

**EMBARGOED UNTIL 13<sup>th</sup> DECEMBER 10 AM (PARIS TIME)**

## **Crypto-assets on the rise but remaining very risky**

In November 2024, the value of certain crypto-assets has significantly and suddenly increased, hitting new records. This reflects an intensifying interest in relation to crypto-assets and confirms their highly volatile nature. ESMA is cautioning investors against being caught up in this hype. They should reflect carefully before making any financial decision and consider their financial needs and objectives.

These events occur just a few weeks before the application of the Markets in Crypto-Assets Regulation (MiCA)<sup>1</sup> to firms providing crypto-asset services. MiCA will start a new era of supervision for crypto-assets and related services as markets in crypto-assets are not yet regulated at European Union (EU) level. **MiCA will enhance protections** for holders of crypto-assets and clients of crypto-asset service providers as well as integrity of these markets.

### **The new regulation (MiCA) does not eliminate all risks.**

ESMA reminds investors that, despite these new protections, the inherent risks of investing in crypto-assets remain. Many crypto-assets are highly speculative and volatile, with prices subject to sudden and extreme fluctuations, also overnight. The recent surge in the price of certain crypto-assets might therefore be yet another short-lived spike. In addition, crypto-assets are prone to novel risks due to the underlying technology.

**MiCA's safeguards are less extensive than those for traditional investment products.** While MiCA aims to strengthen investor protection, it does not provide the same level of protection as those available for traditional investment products. For example:

- crypto assets will not be covered by an investor compensation scheme. The rules covering traditional investment services (MiFID II<sup>2</sup>), require investment firms to participate in investor compensation schemes. Such schemes compensate investors, for instance, if an investment firm goes bankrupt and is unable to return financial instruments (e.g. shares) belonging to an investor. In contrast, MiCA does not provide for similar investor compensation scheme protections for clients of crypto-asset service providers. Therefore, if your crypto-asset service provider is unable to return your crypto-assets, there is no "safety net";
- in contrast to the rules covering traditional investment services, MiCA does not require all providers of crypto-asset services to collect clients' information to assess their ability to understand the crypto-assets products they wish to trade;
- crypto-asset service providers have no obligation to report to clients, on a periodical basis, the crypto-assets they hold on clients' behalf and their updated or current value.

### **Clients may also not benefit from all protections immediately after MiCA enters into application.**

Most Member States opted to allow existing national crypto-asset service providers to operate without a MiCA license during a transitional period of up to 18 months after MiCA becomes applicable. As a result, clients may not fully benefit from the MiCA safeguards until as late as 1 July 2026, while national authorities will have limited supervisory powers until the crypto-asset service provider becomes

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<sup>1</sup> Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets.

<sup>2</sup> Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments.

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authorised. Until that point in time, the national supervisory powers may be restricted only to the enforcement of anti-money laundering rules.

**Clients should be very cautious when engaging with non-EU firms.**

Crypto-asset investments or related services offered by non-EU firms entail even lower safeguards, heightened risks of fraud and scams, and limited recourse (if any) in the event of disputes or claims against the provider. Additionally, ESMA emphasises that investors are not protected by MiCA when crypto-asset services are provided by firms not authorised in the EU.

**THINGS YOU SHOULD KNOW AND CHECK**

You should be aware of the specific risks of crypto-assets and related products and services and carefully weigh up whether the risks are acceptable, given your own objectives and financial situation.

These include the risk that:

- you may lose all the money you invest;
- prices can fall and rise quickly over short periods;
- you may fall victim of scams, fraud, operational errors or cyber attacks; and
- you are unlikely to have any last resort right to protection or compensation if things go wrong.

If you are thinking about buying crypto-assets or related products and services, you should check that:

- you can afford to lose all the money you invest;
- you are ready to take on high risks;
- you understand the features of the crypto-assets and related products and services you are seeking or you have been offered;
- you are able to protect effectively the devices you use for buying, storing or transferring crypto-assets, including your private keys;
- the issuers of the crypto-assets you want to invest in have the right to offer such crypto-assets in the EU;
- the service providers you are dealing with are duly authorised to provide crypto-asset services in the EU.

**Background information**

For further context, ESMA would also like to remind investors of the statements and warnings adopted by the European Supervisory Authorities (ESAs), and of relevance to the provision of crypto-asset products and/or services in the EU:

- See: Joint-ESAs warning ([here](#)) to consumers on the risks of investing in crypto-assets
- See: ESMA statement ([here](#)) to clarify the timeline for MiCA and encouraging market participants and NCAs to start preparing for the transition
- See: EBA statement ([here](#)) setting out expectations to issuers and offerors of asset-referenced and e-money tokens to comply promptly with MiCAR and reminding of consumer risks