

# The VFA & DLT Sandbox Framework: what is it?

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This article discusses, in brief, the new Sandbox Framework implemented by the Malta Gaming Authority for the acceptance of virtual financial assets, virtual tokens and distributed ledger technologies. Such regulations will be enforced from the 1st of January 2019 onwards.

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**TAGS: Gaming Law, the Malta Gaming Authority, DLT Law**

Distributive Ledger Technology (DLT) and virtual currencies, in general, are a recent phenomenon in the digital currency and technology fields which have caused several legislative changes. They have been received with a lot of hype, especially with regards to their potential to improve and further modernise such fields.

One sector which may benefit from their use is none other than the remote gaming industry. As such, the Malta Gaming Authority (MGA) remains dedicated to being at the forefront when it comes to remote gaming regulation, whilst also making the most of innovative developments. However, such efforts are paired and balanced with the knowledge that one must be sensible, and in turn adopt a prudent approach, in this area whenever necessary.

Whilst the distinctive characteristics of Virtual Financial Assets (VFAs) are considered to be fundamental for their adoption, they also create several risks which must be carefully tackled in the process. Thus, the MGA is aware that the necessary safeguards must be put into place in order to:

1. Prevent crime and money laundering or the funding of terrorism;
2. Ensure customer protection;
3. Uphold the high reputation of the Maltese jurisdiction in this sector.

Through reference to the perspectives of the online gaming industry, main experts in such technology, financial services operators as well as fellow stakeholders, the MGA issued guidelines on the use of DLT and the acceptance of VFAs and Virtual Tokens via the implementation of a Sandbox Framework within the remote gaming sector in October 2018. Apart from this, guiding principles regulating the application of DLT and its numerous uses within the industry, were also put forward in this same document.

For the purposes of definition, 'sandbox' is one of the most common terminologies used in the financial industry. It defines a mechanism used in the development of regulation, intended to keep up to date with the restless pace of innovation in the industry.

The 4th October 2018 saw the publishing of details regarding the MGA's Sandbox Framework, concerning the acceptance of VFAs and Virtual Tokens, as well as the use of Innovative Technology Arrangements (ITAs) within the Maltese gaming industry. From the 1st January 2019, through a division into two phases, this Framework will enable:

1. The acceptance of applications for the use of DLT assets (VFAs and Virtual Tokens) to be used as a means of payment;
2. An extension of applications for ITAs to be used with in the licenced gaming operators' main technical equipment, in compliance with developments issued by the Malta Digital Innovation Authority (MDIA).

This announcement has been made by the MGA following the Maltese Parliament's approval of an in-depth legal framework relating to VFAs and blockchain technology. This will lead to blockchain-based businesses, as well as their service providers, to be effectively regulated, along with cryptocurrencies in general and Initial Coin Offerings (ICOs). Essentially, this will make Malta the first jurisdiction in the world to enact legislation specifically dedicated to regulating this particular sector.

This Sandbox Framework being presented by the MGA is expected to further solidify Malta's standing as one of the leading jurisdictions with regards to the regulation of blockchain and other business related to cryptocurrency. As was expected, these developments have been widely accepted and welcomed by Maltese-based gaming operators who expressed a wish for VFAs and DLT in general into their operations.

The MGA itself has given indications that its Sandbox Framework is to be attributed the status of a "live" document. This essentially means that it shall be subjected to any feedback received and potential improvements as shall be deemed appropriate regarding any regulatory or technological developments to be made in the future. It is anticipated that this Sandbox Framework will run until the end of October 2019, although its partial or total extension remains a plausible possibility.