establishing a unified legal framework that promotes market integrity, financial stability, and consumer awareness about potential risks, ultimately fostering a more transparent and secure environment for the digital asset market.

When will it come into force?

The legislation was officially entered into force in June 2023, giving organizations time to adjust. Deadlines for full compliance vary depending on the type of crypto asset or organization:

- E-money tokens (EMT) and asset-referenced tokens (ART) - **June 2024**
- CASPs and other token types - **December 2024**

Scope

What organization types, territories, and tokens does MiCA cover?

Does it apply to me?

MiCA applies to all Crypto-Asset Service Providers (CASPs), but defining exactly what constitutes a CASP isn't straightforward. According to Article 3, paragraph 5, of the proposed regulation, "a legal person or other undertaking whose occupation or business is the provision of one or more crypto-asset services to clients on a professional basis." Therefore, this definition encompasses a broad range of businesses, including but not limited to:

- Crypto exchanges and trading platforms
- Crypto-asset custodians and wallet providers
- Issuers of crypto-assets
- Investment firms and asset managers offering services related to crypto-assets
- Payment service providers facilitating transactions involving crypto-assets
- Issuers of crypto-assets
- Market makers and liquidity providers for crypto-assets
- Crypto-asset brokers and dealers
- Advisory firms offering investment advice on crypto-assets

Despite MiCA primarily setting out requirements for CASPs, it's crucial to note that they are not the only ones who need to be prepared. The **regional authorities** tasked with the supervision and enforcement of MiCA's requirements must also be ready and capable of supervising the entire crypto market effectively for non-compliance.

What assets does it cover?

MiCA compliments, and does not replace regulations such as MiFID II and EMD which already cover some types of crypto assets. MiCA addresses the advancements in Distributed Ledger Technology (DLT) that have led to new applications for crypto assets that don't fit into the conventional definitions of "e-money" or "financial instruments."

Therefore, MiCA outlines three definitions that focus on how the asset is used, rather than the technology that underpins it. Consequently, there may be instances where a particular asset has several use cases. In this case, some use cases will fall under MiCA's scope, while others will not.

MiCA categories that are in scope:

Utility Tokens	E-Money Tokens (EME)	Asset-Referenced Tokens (ART)
		
<p>Crypto assets intended to provide access exclusively to a good or a service supplied by their issuers</p>	<p>Crypto assets that maintain a stable value by referencing the value of one official currency</p>	<p>Crypto-assets that maintain a stable value by referencing other assets or currencies</p>

What is out of scope?

While the framework is comprehensive, it doesn't apply to all issuers or tokens. Several blockchain-related assets are not considered crypto-assets under MiCA:

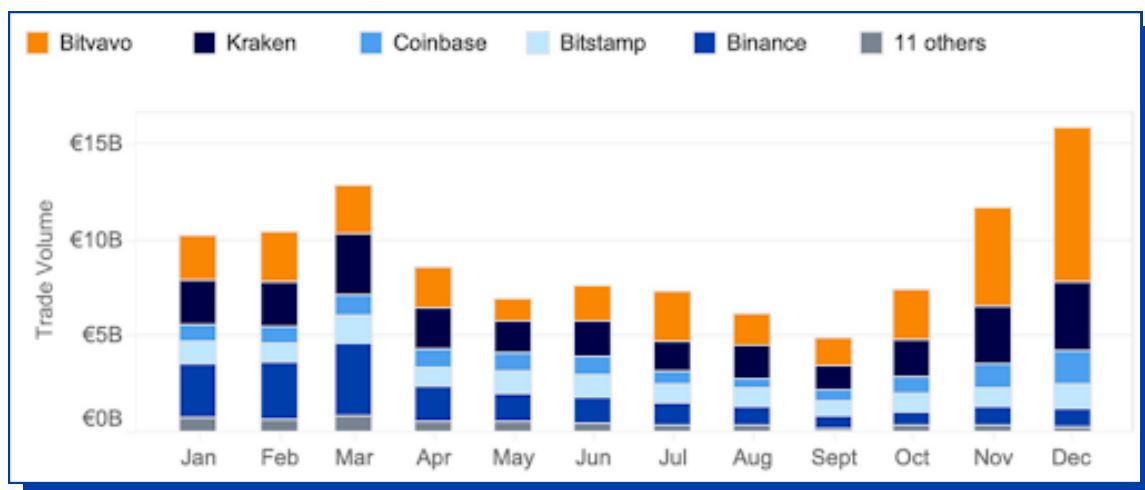
- **Security tokens** - Any "financial instruments" if they qualify under MiFID II.
- **DLT assets** - Assets automatically issued for blockchain rewards, like BTC.
- **NFTs** - Crypto assets that are unique and not fungible with others.
- **Limited offerings** - Crypto assets given for free or offered to qualified investors.

