


Chapter 7

Global Perspective: Legal Issues on DeFi Regulation in the European Union

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ABSTRACT

With its new blockchain-based solutions and its challenge to established financial systems, decentralized finance (DeFi) has become a “force” on the global financial scene. This chapter provides a thorough analysis of the legal issues related to the regulation of DeFi in the European Union from a worldwide perspective. The study provides the dynamic nature of DeFi platforms, highlighting their borderless and decentralized nature, which poses challenges in adopting standard legal frameworks. Legal issues and legal infrastructure of DeFi platforms in the European Union are under study in this chapter. The study explores how DeFi is developing in the EU, examining both the collective efforts at the EU level and the regulatory responses of individual member states. How far has the European Union managed to regulate DeFi platforms with legal acts at the level of the European Union? What are the challenges for the legal regulation of the European Union and what are the steps that should be taken in the legal context?

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BACKGROUND

Globally, data has gained great importance especially in the last decade. With visible transformation in all segments, especially in the economic ones. The financial sector, the trend which is managing to embrace new systems in the digital aspect. For example, is embracing the concept of banking as a service and decentralized finance (Arruda, 2021). Thus creating a new economy based on new concepts in the economic segment. Such impactful innovations increase with financial services, taking into account the number of technology users (see for more on the ranking of European Union countries regarding the use, impact of technology (Dutta & Lanvin, 2022)). The use of technology, which is always growing, has also evolved in the expansion of information processing, customers, financial services, innovation models for businesses and others. Hence, such reformative changes have made digital progress impactful in the finance sector. Our study highlighting both the importance of digitization and the legal dimension for the European Union, all this supports the global perspective.

Considering that digital finance plays a role in achieving financial inclusion objectives that have a positive impact on economic growth (Risman, Mulyana, Silvatika, & Sulaeman, 2021). But there is no denying the fact that digital inclusion in financial systems is offering the possibility that payments, purchases, investments. But still, one cannot think without the negative aspect they can have on the stability of the financial system, based on different risk factors for financial relations in the digital realm. Such risks reduce the positive impact that digital finance can have. Increases in users of digital financial services can also create a level of economic inequality, another risk to influence the digital financial sphere.

DeFi enables applications that fulfill markets by featuring complex incentive mechanisms (Bartoletti, Chiang, & Lafuente, 2021). It offers financial services in the form of smart contracts, which are executable software programs deployed on top of DLT (Kitzler, Victor, Saggese, & Haslhofer, 2023). even decentralization can be closely related to democratization (Sobiecki, Piech, & Kopec, 2023). On the one hand, DeFi even presents cyber risk. DeFi refers applications that are being developed on top of blockchain and distributed ledger systems (Popescu, 2020), how evolving such applications will manage to reshape the structure of finance and innovate the modern economy. A special case is decentralized finance, which aims to revolutionize traditional financial services by establishing them in a decentralized infrastructure (Amler, etj., 2021), therefore we can emphasize the advantage of decentralized finance over traditional finance. The decentralized provision of financial services through a mix of infrastructure, markets, technology, methods and applications (Zetzsche, Arner, & Buckley, 2020). In this aspect, financial decentralization represents the way in which technology succeeds in replacing traditional finance. Most DeFi protocols

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