



ABU DHABI GLOBAL MARKET  
سوق أبوظبي العالمي

*CONSULTATION PAPER  
NO. 7 OF 2024*

**PROPOSED REGULATORY  
FRAMEWORK FOR  
THE ISSUANCE OF  
FIAT-REFERENCED TOKENS**

**20 August 2024**

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## Introduction

### *Why we are issuing this consultation paper*

1. The Financial Services Regulatory Authority ("**FSRA**") of the Abu Dhabi Global Market ("**ADGM**") has issued this consultation paper to invite public feedback and comments on its proposed introduction of a specific regulatory framework that would enable the issuance of "fiat-referenced tokens" ("**FRTs**") from the ADGM. These are a category of "stablecoins" that are backed by high-quality, liquid assets denominated in the same currency as the FRT and that can be liquidated rapidly with minimal adverse price effect. This consultation paper therefore uses the term "FRT" rather than "stablecoin" for the particular tokens having those characteristics.
2. While all "stablecoins" establish their value in reference to a fiat currency, asset-referenced tokens and commodity-backed tokens are not considered "stable" due to the fluctuation of the value of their underlying asset, as expressed in fiat currency, i.e. all FRTs may qualify as "stablecoins", but not all "stablecoins" may qualify as FRTs. It is important that readers should note that this paper and the legislative amendments it contemplates do not propose to introduce new Regulations or Rules to address commodity and asset-backed tokens. These types of tokens will be considered in due course.
3. FRTs are intended to be used as a means of payment and share certain characteristics with Stored Value, where the existing ADGM financial services framework allows an Authorised Person with a Financial Services Permission ("**FSP**") to engage in Providing Money Services through the issuance and redemption of Stored Value. The FSRA regime applicable to issuers of Stored Value contemplates the Authorised Person operating the system for recording transactions between holders of the Stored Value as well as a relatively short issuance and redemption cycle, necessitating the proceeds from issuance being held in cash as Relevant Money. However, the FSRA is of the view that the Stored Value regulatory requirements would be inappropriate for an issuer of FRTs.
4. Given that, the FSRA is proposing a proportionate, risk-appropriate regulatory framework enabling ADGM based issuers of fiat-referenced stablecoins to issue and redeem the tokens they issue that balances the desire to respond to industry demand with necessary regulatory safeguards to ensure that issuers operate in a safe and sound manner.
5. In tandem with the implementation of a regulatory framework governing the issuance of FRTs, the FSRA is conducting a review of the existing suite of Regulated Activities to consider any relevant amendments where such Regulated Activities might be conducted using FRTs. Such proposed amendments will consider the acceptance of tokens as consideration for services or investments, as well as where the holding or transfer of tokens may be integral

to the Regulated Activity itself, such as the delivery of Payment Services. These proposed amendments will be the subject of a separate Consultation Paper, to be published in the near term.

- Capitalised terms contained in this consultation paper have the meanings attributed to them in the FSRA's Glossary ("**GLO**"), unless otherwise defined in this paper.

### ***Who should read this paper***

- The FSRA is responding to interest from potential applicants seeking to issue FRTs from ADGM and this Consultation Paper should be of particular interest to them, other individuals and organisations active in the stablecoin industry, and their respective professional advisors.

### ***How to provide comments***

- All comments should be made in writing and sent to the mail address or email address specified below. If sending your comments by email, please use the Consultation Paper number in the subject line. If relevant, please identify the organisation you represent in providing your comments. The FSRA reserves the right to publish, including on its website, any comments you provide, unless you expressly request otherwise at the time of making any comments. Comments supported by reasoning and evidence will be given more weight by the FSRA.

### ***What happens next***

- The deadline for providing comments on this proposal is 3 October 2024. When we receive your comments, we will consider whether any modifications are required to the proposed regulatory framework for FRTs. The Board of the ADGM and the FSRA will then proceed to enact the regulatory framework in its final form. You should not act on this proposal until the relevant Regulations and Rules are issued. We will issue a notice on our website when that happens.

