Guernsey Financial Services Commission

Consultation Paper

Supporting Growth with Digital Finance

11 December 2025

Who might benefit from reading this paper?

This paper is aimed at:

- those working in the digital finance sector in the Bailiwick of Guernsey ('Bailiwick/Guernsey');
- digital innovators in Guernsey looking to start a digital finance business;
- existing regulated finance firms looking to develop or access digital finance; and
- global innovators and interested parties looking to start or expand a digital finance business which may benefit from locating in Guernsey.

The proposals will impact persons conducting regulated financial services activity in the Bailiwick and other stakeholders connected to the Bailiwick's finance sector.

How to respond

Responses to this Consultation Paper are sought by 6 March 2026.

Responses to this consultation paper can be made on the Engagement Hub[1] (through which you may already have accessed this paper), by email to dfi@gfsc.gg or, if a conversation would be helpful, we're happy to discuss your feedback in person.

[1] https://engagementhub.gfsc.gg/

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Executive Summary

In September 2025, the Commission launched the Digital Finance Initiative which aims to help position the Bailiwick of Guernsey as a trusted, agile and forward-thinking jurisdiction for digital financial innovation.

This Consultation Paper forms an important part of the Digital Finance Initiative and aims to support innovation and the growth of digital finance. In it we make proposals for amendments to the regulatory framework to support digital finance growth in key areas including tokenisation, stablecoins, digital custody, and insurance as well as the use of technology more broadly within the Bailiwick's finance sector.

An overarching principle has been to keep proposals simple and practical, working with the established regulatory framework, with the aim of providing consistent regulation for financial services activities which present equivalent risks (sometimes known as "same activity, same risk, same regulatory outcome"). In so doing, we hope that these proposals will provide industry participants with a greater degree of regulatory certainty, enabling them to engage confidently and responsibly in new digital finance-related activity, and also support the inflow of substantial, good quality business, with positive outcomes for the Bailiwick and the customers of its financial services sector.

Specific proposals include the following:

- revision to guidance under the Lending, Credit and Finance (LCF) framework removing the blanket restriction on retail activity;
- introduction of a new framework for Stablecoin Issuers;
- confirmation that tokenised securities fall within scope of the Protection of Investors (Bailiwick of Guernsey) Law, 2020 ("the PoI Law"), and not under the LCF Law;
- revision to Commission guidance confirming that a registered or authorised collective investment scheme may be tokenised using a public blockchain, provided that applicable fund rules continue to be met;
- greater clarity on the regulation of digital asset custody services, including amendments to permit custodians licenced under PoI Law to custody non-security, digital assets without additional licensing;
- guidance supporting the use of blockchain technology for insurance contracts; and
- enhancing anti-financial crime compliance through technology.

Introduction

The Bailiwick of Guernsey is located in the Channel Islands between England and France. It is not part of the UK but is a British Crown Dependency with its origins in the medieval Duchy of Normandy. The jurisdiction is self-governing, has over 800 years' history of constitutional independence and is recognised for its political and economic stability.

Guernsey has close links to the UK and Europe, and has access to global markets. Over the centuries the Bailiwick has been a hub of trade and innovation, and for the past 50 years the island has established itself as an international finance centre, experienced in private wealth, investment and funds, insurance, pensions, and banking. Guernsey based firms, comprising domestic and international businesses, manage over £1 trillion of investments, and Guernsey's stock exchange has £750 billion in listings. Guernsey is Europe's number one domicile for captive insurance and today international insurers write over £5 billion of premium.

The Guernsey Financial Services Commission is the independent, unitary financial services supervisor in the Bailiwick. Since 1988 the Commission, working with the financial sector and the Guernsey government, has developed a proportionate regulatory framework which meets international standards, protects customers and supports the efficient functioning of capital markets.

Today Guernsey enjoys a reputation as a trusted and well-regulated international financial centre as evidenced by numerous international assessments, most recently the positive MONEYVAL (FATF) evaluation which recognised and reaffirmed that Guernsey is a safe and secure jurisdiction that does not tolerate financial crime.

Digital Finance - Equipping the Bailiwick for the Next Generation of Financial Services

Digital finance is becoming an increasingly important part of the international and domestic financial landscape.

Globally, a shift is taking place towards using block-chain based technology although this is happening at very different paces in different segments and sub-segments of the financial services industry. Proponents of this technology promise improved market efficiency, lower costs and improved levels of transparency. The speed of change and level of adoption varies but this technology has now become an established element of the financial services system, and its level of adoption continues to grow. In terms of having an "on-chain" settlement asset, given the current development and restrictions on use associated with various Central Bank Digital Currencies, the Commission thinks stablecoins are likely to be an important component part of this evolving financial services architecture and that our regime needs to be receptive to both the use of high quality overseas regulated stablecoins within the Bailiwick and the possible development of locally domiciled stablecoins within the Bailiwick. Given this, we are consulting on a regime in this paper which seeks to combine elements of those already executed by the Monetary Authority of Singapore and the United States Treasury through the US Genius Act 2025. We are conscious of both the upsides and the risks in the stablecoin space and we will continue to monitor the evolution of those regimes and the consequent rule making in Singapore, the United States and Switzerland, seeking to take this into account up to the point at which we finalise proposed stablecoin rules and regulations following the

conclusion of this consultation. In drafting our proposals we have also taken note of the regimes promulgated to date in the UK and the European Union.

As an international financial centre, the Bailiwick is seeing new and emerging digital-based financial activity in a number of areas, such as:

- Private Wealth – digital assets are increasingly part of private wealth client portfolios, with many clients having a background and expertise in technology. The traditional wealth and fiduciary sectors are adapting to meet these evolving needs.
- Asset Management – the jurisdiction is a leader in funds and investment product structuring. Many in the sector are exploring the use of blockchain technology to improve efficiencies in fund offerings and also to open up new asset classes through the tokenisation of real world assets.
- Insurance – the jurisdiction has seen digital technology impact the insurance sector, particularly in the use of blockchain technology in the formation and operation of Insurance Linked Securities.
- Innovation – the jurisdiction has a long history of attracting innovative financial services business and the factors that have made the Bailiwick attractive to traditional finance also remain relevant to those in the digital space. The established network of service providers in areas such as banking, custody and asset management means that new businesses, such as stablecoin issuers, are considering the jurisdiction.

Guernsey's finance sector has a tradition of leadership in innovative financial services and products. The Commission believes that the global evolution of digital finance presents an opportunity for the jurisdiction to continue this tradition, but in order to do so it is paramount that steps are taken now to consider how the Bailiwick's regulatory framework can be improved and updated to support digital finance.

The Commission has a statutory duty to protect and enhance the reputation of the Bailiwick as a financial centre and, in line with this duty, we make the proposals in this consultation paper with the aim of supporting the position of the Bailiwick of Guernsey as a trusted, agile and forward thinking jurisdiction for digital finance innovation. We do not pretend that any regulatory evolution is devoid of risk and, as ever, we will seek to ensure that all activities in the Bailiwick can be executed in accordance with international expectations around anti-money laundering and countering terrorist and proliferation financing (AML/CFT/CPF). In the AML/CFT/CPF space we think there is scope for creatively adopting new technologies to reduce the administrative burden of such controls whilst increasing efficacy and set out proposals in this paper to enable that to happen more easily. In other financial services risk areas, we think the risks of not adapting our regime to welcome and enable the use of new technologies outweigh the risks of doing so, given that the Bailiwick is a jurisdiction of choice which cannot afford to rest on its past laurels.

Innovation Sandbox with Concierge

The proposals in this paper complement the Commission's Innovation Sandbox with Concierge[2] initiative. This offers an environment for existing and prospective firms to launch innovative products and services within a structured framework paired with a regulatory

[2] https://www.gfsc.gg/commission/authorisations/innovation-sandbox-concierge

concierge service, easing the burden of setting up in Guernsey for new organisations and entrepreneurs.

Industry Engagement

This Consultation Paper is building on invaluable feedback received during 2025.

The Commission has hosted several digital finance initiative roundtable events that have accelerated policy development and drawn on Guernsey's existing strengths. The Commission has been encouraged by the commitment shown by all participating stakeholders, representing all key finance sectors; and the value of the roundtable process for exploring, in real time, areas of opportunity from multiple perspectives.

The Commission has also been closely following relevant regulatory and legislative digital finance developments globally; as well as hosting many bilateral discussions with interested parties. The Commission is grateful for all the constructive engagement received.

Summary of the Current Bailiwick Regulatory Framework for Virtual Assets

The Lending, Credit and Finance (Bailiwick of Guernsey) Law, 2022 (the LCF Law) came into force in July 2023 and, amongst other provisions, introduced a regulatory and licensing regime for Virtual Asset Service Providers (VASPs), i.e. firms which carry out trading, exchange, transfer, administration, custody and other activities[3] in connection with virtual assets[4]. The Commission subsequently issued Rules and Guidance for licensed VASPs[5] and a written instrument for class exemptions (using powers under section 40 of the LCF Law), setting out the circumstances under which the requirement for a licence would not apply (e.g. in the case of a registered and authorised Collective Investment Schemes holding or trading virtual assets). The LCF Law is one of several Supervisory Laws through which the Commission supervises the finance sector. Section 1 of this paper makes proposals for amendment to the LCF Law and further proposals are made throughout the paper in respect of clarifying the interaction and boundaries in scope between, the LCF Law and the other Supervisory Laws.

Businesses licensed under the LCF Law, including VASPS, are also subject to the anti-money laundering, counter terrorist financing and counter proliferation financing (AML/CTF/CPF) requirements in Schedule 3 to the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law, 1999. Part IIIA of Schedule 3 contains specific provisions regarding the originator and beneficiary information requirements on virtual asset transfers, which is sometimes colloquially referred to as "the travel rule".

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[3] Regulated activities are prescribed in section 17 of the LCF Law.

[4] "virtual asset" means a digital representation of value that can be digitally traded, or transferred, and can be used for payment or investment purposes, but virtual assets do not include digital representations of –

(a) fiat currencies, or

(b) general securities and derivatives within the meaning of category 2 in Schedule 1 to the Protection of Investors Law and other financial assets

[5] The Lending, Credit and Finance Rules and Guidance, 2023

Guernsey's definition of virtual assets (VA) is drawn from the Financial Action Task Force (FATF) international standards and it does not have separate definitions for different types of digital/virtual assets.

There is no statutory definition of terms such as token or coin in the context of virtual assets and no requirement that such virtual assets are restricted to a blockchain or any particular distributed ledger technology (DLT).

