

## **Belize FSC Questionnaire on Future Regulation of Virtual Assets**

**Dear Market Participant –**

Section 81 (1) of the Financial Services Commission Act, 2023 (the “FSCA”) states in part:

- (1) [...] no person shall, as a business, conduct on behalf of any other person–
- (a) negotiation, brokerage, or exchange, between virtual assets and fiat currencies whether such currency is the legal tender of Belize or any other country;
  - (b) negotiation, brokerage, or exchange between one or more forms of virtual assets;
  - (c) transfer of virtual assets;
  - (d) loan, deposit, custody, safekeeping, management, or administration of–
    - 1. (i) virtual assets; or
    - 2. (ii) instruments enabling control over virtual assets; or
  - (e) participation in and provision of financial services related to the issuance or an issuer’s offer or sale of a virtual asset.

The licensing restrictions imposed on the FSC for the activities under Section 81 are due to expire on December 31, 2025. As a result, after December 31, 2025, the FSC will no longer be prohibited from licensing entities or activities that fall under the scope of Section 81 of the FSCA.

The FSC is launching this questionnaire (the “Questionnaire”) to survey market participants who have a global or domestic interest in pursuing activities that fall under the scope of Section 81 of the FSCA, to gather information on what market participants believe are the most efficient forms of regulation of such activities, with the ultimate objective to design a roadmap to develop a future regulatory framework for Crypto Assets in Belize.

The Commission starting point in its journey to better understand the Crypto Assets (as such term is defined below) space is going to be the Final Report on “Policy Recommendations for Crypto and Digital Asset Markets” that the IOSCO Board published on November 2023 (<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD747.pdf> ) (the “Report”) and in particular the 18 recommendations discussed in the Report<sup>1</sup>.

In the Report, IOSCO defines “Crypto Assets” as an asset, sometimes called a “digital asset,” that is issued and/or transferred using distributed ledger or blockchain technology. Crypto-assets include, but are not limited to, so-called “virtual currencies,” “coins,” and “tokens.” To the extent digital assets rely on cryptographic protocols, these types of assets are commonly referred to as “Crypto Assets.”

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<sup>1</sup> For ease of reference, we attach the 18 recommendations as Annex 1 to this Questionnaire.

This Questionnaire will use the Report definition of “Crypto-Assets”; in general, the Commission would appreciate that respondents to this Questionnaire use the defined terms from the Report in responding to the Questionnaire.

***Responses should be sent to [securitiesgeneralinfo@belizefsc.org.bz](mailto:securitiesgeneralinfo@belizefsc.org.bz).<sup>2</sup> For any questions related to this Questionnaire, please contact the email address above.***

## **FSC Questions on the Regulation of Crypto Assets**

- 1) Respondent’s Name or Organization
  
- 2) Can you please provide a list of all the Crypto Assets that your organization deals with globally?
  - a. For each of those assets can you indicate the type of services that your organization provides?
  
- 3) Please list the jurisdictions in which you operate and whether in each such jurisdiction any of the Crypto Assets that your organization deals with are regulated. If they are, please provide a description of the relevant asset. Please provide a link to the applicable regulation.

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<sup>2</sup> It is the intention of the FSC to publish a summary of the responses to the Questionnaire in an anonymized form. Following the publication of the summary of the responses, the FSC will organize a roundtable to discuss the results of the Questionnaire with the objective to design a roadmap to develop a future regulatory framework for Crypto Assets.

4) Do you provide services on derivative products that reference Crypto Assets (including contracts for differences)? What regulation applies to those products and services that you provide? Please provide a link to the relevant regulation.

5) Which regulation that you are already subject to, do you believe would be a good fit for your existing or future operations in Belize?

a. Based on your understanding of regulations globally, which regulatory framework does most closely address the needs of the crypto-assets industry, of investors and of the markets more generally? Please explain why.

6) Please list at least 5 challenges (but you can list more) you encounter when complying with regulation applicable to Crypto Assets. For each such challenge please indicate how you would improve the challenging regulatory requirement.

