European Banking Authority ESMA European Securities and Markets Authority

Recent developments in crypto-assets

#CRYPTO-ASSETS #DEFI

Decentralised Finance (DeFi)

This Factsheet summarises the key findings of the 2025 joint EBA-ESMA report on recent developments in crypto-assets.

What is DeFi?

A system of financial applications built on blockchain networks that aims to replicate some of the functions of the traditional financial system in a seemingly open and permissionless way, eliminating traditional financial intermediaries and centralised institutions.

Retail and institutional investors may access DeFi via:

- DeFi application interfaces
- self-custodial wallets
- centralised trading platforms/other service providers

What is the size of DeFi use in the EU?

- DeFi remains a niche phenomenon worldwide and in the EU. It represents 4% of total crypto-asset market capitalisation, locked in DeFi protocols.
- The current number of DeFi users in the EU is estimated to be 7.2 million, but only a fraction (less than 15%) seems to engage in DeFi activities regularly.
- The main use cases of DeFi appear to be staking, lending and borrowing and exchanging crypto-assets.
- Euro-denominated so-called stablecoins remain negligible in DeFi markets.

Are traditional EU financial institutions exposed to DeFi?

EU bank and fund sector engagement in DeFi is very limited:

- a majority of surveyed EU banks does not engage in crypto-asset issuance or service provision;
- the adoption of technologies related to crypto-assets is low among EU banks;
- EU investment funds providing exposure to crypto-assets markets or the blockchain sector represent a very limited portion of the EU fund universe (0.02%).

Potential risks associated with DeFi

ICT risks

- On-chain vulnerabilities (smart contract exploitation, price manipulation, governance attacks, scams)
- Off-chain vulnerabities (private key compromise, phishing, other) - recent attacks appear to be more successful when exploiting off-chain vulnerabilities

Money-laundering/Terrorist financing risks

- Anonymity or pseudonymity, due to the use of self-custodial wallets, can challenge the enforceability of the regulatory framework
- Can facilitate fraudulent activities and obfuscation of funds of crypto-assets

Consumer protection concerns

- Need for high levels of digital/financial literacy to understand risks
- Need to safeguard effectively private keys, with particular care regarding self-hosted wallet use
- Opaque/complex products, services, and value chains with indications that risk disclosures may not be sufficient

Maximal Extractable Value (MEV) – What is it and how does it affect DeFi markets?

- MEV is the maximum amount of value a blockchain miner, validator or another agent, can make by changing the order of transactions during the block production process (estimates: USD 1.1bn - 3bn profits from MEV on Ethereum since 2020);
- MEV is detrimental to DeFi users because it shifts wealth from ‘ordinary’ users to MEV extractors (miners, validators or other agents);
- While MEV creates risks to the security and performance of blockchains, it can help address some inefficiencies found in DeFi protocols;
- Technical solutions to mitigate negative externalities of MEV require further consideration.

Next steps:

- The European Commission is expected to take account of the EBA-ESMA joint report on recent developments in crypto-assets pursuant to its analysis under Article 142 MiCAR.
- The EBA and ESMA will continue monitoring the relevance of DeFi in EU markets as part of wider innovation monitoring initiatives which help inform assessments of opportunities and risks, and any potential supervisory or regulatory actions.