

CONSULTATION PAPER ON THE
VIRTUAL FINANCIAL ASSETS RULES
FOR ISSUERS OF VIRTUAL FINANCIAL ASSETS

MFSA REF: 09-2018

ISSUED: 30 JULY 2018
CLOSING DATE: 13 AUGUST 2018

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THESE PROPOSALS ARE NOT BINDING AND ARE SUBJECT TO CHANGES AND REVISIONS FOLLOWING REPRESENTATIONS RECEIVED FROM LICENCE HOLDERS AND OTHER INVOLVED PARTIES. IT IS IMPORTANT THAT PERSONS INVOLVED IN THE CONSULTATION BEAR THESE CONSIDERATIONS IN MIND.

1 INTRODUCTION

Following the positive feedback received on the proposed introduction of a new legislative framework regulating Initial Coin Offerings ('ICOs') and the provision of certain services in relation to virtual currencies, the MFSA drafted and submitted to the Government the Virtual Financial Assets Act ('the Act'). The Act was [published](#) on the 20 July 2018 and shall come into force on such date as the Minister for Digital Economy may establish by notice in the Gazette.

On 4 July 2018, the MFSA published a [Consultation Paper on the Virtual Financial Assets Regulations to be issued under the Virtual Financial Assets Act](#) which presents a draft Legal Notice setting out regulations on: [i] exemptions; [ii] fees; [iii] control of assets; and [iv] administrative penalties and appeals ('the Virtual Financial Assets Regulations'). This consultation closed on 20 July 2018.

The Authority is now preparing the rules underlying and complementing the Act and the Virtual Financial Assets Regulations. The Rules will provide further detailed regulation applicable to operators in this field of financial services.

As presented in the [Consultation Paper on the Virtual Financial Assets Rulebook for VFA Agents](#) which was published on 12 July 2018, the MFSA is proposing the introduction of a rulebook, titled the 'Virtual Financial Assets Rulebook', which will be subdivided into three chapters as follows:

- Chapter 1 | Virtual Financial Assets Rules for VFA Agents
- Chapter 2 | Virtual Financial Assets Rules for Issuers of Virtual Financial Assets
- Chapter 3 | Virtual Financial Assets Rules for VFA Service Providers

The consultation for Chapter 1 of the Virtual Financial Assets Rulebook closes on 31 July 2018.

The scope of this Consultation is twofold: to obtain industry feedback in relation to [i] Chapter 2 of the Virtual Financial Assets Rulebook, which is annexed to this paper; and [ii] the Authority's interpretation of the transitory provision provided under Article 62(1)(a) of the Act, which is found under section 3 of this Consultation Paper. To note that capitalised terms within Chapter 2 of the Virtual Financial Assets Rulebook, including the term 'Regulated Information', will be defined in the Glossary that will be issued by the MFSA in the coming weeks.

2 CHAPTER 2 | VIRTUAL FINANCIAL ASSETS RULES FOR ISSUERS OF VIRTUAL FINANCIAL ASSETS

Chapter 2 of the Virtual Financial Assets Rulebook shall apply to Issuers of Virtual Financial Assets in terms of the Virtual Financial Assets Act. It is being proposed that this Chapter is sub-divided into four titles which respectively set out: [i] the high level principles which should guide Issuers in the provision of their VFA activity, in or from within Malta; [ii] the requirements for Issuers and their respective obligations towards the functionaries that they must appoint; [iii] the initial and ongoing requirements applicable to Initial VFA Offerings and trading of virtual financial assets on DLT exchanges; and [iv] enforcement and sanctions in the event of misconduct by Issuers.

1. High-level Principles

Title 1 requires Issuers to act ethically, honestly, fairly and professionally, to cooperate fully with the MFSa and to provide it with any information it may require. Issuers are also required to make reference, and where applicable comply with, relevant laws, rules and regulations.

2. Requirements for Issuers

Title 2 sets out the general requirements for Issuers, which *inter alia* include the requirement that an Issuer is a legal person; and that its business is effectively directed by two persons in satisfaction of the 'dual control' principle. Requirements for the Issuer's Board of Administration are also established, along with an obligation to appoint and have in place, at all times: [i] a Systems Auditor; [ii] a VFA Agent; [iii] an Auditor; and [iv] a Money Laundering Reporting Officer. This title also governs the relationship between the Issuer and the aforementioned functionaries, as well as any custodian appointed by the Issuer, where one is so appointed. Requirements regarding the Issuer's cyber-security, record keeping and I.T. infrastructure are also set out.

3. Initial VFA Offerings and Trading on a DLT Exchange

Title 3 sets out the initial and ongoing requirements applicable to Initial VFA Offerings, which mainly relate to the contents of the whitepaper and the requirements needed to register it. This title also sets out the conditions for admissibility to trading on a DLT exchange, rules relating to transactions by restricted persons and with related parties, transactions involving substantial unit holders and regulated information.

4. Enforcement and Sanctions

Title 4 provides detail with regards to administrative penalties and sanctions. It *inter alia* provides the principles which guide the MFSa when imposing an administrative penalty and provides for aggravating and mitigating circumstances.