- 7) When analyzing the regulatory framework of jurisdictions that your organization consider entering, what are the aspects that you value as a positive for the products and services that you provide?
- a. What aspects of a jurisdiction's regulatory framework would be an incentive for you to register in that jurisdiction?
- 8) Given as unconditional the three principles of financial regulation of: 1) investor protection; 2) ensuring that markets are fair, efficient and transparent; and 3) reducing systemic risk (the "Three Principles"): what type of regulatory approach would you recommend for Crypto Assets? (for example: comply or explain; self-regulation; principle based etc.):
- a. If you were given the opportunity to design a regulatory regime from scratch, given the three unconditional principles of financial regulation listed above, what would your framework look like?
  - b. Given the Three Principles, what aspects of the industry should supervisors of Crypto Assets most focus on?
  - c. IOSCO is seeking to encourage optimal consistency in the way Crypto Asset markets and securities markets are regulated within individual IOSCO jurisdictions, in accordance with the principle of "same activities, same risks, same regulation/regulatory outcomes"; keeping also in mind the Three Principles can you draw, for each of the Crypto Assets (or related activities) that you deal with, similarities and differences with the closest corresponding financial product or activity indicating how you believe they should be regulated and supervised.

- 9) In your experience, what are the biggest challenges that financial regulators face when interacting with your organization?
- a. What is your recommendation to overcome those challenges?

- 10) Given the global, cross-border nature of Crypto Assets and relevant activities, how do you think financial regulators should handle overlapping jurisdictional claims over such assets and activities?

**IOSCO Policy Recommendations for Crypto and Digital Asset Markets:**

**Recommendation 1 (Common Standards of Regulatory Outcomes):** Regulators should use existing frameworks or New Frameworks to regulate and oversee crypto-asset trading, other crypto-asset services, and the issuing, marketing and selling of crypto-assets (including as investments), in a manner consistent with IOSCO Objectives and Principles for Securities Regulation and relevant supporting IOSCO standards, Recommendations, and good practices (hereafter “IOSCO Standards”). The regulatory approach should seek to achieve regulatory outcomes for investor protection and market integrity that are the same as, or consistent with, those that are required in traditional financial markets.

**Recommendation 2 (Organizational Governance):** Regulators should require a CASP to have effective governance and organizational arrangements, commensurate to its activities, including systems, policies and procedures that would, amongst other things, address conflicts of interest, including those arising from different activities conducted, and services provided by a CASP or its affiliated entities. These conflicts should be effectively identified, managed and mitigated. A regulator should consider whether certain conflicts are sufficiently acute that they cannot be effectively mitigated, including through effective systems and controls, disclosure, or prohibited actions, and may require more robust measures such as legal segregation of functions and activities, as well as separate registration and regulation of certain activities and functions to address this Recommendation.

**Recommendation 3 – (Disclosure of Role, Capacity and Trading conflicts):** Regulators should require a CASP to have accurately disclosed each role and capacity in which it is acting at all times. These disclosures should be made, in plain, concise, non-technical language, as relevant to the CASP’s clients, prospective clients, the general public, and regulators in all jurisdictions where the CASP operates, and into which it provides services. Relevant disclosures should take place prior to entering into an agreement with a prospective client to provide services, and at any point thereafter when such position changes (e.g., if and when the CASP takes on a new, or different, role or capacity).

**Recommendation 4 (Client Order Handling):** Regulators should require a CASP, when acting as an agent, to handle all client orders fairly and equitably. Regulators should require a CASP to have systems, policies and procedures to provide for fair and expeditious execution of client orders, and restrictions on front-running client orders. Regulators should require that a CASP discloses these systems, policies and procedures to clients and prospective clients, as relevant. Orders should be handled promptly and accurately recorded.

**Recommendation 5 (Market Operation Requirements):** Regulators should require a CASP that operates a market or acts as an intermediary (directly or indirectly on behalf of a client) to provide pre- and post-trade disclosures in a form and manner that are the same as, or that achieve similar regulatory outcomes consistent with, those that are required in traditional financial markets.

**Recommendation 6 (Admission to Trading):** Regulators should require a CASP to establish, maintain and appropriately disclose to the public their standards— including systems, policies and procedures— for listing/admitting crypto assets to trading on its market, as well as those for removing crypto-assets from trading. These standards should include the substantive and procedural standards for making such determinations.

**Recommendation 7 (Management of Primary Markets Conflicts):** Regulators should require a CASP to manage and mitigate conflicts of interest surrounding the issuance, trading and listing of crypto-assets. This should include appropriate disclosure requirements and may necessitate a prohibition on a CASP listing and/or facilitating trading in, its own proprietary crypto-assets, or any crypto-assets in which the CASP, or an affiliated entity, may have a material interest.

