

**Guidance on the use of Innovative  
Technology Arrangements and the  
acceptance of Virtual Financial Assets  
and Virtual Tokens through the  
implementation of a Sandbox  
Environment**

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## Definitions

In this Paper, save as specified hereunder, all words and phrases shall have the meaning assigned to them in the Gaming Definitions Regulations (S.L. 583.04).

<b>“distributed ledger technology” or “decentralised ledger technology” or “DLT”</b>	shall have the same meaning assigned to it in the MDIA Act;
<b>“DLT asset”</b>	shall have the same meaning assigned to it in the VFA Act;
<b>“DLT exchange”</b>	shall have the same meaning assigned to it in the VFA Act;
<b>“game engine”</b>	The entirety of the mechanics, game engine and parameters of a game;
<b>“innovative technology arrangements”</b>	shall have the same meaning assigned to it in the ITAS Act;
<b>ITAS Act</b>	Innovative Technology Arrangements and Services Act (Cap. 592 of the Laws of Malta);
<b>MDIA Act</b>	Malta Digital Innovation Authority Act (Cap. 591 of the Laws of Malta);
<b>MDIA</b>	Malta Digital Innovation Authority, established by the MDIA Act;
<b>MFSA</b>	Malta Financial Services Authority, established by the Malta Financial Services Authority Act (Cap. 330 of the Laws of Malta);
<b>“smart contract”</b>	shall have the same meaning assigned to it in the MDIA Act;
<b>“VFA Act”</b>	Virtual Financial Assets Act (Cap. 590 of the Laws of Malta);
<b>“virtual financial asset” or “VFA”</b>	shall have the same meaning assigned to it in the VFA Act;
<b>“virtual token”</b>	shall have the same meaning assigned to it in the VFA Act;
<b>“wallet”</b>	A digital wallet is where one stores funds of a DLT asset. Only such wallets can allow transactions of VFAs. A combination of private and public keys is used to transfer ownership of funds in VFAs from one wallet to the other. Transactions in the VFA space are to be signed by the sender wallet’s private key and sent to the receiver wallet’s public key.

## Acronyms

<b>CBM</b>	Central Bank of Malta
<b>CDD</b>	Customer Due Diligence
<b>DLT</b>	Distributed Ledger Technology
<b>FIAU</b>	Financial Intelligence Analysis Unit
<b>ITA</b>	Innovative Technology Arrangements
<b>LRMS</b>	Licensee Relationship Management System
<b>MCA</b>	Malta Communications Authority
<b>MDIA</b>	Malta Digital Innovation Authority
<b>MFSA</b>	Malta Financial Services Authority
<b>MGA</b>	Malta Gaming Authority
<b>VFA</b>	Virtual Financial Asset

## 1 Context

### 1.1 Introduction

This paper presents the Malta Gaming Authority's (hereinafter 'MGA' or the 'Authority') position in regard to the acceptance of VFAs and the use of ITAs, including DLT platforms and smart contracts, by operators regulated by the MGA. More specifically, it identifies and examines the details of a regulatory sandbox. The sandbox shall conclude on **31 December 2022**.

### 1.2 Pre-Publication Activities

On 5 December 2017, following the conclusion of an extensive study conducted on risks associated to DLT and VFAs, the MGA issued a call for interested parties to share information on their VFA and/or DLT projects. The MGA also met with a number of these interested parties in order to understand the concepts and objectives behind these projects.

During the study on risks associated with DLT and VFAs, the MGA also gathered extensive feedback from other relevant Authorities including the MFSA, CBM, MCA and FIAU.

Subsequently, as from 29 March and throughout April 2018, the MGA engaged in a public consultation exercise, which elicited the response of a sizeable number of interested parties.

In parallel and throughout the summer months, the MGA absorbed the responses received from the public consultation and increased its alignment with other national stakeholders, in particular, the MFSA and the newly established MDIA.

### 1.3 Nature as a Living Document

This Paper is to be considered a living document, and the regulatory requirements envisaged herein or otherwise rendered applicable to the acceptance of VFAs, the use of virtual tokens or the leveraging of ITAs by licensees may be changed from time to time even throughout the period of its duration, as may be rendered necessary by technological and regulatory developments.

### 1.4 Eligibility

For the sake of clarity, an approval to participate in the sandbox framework is conditional on the applicant holding the relevant licence issued by the MGA, without prejudice to any other regulatory requirements stemming from other applicable legislation or other binding instruments.

An applicant may apply for its testnet to be included within the sandbox framework, on the condition that the live environment goes live by such time as the MGA may allow, which can be no more than three (3) months after the approval is issued.

## 2 DLT assets used by operators

### 2.1 Categorisation

Prior to applying to the MGA for the required approval to use a DLT asset within the context of the gaming operation, an operator shall conduct the Financial Instrument Test issued by the MFSA to determine the nature, from a financial perspective, of the DLT asset and submit the result of the Financial Instrument Test to the MGA. The aforementioned Financial Instrument Test, together with any other pertinent documentation, shall be submitted to the MGA.