Consequently there is no distinction between asset, investment or security tokens/coins. Guernsey's approach to regulation is determined by how tokens or coins are used rather than how they are described by an issuer, prospectus or sales team.

Throughout this paper we use the term digital assets to refer to digital/virtual assets in the broadest sense – and we try to be more specific where we intend a narrower meaning to the term.

For readers seeking further background on digital assets and related concepts, GFTN's Global Digital Assets Report is available at https://gftn.co/gftn-insights/gftn-global-digital-assets-report and OMFIF's Digital Monetary Institute's Journal on stablecoins is available at https://www.omfif.org/dmi-journal-september-2025.

Future Regulation and Supervision of Digital Assets

The Commission is governed by a number of statutory objectives including maintaining confidence in the financial service sector, protecting customers of the sector and the public, and countering financial crime. In meeting these objectives the Commission looks to meet international standards in setting its regulatory framework and implementing its supervisory approach. The Commission has had regard to its objectives and the international standards under development for digital finance supervision in making the proposals in this paper.

Stakeholders have also told the Commission that regulatory clarity is important to the development of the sector – which wants to be able to assure its customers and shareholders that it offers a safe and stable environment for financial services.

The Commission, therefore, needs to ensure that regulated entities have the right controls, the right processes and the right governance to protect and provide confidence to their customers and appropriately manage risk. Digital finance presents many of the same risks as traditional finance but may present these risks to a different degree and also create additional technology-related risks. The Commission is not seeking to create a risk-free environment. Rather, it wants to foster innovation whilst maintaining confidence in the Bailiwick - no one wins, for example, if a Bailiwick based VASP fails because the cryptography on the tokens it has minted is inadequate.

1. Changes to the existing framework and definitions for VASP activities

This section proposes a small number of changes to the existing legal framework in the LCF Law and LCF rules in relation to VASPs and the deletion of rules and guidance which could be ambiguous or are no longer required.

1.1 Definition of VASP activities – acting for and on behalf of another person

In order to clarify the scope of the VASP framework we propose that the definition of VASPs should be amended so that it refers to the provision of services for and on behalf of another natural or legal person.

This will bring it more closely into line with the FATF definition. We consider that it will improve clarity over who is within and outwith the scope of the law and reduce reliance on the limited permissions (exemptions) specified under the existing "Notice of Disapplication of the requirement to hold a licence"[6] issued by the Commission in 2023 under s.40 of the Law.

To effect this change we propose inserting words to s.17(1) of the LCF Law (as highlighted in blue text in the extract below) – which prohibits the carrying out of unlicensed activities – to the effect that it applies where such activities are carried on *"***for or on behalf of another natural or legal person".**

Bailiwick of Guernsey, Lending Credit & Finance Law 2023:

17.(1) *Subject to the provisions of this Law, persons shall not provide or carry on, offer to provide or carry on or hold themselves out as being willing to provide or carry on, by way of business, in or from within the Bailiwick, **for or on behalf of another natural or legal person**, any of the following services or activities in relation to virtual assets –*

(a) exchange between virtual assets and fiat currencies,

(b) exchange between one or more forms of virtual asset,

(c) transfer of virtual assets,

(d) safe-keeping and/or administration of virtual assets or instruments enabling control over virtual assets,

(e) participation in and provision of financial services relating to an issuer's offer and/or sale of a virtual asset (including, without limitation and by way of example, an initial coin offering), whether by the issuer of the asset or a service provider affiliated or unaffiliated with the issuer in respect of the issue, offer, sale, distribution, ongoing market circulation and trading of the asset (including book-building, underwriting and market making),

(f) any other service or activity or class or description thereof in respect of virtual assets specified for the purposes of this Law by regulations of the Committee,

except under the authority of and in accordance with the conditions of a licence granted by the Commission under section 23 (a "Part III VASP licence").

[6] https://www.gfsc.gg/sites/default/files/2023-01/Notice%20of%20Disapplication%20of%20Licensing%20Requirement%20%28Exemptions%29_0.pdf

We will work with the States Policy & Resources Committee, (P&R) to make these changes to the definitions within the Law, subject to responses received to this consultation.

At present, persons conducting business on their own behalf benefit from a limited permission (exemption) that they may do so provided they meet certain criteria, as set out in the Notice of Disapplication. After this part of the LCF Law has been amended, the duplicative exemptions contained in the Notice would no longer be needed and we would wish to repeal them.

1.2 Approach to VASP application & licensing rules

1.2.1 VASP licensing rules

When the licensing arrangements for VASPs were introduced, it was considered appropriate that where existing licensees intended to carry out any of the activities of a VASP they should be required to hold a VASP licence. This means that, in addition to legal requirements, there is currently a rule (set out in section 10.1 of the LCF Rules) requiring all persons carrying out any of the activities defined as VASP activities in conjunction with other licensed activities to be dual licensed:

> *10.1 (1) Holders of licences, issued under any of the regulatory Laws, who carry on activities regulated under Part III VASPs, must hold a Part III VASP Licence.*

As the market has matured and VA activities have become more mainstream and more commonplace, it is no longer considered necessary to impose a blanket rule requirement that existing licensees should in all circumstances be required to hold dual licences. It is proposed that this rule should be deleted as there may be examples where an exemption from dual licensing may be appropriate.

In practical terms this means that, for example, firms licensed as custodians under the PoI Law that wish to provide custody services for digital assets would be able to do so without requiring a separate VASP licence (as proposed in Section 5 of this paper).

1.2.2 VASP licensing guidance

The Commission's innovation sandbox and regulatory concierge service[7] has been highlighted through the Digital Finance Initiative announced in September 2025. The innovation sandbox builds on previous arrangements and offers an environment for firms to launch innovative products and services within a structured framework paired with a regulatory concierge service.

This is not intended to be a "one size fits all" approach and the aim is to tailor requirements to most effectively encourage growth and new business. In previous guidance the Commission has indicated that it would expect all new VASP licensees to use its "Soundbox" approach when licensing VASPs. This is no longer the case.

The Commission's sandbox (previously called the "soundbox") remains available for new and innovative business including digital finance VASPs, but it recognises that some businesses may prefer to move straight to standard licensing arrangements. In recognition of this, and to increase the flexibility of our approach, the specific guidance to this effect within the LCF rules is no longer necessary. The Commission proposes that the reference to the application process in the existing guidance to rule 10.2 (on page 64) will be removed.

[7] Commission launches Innovation Sandbox with Concierge Support — GFSC

1.2.3 VASP customer rules

When the LCF Rules for VASPs under the LCF Law were first introduced, they included a provision (in rule 10.2(1)) which prevented VASPs from offering services to retail customers. This rule states:

> *(1) Part III VASP licensees are only permitted to provide VASP services to institutional and wholesale counterparties.*

The Commission considers that, given the evolution of the market and its increasing maturity, this rule is no longer required. The Commission proposes that rule 10.2 (1) and the associated guidance should be deleted.

While this proposal may open up business models to service retail customers, it is the Commission's expectation that licensees will take appropriate steps and apply resources commensurate with the increased level of protection owed to such customers.

Going forward, for example, there may be a parallel between the future approach to VASP activity and the approach the Commission has adopted to customer access to crypto funds. In June 2025 the Commission issued guidance on its approach to crypto assets[8]. This guidance explained that Guernsey collective investment schemes can, when appropriately run, provide vehicles for a range of investors, including retail investors, to invest indirectly in crypto currencies. Appropriate safeguards would, however, be expected to be in place:

- the fund investor should be well informed of the risks and able to bear any potential losses;
- consideration should be given to the regulated status of service providers, including any custodian; and
- there should be detailed consideration in the Business Risk Assessment to ensure appropriate compliance monitoring plans, testing and risk management processes.

1.3 Changes to VASP Rules

General Guidance

It has been noted that some of the existing guidance within the Commission's VASP rules[9]) is not as helpful as it might be. As drafted it could give rise to some non-VASP activities being captured within the scope of these rules and regulatory framework.

In order to avoid potential ambiguity, the Commission intends to remove unnecessary or unhelpful guidance. It therefore proposes to delete the following guidance (found within the guidance box on page 61 of the Rules):

> *"Digital representations of fiat currency and general securities or derivatives is intended to cover digital records of ownership, such as bank accounts in digital form and digital security registers. It would also include central bank digital currencies. It would not include stablecoins or virtual asset securitisations of real assets. If in doubt, please contact the Commission."*

1.4 VASP Environmental & Sustainability Rules - Environmental Declaration for VASPs

The LCF rules include a specific section on sustainability which applies only to VASPs. This requires VASPs to make an environmental declaration. It has been noted that the inclusion of specific rules

[8] The Commission's approach to crypto currency funds - GFSC, June 2025

[9] LCF Rules & Guidance, Part 10

relating to environmental declaration is inconsistent with the Commission's approach in other sectors. Reporting on sustainability and environmental issues is generally conducted on a group wide basis in line with overarching corporate governance requirements. Maintaining separate standards only in respect of locally licensed firms is out of line with general practice and could be seen as unnecessary regulation.

These rules were implemented at a time when there was a general expectation that similar provisions would be required in respect of a number of areas of licensing following the advent of broader ISSB[10] rules. However, given that the approach in this area has developed over time and the focus has moved to a more flexible approach to permit firms to report in line with ISSB, and on a group wide basis where relevant in line with global standards, it is no longer considered appropriate to include detailed rules guidance within the LCF VASP rules.

The Commission proposes to delete section 10.3 of the current LCF rules for VASPs which sets out detailed reporting requirements and environmental declaration for VASPs.[11]

Licensees will continue to be permitted to report in line with the global ISSB standards, but the detailed requirements applicable only to VASPs will be deleted.

1.5 Validation and the provision of IT services in connection with Virtual Assets and VASPs

The Commission does not regulate the use of blockchain or distributed ledger technology (DLT) itself. There are no licensing or regulatory requirements for the provision of IT and support services for VASPs.

One area which has historically been the subject of some ambiguity is the carrying out of mining, node validation or other validation activities in relation to virtual assets. These activities do not require a licence and conducted in their own right they do not fall within the definition of virtual assets services.

It should be noted that there may be circumstance, if such activities are carried out in conjunction with other activities, such as staking of assets by third parties, where a person carrying out these activities may require a licence for the associated activity. Examples would be if carrying out exchange, issuance or custody of assets for third parties.

