

2 May 2019



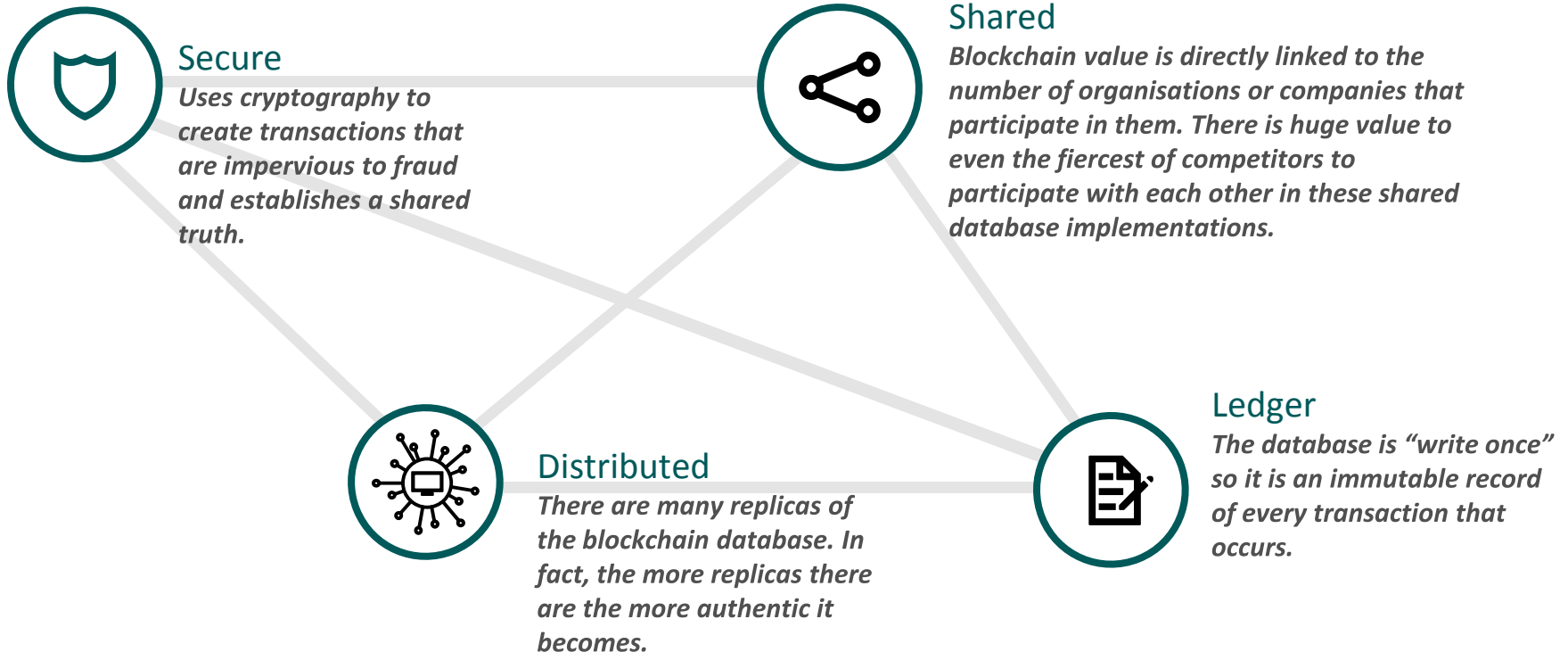
Blockchain Session

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PART ONE – INTRODUCTION



- Blockchain is a Distributed Ledger Technology (DLT).



