

25 February 2020

MFSA publishes its Feedback Statement following a Consultation Document on Security Token Offerings

- The objective of the Consultation Paper was for the Authority to obtain stakeholders' views on the use of Distributed Ledger Technology ("DLT") when dealing with transferable securities such as shares and bonds
- The Authority's primary considerations in this Feedback Statement focus on investor protection and market integrity
- Within the context of trading venues, the MFSA generally agrees with the feedback submitted that a "one-size-fits-all" would not be suitable

Today the MFSA published a Feedback Statement following a Consultation Document on Security Token Offerings ("STOs"). The main aim of the Consultation Document was to establish the MFSA's position on the use of Distributed Ledger Technology ("DLT"), within the context of the primary issuing, secondary trading and settlement of financial instruments which qualify as transferable securities.

The Authority received feedback from 18 industry participants and interested parties which included national agencies, regulated firms, associations, technology providers, law firms and consultancy firms.

MFSA's Deputy Head, Securities & Markets Supervision, Lorraine Vella explained that "this Feedback Statement will pave the way for legal certainty around Security Token Offerings (STOs) in the Maltese financial markets. It also communicates the Authority's expectations and its plan to promote innovation, by creating an optimal regulatory environment for the issuing and trading of DLT Assets which fall within the remit of European securities legislation."

"The intention is to streamline our rules and regulations related to the auditing of all DLT Assets," she continued. "This includes DLT-enabled financial instruments and virtual financial assets where the risks presented by the underlying technology are materially the same."

Since proposed business models can vary significantly both in structure and in the way in which DLT is employed within a business environment, when it comes to trading venues the Authority plans to operate on a case-by-case evaluation. The Authority agrees with the feedback submitted by the industry participants who claimed that a one-size-fits-all approach relating to the architecture of such trading venues, would not be suitable. Other considerations focus on investor protection, market integrity, and ensuring that the Authority's position remains congruous with the principle of technological neutrality.

The MFSA acknowledges that its efforts to foster a regulatory culture, which promotes innovation and the growth of Malta's STO markets, would need to operate within the pre-established European legislative framework. However, this framework may not always embrace the concept of decentralisation and this was particularly highlighted by respondents within the context of settlement. In this respect, the Authority reiterates its commitment towards the development of the local capital markets, and endeavours to collaborate with other regulators and international bodies where an effort on the international plane is needed to reap the benefits of technology in the capital markets sphere.

The full feedback statement is [available](#) on the MFSA's website.

Note to editors: Security Token Offerings (STOs) are transferable securities, the storage and/or transaction execution of which is intrinsically dependent on, or utilises, Distributed Ledger Technology (DLT).

About MFSA

The Malta Financial Services Authority (MFSA) is the single regulator of financial services in Malta, covering banks, insurance companies, investment services, trusts and pensions. As of 2018, the MFSA became the first European regulator to develop a framework to regulate virtual financial assets. The MFSA's mission, as enshrined in its Vision 2021, is to enhance its position as an independent, proactive and trustworthy supervisory authority with the main purpose of safeguarding the integrity of markets and maintaining stability within the financial sector, for the benefit and protection of consumers. Over 2,300 entities are licensed by the MFSA to operate in the financial services sector, which makes up 11% of the Maltese Gross Domestic Product.

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