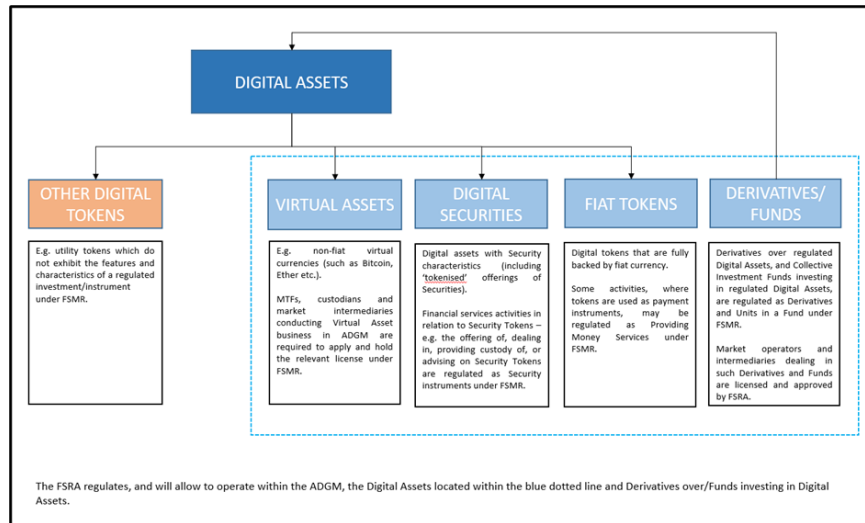
### ***Comments to be addressed to:***

Consultation Paper No. 7 of 2024  
Financial Services Regulatory Authority  
Abu Dhabi Global Market  
ADGM Square  
Al Maryah Island  
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Abu Dhabi, UAE  
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## Proposed Fiat-Referenced Token regulatory framework

### Background

1. Since the introduction of the original crypto-assets framework in 2018, the FSRA's treatment of Virtual Assets has evolved to meet significant changes in the sector. While the most recent iteration of the FSRA's "Guidance - Regulation of Virtual Asset Activities in ADGM" ("**VA Guidance**") discussed FRTs and distinguished them from Virtual Assets, the FSRA's legislation has not specifically addressed the FRT issuance model up to this point in time.
2. The current set of Regulated Activities would require the issuer of an FRT to seek an FSP enabling Providing Money Services, specifically for the issuance of Stored Value. While FRT and Stored Value issuance share similarities, in the FSRA's view the rules in the Conduct of Business Rulebook ("**COBS**") applicable to issuers of Stored Value are too restrictive to support FRT issuance, especially when benchmarked against regulatory regimes developed in other jurisdictions.
3. The FSRA is seeking to adopt a regulatory approach for FRT issuance which is aligned with current practice in leading jurisdictions and has adopted a policy approach informed by a number of sources, including the regulatory frameworks and proposed regulatory frameworks of the New York Department of Finance, the EU as represented by the Markets in Crypto-Assets Regulation, the Monetary Authority of Singapore, HM Treasury and the Financial Conduct Authority in the UK, as well as the Hong Kong Monetary Authority.
4. The FSRA proposes to treat FRT issuance as a new Regulated Activity which is distinct from the issuance of Stored Value within the Financial Services and Markets Regulations 2015 ("**FSMR**"), with appropriate conduct of business and prudential rules.
5. In order to propose to regulate the issuance of FRTs, a definition of an FRT is required. The FSRA has considered definitions in other jurisdictions and proposes that an FRT be defined as a digital asset whose transfer and storage is achieved electronically through the use of distributed ledger technology, which.
  - (a) is used as a medium of exchange;
  - (b) achieves a stable store of value by referencing a fixed amount of a single fiat currency; and
  - (c) enables the holder to redeem the FRT in exchange for the amount of the fiat currency referred to in (b) from its issuer upon demand.
6. A summary of the treatment of digital assets relevant to the consideration of FRTs, as reflected in the current VA Guidance, is set out below.



