



## FREQUENTLY-ASKED QUESTIONS ADMISSIBILITY FRAMEWORK FOR DIGITAL CURRENCIES

### A. DIGITAL CURRENCY RISK PROFILES

**1. Can Labuan financial institutions (LFIs) adopt a dynamic risk assessment model that adjusts based on real-time market data, rather than relying on fixed risk categories as per the Digital Currency Risk Matrix, to better reflect the evolving risk profile of digital currencies (DCs)?**

- While dynamic risk assessment model may offer real-time insights, maintaining a stable framework is crucial to ensure certainty in implementing control measures for managing DC trading. Risk categorisation should remain consistent unless significant changes in the DC's nature or risk factors necessitate a re-evaluation.
- In such circumstances, LFIs should determine the risk profile of DCs based on their most prevalent risk characteristics. The board and senior management are responsible for ensuring that risk assessments are conducted prudently in line with the expectation of the *Admissibility Framework for Digital Currencies* (referred to as "the Guidelines").

### B. RISK CONTROL MEASURES

**2. Can a director be part of the Digital Currency Oversight Committee (DCOC)?**

Yes. However, it is crucial for the LFI to ensure that the board, as an independent oversight body, continues to effectively oversee the functions of the DCOC. This includes to ensure a clear separation of responsibilities and safeguard independent governance over the DCOC.

**3. Are LFIs allowed to outsource internal audit oversight including planned assessments of internal controls for DC trading to specialised third-party audit firms with expertise in DCs and blockchain technologies?**

- Yes, LFIs are allowed to outsource its internal audit function including those related to DC trading.
- For this purpose, Labuan banks, Labuan investment banks, Labuan Islamic banks and Labuan Islamic investment banks are required to comply with the *Guidelines on External Service Arrangements for Labuan Financial Institutions* (ESA Guidelines) for such outsourcing arrangements.
- In the case of Labuan money brokers and Labuan Islamic money brokers, they may refer to the ESA Guidelines as best practice guidance for their outsourcing arrangements until Labuan FSA issues a regulatory expectation in this regard.

**4. What actions should LFIs take when clients fail to respond to DC removal notices such as selling or transferring the impacted DC after the notification period?**

LFIs must ensure clients are adequately informed of potential actions for non-response through agreed-upon terms of services and timely notifications. Best practices for handling non-responsive clients may include the following measures:

**(i) Default Action Protocols:**

- (a) Automatically transfer the affected DCs into secure custodial, escrow or managed accounts that hold the assets in trust after a grace period, retaining client ownership; or
- (b) Automatic liquidation of funds e.g. converts the DC into fiat or compliant DCs at the exchange rate on a pre-set date and transfer the funds to the client's designated account.

**(ii) Freeze or Restrict Account Access:**

Restrict clients from performing transactions involving the affected DCs until action is taken, especially when the DCs become non-compliant with regulations.

**5. Can LFIs incorporate advanced control measures beyond those provided in the Guidelines?**

While the Guidelines provide minimum control measures, LFIs are permitted to adopt more sophisticated measures as part of their internal risk management practices.

**C. OTHERS**

**6. Does the scope of the Guidelines cover the broader category of digital asset?**

The Guidelines only cover DCs as specified under paragraph 2.1 of the Guidelines i.e. central bank digital currencies, stablecoins, non-backed digital currencies and privacy coins subject to meeting the requisite requirements of the policy document.

**7. What is Labuan FSA's expectation for other DCs which are not scoped in under the Guidelines?**

As specified under paragraph 1.4 of the Guidelines, LFIs are expected not to partake in the trading of DCs other than those specified in the Guidelines until Labuan FSA develops regulatory requirements to govern such activities.