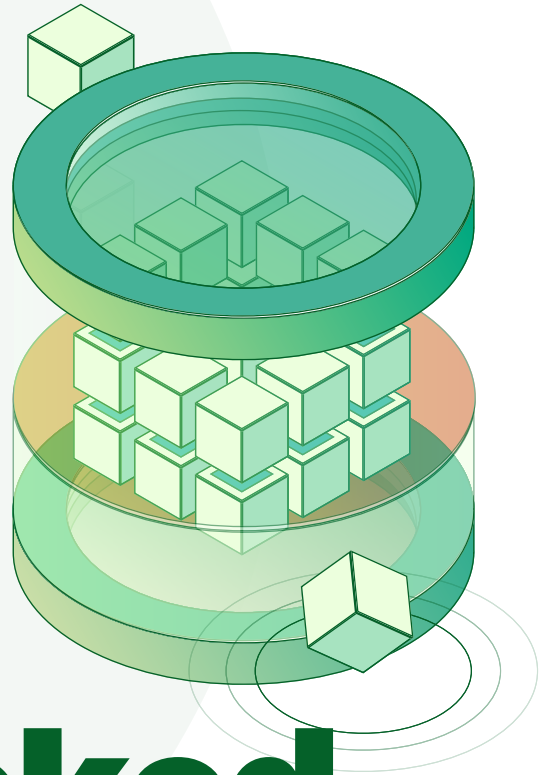




**Educate**  
**Collaborate**  
**Promote**

# Web3 Unpacked

Monthly Newsletter  April '23



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## Role Of Standard Setting Bodies In VDA Regulations (1/4)

### The Need for International Regulation of Virtual Digital Assets (VDAs)

Over the past decade, the Virtual Digital Assets (VDA) markets have experienced growth and maturity, leading to a pressing need for a comprehensive international regulatory framework to be established. Unfortunately, there is currently a lack of uniformity in how VDAs are treated across different jurisdictions. While many countries permit their use in a restricted capacity, their treatment varies greatly from one country to another.

Most countries consider digital tokens to be assets but limit their use as legal tender, a fact reflected in their regulatory frameworks. Canada's approach is moderate in that it treats VDAs similarly to other financial commodities from a taxation perspective, while also creating a "sanctions" list for VDAs that are not permitted to be traded on local exchanges.

In contrast, El Salvador and the Central African Republic famously adopted Bitcoin as legal tender in 2021. This lack of a unified international approach has made it challenging for VDAs to reach their potential as borderless, internet-native financial instruments. Furthermore, the often conflicting, region-specific frameworks have created opportunities for regulatory arbitrage, forcing users to utilize foreign

platforms and made it difficult for investors to understand how they should manage and treat VDAs.

Recognizing these drawbacks, various Standard Setting Bodies (SSBs), such as the Financial Stability Board, Financial Action Task Force, and Bank for International Settlements, have been supporting the creation of an international governing framework by regularly publishing suggestive papers, issuing statements, and calling for consultation regarding VDA regulation.

The primary role of SSBs in the formation of regulations surrounding VDAs is to provide guidance and best practices for countries as they navigate this emerging financial landscape. SSBs play a crucial role in promoting consistent, coordinated, and effective regulatory frameworks across different jurisdictions.

While countries are not legally bound to follow the recommendations of SSBs, they often choose to adopt these guidelines to maintain international cooperation and ensure compliance with global standards. Adherence to the principles set forth by SSBs also helps countries mitigate the risks associated with money laundering, terrorist financing, and other illicit activities linked to VDAs.

## Role Of Standard Setting Bodies In VDA Regulations (2/4)

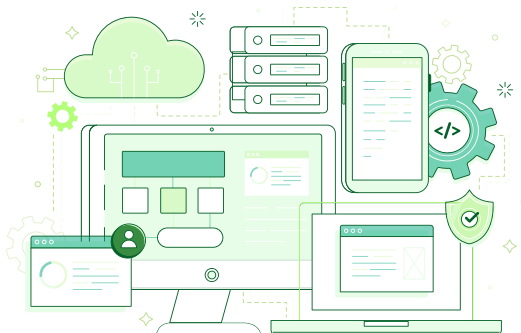
### Financial Stability Board (FSB) on Crypto-Assets and Market Challenges

In October 2022, the FSB published a consultative paper titled 'Regulation, Supervision and Oversight of Crypto-Asset Activities and Markets'. The paper advocates for a "same activity, same risk, same regulation" approach to the treatment of VDA activities and markets that perform economic functions equivalent to the one performed by traditional financial instruments and intermediaries.

