

Crypto-assets – financial stability implications

Crypto-assets are considered as digital assets enabled by the use of cryptography and distributed ledger technology (DLT) and are generally issued by the private sector. Crypto products can be divided into two broad categories: (i) ‘unbacked cryptos’, making up the vast majority, such as Bitcoin, and (ii) ‘stablecoins’, which are digital units of value that rely on stabilisation tools to maintain their value.

The crypto-asset market is attracting widespread interest, drawing challenges due to the lack of a global regulatory framework cybersecurity risks and investor protection concerns. Indeed, this market generally exhibits extreme market volatility, mainly due to the absence of an intrinsic value of the assets. In turn this makes cryptos highly vulnerable to changes in investor sentiment. This was experienced in 2022, when market valuations fell by 60% from their peak in 2021. Despite the recent market correction, the size of these assets has more than doubled compared to early 2020, although it remains relatively small compared to traditional finance.

The rapid growth and abrupt re-pricing dynamics observed in the crypto-asset market in recent years have stimulated an intense policy debate, involving regulators and supervisors at national and supranational levels. As the size of the crypto universe increases, products become more complex and the interconnectedness between crypto assets and the traditional financial sector rises, associated risks are expected to intensify. In addition, the lack of financial regulation has encouraged the use of cryptos as means for financing illicit activities.

Against this backdrop, Malta has been one of the first EU jurisdictions to enact a crypto asset service provider regime (Malta Virtual Financial Assets Framework). At the European level, on April 2023, the EU Parliament approved the European Markets in Crypto-Assets Regulation (MiCA), which aims to establish a regulatory framework for crypto assets at EU level in order to protect investors, ensure market integrity and safeguard financial stability. The sections of MiCA applicable to issuers of crypto-assets will be implemented on 30 June 2024, while the provisions for crypto-asset service providers will enter into application at the end of December 2024.

For further information:

- [MFSA's Virtual Financial Assets \(VFA\) framework](#)
- [European Markets in Crypto-Assets Regulation \(MiCA\)](#)
- [Decrypting financial stability risks in crypto-asset markets](#) – May 2022 ECB Financial Stability Review
- [Crypto-assets and Global “Stablecoins”](#), Financial Stability Board (FSB), last updated November 28, 2023
- [Assessing Macroeconomic Risks from Crypto Assets](#), IMF September 29, 2023
- [Financial stability risks from crypto-assets in emerging market economies](#), BIS Papers 138, August 2023
- U.S. Department of the Treasury (2022), Crypto-Assets: Implications for Consumers, Investors, and Businesses
- Crypto-Assets: Implications for Consumers, Investors, and Businesses (treasury.gov)