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The significance of MiCA regulation implementation in Latvia and the European Union, impact on economic development and financial market integration

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Abstract

This article analyses the legal and economic implications of the Markets in Crypto-Assets Regulation (MiCA, Regulation (EU) 2023/1114) within the European Union (EU) and the Republic of Latvia. The study assesses its impact on national legal systems, investor protection and financial market stability, employing doctrinal, comparative and teleological methodologies. The analysis indicates that a harmonised regulatory framework contributes to reduced regulatory fragmentation and increased legal certainty, addressing challenges previously associated with regulatory uncertainty in the crypto-asset market (European Central Bank, 2025). Empirical analysis is grounded in the practices of the Financial and Capital Market Commission of Latvia and supplemented by statistical data concerning registered crypto-asset service providers. Findings demonstrate that MiCA establishes harmonised licencing and supervisory procedures, enhancing legal certainty, investor protection and cross-border financial market integration. Ongoing challenges include proportionality of regulatory requirements, administrative burdens and innovation scope for smaller Fintech enterprises. When implemented proportionately, MiCA strengthens Latvian financial sector competitiveness and promotes sustainable growth across the EU single market.

Keywords

Crypto-assets • Legal certainty • MiCA Regulation • Sustainable growth

INTRODUCTION

Until recently, the crypto-asset market within the European Union (EU) has developed in a fragmented manner, relying on disparate national legal frameworks and heterogeneous supervisory practices. This fragmented approach has resulted in significant legal uncertainty and increased risks concerning investor protection. The EU's adoption of Regulation (EU) 2023/1114 (Markets in Crypto-Assets [MiCA]) establishes a unified legal framework for crypto-assets, aiming to strengthen financial stability, protect investors and foster digital finance innovation. Specific provisions for asset-referenced tokens (ART) and electronic money tokens (EMT) became applicable on 30 June 2024, with full MiCA application from 30 December 2024 (European Securities and Markets Authority, 2025).

In the Republic of Latvia, the implementation of Regulation (EU) 2023/1114 (MiCA) has been institutionally reinforced by the enactment of the Law on Crypto-Asset Services on 13 June 2024 (Latvijas Republikas likums, 2024). This national legislation aims to promote the development of the crypto-asset sector by providing a clear, consistent and effective legal framework governing the operation of the crypto-asset market within Latvian territory. The Law entered into force on 30 June 2024 and provides for a transitional period until MiCA is fully applicable across all EU Member States, that is, until 30 December 2024. Pursuant to this Law, the Bank of Latvia has been designated as the competent authority responsible for licencing crypto-asset service providers (CASPs) and conducting their prudential supervision. This role constitutes a critical component of MiCA's implementation, ensuring the involvement of a national authority within the EU's unified supervisory framework. It is important to highlight that, under MiCA's cross-border service provision mechanism (commonly referred to as the 'passporting' regime), CASPs authorised in one Member State are entitled to provide their services throughout the entire EU without the need to obtain additional authorisations in other Member States.

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MiCA provides a comprehensive, harmonised licencing and supervisory regime. Supervisory coordination is facilitated by a hybrid model:

- **National authorities** (e.g. Bank of Latvia) handle licencing, ongoing supervision and proportional support for small and medium-sized enterprises (SMEs).
- **European authorities** (European Securities and Markets Authority [ESMA] and European Banking Authority [EBA]) issue guidance, technical standards and promote harmonisation across Member States. This hybrid approach balances uniformity with local flexibility, ensuring proportionality for smaller entities while maintaining cross-border consistency. Guidelines cover governance, management competence, transparency and risk management, thereby mitigating regulatory fragmentation and enhancing legal certainty, enabling institutional investor participation and long-term capital mobilisation (European Banking Authority, 2025; Mkrtchyan and Treiblmaier, 2025).

Consequently, the Bank of Latvia's supervisory role extends beyond national jurisdiction, encompassing a transversal function in facilitating the operation of the EU single market in digital financial services.