In practice, for example, this would mean that VDAs like stablecoins, intended to be used as substitutes for money, may require oversight from central banks and payment system regulators. Similarly, regulation should ensure similar treatment of VDAs as other financial commodities, securities or instruments, while taking into account the risks and necessary preventative and remedial actions for each case.

Moreover, the paper emphasizes the importance of considering the unique nature of crypto-assets to maximize their potential while mitigating the associated risks. The FSB suggests that existing regulations for crypto-assets may be applicable in some instances, while new regulations or guidance may be required in others.

Furthermore, the report highlights the challenges an international framework must overcome. These challenges include the fragmented nature of current regulations, resulting in most markets being either unregulated or non-compliant. There is also a lack of available data from a regulatory standpoint, making it difficult to evaluate existing practices. The FSB also identifies the lack of cross-sectoral regulation, cross-border cooperation, coordination, and information sharing as other obstacles that need to be addressed.



## Role Of Standard Setting Bodies In VDA Regulations (3/4)

### Financial Action Task Force (FATF) and Anti Money Laundering

The Financial Action Task Force (FATF) is an international organization that has been addressing the treatment of crypto-assets from an anti-money laundering perspective. The FATF expanded its anti-money laundering and counter-terrorist financing (AML/CFT) regulations to include virtual assets (VAs) and virtual asset service providers (VASPs) in 2019.

In October 2021, the FATF updated its 2019 Guidance for a Risk-Based Approach to reflect its ongoing monitoring of the virtual assets and the VASP sector. This updated guidance forms the basis of transaction monitoring and compliance with local Financial Intelligence Units (FIUs) worldwide. The FATF has been reviewing the adoption of its suggestions worldwide and updating them with new additions. Its third "Targeted Update on Implementation of the FATF Standards on Virtual Assets and Virtual Asset Service Providers" was released in June 2022 and covers the implementation status of R.15, which is the framework of suggested measures to combat money laundering and terrorist financing with respect to VAs and VASPs for participating jurisdictions.

The third update also covers the status of implementation of FATF's Travel Rule, which requires VASPs, like other financial institutions, to act as reporting entities to relevant FIUs (or equivalent Law Enforcement Agencies) by acquiring specific originator and beneficiary information attached to each transaction.

According to the FATF, implementation of both the R.15 and the Travel Rule is currently scattered and inconsistent. Of the 53 jurisdictions reviewed, most still require major or moderate improvements on R.15. The Travel Rule has an even longer way to go, as only 11 of the 98 responding jurisdictions have started its enforcement and 36 are yet to even introduce the rule.

The FATF highlights the "Sunrise Issue" as a major roadblock hindering implementation, describing problems that arise due to different jurisdictions implementing recommendations at different capacities and timelines. The report also emphasizes the challenges of domestic VASPs transacting with unregistered foreign VASPs, further complicating the minimum requirements for recording transactions through the Travel Rule.



## Role Of Standard Setting Bodies In VDA Regulations (4/4)

### Other SSBs and the way forward

In December 2022, the Basel Committee on Banking Supervision published its report on "Prudential treatment of crypto-asset exposures" after conducting two rounds of consultations. The report establishes banking supervision standards pertaining to exposure to crypto-assets. Virtual digital assets (VDAs) are classified into two groups: Group 1 encompasses less volatile tokenized currencies and stablecoins, while Group 2 covers riskier assets with limited or unrecognized hedging.

The report stipulates that for an asset to belong to Group 1, specifically as stablecoin, it must pass a redemption test, which ensures that the issuer holds reserve assets that are adequate for redemption at any given time. Additionally, due to their volatility, the report recommends that banks limit their exposure to Group 2 assets to less than one percent of their Tier 1 capital.

To develop appropriate regulations for VDA trading platforms, the International Organization of Securities Commissions (IOSCO) established a Fintech Task Force (FTF) in 2022-23 to tackle VDA regulations globally. The International Monetary Fund (IMF) has recently been active, releasing two papers that outline the key principles countries should follow when developing VDA regulations, as well as a separate piece that delves into the macroeconomic risks and opportunities associated with VDAs.

