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The European Supervisory Authorities' Warning on the Risks of Cryptoassets



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On March 17, 2022, the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority (together, the European Supervisory Authorities or “ESAs”) [published](#) a warning to EU retail investors on the risks of cryptoassets. The ESAs’ view is that cryptoassets are not suited for most retail consumers as an investment or as a means of payment or exchange.

In their warning, the ESAs provide an explanation of the key risks in cryptoassets that they consider face retail investors, including:

- Extreme price movements;
- Misleading information provided in marketing;
- Absence of regulatory protections (as most cryptoassets are outside of the EU regulatory perimeter);
- Product complexity;
- Fraud and malicious activities;
- Market manipulation, lack of price transparency and low liquidity; and
- Hacks, operational risks and security issues.

The ESAs note that while most cryptoassets are currently unregulated in the EU, this situation will change once the European Union implements the proposed Regulation on markets in cryptoassets (known as “MiCA”).

Both the FCA and the ESAs have expressed concern for a number of years regarding the suitability of cryptoassets for the retail market. This most recent

warning might well be regarded as a timely reminder to EU legislators to progress the MiCA proposal as soon as possible, noting that “[EU] consumers will not currently benefit from any of the safeguards foreseen in that proposal until it is adopted and applies.”

In an interesting addition to the warning, the ESAs state that EU retail investors should be aware of the environmental impact of some cryptoassets, such as the high energy consumption of some cryptoassets which involve mining and validation processes.
