

MALTA

A LEADER IN DLT REGULATION



PARLIAMENTARY SECRETARIAT FOR FINANCIAL SERVICES
DIGITAL ECONOMY AND INNOVATION
OFFICE OF THE PRIME MINISTER

The Future of
Technological Innovation
within a Regulated Framework:
A Maltese Perspective

Hon. Silvio Schembri

Presentation to Media (27th February 2018)

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INTRO

The background of the slide features a yellow-tinted image of a city skyline. Overlaid on this are several semi-transparent yellow circles of varying sizes. Inside some of these circles are icons: a lightning bolt, a server rack, and a computer monitor. The overall aesthetic is modern and tech-oriented.

PURPOSE

- Malta has recently announced the establishment of the Malta Digital Innovation Authority; a framework for the Certification of Distributed Ledger Technology Platforms and Related Service Providers; and a Virtual Currency Act



PURPOSE

- The proposed framework will offer legal certainty to a space that is currently unregulated and touches upon a number of issues including types of authorisations, legal personality, and the applicability of law on smart contracts.
- Will provide an environment conducive to the development of this technology and will help position Malta as the natural destination for businesses that operate in this space.



Guiding Principles

- **Market Integrity**
- **Market Security**
- **Consumer Protection**



SALIENT POINTS

- A framework that conceptualises the creation of a new Digital Innovation Authority, the voluntary registration of Technology Service Providers and the certification of DLT Platforms and related smart contracts as Technology Arrangements.

The background of the slide features a yellow overlay with several circular icons. These icons include a lightning bolt, a server rack, and a computer monitor, all connected by a network of lines, suggesting a digital or financial theme.

SALIENT POINTS

- The framework also includes another new regime, under the MFSA, for the approval of ICOs and the regulation of certain service providers dealing in VCs including brokers, exchanges, wallet providers, asset managers, investment advisors and market makers.

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STAGES
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DOCUMENT

INTRO



STAGES LEADING TO THE CREATION OF THE FRAMEWORK

- Extensive consultations with Regulatory Authorities (MITA, MCA, MFSA, MGA, CBM...etc.)
- Meetings with interested parties (Police, FIAU...etc.)
- Meetings with Industry (local and non-local)



STAGES LEADING TO CONSULTATION DOCUMENT

- Informal dialogue with international institutions
- Informal dialogue with leading international legal firms specialising in technology
- Public Consultation

3-STEPS APPROACH

Step 1: Setting up of an Authority - Malta Digital Innovation Authority.

Step 2: A Bill that will set out the regime for the registration of Technology Service Providers and the certification of Technology Arrangements.

Step 3: A Bill that will set out the framework for ICOs and the regulatory regime on to the provision of certain services in relation to VCs. The intermediaries subject to the VC Bill include brokers, exchanges, wallet providers, asset managers, investment advisors and market makers dealing in VCs (to be issued by MFSA)



STEP 1

Setting up of a New Authority

- to **promote governmental policies** that favour the development of Malta as a hub for new and innovative technologies, including their adoption in public administration by the Government technology hub.
- to **promote innovation** in the design, implementation, and utilisation of new technologies.
- to foster innovation through the **creation of a successful ecosystem** based on the utilisation of cutting edge technology in useful business cases and the adherence to best implementation practices.



STEP 1

Setting up of a New Authority

- to **protect the reputation of Malta** taking into account Malta's international commitments and to collaborate with other states and international organisations in implementing the best standards in the sector.
- to **act as a consultative body** on this area for other National Competent Authorities.



Different type of DLT Platforms

- **Private DLT Platform**
 - Designed for private consumption
 - Example – A Financial Institution creates a DLT platform for employee records (Payroll)
- **Private DLT Platforms that are designed for consumption by regulated Entities**
 - Banks, Insurance Companies, Investment Firms, Gaming Companies, Telecoms
 - Example – A Financial Institution creates a DLT Platform to be utilised by its Clients
- **Public DLT Platforms**
 - Platforms that share a consensus mechanism between its nodes
 - Example – Ethereum, Bitcoin