The activity of SSBs has been mirrored by a flurry of regulations that have come into force, such as Europe's landmark VDA legislation, known as Markets in Crypto-Assets (MiCA). Additionally, regulators worldwide have conducted a number of open consultations. India, leveraging its G20 presidency, has emphasized the importance of international cooperation and coordination in creating an international framework.

At India's request, the IMF and Financial Stability Board (FSB) are working on a synthesis paper on regulating crypto-assets, which is scheduled for publication in September 2023. The proposed paper aims to create a coordinated and comprehensive policy approach to crypto-assets, which may be precisely what the industry requires.

#### **Namaste Web3: Pune Edition discusses how the Future of the Internet is Upon Us**



[Read more](#)

**Apr 19, 2023:** The 3<sup>rd</sup> Edition of 'Namaste Web3', the awareness initiative, was hosted in Pune on 15th April 2023. The event enjoyed discussion over a vast range of topics related to the space through a number of panels led by industry leaders. The debate and conversations centered around efforts to improve Web3 accessibility and driving mainstream adoption by improving users' experience, in order to futureproof the internet.

#### **India UK Discuss Developments Around Crypto Assets**

**Apr 20, 2023:** India and the UK on Wednesday discussed international developments regarding crypto assets and emphasised the importance of robust global approaches to deal with risks attached to this. Following the government-to-government discussion, business leaders from the India-UK Financial Partnership (IUKFP) were invited to the discussion.

[Read more](#)

#### **Government launches Blockchain project to explore potential of Web3**

**Apr 8, 2023:** The Union government has undertaken a research project in Blockchain technology. The project is titled 'Design and Development of a Unified Blockchain Framework' and will enable Open Application Programming Interfaces (Open APIs) for seamless integration and offering blockchain-as-a-service (BaaS) over distributed infrastructure.

[Read more](#)

## Key Highlights for the Month (2/2)

### International News

#### Consensus 2023: 5 Key Takeaways from the event

**Apr 28, 2023:** Consensus is the world's largest, longest-running and most influential gathering that brings together all sides of the Web3 community. At the event, organised by CoinDesk, editorial team members convened to share their insights on the pivotal topics that will influence the future direction of the crypto industry.

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#### Visa shares plans for 'ambitious' crypto product

**Apr 25, 2023:** Cuy Sheffield, head of crypto at Visa, took to Twitter on April 24 to announce a new crypto-asset Related project developed by the firm. Visa's upcoming crypto product is designed to drive mainstream adoption of public blockchain networks and stablecoin payments, Sheffield noted.

[Read more](#)



#### UK FCA Wants to Work With the Crypto Industry to Develop Regulation

**Apr 25, 2023:** The U.K.'s Financial Conduct Authority (FCA) wants to work with crypto firms to shape regulation, Executive Director Sarah Pritchard said at City Week conference in London. The U.K. has been looking to construct a new regime for crypto.

[Read more](#)

#### India says G20 members see need for Global Crypto Regulations

**Apr 14, 2023:** "The G20 and its members agree that it's not going to be possible to have an independent, standalone country dealing with the crypto assets", India's finance minister Nirmala Sitharaman told a news conference after a meeting of G20 finance ministers and central bank governors.

[Read more](#)

## European Parliament approves MiCA

The European Parliament, which serves as the legislative arm of the European Union consisting of 27 member countries, has given its approval for the world's first comprehensive set of rules that aim to regulate the crypto-asset markets under the supervision of government authorities. An increase in the regulatory fragmentation in EU, the potential mass adoption of crypto assets, and the goal to lead the regulation of technology led the EU to act – and act rather decisively.

The regulation, known as Markets in Crypto Assets (MiCA), will enter into force somewhere between mid-2024 and early 2025, after formal approval from member states. The EU reached a policy consensus in October 2022 and was ratified by the European Parliament in April 2023, thus becoming the first regulatory framework for crypto-assets in the world.