3 TRANSITORY PROVISION UNDER ARTICLE 62(1)(A)

Article 62(1)(a) provides for the transitory provision in respect to Issuers. Article 62(1)(a) states as follows:

“62. (1) Any person who, on the date of the coming into force of this Act -

(a) is undertaking an activity in terms of article 3 shall, within three months from the date of coming into force of this Act, draw up a whitepaper and register it with the competent authority in terms of the said article:

Provided that this paragraph shall be applicable only to those persons who have commenced an offering or have applied for admission to trading in terms of article 3 by not earlier than two weeks prior to the coming into force of this Act;”

1. “Any person who...is undertaking an activity in terms of article 3”

It provides a transitory period for any person who, on the date of the coming into force of this Act, is undertaking an activity in terms of Article 3 of the Act. Article 3 of the Act refers to the offering of a Virtual Financial Asset to the public in or from within Malta or applying for a Virtual Financial Asset’s admission to trading on a DLT exchange. An issuer is defined under Article 2(2) as a legal person duly formed under any law for the time being in force in Malta which issues or proposes to issue Virtual Financial Assets in or from within Malta.

2. “shall within three months, draw up a whitepaper and register it with the competent authority...”

It is clear that any person undertaking an activity under Article 3, as explained under paragraph 3.1 above, has a three month period, from the date of coming into force of the Act, in order to draw up a whitepaper and register it with the MFSA in terms of Article 3.

3. Applicability of the transitory provision

Notwithstanding paragraphs 3.1 and 3.2 above, the transitory provision is only applicable to those persons who [i] have commenced an offering or [ii] have applied for admission to trading by not earlier than two weeks prior to the coming into force of this Act. Especially in relation to [i], the Authority wishes to clarify that an Issuer will be able to benefit from the transitory period only where the pertinent offering is [a] active and [b] made to the public.¹ By means of example, where an offering includes both a pre-crowd sale as well as a crowd sale, such offering will be deemed to have commenced at pre-crowd sale stage, provided that such sale is open to the public instead of only a closed number of investors. The application of the transitory period is also subject to a notification to the Authority to be made immediately upon the coming into force of the Act, in accordance with Article 62(2). The notification to the Authority should clearly list, the Issuer’s name, the name of the DLT asset in question, and the date when the offering began or when the application for admission to trading was made, as applicable. A copy of the determination made in respect of the Financial Instrument Test should also be attached to the notification.

¹ The Authority wishes to inform the industry that it will be issuing further guidelines on when an offering is deemed as [a] active and [b] made to the public in due course

4 CONCLUDING REMARKS

The consultation is open to the public from 30 July 2018 until the 13 August 2018. Interested parties are requested to submit their comments and feedback by email on fintech@mfsa.com.mt by not later than **13 August 2018**.

Communications Unit
Malta Financial Services Authority
MFSA Ref: 09-2018
30 July 2018

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VIRTUAL FINANCIAL ASSETS RULEBOOK

CHAPTER 2 | VIRTUAL FINANCIAL ASSETS RULES FOR ISSUERS OF VIRTUAL FINANCIAL ASSETS

ISSUED: XX MONTH 2018
APPLICABILITY: XX MONTH 2018

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CONTENTS

TITLE 1 - GENERAL SCOPE AND HIGH-LEVEL PRINCIPLES	1
SECTION 1 - SCOPE AND APPLICATION	1
SECTION 2 - HIGH LEVEL PRINCIPLES	1
TITLE 2 - REQUIREMENTS FOR ISSUERS.....	3
SECTION 1 - SCOPE AND APPLICATION	3
SECTION 2 - GENERAL REQUIREMENTS.....	3
SECTION 3 - BOARD OF ADMINISTRATION	4
SECTION 4 - FUNCTIONARIES	5
SUB-SECTION 1 - GENERAL PRINCIPLES.....	5
SUB-SECTION 2 - SYSTEMS AUDITOR.....	6
SUB-SECTION 3 - VFA AGENT	8
SUB-SECTION 4 - CUSTODIAN	9
SUB-SECTION 5 - AUDITOR.....	10
SUB-SECTION 6 - MONEY LAUNDERING REPORTING OFFICER	11
SECTION 5 - CYBER-SECURITY	11
SECTION 6 - RECORD KEEPING	12
SECTION 7 - I.T. INFRASTRUCTURE	13
TITLE 3 - INITIAL VFA OFFERINGS & TRADING ON DLT EXCHANGES.....	14
SECTION 1 - SCOPE AND APPLICATION	14
SECTION 2 - PRELIMINARY REQUIREMENTS.....	14
SUB-SECTION 1 - APPLICATION	14
SUB-SECTION 2 - WHITEPAPER	15
SECTION 3 - SUPPLEMENTARY CONDITIONS FOR VIRTUAL FINANCIAL ASSETS ADMITTED TO TRADING ON A DLT EXCHANGE	16
SUB-SECTION 1 - CONDITIONS FOR ADMISSIBILITY TO TRADING ON A DLT EXCHANGE	16
SUB-SECTION 2 - TRANSACTIONS BY RESTRICTED PERSONS AND WITH RELATED PARTIES.....	17
SUB-SECTION 3 - TRANSACTIONS INVOLVING SUBSTANTIAL UNITHOLDINGS	19
SUB-SECTION 4 - REGULATED INFORMATION.....	20
TITLE 4 - ENFORCEMENT AND SANCTIONS.....	21
SECTION 1 - SCOPE AND APPLICATION	21
SECTION 2 - ENFORCEMENT AND SANCTIONS.....	21

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Title 1 General Scope and High-level Principles

Section 1 *Scope and Application*

- R2-1.1.1 This Chapter shall apply to Issuers of Virtual Financial Assets ('Issuers') in terms of the Virtual Financial Assets Act ('the Act').
- R2-1.1.2 This Title outlines the high-level principles which should guide Issuers in the provision of their Virtual Financial Asset activity in or from within Malta.
- R2-1.1.3 Title 2 of this Chapter sets out the requirements which Issuers must adhere to.
- R2-1.1.4 Title 3 of this Chapter sets out the initial and ongoing requirements applicable to Initial VFA Offerings and trading of Virtual Financial Assets on DLT exchanges.
- R2-1.1.5 Title 4 of this Chapter provides for enforcement and sanctions in the event of misconduct by Issuers.