The Law on Crypto-Asset Services contains detailed provisions on licencing and prudential supervision aimed at ensuring that CASPs operate in full compliance with the requirements of Regulation (EU) 2023/1114 (MiCA). The national regulatory framework addresses several key aspects crucial for market stability and investor protection, including capital adequacy requirements, the establishment of internal governance and control systems, client asset segregation and protection, as well as transparent and comprehensive disclosure obligations related to the services provided and associated risks (European Central Bank, 2025). Starting from 30 December 2024, the Bank of Latvia will fully exercise its functions as the competent authority in the licencing and prudential supervision of CASPs. This guarantees a harmonised approach aligned with supervisory authorities across other EU Member States, pursuant to the unified regulatory regime established by MiCA. Such regulatory harmonisation fosters the creation of a unified European crypto-asset market infrastructure, enhances trust among market participants and investors, and facilitates the integration of crypto-assets into the EU's financial system. In the long term, this approach may serve as a prerequisite for the mar of a unified, innovation-driven and systematically supervised digital financial market at the European level.

The relevance of this research is underscored by the fact that crypto-assets have become an integral component of modern financial infrastructure, significantly impacting the functioning and developmental trajectories of traditional financial systems. The evolution of crypto-assets encompasses a broad spectrum, ranging from the use of digital currencies and stablecoins to the tokenization of real-world assets, which fundamentally transforms existing paradigms of property rights, investment and capital raising. Tokenization processes foster the emergence of novel financial instruments while simultaneously expanding capital mobilisation opportunities across various sectors of the economy, including real estate, commodities, precious metals and other asset classes. According to projections by the European Commission, full implementation of Regulation (EU) 2023/1114 (MiCA) is expected to result in approximately a 30% growth in the regulated crypto-asset market segment by 2025. European supervisory authorities, notably ESMA and EBA, have issued guidelines to support consistent MiCA implementation, clarifying management competence, governance and transparency obligations. These measures mitigate regulatory fragmentation and consolidate a harmonised supervisory framework, ensuring legal certainty for crypto-asset market participants across the EU.

These trends demonstrate that the MiCA regulatory framework not only promotes financial market integration within the EU but also creates structural prerequisites for innovation development and sustainable growth, including within the Latvian economy. According to European statistical data, the total crypto-asset market capitalisation reached USD 3.7 trillion in 2024, vividly illustrating the scale of this market's influence on the global financial system. Moreover, despite periodic market capitalisation adjustments, venture capital investments in blockchain technology and crypto infrastructure continue to rise. This trend attests to investors' long-term confidence in the sector's potential and ongoing conviction regarding its capacity to deliver significant contributions to the development of the digital economy.

RESEARCH RESULTS AND DISCUSSION

Adoption of crypto-assets in society

The adoption of crypto-assets within society continues to increase, a trend observable across the EU. For instance, according to 2025 data, 21% of respondents in France reported owning crypto-assets, compared with 18% in 2024. This growth reflects a rising public interest and engagement in the digital asset market, as well as the gradual integration of digital financial solutions into everyday financial practices. Such dynamics promote broader financial inclusion, particularly among demographic groups traditionally underrepresented in capital markets, and foster the development of digital literacy an essential prerequisite for sustainable growth in the digital economy. In the Latvian context, there is a noticeable intensification of interest from international CASPs, with public indicators suggesting that several companies plan to initiate or expand their operations within the Latvian jurisdiction. Currently, at the national level, a targeted strategic approach is being implemented, positioning Latvia as a regional blockchain technology hub (Fintech Baltic, 2025). The author posits that this development serves as practical evidence that the implementation of Regulation (EU) 2023/1114 (MiCA) creates a favourable regulatory environment conducive to attracting substantive investments and entrepreneurial initiatives. Moreover, the application of MiCA in Latvia impacts not only market participants but also the institutional architecture of the national financial market supervisory framework. A significant milestone in this regard is the establishment of the Digital Assets Supervision Department within the Latvian Bank in 2025. The functions of this unit include administering the licencing process for CASPs, supervising sector-specific risks, and collecting and analysing market data to support supervisory activities. This institutional reform substantiates that MiCA should not be regarded merely as a formal legal regulatory framework but as a systemically significant instrument that promotes the modernisation of financial market supervisory culture while simultaneously enhancing national competitiveness in the digital economy (Fintech Baltic, 2025).