### Virtual Assets vs Fiat-Referenced Tokens

7. In the FSRA's view, FRTs, being intended as a medium of exchange, are distinct from Virtual Assets, which may also be held for speculative, investment purposes. Importantly, however, while both FRTs and some Virtual Assets are used as a medium of exchange, Virtual Assets are not backed by any redemption right that obligates the issuer to deliver an agreed amount of fiat currency or other thing of value to a holder upon demand. Without such a redemption right, the market value of a Virtual Asset fluctuates with the perceived value of the Virtual Asset in the market. The FSRA currently regulates Virtual Assets as tradeable commodities rather than a Security or medium of exchange.
8. An FRT may be distinguished from a Virtual Asset by its associated redemption right, whereby a holder may demand a specified amount of fiat currency from the issuer upon the surrender of the token. It is the continuing ability of the issuer to fund a redemption request that establishes a stable value for the token, which in turn facilitates its use as a means of payment.
9. The primary regulatory concern in relation to FRTs is the ability of the issuer to fund redemption requests in a timely and efficient manner, similar, but not identical, to the regulatory considerations which govern Authorised Persons that issue Stored Value as part of a payment services business.

### FRTs vs. Stored Value

10. FRTs and Stored Value are both used to effect payment, however, in the FSRA's view, FRTs may be distinguished from units representing Stored Value. An issuer of Stored Value would be required to maintain and operate a "closed" system of user accounts, through which transfers of units must be reflected. Funds received following the issuance of Stored Value to a user must be deposited in a Relevant Money Account and cannot be invested, on the rationale that the timeframe of the issuance – redemption cycle for Stored Value is relatively brief, given the limitations on the token's use and comparatively smaller number of potential

users. For instance, when a user makes a payment for goods or services to a merchant from its Stored Value card, the merchant will typically immediately exchange the Stored Value for fiat currency held in the issuer's Relevant Money Account. This necessitates the Stored Value issuer to hold the proceeds from the Stored Value issuance in the form of cash.

11. In contrast, FRTs may be distributed widely amongst disparate holders using blockchain technology and the time between issuance and future redemption may be lengthy, as FRTs may be used for payment repeatedly by a succession of holders. Under such a model, ownership of the FRT and hence transfer of monetary value may not involve such a straightforward and short-term redemption of funds from the issuer. An analysis of regulatory regimes in comparable jurisdictions has indicated that issuers of FRTs are typically permitted to invest a significant portion of the proceeds from issuance in specified high-quality liquid assets which earn some levels of return whilst maintaining a stable value per token.
12. Ultimately, although FRTs and Stored Value are technically distinct, it is likely that the average holder would see FRTs as having similar economic utility and use cases as money – a store of value, a medium of exchange or a unit of account – and buy FRTs for that purpose. While the proposed amendments to FSMR identify the issuance of FRTs as a distinct Regulated Activity, the FSRA seeks input from industry concerning the question of whether the issuance of FRTs should be included under a new, separate Regulated Activity of FRT issuance or an expanded definition of the Regulated Activity of Providing Money Services, given the similarities between these two use cases.

#### *Prohibition of algorithmic stablecoins*

13. Considering the inherent difficulty of maintaining a robust stabilisation mechanism in the absence of any backing assets with inherent value, the FSRA remains of the view that algorithmic stablecoins which derive their value from arbitrage or algorithm will not be permitted within ADGM.

#### **Question 1**

Do you agree with the FSRA's definition of a Fiat-Referenced Token and its treatment as an asset which is distinct from a Virtual Asset?

#### **Question 2**

Should the issuance of a Fiat-Referenced Token be a distinct Regulated Activity or fall within the scope of the Regulated Activity of Providing Money Services?

#### *Reserve Assets to be held by an FRT issuer*

14. Following a review of practices in other jurisdictions, the FSRA has concluded that FRT issuers would be required to maintain all proceeds from the issuance of FRTs in:

- (a) cash held as “Relevant Money” in accordance with COBS; and
  - (b) “Reserve Investments” comprising admissible high-quality liquid assets denominated in the same currency as the FRT, which can be liquidated rapidly with minimal adverse price effect;
- collectively termed “Reserve Assets”.