Section 2 *High-Level Principles*

- R2-1.2.1 Issuers shall act in an ethical manner and in the best interest of Malta, taking into consideration investor protection, market integrity and financial soundness in carrying out their activity.
- R2-1.2.2 Issuers shall act honestly, fairly and professionally and shall comply with, the relevant provisions of the Act, the regulations issued thereunder, and these Rules, as well as with other relevant legal and regulatory requirements.
- R2-1.2.3 Issuers shall co-operate with the MFSA in an open and honest manner and shall provide the Authority with any information it may require.
- R2-1.2.4 In complying with R2-1.2.1, Issuers shall:
- i. make reference to, and where applicable comply with the applicable Maltese laws, regulations and rules issued thereunder as well as any Guidance Notes which may be issued by the MFSA or other relevant body to assist the said persons in complying with their legal and regulatory obligations.

MFSA

MALTA FINANCIAL SERVICES AUTHORITY

- ii. cooperate in an open and honest manner with the MFSA and any other relevant regulatory authorities; and
- iii. take due account and, where applicable, comply with any relevant EU legislation as well as any Guidance Notes/ Statements/ Industry Best Practices which may be issued by international standard setting bodies.

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Title 2 Requirements for Issuers

Section 1 Scope and Application

R2-2.1.1 This Title sets out the requirements for Issuers and identifies the Functionaries such Issuer must appoint. The obligations of the Issuer towards the said Functionaries are also established.

Section 2 General Requirements

R2-2.2.1 An Issuer (other than a Public Sector Issuer) must be a legal person duly formed under any law for the time being in force in Malta.

R2-2.2.2 The Issuer's business shall be effectively directed or managed by at least two individuals in satisfaction of the 'dual control' principle.

R2-2.2.3 The Issuer shall commence the offering of its Virtual Financial Assets to the public or shall proceed with the admission of its Virtual Financial Assets to trading on a DLT exchange within six months from the date of registration of the whitepaper with the MFSA.

R2-2.2.4 In determining whether a DLT asset qualifies as a Virtual Financial Asset, an Issuer of a DLT asset shall, prior to offering such DLT asset to the public in or from within Malta, or applying for its admission on a DLT exchange, undertake the Financial Instrument Test, which shall be signed by its Board of Administration, and endorsed by its VFA Agent in terms of Chapter 1 of this Rulebook.

Provided that the MFSA shall not ordinarily make any determinations of its own with reference to a DLT asset's nature but shall rely on the determinations made by the Issuer and its VFA Agent; it should therefore be understood that in the event of disagreement between the VFA Agent and the Issuer, the matter shall be resolved between the said parties prior to a whitepaper's submission for Registration with the MFSA:

Provided further that the MFSA shall not be accepting any applications where the Issuer's determination has not been endorsed by its VFA Agent.

R2-2.2.5 An Issuer shall, upon the submission of the Certificate of Compliance by its appointed VFA Agent, pay to the Authority the applicable supervisory fees in accordance with the Virtual Financial Assets Regulations.

Section 3 Board of Administration

R2-2.3.1 The Issuer's Board of Administration shall be responsible for ensuring that the Issuer complies with its obligations under these Rules and any Guidelines which may be issued by the Authority from time to time.

R2-2.3.2 The Board of Administration has, both collectively and on individual basis, an obligation to acquire and maintain sufficient knowledge and understanding of the Issuer's business to enable them to discharge their duties.

R2-2.3.3 The Board of Administration shall:

- i. act honestly and in good faith in the best interests of the Issuer and its investors;
- ii. exercise reasonable care, skill and diligence;
- iii. exercise the powers they have diligently and in line with applicable law and shall not misuse such powers;
- iv. exercise its powers independently and without subordinating such powers to the will of others;
- v. continuously monitor the execution of the functions delegated to the Issuer's Functionaries and shall be satisfied that they are performing their functions in accordance with their contractual obligations;
- vi. identify and manage the risks of the Issuer and his activities;
- vii. continuously monitor compliance with the requirements set out in Sections 5 to 7 of this Title;
- viii. avoid conflicts of interest in so far as it is possible and, where it is not, ensure – *inter alia* by way of disclosure and internal conflicts of interest management procedures – that investors are treated fairly;

- ix. establish a good governance framework which *inter alia* contains provisions on points (v) to (viii) above; and
- x. be responsible for the Issuer's compliance with its AML/CFT requirements.

R2-2.3.4 The Board of Administration must not merely carry out a vetting function with regards to all the documents which are submitted for its attention. It is the duty of the Issuer's Board of Administration to inform itself of its activities and have a proper understanding of its financial condition.

R2-2.3.5 Whilst the Issuer's Board of Administration may be entitled pursuant to its Constitutional Document/s to delegate particular functions, the delegation of such functions shall not absolve the Board of Administration from the duty to supervise the discharge of such delegated functions.

R2-2.3.6 The Issuer shall be liable towards its Unitholders for any damages incurred by them resulting from its wilful misconduct or negligence, including the failure to perform in whole or in part its obligations.

