

Malta: Destination Blockchain Island

With its move to regulate Distributed Ledger Technologies, Malta is positioning itself as the go-to place for innovative fintech companies and blockchain entrepreneurs.

WHY MALTA?

1 Malta is the first country in the world with clearly established regulatory frameworks for DLTs, ICOs and virtual currencies.

2 Crypto exchanges, ICO platforms and developers of blockchain-based tools and applications have either relocated or established new offices on the island. Financial services companies can work with some of the biggest and brightest names in the blockchain and cryptocurrency industry to develop, test and scale innovative products and solutions.

3 Malta is fast establishing a reputation as a hub for digital innovation and is preparing its finance sector for an AI-powered and data-driven future. AI and IoT technologies are next on the country's agenda.



A Leading Voice on DLT in the World

Malta has developed standards that have the potential to push blockchain technology into the mainstream and disrupt the status quo of the finance industry in the years ahead. The 'Blockchain Island' has launched the world's first holistic regulatory framework for Distributed Ledger Technologies (DLTs).

Malta's vision is to create a thriving blockchain economy by providing regulatory certainty and consumer protection to a market environment that is unregulated in many countries. The ambition is that the sector will account for 10% of GDP by 2027. Malta has attracted plenty of international talent working in sectors such as iGaming and financial services, which can now be utilised for the growing blockchain industry. The new framework initially captures DLT platforms and smart contracts, but the government is already working on extending its reach to other types of innovative technologies, such as Artificial Intelligence (AI) and Internet of Things (IoT) technologies, paving the way for the next fintech revolution.

Government's commitment to support the budding industry has made the island appealing for DLT innovators, and despite Malta's minuscule size, some of the biggest names in the blockchain and cryptocurrency industry have chosen to set up operations on the island. But Malta has done more than just creating a regulatory framework for ICOs, DLT platforms and virtual currencies; it has provided a base for a transient industry that has been operating in legal limbo all across the world. What London is for the global finance industry, Malta can be to the fast-growing DLT community: a place they call home.

Blockchain Island brings Regulatory Clarity

While major economies were reluctant in regulating blockchain and cryptocurrencies, Malta adopted a remarkably progressive stance towards cryptocurrencies and blockchain technologies. The island has moved quickly to establish itself as international blockchain hub by introducing legislation to bring virtual assets and DLTs into the regulatory fold.

A Trio of Laws

Malta introduced a comprehensive set of rules and regulations to safeguard investors while supporting the growth of the industry and its stakeholders.

The framework includes three separate pieces of legislation:

- 1** The Malta Digital Innovation Authority (MDIA) Act provides for the establishment of the regulator to be known as the MDIA. The MDIA approves Systems Auditors and certifies DLT platforms and smart contracts, which are referred to as technology arrangements.
- 2** The Innovative Technology Arrangements and Services (ITAS) Act outlines a regime for the registration of Technology Service Providers, such as DLT platforms, and for the certification of Technology Arrangements such as smart contracts;
- 3** The Virtual Financial Assets (VFA) Act sets out the framework for Initial Coin Offerings (ICOs) and the regulatory regime for the provision of certain services in relation to virtual assets.

KEY ACTORS

Three different authorities are involved in regulating and overseeing the sector.

The Malta Digital Innovation Authority (MDIA) certifies DLT platforms and smart contracts, while handling the registration of technology service providers.

The Malta Financial Services Authority (MFSA) is responsible for everything related to finance, including the approval and supervision of ICOs, as well virtual financial assets and crypto currency exchanges.

The Malta Gaming Authority (MGA), Malta's gaming regulator, works hand in hand with the other two regulatory bodies. If blockchain technology and virtual currencies are being applied in a gaming context, the MGA will review the set-up and provide final approval.

The MDIA and the ITAS Act

The MDIA is the first DLT regulator of its kind in the world. Under Malta's Innovative Technology Arrangements and Services (ITAS) Act, blockchain tech companies can apply to the MDIA for certification.

Certification of DLT Platforms and Smart Contracts

Developers of DLT platforms and smart contracts can turn to the MDIA if they wish their products and services to be certified. Certification of these technology arrangements is voluntary and not a legal requirement, but in order to market the product, certification is recommended as it serves as an official stamp of approval.

Certification will only be issued if the MDIA is satisfied that all legal administrators and shareholders with 25% or more ownership or control are fit and proper persons; the Innovative Technology Arrangement has been reviewed by an independent registered systems auditor; and a registered technical administrator is in place at all times.

Regulation of Systems Auditors and Technical Administrators

DLT platforms that opt for certification by the MDIA are required to work with approved technology service providers for both review services and technical administration services.

Systems auditors perform technology audits demanded by the MDIA, while the role of a technical administrator is to ensure that all systems operate as intended in the associated blueprint.

To get MDIA approval, systems auditors and technical administrators need to prove that they are fit and proper, have the necessary qualifications and experience and have sufficient technical resources or third-party support.