According to the licencing roadmap developed by the Bank of Latvia, the authorisation regime for CASPs in Latvia became applicable as of 30 December 2024, subject to transitional provisions concerning existing market participants (Bank of Latvia, 2025). This approach enables domestic entities to prepare in a timely and structured manner for the provision of cross-border services within the framework of the EU's Single Market, including through the utilisation of the so-called passporting mechanism provided under Regulation (EU) 2023/1114 (MiCA). Furthermore, from the second half of 2024 and into 2025, European supervisory authorities, namely the ESMA and the EBA have issued a series of guidelines and technical standards that further clarify the application of MiCA's regulatory provisions. These guidelines address areas such as the knowledge and competence requirements for management personnel, internal governance systems and obligations concerning transparency and disclosure. The implementation of such regulatory instruments significantly mitigates the risk of regulatory fragmentation among Member States and enhances legal certainty and predictability for participants in the crypto-asset market. Simultaneously, it fosters the consolidation of a harmonised supervisory approach across the EU, which remains one of the core objectives of the MiCA Regulation.

Research objective and methodology

The primary objective of this study is to conduct a legal analysis of the implementation of Regulation (EU) 2023/1114 on MiCA within the Republic of Latvia and the EU as a whole. Particular emphasis is placed on assessing its impact on economic development, financial market integration and the enhancement of legal certainty within the digital financial environment. The underlying hypothesis posits that the introduction of MiCA facilitates regulatory harmonisation while promoting the development of innovative financial solutions, thereby strengthening investor protection and confidence in digital assets. The methodological framework of the research is grounded in normative legal analysis, entailing a detailed examination of applicable EU legal acts, including the MiCA Regulation, alongside Latvian national legislation that transposes and operationalises the Regulation at the domestic level. A comparative legal method is employed to evaluate Latvian practices in relation to those of other EU Member States, with particular focus on supervisory institutional models and licencing procedures. A significant component of the study involves the analysis of institutional practices based on documents, guidelines, and statistical data issued by the Bank of Latvia, the ESMA and the EBA. Doctrinal legal analysis is applied to interpret MiCA and related normative acts through a teleological and systemic lens, thereby elucidating their role within the broader structure of EU financial law. Empirical methods are utilised to identify market trends and policy developments through the analysis of publicly available data on crypto-asset market dynamics and supervisory activities.

Scientific contribution and relevance

This study contributes to the scholarly development of legal science by analysing Regulation (EU) 2023/1114 as an instrument of legal integration that simultaneously establishes a new paradigm for financial supervision in the digital age. The implementation of MiCA lays the foundation for a unified, risk-based and transparent regulatory system for crypto-assets across all EU Member States, thereby reducing market fragmentation and enhancing legal certainty. The research argues that MiCA transcends a mere normative framework for regulating the crypto-asset market, functioning as a structural mechanism to strengthen economic sustainability and digital competitiveness, particularly in smaller and open economies such as Latvia. Consequently, the findings of this study hold significance both for normative reform assessments and for policymaking related to digital financial market development, innovation ecosystem enhancement and investment climate improvement.

Contextual background

In May 2023, the Council of the European Union adopted Regulation (EU) 2023/1114 on MiCA, thereby establishing a uniform EU level legal framework for the crypto-asset sector. The Regulation is scheduled to enter into force on

30 December 2024. Subsequently, on 13 June 2024, the Republic of Latvia enacted the Crypto-Asset Services Law, which supplements and elaborates upon the requirements of the MiCA Regulation at the national level, designating the Bank of Latvia as the competent authority for supervising the crypto-asset sector. This legislation governs the licencing procedures for CASPs, the imposition of supervisory fees, as well as the rights and obligations of supervised market participants. Pursuant to the Law, as of 30 December 2024, the Bank of Latvia assumes responsibility for issuing licences to CASPs and supervising their operations. Moreover, CASPs authorised in any EU Member State are entitled to offer their services throughout the Union by virtue of the cross-border notification ('passporting') mechanism provided under MiCA (Fintech Latvia, 2023).