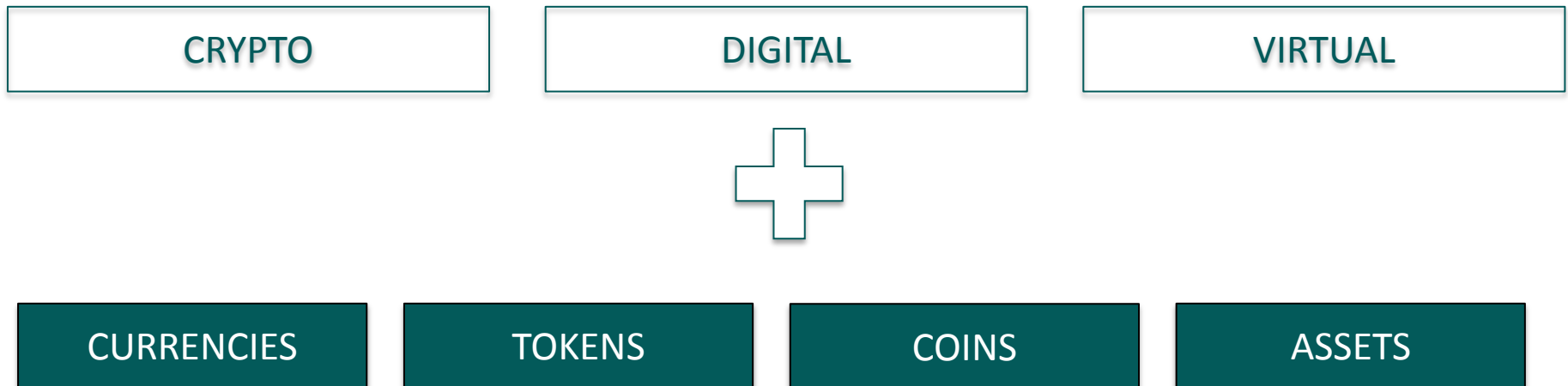
DLT Assets



- The vast majority of networks that operate using DLT have some form of underlying asset which facilitates the manner in which transactions may effectively be recorded on that distributed ledger.
- There are considerable costs to run a node on a network, namely in terms of technical equipment, physical space and electricity. In return for supporting a particular network, the nodes processing the transactions are typically rewarded with the native DLT asset.

Different Types of DLT Assets

- Over the course of the last decades, DLT Assets have been referred to by various different names.



- DLT Asset is the term used by the legislator in Malta to describe any asset that is “intrinsically dependent on, or utilises, Distributed Ledger Technology”.



Different Types of DLT Assets

- The use behind every DLT Asset can vary, with the three main features typically resorting to one of the below:

PAYMENT

UTILITY

SECURITY

HYBRID

- Depending on the nature of the DLT Asset, different regulatory, legal or tax implications may arise when dealing with such assets.



Why so many DLT Assets?

- A very frequent question which is asked relates to why there are so many DLT Assets out there, and what makes them different. Before delving into that, it however makes sense to note what DLT Assets or their underlying networks typically have in common:

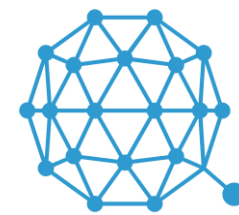
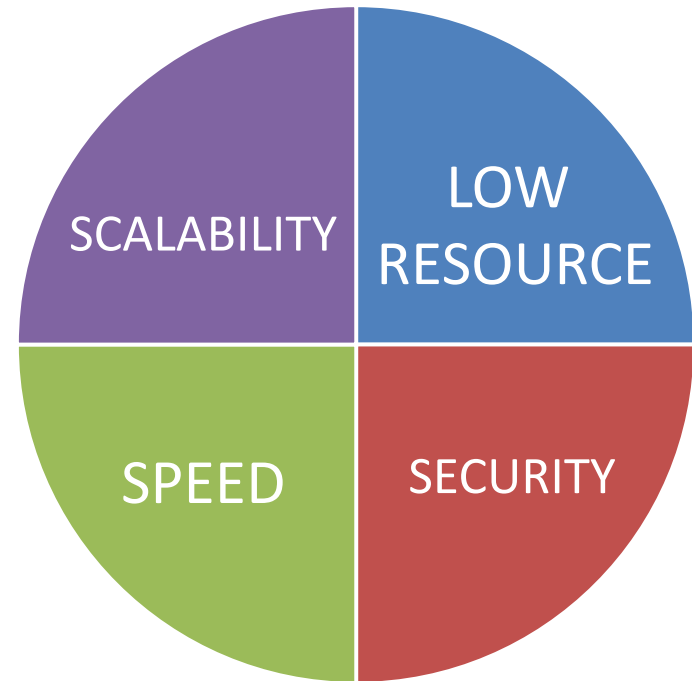
PROVIDING A SOLUTION TO AN EXISTING PROBLEM