1.6 Providing advice on virtual assets

In a small number of cases the Commission has been asked whether a VASP licence would be required in order to provide advice in respect of fiduciary/investment advice and portfolio management for clients with, or wishing to hold, digital assets in a broader portfolio.

There is no requirement to hold a licence as a VASP in order to provide general advice on digital/virtual assets. One of the circumstances in which the Commission would consider that a VASP licence may be required is in the context of the provision of advice in connection with the issue or promotion of specific digital assets - which may be considered the provision of services in relation to an issuer's offer or sale of a virtual asset.

This does not change the requirements for licensing in connection with the provision of advice in line with any of the other regulatory laws (the provision of advice within "*providing individual or collective*

[10] International Sustainability Standards Board
[11] LCF Rules, p64, s10.3; LCF Rules & Guidance

portfolio management services or advice" is a Financial Firm Business (FFB) licensable activity in accordance with s.16 of the LCF Law).

Questions relating to section 1 – General VASP definitions, Rules and Guidance

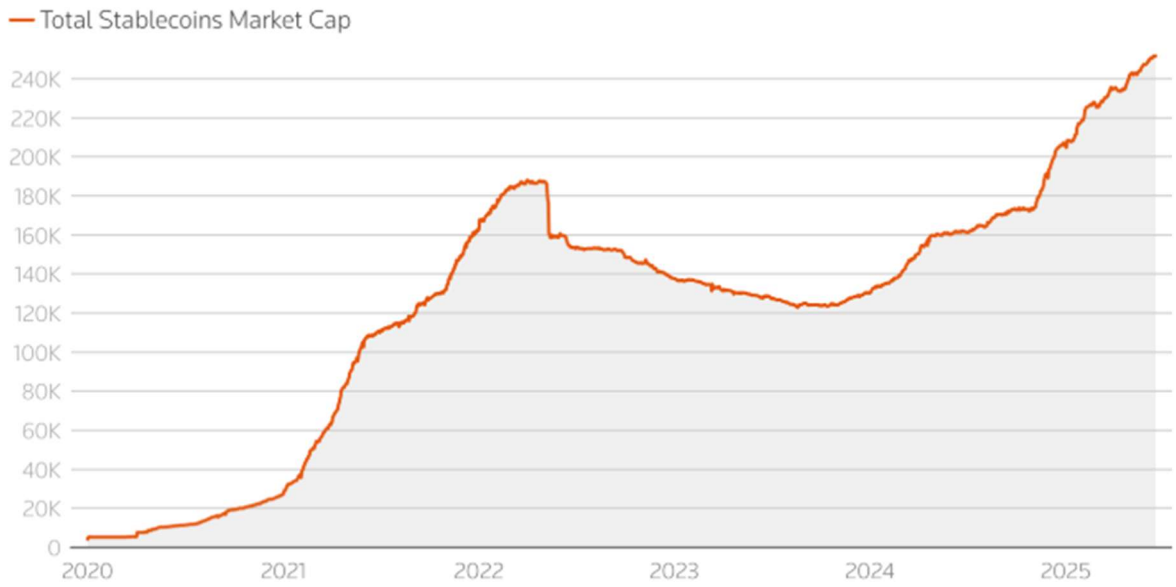
Q 1.1	**Do respondents agree with the proposed change to the definition of virtual asset service provision in the Law? And the consequential repeal of the exemption contained in the s.40 Notice of disapplication?**
Q 1.2	**Do respondents agree with the proposed changes to the rules? If not, are other changes required?** **Do respondents agree that the rule restricting the offer of services to wholesale and institutional customers should be removed?** **What do respondents consider to be the appropriate consumer safeguards and protections for VASP activity in respect of retail customers?**
Q 1.3	**Do respondents agree with the changes to the guidance on the definition of virtual assets?** **Are there any other changes suggested which would remove ambiguity or further improve clarity?**
Q 1.4	**Are respondents content that s.10.3 of the LCF rules, the VASP specific environmental declaration, should be deleted?**
Q 1.5	**Is the clarification of the guidance in respect of mining and validation activities helpful? If not, what other guidance would be suggested?**
Q 1.6	**Is the clarification of the position in respect of advice on Virtual Assets helpful? If not, what additional guidance would be helpful?**

2. Stablecoins

2.1 Developing a stablecoin framework

Stablecoins are a digital asset ("token" or "coin"), typically pegged to a specific fiat currency, used to make payments. The vast majority of existing stablecoins are pegged to the USD by various means.

Stablecoins are a key part of the digital asset ecosystem and have been the subject of strong growth over the last few years (see chart below). They introduce stability of value into digital transactions, providing a means of payment and a medium of transfer between different crypto assets.



[Amount in USD millions, Source: CoinDesk]

Interest in the adoption of stablecoins is becoming more prevalent and more mainstream across the financial sector, especially since the liberalisation signalled by the current US Administration which took office in January.

The Bailiwick, as a jurisdiction, is well suited to the provision of stablecoins. It offers long term stability, a well-regarded legal system together with finance sector expertise. Stablecoins naturally build on key areas of strength for Guernsey in its management and custody of assets.

The sector is dominated by dollar denominated stablecoins. There are only a handful of Euro and other non-dollar denominated stablecoins in any list of the most significant stablecoins by market capitalisation or utilisation, with one or two other currencies. This means that there may be opportunities for the development of further stablecoins denominated in sterling or other currencies.

Market capitalisation of top 10 fiat-denominated stablecoin[12]

Rank	Name	Market capitalisation (USD billions)
1	Tether USDT	$184.71
2	USDC	$74.99
3	Ethena USDe	$7.45
4	Dai USD	$5.36
5	PayPalUSD	$3.61
6	WorldLibertyFinancial USD	$2.68
7	Global Dollar USDG	$1.14
8	Ripple USD	$1.03
9	First Digital USD	$0.94
10	True USD	$0.49

Whilst the Commission is aware that there has been discussion of the potential for developing a Bailiwick backed stablecoin to supplement Guernsey issued coinage and notes, the focus of this proposal is the provision of a regulatory framework for firms to enable the issuance of private sector stablecoins which are appropriately backed and regulated.

In developing a suitable regulatory framework, we propose that the Commission define a new category of asset, a Licensed Stablecoin, which will need to meet a range of specific criteria discussed below and be issued by persons licensed by the Commission.

Stablecoins, as a means of payment, have much in common with emoney and the use of payment service providers alongside emoney; much more than is the case for crypto currencies such as bitcoin. The Commission therefore proposes that rather than falling under the existing VASP regime, an issuer of Licensed Stablecoins should be regulated as a category of Financial Firm Business ("FFB"), alongside other types of payment services providers.

This is intended to provide simplicity and clarity of approach and to provide assurance of the stability and reliability of Bailiwick stablecoins as a means of payment.

There are a range of different approaches that could be adopted to engender confidence and support the stability and reliability of Licensed Stablecoins as a means of payment. One approach would be to require the company issuing the Licensed Stablecoin and safeguarding the assets to be a separate vehicle from other activities within a wider group issuing Licensed Stablecoins. This would be one way to limit the ability for an issuer to engage in other risk-taking financial activities that might jeopardise the security of their stablecoin.

2.1.1 Definition of a stablecoin

We propose the introduction of a new term, the "Licensed Stablecoin" for a stablecoin issued in the Bailiwick of Guernsey by persons licensed by the Commission. A Licensed Stablecoin should be pegged to a specified fiat currency and must be 100% backed by suitably liquid assets denominated in the pegged currency.

The Commission is open minded as to which currencies could be used to back private stablecoins issued from the Bailiwick. The model adopted by some regulators is to permit a list of approved currencies,

[12] Source: coinmarketcap.com as at 21.11.25

for example the G10[13] currencies group. In reality, access to appropriate assets and financial market instruments to support a stablecoin in less popular currencies, together with naturally lower demand make it less likely that some currencies would form the basis for fiat pegged stablecoins. Nevertheless, there may be a rationale for such issuers choosing the Bailiwick as a safe jurisdiction from which to issue stablecoins.

Therefore, we propose permitting Licensed Stablecoins to include those pegged to any of the G10 currencies and that other currencies may be approved on a case by case basis provided they are able to meet the appropriate stablecoin requirements set out below.

In our roundtable discussions a number of stakeholders have suggested that stablecoins should also encompass multi-currency backed stablecoins or those backed by commodities (gold, or other precious metals or even other crypto assets such as bitcoin).

The Commission also recognises the opportunities for the issue of tokens or coins, backed by alternative assets or linked to baskets of currencies. The Commission does not yet consider that they should be licensed and regulated in the same way as fiat currency pegged stablecoins. Rather they should be regulated as asset backed tokens under the provisions of the PoI Law, discussed later in this CP.

The proposed framework is focussed on stablecoins pegged to a fiat currency which would be licensed and regulated by the Commission. Nevertheless, the Commission recognises that a framework tailored to commodities may be required and is open to the idea that its approach could be extended to "commodity linked stablecoins" backed by gold, silver or other commodities such as copper, rare earths or even industrial metals. A potential issuer would need to demonstrate that suitable instruments were available to maintain reserves and provide appropriate liquidity. The Commission considers that such arrangements could be tested within its innovation sandbox and is open to proposals from persons seeking to do so.

While different pegging arrangements have been used by various tokens describing themselves as stablecoins, the Commissions view is that there are considerable risks attached to algorithmic stablecoins and that only fully asset backed stablecoins should be considered to be regulated stablecoins within the meaning of our regulatory framework.

The Commission is seeking views on the extent to which it should consider bringing a broader range of stablecoins than just those pegged to fiat currency within its stablecoin regulatory framework. An important consideration in this will be the ability to find suitable reserve assets to maintain confidence and provide liquidity for redemption of such stablecoins.

A stablecoin may be described as a "Licensed Stablecoin" if it meets the relevant criteria and is issued by a person licensed under the appropriate part of the Law, in this case the proposed new section 20A of Schedule 1 to the LCF Law (see 2.6 below). Most importantly, it must be pegged to fiat currency and backed 1 to 1 by appropriate reserve assets in the currency against which it is pegged.

2.1.2 Regulatory treatment of Licensed Stablecoins & Equivalents

The Commission's original approach to regulating virtual assets including stablecoins and developed in 2022 prior to the introduction of the LCF Law was drawn from the FATF definitions and consideration for the various activities identified within the FATF framework. Markets and the overall approach to regulation has evolved since then and there is a distinction (although not always a clear one) between digital assets which are used as a means of payment and those used for investment purposes.

