REBALANCING DIGITAL POWER IN FINANCE

What Europe's Market Integration Package Gets Right and What Still Needs Fixing. / 9 December 2025

Summary

Europe's Market Integration Package which was announced on December 4th marks a turning point by recognising blockchains as core financial infrastructure and pushing tokenisation and single supervision into the mainstream. The European Decentralisation Institute welcomes this progress but argues the package still reinforces yesterday's centralised market structure rather than building the open, decentralised systems Europe needs for long term competitiveness and sovereignty. Without safeguards, the European Securities and Markets Authority (ESMA) risks becoming a chokepoint, and without a legal framework for permissionless settlement layers and privacy preserving compliance, Europe misses the strategic advantages of decentralised infrastructure. The analysis sets out where the package succeeds, where it introduces new risks and what must be added for Europe to build resilient, values aligned digital finance.

Europe's Recognition of Blockchain as Infrastructure

Europe has implicitly recognised a major shift: blockchains are no longer treated as experimental technologies but as part of the continent's financial infrastructure. The EU Market Integration Package reflects this change. It brings tokenisation into the mainstream, advances Europe toward a genuine single market through central supervision, and acknowledges that value can move across networks rather than exclusively through intermediaries' balance sheets.

From an EDI perspective, this step is welcome yet incomplete. Europe is upgrading yesterday's infrastructure instead of designing the open, decentralised systems needed for long term sovereignty, competitiveness and resilience. Our message to co legislators is therefore straightforward. Europe should maintain progress on tokenisation and single supervision, introduce safeguards to prevent ESMA from becoming a single chokepoint, and seize this window to give permissionless settlement layers and privacy preserving compliance a lawful and explicit place within the EU framework.

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Why the Package Matters

This is not a niche legislative file. For the first time, the EU treats distributed ledger technology as core market infrastructure and integrates it into the Capital Markets Union agenda. The package scales up the DLT Pilot Regime so tokenisation can operate at meaningful size, provides legal certainty for tokenised securities and on chain settlement, and moves toward single supervision for crypto asset service providers under ESMA. If designed well, the result can be reduced fragmentation, lower costs for cross border activity and a more attractive environment for serious digital finance innovation in Europe.

The three things the EU Gets Right

EDI strongly supports three strategic decisions embedded in the package.

1. **The recognition of DLT as infrastructure rather than an experimental add-on anchors blockchain technology firmly within Europe's long term regulatory framework, giving incumbents and new entrants the clarity needed to invest.**

2. **Legal certainty for tokenised records and settlement addresses one of the most significant adoption barriers for institutional actors. Without clarity on the legal status of on chain processes, large scale use would not occur.**

3. **The move toward a genuine single market for Crypto Asset Services Providers (CASPs) signals an end to twenty seven divergent interpretations of MiCA. For responsible firms seeking to operate across the EU, one supervisor is far more workable than many. These achievements matter and should be preserved throughout the legislative process.**

The Two Strategic Risks That Require Attention

The package opens important doors but may create new bottlenecks if certain design choices are left unaddressed.

A first risk lies in building new digital rails while keeping the old market structure intact. By inserting DLT into traditional chains of intermediaries, the proposals leave little room for the openness that has historically driven competition and innovation. Evidence shows that systems with unrestricted entry, permissionless participation and space for experimentation tend to shift market power toward entrants, raise innovation intensity and reduce monopolisation. These outcomes align with Europe's strategic objectives. Without them, the EU risks capturing efficiency gains from tokenisation while missing the structural benefits of decentralisation.

A second risk arises from the concentration of supervisory power. Centralising CASP oversight at ESMA can reduce fragmentation, but without safeguards it also creates a single point of control in a fast moving market. This is not a critique of ESMA itself but a call for balanced governance.

Appropriate measures include:

- **strong transparency and explanation duties for key supervisory decisions,**
- **realistic and predictable timelines for authorisations and approvals**
- **explicit consideration of competition and innovation effects,**
- **clear exclusion of open source protocol developers, validators and non custodial infrastructure providers that do not intermediate client assets from the CASP perimeter.**

Europe needs a strong referee, not a structural choke point.

The Missing Elements: Permissionless Settlement and Privacy Preserving Compliance

The package implicitly accepts that public, permissionless blockchains can function as settlement layers while regulatory oversight remains at the access points. This is conceptually sound. It respects the global nature of Layer 1 protocols and avoids forcing them into legacy institutional categories.

Yet **two foundational elements remain absent.**

1. **Europe needs a clear framework for treating permissionless settlement layers as shared critical infrastructure. These networks underpin a wide range of applications, from DeFi to tokenised securities. They are not intermediaries but base layer governance systems with unique resilience and risk profiles. Treating them as centralised entities misunderstands their nature and limits Europe's ability to leverage them for sovereignty.**

2. **The EU framework remains silent on privacy preserving and protocol level compliance. Advances in cryptography and smart contract design now allow many regulatory functions to be implemented within the protocol itself, including zero knowledge proofs, selective disclosure and programmable limits. Leaving these tools in a grey zone sidelines approaches that could simultaneously strengthen supervisory insight and protect citizens' rights.**

If Europe wants to combine innovation with meaningful control, these models must be brought into the legal framework rather than ignored.

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