Does it apply to the UK?

Since Brexit, MiCA will not apply to the UK directly, but it is likely the UK government will introduce similar regulations inspired by MiCA. The UK has a competitive crypto sector with significant interests in the European Union and MiCA has “extraterritorial scope”, meaning that it applies to not just EU member states, but any third-country businesses providing services to customers in the EU or in the Euro currency.

As a result, any UK business seeking significant growth would be advised to seek compliance with MiCA guidelines. Organizations operating from other non-EU countries like Switzerland would be advised to do the same.

Euro-denominated Crypto Trade Volume



An example of how non-EU exchanges trade in Euros, made possible through banking partnerships.

How strict will the enforcement be?

Since the regulation is new for all parties, including the supervisory authorities responsible for enforcing it, it's likely that enforcement will be approached considerately. However, organizations must be able to demonstrate that they are actively taking all reasonable measures to comply with the new regulations.

Requirements

What does MiCA set out and what are its specific requirements?

What does MiCA set out?

In essence, MiCA establishes a licensing regime for all crypto service providers. National competent authorities (NCAs) are charged with granting authorizations to CASPs and ensuring they are compliant for the category they fall under. There are several MiCA requirements that all CASPs must adhere to, in addition to requirements for those offering specific services.

Requirements for all CASPs

- Secure authorization and registration from NCAs, which in most cases will be the national regulatory body.
- Ensure adequate capital, governance, and internal control mechanisms.
- Report suspicious transactions and adhering to Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF) requirements.
- Assess the value of capital reserves relative to on-chain activity.
- Establish robust risk management controls, monitoring, and stress testing.

Requirements for specific types of CASPs

Trading Platforms

(eg. DEXS, CEXs, and P2P marketplaces)

- Take measures to prevent market abuse, such as insider trading
- Implement risk management to ensure platform stability
- Take measures to ensure wider-market liquidity

Asset Managers

(eg. hedge funds, investment banks, and pension funds)

- Ensure conflicts of interest identified, managed, and disclosed
- Robust risk management practices, such as diversifying investments
- Best-execution policies that deliver the best possible result (price) for clients

Issuers

(eg. ICO issuers, stablecoins, and exchange issuers)

- Issue whitepapers about the issuer, the crypto-asset, and the associated risks
- Some issuers must regularly report key data and perform liquidity stress tests
- Specific rules for marketing communications and advertisements

Brokers

(Those executing crypto-assets orders on behalf of third-parties)

- Prove they've obtained the best price possible to NCAs
- Processes and methodologies that determine the trading platforms used
- Do not receive any benefits for using a specific trading platform

Custodians

- Safekeeping, segregation, and proper cyber protection of assets

Challenges

What are MiCA challenges and why is crypto so hard to regulate?

MiCA poses unique challenges versus MiFID due to the crypto sector's distinct characteristics. Unlike traditional finance, where a company's shares are usually listed on one or split across a few exchanges, a single crypto asset can be traded in multiple ways, each service with its own characteristics, making monitoring difficult. We provide below the two key ways in which users can interact with crypto assets.

Centralized Exchanges

Ex. Coinbase or Binance

- Custody held by the exchange
- Users can trade in a market environment, placing buy and sell orders
- Trades don't necessarily involve an actual exchange of a digital asset
- Trades are off-chain, backed by on-chain reserves controlled by the exchange

Decentralized Protocols

Ex. Uniswap or Aave

- Custody held by the user
- Users can access on-chain market trading or lending environments
- Trades trigger an on-chain transaction, facilitated by a smart contract

Decentralized Wallet Services

Ex. Metamask or Coinbase Wallet

- Users have full custody of their assets and wallets
- Users can directly transfer funds to another on-chain wallet
- No access to market trading environments

The diverse ways of interacting with crypto assets makes crypto neither entirely centralized nor decentralized. In addition, organizations such as Coinbase, often considered "centralized," also provide decentralized services like Coinbase Wallet. Therefore, to comply with MiCA's requirements, a comprehensive data approach is needed, incorporating information from both on-chain and off-chain sources.

The challenge lies in consolidating this vast, complex data from disparate infrastructures and formats into a single source. The enormous volume and complexity of data generated both on-chain and off-chain can make integration, standardization, and accuracy a daunting task. Fortunately, third-party data providers like Kaiko already collect the necessary data to prepare for MiCA.

The role of data

Data will need to be at the very heart of your preparation for MiCA. There are several compelling reasons to consider partnering with a third-party data provider like Kaiko:



Data Integrity and Security

Reputable third-party data providers have robust systems and processes in place to ensure data accuracy, integrity, and security, which are essential components of regulatory compliance.



Broad Market View

Providers offer a broad view of various markets, assets, and instruments, and in Kaiko's case, both on-chain and off-chain data, making it easier for organizations to prove they've taken all reasonable steps to assess the whole market for decisions. For regulators, it gives them all the tools they need for market oversight in one place.