[13] The G10 currencies are the Australian Dollar, British Pound Sterling, Canadian Dollar, Euro, Japanese Yen, New Zealand Dollar, Norwegian Krone, Swedish Krona, Swiss Franc and the United States Dollar

For the purpose of regulation and oversight, the Commission considers that Licensed Stablecoins (and equivalent stablecoins as defined in s2.9 below) are primarily a means of payment and therefore should primarily be regulated as such.

Persons conducting business in relation to Licensed Stablecoins, including the activities of trading, exchange, transfer, administration, custody and other activities specified in s17 of the LCF Law, will not be required to hold VASP licences. Persons carrying out such activities may be considered to be acting as FFBs for the purposes of the LCF Law.

The treatment of alternative stablecoins – such as those linked to specific commodities for example – will be considered depending on the nature of the underlying asset or commodity. They may be considered to be either tokenised securities, if they meet the definition of a security in line with the PoI Law, or virtual assets in their own right. Firms carrying out the relevant regulated activities will need to hold the appropriate licences.

2.1.3 Risks

As with any financial product or service there are naturally risks and for stablecoins, especially a stablecoin designed for retail customers these risks are heightened. Risks vary considerably, but for stablecoins include prudential reserving and liquidity risks, basis risks, collateral management, and the potential for "de-pegging" from the benchmark together with operational and cyber risks. In addition, the use of any mechanism for payment also carries with it material AML/CFT/CPF risks.

Stablecoin risks are addressed in more detail in section 2.8 below.

2.2 Asset backing of stablecoins

To qualify as a Licensed Stablecoin the Commission considers that a stablecoin should be 100% backed by sufficiently liquid assets in the currency against which it is pegged. The range of permitted assets is discussed in section 2.5 below.

There is an ongoing debate about whether stablecoins should be permitted to offer interest and whether the issuers of stablecoins should be permitted to pay interest. A number of jurisdictions have proposed stablecoin frameworks which restrict a stablecoin issuer from paying interest on stablecoins in order to preserve the value of assets backing the issuance. Even in some cases where issuers would appear to be restricted from directly paying interest themselves, there appear to be alternative approaches which permit rewarding the holders of stablecoins. While there are counter arguments based on the possibility of disintermediation or the introduction of additional risks, it would not seem unreasonable for stablecoin issuers which hold large amounts of reserves on which they may earn a return to share that return with their customers who are the stablecoin holders.

The Commission is willing to contemplate permitting interest bearing stablecoins if this can be done in a technically secure and robust fashion and invites views on the technical feasibility of this and the different technical methods through which stablecoin issues could provide stablecoin holders with interest or "rewards" to use the parlance sometimes adopted in relation to stablecoins.

The Commission does not intend to impose a blanket restriction on the payment of interest. There is nothing in the proposed rules which would prevent a regulated stablecoin issuer from doing so. Issuers will be expected to ensure that such arrangements do not impact on their ability to maintain reserves and appropriate liquidity.

The Commission would need to consider whether, in the case of interest bearing stablecoins, it would be appropriate to apply any additional rules or provide guidance for issuers of specific interest bearing stablecoins.

2.3 Maintaining confidence in stablecoins

In order to ensure that confidence in a stablecoin can be maintained, one consideration is that the person issuing stablecoin and holding the backing assets should be separately capitalised and focus on this activity. In practice this would mean establishing the stablecoin issuer as a separate company (or potentially a separate cell within an overall Incorporated Cell Company structure), although there would be nothing to prevent them from being part of a larger business and corporate structure whether bank, insurer or other finance sector business.

The issuer should provide regular, publicly available statements setting out the total value of coins in circulation, the assets backing the stablecoin and how they are safeguarded.

In addition to regular reporting of the issuance and total value of coins in circulation and regular attestation by an approved auditor, we consider that there should be monthly reporting of issuance and reserves, although issuers would be free to offer more frequent reporting if required.

2.4 Reserve asset custody

Assets should, so far as possible, be held within the jurisdiction and custody managed by a local custodian. In practice, it is likely that some, or perhaps the majority of assets, will be invested elsewhere – potentially in short term financial instruments - government bonds or money market funds. These may, of necessity, reside outside the Bailiwick but should remain under the control of the issuing institution and the (Bailiwick) custodian.

The Commission would consider assets, or a proportion of reserve assets, being held in custody in other jurisdictions to assist liquidity where there are reciprocal or equivalent arrangements.

Assets which are being held as a reserve to back a stablecoin may not be hypothecated, pledged or otherwise encumbered.

This is in line with the approach proposed by other regulators, for example in the USA in accordance with the Genius Act when that comes into effect.

2.5 Assets backing stablecoins

The Commission proposes that, for Licensed Stablecoins, the permitted reserve assets backing a stablecoin should be limited to appropriate assets denominated in the currency to which the stablecoin is pegged.

In general stablecoins are backed by a mixture of cash, short term government bonds and money market instruments. In some cases other assets such as corporate bonds may be permitted, but these may introduce additional risks and potentially risk the stability of the stablecoin.

We propose to limit assets to cash, government bonds and money market instruments with a tenor of up to 3 months.

The Commission does not propose to set rules specifying the balance of particular assets to be held as reserves. It is for individual issuers to determine the appropriate mix of assets to meet their reserve obligations and maintain appropriate liquidity and meet demand for repayment as required.

2.6 Redemption of stablecoins

Licensed stablecoins must be redeemable for the underlying pegged currency with the issuer at par value and in a suitable timeframe.

The Commission proposes that repayment for Licensed Stablecoins should be within five days of the request being received by the issuer.

Elsewhere, some jurisdictions have chosen shorter periods, for example 24 hours, or have not set a specific timescale for redemption. The Commission considers that five calendar days strikes a reasonable balance between competing demands, providing certainty of payment for stablecoin holders within a reasonable timeframe without creating the potential liquidity concerns (and consequent impact on choice of assets) that might arise with much shorter periods for redemption. Issuers may, of course, repay redeemed stablecoins in a shorter timescale if they wish to do so and will wish to ensure they hold sufficient and appropriate liquidity to do so.

2.7 Capital requirements – issuers own capital

A stablecoin issuer must maintain sufficient capital in the form of appropriate liquid assets to provide for an orderly wind down of the business in the event of insolvency or to cover a minimum of six months operating costs of the business.

2.8 Addressing Stablecoin Risks

Prudential Risk

Prudential risks will be addressed by requiring firms at all times to hold reserve assets matching the coins issued on a 1 to 1 basis and in the same currency against the stablecoin itself is issued.

Reserve assets must be separate from the issuer's own funds, within the jurisdiction, and may only be used for the redemption of issued stablecoins. They may not be used as collateral or otherwise encumbered. Reserve assets must not be used as working capital or operating reserve for the issuer.

Reserve assets are restricted in type to cash, bank deposits and short term government bonds. Short term investment grade government bonds denominated in the pegging currency are likely to be as close to a risk free investments as can be practically achieved for reserve assets.

Bank deposits entail credit risk exposure to the institution in which they are deposited, although this should be mitigated by using appropriately regulated banks and underlying client/trust arrangements.

Issuers must hold a separate operating capital reserve to provide for an orderly wind down in the event of failure or exit from the market. This must be separate from the stablecoin reserve assets and from the company's operating expenses.

Liquidity Risk & Market Risk

Timeliness of access to redemption is a critical aspect of the utility of a stablecoin. Issuers will be expected to consider their holding of reserve assets to provide an appropriate balance between

availability and security. In its proposed framework, the Commission proposes a five day limit for redemption but allows firms to set their own shorter timescales if they wish.

The most significant ways to reduce liquidity risks will be to ensure confidence in the underlying reserves and to put in place mechanisms to increase liquidity if required in the short term without compromising redemption value. However, the introduction of shorter term arrangements, for example the use of reverse repo to provide liquidity does introduce an element of market risk, since assets will be marked to market at the point of valuation rather than held to maturity to be redeemed at par. Of course this can be mitigated by, for example, deferring redemption but this will be a balancing call for issuers to make based on circumstances at the time an issue arises.

Basis & Transformation Risk

This should be minimised by requiring reserve assets to be denominated in the currency against which the stablecoin is pegged, by restricting the class of assets to those that are risk free or very low risk and by limiting their tenor to the immediate short term.

Counterparty & credit risk

This can be reduced by the choice of currency for stablecoins, use of highly rated bonds limited to investment grades and limiting exposure to only short term bonds together with appropriate use of regulated banks for holding deposits.

De-pegging

This is a possibility for all stablecoins and a reflection of confidence in the issuer.

While such risks cannot be entirely eliminated, the Commission considers that firms which provide the highest standards of reserve and liquidity management, transparency and disclosure will be least vulnerable to such issues. Firms should have in place appropriate controls and solid mechanisms for responding to different types of cyber attack and the ability to recover or burn hacked assets.

Operational Risks (including cyber risks)

Provided that firms meet the regulatory obligations for asset reserves in terms of value and composition, operational risks are likely to be the most significant source of unmanaged or unmitigated risks.

Errors in issue or allocation, or significant hacking of assets, may give rise to irreversible changes to "on chain" allocated assets. This risk can be reduced with appropriate control mechanisms and by approaches to burn or expel misappropriate stablecoins, but naturally this will affect confidence in the underlying stablecoins. and the Commission has in place cyber security rules[14] which apply to all licensees.

AML/CFT/CPF

Financial crime risks will be addressed though application of the Commission's Handbook to the issuers of stablecoins and to locally based exchanges and (if appropriate) brokers of stablecoins.

2.9 Proposed changes to the LCF Law to accommodate Licensed Stablecoins

We are consulting on amending the definitions of various activities within the LCF Law to exclude activities related to Licensed Stablecoin**s** (and any payment stablecoins which the Commission

[14] The Cyber Security Rules and Guidance, 2021 — GFSC

determines to be equivalent) from section 17 of the LCF Law, these activities being those related to the creation, issuance and safeguarding of stablecoins and their underlying assets.

The Commission proposes that a new category should be added to the list of activities of Financial Firm Businesses in Schedule 1 to the LCF Law. The Commission intends to work with the States of Guernsey to effect the appropriate changes to permit the issuance of stablecoins, subject to the responses to this consultation. We also propose that, unlike other FFB activities, issuing stablecoins should require a separate licence in its own right and should not simply be permission granted to those holding licences granted under the other supervisory laws. This is to ensure that appropriate prudential regulation and oversight applies and that rules and safeguards for maintaining an appropriate reserve of assets backing any stablecoin are applied appropriately.

