

MFSA

MALTA FINANCIAL SERVICES AUTHORITY

PRESS RELEASE

MFSA - Seminar On Due Diligence and Cybersecurity in Relation to DLT

On the 11th September 2018, the MFSA organised a one-day Seminar on due diligence and cybersecurity in relation to Distributed Ledger Technology (“DLT”), with over 450 attendees, so as to present guidance, best practices and available Reg-Tech solutions currently available in relation to cybersecurity and Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) risks pertaining to DLT. The VFA legislative and regulatory framework developed by the MFSA operates harmoniously with the GDPR and goes above and beyond the 5AMLD, thereby providing essential safeguards and protection of personal data and integrity against AML/CFT.



MFSA CEO Joseph Cuschieri provided an overview of the developments of the MFSA’s policy framework on DLT assets and further announced the 1st November 2018 as the date of the coming into force of the VFA Act regime. He mentioned that the MFSA, being at the forefront of regulating DLT and crypto assets in such a holistic manner, intends to ensure effective investor protection, financial market integrity and financial stability. MFSA CEO also emphasised that the MFSA will process applications for registration and licencing under the Virtual Financial Assets Act (Cap. 590) in a rigid manner to ensure the quality of industry participants, and is raising the bar for the requirements of a VFA agent under the said Act.

Hon. Silvio Schembri, Parliamentary Secretary for Financial Services, Digital Economy and Innovation, addressed the well-attended Seminar, with a key note speech accentuating Malta’s aim of establishing a holistic and robust market sector in its vision of becoming a global leader and a “blockchain island”. He emphasised that the distributed and borderless nature of DLT provides additional challenges and complexity in managing risk and ensuring compliance with AML/CFT requirements. Therefore, in order to maintain high-levels of cybersecurity, technology itself needs to be at the heart of business process design, data management and compliance functions. It is essential for the industry to leverage cutting-edge technological innovation, undertake increasingly complex operational changes, cross-border electronic means of identification, secure data handling and analytics, safeguarding privacy and consumer protection and protection against illicit activity.

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Dr Christopher P. Buttigieg, Head - Securities and Markets Supervision Unit, emphasised the need for issuers of DLT assets, VFA Agents as well as those persons seeking licensing as VFA Service Providers to implement the necessary cybersecurity solutions in place to effectively mitigate the ever-increasing cyber threats present within the DLT world. Dr Buttigieg further insisted that the MFSA will be very rigid in assessing applications and highlighted that parties interested in conducting business regulated under the VFA Framework should enact robust know your client (KYC) solutions.

Several speakers in their respective fields presented their views with regards to cybersecurity challenges and threats emanating from the DLT world, while also conveying advice on the best practices to be followed to protect an infrastructure against said threats. Representatives from Cyber-Defence Alliance, ICT Solutions and QuoScient stated that enhancing cybersecurity capabilities to monitor transactions and cleanliness of exchanges is critically important especially since the cyber-threat landscape is endless and constantly changing. They emphasised that actionable and targeted Intelligence is necessary to innovate and execute, as well as to close the gap on cyber-crime or crypto-related threats.

Representatives from a number of due diligence companies, including *inter alia*, Elliptic, CipherTrace, Chainalysis and Neutrino, presented their software solutions which are able to monitor, analyse and track cryptocurrencies on DLT, depicting how to be one step ahead of cyber-security threats, based on best practice. Such investigative software solutions provide risk-assessment by means of real-time crypto transactions monitoring and tracking of flow of funds, and source of crypto-funds analysis, revealing possible connections to illicit uses or activities, due diligence and customer identification and on-boarding processes, dynamic risk-profiling and identification. These software solutions are therefore crucial in unmasking any cryptocurrency related criminal activities by tracing the movement of money, finding connections between different cryptocurrency wallets and enabling swift action on exposed suspicious activity.

The importance of the blockchain-driven KYC solutions & AML ecosystem, particularly for exchanges both upon on-boarding clients and on an on-going basis was also emphasised by Bitfury as well as the Malta based-companies, QGen and Know Me Know.

Communications Unit

18th September 2018

Ref 18-2018