Malta Resident Agent

If the applicants are not resident in Malta, they are required to appoint a Malta Resident Agent. The agent's task is to interact between the technology arrangement, the MDIA and other government department and authorities; sign and file all the necessary declarations and forms; and act as a judicial representative of the applicant.

Certification of a DLT Platform

Applicant needs to appoint a **TECHNICAL ADMINISTRATOR** (Registered with MDIA)

▼
A **SYSTEMS AUDITOR** needs to be appointed to review and assess the technology arrangement (Registered with MDIA)

▼
Systems auditor to provide assurance to MDIA on the quality and characteristics of the technology arrangement
▼
MDIA certifies technology arrangement

WHO'S
HERE?

Companies with operations in Malta include



The MFSA and the VFA Act

The Virtual Financial Assets (VFA) Act sets a defined framework for ICOs, tokens as well as cryptocurrencies. The expectation is that it will encourage investors who were previously reluctant to invest in the industry to reconsider, while from an ICO issuers point of view, it makes Malta an attractive jurisdiction.

Financial Instrument Test

All crypto projects are required to perform a Financial Instrument Test. The test needs to be performed prior to the submission of a whitepaper to the MFSA, admission to trading on a cryptocurrency exchange and/or the provision of a VFA service. The test will determine:

- ▶ whether the DLT asset falls within the definition of a virtual token, in which case it is exempt from any regulations;
- ▶ whether it qualifies as a financial instrument in terms of MiFID and in terms of the Malta Investment Services Act;
- ▶ whether the DLT asset qualifies as a Virtual Financial Asset in terms of the VFAA Act.

VFA Agent

Malta has created the role of a VFA agent who acts as the intermediary between the ICO issuer / service provider and the MFSA. ICO issuers need to have a VFA agent in place at all times, while for crypto exchanges, payment processors, investment advisers, asset managers, and other service providers wishing to obtain a VFA service licence the VFA agent's role is solely linked to the application stage. The VFA agent's responsibilities include performing a fitness and properness assessment prior to on-boarding the client, acting as a point of liaison between the MFSA and the client, and ensuring that all due diligence documentation is in place and kept up to date in accordance with laws and regulations. Law and audit firms, as well as corporate services providers wishing to act as VFA agent need to be approved by and registered with the MFSA.

VFA LICENCES

Malta introduced four types of licences for companies providing services related to virtual financial assets. The licences Class 1 to 4 comprise different types of rights and require different investment levels. Entities need to apply to the MFSA, and upon application, a one-time application fee is payable and each licence is subject to an annual supervisory fee.

VFAA Class 1

Licence holders are allowed to receive and transmit orders relating to virtual financial assets and to offer investment advice relating to or place virtual financial assets.

VFAA Class 2

Licence holders are authorised to provide any VFA service and to hold or control clients' money, but not to operate a VFA exchange or deal for their own account.

VFAA Class 3

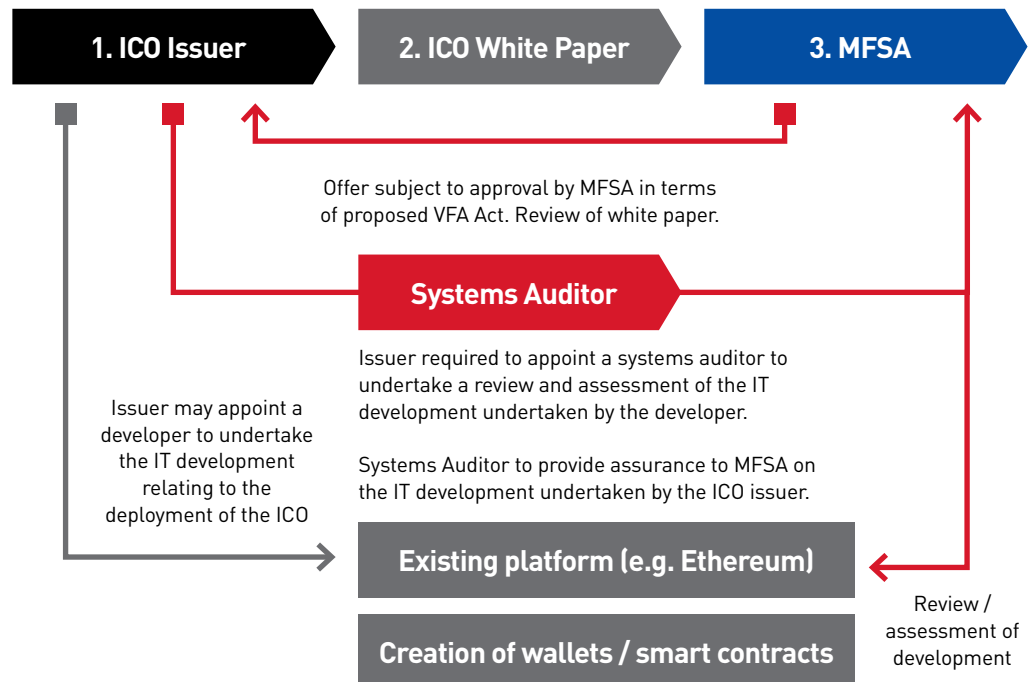
Licence holders can provide any VFA service and to hold or control clients' money, but not operate a VFA exchange.