REMOVING THE ELEMENT OF TRUST AND UNNECESSARY INTERMEDIARIES

DEVELOPING A FAST AND SECURE NETWORK

Payment (Cryptocurrencies)

- The objective behind these type of assets is to create a disruptive, universally accepted and new means of payment, as an alternative to fiat currencies. The main characteristics which different cryptocurrencies compete on include:



Utility Tokens

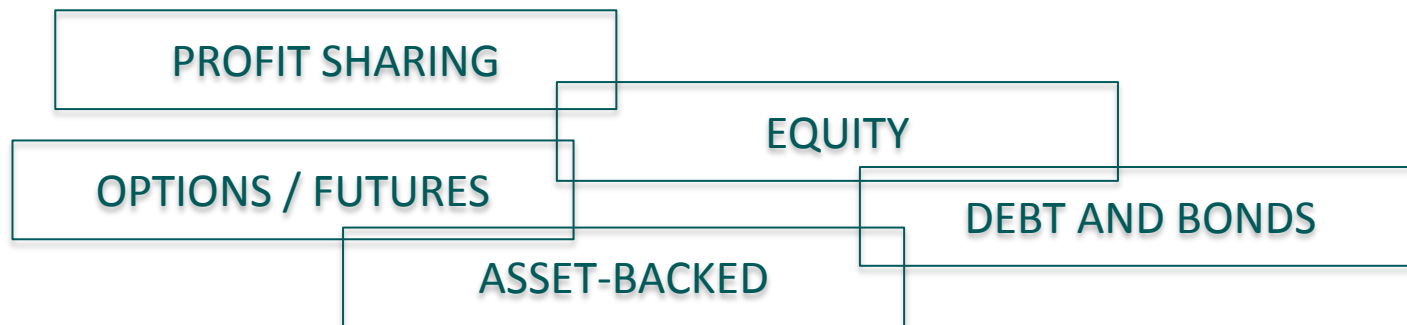
- These type of assets are traditionally associated with having utility, value or application restricted solely to the acquisition of goods or services, both within the DLT platform or outside.



- Such tokens are commonly used to perform actions such as executing smart contracts or running decentralised applications on their underlying networks. Others are used to redeem services at discounted rates, similar to how a voucher would work.

Security Tokens

- These type of assets give the holder rights that are traditionally assimilated with financial instruments.



- Such DLT Assets are to be treated indistinguishably from traditional financial instruments. Within the European Economic Area, such assets are regulated through the Markets in Financial Instruments Directive (MIFID II).

Other Tokens

- The more the industry develops, the more innovative tokens are becoming, with some taking the form of hybrid instruments. It is therefore very important to ensure that the right treatment is being carried out.



- There are also DLT Assets being issued which have the value pegged or backed by traditional fiat currencies. The main advantages may include:
 - Facilitating currency exchange;
 - Trading on cryptocurrency exchanges when avoiding volatility;
 - Adding transparency.