15. Reserve Investments would be limited to, subject to being denominated in the currency of the FRT:

- (a) cash equivalents and debt securities with up to three-month residual maturity issued by a government or central bank, or organisations that are of both a governmental and international nature with a minimum long-term credit rating of AA- or equivalent;
- (b) reverse repurchase agreements overcollateralised by debt securities issued by a government or central bank on an overnight basis, with a counterparty that is not affiliated with the issuer and with a credit rating that meets or exceeds specified credit ratings;
- (c) public money-market funds investing in government debt securities, subject to FSRA-agreed limits on the value of Reserve Investments to be held in such funds and FSRA- agreed credit ratings of such funds; and
- (d) any other instruments that are approved by the FSRA.

(See paragraph 39 for further detail on appropriate credit ratings for (b) and (c).)

16. Considering that FRT issuance is proposed to be a new activity within ADGM, instead of prescribing express limits in rules the FSRA proposes to require applicants to submit their allocation limits in relation to the categories above of eligible Reserve Assets to the FSRA for approval. The FSRA is of the view that the minimum percentage of cash against the total value of the relevant FRT outstanding should take into account the level of recent and anticipated redemption requests.

**Question 3**

Do you agree that the proposed range of permitted Reserve Investments described in paragraph 14 is sufficiently broad?

**Question 4**

Do you agree with the FSRA’s proposed approach to allocation limits?

*Full backing of reserve assets*

17. The market value of the Reserve Assets held by an FRT issuer must be at least equal to the par value of all outstanding FRTs in circulation as of the end of each business day.



18. The existence and composition of Reserve Assets must be independently attested to on a monthly basis, with the report published on the issuer's website and submitted to the FSRA by the end of the month following the expiry of the period covered by such attestation. The attestation information must include the following information as of the last business day of the period covered by the attestation and one business day, selected on a random basis each month, during the period:
- (a) the end-of-day market value of Reserve Assets, both in aggregate and broken down by asset class;
  - (b) the end-of-day par value of FRTs in circulation;
  - (c) whether the Reserve Assets held by the issuer are adequate to fully back the value of FRTs in circulation, and are sufficiently liquid; and
  - (d) whether any conditions on the management of Reserve Assets imposed by the FSRA have all been fulfilled.
19. An annual external audit of the issuer's Reserve Assets, and the effectiveness of the internal controls, structure, and procedures for compliance with FSRA's requirements in relation to the management of the Reserve Assets must be conducted. The audit report must be submitted to the FSRA within four months of the issuer's financial year-end.
20. In December 2022, the Basel Committee on Banking Supervision published its prudential standards for cryptoasset exposures<sup>1</sup>, recommended for adoption by 1 January 2025, with the standards requiring the valuation and composition of investments held by issuers be disclosed at least daily and weekly respectively. The FSRA does not propose mandating daily disclosure of mark-to-market value of Reserve Assets or weekly disclosure on the composition of Reserve Assets at this point, in its belief that the prevailing market practice of monthly independent attestation has served its purpose well for the FRT industry. Additionally, the FSRA is considering implementing technological tools that would enable the enhanced assessment and monitoring of proof of Reserve Assets of the FRT.

**Question 5**

Do you agree with the FSRA's proposed approach to periodic attestation and disclosure?

*Segregation and custody of reserve assets*

21. The FSRA is of the view that Reserve Assets must be segregated at all times and held by one or more permitted Third-Party Agents as per Chapters 14 and

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<sup>1</sup> "Prudential treatment of cryptoasset exposures", Basel Committee on Banking Supervision (December 2022)

15 of COBS, in order to ensure FRT holders' priority claim on Reserve Assets in the event of the insolvency of an issuer. Issuers that offer two or more FRTs must operate and maintain segregated pools of Reserve Assets for each FRT and each of those pools of Reserve Assets must be managed separately.