The proposed changes are highlighted in blue text below.

(i) The definition of virtual asset in s17.4 should be amended to add the section highlighted:

> ***"virtual asset"*** *means a digital representation of value that can be digitally traded, or transferred, and can be used for payment or investment purposes, but virtual assets do not include digital representations of –*
>
> > *(a) fiat currencies, or*
> >
> > *(b) general securities and derivatives within the meaning of category 2 in Schedule 1 to the Protection of Investors Law and other financial assets.*
>
> *For the avoidance of doubt, for the purposes of licensing and the carrying out of the specified activities in s17.1 of this Law, virtual assets do not include:*
>
> > *(c) "**Licensed Stablecoins**", or*
> >
> > *(d) "**emoney", or***
> >
> > *(e) "**Equivalent Regulated Stablecoins".***

The purpose of this addition is to ensure that persons issuing or carrying out the specified activities of exchange, transfer, administration, custody and other activities specified in section 17(1) of the LCF Law are not required to hold a VASP licence in respect of transactions in stablecoins. Depending on the nature of their activities, and whether or not they are licensed under another regulatory law, they may require a licence as a Financial Firm Business (FFB).

(ii) To add the following definition to s90 ("Interpretation") of the LCF Law:

> "**Licensed Stablecoin**" means a stablecoin issued by a person which holds an appropriate Financial Firm Business Licence under Part III of this law and meets the requirements for a Licensed Stablecoin as set out in this Law and in the relevant rules of the Commission.
>
> "**emoney**" or "**electronic money**" means money issued on receipt of funds which represents a claim on the issuer and is stored electronically on a device, card or remotely and can be used as a means of payment accepted by persons other than the issuer. Emoney does not include stablecoins or vouchers or tokens issued by retailers or service providers for use in their stores whether physical or online to allow the purchaser to acquire goods or services from a limited network of providers with a direct commercial agreement with the issuer or which may be used to acquire only a very limited range of goods or services.

"**Equivalent Regulated Stablecoin**" means any stablecoin which the Commission may from time to time determine is issued under arrangements and with safeguards equivalent to those for Licensed Stablecoins for so long as it continues to meet those requirements.

(iii) the description of Financial Firm Business activities in Schedule 1 of the LCF Law should be amended by adding item 20A as highlighted in blue text below:

SCHEDULE 1

PART A

FINANCIAL FIRM BUSINESSES

1. (1) The businesses specified in the following paragraphs of this Part of this Schedule are, when carried on by way of business for, with or on behalf of a customer, "financial firm businesses" for the purposes of this Law.

(2) However, financial firm businesses are not subject to licensing under the provisions of this Law as financial firm businesses where –

(a) they are carried on by a regulated business within the meaning of Part B of this Schedule, or

(b) they constitute incidental and other activities within the meaning of Part C of this Schedule.

2. Lending (including, without limitation, the provision of consumer credit or mortgage credit, factoring with or without recourse, financing of commercial transactions (including forfaiting) and advancing loans against cheques).

3. Financial leasing.

4. Operating a money service business (including, without limitation, a business providing money or value transmission services, currency exchange (bureau de change) and cheque cashing).

…etc…

20. Otherwise investing, administering or managing funds or money on behalf of other persons.

20A. The issuing of Licensed Stablecoins.

(iv) In part B of the same schedule, s21 should be amended to add the text highlighted in blue:

PART B

REGULATED BUSINESSES

21. The businesses specified in the following paragraphs of this Part of this Schedule are, for the purposes of this Law, "regulated businesses" and are not subject to licensing under the provisions of this Law as financial firm businesses, except in the case of 20A the issuing of Licensed Stablecoin*s for which an FFB licence is required by any person carrying out the issuing of such stablecoins*.

The purpose of this amendment is to require that issuers of Licensed Stablecoins hold the appropriate FFB licence under Part III of the LCF Law irrespective of whether they are otherwise considered to be an existing regulated business. Unlike various other FFB activities, holders of licences under other regulatory laws are not excluded from the requirement to hold a licence.

Alongside the proposed changes to the LCF Law, the Commission proposes to issue appropriate rules under the LCF Law which will, in relation to Licensed Stablecoins, address:

- Structure
- Reporting and disclosure
- Safeguarding of assets
- Audit and attestation

The proposed draft rules are set out in Appendix 1.

Respondents are requested to comment in particular on the scope and content of the draft rules and whether there are any significant omissions as they are drafted.

Questions related to stablecoins and stablecoin regulatory framework

Q 2.1	**Do respondents agree that the Commission should develop a regulatory framework for privately issued stablecoins? If not, is there an alternative approach?** **Should the issuance of stablecoins be separated from other risk-taking activities?**
Q 2.1.1	**Do respondents agree with the definition of a Licensed Stablecoin?** **If not, what alternative should be considered?** **Do respondents agree with the proposed approach to licensing commodity backed or alternative asset backed tokens under the tokenisation framework? Or should there be a separate approach specifically for commodity backed stablecoins? If so, are there any specific requirements that would be desirable for such a framework?**
Q 2.2	**Do respondents agree that the value of assets should match the value of coins issued? And that assets should be held in the currency of the stablecoin peg?** **Is it appropriate to permit the payment of interest on stablecoins? If not, why not? And if so, are there any additional safeguards or rules which the Commission should apply?**
Q 2.3	**Do respondents agree with the proposed arrangements for disclosure and attestation?** **Is it sufficient that independent valuation should occur annually?**
Q 2.4	**Do respondents agree that so far as possible assets should be held locally? And that the lead asset custodian should be Bailiwick based and licensed?**
Q 2.5	**Do respondents agree that the limitations on the type of assets held are reasonable? Are there other specific assets that should be permitted and if so, why?** **Do respondents agree with the Commission proposal to leave the mixture of assets held for the issuer to determine?**
Q 2.6	**Do respondents agree with the proposed approach to redemption of stablecoins?**
Q 2.7	**Do respondents agree that the requirement for issuers to maintain sufficient funds for an orderly wind down or 6 months operations is reasonable?** **If not what should be the capital requirement?**
Q 2.8	**Has the Commission identified the appropriate risks?** **Are there any additional risks or risk management measures the Commission should consider?**
Q 2.9	**Do respondents agree with** **(i) The proposed changes to the LCF Law?** **(ii) The proposed rules set out in Annex 1?** **Do respondents agree that persons conducting activities including exchange, transfer, safe-keeping or administration or other financial services in relation to stablecoins should not be required to hold a VASP licence?** **(NB Such persons may be considered to be acting as an FFB and may require an appropriate FFB licence depending on the activity.)** **If not, what alternative should be considered?**

3. Fund Tokenisation

In 2024 the Commission issued guidance confirming that the Bailiwick's regulatory regime permits fund tokenisation, i.e. that the register of holders of units in a Bailiwick registered or authorised collective investment scheme may be maintained by using distributed ledger technology and tokens issued as a digital representation of the ownership of such units. The guidance also confirmed that such tokens do not constitute a virtual asset for the purposes of the Lending Credit and Finance Law (Bailiwick of Guernsey) Law, 2022.

The guidance also highlighted the need for the existing regulatory obligations of a fund and its Designated Administrator to be met, including obligations under the Proceeds of Crime regime. In this respect the guidance stated that only use of a private block chain was permitted. We are proposing that in recognition of developing industry practices this guidance will be revised.

The use of a public blockchain as the register of fund unitholders may introduce novel risks and challenges for compliance with applicable regulations and legislation. These may include for example:

- a restricted ability to amend the register to ensure that is it is accurate and up-to-date and to reverse incorrect entries;
- a risk that units in the fund are transferred to investors without necessary due diligence checks having been performed or to investors who are otherwise ineligible to hold the units; and/or
- interruption to a DLT network which may prevent access to the register.

Certain technological controls may be put in place to address the risk of using a public blockchain, for example such controls might include:

- The use of smart contracts to restrict transfer of units only to eligible persons and in respect of whom the Nominated Firm has performed necessary customer due diligence ("whitelisting"). (Please note the further, related discussion of this subject in section 8.3);
- Direct contractual terms with eligible unit holders; and
- Contingency planning and processes to address network outages.

Ultimately it is for the governing body of each fund and its regulated service providers to establish the necessary controls framework to ensure that the relevant obligations under applicable fund rules, the financial crime regime and all other applicable legislation are met. Each fund and relevant service provider should be in a position to demonstrate the effectiveness of such controls to the Commission.

The Commission proposes the amendment of its current guidance to permit the use of a public blockchain as the register of fund unitholders in a Bailiwick registered or authorised collective investment scheme.

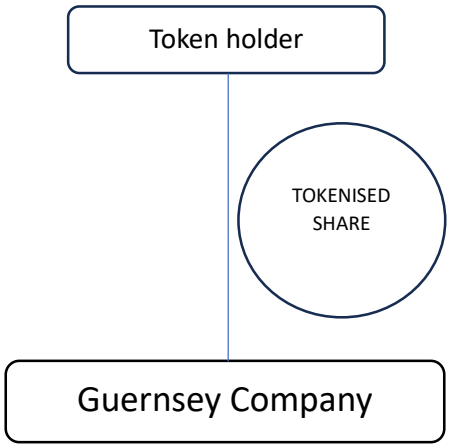
Q 3	**Do respondents agree with the proposed amendment of collective investment scheme guidance to permit the use of a public blockchain?**

4. Tokenised Securities

It is the Commission's view that where a token conveys ownership or rights consistent with the definition of a Category 2 Controlled Investment[15] then that token will be considered to be a Category 2 Controlled Investment and will be regulated accordingly.

The diagram below shows an example of a simple security tokenisation, whereby a company issues shares in securities in tokenised form.

Example of a tokenised security

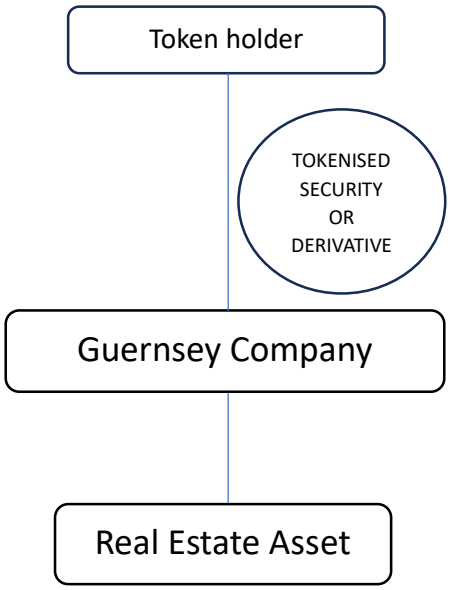


4.1 Tokenisation of Real World Assets

A Guernsey vehicle may be used to "indirectly tokenise" other real world assets. Real world assets are physical or traditional financial assets (but would not include virtual assets)

The diagram below shows an example of a basic "indirect" tokenisation where securities are issued as tokens and the company in turn holds a real estate asset. The security issued would provide contractual rights in respect of the value of the underlying property. Provided the token has the features of a Category 2 Controlled Investment then it should be treated as such.

