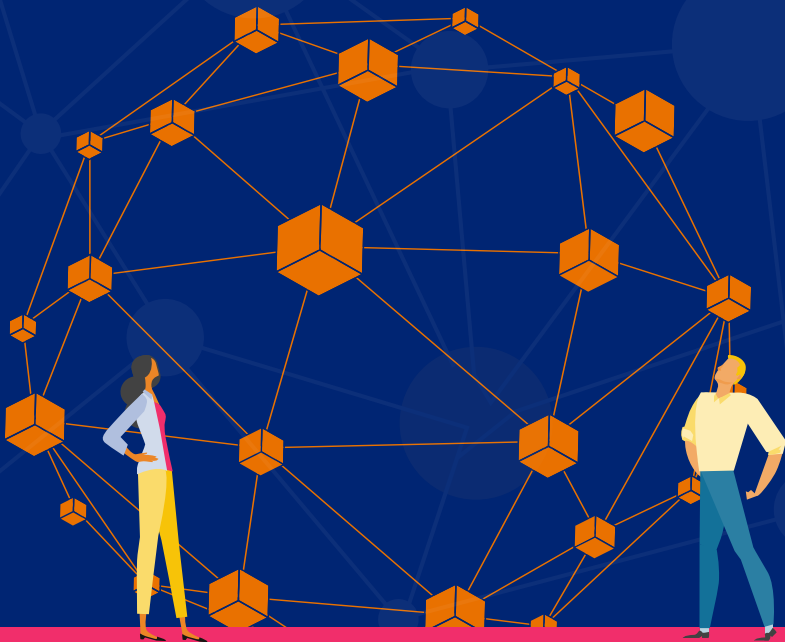


EXPLORING THE REGULATORY LANDSCAPE OF DECENTRALISED FINANCE:

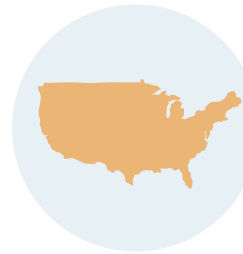
Current Status and Future
Implications

MARCH 2023



Decentralised finance (DeFi) is a relatively new field, and regulatory frameworks are still developing around it. Regulations around decentralised finance (DeFi) vary significantly by region. Here are some examples of regional regulations that are currently in place:

1. UNITED STATES:



Some guidance is available: In the United States, DeFi platforms and applications are subject to a range of regulations, including anti-money laundering (AML) and know-your-customer (KYC) requirements proposed by the Financial Crimes Enforcement Network (FinCEN) in 2020, securities regulations, and tax regulations.

However, there is also a lot of uncertainty around the state of DeFi regulation in the U.S. The U.S. Securities and Exchange Commission (SEC) has taken a “regulation by enforcement” approach when dealing with DeFi and Cryptocurrency exchanges. The U.S. Congress has yet to pass substantive legislation that provides a significant degree of regulatory clarity to U.S. based exchanges and DeFi projects. Major U.S. exchanges like Coinbase are now **actively lobbying** the U.S. Congress to pass comprehensive cryptocurrency regulation.

The Commodity Futures Trading Commission (CFTC) and the SEC are the main regulatory bodies overseeing DeFi activities. The SEC has been increasingly scrutinising DeFi projects, considering them as potential securities offerings subject to regulatory oversight. In a recent development the CFTC also reaffirmed that both **Stablecoins and Ethereum are going to be commodities.**

2. EUROPEAN UNION:



DeFi platforms and applications operating in the European Union must comply with GDPR (General Data Protection Regulation) regulations to protect user privacy and personal data. Additionally, DeFi products that are considered securities may be subject to regulations from the European Securities and Markets Authority (ESMA) which has published **guidance on how to launch products that are based on cryptocurrencies.**

The European Union (EU) has proposed regulations to ensure that all crypto assets, including DeFi tokens, fall under the scope of the EU's existing financial regulatory framework. In addition, the EU has proposed the creation of a new regulatory framework for crypto assets, which includes DeFi tokens, that would provide a clear definition of what constitutes a security or utility token.

The European Central Bank has given **guidance on how to launch a stablecoin** and is advocating a coordinated international strategy and common standards to find and close regulatory loopholes. The Bank of International Settlements based in Switzerland has also given guidance that Central Banks may hold 1% of reserves in Bitcoin.

3. ASIA-PACIFIC:



In Asia-Pacific, DeFi regulations vary widely by country. For example, in Singapore, DeFi platforms and applications must register with the Monetary Authority of Singapore (MAS) and comply with AML and KYC regulations. MAS is leading the way in Asia-Pacific and issued **“Guidelines on Provision of Digital Payment Token Services to the Public under the Payment Services Act.”**

Singapore has some of the clearest and most cryptocurrency friendly regulations in the APAC region and even globally. In October 2022 MAS announced **Project Guardian**, “a collaborative initiative with the financial industry that seeks to test the feasibility of applications in asset tokenisation and DeFi while managing risks to financial stability and integrity.” Following this with the first **industry pilot for digital asset and decentralised finance** in November 2022, announced under MAS Project Guardian.