Regulation (EU) 2023/1114 on MiCA functions as a pivotal entry point for the EU to promote innovation and develop digital solutions within the financial sector. MiCA is an innovative and unique legal instrument establishing a comprehensive regulatory framework for CASPs and their supervisory authorities (competent authorities [CAs]), in contrast to generalised guidelines adopted in other jurisdictions. Broadly, MiCA is positively perceived by both cryptocurrency communities and international observers as a benchmark standard and reference point in the regulation of this domain. Beyond regulating supervisory authorities, MiCA holds the potential to act as a catalyst for further digital innovation initiatives in the financial sector, in view of anticipated legal and technological developments across the EU (Swertvaeger, 2024).

The legal foundation for crypto-asset regulation is anchored in the adoption of Regulation (EU) 2023/1114 by the European Parliament and the Council, which entered into force on 30 December 2024. MiCA aims to reinforce market integrity and financial stability, while improving the disclosure and risk awareness of investors and consumers. An initial regulatory impact was already observable in June 2024, when the regime governing ART (stablecoins) became applicable. Subsequent regulatory obligations are linked with the Regulation on the Transfer of Funds and the so-called 'Crypto Travel Rule', which imposes requirements for information accompanying crypto-asset transfers and is designed to counter money laundering and terrorist financing. From 2025 onwards, CASPs must apply for licences to operate across the EU, ensuring their compliance with standards closely aligned with those for traditional financial instruments. Full compliance with principles of data and asset segregation, and other MiCA requirements, is slated to be achieved by July 2026. From an economic and market integration standpoint, MiCA creates a level playing field across the single market, reduces regulatory arbitrage and fragmentation, and increases legal certainty and reputational trust factors that are prerequisites for institutional investor engagement and long-term capital mobilisation. In the Latvian context, the introduction of MiCA and its national licencing regime ensures that a licence granted in Latvia grants rights to operate within the entire EU, while imposing clear obligations regarding governance, disclosure and client interest protection. This approach fosters export potential for financial services, enhances the value added from local platforms and services, and deepens regional financial market integration. At the same time, the regulation mandates that service providers invest in internal controls, compliance frameworks and technological security capacity. Ultimately, the actual balance between costs and benefits in practice will determine to what extent MiCA's regulatory framework translates into real economic growth and financial ecosystem resilience in Latvia and across the EU (Narvi, 2025). Although cryptocurrency enthusiasts often view new regulation with skecpticism, MiCA's objective is to regulate the 'shadow market' of crypto-assets, thus safeguarding consumer protection, market integrity and financial stability.

At the EU level, crypto-assets present both significant opportunities and substantial challenges at the intersection of divergent national legal systems and the common EU regulatory framework. In the financial sector, crypto-assets reduce transaction costs, enhance asset transferability and improve capital formation efficiency (Amsden and Schweizer, 2018). However, the realisation of these benefits is contingent upon the establishment of a robust, transparent and effective regulatory regime capable of addressing risks related to security, fraud and market integrity (European Banking Authority, European Insurance and Occupational Pensions Authority & European Securities and Markets Authority, 2022). Foreign research indicates that Latvia is actively harmonising its national regulatory framework with EU legal requirements while implementing key priorities of the digital economy, including the application of blockchain technology across various sectors. Such an approach enables the operationalisation of EU regulatory norms within national practice, while simultaneously providing valuable insights for other Member States undergoing similar adaptation processes.