As part of the application for the obtainment of the sandbox approval, the operator shall submit a declaration attesting that the services that shall be undertaken by the operator and/or any service provider engaged by the operator are duly compliant with the requirements stemming from any applicable legislation and/or regulatory instruments. Moreover, where applicable, if any authorisation is required to be obtained in terms of such legislation and/or regulatory instruments, the declaration shall also attest that such authorisation has been duly obtained.

#### 2.1.1 VFAs

If the DLT asset is classified as a VFA, the operator shall be responsible for ensuring adherence to the relevant requirements stemming from any applicable legislation and/or regulatory instrument.

DLT assets that fall to be regulated as financial instruments as defined in the Investment Services Act (Cap. 370 of the Laws of Malta), or as electronic money as defined in the Financial Institutions Act (Cap. 376 of the Laws of Malta), may only be accepted as a means of payment if specifically approved on a case-by-case basis by the MGA.

Operators may accept VFAs which satisfy the following criteria:

#### **Financial Value**

1. The technology represented by the token provides value for the network participants;
2. The underlying network is decentralised; and,
3. It is easy for members to participate in the economy, having control of their wealth and the freedom to invest in it as they choose.

### **Technological Value**

1. The technology is open source, well documented and well tested by entities separate from the core development team;
2. There is a working product either on a test network or a main network; and,
3. The technology is secure with prompt responses to discoveries of vulnerability and performance issues.

### **Scalability**

1. The technology behind the VFA has a clear roadmap for development and project milestones;
2. There are practical applications, either in the present or in the future, for the technology; and,
3. The VFA is operating on its separate blockchain, or is utilising an existing blockchain for practical purposes.

### **Market Conditions**

1. The VFA has a competitive market capitalisation in comparison with the general market capitalisation that is allocated to other DLT assets;
2. The VFA is not restricted to one geographic region; and,
3. There is a trading pair between the VFA and fiat currencies:

Provided that the MGA may allow for the acceptance of VFAs which do not have a trading pair with fiat currencies if the VFA has a trading pair with other major VFAs and the MGA is satisfied that the regulatory objectives sought in this sandbox framework are nonetheless achieved.

### **DLT Asset Economics**

1. The VFA reflects a service; in other words, there is a relation between a company's growth and performance and the services that it provides;
2. There is a fundamental reason to purchase and hold the VFA based on its future plan and vision regarding growth and milestones. Simple fundraising is not a valid enough purpose;
3. There are ways to incentivise participants on the network to work in a fair manner whilst penalising malicious behaviour;
4. There are strict security protocols limiting scams, hacks and theft of funds;

5. The team behind the VFA allows a fair distribution of the token (limiting the risk of a small number of investors acquiring a majority supply of the token);
6. The team behind the VFA is available to respond to feedback and questions about the technological product and the VFA; and,
7. The white paper and the technology's website have an ethical and professional code of conduct.

For the sake of clarity, it shall remain the MGA's discretion to evaluate whether the above criteria or any one of them, are satisfied by a particular VFA. Such evaluation criteria may be revised on an ongoing basis in accordance with a risk-based approach.

### 2.1.2 Virtual Tokens

With respect to DLT assets that fall to be classified as virtual tokens, the MGA shall assess whether to accept or reject the use of such tokens on a case-by-case basis, and be guided by the DLT asset economics envisaged in section 2.1.1 and an evaluation of the following characteristics of the applicant more generally:

1. technology;
2. company structure;
3. market applications;
4. security; and
5. human resources.

In addition, the MGA also reserves the right, in its sole discretion and applying a risk-based approach, to add and/or remove commercial digital coins' authentication for this project.



### 2.1.3 Applicability

In order to determine whether the Sandbox Framework is applicable to an operation that incorporates DLT assets, a distinction must be made between the operations listed hereunder:

Operation	Sandbox Framework
Player deposits a DLT asset through a third-party service provider. The DLT asset is passed on to the operator further to the use thereof in the operator’s ecosystem.	Applicable
Player deposits a DLT asset through a third-party service provider. The equivalent amount is passed on to the operator in fiat currency further to the use thereof in the operator’s ecosystem.	Applicable
Player deposits fiat currency through a third-party service provider. Upon receiving fiat currency, the third-party service provider converts it to an equivalent amount of DLT assets. Any amount of DLT assets that the player elects to transfer to the operator’s ecosystem is converted to fiat currency beforehand. Following this, any withdrawals are effected in fiat currency.	N/A

For the sake of clarity, the above-listed operations are by no means exhaustive and are intended to serve as guidance in relation to the applicability or otherwise of the Sandbox Framework. This section 2.1.3 needs to be read in conjunction with the requirements relating to outsourcing service providers as outlined in section 2.3.3 of this Paper.