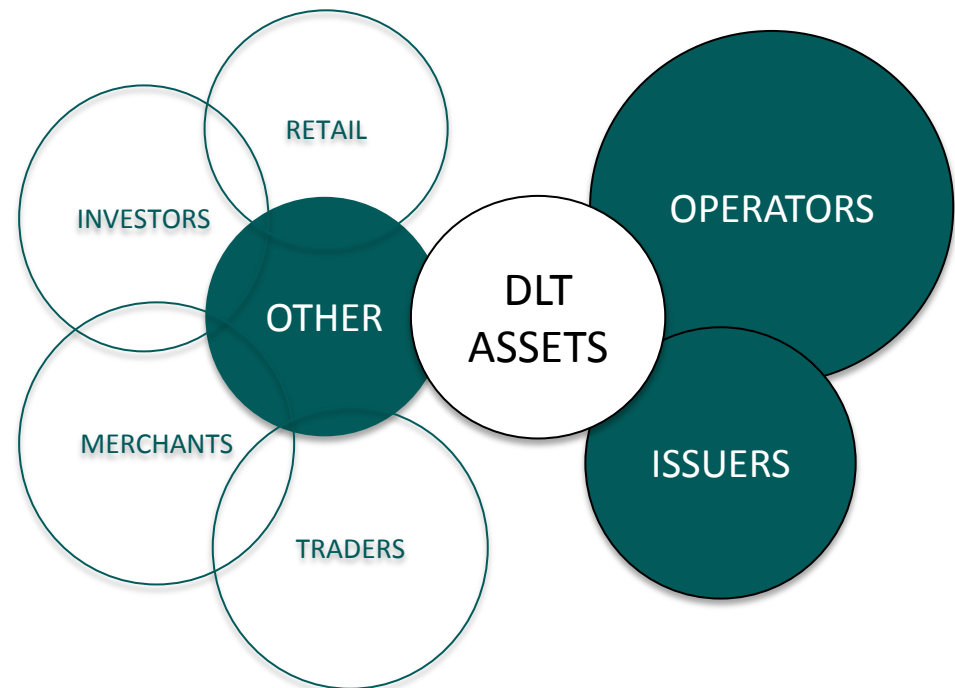
Transferability of DLT Assets

- DLT Assets are commonly held in wallets which contain a public address assigned to the holder. They are more akin to being pseudonymous, rather than anonymous. Reason being that as soon as the identity is verified, the whole transaction history linked to that address is revealed.
- Ironically enough, due to the infancy of this industry, it has led to the creation of further intermediaries to facilitate trades involving DLT Assets. This centralised intervention is however necessary to bridge the gap that exists between fiat and crypto.