The application of blockchain technology has expanded significantly beyond payment solutions, now encompassing areas such as the verification of property rights, the digital representation of rights to non-digital assets, supply chain management and digital identity solutions. Moreover, international studies emphasise the integration of blockchain with the Internet of things (IoT) and artificial intelligence (AI), which facilitates the development of programmable and data-driven governance and supervisory architectures (Jūrmalis et al., 2025). Other studies further confirm that asset tokenization, the digital representation of rights or claims in the form of tokens on a blockchain enhances asset liquidity, enables the implementation of fractional ownership, and expands investor access to financial markets (Swinkels, 2023). According to Mkrtchyan and Treiblmaier (2025), the MiCA Regulation constitutes the first comprehensive legal framework of the EU specifically designed for crypto-assets. MiCA addresses the previously fragmented regulatory landscape by introducing uniform rules for crypto-asset issuers and service providers across the EU. The establishment of a single licencing regime and a cross-border notification mechanism ensures a level playing field among Member States, mitigates regulatory arbitrage and reduces transaction costs factors that are essential prerequisites for market integration and improved capital accessibility. The Regulation sets forth binding requirements concerning disclosure obligations, internal governance arrangements, capital adequacy, the safeguarding and segregation of client assets and the prevention of market abuse. These measures enhance legal certainty and investor confidence, thereby fostering institutional investor participation and the mobilisation of long-term capital (Mkrtchyan and Treiblmaier, 2025). From an economic perspective, regulatory harmonisation reduces the cost of cross-border operations, facilitates the scaling of services within the single market and promotes the development of new business models within the digital financial infrastructure.

Moreover, the Regulation clarifies the distinctions between various types of crypto-assets, including ART, e-money tokens and other categories of crypto-assets. This classification enables market participants to more accurately anticipate the scope of compliance obligations and reduces legal uncertainty across trading platforms. From a supervisory and compliance perspective, the linkage of regulatory requirements to anti-money laundering (AML), counter-terrorist financing (CTF), customer due diligence (CDD) procedures and the traceability of crypto-asset transfers elevates the governance of digital assets to standards comparable to those observed in the traditional financial sector. At the same time, the authors highlight several implementation challenges, particularly in relation to the cost-benefit equilibrium for smaller enterprises. These include a substantial compliance burden, terminological and definitional ambiguities in borderline cases, potential overlaps with other Union legal instruments and inconsistent supervisory practices across Member States. In the short term, such issues may inhibit new market entrants and accelerate industry consolidation. However, in the medium term, these developments are expected to strengthen the resilience of the financial ecosystem.

Consequently, policy refinement aimed at clarifying the scope of regulation and legal definitions, applying a proportionate approach based on entity size, expanding regulatory sandboxes and establishing harmonised supervisory practices across the Union will facilitate the more effective transformation of legal certainty into tangible economic growth both in Latvia and across the broader EU single market (Mkrtchyan and Treiblmaier, 2025).

Europe as a whole, including Latvia, currently finds itself at a pivotal stage regarding public trust in cryptocurrencies. According to the 2024 Eurobarometer survey, 68% of EU citizens are aware of cryptocurrencies, yet only 17% report having used them. The figures for Latvia are broadly similar 63% of the population is aware of cryptocurrencies, but only 14% have actually used them. The decentralised finance (DeFi) ecosystem is fundamentally reshaping the dynamics of financial transactions by gradually diminishing the role of banks as traditional intermediaries. The decentralisation enabled by blockchain technology is transforming the nature of financial intermediation posing risks to traditional banking revenue models, while simultaneously creating opportunities for new collaborative models and service innovations. Large banks continue to offer conventional financial services such as deposits and loans; however, their dominant role in facilitating financial transactions is gradually declining. For Latvian entrepreneurs, this transition implies additional opportunities to conduct cross-border transactions at lower fees and with shorter processing times. Furthermore, blockchain-based transactions are fully traceable and virtually tamper-proof, offering a high level of transactional security (Venture Faculty, 2025).

According to data from *Venture Faculty* and the Latvian Ministry of Economics, several globally recognised CASPs are currently considering obtaining operating licences in Latvia. These prospective entrants would join approximately 20 existing Latvian crypto and blockchain startups. Among the most prominent participants in Latvia's crypto-asset ecosystem are *Paybis*, *Bitfury Group*, *Primex Finance* and others. At present, approximately 140 financial technology companies operate in Latvia significantly fewer than in Lithuania and Estonia, where approximately 270 and 260 Fintech companies are active, respectively (Fintech Baltic, 2025).