STEP 2

Framework applicable to Technology Arrangements and Technology Service Providers

- It is proposed that the TAS Bill will initially capture DLT Platforms and related smart contracts only;
- In the future, the definition of Technology Arrangements can be extended to include other platforms and arrangements such as AI and IOT;
- Certification will be on a voluntary basis;
- 2 key connecting factors:
 - connecting factor 1: Administrator
 - connecting factor 2: Auditor



STEP 3

Proposed Framework applicable to ICOs and the provision of certain services in relation to VCs

- The MFSA is proposing that the 'Financial Instruments Test' would be applicable to issuers and/or persons offering ICOs, conducted in or from Malta, to determine whether such activity is encompassed under the existing legislative and regulatory framework, which inter alia includes MiFID and the Prospectus Directive.
- Aim of the proposed VC Bill shall be to create a framework in the field of ICOs as well as a regulatory framework application to service providers offering certain services in relation to VCs falling outside the scope of the current legislative and regulatory regime, when such activity is carried out in or from Malta.

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Use cases and
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Use cases and potential applications

- **Cross-border payments:** for example in the Oil and gas industry where large volumes are sold. Transactions can be done through a DLT;
- **Music Industry:** Transactions occur across a peer-to-peer network, and are computed, verified and recorded using an automated consensus method, eliminating the need for an intermediary or third party to manage or control information;
- **Smart Contracts:** When the criteria of the contract are fulfilled, ownership or payment will be automatically transferred; Example in Notary Deeds.



Use cases and potential applications

- **Supply Chain Management:** Utilizing blockchain technology to record and manage the movement of goods and related invoices will significantly mitigate the risk of errors and the opportunity to alter invoice values or recipients; It perfectly compliment the supply-chain allowing the tracing of products to its source.
- **Funding:** ICO are a new fundraising mechanism. It's somewhat similar to an Initial Public Offering (IPO) in which investors purchase shares of a company.

Vision and Plan

- Malta plans to lead in this area by being proactive, open to business, attracting entrepreneurs and investors from all over the world.
- We are transforming Malta into an international hub for digital technology innovation.
- This is the first step towards executing the Maltese Government's plan to be a trailblazer in digital innovation, fostering innovation, and establishing world class regulatory procedures to protect end users