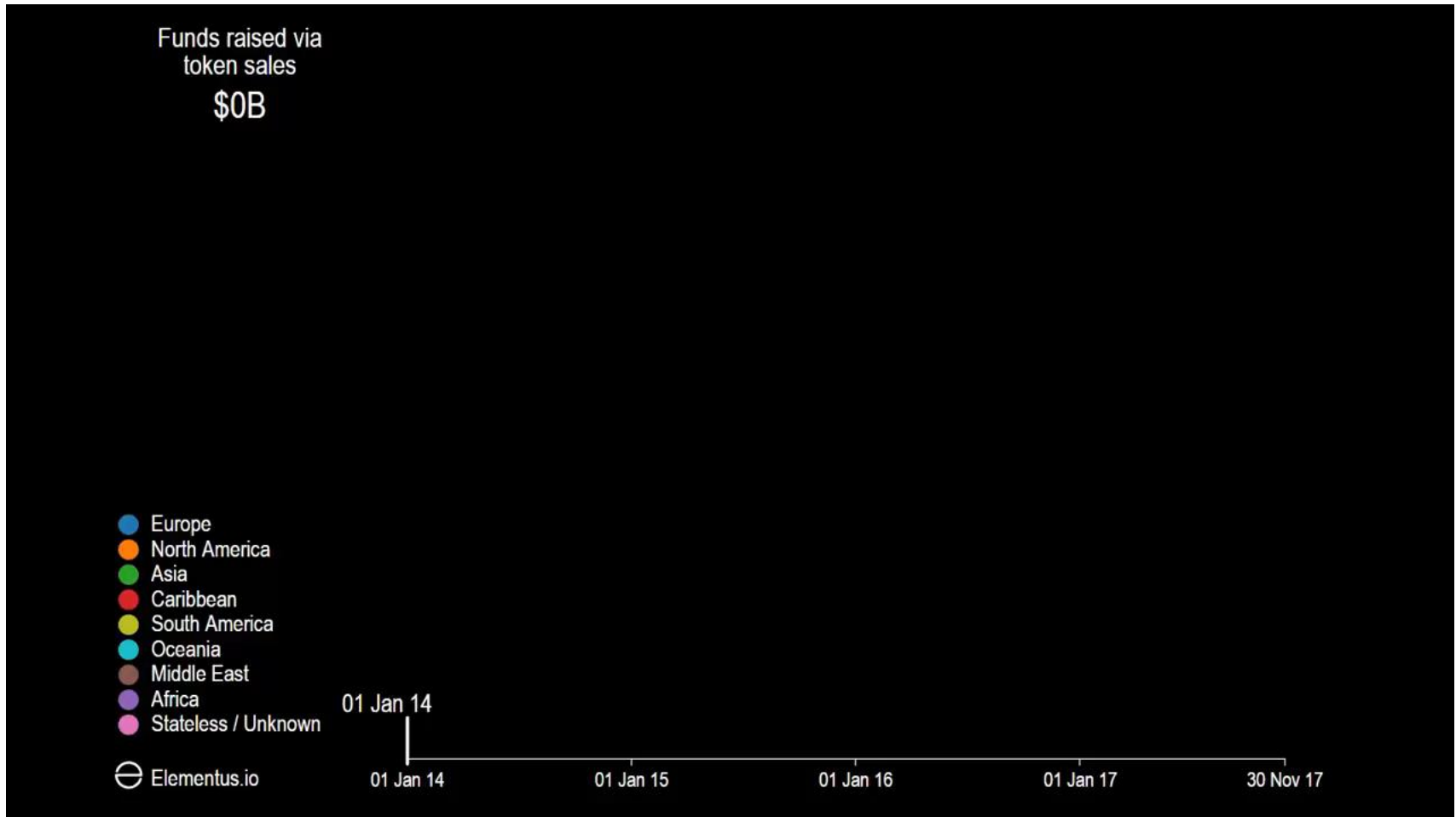


Potential Clients involving DLT Assets

- The volume of clients being directly or indirectly involved with DLT Assets is always on the increase.
- It is crucial that advisors in every jurisdiction become familiar with what these type of assets represent.



Token Generation Events – ICOs/STOs/IEOs



Operators

- **Intermediaries facilitating the trading of DLT Assets are on the increase, all competing to providing the best service.**
 - Liquidity;
 - Volume of Listings;
 - IT Infrastructure;
 - Trading and Processing Fees;
 - AML/CFT Frameworks.
- **There are other operators such as:**
 - Custodians;
 - Wallet providers;
 - OTC Desks;
 - Crypto-merchant processing;
 - Portfolio Management and other Investment Services;
 - Funds.



24 Hour Volume Rankings (Exchange)

1.		Binance	€867,817,021
2.		OKEx	€840,861,334
3.		BitForex	€829,838,540
4.		DigiFinex	€776,294,138
5.		HitBTC	€763,745,174
43.		Bitfinex	€93,983,108
54.		Kraken	€49,759,284
80.		Poloniex	€10,198,939
96.		BitBay	€5,785,161
102.		Coindeal	€4,187,598
130.		CEX.IO	€1,095,948

Last updated: Apr 21, 2019 11:31 AM UTC

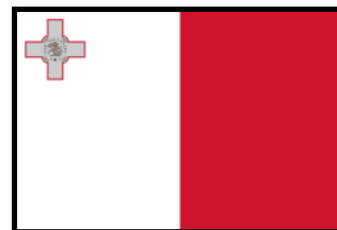


Getting Prepared

- It is important to familiarise oneself with the industry and some of the terms which are colloquially used within this sector.
- Keeping abreast of both local and supranational regulatory efforts being undertaken to cater for this sector.
- Training staff to specialise in providing assistance to clients that are involved with DLT Assets, be it from a legal, tax or accounting perspective.
- Being capable of siphoning the clients with good repute and great potential from potential projects that are not well-planned or even fraudulent in nature, and which can end up harm the reputation of your firm merely through association.

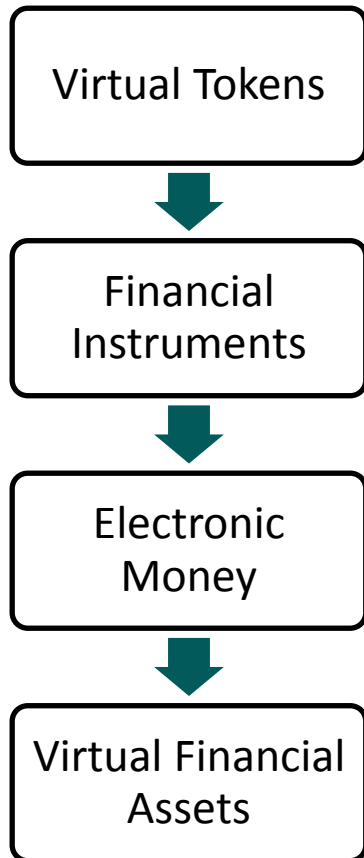
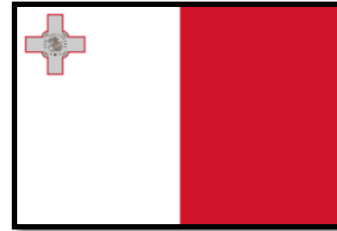