At the same time, the observed sectoral growth does not negate the presence of ongoing legal and operational risks. On 6 October 2025, the European Supervisory Authorities, namely the EBA, the European Insurance and Occupational Pensions Authority (EIOPA) and the ESMA issued a joint consumer warning. The statement emphasised that crypto-assets continue to represent a high-risk asset class, and that legal protection for consumers may be inconsistent or even inapplicable, depending on the nature of the asset and the legal status of the service provider. The accompanying factsheet provides practical guidance on the application of the MiCA Regulation, including how to verify the licence status of service providers via the ESMA register, applicable disclosure obligations and procedures for lodging consumer complaints. This emphasis is particularly relevant in the context of rapidly growing public interest, which is further amplified by the aggressive marketing practices of social media influencers (‘finfluencers’), thereby increasing the risks of information asymmetry and misleading practices (Latvijas Banka, 2025).

Against this backdrop, the first year of MiCA implementation reveals two contrasting yet mutually reinforcing developments. On the one hand, the unified regulatory framework has translated into tangible institutional demand and market restructuring. Following the enforcement of transparency, custody and asset segregation requirements, there has been a notable increase in trading volumes on regulated platforms, greater utilisation of stablecoins and capital consolidation around compliant service providers. Both retail and institutional market participants are progressively shifting towards licenced infrastructures.

On the other hand, substantial compliance costs, regulatory ‘grey zones’ particularly in relation to DeFi and certain use cases involving non-fungible tokens (NFTs) as well as divergences in national implementation practices among Member States are generating tensions between the pace of innovation and the establishment of consistent supervisory standards across the Union (Elad and Kinder, 2025).

At the EU level, in the author’s view, jurisdictions that benefit from strong regulatory capacity and well-developed market infrastructure have gained a comparative advantage in the implementation of MiCA by enabling a higher degree of compliance and accelerating the licencing process. Conversely, in Member States constrained by bureaucratic inefficiencies or limited institutional resources, the implementation of MiCA is progressing more slowly, thereby sustaining short-term risks of regulatory fragmentation.

In the Latvian context, a key opportunity lies in the strategic transformation of regulatory passporting advantages into tangible export capacity. Provided that the national licencing procedures, pre-licencing advisory frameworks and supervisory practices remain aligned with EU-level guidelines, a licence issued in Latvia could serve as a meaningful competitive asset across the internal market. According to the author, it is precisely this combination of regulatory clarity, legal uniformity and proportionality where differentiated obligations are applied based on risk and the scale of the undertaking that will be decisive in ensuring the full realisation of MiCA’s economic potential in smaller and open economies.

The author further argues that the future trajectory of MiCA is already discernible. While the first regulatory ‘wave’ has stabilised the core mechanisms for public offerings and the provision of crypto-asset services, the second ‘wave’ will inevitably focus on refining regulatory scope and harmonising supervisory practices. This will entail greater attention to DeFi, NFTs, the establishment of technologically neutral cybersecurity and data governance standards, as well as deeper coordination among supervisory authorities.

It is anticipated that, in the coming years, the integration of regulated crypto-financial products into traditional financial markets will increase particularly in collective investment schemes and the derivatives segment while maintaining stringent AML/KYC requirements and travel rule compliance as foundational elements to safeguard market integrity. If this developmental trajectory is implemented consistently, MiCA has the potential to serve as a long-term catalyst for enhancing investor confidence, lowering the cost of capital and facilitating the scaling of cross-border financial services. For Latvia, this presents a strategic opportunity to position itself as a regional centre of excellence in compliance and supervisory infrastructure for high value-added financial services.

Nevertheless, the practical implementation of MiCA demonstrates that a harmonised legal framework, in and of itself, does not guarantee an even adaptation process for all market participants. This is particularly relevant for SMEs, which often face resource constraints that hinder their ability to rapidly implement effective internal controls, asset segregation mechanisms, governance structures and AML/KYC compliance frameworks. The relatively high share of fixed compliance costs within SME business models creates a competitive risk of market concentration in favour of larger service providers.