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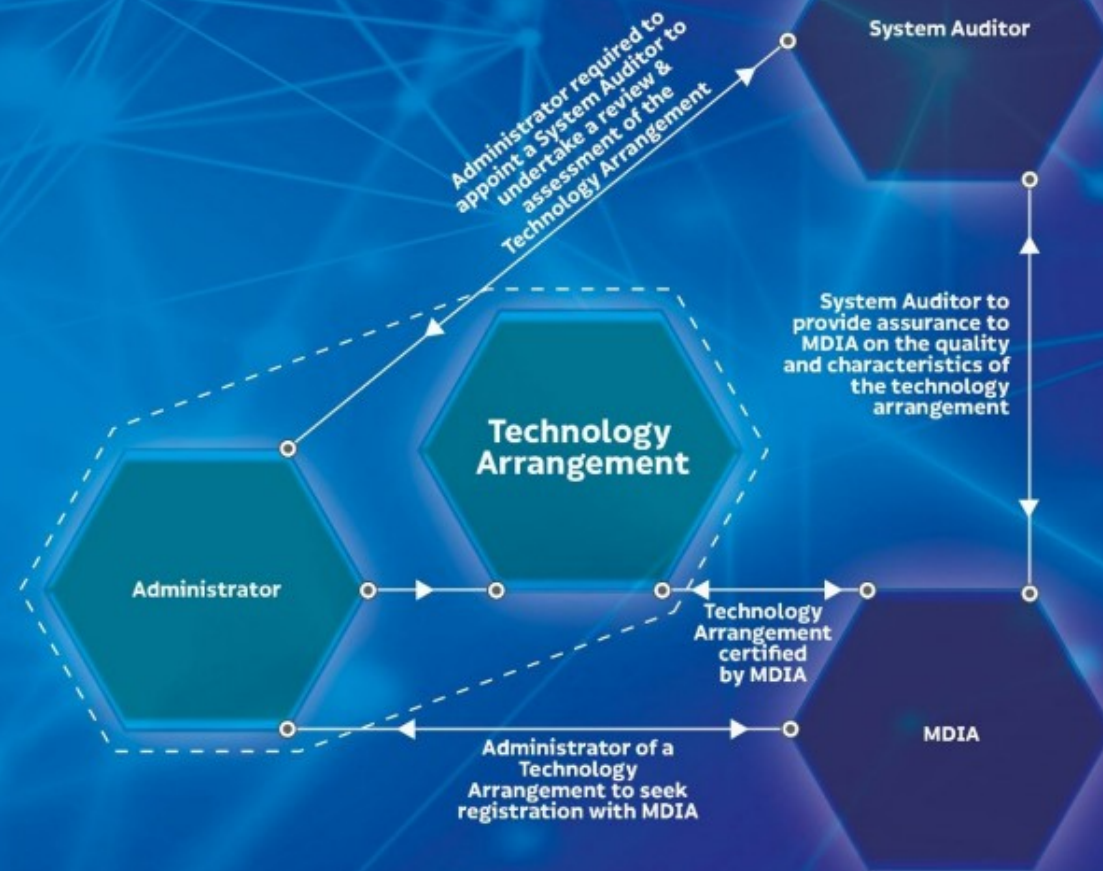
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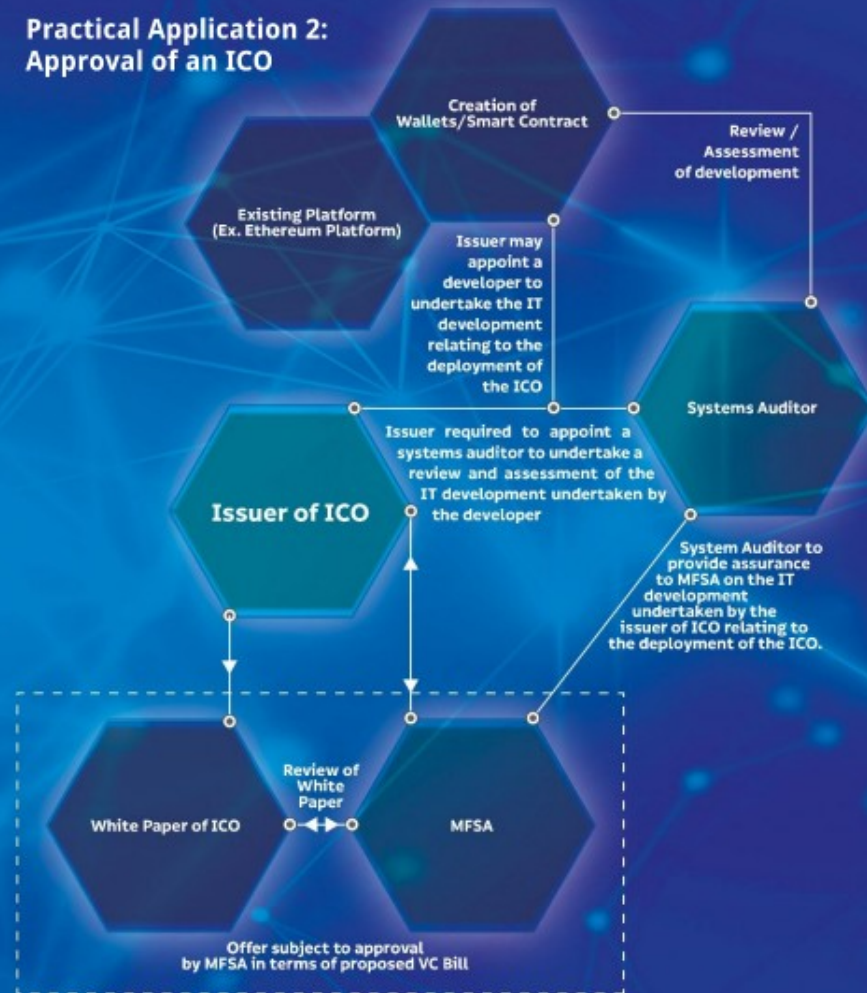
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Practical Application 1: Certification of a DLT Platform



Practical Application 2: Approval of an ICO



The background of the slide is a teal-colored abstract design. It features a network of thin, light-colored lines connecting various circular nodes, some of which are highlighted in a slightly different shade of teal. There are also some rectangular shapes and a larger, more complex geometric structure on the right side. The overall effect is a modern, tech-oriented aesthetic.

THANK YOU

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