*Income arising from reserve assets*

22. The FSRA does not propose to prohibit an issuer from accruing and distributing income earned from Reserve Assets to the FRT holder, but it is important to note that an FRT must not be promoted as nor considered to be an investment or a savings product.
23. Having said that, although several jurisdictions have prohibited the payment of returns based upon the duration of ownership of an FRT, the FSRA proposes to permit issuers to pass on a portion of any income earned from Reserve Assets to FRT holders, on the basis that the utility of an FRT as an effective medium of exchange is correlated to it being an effective store of value. In the view of the FSRA, it would therefore be counterintuitive as a policy to prohibit payments of income for that purpose.
24. However, the FSRA sees the potential for risks to arise in allowing FRTs to compete on the basis of income earned from Reserve Assets; such an approach could incentivise an issuer to generate and offer more yield to potential holders by investing in riskier Reserve Investments. As the issuer must honour redemption of the FRTs at par, any investment losses in the Reserve Investments will expose the issuer and ultimately every holder to financial risks. On the part of a holder, there is the risk of an FRT offering yields being misunderstood as a risk-free investment, similar to an interest-bearing bank deposit.
25. Given this, the FSRA proposes to mitigate the financial risk to issuers and holders by ensuring that proceeds from the sale of FRTs may only be invested in high-quality liquid assets with minimal market, credit and concentration risk, as set out above. In addition, the issuer must clearly disclose in its white paper and marketing materials that the payment of any income earned from Reserve Investments is not by default, but is conditional upon the issuer ensuring that the value of the Reserve Assets exceeds the par value of the FRT in circulation and is in compliance with applicable regulatory requirements at all times.
26. In this context, amendments to the Rules in COBS governing the priority of distribution to holders of FRTs are intended to ensure that all FRT holders will be paid in full, equal to the redemption value of their respective tokens before any claims for accrued income may be satisfied.

**Question 6**

Do you agree that Issuers of Fiat-Referenced Tokens should be able to distribute earnings from Reserve Investments to holders?

*Redemption*

27. The FSRA is of the view that FRT holders must have a right to redeem their FRTs at par value upon demand and have a claim on the Reserve Assets should the issuer not be able to meet its redemption obligations. Redemption conditions must be reasonable and be disclosed upfront in the white paper, such as any fees for redemption, and the ability of the FRT holder to onboard successfully with the issuer before redeeming. Issuers must return the par value of the FRT to holders within two business days (“**T+2**”) from a redemption request by the holder. In exceptional circumstances, such as times of market stress, the FSRA may direct issuers to carry out liquidation of the Reserve Investments within a specified period in order to meet anticipated redemption needs, or to allow redemption to extend beyond T+2 if timely redemption would likely jeopardise the value of the Reserve Investments or their orderly liquidation.

**Question 7**

Do you agree with the FSRA’s proposed approach to redemption requests?

*Capital Resources*

28. The FSRA’s review of capital requirements applicable to FRT issuers has disclosed that certain jurisdictions, such as the EU and Hong Kong, have imposed a variable capital requirement based on the par value of an FRT in circulation, on top of a base capital requirement, similar to the Variable Capital Requirement imposed by the FSRA upon issuers of Stored Value in ADGM. In contrast, other jurisdictions, such as New York and Singapore, do not impose a variable capital requirement, opting instead for an amount based on annual operating expenses.
29. Feedback from interested applicants has indicated that a variable capital requirement may not be appropriate as such capital requirements may incentivise investment in higher risk assets in order to earn additional income from Reserve Investments.
30. The FSRA is of the view that a variable capital requirement is not risk-appropriate for FRT issuers and proposes instead that an issuer maintain minimum Capital Resources, independent of Reserve Assets, of the higher of:
- (i) \$2 million in the form of CET 1 capital, corresponding to a Base Capital Requirement;
  - (ii) its Annual Audited Expenditure.

Where the latter is the higher figure, the Capital Resources must comprise a minimum component of CET1 equal to \$2 million.

31. The FSRA is of the view that this approach reflects the requirement that Reserve Investments be limited to high-quality, liquid assets at all times, whereby

investment and liquidity risks can be mitigated. In addition, the FSRA is of the view that Reserve Assets must not be loaned out or used for other purposes.

**Question 8**

Do you consider the minimum Capital Requirement to be suitable for the activity of Fiat-Referenced Token issuance, or should a variable capital requirement be imposed?