At the same time, MiCA offers significant structural benefits, including legal certainty, a unified cross-border passporting regime and transparent disclosure standards that reduce regulatory arbitrage and lower capital risk premiums for firms with sustainable and compliant operations (One Safe, 2025).

The diversity of expert opinions further illustrates the complexity of supervisory arrangements under MiCA. One group of experts advocates for a centralised supervisory model led by the ESMA, arguing that such an approach would ensure a level playing field across the Union, reduce regulatory arbitrage and strengthen the integrity of the passporting regime. This, in turn, would enhance investor confidence particularly relevant for smaller markets with ambitions to export financial services. This perspective aligns with the motivations for Capital Markets Union and regulatory harmonisation as described by the European Commission and Financial Times (2025).

Conversely, other experts caution that full delegation of supervisory authority to ESMA may constrain the flexibility of national supervisors and slow down the licencing process for ‘fast-track’ companies entering markets like Latvia. This concern has also been expressed by Latvijas Banka, which emphasises the importance of pre-licencing consultations and practical guidance as competitive advantages for CASPs. In this context, proportionate national supervision is considered best suited to protect the interests of SMEs and to respond swiftly to market needs, without compromising MiCA’s stringent compliance requirements (European Banking Authority, 2025).

The author concludes that the most appropriate model for Latvia would be a hybrid approach: ESMA should retain primary competence over the supervision of large cross-border market participants, thereby reducing interpretive ambiguity and fostering harmonisation, while national CAs should remain responsible for licencing, ongoing supervision and the proportional application of regulatory requirements to the SME sector. This model would strike a balance between unity, where it is dictated by market scale and flexibility, where driven by local market dynamics.

An important yet underutilised opportunity, in the author's view, lies in the use of stablecoins for cross-border payroll settlements. Where remuneration is denominated in a single fiat currency and fully backed by reserves, such arrangements can significantly reduce transaction costs and delays compared with traditional cross-border payment systems. The implementation of such solutions requires full compliance with MiCA's requirements on reserves, transparency and redemption rights, as well as respect for labour law provisions. However, it offers a clear economic signal: where stability and transparency are guaranteed, market integration proceeds with fewer frictions. At a practical level, this could be operationalised through a hybrid salary model, where part of the remuneration is paid in stablecoins and part in euros, supported by a predefined conversion protocol and comprehensive employee disclosure regarding associated risks and rights. Such an approach is consistent with MiCA and adheres to the principle of proportionality, especially relevant for companies at different stages of development.

From a comparative perspective among EU Member States, supervisory convergence will be decisive. The more consistently and uniformly national CAs apply licencing and oversight criteria, the faster MiCA's intended benefits cross-border competition, reduced capital costs and legal certainty will materialise. Latvia's strength lies in its transparent licencing roadmap and pre-licencing consultation processes, which significantly reduce 'soft costs' for SMEs and enable national licences to serve as tools for EU-wide financial services export. At the same time, to avoid adverse selection risks, strong standards must be maintained in client asset protection, secure custody and effective market abuse prevention mechanisms especially as structured crypto-financial products gain market share.

Overall, MiCA establishes a clear development trajectory in which legal certainty and proportionate compliance serve as foundational pillars for fostering investor confidence, attracting capital and advancing financial market integration. The author anticipates that the 'second wave' of MiCA will prioritise clarifying regulatory scope particularly regarding DeFi enhancing supervisory coordination, and providing practical guidance for both market participants and regulators. If these conditions are comprehensively implemented, MiCA can evolve from a mere compliance instrument into a sustainable driver of innovation and export capacity both in Latvia and across the wider EU.

Legal and supervisory implications

The implementation of MiCA entails not only access to the EU's single market but also the imposition of binding compliance and liability standards. In order to obtain a MiCA licence, applicants must ensure full transparency of ownership and governance structures, implement effective risk management and internal control systems, guarantee the segregation of client assets, and demonstrate full compliance with AML and know-your-customer (KYC) requirements. Importantly, AML compliance is not merely a formal obligation, but a critical component for ensuring financial system stability and market integrity.