VFAA Class 4

This is the most comprehensive licence class as it allows licence holders to operate a VFA exchange, to hold or control clients' money, virtual financial assets and private cryptographic keys, as well as to offer custodian or nominee services in relation to the operation and activities of such VFA exchange.

Approval of an ICO

To launch an ICO from Malta, individuals and companies need to prepare a whitepaper and to appoint a licensed VFA agent. The whitepaper needs to be registered with the MFSA. Issuers are neither registered nor licensed by the Authority. Hence, prior to on-boarding an issuer as a client, a VFA Agent must conduct thorough KYC checks. The VFA agent then conducts the financial instrument tests, reviews the whitepaper and advises the issuer on all obligations to ensure compliance with Malta's rules and regulations, both before the ICO and once the coin is traded on a crypto exchange. ICO issuers are also required to appoint a systems auditor who needs to review the IT development relating to the deployment of the ICO and send a report to the MFSA.



Finance Centre at a Glance



A European Finance Centre: Malta has been a favoured entry point to the European Union because of its robust, EU-compliant regulatory framework, diverse financial ecosystem and deep talent pool.

Central Location: Located at the centre of the Mediterranean, the Maltese Islands lie virtually midway between Europe and North Africa, some 90 kilometres south of Sicily and 300 kilometres north of Libya. This makes the island an excellent gateway for business between Europe, Africa, the Middle East and Asia.

EU Passport: Malta is an EU member state, and companies established in Malta, and holding VFAA licences from the MFSA and/or certifications from the MDIA, are allowed to establish a branch or provide services not only in any other EU country but also in the countries of the European Economic Area (EEA), provided that the service or activity offered is not prohibited in that country.

Telecoms: Malta has a highly experienced and vibrant ICT sector. There are a number of software auditors and test labs on the island.

Professional Services: Malta is home to a solid cluster of firms providing professional services to fintech companies and blockchain entrepreneurs, guiding them through the licensing process and assisting them with setting up a Malta company, establishing operations and recruiting HR.

Costs: Malta is generally 20% cheaper than the more established European finance centres, while a company's seed capital may last three to five times longer.

Offices: Malta offers enviable real estate with sea views and marinas as well as prestigious landmark office complexes within easy commuting distance to residential areas.

Lifestyle: Malta is one of the easiest places to relocate to in the EU, and residents enjoy an exceptional standard of living: 10 months of sunshine, an English-speaking population, and a Mediterranean island setting in which it is easy to find one's way around.

Talent: Malta attracts the best and brightest from all corners of the world, offering companies a network of seasoned professionals and support staff. An added incentive for highly qualified foreign professionals is a 15% income tax cap, as well as a fast-track service of work permits for highly specialised professionals from non-EU countries.

Tax: The Maltese taxation system is one of the main reasons foreign investors choose to establish companies in Malta. Companies are taxed at 35% on all profits, however shareholders may claim a 6/7 refund on the distribution of a dividend. This system has been approved by the European Commission and the OECD.



We are willing to throw our doors wide open to help companies develop new solutions and attract innovative start-ups. The 'Blockchain island' is not just a mere expression, it is now a destination: Malta.

Silvio Schembri
Parliamentary Secretary for Financial Services, Digital Economy and Innovation



Malta's Virtual Financial Asset Act is a solid foundation for the industry and the government to work together in fostering the nascent blockchain/digital asset industry. More specifically, Malta's sound risk-based approach will help cultivate a responsible, compliant and healthy ecosystem.

Tim Byun
Chief Risk Officer of OKEx



Malta is the equivalent of a start-up nation. It's one of those countries that embrace change. Blockchain technology is indisputably game changing, and Malta is taking a leadership position.

Brock Pierce
Chairman of the Bitcoin Foundation, Founder and Managing Partner of Blockchain Capital



While most countries are trying to fit blockchain technology into existing regulations, Malta's government realised that it had to develop a framework specially customised for the technology. Malta now has a head start on a technological sector that will eventually be bigger than the internet.

Tim Draper
Founder of Draper Associates, DFJ and Draper University



We are convinced that Malta will be the next hotbed for innovative blockchain companies, and a centre of the blockchain ecosystem in Europe. Binance is committed to lending our expertise to help shape a healthy regulatory framework as well as providing funds for other blockchain start-ups to grow the industry further in Malta.

Changpeng Zhao
CEO of Binance