R2-2.3.7 The Issuer shall ensure that the minutes of the meetings of the Board of Administration are held in Malta at the Issuer's registered address or at any other place as may be agreed with the MFSA.

Section 4 **Functionaries**

Sub-section 1 **General Principles**

R2-2.4.1.1 An Issuer shall appoint and have at all times in place the following Functionaries:

- i. a Systems Auditor;
- ii. a VFA Agent;
- iii. an Auditor; and
- iv. a Money Laundering Reporting Officer ('MLRO');

R2-2.4.1.2 An Issuer may appoint a Custodian for the safekeeping of its assets and investors' funds.

Provided that in the absence of an appointed Custodian, all references to a 'Custodian' in this Chapter shall, unless otherwise indicated, be read and construed as a reference to the Issuer and the respective rules shall apply to the Issuer *mutatis mutandis*.

R2-2.4.1.3 The Issuer shall ensure that its appointed Functionaries:

- i. have sufficient knowledge and experience in the field of information technology, DLT assets and their underlying technologies; and
- ii. maintain sufficient knowledge and understanding of the Issuer's business to enable them to discharge their functions in a diligent manner.

Sub-section 2 Systems Auditor

R2-2.4.2.1 Pursuant to R2-2.4.1.1, an Issuer shall appoint and have at all times in place a Systems Auditor.

Provided that, if at any time the Issuer fails to have a Systems Auditor in place, the MFSA shall have the power to appoint a person to fill the vacancy; the fees and charges so incurred being payable by the Issuer.

R2-2.4.2.2 The Issuer shall seek the MFSA's consent prior to the appointment or replacement of a Systems Auditor.

R2-2.4.2.3 The Issuer shall replace its Systems Auditor if requested to do so by the MFSA.

R2-2.4.2.4 The MFSA may object to the proposed appointment or replacement and may require such additional information as it may consider appropriate.

R2-2.4.2.5 The Issuer shall make available to its Systems Auditor any information and explanations he needs to discharge his responsibilities as a Systems Auditor and in order to meet the MFSA's requirements.

R2-2.4.2.6 The Systems Auditor shall be responsible for reviewing and auditing the Issuer's Technology Arrangement/s:

Provided that where an Issuer's Technology Arrangement/s is/are made up of several constituent parts, this requirement shall be deemed to encompass all such parts thereof.

- R2-2.4.2.7 The Issuer shall obtain from its Systems Auditor a signed letter of engagement defining clearly the extent of the System Auditor's responsibilities and the terms of his appointment. The Issuer shall confirm in writing to its Systems Auditor its agreement to the terms in the letter of engagement.
- R2-2.4.2.8 The letter of engagement shall include terms requiring the Systems Auditor:
- i. to provide such information or verification as requested by the MFSA;
 - ii. to afford another Systems Auditor any assistance as he may require;
 - iii. to vacate his office if, for any reason, he becomes disqualified to act as Systems Auditor;
 - iv. to notify the MFSA if he resigns, is removed or not reappointed and of the reasons for his ceasing to hold office. The Systems Auditor shall also be required to advise the MFSA if there are matters he considers should be brought to the attention of the MFSA; and
 - v. to report immediately to the MFSA any fact or decision of which he becomes aware in his/ her capacity as Systems Auditor of the Issuer which constitutes or is likely to constitute a material breach of the legal and regulatory requirements applicable to the Issuer in or under the Act.
- R2-2.4.2.9 The MFSA may at its discretion, cumulatively or alternatively, require a review or audit on the characteristics of the Issuer's Technology Arrangement/s by another Systems Auditor.
- R2-2.4.2.10 The Issuer shall require its Systems Auditor to prepare on an annual basis a systems audit report on its Technology Arrangement's compliance with any qualitative standards set and guidelines issued by the Malta Digital Innovation Authority ('MDIA') applicable to the particular type of arrangement (irrespective of whether the said arrangement holds a certification or a ruling of eligibility under the Innovative Technology Arrangements and Services Act, Act XXXII of 2018). A copy of this report shall be held in Malta at the Issuer's registered address and made available to the MFSA upon request.
- R2-2.4.2.11 The Issuer shall ensure that its Systems Auditor, prior to the commencement of the offering of the Virtual Financial Assets, has prepared a report which covers all aspects of its Technology Arrangement/s, including *inter alia* checks that the requirements of R2-3.2.2.4 have been satisfied. The Issuer shall require

its Systems Auditor to prepare a report to this effect and a copy of such report shall be held in Malta at the Issuer's registered address and made available to the MFSA upon request.

- R2-2.4.2.12 Further to R2-2.4.2.11, the Issuer shall also ensure that the Systems Auditor, prior to the commencement of the offering of the Virtual Financial Assets, checks and certifies that nothing in the Technology Arrangement/s used, including any smart contract to be deployed, shall contain any rights to unilaterally mutate, amend and, or destroy without leaving trace the Technology Arrangement/s involved, in whole or in part, including any smart contract thereof. Any intention to change in the conditions stipulated in the whitepaper and/or the Technology Arrangement/s – including any smart contract – involved shall always be notified *a priori* to the Authority and shall not be applied before the Authority grants its approval.

Sub-section 3 VFA Agent

- R2-2.4.3.1 Pursuant to R2-2.4.1.1, the Issuer shall appoint and have at all times in place a VFA Agent registered with the MFSA in terms of Chapter 1 of this Rulebook and having the responsibilities outlined therein.

- R2-2.4.3.2 The Issuer shall seek the MFSA's consent prior to the appointment or replacement of a VFA Agent:

Provided that, the MFSA may object to the proposed appointment or replacement and may require such additional information as it may consider appropriate.