China has been particularly strict with DeFi regulations, with the country's central bank banning all forms of crypto trading in 2017. However, some DeFi projects have still emerged in China, and the government has recently been discussing new regulations to regulate the industry. In China, DeFi activities are currently banned. In contrast to mainland China, Hong Kong is now legalising cryptocurrency trading for citizens and is laying out **clear rules for crypto trading platforms to operate in the country.**

In Japan, the Financial Services Agency (FSA) has implemented a licensing scheme for cryptocurrency exchanges, which includes DeFi platforms. The FSA also recently proposed new regulations that would require exchanges to verify the identity of customers who withdraw more than 100,000 yen (USD \$900) in cryptocurrency per day.

4. MIDDLE EAST AND NORTH AFRICA



In the Middle East and Africa region, there are differing cryptocurrency regulations that vary greatly by country. From no regulation, to bans, to very positive regulation supporting cryptocurrency adoption. Some examples include:

- **NIGERIA:** While Nigeria had originally banned Bitcoin altogether last year, the country's population continued to use Bitcoin until Nigeria became the second largest Bitcoin market in the world. Since then, Nigeria's SEC has reversed its position, and now **Nigeria is set to pass a bill recognising Bitcoin and Crypto Currencies.**
- **DUBAI:** Dubai and the UAE have been very crypto and Bitcoin friendly. They have been established as one of the best locations to do business for crypto and Bitcoin related businesses. They are also the home to many cryptocurrency projects as they expand internationally. It is likely Dubai and UAE will continue to be a leading jurisdiction for cryptocurrency and DeFi going forward.
- **CENTRAL AFRICAN REPUBLIC:** Currently drafting cryptocurrency legislation. The African nation has already adopted Bitcoin for use in the country and has established its own **national crypto investment hub** - Project Sango.

5. LATIN AMERICA:



Like Africa and the Middle East, in the Latin America region, there are differing cryptocurrency regulations that vary greatly by country. Again, ranging from no regulation to very positive regulation supporting cryptocurrency adoption. Some examples include:

- **EL SALVADOR:** The first nation in the world to recognise Bitcoin as legal tender in the country. El Salvador's policies are very crypto friendly. El Salvador has also set up a "Bitcoin City" project and has created Bitcoin backed government bonds. El Salvador has also been looking into Bitcoin mining using volcanic energy sources.
- **MEXICO:** The government has proposed a regulatory framework for cryptocurrencies, including DeFi products. **Bitcoin ATMs have also been deployed in Mexico's Senate building**, indicating some level of interest in the top cryptocurrency by Mexico's law makers.
- **BRAZIL:** Has also been a very progressive nation in its adoption of cryptocurrency, DeFi, and provision of supportive legislation. "A cryptocurrency law, which had been in discussion for several months, has been approved by the Chamber of Deputies in Brazil after having shed some of the changes presented by the Senate. The proposal left out two planned tax exemptions for green mining operations and the issue of segregating customer assets from company funds for virtual assets service providers (VASPs)."

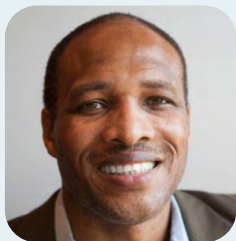
Overall, DeFi regulations are still in their early stages of development, and many governments and regulators are striving to find a balance between fostering innovation and protecting investors. It's important to note that regulations around DeFi are evolving and can change quickly. As a result, it's essential to stay up-to-date on the latest regulatory developments in your region.

DEFI LEARNING POWERED BY ALPHA AND XD ACADEMY

Alpha and XD Academy have partnered to provide in-depth Crypto and DeFi training courses to Financial Service Institutions. The courses are designed for professionals who want to learn how to develop and leverage blockchain solutions or those who want to explore career opportunities in this exciting new field.



JOHN OKORO



John started his career with Accenture as an executive in the US Financial Services Consulting Practice. Having worked with Fortune 500, Global 1000, start-ups and government clients including Allianz, JP Morgan Chase, Toyota, National University Singapore, GIC, and ICA in Singapore. John has over thirteen years of expertise in Agile, digital transformation, and related methods, as well as more than five years in the Blockchain space across North American, Asian, and international markets.

John holds a Juris Doctor (J.D.) from Southwestern Law School and Master of Business Administration (MBA) from the University of California (UCLA).

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Learn how we can help you prepare your organisation for success in the fast-moving world of Decentralised Finance.

About Alpha

Founded in 2003, Alpha is a specialist Early Careers, Sales, Management & Leadership training provider for blue-chip financial services institutions (incl. the world's top Investment Banks).

Alpha's USP is its ability to design and deliver complex global training programmes at scale, with insightful content and a partnership approach to driving value for its customers. Alpha specialises in the delivery of complex global financial training programmes, supporting investment banking and asset management L&D departments in both the design and delivery of training.

About XD Academy

XD Academy is a decentralised education company offering transformational learning experiences to individuals and businesses clients alike.

Founded in 2022 by veterans of both education and crypto, our mission is to unlock the full potential of crypto by making it a safer, simpler, and more accessible opportunity for all.



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