Cost-effectiveness

Partnering with a third-party provider saves time and resources because they do the work for you, allowing you to focus on your core business and compliance processes.



Objectivity

Utilizing an independent provider can add credibility to your compliance efforts by ensuring that the data used for reporting and risk management is impartial and unbiased.

Examples

How can businesses and regulators use data to stay compliant?

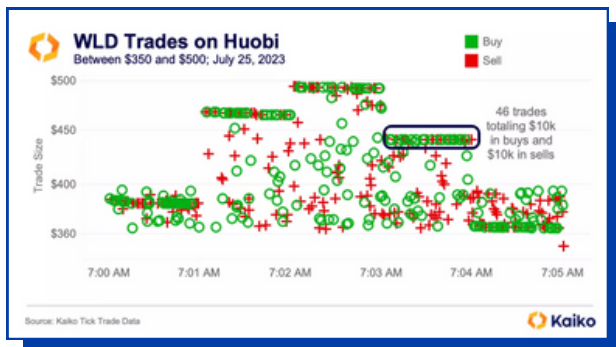
Kaiko can help CASPs, regulators, and law enforcement agencies in preparing for MiCA by offering extensive data feeds from both on-chain and off-chain sources.

→ **Market abuse detection** - MiCA requires all trading platforms to detect potential instances of insider trading, wash trading, spoofing, or price manipulation. Reliable data is essential for both CASPs and NCAs to prove that no abuse occurs on a platform.

Local Regulators

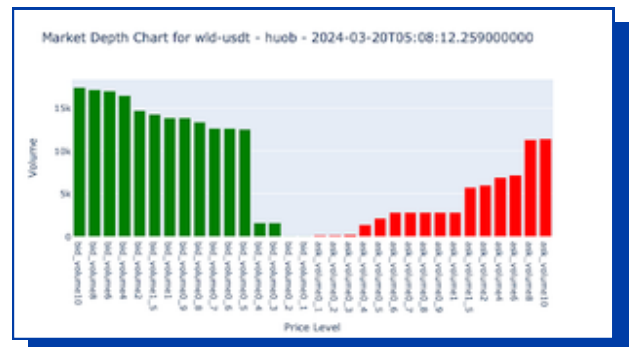
Trading Platforms

Wash Trading



See how the WLD trading pattern shows a series of identically-sized buy and sell orders? This suggests artificial orders to inflate trade volume.

Order Book Spoofing



See how there are lots of large bids placed far from the mid-price? These could suggest spoofing attempt to create an illusion of high supply or demand.

→ **Risk Management** - Trading platforms must maintain strong liquidity, while issuers must conduct regular liquidity stress tests. Comprehensive data, covering both off-chain and on-chain platforms, is essential for risk management.

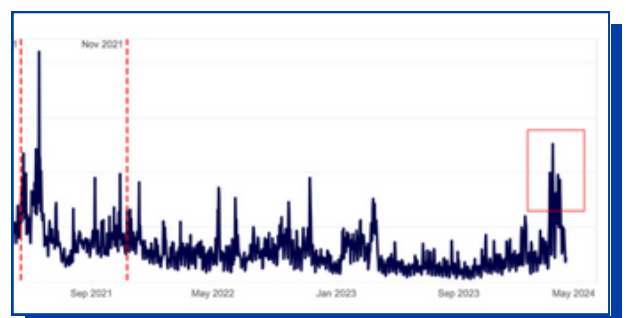
Trading Platforms

Issuers

Volatility analysis

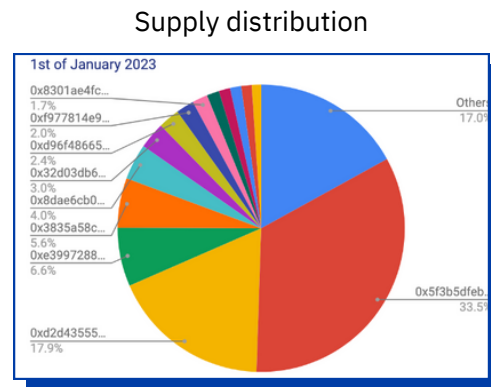
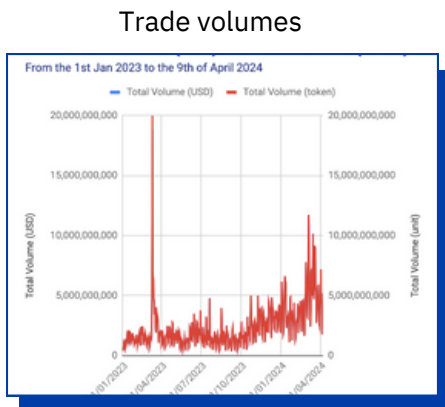