### 2.1.4 Additional Safeguards

In accordance with article 31 (1) of the Player Protection Directive (Directive 2 of 2018), the MGA reserves the right, on the basis of a risk-based approach, to impose on the operator any additional requirements in the form of financial safeguards in order to achieve increased protection of the player funds. Such safeguards include but are not limited to the requirement of bank guarantees.

## 2.2 Characteristics of wallets

The characteristics of wallets storing VFAs for gaming will resemble any other VFA wallet. This is because a wallet has a limited set of basic operations and properties, as listed below:

1. A wallet has an address;

2. Funds of the specific VFA can be deposited into the wallet; and,
3. Funds of the same VFA can be withdrawn from the wallet, as long as there is a sufficient balance to allow it.

Wallets may be such that the private key is held by the player, or by a custodian wallet provider, which may also be a DLT exchange. In all cases, only wallets whose address or addresses are specifically tied to the individual player shall be admissible for use in the gaming ecosystem.

## 2.3 Deposits

### 2.3.1 VFAs

The ensuing procedures shall be followed by the operator when a player wishes to make a deposit in a VFA:

1. Validation of the details provided by the player at registration shall commence upon the player's first deposit. The player has to complete such validation process within thirty (30) days of this deposit. Failure to do so will result in the player's account being blocked along with any associated funds. No withdrawal may take place before the validation process has been completed;
2. The wallet address shall form part of the player's registered identity with an operator and, notwithstanding the above, the player's control over such wallet shall be verified prior to any deposit being made from it;
3. Following the verification of control over the wallet prior to the player's first deposit, there may be instances where the wallet address is changed due to, inter alia, security related reasons. In such cases, the verification of the player's control over such wallet shall be carried out on a risk sensitive basis, in accordance with applicable AML/CFT obligations;
4. If, in accordance with applicable AML/CFT obligations, control over the wallet cannot be verified, any pending transactions shall be logged, the operator shall freeze the amounts, and:
  - a. if a player claims to have deposited from such address within fifteen (15) days, or such longer period as the operator may stipulate in its terms and conditions, the amount may be assigned to such player's account if control over the wallet is fully verified;
  - b. if no player makes such claim, or control over the wallet is not successfully verified, the operator shall appropriate the funds and shall make use thereof for responsible gaming purposes.

In the case of operators accepting payments in fiat currency as well as VFAs, the fiat currencies and each individual VFA shall be treated separately and exchanging between one and another shall not take place within the operator's ecosystem.

Any transaction fees which may be incurred by the player, whether on deposit or withdrawal, shall be clearly identified and the player shall be forewarned accordingly.

### 2.3.2 Virtual Tokens

By their nature, virtual tokens are confined within a closed-loop ecosystem pertaining to the relevant operator, since exchangeability outside such ecosystem confers on a DLT asset the nature of a VFA or a financial instrument or electronic money, as the case may be.

In light of the above, virtual tokens may be acquired directly from the relevant operator on its platform. In any such case, the operator may sell its virtual tokens to its registered players for fiat currency on its own platform, in order for such players to make use of the virtual tokens on the operator's platform itself, provided that any withdrawals to be made shall be effected in fiat currency, after converting the virtual tokens, on the operator's platform, at the same exchange rate at which they are acquired by players on the platform.

### 2.3.3 Outsourcing service providers

Operators may wish to make use of third party service providers that accept VFAs from players, whilst allowing the operator itself to deal solely in fiat currency. The operator shall be responsible for ensuring that such service providers are operating in accordance with the VFA Act and/or any other applicable legislation or other binding instruments. In the absence of such services being provided by virtue of a licence issued in terms of the VFA Act, all limitations envisaged in this Paper shall apply as though the operator accepted VFAs directly as a means of payment. If the service provider is in possession of such licence, the maximum deposit amount established in section 2.5 shall not apply. This is without prejudice to the other restrictions envisaged herein, including but not limited to the deposit requirements in section 2.3.1.

For the sake of clarity:

1. Deposits in fiat currency shall only serve for the placement of wagers in fiat currency, and withdrawals shall be effected in fiat currency;
2. Deposits in VFA shall only serve for the placement of wagers in the same VFA, and withdrawals shall be effected in the same VFA; and,

3. Acquisitions, exchanges and, or sale of DLT assets by players on the operator's platform and, or through the operator's wallets, shall not be permitted except when this is implemented solely for virtual tokens, and not VFAs, in a closed loop scenario in accordance with section 2.3.2.

## 2.4 Wallet verification and withdrawals

### 2.4.1 Wallet verification

In order for a wallet to be verified as pertaining to the registered player, the player must prove control over such wallet. It is the operator's responsibility to ensure that this is achieved in a manner which adheres to its obligations in terms of AML/CFT. The means by which sufficient verification may be achieved include, but are not limited to:

1. Requiring the player to deposit a minimum amount of €1.00 in the equivalent value of the VFA at hand. For the sake of this argument, this amount is referred to as the "proof of wallet control deposit". Once this is confirmed by the operator, the wallet will be deemed verified. It is the duty of the operator to also reimburse the player for the proof of wallet control deposit in addition to the original sum that the player would like to withdraw; or,
2. Requiring the player to cryptographically sign the wallet with his private key, where this is possible.

