

DECENTRALISED FINANCE

POLICY RECOMMENDATIONS

Decentralised finance (DeFi) refers to a blockchain-based form of finance that removes intermediaries and enables peer-to-peer financial transactions through smart contracts. It offers many opportunities to make financial markets more efficient but also introduces new risks and challenges which need to be mitigated. As the leading European Crypto-Asset Service Provider, Bitpanda advocates for technological progress while safeguarding users and financial stability. Any DeFi regulation should aim at abuse prevention without prohibiting the technologies that function without human intervention disproportionately. Hence, there is a strong need for collaboration between regulators and industry.

Recommendation 1

DEFI-SPECIFIC RISKS

- Governments and industry should collaboratively decide on and pinpoint risks that all DeFi projects must address. These include AML and CTF standards already broadly accepted.
- Establishing robust security standards is incremental for increasing public trust in the DeFi sector. Defining on-chain risk parameters and enabling real-time monitoring of potential threats will improve overall security and trustworthiness of protocols.

Recommendation 2

DEFINITION OF DECENTRALISATION CRITERIA

- The industry and governments ought to identify shared criteria to determine if a protocol is decentralised and thus subject to DeFi regulation and what differentiates it from a centralised service. Criteria for so-called DINO (Decentralised in Name Only) protocols must be established in order to create a common understanding of what constitutes DeFi.
- Bitpanda urges that there must not be an arbitrary binary distinction between decentralised protocols, as there needs to be a spectrum on which to evaluate DeFi based e.g. on developer anonymity and governance structures.

Recommendation 3

CREATION OF DEFI-SPECIFIC REGULATIONS

- Following MiCAR, there is a need to create regulation that encompasses DeFi. The challenge lies in the fact of matching traditional financial regulation but recognises DeFi's uniqueness and acting accordingly.
- Defining key DeFi applications (dexes, liquidity staking, crypto-lending etc.) and identifying the relevant risks (code flaws, rug pull, oracle attack), but also recognising the strength of blockchain technology to create regulatory equivalency of regulation inherent to the protocol.