*Business restrictions*

32. The FSRA is of the view that the conduct of additional Regulated Activities by an issuer may introduce additional sources of risk which may impair the ability to meet redemption requirements in certain circumstances. Consequently, the FSRA is of the view that an issuer should not be permitted to undertake other Regulated Activities, nor possess an ownership stake in any other entity, to ringfence and mitigate risks to the issuer. The FSRA would, however, permit such other Regulated Activities to be conducted from related entities, such as a sister company which the issuer does not have a stake in.

**Question 9**

Would the restriction on conducting other Regulated Activities place an undue restriction upon certain Fiat-Referenced Token business models?

*White paper*

33. Issuers of FRTs must provide appropriate disclosures to holders of their FRTs which is clear, fair and not misleading, and such disclosures must be presented in a concise and comprehensible form. The FSRA will require issuers to provide a copy of the proposed white paper to the FSRA not less than 20 business days prior to initial issuance of the FRT, which must then be published on the issuer's website prior to issuance of the FRT and remain in place so long as such FRT remains in circulation, unless it is subsequently updated.
34. The white paper must disclose relevant details of the FRT, including, but not limited to:
- (a) information about the issuer and FRT;
  - (b) the operations of the FRT including its value-stabilising mechanism and Reserve Investments management arrangements;
  - (c) potential risks arising from the use of the FRT including the loss of value of the FRT and the associated circumstances;
  - (d) the rights and obligations of the FRT holder and issuer attached to the FRT, such as redemption and any conditions applicable to income payment;
  - (e) redemption policies, including details of conditions, process, timeframe and any fees; and

- (f) underlying technology and standards applied by the issuer.

**Question 10**

Are there any additional disclosures which should be mandated for inclusion in a White Paper?

*Stress testing*

35. The proposed regulatory framework mandates that an FRT issuer would be required to conduct stress testing on an annual basis, or, where concerns about the adequacy of Reserve Assets exist, whenever requested by the FSRA, to identify risks that may affect the valuation of the Reserve Assets in adverse scenarios. The issuer must demonstrate that it has systems, strategies and tools in place that enable it to regularly stress test the Reserve Assets against potential adverse events and market conditions. The FSRA would expect an acceptable stress testing model to consider a number of potential scenarios, including, but not limited to, large-scale redemptions, run scenarios or scenarios of liquidity stress, and that the issuer's financial stress strategy would enable it to take appropriate action should any adverse scenarios arise.

**Question 11**

Do you consider annual stress testing to be adequate or are there additional stress testing safeguards which the FSRA should consider including?

*Publication of accepted list of FRTs*

36. The FSRA considers that firms working with Virtual Assets as well as FRTs are exposed to similar risks associated with cryptographic technology. To address these risks in relation to firms which work with FRTs, the FSRA proposes the introduction of rules similar to those set out in chapter 17 of COBS concerning applicable anti-money laundering, transaction monitoring, IT risk and Travel Rule requirements.
37. In addition, given the conduct risks associated with the marketing of stablecoins other than FRTs accepted by the FSRA, the FSRA proposes to prohibit Authorised Persons from issuing, marketing or accepting as payment any stablecoin other than an FRT accepted by the FSRA for use in the ADGM.
38. As firms are currently seeking the consent of the FSRA to accept FRTs as payment for financial products and services, it is proposed that the FSRA publish a list of accepted FRTs, which may include those native FRTs which have been issued by a licensed issuer operating from within ADGM. As with Virtual Assets, firms wishing to transact in FRTs other than those identified on the list of accepted FRTs would be required to apply for acceptance of new FRTs to be included on the list. The FSRA will publish guidance at the time of introduction of this regime to describe what attributes are required to achieve acceptance.

**Question 12**

Do you agree with the FSRA’s approach to addressing AML and other risks in relation to Fiat-Referenced Tokens?

*Summary of requirements*

39. The major operational restrictions and requirements that FRT issuers would be subject under the proposals are summarised in the table below.

