

## Derville Rowland: Industry briefing on Markets in Crypto-Asset Regulation

Remarks by Ms Derville Rowland, Deputy Governor of the Central Bank of Ireland, at the Industry Briefing on Markets in Crypto-Asset Regulation (MiCAR), Dublin, 18 July 2024.

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### Welcome and intro

Good morning, and I am delighted to welcome you to the Central Bank of Ireland today for our Industry Briefing on MiCAR. To date, our engagement with the crypto sector has been delivered through meetings with industry associations, through bilateral engagements with you as individual firms, through speeches and through updates to our website. Today marks the first time we have brought so many of you together to discuss our regulatory approach towards the crypto sector. I hope you find the briefing and discussion useful.

Recent years have seen tremendous innovations in financial services. Amongst the most notable have been the development of blockchain-based technologies. In 2020, the European Commission introduced its digital finance package, including a digital finance strategy and legislative proposals on crypto-assets and digital resilience.

The package reflected the EU's ambition to embrace a digital transition, to help modernise the European economy across sectors, and to turn Europe into a global digital player. Here we are almost 4 years later ready to implement the Markets in Crypto-Asset Regulation, or MiCAR, as it has become known across the European Union.

MiCAR is a very important step forward in the regulation of crypto activities in Europe while also leading the way on the regulation of the crypto sector globally. For the first time, the EU will have a harmonised regulatory framework for this sector that introduces prudential and conduct obligations for issuers of e-money tokens, asset-referenced tokens, and for crypto-asset service providers. There are also obligations for offers to the public of crypto-assets other than asset-referenced tokens or e-money tokens.

While the journey for the crypto sector to this point has been interesting, it has also experienced challenges in terms of culture and conduct leading to problems for consumers.

In particular, we in the Central Bank are keen to ensure consumers have clarity around risks when they make financial decisions. With this in mind, our ***"5 things you need to know about buying crypto"*** campaign launched earlier this year aimed to create an understanding amongst the public about the risks of buying crypto.

I am hopeful that MiCAR and the regulatory focus it facilitates, will contribute towards building a better culture within the crypto sector, a culture where consumer protection and good governance is at the heart of all decision making, which will ultimately strengthen the industry and the firms operating within.

## **The Central Bank's focus on technological innovation**

It is difficult to overstate the profound impact that technological innovation has had on the provision of financial services over the past decade.

Most relevant for today is how we can see the many areas where the blockchain has significant potential to bring about positive change, even transformation, in how we do things. Whether this be tokenisation of investment products or improvements in post-trade infrastructure and interoperability, there are important positive stories to tell.

As such, it comes as no surprise that technological innovation is an important focus of attention for us here at the Central Bank. While innovative firms can provide significant benefits to consumers and the wider marketplace, and we very much welcome this, our objective is to ensure the regulatory environment enables the potential benefits of innovation for consumers, businesses and society to be realised, while the risks are effectively managed and mitigated.

## **The growth of digital assets**

While Mary-Elizabeth McMunn, Director of Banking, Payments and Credit Union Supervision, and the panel members will delve into the specifics of our authorisation and supervisory expectations in the case of MiCAR, I do want to touch on the Central Bank's view around the risks and culture associated with the crypto sector.

We have a mandate to protect consumers and it is at the heart of what we do. When we consider new innovations, critical to us is how these innovations deliver for consumers. As such, when regulators are asked to engage with a product or a firm, the very first thing that we will want to understand is its purpose, its use, or, in the case of a firm, its business model. This is our starting point.

This is particularly important to highlight when it comes to the products and services in the crypto ecosystem, as the crypto sector will be moving into the regulatory sphere for the first time.

The potential for crypto and blockchain to build financial inclusivity or democratise finance has long been a theme of discussion in the sector. Crypto enthusiasts speak readily to how crypto and blockchain technologies, paired with global internet access, can provide easy and immediate access to people across the world to financial services and achieve a level of financial inclusivity that the traditional financial services cannot. While this is an exciting prospect, it cannot be achieved without guardrails.

Consumer and investor protection begins with firms themselves. For the crypto sector to succeed, compliance and a customer centric approach should not be seen as a cost

of doing business, but rather, they have the potential to be a competitive advantage. The provision of financial services is about helping others make financial decisions; it is also about the provision of choice for consumers and importantly, the provision of products that are suitable for consumers. Selecting financial services or financial products often involves taking risks. The stronger the firms risk management, the better position they are in to understand, calculate and mitigate risks, therefore strengthening their business model, and their relationship with their customers.

