Recent developments in crypto-assets

#CRYPTO-ASSETS #CRYPTO LOANS #STAKING

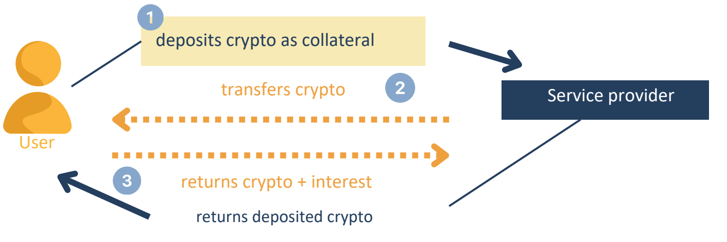
Crypto lending, borrowing and staking

This Factsheet summarises the key findings on crypto lending, borrowing and staking set out in the 2025 joint EBA-ESMA report on recent developments in crypto-assets.

What is crypto lending, borrowing and staking?

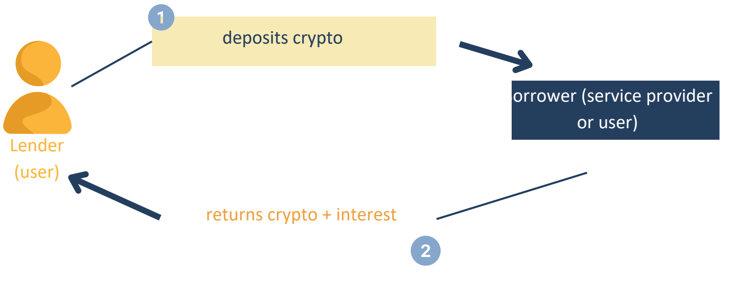
Crypto-lending:

A provider (lender) transfers a certain value of crypto-assets or funds to a user (borrower) in exchange for the user placing a certain value of crypto-assets or funds as collateral. The borrower commits to return to the lender a value equivalent to the transferred value of crypto-assets or funds and the potential additional interests on a future date to the lender.



Crypto borrowing:

A user (lender) transfers a certain value of crypto-assets or funds to another user (borrower). In exchange the borrower commits to returning to the lender an equivalent value of crypto-assets or funds and potential additional interests on a future date (or in the event of some other trigger event).



Crypto staking:

The process of immobilising crypto-assets to support the operations of Proof-of-Stake (PoS) and PoS-like blockchain consensus mechanisms in exchange for the granting of validator privileges that can generate block rewards.

EU markets for crypto lending, borrowing and staking

Crypto lending and/or borrowing is being provided in 16 Member States, while staking in 23.

Many of the identified providers offering those services are active in multiple jurisdictions.

The size of DeFi lending and borrowing in the EU is approx. EUR 1.8 billion, and for DeFi staking approx. EUR 3.6 billion

These services are offered by centralised entities and DeFi protocols.

Some entities are identified as providing more than one service, others are providing those services as part of a wider range of crypto-asset services.

EU credit institutions appear to have very limited or no engagement with these activities.

Potential risks associated with crypto lending, borrowing and staking

Consumer Protection

- Marketing materials and disclosures may provide misleading information on opportunities and risks.
- Users may receive insufficient information on (a) pricing and fees, (b) interest rates or yields, (c) changes to collateral requirements, (d) actions the provider may take, or (e) rights and liabilities.
- Insufficient financial education or digital literacy of retail users on risks associated with these activities.

Specific to crypto lending and borrowing

- Highly leveraged market making activities can lead to 'collateral chains'.
- Contagion risks via the interconnectedness arising from common asset holdings and procyclicality.
- The absence of creditworthiness checks, and, as a consequence, of credit risk assessment.
- Liquidity risks, risks of liquidation, and enhanced risks in cases of co-mingling of crypto-assets.

Specific to DeFi lending and borrowing

- Collateral chains can come with enhanced systemic risks via: a) cascade liquidations across multiple DeFi protocols, b) deleveraging spirals when assets are liquidated, and c) systemic liquidity crunches.
- Market concentration risks (e.g. 13 protocols distribute 86% of the total market).
- Barriers to financial inclusion and insufficient information, due to heightened complexity.

Specific to crypto staking

- Market risks associated to significant valuation changes during lock-up or unbonding periods.
- Market volatility risk amplification when the market value of liquid staking tokens decline.
- Questions around to what extent penalties and risks are passed on to and disclosed to users.
- Custody risks in the event of custodian failure, asset co-mingling and insufficient record-keeping.

Money laundering/Terrorist financing risks

- Users can engage in lending and borrowing without disclosing their true identity or the identity being verified.
- Limited scrutiny of purpose and source of funds could expose the financial system to vulnerabilities.
- Without monitoring and checks, users from high ML/TF-risk jurisdictions could transact without being detected.

Other

- Operational and ICT risks.
- Market risks (e.g. volatility enhances liquidation risks).
- Legal risks.

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 crypto lending, borrowing and staking 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.