### 2.4.2 Withdrawals

As aforementioned, all payments received in a certain unit of VFA must be returned by the operator in the same unit. At no point will the operator and/or players be allowed to transfer funds between different VFAs on the gaming platform. These platforms are not to be used as a VFA exchange.

In the interest of player protection, and for the purpose of ensuring the necessary checks on the source of funds used within a gaming operation, the withdrawal methodology must be conformant with any applicable AML/CFT obligations and guidelines. The manner in which proof of control is established, shall be left to the discretion of the operator. If the withdrawal fails, the player is to be notified of such an issue.

Withdrawal procedures shall, in addition, and without prejudice to what is stated in this position paper, be in accordance with the relevant provisions of the applicable regulatory instruments.

The logging of successful and failed deposits and withdrawals is imperative so that the operator can be able to handle direct communication with players, in the case of funds not being received from a player's account, or from an external wallet. By keeping logs of wallet addresses, transaction amounts

and timestamps, the operators have the ability to verify whether a player's complaint is legitimate; in which case a proper reimbursement of funds is possible, ensuring player protection.

## 2.5 Placing limits on players' deposits in VFAs

The value of VFAs in relation to fiat currencies may go through periods of high volatility. In order to ensure that this volatility does not undermine the safeguards that financial limits aim to introduce, such limits are to be considered in Euro terms, even where the deposit is made in a VFA. Further detail on the exchange rate to which operators are expected to refer to, is included in section 2.6.

Currently, operators are required to maintain player-specified limits for fiat currencies; rather than including VFAs within the same limit, operators shall add a distinct player-specified ceiling for VFAs, that is distinct from the fiat currency limit. Figure 1 illustrates this process. Throughout the duration of the sandbox, and without prejudice to limits required in terms of Part V of the Player Protection Directive (Directive 2 of 2018), no operator may accept deposits in VFA by a player exceeding the equivalent of one thousand euros (€1,000) per month (hereinafter the "maximum deposit amount"). When a player elects to set a player-specified limit in accordance with the Player Protection Directive, the operator must give the player the option to set such limit both for fiat currency and for VFAs.

For the sake of clarity, the maximum deposit amount is considered on a player-to-operator level, and may not be applied on a per brand level instead.

Due to the aforementioned high volatility, it is likely that during the lifetime of this sandbox, players may deposit a sum which is less than the maximum deposit amount; however, after a period of time – perhaps without even playing a game – they might end up with a total that is significantly higher or lower than the maximum deposit amount. As a result, the maximum deposit amount will be defined through a cumulative (summation) approach; when a player attempts to deposit funds into an account, the value in Euro terms will be considered at a rate at which time the funds deposited reached the operator.

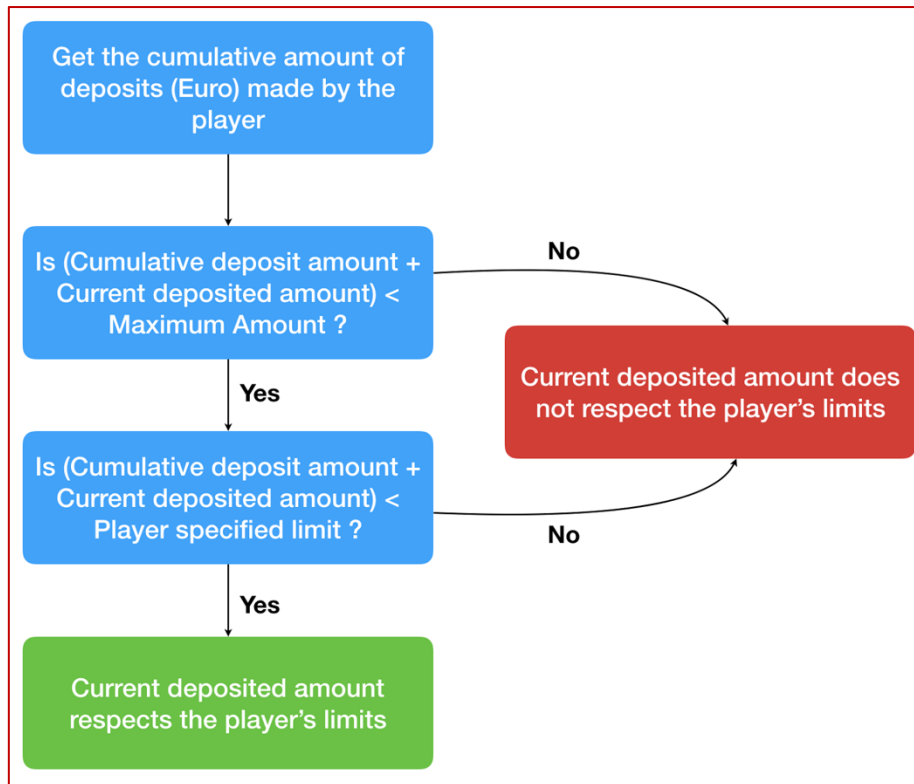


Figure 1: The checks which ensure that a deposited amount is within a player's deposit limits

The accepted procedure for the transfer of VFA funds from a player’s external wallet to their gaming account with an operator is presented in Figure 2.

