

SECP decides to formulate laws related to establishment of digital assets

ISLAMABAD: The Securities and Exchange Commission of Pakistan (SECP) has decided to formulate laws related to establishment of digital assets in the country.

However, the major hindrance is to protect the investors, while allowing free hand to the fast moving digital papers.

In this regard, the first briefing was held here on Monday in the SECP head office by Najia Ubaid, additional director, Primary Market Approvals, Securities Market Division and Abdul Rahim, director, Information System and Technology.

The cyber currency including bitcoin has been recognised in many advanced economies but our central bank and the SECP has already prohibited crypto/virtual currency in Pakistan, the SECP officials said. The SECP officials informed that since the digital/crypto currencies do not fall under the SECP's ambit, therefore, the position paper does not deal with this issue; however, the SECP has started consultations to devise policy and regulations regarding issuance of digital tokens /assets and utility tokens.

The consultations process will be held with the stakeholders, concerned citizens, experts and the concept paper over digital assets has been shared with the banking sector regulator – the State Bank of Pakistan too.

Rahim said that the SECP targets to devise policy regarding digital assets, which are established under the widely-used term "blockchain Open ledger", which is a platform that any client can access but cannot tamper.

"The benefits of blockchain, are that it saves transaction time from days to near instantaneous, removes cost overheads and cost intermediaries, it reduces risk of tampering, fraud and cyber crime," he added.

The SECP official added that bitcoin too was one of the products of the blockchain platform, but it was a crypto currency that was currently banned in the country.

Meanwhile, the authorities in the country were focused in regularising "Security Tokens" that are either backed by real assets or cryptographic assets.

The SECP position papers have defined that the "Digital Assets" can be classified as Asset backed Digital Assets/Token.

While, Najia Ubaid, highlighted that initial public offering (IPO) is the process of a private company becoming public by offering shares of that company to the public.

“IPOs are backed by investment banks that list the shares on the stock exchange, allowing you to buy, sell and trade, whereas the SECP envisages that an initial coin offering (ICO) is offered as a crypto currency rather than as a stock, and other such product was the Security Tokens (STO),” Ubaid added

However, ICOs are not regulated and therefore carry much more risk; the SECP highlighted adding that the ICO investment was an idea rather than a business that was already generating revenue.

While, the SECP has suggested that the regulated STOs be launched in the country.

There are four layers of STOs under the blockchain protocols starting from issuing an STO, followed by contractual bindings and ending at STO Exchanges, which is its secondary trading forum.

The economies where security token/digital assets/crypto assets are being regulated include Hong Kong, USA, Malaysia, Japan, Thailand, Israel, Canada, Singapore, and Abu Dhabi.

There is a need to develop a policy and regulatory response to Digital Assets in Pakistan is driven by the need for innovation that may impact the financial sector of the country but digital assets do not fit within the current regulatory framework.

Digital assets may create conditions for regulatory arbitrage while posing risks; and increasing interest, investment and participation in Digital Assets.

The SECP intends to study and evaluate the effects of the distributed ledger, digital assets and other innovative technologies, and encourages market participants to get engaged with the regulator.

Potential Approaches to regulate Digital Assets can be either regulating and restricting new products according to existing regulations or outright banning. It is based on the philosophy of “let-things-happen” approach, described by the Commodity Futures Trading Commission (CFTC).