The importance of good culture and conduct risk management in delivering on new obligations under MiCAR cannot be overstated. It is not merely a regulatory requirement; it should be viewed as a fundamental component of maintaining trust, integrity and stability within the sector.

Effective organisational culture builds on shared purpose and standards such as professionalism, honesty, integrity and accountability to deliver fair outcomes that have the interests of consumers and investors at heart.

The Central Bank expects to see such standards and values embedded in all the firms we regulate. The importance of tone from the top, and the critical role of directors, cannot be overstated. The directors have a role in setting the culture, living by it themselves and calling out and addressing poor behaviours when observed. This will ensure that when they are faced with a dilemma or a moment of pressure, their natural instinct is to do the right thing, not the questionable thing.

## **The value of guardrails**

Our mission requires us to ensure that the financial system operates in the best interests of consumers and the wider economy. Consumer and investor protection risks are inherently high in some crypto and services and this is a concern to us. This is why we have warned consumers that crypto products can be highly risky, speculative and are not suited for most retail consumers. Where we see higher inherent conduct and consumer protection risks in products, we will have higher expectations of firm's to adhere to high standards.

So in short, we take a sceptical view on business models where profitability is driven from the heavy marketing, offering and distribution of unbacked crypto to retail customers for speculative purposes.

Additionally, I would also like to stress that governance and safeguarding of client assets are critical considerations for the Central Bank. Regardless of the services, the target customer base, or whether it is retail focused or aimed at institutional clients, governance and safeguarding of client assets are key in shaping our view of risk.

## **The role of regulation and our work at an EU level**

The intention of MiCAR is to address the risks to consumer protection and market integrity from crypto, along with specific risks to financial stability and monetary policy, while also bringing regulatory clarity to the sector. It will provide a consistent framework across the EU for the on-going development of this innovation, and bring much needed legal clarity to the market. Importantly, we expect MiCAR to be an iterative process

that will be tailored over time to address emerging activities and risks in the crypto sector.

A priority for the Bank has been working with our EU peer regulators and the European Supervisory Authorities (ESAs) to ensure the necessary coordination and consistency across Europe as we implement MiCAR across the 27 jurisdictions of the EU. This work is focused on completion of the level 2 and level 3 texts, the more detailed regulations, technical standards and guidelines. The ESAs have sought and continue to seek stakeholders' input on the proposed level 2 and level 3 texts through their consultation processes. I would encourage you to engage with these remaining processes in order to convey your observations and insights.

Crucially, this European work is focused on driving a convergent approach to the implementation of MiCAR in authorities authorisation and supervision processes. We see this as crucially important throughout the MiCAR implementation phase and beyond. It will ensure clarity and consistency for industry and regulators alike, aiding firms in their approaches towards transitioning to MiCAR. Importantly, it will help prevent arbitrage or jurisdiction shopping based on actual or perceived differences in approach. This should ensure a strong grounding for this new important regulation.

## **Our purpose today**

So finally, this brings me to our purpose today.

Today, we are seeking to engage with you as a sector, to facilitate an open and constructive engagement that enables us to outline our approach to implementing MiCAR, and for you as an industry to have greater clarity and transparency on the next steps.

Over recent years, we have been working to continually improve our authorisation process. Through engagement with industry, other public bodies and applicants, we have sought to better explain our expectations, resulting in increased clarity and predictability. Better risk assessment, better communication and better supervisory outcomes have been the output of that work.

We have produced new publications, enhanced our internal processes and responded to the changes in the authorisation landscape, including the increase in the number of complex applications. You can expect that continuous improvement and innovation to continue.

So today, we want to:

- Outline our approach to implementing MiCAR;
- Inform you of our risk appetite;
- Clearly communicate our authorisation and supervisory expectations; and
- Set out potential next steps, specifically when our MiCAR gateway engagement will open.

Lastly, we want to hear from you.

Following Mary-Elizabeth's remarks, we will have a panel discussion and welcome your questions. I know some of you have already submitted questions via email that you would like us to address today. We will do our best to answer your queries today, but if not possible, the Central Bank will be engaging bilaterally with you over the coming months. With this said, I would again like to welcome you to the Central Bank and I look forward to your engagement today. I hope that this briefing session is informative and helpful and provides you clarity on the next steps that you may take regarding your MiCAR journey.

Mary-Elizabeth McMunn will now tell you more about the plans for the session

Thank you.