[15] A general security or derivative as defined in section 2 of Schedule 1 to the Protection of Investors (Bailiwick of Guernsey) Law, 2020



A tokenised security will be treated as a Category 2 Controlled Investment under the PoI Law and persons providing restricted activities in respect of such tokenised securities will fall within scope of this Law.

The Commission proposes that it will issue guidance confirming that tokenised securities, provided that the definition of a Category 2 Controlled Investment is met, fall within scope of the PoI Law.

4.2 Direct Tokenisation

In the case of certain classes of real world assets it may be possible to issue tokens that represent direct whole or fractional ownership of an asset, i.e. where the token does not meet the definition of a Controlled Investment and is not issued by an intermediating entity holding the real world asset. Such arrangements and persons providing relevant services in or from the Bailiwick in respect of such arrangements will likely fall within scope of the LCF Law and VASP licensing given that the token itself will likely meet the definition of a virtual asset.

4.3 Amendment to PoI Law

An additional step may be to amend the drafting of the definition of "controlled investment" within Schedule 1 to the PoI Law to expressly include tokenised securities.

This amendment could be seen as providing a greater degree of legal certainty in comparison to interpretive guidance.

This may be achieved by adding a new sub-paragraph 2(1)(j), clarifying the inclusion of tokenised forms of existing general securities and derivatives, as follows:

"general securities and derivatives as defined in sub-paragraphs (a) to (i) of this section, in tokenised form."

Such an amendment would require the making of regulations by the Policy and Resources Committee using powers under section 2 of the PoI Law. If there was support for this option and downsides were not seen, the Commission could discuss the matter further with the States.

A similar amendment could also be made in respect of Category 1, Collective Investment Schemes.

4.4 Regulatory Treatment of Tokenised Securities

The implications of the above position (i.e. that a non-fund, tokenised security should be treated as any other Category 2 security) for regulation are as follows:

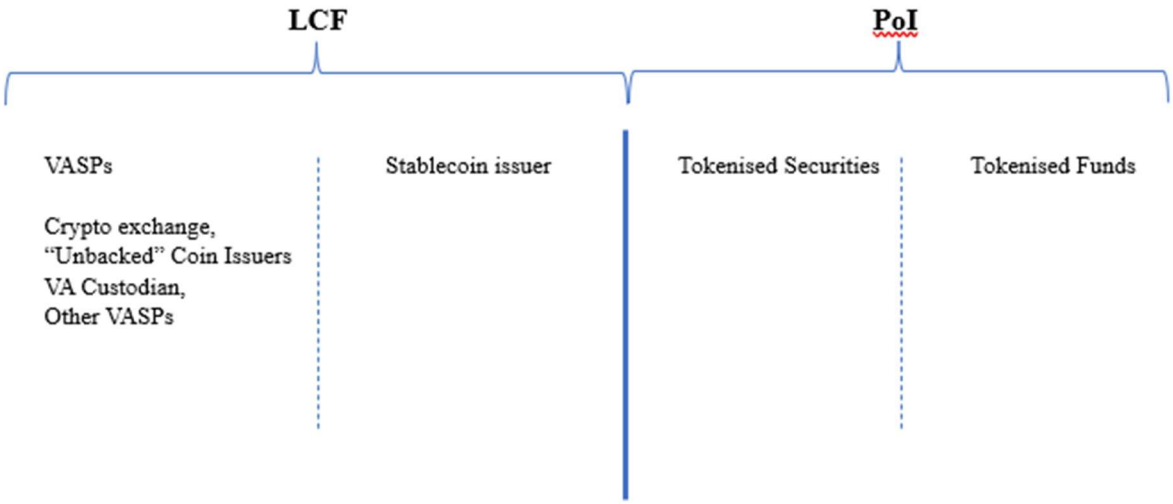
- Any person carrying out a restricted activity, in or from within the Bailiwick, in respect of a tokenised security falls within scope of licensing under the PoI Law.
- The Prospectus Rules will apply to any offering, unless exempt under the Rules – the primary exemptions being available to offers to Professional Investors, 200 or fewer non-sophisticated investors, and listed securities. These Rules require that certain minimum disclosures are made to investors in a circulated prospectus. Prospectus is broadly defined[16] and would include electronic disclosure. The use of tokenisation may, however, create novel risks beyond a traditional security issuance, of which a prospective investor should be informed. It is, therefore proposed that, in respect of issuances within scope of the Prospectus Rules only, that an additional rule be created requiring disclosure of such risks.
- As a Bailiwick-based legal entity or arrangement, the issuer of a tokenised security would be required to appoint a licensed fiduciary firm to provide corporate administration, in the same way that such services are provided to traditional securitisation structures. The issuer will therefore fall within scope of the licensed firm's AML/CFT/CPF obligations.
- The Commission also propose that in order to monitor market developments it will ask licensed fiduciaries to report annually details of any tokenisation activity they are servicing.

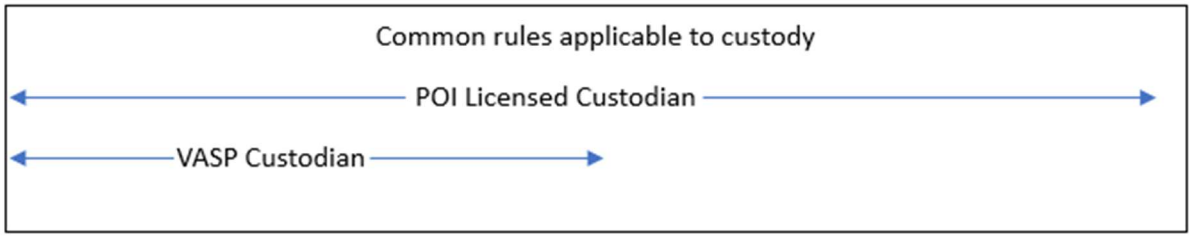
4.5 Treatment of tokenised securities under the Virtual Asset Service Provider provisions of the Lending, Credit and Finance Law

As noted in section 1 above, the current guidance to rule 10.2 of the LCF Rules and Guidance, 2023 may be interpreted in such a way as to include tokenised securities within the definition of a virtual asset. It has been proposed, therefore, to amend this guidance to clarify that tokenised securities fall outside the definition of a virtual asset.

The diagram below illustrates the regulatory impact of the proposals in sections 1 to 4 above.

[16] "prospectus" means any prospectus, notice, circular, or other document containing detailed information about an offer to the public of any Category 2 controlled investment for subscription, purchase, or exchange and, in the case of a registered collective investment scheme, includes information particulars, prospectus, scheme particulars, offering memorandum, explanatory memorandum, term sheet, application form, subscription agreement, and any other similar documents or any combination of the foregoing





Q 4.1	**Do you agree that guidance should be issued confirming that tokenised securities, provided that the definition of a Category 2 Controlled Investment is met, fall within scope of the PoI Law?**
Q 4.3	**Do respondents agree that the PoI Law should be amended to clarify the treatment of tokenised general securities and derivatives?**
Q 4.4	**Do respondents agree that the Prospectus Rules be amended to require disclosure of any additional risks associated with the offering of tokenised security?** **Do respondents agree that licensed fiduciaries should report annually on any tokenisation activity they are servicing?**

5. Custody

Principle 6 of the Commission's Principles of Conduct of Finance Business, applicable to all persons licensed by the Commission, states that:

"Where a financial institution has control of or is otherwise responsible for assets belonging to a customer which it is required to safeguard, it should arrange proper protection for them, by way of segregation and identification of those assets or otherwise, in accordance with the responsibility it has accepted".

In the case of the Protection of Investors regime this Principle is expanded upon in the Client Assets requirements of the Conduct of Business Rules[17]. The VASP regime addresses custody of virtual assets in Rule 10.4 on Safekeeping of customer virtual assets. Both regimes are broadly consistent and seek the key outcomes of asset safeguarding, asset segregation and asset identification.

We propose that in considering custody of digital assets Principle 6 should continue to be applied to ensure that customers receive equivalent protection under both traditional securities custody arrangements and virtual asset custody arrangements.

5.1 Custody of Digital Assets

The core function of custody of digital assets is the management and control of a customer's private keys, which control access to their digital assets.

A custodian provides a custodial wallet and holds the private keys to a customer's digital assets. The custodian assumes responsibility for managing the security of the wallet and provides an interface for customers to execute transactions.

Please note that self-custody (i.e. where the user has full control and responsibility for his or her private keys) does not constitute licensable activity and is not within the scope of regulation. Providing software to facilitate a self-custody wallet is also not regarded as regulated custody activity.

5.2 Licensing of Custodians of Digital Assets

The activity of providing custody services by way of business in respect of digital assets is a licensable activity but depending on the nature of specific activity performed the activity may fall under different licensing regimes. Irrespective of the licensing regime, however, the Commission believes that a consistent regulatory standard should apply to the activity encompassing the key elements of safeguarding, segregation and identification.

The Commission proposes that a consistent regulatory standard for digital asset custodians should apply irrespective of licensing regime. This consistent standard will be introduced through guidance applicable under all relevant licensing regimes.

Licensing will apply for the following activities:

a. *Acting as custodian of a digital asset meeting the definition of a Category 2 Controlled Investment (General Security or Derivative)*

[17] Licensees (Conduct of Business) Rules and Guidance, 2021

As discussed in section 4, a non-fund tokenised security may meet the definition of a Category 2 Controlled Investment (General Security or Derivative) under Schedule 1 of the PoI Law. The safeguarding of such assets is a restricted activity licensable under the PoI Law and a licensee must comply with the relevant provisions of the Conduct of Business Rules, including the Client Assets and Record Keeping provisions.

b. Acting as custodian to a collective investment scheme, the underlying assets of which includes digital assets

Acting as custodian to a collective investment scheme is a restricted activity licensable under the PoI Law irrespective of the nature of the assets underlying the collective investment scheme which may include all types of digital asset. A licensee must comply with the relevant provisions of the Conduct of Business Rules, including the Client Assets and Record Keeping provisions.

c. Acting as custodian of non-security digital assets[18] and Category 2 General Securities

A person providing custody services in respect of Category 2 General Securities and non-security digital assets is conducting licensable activity under both the PoI Law and the LCF Law (as a VASP safe-keeping virtual assets). Recognising the potentially onerous cost and compliance implications of dual licensing, the Commission proposes in such circumstances that only a PoI licence needs to be held. Digital custody activity would, however, be subject to relevant provisions of the Conduct of Business Rules and Rule 10.4 of the VASP Rules on Safekeeping of customer virtual assets.

