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Will EU Regulations Save DeFi?

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Some are concerned that a raft of new regulations will hurt crypto businesses. Others are pleased to see clear and concrete rules for DeFi businesses and crypto exchanges to follow. In this regard, will EU regulations save DeFi or cause irreparable damage? Regulations are coming to the world of cryptocurrencies. This is largely as a result of substantial monetary losses during crypto winter. Many of those losses were the result of sloppy business practices and others were the result of fraud. We asked in one of our articles if regulations would have [prevented FTX fraud](#). The most complete so far are those in the European Union and they will go into effect over the next year and a half.

Why Does DeFi Need Regulation?

Over the years, businesses that handle other people's money have repeatedly gone out of business taking customer assets with them. Sometimes it is simply a failed business due to poor management such as SVB (Silicon Valley Bank) that bought Treasuries at low rates before the Fed raised rates. A similar issue occurs with algorithmic [stablecoin assets](#) that disappear because algorithmic stablecoins are not really stable. When stablecoins are regulated like banks or insurance companies they will need to have hard assets to cover the stated value of their tokens which will protect investors and clients.

The other issue with DeFi businesses is that they can engage in fraudulent activities like FTX. They moved token assets around to various arms of their business and failed to account for these as loans within the company. Thus the company appeared to have more assets than it really had. This sort of fraudulent activity generally gets noticed when a company is subject to regulations and routine audits. CoinDesk asks how much DeFi will need to [sacrifice to appease regulators](#). Anyone who lost a substantial amount of money in the FTX fiasco will probably say DeFi will need to give up stupid business practices and illegal activity in exchange for the trust that a regulated industry will engender.

How Will the EU Regulate Decentralized Finance Businesses?

The new EU law is called the Markets in Cryptoassets Regulation or MiCA. Every business that uses cryptocurrencies in any way within the European Union will need to register. Registration can be with any of the member states of the EU. Doing so will place any crypto business under the watchful eyes of the European Securities and Markets Authority and the European Banking Authority no matter if they operate just in the state where they register or throughout the EU.

A separate law regarding money laundering tightens requirements of crypto businesses to know their customers. Furthermore, the identities of all customers will have to be reported to the local anti-money laundering authority!

Proof of Hard Currency Reserves for Stablecoins

Stablecoins that are backed by hard currencies will need to demonstrate sufficient reserves to cover the stated value of their crypto assets. This will be similar to the requirements for insurance companies and banks. Companies will be audited to ensure that they are using sound business practices, management, and governance. Any company not pegging to the euro will have a €200 million daily trading cap.

The new EU regulations will become law over the next couple of years. The final form of the law will be finalized by July. Stablecoin rules will come into force in July of 2024 and all DeFi-related rules will begin at the start of 2025.

It is our opinion that regulations will help and not hurt decentralized finance. The biggest threat to all aspects of the crypto world has been the loss of trust due to huge financial losses coupled with evidence of fraud and inadequate business practices. Regulation will help clean that up and allow DeFi to get back on the growth track.

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