

# **Decentralized Finance from the Perspective of Czech Financial Regulation and MiCA Proposal**

## **Abstract**

Decentralized Finance constitutes a new system for allocating resources by using irreplicable digital data that can be processed within a predefined framework of automatic operations based on blockchain technology. Its development has brought not only new economic opportunities but also a number of risks and legal issues. Since Decentralized Finance is in its early stages, relevant legal questions relating to its positioning within the existing and forthcoming legal frameworks are still not firmly established yet. This thesis aims to answer those relating to the applicability of selected Czech financial regulations and the European Commission's Proposal for a Regulation of the European Parliament and of the Council on Markets in Crypto-assets, as well as validate the hypothesis that the wide scope of the MiCA Proposal could influence the ecosystem of Decentralized Finance. First, the important technical foundations of Decentralized Finance and their specifics were outlined, and relevant financial applications were established for further assessment. Subsequently, the applications were compared with the scope of the chosen Czech financial regulation, namely the Act on Payment System, the Act on Currency Exchange, the Act on Banks, the Act on Consumer Credit, and the Capital Market Undertakings Act. Then, the Commission's MiCA Proposal was introduced along with its background, aims and scope, which were then used to assess whether the MiCA Proposal would also regulate the activities associated with Decentralized Finance applications. The provided analysis concluded that the Czech financial regulation was mostly not applicable to Decentralized Finance with certain exemptions. On the other hand, the MiCA Proposal and its regulation of issuance of crypto assets and crypto asset services would include most of the activities occurring within the Decentralized Finance system as outlined if it were not for the decentralization and the aim of the MiCA Proposal to regulate the intermediaries. The findings relating to the Czech regulation and the MiCA Proposal may serve to facilitate the navigation in determining aspects of Decentralized Finance for the purposes of current regulation, as well as for the efforts to regulate this area in the future.

## **Keywords**

DeFi, Decentralized Finance, crypto assets, MiCA