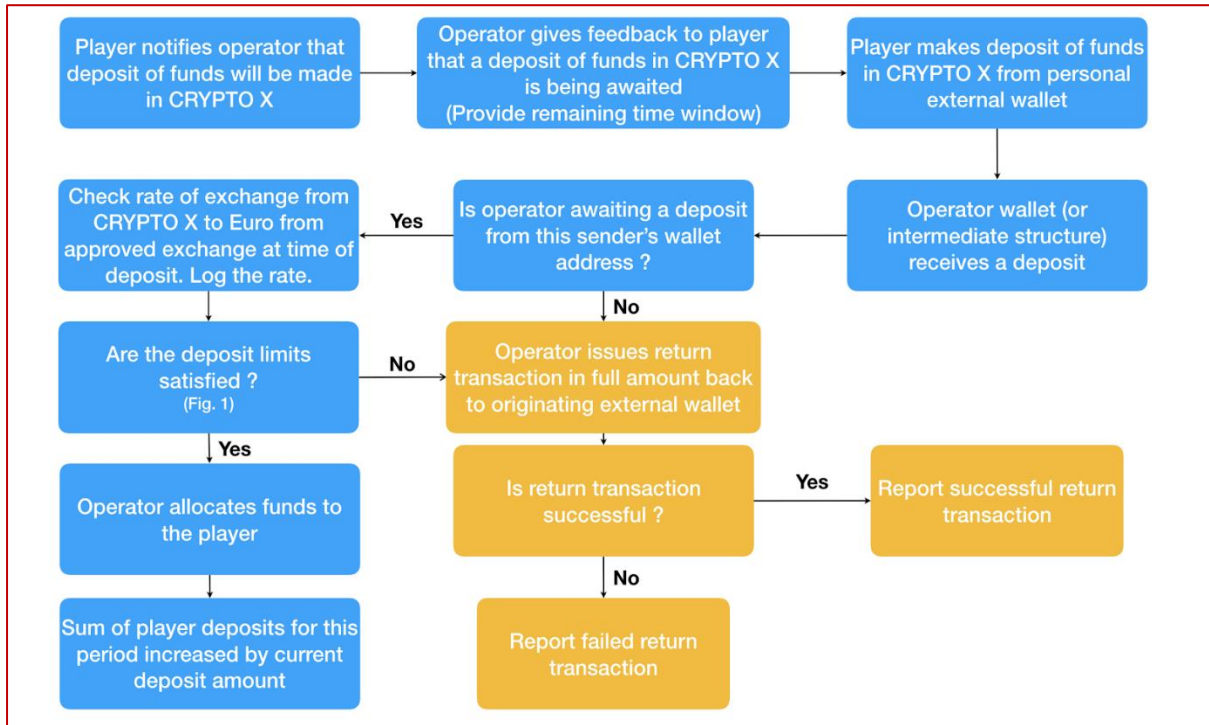


Figure 2: The accepted procedure for an operator to accept a deposit from a player

In order to ensure the attainment of the objective of safeguarding players and the gaming ecosystem through the imposition of the maximum deposit amount, either of two implementation scenarios is deemed acceptable. It should be noted that the two scenarios are completely distinct from one another, and both the components and the conditions presented in each one, are not applicable to the other.

**Scenario 1**

In this scenario (Figure 3), the operator has a maximum of one wallet for every supported VFA. The players issue deposits to the address of that wallet from the wallet that forms part of their verified details with the operator. If the deposited amount respects the maximum deposit amount and, if any, the deposit limit set by the player, the funds are kept in the operator’s wallet, and are made available to the player’s account for gaming use. Otherwise, if the operator receives a transaction from a wallet address that does not form part of a verified account, the operator shall assess whether to verify control over such wallet in accordance with applicable AML/CFT obligations, and if control over the wallet is not successfully verified, the funds shall be dealt with in accordance with section 2.3.1. In this scenario, the operator does not assign an individual wallet to each player. Instead, every player is assigned ownership of a balance virtually segregated within one of the operator’s holding wallets, as represented in Figure 3.

