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# Vaulting over the EU Regulatory Perimeter: A Closer Look at Lending Vaults

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External Link: Vaulting over the EU Regulatory Perimeter: A Closer Look at Lending Vaults

Few technology structures have risen as quickly to prominence or pose as many questions when superimposed onto the EU regulatory framework, as blockchain-based vaults.

Over the past few years, vaults have moved from a specialist liquidity deployment channel to the dominant mechanism for aggregating and deploying value on public blockchains. The key question is: when a party designs, configures, and curates a vault into which members of the public place crypto-assets in exchange for yield, what, if anything, falls within the scope of EU financial regulation?

At a glance, three regulatory regimes could each apply. These include MiCA, which governs crypto-asset service providers and certain stablecoin-related activities, and the UCITS and AIFMD frameworks, which regulate collective investment funds and their managers. Each was written for an intermediated system of custodians, exchanges, and fund managers exercising discretion over client assets, and yet none was written with an immutable smart contract in mind. This article works through those three regimes, as they apply to vault activity in general and provides a reasoned analysis of legal interpretations that apply under the current framework. It also identifies the design features that tend to keep a vault outside the regulatory perimeter, while highlighting where that perimeter is most likely to evolve.

Read the full client alert below.

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