**Recommendation 8 (Fraud and Market Abuse):** Regulators should bring enforcement actions against offences involving fraud and market abuse in crypto-asset markets, taking into consideration the extent to which they are not already covered by existing regulatory frameworks. These offences should cover all relevant fraudulent and abusive practices such as market manipulation, insider dealing and unlawful disclosure of inside information; money laundering/terrorist financing; issuing false and misleading statements; and misappropriation of funds.

**Recommendation 9 (Market Surveillance):** Regulators should have market surveillance requirements applying to each CASP, so that market abuse risks are effectively mitigated.

**Recommendation 10 (Management of Material Non-Public Information):** Regulators should require a CASP to put in place systems, policies and procedures around the management of material non-public information, including, where relevant, information related to whether a crypto-asset will be admitted or listed for trading on its platform and information related to client orders, trade execution, and personally identifying information.

**Recommendation 11 (Enhanced Regulatory Co-operation):** Regulators, in recognition of the cross-border nature of crypto-asset issuance, trading, and other activities, should have the ability to share information and cooperate with regulators and relevant authorities in other jurisdictions with respect to such activities. This includes having available co-operation arrangements and/or other mechanisms to engage with regulators and relevant authorities in other jurisdictions. These should accommodate the authorization and on-going

supervision of regulated CASPs and enable broad assistance in enforcement investigations and related proceedings.

**Recommendation 12 (Overarching Custody Recommendation):** Regulators should apply the IOSCO Recommendations Regarding the Protection of Client Assets when considering the application of existing frameworks, or New Frameworks, covering CASPs that hold or safeguard Client Assets.

**Recommendation 13 (Segregation and Handling of Client Monies and Assets):** Regulators should require a CASP to place Client Assets in trust, or to otherwise segregate them from the CASP's proprietary assets.

**Recommendation 14 (Disclosure of Custody and Safekeeping Arrangements):** Regulators should require a CASP to disclose, as relevant, in clear, concise and non-technical language to clients: 1. How Client Assets are held, and the arrangements for safeguarding these assets and/or their private keys; 2. the use (if any) of an independent custodian, sub-custodian or related party custodian; 3. the extent to which Client Assets are aggregated or pooled within omnibus client accounts, the rights of individual clients with respect to the aggregated or pooled assets, and the risks of loss arising from any pooling or aggregating activities; 4. Risks arising from the CASP's handling or moving of Client Assets, whether directly or indirectly, such as through a cross-chain bridge; and Full and accurate information on the obligations and responsibilities of a CASP with respect to the use of Client Assets, as well as private keys, including the terms for their restitution, and on the risks involved.

**Recommendation 15 (Client Asset Reconciliation and Independent Assurance):** Regulators should require a CASP to have systems, policies, and procedures to conduct regular and frequent reconciliations of Client Assets subject to appropriate independent assurance.

**Recommendation 16 (Securing client money and assets):** Regulators should require a CASP to adopt appropriate systems, policies and procedures to mitigate the risk of loss, theft or inaccessibility of Client Assets.

**Recommendation 17 (Management and disclosure of Operational and Technological Risks):** Regulators should require a CASP to comply with requirements pertaining to operational and technology risk and resilience in accordance with IOSCO's Recommendations and Standards. Regulators should require a CASP to disclose in a clear, concise and non-technical manner, all material sources of operational and technological risks and have appropriate risk management frameworks (e.g. people, processes, systems and controls) in place to manage and mitigate such risks.

**Recommendation 18 (Retail Client Appropriateness and Disclosure):** Regulators should require a CASP to operate in a manner consistent with IOSCO's Standards regarding interactions and dealings with retail clients. Regulators

should require, or work with other relevant authorities to require, that all promotions and marketing of crypto-assets to retail clients accurately and sufficiently disclose the product and service provided as well as the associated risks in a manner that is fair, clear, and not misleading. Regulators should require a CASP to implement adequate systems, policies and procedures, including for providing disclosures in relation to onboarding new clients, and as part of its ongoing services to existing clients. This should include assessing the appropriateness and/or suitability of particular crypto-asset products and services offered to each retail client.