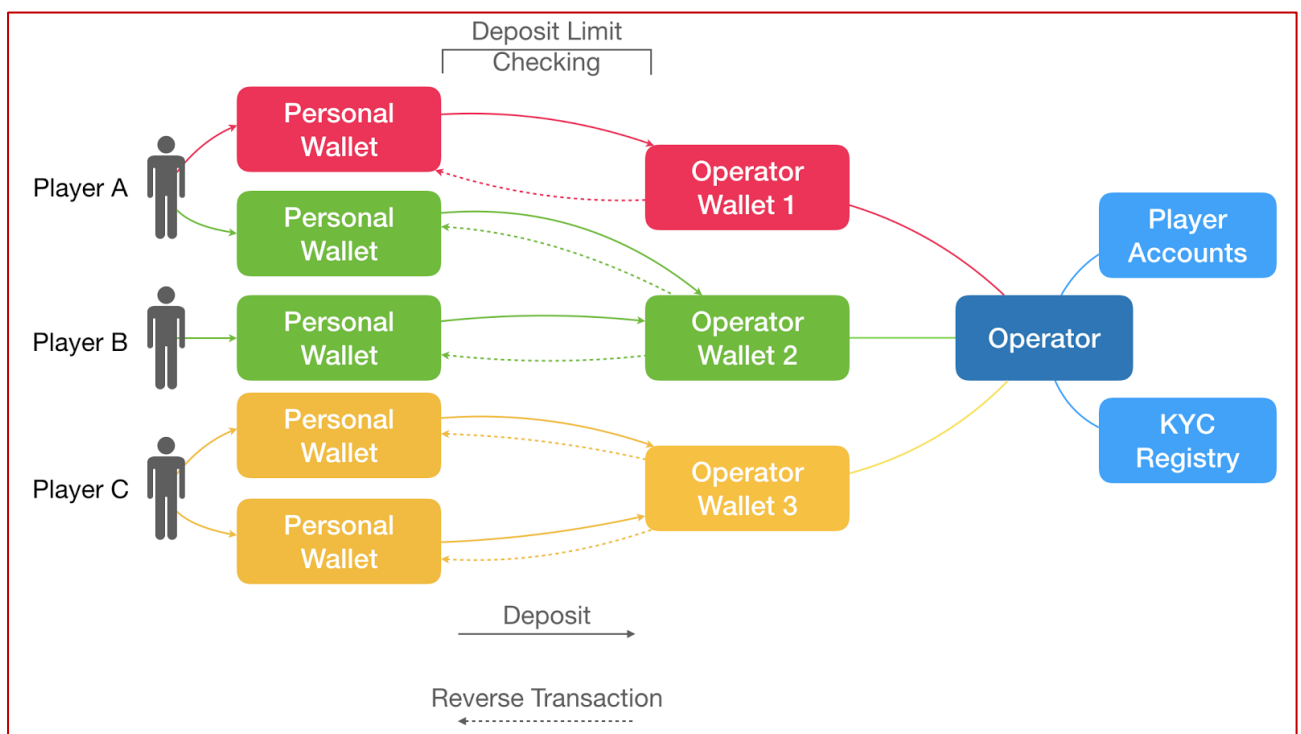


Figure 3: Scenario 1 - Players use an allocated portion from the operator's wallet (Different wallet colours indicate different VFAs)



### Scenario 2

In this scenario (Figure 4), the operator assigns an individual gaming wallet for each currency to every player’s account. The MGA only accepts this case if the operator has an intermediate wallet structure comprised of one or more wallets. Such an intermediate setup is used to accept deposits from the player’s personal external source of funds. However, in contrast to that scenario, if the deposited amount is within the maximum deposit amount, the funds are forwarded to the player’s respective gaming wallet, rather than allocating players a share of the operator’s wallet. The intermediate wallet reverses incoming transactions where possible, if they exceed the maximum deposit amount. If the funds originate from a wallet that does not fall under the control of the respective player following the verification thereof in accordance with applicable AML/CFT obligations, the funds shall be dealt with in accordance with section 2.3.1.