### Crypto Asset Service Providers covered under MiCA

- |   |  |
|---|--|
| <ul style="list-style-type: none"><li>• Custody</li><li>• Operation of a Trading Platform</li><li>• Exchange of crypto-assets for funds</li><li>• Exchange of crypto-assets for other crypto-assets</li><li>• Execution of orders on Behalf of 3<sup>rd</sup> Parties</li></ul> | <ul style="list-style-type: none"><li>• Placing</li><li>• Providing Transfer services on behalf of 3<sup>rd</sup> parties</li><li>• Reception and Transmission of Orders on behalf of 3<sup>rd</sup> parties</li><li>• Advice</li><li>• Portfolio Management</li></ul> |
|---|--|

### Broad Objectives of the Regulations

The regulation has been a result of forward thinking by the EU, taking the lead in the crypto regulation space. The main goals of EU with the MiCA regulations were and still are:

- Protecting the consumers that buy crypto assets or engage with crypto asset services.
- Shutting the arbitrage loopholes arising from regulatory provisions and allowing companies to operate EU-wide without the need for different licenses & supervisors in very member state.
- Creating an environment for legal certainty for companies and institutions to enter this space, lead with a clear rulebook for different services (token issuance, custody, exchange etc.), giving way to fair competition and innovation.
- Setting an example on how to regulate the VDA Ecosystem globally, doubling down on its ambition to affect innovation through an early and comprehensive policy framework.

## European Parliament approves MiCA

### Asset Categories and their Issuers cover under MiCA

- **Crypto Asset:** Digital representation of a value or a right, which may be transferred and stored electronically, using distributed ledger or similar technology
- **Utility Token:** Sub-type of crypto-assets “which is only intended to provide access to a good or a service supplied by its issuer”
- **Asset-referenced Token:** Token referenced/pegged to a basket of currencies, commodities, crypto-assets or other single non-fiat currency assets
- **E-money Token:** Token referencing its value to that of a single fiat currency

### Exclusion

- MiCA does not cover crypto-assets (or crypto-asset services) that are securities to prevent a duplication of frameworks since services around tokenized securities are covered by Market in Financial Instruments Directive (MiFID).
- Further, for the people who want to try securities trading and settlement on blockchains, the EU adopted a “DLT pilot regime” that officially came into effect in March 2023.
- MiCA does not cover deposits as defined in the EU Deposit Guarantee Schemes Directive.
- Finally, MiCA will only apply to NFTs (non-fungible tokens) if they have characteristics that make it similar to one of the assets that MiCA applies to, as mentioned in the table above.

### Licensing

#### *Crypto-Asset Service Providers:*

To become a CASP, a provider will have to obtain a license or “authorization”. Those who wish to provide crypto asset services must apply to the relevant competent authority. A licence is required for (i) persons located or established in the EU and (ii) persons established outside the EU, such as the UK and Switzerland, targeting clients in the EU. In a manner similar to other EU legislations, MiCA introduces passporting rights for CASPs (and issuers). A CASP licensed in one Member Country may passport its activities to other Member Countries, on a cross-border basis or via a physical branch, and approach clients in those Member Countries without additional authorisation requirements.

## European Parliament approves MiCA

### Licensing

#### *Crypto-Asset Issuers:*

Crypto-Asset Issuers (CAIs) are mandated to follow the below set of requirements before they can be offered to the public:

1. Draft white paper;
2. Publish and send to local authority;
3. Adhere to good conduct, *organization* and technical requirements.

The trading platform where the crypto-asset is offered is also mandated to ensure the *white paper* is published and disseminated further. Crypto-assets, which have been issued before the implementation of MiCA would be exempt from the obligations and requirements.

CAIs are, however, not required to wait for approval prior to launching a crypto-asset offer for the public. However, competent authorities hold the power to ask for any amendments to the *white paper* and marketing communication, as they deem fit. Moreover, they may request inclusion of additional information, wherever necessary.

### MiCA and the Global Policy Narrative

A study done by the American blockchain analysis firm Chainalysis, stated that about 22% of the global crypto industry was situated in the central, northern, and western parts of Europe, which received about USD 1.3 trillion worth of crypto-assets.

The European Union is a full member of the G20, alongside three of its Member States (France, Germany, and Italy) who are also permanent members, with Spain being a permanent invitee. India, as the current president of the G20 grouping, is urging a globally coordinated policy response to crypto assets, considering the full range of risks, including those specific to emerging markets and developing economies.

Given this, India has tasked several global standard setters such as IMF and FSB with preparing technical papers on regulating crypto assets. Given that the MiCA regulation are a great example of coming out with coordinated cross-border regulations, it can steer the discourse of global regulations and encourage other nations to adopt similar regulatory frameworks.