- R2-2.4.3.3 Where an Issuer appoints more than one VFA Agent, the Issuer shall establish how responsibility is to be allocated and inform the competent authority, in writing, of the respective allocations so made.

- R2-2.4.3.4 If at any time the Issuer fails to have a VFA Agent in place, the MFSA shall have the power to appoint a person to fill the vacancy; the fees and charges so incurred being payable by the Issuer.

- R2-2.4.3.5 Notwithstanding Rules R2-2.4.1.1 and R2-2.4.3.1, a Public Sector Issuer or an Issuer whose Virtual Financial Assets are unconditionally and irrevocably guaranteed by a State or by a State's regional or local authorities is exempt from the requirement to appoint and have at all times in place a VFA Agent in terms of article 7 of the Act.

R2-2.4.3.6 The Issuer shall ensure that all communications, meetings, notifications and/or submissions to the MFSA are made through its VFA Agent.

R2-2.4.3.7 The Issuer shall, at all times, collaborate in an open and honest manner with its VFA Agent and shall provide the VFA Agent with any information it may require *inter alia* with regards to:

- i. any fitness and propriety assessment the VFA Agent may be conducting in respect to the Issuer; and
- ii. the preparation of the Compliance Certificate in terms of Chapter 1 of this Rulebook.

R2-2.4.3.8 The Issuer shall *inter alia* provide written confirmations to the VFA Agent that:

- i. its Board of Administration has established procedures which provide a reasonable basis for the said Board to make proper judgements as to the prospects and, where applicable, the financial position of the Issuer and, also where applicable, its Group;
- ii. it has provided investors with a roadmap which clearly establishes and sets out milestones for the Initial Virtual Financial Assets Offering;
- iii. any profit forecast or estimates have been made after due and careful enquiry; and
- iv. financial information presented in any document published by it has been properly extracted from its accounting records.

Provided that the information listed in point (iii) shall also be disclosed in the whitepaper;

Provided further that such confirmations shall only be given after due and careful enquiry by the Issuer's Board of Administration.

Sub-section 4 ***Custodian***

R2-2.4.4.1 Pursuant to R2-2.4.1.2, an Issuer may appoint a Custodian for the safekeeping of its assets and investors' funds.

R2-2.4.4.2 The Issuer shall seek the MFSA's consent prior to the appointment or replacement of a Custodian:

Provided that the MFSA may object to the proposed appointment or replacement and to require such additional information as it may consider appropriate.

R2-2.4.4.3 Where an Issuer appoints a Custodian pursuant to Rules R2-2.4.1.2 and R2-2.4.4.1, the Issuer shall appoint a Custodian which:

- i. is a legal person and in possession of a licence to provide the services of a Custodian in terms of the Act; and
- ii. has appropriate systems and controls to ensure that investors' funds are reimbursed if the Initial Virtual Financial Assets Offering is cancelled for any reason whatsoever, including *inter alia* where the set soft cap, as stated in the Issuer's whitepaper, is not reached.

Sub-section 5 Auditor

R2-2.4.5.1 The Issuer shall appoint and have at all times in place an Auditor approved by the MFSA. The Auditor shall have adequate business organisation, systems, experience and expertise to act as Auditor to an Issuer.

R2-2.4.5.2 The Issuer shall replace its Auditor if requested to do so by the MFSA.

R2-2.4.5.3 The Issuer shall make available to its Auditor any information and explanations he needs to discharge his responsibilities as an Auditor.

R2-2.4.5.4 If at any time the Issuer fails to have an Auditor in office for a period exceeding four weeks, the MFSA shall have the power to appoint a person to fill the vacancy; the fees and charges so incurred being payable by the Issuer.

R2-2.4.5.5 The Issuer shall obtain from its Auditor a signed letter of engagement defining clearly the extent of the Auditor's responsibilities and the terms of his appointment. The Issuer shall confirm in writing to its Auditor its agreement to the terms in the letter of engagement

R2-2.4.5.6 The letter of engagement shall include terms requiring the Auditor:

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- i. to provide such information or verification to the MFSA as the MFSA may request;
- ii. to afford another Auditor any assistance as he may require;
- iii. to vacate his office if, for any reason, he becomes disqualified to act as Auditor;
- iv. to notify the MFSA if he resigns, is removed or not reappointed and of the reasons for his ceasing to hold office. The Auditor shall also be required to advise the MFSA if there are matters he considers should be brought to the attention of the MFSA; and
- v. to report immediately to the MFSA any fact or decision of which he becomes aware in his/ her capacity as Auditor of the Issuer which constitutes or is likely to constitute a material breach of the legal and regulatory requirements applicable to the Issuer in or under the Act.

R2-2.4.5.7 In respect of each annual accounting period, the Issuer shall require its Auditor to prepare a management letter in accordance with International Standards on Auditing.

R2-2.4.5.8 The MFSA may, at its discretion, cumulatively or alternatively, require a review or audit by another Auditor.

Sub-section 6 Money Laundering Reporting Officer

R2-2.4.6.1 The Issuer shall appoint and have at all times in place an MLRO. The role of the MLRO is an onerous one and the Issuer shall ensure that it is only accepted by individuals who fully understand the extent of responsibilities attached to the role.