<b>Reserve Assets</b>	<b>Composition</b>	<p>Denominated in the currency of the FRT. Held in:</p> <ul style="list-style-type: none"> <li>cash;</li> <li>cash equivalents / debt securities with up to three-month residual maturity issued by a government or central bank or organisations that are of both a governmental and international nature with a minimum long-term credit rating of AA- or equivalent;</li> <li>reverse repurchase agreements overcollateralised by debt securities issued by a government or central bank on an overnight basis, with a counterparty that is not affiliated with the issuer and is of a strong financial standing, where the FSRA will issue guidance and is of the view that the minimum rating of the debt security should be as follows;</li> </ul> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Rating</th> <th>Fitch</th> <th>Moody’s</th> <th>Standard &amp; Poor’s</th> </tr> </thead> <tbody> <tr> <td>Short-term</td> <td>F1</td> <td>P-2</td> <td>A-1</td> </tr> <tr> <td>Long-term</td> <td>A</td> <td>A</td> <td>A</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>public money-market funds investing in government debt securities, subject to FSRA-agreed limits on the value of Reserve Investments to be held in such funds and FSRA-agreed credit ratings of such funds, where the FSRA will issue guidance and is of the view that the minimum long-term credit rating should be AAA or equivalent; and</li> <li>any other instruments that are approved by the FSRA.</li> </ul>	Rating	Fitch	Moody’s	Standard & Poor’s	Short-term	F1	P-2	A-1	Long-term	A	A	A
	Rating	Fitch	Moody’s	Standard & Poor’s										
	Short-term	F1	P-2	A-1										
	Long-term	A	A	A										
<b>Valuation</b>	<p>Market value of Reserve Assets is at least equal to par value of all outstanding FRTs in circulation as of the end of each business day.</p> <p>Valued at mark-to-market basis daily.</p>													
<b>Segregation &amp; Custody</b>	<p>The Reserve Assets must be segregated at all times and held in permitted custodians in the name of clients as per COBS, to ensure holders’ legal right and priority claim of the Reserve Assets in the event of an insolvency of the issuer.</p> <p>Issuers that offer two or more FRTs must operate and maintain segregated pools of Reserve Assets for each FRT. Each of those pools of Reserve Assets must be managed separately.</p>													
<b>Independent Attestation &amp; Audit</b>	<p>The Reserve Assets must be independently attested to on a monthly basis, with the report to be published on the issuer’s website and submitted to the FSRA by the end of the month following the expiry of the period covered by such attestation.</p> <p>The attestation must include as of the last business day of the period covered by the attestation and as of at least one randomly selected business day during the period:</p> <ul style="list-style-type: none"> <li>the end-of-day market value of all cash and Reserve Investments, both in aggregate and broken down by asset class;</li> <li>the end-of-day par value of FRTs in circulation;</li> <li>whether the Reserve Assets are adequate to fully back the value of FRTs in circulation, and are sufficiently liquid; and</li> <li>whether the conditions on the management of Reserve Assets imposed by the FSRA have all been fulfilled.</li> </ul> <p>An annual external audit of the issuer’s Reserve Assets, and the effectiveness of the internal controls, structure, and procedures for compliance with FSRA’s</p>													

