STABLECOIN COMPLIANCE UNDER MICA REGULATIONS

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INTRODUCTION

The European Union's Markets in Crypto-Assets (MiCA) regulation, effective from December 2024, introduces a structured regulatory framework for crypto-assets, including stablecoins. This regulation aims to ensure financial stability, enhance consumer protection, and establish clear requirements for stablecoin issuers and service providers.

As a licensed and regulated exchange, PayNox Ltd is committed to full compliance with MiCA. This policy sets forth the requirements and obligations for stablecoin listing, transaction monitoring, and consumer protection. It also outlines the necessary steps to prevent financial crime, ensure proper reserve management, and maintain transparency within the platform.

By implementing MiCA-compliant measures, we aim to provide a secure and legally compliant trading environment for our users, while facilitating the seamless integration of stablecoins into the broader financial ecosystem.

DEFINITIONS

MiCA (Markets in Crypto-Assets Regulation): A regulatory framework established by the European Union to govern crypto-assets, including stablecoins, with a focus on financial stability and consumer protection.

Stablecoin: A type of crypto-asset designed to maintain a stable value by being backed by reserves or algorithmic mechanisms.

Asset-Referenced Token (ART): A stablecoin whose value is tied to a basket of assets, including commodities, other cryptocurrencies, or fiat currencies.

E-Money Token (EMT): A stablecoin whose value is directly pegged to a single fiat currency (e.g., EUR, USD) and must be redeemable at par value.

Electronic Money Institution (EMI): A financial entity authorized to issue electronic money and subject to regulatory oversight within the EU.

Reserve Assets: Low-risk, highly liquid financial instruments held by stablecoin issuers to back issued tokens and ensure redemption availability.

KYC (Know Your Customer): A compliance process requiring businesses to verify the identity of their customers to prevent money laundering and fraud.

AML (Anti-Money Laundering): Regulations and procedures designed to detect and prevent financial crimes such as money laundering and terrorist financing.

CTF (Counter-Terrorism Financing): Regulatory measures aimed at preventing the financing of terrorism through illicit financial transactions.

Delisting: The removal of a financial instrument (such as a stablecoin) from trading platforms due to regulatory or compliance concerns.

SCOPE

This policy applies to all stablecoin-related activities on PayNox Ltd and covers:

Stablecoin Issuers: Entities that issue stablecoins and seek to list them on our platform must comply with MiCA regulations.

Crypto Exchange Users: Individuals and institutions engaging in the trading, deposit, and withdrawal of stablecoins.

Regulatory Compliance Teams: Internal compliance teams responsible for monitoring MiCA adherence and ensuring legal conformity.

Risk Management & AML/CTF Teams: Personnel overseeing transaction monitoring, fraud prevention, and anti-money laundering (AML) compliance.

Regulatory Authorities: Government and financial regulators who oversee and audit stablecoin-related operations within the EU.

Financial Institutions & Partners: Banking partners and liquidity providers interacting with stablecoin transactions on our platform.

This policy ensures that all relevant stakeholders adhere to MiCA's regulatory framework, maintaining transparency, stability, and security within the crypto market.

CORE PRINCIPLES

To ensure compliance with MiCA and maintain a secure trading environment, PayNox Ltd adheres to the following core principles:

Adherence to MiCA guidelines on stablecoin issuance, reserve management, and redemption policies.

Ongoing compliance with AML/CTF regulations, including user verification and transaction monitoring.

Full cooperation with regulatory authorities to ensure transparency and legal conformity.

Ensuring stablecoins are fully backed by liquid reserves and offering clear redemption rights.

Providing transparent information about stablecoins listed on our platform, including issuer details and regulatory status.

Implementing dispute resolution mechanisms to handle user complaints related to stablecoin transactions.

Restricting the listing of stablecoins that do not meet MiCA's reserve and risk management requirements.

Conducting regular audits to verify the adequacy of reserves backing stablecoins.

Monitoring stablecoin liquidity to prevent excessive market volatility and financial instability.

Enforcing strict due diligence on stablecoin issuers before listing their tokens.

Using blockchain analytics and monitoring tools to track suspicious activities.

Delisting stablecoins that fail to meet regulatory requirements or pose financial risks.

LICENSING AND AUTHORIZATION

To be eligible for listing, all stablecoin issuers must:

Be registered as an Electronic Money Institution (EMI) or Credit Institution under the supervision of an EU regulatory body.

Obtain authorization from an EU member state's financial regulator, ensuring compliance with MiCA requirements.

Demonstrate adherence to MiCA's categorization of stablecoins, including Asset-Referenced Tokens (ARTs) or E-Money Tokens (EMTs).

Implement robust governance structures, including transparent operational and financial risk management frameworks.

Comply with reserve backing requirements, ensuring full asset collateralization to guarantee redemption rights for stablecoin holders.

Maintain continuous oversight and report compliance status to relevant EU regulatory authorities.

Ensure compliance with market conduct rules, including fair trading practices and transparent disclosure of risks to users.

Provide a detailed whitepaper outlining the stablecoin's purpose, operational model, and risk factors, as required by MiCA.

Maintain a strong internal compliance framework to monitor regulatory changes and adapt policies accordingly.

RESERVE MANAGEMENT AND CONSUMER PROTECTION

Stablecoins must be backed by high-quality, low-risk, and liquid assets that are legally segregated from the issuer's operational funds.

Issuers must maintain 1:1 redemption rights, ensuring that stablecoin holders can convert their tokens to fiat currency without restrictions.

Regular audits and transparency reports must be provided to verify the security and availability of reserves.

ANTI-MONEY LAUNDERING (AML) & COUNTER-TERRORISM FINANCING (CTF) COMPLIANCE

All transactions involving stablecoins will be subject to AML and CTF screening.

Stablecoin issuers must implement Know Your Customer (KYC) and Know Your Business (KYB) procedures to verify users and prevent illicit activities.

PayNox Ltd will use blockchain analytics tools to monitor on-chain activity and detect suspicious transactions.

TRANSPARENCY AND REPORTING

Issuers must publish regular financial statements and reserve audits to ensure ongoing compliance.

Platforms must disclose risks associated with stablecoin investments to users.

Any material changes to the stablecoin's structure, reserves, or compliance status must be communicated promptly.

LISTING REQUIREMENTS

A stablecoin may be listed on PayNox Ltd if it:

Meets MiCA's regulatory requirements and provides documentation proving compliance.

Demonstrates sufficient liquidity, market demand, and operational security.

Is issued by a regulated entity with a proven track record of financial stability and compliance.

DELISTING OF NON-COMPLIANT STABLECOINS

PayNox Ltd will remove stablecoins from trading if they:

After the end of the transition period, fail to obtain or maintain EMI licensing under MiCA.

There are official clarifications that such cryptocurrencies do not meet the requirements of MiCA.

Are deemed non-compliant with reserve and redemption requirements.

Pose significant regulatory or legal risks to the platform and its users.

Are linked to illicit financial activities, fraud, or market manipulation.

ONGOING COMPLIANCE MONITORING

Our compliance team will conduct regular reviews of stablecoin listings to ensure continued adherence to MiCA regulations.

Periodic risk assessments will be conducted to address emerging regulatory and financial risks.

Updates to this policy will be communicated to users and stakeholders as regulatory developments evolve.

CONCLUSIONS

Our company is fully committed to compliance with MiCA regulations and ensuring that all supported stablecoins meet EU regulatory standards. Through proactive policy adjustments, we provide customers with secure, compliant, and transparent stablecoin transactions.