R2-2.4.6.2 The Issuer shall ensure that the MLRO is a senior employee of the Issuer or a member of the Board of Administration;

Section 5 Cyber-Security

R2-2.5.1 An Issuer shall establish a 'Cyber-Security Framework' which shall *inter alia* include:

- i. Information and data security roles and responsibilities;
- ii. Access management policy;
- iii. Sensitive data management policy;
- iv. Threats management policy;
- v. Business continuity plan;
- vi. Response and recovery plan; and
- vii. Security education and training.

Provided that this Rule shall be applied depending on the nature, scale and complexity of the Issuer's business.

R2-2.5.2 The Cyber-Security Framework shall comply with internationally recognised cyber security standards and shall be in line with the provisions of the General Data Protection Regulation ('GDPR').

Section 6 **Record Keeping**

R2-2.6.1 An Issuer shall arrange for Documents to be kept to enable MFSA to monitor compliance with the requirements under these Rules.

R2-2.6.2 Pursuant to R2-2.6.1, Documents shall be kept at the disposal of the MFSA, for at least five years.

Provided that the Authority may request that such Documents are kept for a period of up to seven years.

R2-2.6.3 The Documents shall be retained in a medium that allows the storage of information in a way accessible for future reference by the MFSA and in such a form and manner that the following conditions are met:

- i. MFSA must be able to access them readily and to reconstitute each key stage of the processing of each transaction;
- ii. it must be possible for any corrections or other amendments, and the contents of the Documents prior to such corrections or amendments, to be easily ascertained; and

- iii. it must not be possible for the Documents otherwise to be manipulated or altered.

Section 7 ***I.T. Infrastructure***

R2-2.7.1 The Issuer shall ascertain that its I.T. infrastructure ensures:

- i. the integrity and security of any data stored therein;
- ii. availability, traceability and accessibility of data; and
- iii. privacy and confidentiality;

and is in line with the provisions of the GDPR.

R2-2.7.2 The Issuer shall ensure that its I.T. infrastructure is located in Malta, and/or any EEA member state and/or any other third country jurisdiction wherein the Authority is satisfied that the requirements of R2-2.7.1 can be satisfied:

Provided that where the Issuer's I.T. infrastructure is not located in Malta, or is located in a cloud environment, the Issuer shall ensure that data is replicated real time by virtue of a live replication server located in Malta.

Title 3 Initial VFA Offerings & Trading on DLT exchanges

Section 1 *Scope and Application*

R2-3.1.1 This Title sets out the initial and ongoing requirements applicable to Initial VFA Offerings and trading of Virtual Financial Assets on DLT exchanges.

Section 2 *Preliminary requirements*

Sub-section 1 *Application*

R2-3.2.1.1 Pursuant to article 3(1) of the Act, no Issuer shall offer a Virtual Financial Assets to the public in or from within Malta or apply for their admission to trading on a DLT exchange unless such Issuer draws up a whitepaper which:

- i. complies with the requirements of the Act; and
- ii. is registered with the MFSA in accordance with the Act.

R2-3.2.1.2 An Issuer wishing to undertake any (or both) of the activities stated in R2-3.2.1.1 shall submit, through its VFA Agent, the following documents to the MFSA:

- i. the whitepaper and any supplementary documentation, duly signed by its Board of Administration;
- ii. a copy of the Financial Instrument Test, duly signed by its Board of Administration and endorsed by its appointed VFA Agent;
- iii. a confirmation from its Systems Auditor that the Issuer's Technology Arrangement/s complies with any qualitative standards set and guidelines issued by the MDIA applicable to the particular type of arrangement (irrespective of whether the said arrangement holds a certification or a ruling of eligibility under the Innovative Technology Arrangements and Services Act);
- iv. one (1) copy of the Issuer's audited Annual Accounts for each of the last three (3) Financial Years;

- v. where the Issuer forms part of a Group of which the Issuer is a member, the consolidated accounts of the Group of which the Issuer is a member for each of the last three (3) financial years prepared in accordance with either Generally Accepted Accounting Principles and Practice or with equivalent standards;
- vi. a certified copy of its Constitutional Document/s; and
- vii. the applicable registration fee in terms of the Virtual Financial Assets Regulations.

Provided that where an Issuer and/or Group has/have been established for a period of less than three (3) years, the documents mentioned under points (iv) and (v) above shall be required for such shorter period that the said person(s) has/have been established.

The MFSA may request any additional information it may require when reviewing a whitepaper.

R2-3.2.1.3 Applications shall be vetted by the MFSA. It is entirely at the discretion of the MFSA to accept or reject such applications.

R2-3.2.1.4 No application may be entertained by the MFSA unless it is made by, or with the consent of, the Issuer concerned.

Sub-section 2 ***Whitepaper***

R2-3.2.2.1 The whitepaper shall convey factual information about a business in words and figures, and shall serve as a source of information about the Issuer and its proposed activities. The whitepaper shall:

- i. be dated;
- ii. contain all the information stipulated in the First Schedule to the Act;
- iii. be signed by the Issuer's Board of Administration; and
- iv. include a statement by the Issuer's Board of Administration that the whitepaper complies with the requirements under the Act, the relevant regulations and these Rules.

R2-3.2.2.2 The MFSA shall allow information to be incorporated in the whitepaper by reference to one or more previously or simultaneously published documents that have been approved by it, provided that:

- i. this information shall be the latest information available to the Issuer;
- ii. when information is incorporated by reference, a cross-reference list must be provided in order to enable investors to identify easily specific items of information; and
- iii. the summary shall not incorporate information by reference.

R2-3.2.2.3 The MFSA may authorise the omission of information from the whitepaper which is applicable and required by these Rules pursuant to paragraph 2 of the First Schedule to the Act on a case by case basis.