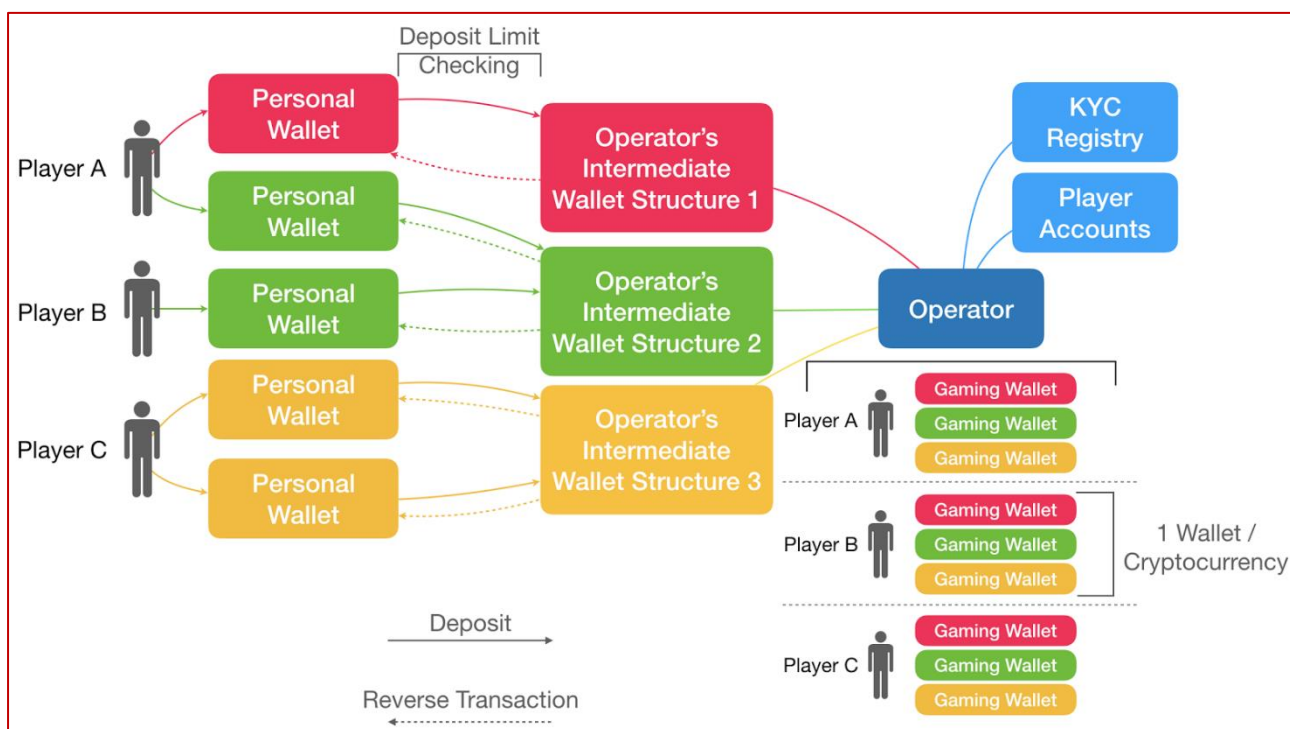


Figure 4: Scenario 2 - Players get assigned a wallet by the operator for every supported currency (Different wallet and wallet structure colours indicate different VFAs)

## 2.6 Rate of Exchange

A major issue concerning the use of VFAs within a regulated industry such as gaming is that due to their volatility, there exist significant differences between exchange rates of the same VFA amongst different exchanges. For the purpose of this sandbox framework, the exchange rate used shall be that of the VFA exchange selected by the operator, which shall be declared by the operator to the MGA. For the purpose of the maximum deposit amount, and any limit set by the player, the rate shall be calculated as mentioned in previous sections.

For the purpose of reporting player liabilities, fees and tax, the operator shall take the exchange rate of the various VFAs against the Euro as at 12:00hrs Central European Time on the last day of the reporting month.

The exchange on the basis of which the rate is calculated, may be changed from reporting month to reporting month, but may not be changed throughout the duration of the same reporting month.

The Authority reserves the right to require licensees to refer to a specific exchange rate index selected by the MGA, should it be deemed more conducive to the achievement of the regulatory requirements.

With regards to virtual tokens, the exchange rate shall be the rate at which the operator exchanges the tokens on his platform, or otherwise as may be determined by the MGA on a case-by-case basis.

## 2.7 Additional reports

In addition to the player funds reports, with respect to VFAs, any operators participating in the sandbox framework are to present a report of any failed return transactions, with respect to any invalid deposits, so as to be able to explain any money being held in their wallets without any ownership. This report shall be submitted to the MGA along with the monthly report pertaining to player funds.

# 3 Innovative Technology Arrangements

## 3.1 General requirements

In order for an operator to leverage an ITA, including DLT platforms and smart contracts, within its key technical equipment, it requires the specific approval of the MGA and inclusion within the sandbox framework. ITAs shall be audited by auditors registered with the MDIA in terms of the ITAS Act, in accordance with the directions given by the MGA on a case-by-case basis. In such cases, such innovative technology arrangements shall only be accepted by the MGA if the audit report has a

positive opinion as to its outcome and the MGA is satisfied that the regulatory requirements shall be adhered to by the operator.

Moreover, administrators, as defined in the ITAS Act, shall be assessed on their competence in the context of their assessment as persons performing key functions, and shall be required to show specific competence in relation to administering an innovative technology arrangement, were pertinent to the function they perform.

## **3.2 Hosting of essential components on DLT**

### **3.2.1 Games and game components**

For the duration of this sandbox, the MGA will accept games and game components that are hosted fully or partially on a DLT environment, subject always to the audit mentioned in section 3.1. Any components that are hosted separately shall be subject to such requirements as may be applicable in accordance with the applicable law.

### **3.2.2 Other essential components**

Other essential components may be hosted on DLT if the Authority is satisfied that all requirements stemming from all applicable regulatory instruments and other applicable laws will be adhered to.