Malta



- Malta was amongst the first jurisdictions to provide a legal framework under which this industry would be able to flourish, whilst affording adequate protection to the investors involved.
 - Promulgated the Virtual Financial Assets Act;
 - Registered the first batch of VFA Agents;
 - Set up the Malta Innovation Digital Authority;
 - Introduced the concept of licensed System Auditors;
 - Imposed strict obligations in relation to AML/CFT;
 - Regulator issued specific guidance to the Banking Industry;
 - Regulator provided clear guidance on tax treatment;
 - Regulator published the Financial Instrument Test.

Classification of DLT Assets



“A form of digital medium recordation whose utility, value or application is restricted solely to the acquisition of goods or services, either solely within the DLT platform on or in relation to which it was issued or within a limited network of DLT Platforms”.

PURE UTILITY TOKENS – CANNOT BE EXCHANGED OUTSIDE THE PLATFORM
VIRTUAL TOKENS ARE EXEMPT FROM ANY REGULATION

Financial Instruments

It shall include all of the financial instruments as indicated by MiFID II such as Transferable Securities, Money Market Instruments, Units in collective investment schemes and Derivative Contracts.

SECURITY TOKENS – CAN ONLY BE LISTED WITH LICENSED MTF UNDER MIFID II
DLT ASSETS AKIN TO FINANCIAL INSTRUMENTS REQUIRE APPLICABLE AUTHORISATION

Electronic Money

An electronic money institution is required to issue electronic money at par value on receipt of funds. Furthermore, the electronic money institution shall ensure that, at any moment, upon request by the electronic money holder, it is in a position to redeem the monetary value of the electronic money held, at par value and without delay.

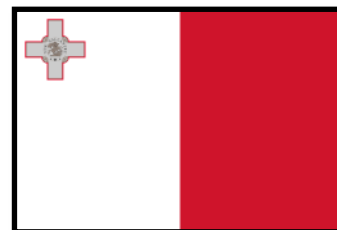
E-MONEY – PURPOSE OF MAKING PAYMENT TRANSACTIONS
DLT ASSETS AKIN TO E-MONEY REQUIRE ISSUER TO OBTAIN LICENCE FROM REGULATOR

Virtual Financial Assets

Any DLT Asset which is used as a digital medium of exchange, unit of account, or store of value and that is not any one of the above. This is the type of DLT Asset which is commonly left unregulated in other jurisdictions.

VIRTUAL FINANCIAL ASSETS – CAN BE LISTED ON VFA/DLT EXCHANGES
ISSUERS IN OR FROM MALTA OFFERING VFA TO THE PUBLIC MUST REGISTER WHITEPAPER

Catering for the Industry



Ensuring that the staff are competent and knowledgeable by providing regular training and updates on the industry. This has enabled us to be proficient when addressing queries posed by the Clients that are active with DLT Assets. We are in a position to provide advice on accounting treatment of such transactions, and tax or legal advice in relation to the regulatory position of a particular structure or transaction involving Malta.



The Group set up CS Fintech Services Limited which submitted its application to become a VFA Agent following the coming into force of the VFA Act. In April, it was amongst the first batch of agents to get licensed, with a portfolio of clients ready to initiate the process with the regulator for their own licensing.



The Group entered into a partnership with Concise Software through the setting up of Scerri & Concise Ltd. The Company has submitted its application with the MDIA and it is pending approval. Whilst the regime to register innovative technology arrangements is not mandatory, the regulator is already insisting that when carrying out system audits, issuers and other operators must abide by the guidelines issued by the MDIA.



QUESTIONS?





Have you considered accepting
cryptocurrencies as a means of payment for
your own services?



What are some of the challenges which you face when trying to cater for this industry?