Custody is identified as a specific VASP activity under section 17.1(d) of the LCF Law which refers to "*safe-keeping or administration of virtual assets or instruments enabling control over virtual assets".* We propose adding to section 17.1, words to the effect that such activities in relation to the custody of virtual assets may be carried out by a PoI licensee and not require separate licensing. It should be noted that such an amendment would not extend to granting general authority to a PoI Licensee to carry out any/all VASP activities without an appropriate licence.

We therefore propose that, subject to the results of this consultation, the Commission work with the States to seek amendment to section 17.1 of the LCF Law to add the text in italics:
…except under the authority of and in accordance with the conditions of a licence granted by the Commission under s23 (a part III VASP licence) *or for the purposes of carrying out the activities identified in 17(1)(d) a relevant licence issued under the Protection of Investors Law for the custody of controlled investments.*

The Commission further proposes that where a person licensed under the PoI Law acts as custodian of digital assets that such person, in respect of such assets, will additionally be subject to VASP Rule 10.4 on Safekeeping of customer virtual assets.

[18] Stablecoins and Virtual assets not meeting the definition of a security or derivative

d. Acting as custodian of non-security digital assets only

A person conducting safe-keeping of non-security digital assets only is conducting a licensable activity under the LCF Law.

5.3 Licensed Fiduciaries[19] safekeeping of digital assets

As digital assets increasingly become a more established asset class within private wealth portfolios, licensed fiduciaries are required to consider safekeeping arrangements for such assets. For the avoidance of doubt, where a licensed fiduciary acts as trustee and digital assets form part of the established trust's property, the Commission regards the safekeeping activity as within scope of the Fiduciaries regime. As trustee, a licensed fiduciary is responsible for safeguarding digital trust assets in the same way as any other trust property and this activity does not require any additional licensing under the VASP or PoI regimes. Where a trustee uses the services of a third party Bailiwick custodian, such custodian must be appropriately licensed to conduct such activity.

Q 5.2.1	**Do respondents agree with the proposed change to section 17 of the LCF Law to permit PoI licensees to act as custodians of digital assets?** **Do respondents agree with the proposal that where a person licensed under the PoI Law acts as custodian of digital assets that such person, in respect of such assets, will additionally be subject to VASP Rule 10.4 on Safekeeping of customer virtual assets?**
Q 5.3	**What are respondents' views on the additional risks faced by, and appropriate corresponding controls required by, a licensed fiduciary 'self-custodying' digital assets as trustee?**

[19] Persons licensed under the Regulation of Fiduciaries, Administration Business and Company Directors, etc (Bailiwick of Guernsey) Law, 2020

6. Insurance

6.1 Use of smart contracts to effect a contract of insurance

Insurers may use distributed ledger technology and smart contracts to effect a contract of insurance (constituting long term business or general business for the purposes of the Insurance Business (Bailiwick of Guernsey) Law, 2002) and such activity does not in of itself create a virtual asset or VASP activity.

The Commission proposes that it will issue guidance confirming that use of distributed ledger technology and smart contracts to effect a contract of insurance does not fall within scope of the LCF Law.

6.2 Insurance Linked Securities (ILS)

ILS issued by a Special Purpose Insurer[20] (SPI) may be issued in tokenised form and under such an arrangement, applying a consistent approach as described in Section 4 in respect of other forms of securitisation, such securities would not be considered to constitute a virtual asset for the purposes of the LCF Law.

The Commission proposes that it will issue guidance confirming that tokenised Insurance Linked Securities issued by SPIs do not fall within scope of the LCF Law.

Q 6.1	**Do respondents agree that DLT and smart contracts may be used to effect contracts of insurance and the proposed guidance that this would not be a VASP activity?** **Are there any other regulatory changes or clarifications which would support the use of digital finance & innovation in the insurance sector more broadly?** **(An example would be the treatment of stablecoin or crypto currency as payment of premium)**
Q 6.2	**Do respondents agree that guidance should be issued confirming that tokenised Insurance Linked Securities issued by SPIs do not fall within scope of the LCF Law?** **What additional regulatory changes or clarifications might be required to support the use of digital technology by SPIs?**

[20]As defined in the Insurance Business Rules, 2021 "special purpose insurer" means an insurer or cell of a protected cell company which conducts insurance business and is a fully funded special purpose insurer funded from the proceeds of one or more of the following – (a) a debt or equity issuance; or (b) some other financing mechanism approved by the Commission.

7. Banking

The Basel Committee on Banking Supervision (BCBS) has set out a prudential framework to be applied in respect of banks' exposures to cryptoassets[21]. The current regulatory capital requirement for Bailiwick licensed banks does not expressly address the treatment of such exposures.

Q 7	**What are respondents' views on the adoption of specific capital rules for banks' exposures to cryptoassets?** **How might banks' exposures to Licensed Stablecoins be treated under this regime?**

[21] SCO60 - Cryptoasset exposures

8. Enhancing anti-financial crime compliance through technology

Technology plays a huge role within a firm's compliance framework for automating processes, enhancing accuracy and delivering efficiencies. Applied properly it can improve effectiveness across a range of activities such as due diligence at customer on-boarding, ongoing monitoring and scrutiny of transactions, adverse media and sanctions screening and record retention.

We recognise that our firms want certainty that an investment in technology will not fall foul of the regulator. Therefore, we are consulting on a number of changes to our existing rules and guidance in the Handbook on Countering Financial Crime to further encourage the take-up of technology for compliance purposes. We are also consulting on how distributed ledger technology could be used for customer due diligence.

8.1 Handbook amendments

The changes we are proposing to existing rules and guidance in the Handbook are to provide further clarity on the role technology can have within compliance processes, including those technologies which are now generally considered mainstream, such as electronic systems for verifying a person's identity (i.e. electronic verification systems) and digital signatures.

The accompanying Appendix 2 to this consultation contains sections from the Handbook where we propose amendments. A number of these proposals are in response to feedback from industry for more clarity about the acceptability of the use of certain technologies within a firm's compliance framework.

This table lists the principal changes being proposed:

Topic	Where to find it
Change language to encourage technology take-up	Chapter 1 paragraphs 2 and 14 and where changes have been made to other paragraphs identified below.
Technology risk assessments	Chapter 3 section 3.12; Chapter 5 paragraph 34 in relation to additional considerations for electronic verification systems ("EVS") (covered further below).
Document translation	Chapter 4 paragraph 37.
Certification	Chapter 4 rule 33 and paragraph 34; Chapter 6 paragraphs 4 and 5, section 6.3, including digital certification, rule 18 and sections 6.5 and 6.7.
Electronic verification	Chapter 4 rule 33 (creating an exception where EVS utilised); Chapter 5 section 5.6 (some moved from Chapter 6 section 6.5 as more relevant to verification than to certification); Chapter 10 paragraph 12, rules 14 and 17 regarding an introduction from a firm using EVS being acceptable. Appendix F to include reference to electronically verified documents.
Update technological references	Chapter 4 paragraph 23 and Chapter 7 paragraph 57 – including checks on company registries; Chapter 5 paragraphs 21 and 22 – online bills; Chapter 8 paragraphs 8 and 25 – allowing Artificial Intelligence a role in enhanced customer due

	diligence including in source of wealth and funds checks and clarifying the role of blockchain analytical tools for tracing virtual asset transactions; Chapter 16 paragraph 32(e) referencing distributed ledger technology; Chapter 18 paragraph 18(c) clarifying reference to blockchain analytical tools.
Miscellaneous updates	Chapter 1 paragraph 26 and sections 1.10 and 1.11 - minor updates to guidance relating to MONEYVAL and the National Risk Assessment; Chapter 7 paragraph 70 in relation to board composition of incorporated cell companies and incorporated cells; Chapter 4 rule 65, Chapter 9 paragraph 22 and Appendix D removing reference to designated manager.

8.2 Distributed ledger technology - smart contracts

In line with the Digital Finance Initiative, we are consulting on how smart contracts could be used in the due diligence process to see how we can encourage their use through sensible adaptions to the rules and guidance in the Handbook.

A "smart contract" is a self-executing digital agreement which automates the enforcement and execution of an agreement or contract which is run on a blockchain network which restricts access to authorised participants.

Such "permissioned" blockchains can be used to enforce anti-money laundering, counter terrorist financing and counter proliferation financing requirements. On permissioned blockchains, national requirements could be embedded into the smart contract with triggers activated in response to a specific event such as a transfer of the token to another party.

If these requirements are effectively implemented in the smart contract and the technology integrated, where relevant, with other systems such as screening and document management systems, this could substantially enhance a licensee's anti-money laundering, counter terrorist financing and counter proliferation financing controls over onboarding, monitoring of activities and transactions.

The Financial Action Task Force's Recommendations make no distinction between digital or traditional assets in respect of the initial and on-going due diligence and monitoring requirements which must be applied to the customer.

Those Recommendations require a firm to identify the customer and verify their identity using reliable, independent identification data (such as a passport) and to conduct ongoing monitoring and scrutiny of transactions. Where the holder is a legal person or legal arrangement the beneficial owner/s must be identified, and reasonable measures taken to verify them. Enhanced customer due diligence must be applied to high-risk customers. Therefore, a smart contract must achieve the same outcomes as the traditional compliance measure/s it is to replace.

We are seeking your views on how rules and guidance in the Handbook could be adapted to encourage effective use of smart contracts in the due diligence and monitoring process.

8.3 Distributed ledger technology - centralised customer due diligence ("CDD")

Tokens are being promoted as a solution for "portable KYC" from one financial business to another, with the underlying customer only having to present their identity documents once in a centralised CDD offering to which financial businesses with the appropriate permissions can access.