R2-3.2.2.4 Where a smart contract is deployed, the Issuer shall ensure that the elements of a whitepaper are coded within the respective smart contract. This shall, where applicable, include *inter alia* coding for:

- i. Transfer limitations;
- ii. Soft cap and hard cap;
- iii. Refund mechanisms;
- iv. Dispute resolutions;
- v. Besting schedules; and
- vi. Burning protocols.

Section 3 ***Supplementary Conditions for Virtual Financial Assets admitted to Trading on a DLT Exchange***

Sub-section 1 ***Conditions for admissibility to Trading on a DLT exchange***

R2-3.3.1.1 In carrying out the assessment on the suitability of an Issuer's Virtual Financial Assets for admissibility to trading, the MFSA shall adopt a cumulative approach. The Authority may decide that a Virtual Financial Asset has failed the

assessment after considering various circumstances, each of which on its own may or would not lead to that conclusion. For this reason, it is essential that the information provided to the MFSA is truthful, complete and correct.

R2-3.3.1.2 The MFSA may make admissibility subject to any condition it considers appropriate in the best interest of investors. The Issuer will be expressly informed of any such case and must comply with such condition/s at all times.

R2-3.3.1.3 Issuers must continue to satisfy the conditions for trading contained in this Section throughout the whole period in which any of their Virtual Financial Assets are admitted to trading on a DLT exchange.

R2-3.3.1.4 The Virtual Financial Assets for which admissibility to trading on a DLT exchange is sought must be expected to enjoy adequate continuity of dealing.

Sub-section 2 Transactions by Restricted Persons and with Related Parties

R2-3.3.2.1 Subject to R2-3.3.2.2 below, an Issuer must require:

- i. its Board of Administration or Board of Administration of its Subsidiary or Parent Undertaking; and
- ii. any of the Issuer's Officers or employees or an Officer or employee of its Subsidiary or Parent Undertaking who, because of his office or employment in the Issuer or Subsidiary Undertaking or Parent Undertaking, is likely to be in possession of unpublished price-sensitive information in relation to the Issuer;

to comply with an internal code of dealing which encompasses all the requirements set out in this sub-section and must take all proper and reasonable steps to ensure such compliance.

Provided that hereinafter, for purposes of this Chapter, the persons listed in points (i) and (ii) of this Rule shall be referred to as 'Restricted Persons'.

R2-3.3.2.2 R2-3.3.2.1 does not apply if such dealings are entered into by such persons:

- i. in the ordinary course of business; or
- ii. on behalf of third parties by the Issuer or any other member of its Group.

- R2-3.3.2.3 Issuers may, at their discretion, impose more rigorous restrictions upon dealings by Restricted Persons.
- R2-3.3.2.4 A Restricted Person shall not deal directly or indirectly in any of the Virtual Financial Assets of the Issuer:
- i. at any time when he is in possession of unpublished price-sensitive information in relation to those Virtual Financial Assets;
 - ii. prior to the announcement of matters of an exceptional nature involving unpublished price-sensitive information in relation to the market price of the Virtual Financial Assets of the Issuer;
 - iii. without giving advance written notice to one or more other Board of Administration designated for this purpose. In his own case, such designated Administrator shall not deal without giving advance notice to the board of administration of such Issuer or any other designated Administrator as appropriate; or
 - iv. during such other period as may be established by the MFSA from time to time.
- R2-3.3.2.5 The same restrictions apply to dealings by a Restricted Person in the Virtual Financial Assets of any other Issuer when, by virtue of his position in the Issuer, he is in possession of unpublished price-sensitive information in relation to those Virtual Financial Assets.
- R2-3.3.2.6 During the period of thirty (30) days immediately preceding any publication of the Issuer's annual results, a Restricted Person shall not purchase any Virtual Financial Assets of the Issuer nor shall he sell any such Virtual Financial Assets:
- Provided that the Issuer may allow a Restricted Person to trade on its own account or for the account of a third party during a closed period, on a case-by-case basis, due to the existence of exceptional circumstances, such as severe financial difficulty, which require the immediate sale of Virtual Financial Assets and the Issuer shall immediately notify the Authority accordingly.
- R2-3.3.2.7 If the approval of the MFSA to deal in exceptional circumstances has been granted, the Issuer must notify the MFSA of such deals immediately after these have been concluded.
- R2-3.3.2.8 The restrictions on dealings contained in this Section shall be regarded as equally applicable to any dealings by any Connected Person or any Licence

Holder acting on behalf of a Restricted Person or on behalf of any Connected Person where either he or any Connected Person has assets under management with that Licence Holder. It is the duty of the Restricted Person (as far as is consistent with his duties of confidentiality) to seek to prohibit any such dealing by any Connected Person at a time when he himself is not free to deal.

R2-3.3.2.9 Where a Restricted Person is acting as a trustee, dealing in the Virtual Financial Assets of the Issuer by that trustee is permitted during the period referred to in R2-3.3.2.6 where:

- i. the Restricted Person is not a beneficiary of the trust; and
- ii. the decision to deal is taken by the other trustees or by Licence Holders on behalf of the trustees independently of the Restricted Person

R2-3.3.2.10 No dealings in any Virtual Financial Assets may be effected by or on behalf of an Issuer or any other member of its Group at a time when, under the provisions of this Title, an Administrator of the Issuer would be prohibited from dealing in its Virtual Financial Assets, unless such dealings are entered into:

- i. in the ordinary course of business; or
- ii. on behalf of third parties by the Issuer or any other member of its Group.

