

Ensuring Innovation: A Measured Approach to MiCA 2.0

Decentralized finance (DeFi) and stablecoins are poised to redefine global finance, offering more inclusive, efficient and accessible alternatives to TradFi. But it's still early days. As the EU embarks on a second round of crypto regulation, it should avoid imposing rules that could stifle innovation or disadvantage the EEA globally. In Coinbase's recent submission to the European Commission, [we urge](#) the EC to take a balanced, internationally coordinated approach to crypto market regulation.

Background

In 2023, the EU enacted its first regulatory framework for crypto assets: Markets in Crypto-Assets (MiCA). With this framework now entering implementation, the EU is contemplating a second round of legislation, commonly known as "MiCA 2.0," which will address emerging issues around DeFi, stablecoins, and automated financial infrastructure. But it is critical that the EU avoid heavy-handed regulation that could stifle innovation or drive crypto activity offshore. This moment presents a crucial policy inflection point: How should the EU revise stablecoin rules, and implement DeFi regulation, to promote financial innovation while protecting users?

Our overarching vision

It is key that Europe's main financial regulations, MiFID and MiCA, align so that together, they support innovation and economic efficiency. As the EU considers how to regulate emerging areas like decentralized finance (DeFi), it should focus on proportionate, innovation-friendly rules. MiCA 1.0 rightfully focused on where consumers are today - on centralized exchanges and stablecoin issuers. These intermediaries are best positioned to meet regulatory requirements, and consistent implementation across the EU is key to creating a fair, unified market.

DeFi and open blockchain networks reduce the need for intermediaries and increase transparency. Rather than regulating them like traditional financial infrastructure, rules should focus on user-facing apps, not the open-source protocols themselves. Supporting secure self-custody—where users directly control their assets—can enhance autonomy, reduce systemic risk, and improve inclusion. As the EU revisits its capital markets framework, it should take this opportunity to modernize rules to reflect the realities of crypto, DeFi, and digital innovation.

Recommendations

Our submission to the European Commission made the following key recommendations.

- **Recognize Decentralization as a Spectrum:** Decentralization evolves over time, and regulation should reflect this continuum. MiCA rightly exempts fully decentralized systems, and that approach should guide broader EU policy. National regulators like Denmark's FSA are helping define decentralization in practice. Efforts should focus on entities that retain unilateral control, not on those that have meaningfully handed governance to users or communities through decentralized mechanisms. A safe harbor, as envisioned in the U.S., could provide DeFi projects with the time and legal flexibility needed to progressively decentralize.
- **Clarify That Intermediaries Accessing DeFi Are Not in Control:** Simply using DeFi protocols should not automatically make intermediaries responsible for them. Exchanges and platforms that interface with DeFi often do so without controlling the protocols themselves. Non-custodial software developers and front-end providers should not be classified as "responsible persons" under MiCA. Regulators should define control clearly and bear the burden of proof, rather than placing undue risk on developers or users.
- **Keep Smart Contract Certification Optional:** While France's interest in smart contract certification is notable, such frameworks should remain optional. The industry already relies on audits, bug bounties, and peer review to ensure code security. Mandatory certification could slow innovation and become quickly outdated. Instead, Europe should support flexible, community-led models for security assurance that evolve with technological progress.
- **Support Technical, Not Policy-Based, Responses to MEV:** "Maximum Extractable Value" refers to ordering transactions in decentralized systems to enable efficiencies like arbitrage and liquidation. ESMA correctly identifies MEV as a technical issue, not one for policy. Initiatives like Ethereum's proposal-builder separation and user tools like slippage limits offer effective solutions that can improve fairness without compromising innovation in transaction design.
- **Pilot Embedded Supervision for DeFi with Real-Time Blockchain Data:** Blockchains offer regulators new tools for real-time oversight. A proof-of-concept or sandbox could help the EU explore how smart contract analytics and onchain monitoring enhance risk detection. Combined with offchain surveillance, this creates a powerful approach to supervising DeFi. Focusing on major protocols first would allow regulators to test feasibility and scale successful strategies responsibly.
- **Preserve Multi-Issuer Stablecoin Models in MiCA 2.0:** The EU should preserve the multi-issuance model for stablecoins to support global liquidity and seamless cross-border use. Eliminating this model would harm EU CASPs and their customers by reducing

access to US dollar-denominated stablecoins, limiting trading pairs for euro stablecoins, and resulting in higher costs and slower transactions for users across the EU.

- **Reassess the Ban on Interest-Bearing Stablecoins:** MiCA's blanket ban on interest-bearing stablecoins risks limiting DeFi growth and reducing user value. Earning interest is central to DeFi lending and borrowing, and banning it removes a key utility of stablecoins. With safeguards, interest-bearing EMTs can boost liquidity and innovation. The Commission should reassess the prohibition through a new impact study that weighs financial stability risks against market benefits and evolving competition with tokenised deposits.

Conclusion

MiCA 2.0 represents an opportunity for the EU to build on its regulatory leadership without overreaching into areas that are still under active development. By focusing on centralized entities, supporting international coordination, and fostering a principles-based approach to DeFi and stablecoins, the EU can maintain its commitment to innovation while protecting consumers. We urge the European Commission to proceed with caution, observe global developments, and preserve the core freedoms that have made permissionless blockchains such a powerful force for economic transformation. A thoughtful, globally aligned approach to MiCA 2.0 will ensure the EU remains an attractive hub for crypto innovation—today and in the future.

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