Failure to meet these obligations may result in administrative sanctions or, in severe cases, criminal liability. Article 195 of the Latvian Criminal Law stipulates imprisonment, asset confiscation or commercial activity restrictions for the laundering of proceeds of crime.

Recent regulatory precedents across the EU illustrate the seriousness of enforcement:

Malta (2025): The ESMA identified that the Malta Financial Services Authority (MFSA) had issued a CASP licence without a full assessment of business model risks, governance structures, conflict of interest prevention and information technology (IT) security. As a result, MFSA received an official warning and was instructed to significantly enhance its licencing control mechanisms to preserve the integrity of the MiCA 'passporting' regime (Reuters, 2025).

ESMA Warning (2025): ESMA also warned that several licenced CASPs had used their authorisation for misleading advertising purposes by promoting unregulated products alongside regulated ones, creating a false impression of investor protection. Such practices are considered violations that may jeopardise the continued validity of a MiCA licence.

These examples confirm that MiCA is not merely a declarative regulation, but a binding legal framework actively monitored by supervisory authorities. Negligence in licencing or operational compliance can lead not only to reputational damage, but also to suspension or revocation of licences, administrative penalties and criminal prosecution.

Therefore, CASPs are strongly advised to initiate timely and proactive preparations for licencing. This includes engaging with CAs, conducting internal audits and implementing robust internal policies to ensure sustainable and legally compliant operations.

In conclusion, MiCA transforms regulatory compliance from a competitive advantage into a legal necessity. Providers who embrace this shift by aligning their operations with MiCA's requirements will not only secure legal certainty but also gain reputational credibility, market access and long-term operational viability within the evolving EU financial ecosystem.

CONCLUSIONS

1. The MiCA regulation reduces legal fragmentation within the EU and enhances legal certainty, thereby strengthening investor protection and supporting the effective functioning of the single market.
2. The passporting regime ensures that a CASP licence issued in Latvia grants direct access to the entire EU market, thereby increasing the country's capacity to export financial services.
3. The licencing and supervisory framework administered by Latvijas Banka aligns with MiCA requirements and, by maintaining transparent timelines and offering pre-licencing consultations, serves as a competitive advantage.
4. The economic impact is reflected in lower transaction costs, higher institutional trust and potential capital attraction, provided that a stable, predictable and consistent regulatory application is ensured.
5. Fixed compliance costs disproportionately affect SMEs; therefore, the effective application of the proportionality principle is essential, taking into account risk exposure and business scale.
6. Supervisory convergence at the EU level is a prerequisite for a level playing field, yet the optimal model for Latvia is a hybrid approach where ESMA assumes primary responsibility for cross-border entities while national authorities retain competence over SME supervision.
7. Regulatory gaps particularly regarding DeFi and certain categories of NFTs hinder the uniform application of MiCA and require clarification to fully achieve the regulation's objectives.
8. The use of stablecoins for cross-border payments can reduce transaction costs and accelerate settlement, provided compliance with MiCA's reserve, transparency, redemption rights and labour law requirements.
9. MiCA's implementation in Latvia and across the EU reflects a synergy between legal clarity and financial market integration, which can foster sustainable economic growth if a balance between unity and proportionality is achieved.
10. Greater emphasis on the effective enforcement of AML/KYC requirements is necessary to mitigate the risks of money laundering and terrorist financing via crypto-assets, while preserving flexibility for market development.
11. To ensure sustainable financial market development, it is vital to timely refine regulatory frameworks and supervisory practices in response to technological evolution and changing market participant needs.
12. Latvia's position as a regional hub for compliance and supervisory quality depends on the consistent application of MiCA requirements and active engagement in EU-level regulatory dialogues.
13. MiCA holds the potential to become a global benchmark for crypto-asset regulation, provided that it achieves a balanced approach between fostering innovation and ensuring market security.
14. Latvia holds a strategic opportunity to position itself as a regional hub by offering a transparent licencing process, pre-licencing consultations and compliance support thereby strengthening the export potential of financial services within the Single Market.
15. MiCA violations carry significant legal and reputational consequences, including licence suspension or revocation and potential criminal liability making timely compliance and robust internal controls critically important.

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