R2-3.3.2.11 The Board of Administration of the Issuer shall be responsible for vetting and approving transactions between an Issuer and a Related Party, which must be entered into at arm's length and on a normal, commercial basis.

R2-3.3.2.12 The Issuer shall disclose all related party transactions *ex post facto* in the Annual Financial Report.

Sub-section 3 Transactions involving Substantial Unitholdings

R2-3.3.3.1 All parties to an offer for an acquisition or disposal of a Substantial Unitholding in an Issuer as well as the Issuer must use every endeavour to prevent the creation of a false market in the Issuer's Virtual Financial Assets. All parties involved in an offer for an acquisition or disposal of a Substantial Unitholding in an Issuer and the Issuer shall ensure that statements are not made which may mislead the market.

Sub-section 4 Regulated Information

R2-3.3.4.1 An Issuer shall file Regulated Information with the MFSA at the same time such information is disclosed to the public in terms of R2-3.3.4.2.

R2-3.3.4.2 When disseminating Regulated Information an Issuer shall ensure that the minimum standards laid down in R2-3.3.4.3 to R2-3.3.4.6 are observed.

R2-3.3.4.3 Regulated Information shall be communicated to the media in unedited full text:

Provided that where the Issuer maintains a website, this requirement shall be deemed to be fulfilled if the information communicated to the media indicates on which website the relevant documents are available.

R2-3.3.4.4 Regulated Information shall be communicated to the media in a manner which ensures the security of the communication, minimises the risk of data corruption and unauthorized access, and provides certainty as to the source of the Regulated Information. Security of receipt shall be ensured by remedying as soon as possible any failure or disruption in the communication of Regulated Information:

Provided that the Issuer shall not be responsible for systemic errors or shortcomings in the media to which the Regulated Information has been communicated.

R2-3.3.4.5 Regulated Information shall be communicated to the media in a way which:

- i. makes it clear that the information is Regulated Information; and
- ii. identifies clearly
 - a. the Issuer concerned;
 - b. the subject matter of the Regulated Information; and
 - c. the time and date of the communication of the Regulated Information by the Issuer.

R2-3.3.4.6 The Issuer shall not charge investors any specific cost for providing Regulated Information.

Title 4 Enforcement and Sanctions

Section 1 Scope and Application

R2-4.1.1 This Title provides detail with regards to administrative penalties and sanctions. It *inter alia* provides the principles which guide the MFSA when imposing an administrative penalty and provides for aggravating and mitigating circumstances in case of misconduct by Issuers.

Section 2 Enforcement and Sanctions

R2-4.2.1 The Issuer shall at all times observe the Rules which are applicable to it, as well as all the relative requirements which emanate from the Act and regulations issued thereunder. In terms of the Act, the MFSA has various sanctioning powers which may be used against an Issuer which does not comply with its regulatory obligations. Such powers include the right to impose administrative penalties.

R2-4.2.2 Where an Issuer breaches or infringes a Rule, the MFSA may by virtue of the authority granted to it under Article 48 of the Act impose administrative penalties, without recourse to a court of law, up to a maximum of EUR 150,000.

R2-4.2.3 In determining whether to impose a penalty or other sanction, and in determining the appropriate penalty or sanction, the MFSA shall be guided by the principle of proportionality. The MFSA shall, where relevant, take into consideration the circumstances of the specific case, which may *inter alia* include:

- i. the repetition, frequency, gravity or duration of the infringement by the Issuer;
- ii. the degree of responsibility of the person responsible for the infringement;
- iii. the financial strength of the Issuer;
- iv. the profits gained or losses avoided by the Issuer by reason of the infringement, insofar as they can be determined;
- v. the losses for third parties caused by the infringement, insofar as they can be determined;

- vi. the level of cooperation of the Issuer with the Authority;
- vii. previous infringements by the Issuer and prior sanctions imposed by MFSA or other regulatory authorities on the same Issuer;
- viii. the good faith, the degree of openness and diligence of the Issuer in the fulfilment of his obligations under the Act, relative regulations and Rules or of decisions of the competent authority in this regard;
- ix. any evidence of wilful deceit on the part of the Issuer or its officers; and
- x. any potential systemic consequences of the infringement.

R2-4.2.4 Whenever the infringement consists of a failure to perform a duty, the application of a sanction shall not exempt the Issuer from its performance, unless the decision of the MFSA explicitly states the contrary.

R2-4.2.5 These Rules stipulate various requirements for the submission of documents within set time-frames. In the instance when such time-frames are not complied with, and unless there are justifiable reasons for the delay, Issuers will be considered as breaching the relevant Rule/s and will be penalised accordingly.

R2-4.2.6 Documents may be submitted in various ways. The date of receipt will be as follows:

- i. if it is sent by fax and/or email, the date of receipt recorded shall be the time stamp of the fax and/or email, respectively;
- ii. if it is sent by post, this will be the date indicated by the MFSA stamp evidencing receipt;
- iii. if it is delivered by hand, on the date such delivery was made and recorded by MFSA.

R2-4.2.7 The MFSA will use its discretion to decide what action to take in respect of Issuers who do not submit documents by their due date, after taking into consideration the reasons (if any) put forward by the Issuer for the delay.

R2-4.2.8 Late submission gives rise to liability to an initial penalty and an additional daily penalty. If the conditions imposed by MFSA are not met, the Authority reserves the right to take any further action it may deem adequate in the circumstances.

R2-4.2.9 A right of appeal to the Financial Services Tribunal is available to Issuer on whom penalties are imposed.

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