Centralised CDD utilities (not necessarily using tokens) have been established for national markets such as in India and Singapore which were developed to facilitate access to domestic financial services by their residents. Those central utilities are backed or run by governments which serve as the source for a person's identity documents which under the FATF Recommendations must be from a reliable independent source. Development of a central utility that could service an international client base is, however, slow. We would welcome feedback on how such a central utility might be established for a financial sector with an international client base.

Questions relating to section 8

Q 8.1	**Do respondents agree with the proposed changes to the Handbook? If not, what other changes are suggested?**

Q 8.2	**What use could be made of smart contracts within a business's anti-money laundering, counter-terrorist financing and counter proliferation functions?**
	Where there is a use, please describe how a smart contract could be used, covering what controls or measures could be embedded within it and how that achieves compliance with requirements, such as obligations to identify and verify customers, including where enhanced customer due diligence applies for high risk customers?
	What are the challenges to a firm in developing and implementing blockchain technology for compliance use, including compatibility or integration issues with existing technologies in use within its control framework, such as document management and screening systems?
	What areas of the Handbook could be enhanced to encourage take up of this technology within a firm's AML/CFT/CPF controls. If so, how can those areas of the Handbook be enhanced?
	What risks are there in the application of smart contracts within a firm's AML/CFT/CPF controls? How might they be mitigated?
	Are there specific money laundering, terrorist financing or proliferation financing risks presented by stablecoins, tokenised funds and securities and/or custody of digital assets which should be specifically considered in the Handbook?

Q 8.3	**How might a token be used in introduced customer relationships where the firm is relying on certain elements of the due diligence undertaken by another regulated firm to verify the identity of the customer and beneficial owner, and how might testing of this introduction be achieved? (see Chapter 10 of the Handbook on Introduced Business)**
	How might such a "portable KYC" token be developed which multiple financial services businesses with the appropriate permission could access to undertake their due diligence? Please elaborate on what regulatory elements could assist and what elements detract from such a development. **How might such a central utility might be established for a financial sector with an international client base?**

9. Legal Certainty

As already noted the Commission supports the sensible use of innovative technology in the financial services sector, to improve the quality and range of services available to customers and to enhance governance and controls. At the same time the Commission does not prescribe the specific channels and media (technological or otherwise) through which financial services are offered. The Commission is concerned with the substance of the fundamental financial services conducted and that appropriate resources and controls are in place, commensurate with regulatory compliance.

In this latter respect, the Commission's position is supported by Guernsey law. The Electronic Transactions (Guernsey) Law, 2000[22] and the Electronic Transactions (Electronic Agents) (Guernsey) Ordinance, 2019 confirm the legal position in respect of electronic instruments, records and contracts, and that their electronic nature, or the fact that a contract is formed or executed by a computer program or other form of electronic agent, does not deny their legal effect, validity, enforceability or admissibility.

The Commission believes that these laws provide a strong legal grounding for digital finance activity in the jurisdiction and the Commission's approach to digital asset regulation.

Nevertheless the Commission is interested to hear views as to if and how the Guernsey legal framework might be further amended to further support the use of digital assets.

Q 9	**Does the jurisdiction's underlying legal framework (outside the supervisory laws) provide the certainty around the use of digital assets and digital finance?** **What further improvements might be made to improve legal certainty around the use of digital assets and digital finance?**

[22] Electronic Transactions (Guernsey) Law, 2000

10. Conclusion and Next steps

In this paper the Commission makes, and seeks views on, a number of policy proposals which we hope will support the growth of digital finance in the Bailiwick. In doing so we have chosen areas that, informed by industry engagement, we believe to be relevant to the Bailiwick. This is a broad and quickly developing area and we view this paper as a first step in building a regulatory framework for the future. In that respect we welcome views on other areas not covered in this paper where regulatory policy might be created or amended to help facilitate good quality digital finance activity in the Bailiwick.

Q 10	**Are respondents aware of other areas of regulatory policy that might be created or amended that would facilitate good quality digital finance activity in the Bailiwick? If so, please provide details.** **Do you have any other comments?**

Following the closing date of 6 March 2026 the Commission will review and consider feedback and comments received and, where considered appropriate, introduce further changes to the proposed policy approach and discuss with the States whether it may be content to make any changes, where a proposal on which we are consulting would require action by it to change a piece of higher level legislation to create an appropriately proportionate regime. The Commission will then issue feedback to respondents and publish final policy changes.

APPENDIX 1 – Draft Stablecoin Issuer Rules

Stablecoin Issuer Rules and Guidance

Guidance
Guidance intended for publication is included in boxes shaded blue.

1.1 Definitions

Licensed Stablecoin

Means a coin which is pegged to a fiat currency and which is backed by assets equivalent to the value of stablecoins issued and which are denominated in the currency against which it is pegged.

A Licensed Stablecoin is not considered a Virtual Asset for the purposes of Part III, s17 of the LCF Law
This means that persons carrying out trading or transfer of such assets will not be subject to the requirement to hold a VASP licence (unless exchanging them for other VA). They will be subject to any relevant requirements under other regulatory laws (e.g. POI, Fids, Insurance).

Licensed Stablecoin issuer means a firm licensed in accordance with Part III of the LCF Law to carry out the relevant activities as a Financial Firm Business.

Other Regulated Stablecoin means a stablecoin regulated in another jurisdiction which is 100% backed by assets denominated in the currency against which it is pegged.

Guidance
Licensed Stablecoin is defined in the LCF Law.
Equivalent Regulated Stablecoin is defined in the LCF Law.

1.2 Permitted currencies

1.2.1 **Licensed Stablecoins** may be issued in:

(i) any of the G10 currencies. The G10 currencies are the Australian Dollar, British Pound Sterling, Canadian Dollar, Euro, Japanese Yen, New Zealand Dollar, Norwegian Krone, Swedish Krona, Swiss Franc and the United States Dollar.

(ii) currency which is on a list of permitted currencies that the Commission may from time to time publish for this purpose.

1.2.2 A licensee may issue stablecoins in other currencies with the express written permission of the Commission.

1.3 Approved Assets

1.3.1 A person who issues a Licensed Stablecoin, must maintain and safeguard assets equivalent to the value of stablecoins issued.

1.3.2 The backing assets must be denominated in the currency against which the stablecoin is pegged.

1.3.3 The assets must be assets permitted by the Commission.

1.3.4 The assets backing a stablecoin must be held in trust, must be available for redemption of the stablecoin and must not be used as collateral or otherwise encumbered.

1.3.5 Assets must be held by a custodian which is licensed in the Bailiwick of Guernsey and may make use of sub-custodians.

1.3.6 Permitted assets comprise:

- Cash;
- gilts/short term government bonds; and
- money market instruments with a tenor of three months or less.

1.3.7 The Commission may from time to time publish for this purpose a list of additional permitted assets which an issuer may use as assets backing a Licensed Stablecoin.

1.3.8 A stablecoin issuer may use alternative assets or assets which are longer dated to back a licensed stablecoin only with the specific written permission of the Commission.

[1.3B Commodity linked stablecoins

Guidance
Commodity Linked Stablecoin rules
This definition and rules will come into effect only if the Commission considers that commodity backed stablecoins should be permitted as a specific element of the regulatory regime. Included here to avoid the need for a second consultation to incorporate them later.

Definition

A commodity linked stablecoin means a stablecoin which is pegged against the value of a commodity and is 100% backed by assets in that commodity.

If a gold Commodity Linked Stablecoin represents one gramme of gold, then it must be backed by an equivalent amount of gold.

1.3B.1 Persons licensed to issue Licensed Stablecoins may issue commodity linked stablecoins denominated in approved commodities.

1.3B.2 Approved commodities comprise: Gold, Silver, Platinum, Palladium and metals traded on the London Metals Exchange plus any commodity on a list of permitted commodities that the Commission may from time to time publish for this purpose.

1.3b.3 A licensee may issue commodity linked stablecoins which are pegged to the value of other commodities with the express written permission of the Commission.

1.3B.4 A commodity linked stablecoin may be considered a Licensed Stablecoin provided that it meets the following criteria:

- issued by a Bailiwick licensed stablecoin issuer
- backed 100% (gramme for gramme, kg for kg, tonne for tonne) of the commodity
- that there is a sufficiently liquid market in the commodity to permit realisation of safeguarded assets
- that safeguarded assets are held in suitable short term instruments]

1.4 Redemption of Licensed Stablecoins and Liquidity requirements

1.4.1 Licensed Stablecoins must be redeemable on demand by the holder.

1.4.2 The issuer of a Licensed Stablecoin must redeem stablecoins within five days of receiving a request.

Guidance
Issuers may offer shorter redemption terms if they wish to do so.
AML/CFT/CPF rules apply to such transactions and where a firm is required to investigate a suspicious transaction it will be permitted to suspend any redemption timescales pending the outcome of such an investigation.

1.4.3 The person who issues a licensed stablecoin must maintain an appropriate balance of assets to manage the liquidity of the stablecoin and to meet requests for redemption.

1.5 Capital

1.5.1 In addition to the safeguarded assets backing the stablecoin, an issuer must hold sufficient capital to allow an orderly run off in the event of closure or liquidation.

1.5.2 This capital must comprise at least 6 months running costs plus an allowance for any additional costs that might be incurred in the event of liquidation.

1.5.3 This capital must be readily available in the event of liquidation or closure and must not be subject to limitations or restrictions by any other person.

1.6 Reporting and Disclosure

Disclosure

1.6.1 A Licensed Stablecoin Issuer must put in place appropriate public reporting and disclosure arrangements.

1.6.2 As a minimum it must issue monthly public disclosures of:

- the total number of stablecoins issued;
- the value of assets being safeguarded; and
- the composition of the assets being safeguarded.

Independent Audit and Attestation

1.6.3 At least once each year there must be an independent audit of the assets being safeguarded by an appropriate approved person.

1.6.4 Each monthly report must be followed within one month by an attestation provided by an appropriate approved person as to the veracity of that information.

1.6.5 This may be any auditor approved by the Commission or independent person appointed by the issuer, subject to the prior written approval of the Commission.

1.6.6 Such a review must be carried out in accordance with an approved standard for audit.

1.7 Equivalence

1.7.1 The Commission will recognise and treat as equivalent stablecoins regulated in other jurisdiction which also recognise the equivalence of Licensed Stablecoins.

1.7.2 Any stablecoin deemed to be equivalent by the Commission will be considered an "Equivalent Regulated Stablecoin".

APPENDIX 2 - Proposed Changes to the Handbook on Financial Crime

Please see separate document