## **3.3 Smart Contracts**

Smart contracts may, and in some cases must, be deployed for various reasons in an operation in which the technical setup is partly or wholly based on DLT. The MGA's main regulatory focus is their use for the purpose of executing game transactions, in particular where funds pertaining to the player and held in the player's wallet are held in escrow by a smart contract, which based on the outcome of the game, then executes the payout to the player's wallet, or transfers the player's wager to the operator's wallet, as the case may be. In such cases, this shall only be allowed when the following minimum criteria are satisfied:

1. Control over the wallet is verified as part of the player's identity in accordance with section 2.3.1;
2. The necessary safeguards are in place to ensure that self-exclusion or player-specified limits, if any, and the maximum deposit amount are in all cases adhered to;
3. The smart contract is deployed in such a manner that it can be revoked, or neutered in any other manner which the relative DLT permits, should a flaw in the outcomes generated by its code be discovered. Should this be required, any funds controlled by such smart contract

would need to be returned to the relevant players according to the procedures established by the MGA;

4. No player may wager on a platform which makes use of smart contracts to automate withdrawals unless full CDD has been carried out on such player, including verification of control over the wallet in accordance with section 2.3.1. For the avoidance of doubt, if the withdrawal is not automated despite being executed by a smart contract, and is nonetheless dependent on the operator's approval of the withdrawal request, the CDD obligations envisaged in section 4 remain applicable and are not replaced by these more onerous requirements; and,
5. The smart contract code is reviewed by an auditor registered with MDIA and any faults identified are addressed as required.

These same requirements apply where other smart contracts are used within the gaming DLT platform in order to execute the various transactions which are required in the ecosystem, provided that where the smart contract is not directly or indirectly relevant to adherence to regulatory requirements, the MGA may dispense with the requirement for an audit of the code of that smart contract. This shall always be at the MGA's discretion, adopting a risk-based approach and underpinned by considerations of proportionality.

## 4 Anti-Money Laundering and Counter Terrorist Financing

On 19 July 2018, the MGA and the FIAU issued the Implementing Procedures – Part II – for the remote gaming sector (the ‘Implementing Procedures’). For the sake of clarity, the requirements stemming from such document and in general, any other applicable requirements in terms of AML/CFT, are equally applicable to operators that are accepted within the sandbox environment envisaged herein. Moreover, operators shall ensure that their policies and procedures are developed and applied in such a manner as to duly cater for the risks which may arise, or be exacerbated by, the use of VFAs or virtual tokens as a funding method and/or the deployment of smart contracts to automate payments, where applicable.

Below is a list of non-exhaustive requirements which must be adhered to by operators within the sandbox environment over and above the obligations envisaged in terms of the Implementing Procedures, the Prevention of Money Laundering Act (Cap. 373 of the Laws of Malta) and the Prevention of Money Laundering and Funding of Terrorism Regulations (S.L. 373.01 of the Laws of Malta):

1. The details required for the identification of the customer (section 3.2 of the Implementing Procedures) shall in all cases include the wallet address/es to be used;
2. Validation of the customer details (section 3.2 of the Implementing Procedures) shall be completed within thirty (30) days of the first deposit;
3. The threshold triggering CDD obligations in terms of section 3.3.2 of the Implementing Procedures shall be one hundred and fifty euros (€150):

Provided that where smart contracts are used to automate withdrawals, verification shall be fully completed before any wager may be made in terms of section 3.2 of this Paper.

For the purposes of applying the risk-based approach, VFAs and virtual tokens shall be considered to be high-risk funding methods in terms of appendix 1 of the Implementing Procedures.

## 5 Location of Technical Infrastructure

In December 2015, the MGA issued Guidelines on Technical Infrastructure hosting Gaming and Control Systems for licensees in remote gaming (the 'Guidelines'). These guidelines do not take into account the possibility of hosting certain components on DLT. In terms of such Guidelines, the hosting architecture must be located in Malta and, or any EU/EEA Member State, or in any other third country jurisdiction wherein the Authority is satisfied that the same principles can be obtained.

When a public permissionless DLT platform is used to host components, the operator does not have control over who becomes a node in that ledger, and where the relative equipment is located. Hence, where the Authority deems a proposed technical infrastructure based partly on a public DLT platform to be acceptable, this requirement shall not prejudice such approval. However, in any such case, the licensee would need to establish a node in Malta for the purpose of adhering to the requirements on replication of essential regulatory data. This is without prejudice to the operator's duty to comply with all other obligations stemming from any applicable legislation or other binding instruments.

## 6 Concluding remarks

The Authority has updated its LRMS system to allow:

1. New operators to apply for approvals for the use of DLT assets as part of a *New Licence Application*;
2. Existing licensees can apply for approvals for the use of DLT assets through the application type - *New or Change in Payment Methods / Financial Management Information*;
3. Existing licensees can apply for approval for the use of Innovative Technology Arrangements through the application type – *Change in Technical Setup*;
4. Existing licensees participating in the sandbox environment to report VFA player liabilities, fees and tax through the *Monthly Player Funds Report*. Licensees will also need to report any failed return transactions, with respect to any invalid deposits.

Once the Authority issues an approval for the use of DLT assets/ITA by a licensee, the dynamic seal will reflect the fact that the licensee is participating in the sandbox environment.