		requirements in relation to the management of the Reserve Assets must be conducted. The audit report must be submitted to the FSRA within four months of the issuer's financial year end.
<b>Redemption at Par</b>		<p>FRT holders must have a right to redeem their FRT at par value with the issuer and have a claim on the Reserve Assets when the issuer is not able to meet redemption obligations.</p> <p>Redemption requests can be made anytime.</p> <p>Redemption conditions (if any) must be reasonable and disclosed upfront (e.g. fees for redemption, ability of the stablecoin holder to onboard successfully with the issuer before redeeming).</p> <p>Issuer must return the par value of the FRT to holders within two business days (“T+2”) from a redemption request. In exceptional circumstances, e.g. in times of market stress, FSRA may direct an issuer to carry out liquidation of the Reserve Investments within a specified period to meet redemption needs, or to allow redemption to extend beyond T+2 if timely redemption would likely jeopardise the Reserve Investments’ value or the orderly liquidation of assets.</p>
<b>Income Payment not Prohibited</b>		<p>Issuer is required to clearly disclose in the white paper and any marketing materials that the payment of any income from the Reserve Investments is not by default, but subject to the issuer ensuring that the value of the Reserve Assets exceeds the par value of the FRT in circulation and compliance with applicable regulatory requirements at all times.</p> <p>FRTs must not be promoted as investment products.</p>
<b>Minimum Capital Requirement</b>		<p>Higher of Base Capital Requirement of \$2 million and 12 months of Annual Audited Expenditure.</p> <p>Eligible Capital Resources must be in accordance with the Prudential – Investment, Insurance Intermediation and Banking Rules (“PRU”).</p>
<b>Business Restriction</b>		<p>Prohibit provision of other non-issuance services (e.g. lending, staking, dealing). Such other activities can still be conducted from related entities, e.g. a sister company which the issuer does not have a stake in.</p> <p>An issuer cannot have a stake in any other entity.</p>
<b>White Paper Issuance</b>		<p>White paper to be issued and published on website, disclosing details such as, but not limited to:</p> <ul style="list-style-type: none"> <li>• information about the issuer and FRT;</li> <li>• operations of the FRT including value-stabilising mechanism and reserve investment management arrangements;</li> <li>• risks arising from use of the FRT including loss of value of the FRT and the associated circumstances;</li> <li>• rights and obligations of the FRT holder and issuer attached to the FRT (e.g. redemption at any moment at par value, conditions of any income payout);</li> <li>• redemption policies (e.g. redemption conditions and process, timeframe for such redemption, applicable fees);</li> <li>• underlying technology and standards applied by the issuer to the FRT.</li> </ul> <p>The white paper is clear, fair and not misleading, and presented in a concise and comprehensible form.</p> <p>The white paper must contain a clear and prominent statement that the white paper has not been approved by the FSRA, and that the issuer is solely responsible for the content of the white paper.</p> <p>An issuer must notify the FSRA at least 20 business days before publication.</p> <p>The white paper must remain available on the issuer’s website for as long as the FRT is in circulation.</p>

<b>Stress Testing</b>	Annual stress testing (or as requested by the FSRA) to identify risks that may affect the valuation of the Reserve Investments in adverse scenarios. The issuer must demonstrate that it has: <ul style="list-style-type: none"> <li>• systems in place that enable it to regularly stress test the Reserve Investments against potential adverse events and market conditions;</li> <li>• strategy and tools to allow the issuer to address those risks and large-scale redemptions (including run scenarios or scenarios of liquidity stress), and to take appropriate action should the identified adverse scenarios arise.</li> </ul>
<b>Application of Existing Requirements for Virtual Assets Service Providers</b>	An issuer must comply with all applicable regulations and rules for licensed virtual assets service providers, including COBS chapter 17, anti-money laundering and transaction monitoring requirement (including Travel Rule requirements where applicable).

## **Implementation of the proposed Fiat-Referenced Token framework**

### **Draft amendments to FSMR and FSRA Rules**

40. In order to implement a regulatory framework applicable to the issuance of FRTs, the FSRA proposes to introduce amendments to the FSMR to create the new Regulated Activity of Issuing a Fiat-Referenced Token. Following consideration of the anticipated demand upon the FSRA’s authorisation and supervision resources, the FSRA is proposing to set the application fee and annual supervision fee for this new Regulated Activity at \$70,000 each.
41. The relevant Rulebooks will be amended to implement the proposed regulatory framework, foremost amongst them COBS which would reflect the proposed requirements in a new chapter. The proposed amendments to FSMR and the Fees Rules are set out in Annex A and Annex B to this paper, while the proposed amendments to COBS, PRU and GLO are contained in Appendices 1, 2 and 3 respectively.

### **Question 13**

Do you have any further comments on the Fiat-Referenced Token regulatory framework and associated draft legislative amendments?

42. The draft legislative amendments to FSMR and the relevant Rulebooks are set out as follows.
- **Annex A:** Financial Services and Markets Regulations 2015
  - **Annex B:** Fees Rules
  - **Appendix 1:** Conduct of Business Rulebook
  - **Appendix 2:** Prudential – Investment, Insurance Intermediation and Banking Rules
  - **Appendix 3:** Glossary