Liquidity analysis



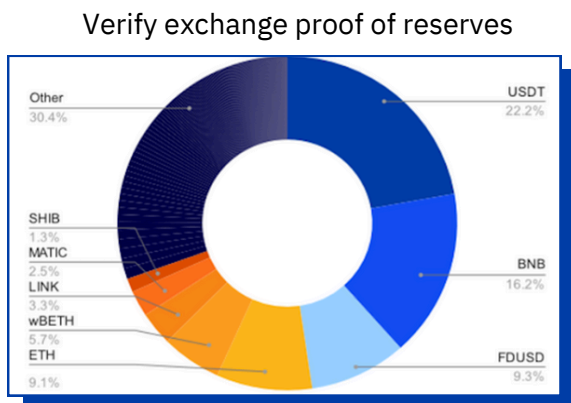
→ **Reporting** - MiCA imposes stringent reporting obligations for asset-referenced token (ARTs) issuers, requiring regular updates on volume, holders, etc.

Token Issuers

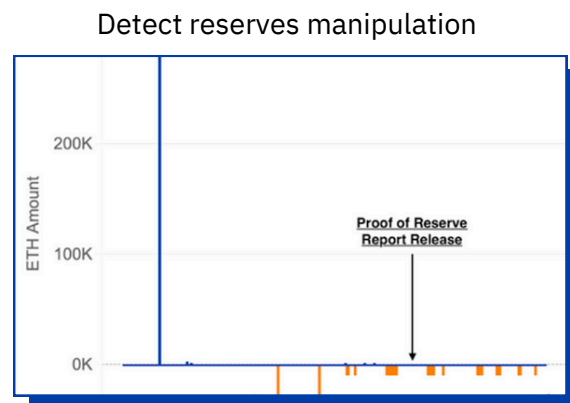


→ **CASP Licensing** - MiCA mandates CASPs to acquire licenses, requiring regulators to use on-chain data to investigate ICOs before approval, verify exchange reserves, and detect any non-compliance.

Local Regulators



See the breakdowns in value of any exchange's on-chain wallets / addresses.



A large inflow of ETH (blue) just before the Proof of Reserve Report Release, drained (orange) either side release.

→ **Best Execution** - MiCA requires all asset managers, hedge funds, investment banks, and pension funds to be able to prove they've obtained the best possible price for clients, requiring reliable and accurate pricing feeds.

Asset Managers

Hedge Funds

Investments Banks

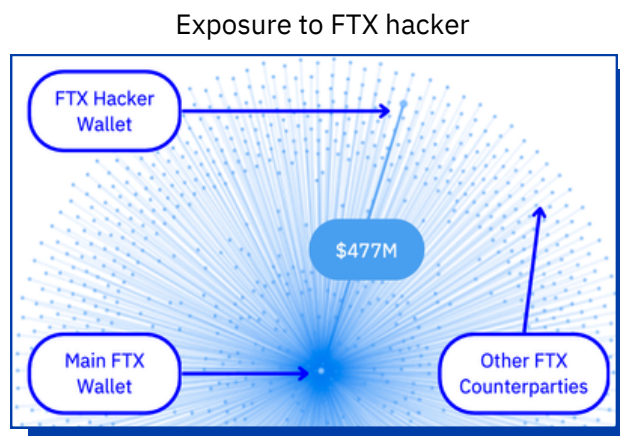
Pension Funds

- **Reserves Management** - MiCA stipulates that CASPs maintain adequate capital, governance, and internal controls, so they must rely on accurate pricing data for computing capital reserves and liabilities in the relevant fiat or digital currency.

All CASPs

- **AML/CFT** - All CASPs must adhere to AML and CTF requirements, meaning they must identify exposure to denied parties, sanctioned entities, or bad actors.

All CASPs



Screening wallet addresses is crucial to ensure CASP users do not interact with inappropriate entities.

Summary

To prepare for MiCA, organizations and regulators must prioritize getting their data in order. Kaiko offers the ideal solution by providing comprehensive on-chain and off-chain data, covering trades, orders, liquidity, and crypto wallet transactions. We also build on our core data to deliver advanced analytics for accurate asset pricing, volatility and liquidity assessments.

We're experts in the data requirements of MiCA, and we would love to become your data partner, helping you make MiCA the success it is intended to be.



Ready to Get Started?

We serve 200+ clients worldwide, from financial institutions, to regulators, and crypto-native enterprises.



Market Data

Tick-level and aggregated data from 100+ exchanges.



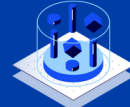
DeFi & Blockchain

On-chain data covering the most liquid DeFi protocols.



Analytics

Risk metrics and portfolio tools for financial professionals.



Rates and Indices

Trusted and reliable price feeds administered by Kaiko Indices.

Learn more at www.kaiko.com