## Web3 in India

### Forensic Science Lab at New Delhi deploys Blockchain Solution

- On 27th January 2023, the New Delhi Government deployed Blockchain-based solutions for storing evidence and maintaining records at the Forensic Science Laboratory (FSL).
- The move is the first of its kind in the country, and will be extended to other States in the future provided that they upgrade the Crime and Criminal Tracking Network and System (CCTNS) to facilitate support for the technology.
- The FSL receives around 1,500 evidence samples daily. The inherent transparency and traceability provided by Blockchain makes it a perfect fit for managing these samples.
- The use of the technology is divided into 4 stages, starting with sample collection and ending with dispatch of the sample for storage.
- The immutability provided by Blockchain will ensure evidence is secure and records are reliable. The aim is to also increase productivity of investigators by streamlining the process.

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### Bengaluru-based Greenlakes introduces blockchain tech for farmlands

- Greenlakes, a Bengaluru-based prop-tech startup announced a pioneering blockchain-based solution for its flagship project 'Greenlakes Farmlands' in March
- It is the first Indian company to use blockchain solutions for farmlands. This solution claims to be a non-editable distributed ledger that gives users access to transparent, trusted and verified information about their land, particularly during the registration process.
- Users of this solution would be able to benefit from this technology from the initial registration process to the construction of their farmhouse and the farming activities on their land.
- For a landowner, blockchain in farmland means transparency in land ownership history spanning decades, secure, encumbrance-free property with clean title, ability to track farm assets from afar leading to accountability and traceability.

[Read more](#)

## Our Associates



Incorporated in	<b>2022</b>
Founder(s)	<b>Ashish Khandelwal, Swagat Sarma, Abhinav AV</b>
Industry	<b>DeFi</b>

ANQ is on a mission to create the next generation of financial services stack offerings across payment, lending, savings and investments. It aims to bridge the gap between CeFi and DeFi. Presently ANQ is live with X card in India which is India's first bounty card that enables users to earn digital assets (Digital Gold and many more) as rewards seamlessly on every day's transaction. ANQ also provides nQash which are INR Loans collateralised against digital assets to manage risk better. ANQ is led by a team of seasoned individuals who have built companies across geographies in the Fintech, Media, Blockchain space.



Incorporated in	<b>2019</b>
Founder(s)	<b>Aniket Jindal, Ahmed Al-Balaghi, Sachin Tomar</b>
Industry	<b>Infrastructure Platform</b>

Biconomy is a Web3 developer and transaction infrastructure platform that helps developers deliver effortless experiences to their end users. Blockchain interactions are still deeply complicated for a majority of users, and as pioneers of Account Abstraction (ERC-4337), Biconomy accelerates the mass adoption of Web3 through simple user journeys, achieved with a decentralised UX stack that gives developers powerful tools to remove UX complexities, onboard users, and scale their dApps. We launched a powerful and hyper-flexible SDK in 2022. This SDK lets developers easily plug, stack, and customise APIs and modules that offer massive benefits including one-click user journeys, transaction bundling, and control over gas fees. Integration with the SDK, which utilises our non-custodial, multi-chain and gas-efficient relay infrastructure network, takes only minutes. Biconomy paves the way for simple user journeys that help non-crypto natives onboard Web3 ecosystems.



## Simplifying The Web3 World

### Mining



Mining is the process used to generate new tokens and verify new transactions. People who undertake Mining are called Miners. It takes high computational power to mine coins.

The process is then verified through Proof of Work (PoW), which is a consensus mechanism through which the miner proves to verifiers that a specific amount of computational power needed to record new transactions on blockchain has been expended. After successful verification, transactions are added to the respective blockchain and the miner is rewarded with tokens, worth a predetermined amount.

Mining can be undertaken independently, in pools with shared resources and through the cloud using remote data centres which reduce hardware requirements of the process.

### Staking



Staking is a method of participating in a blockchain network where a user holds a certain amount of crypto-assets as collateral and is chosen to validate transactions in exchange for rewards. Staking does not involve mining, which is a process of adding new blocks to the blockchain by solving complex mathematical puzzles.

The staking process requires only an internet connection and the ability to run a staking node or delegate tokens to a staking pool. When a user stakes their tokens, they are temporarily locked up, making them illiquid for the staking duration during which the verification happens. This mechanism is called Proof of Stake (PoS). PoS serves the same purpose that PoW does in Mining with some key differences in that rewards are typically lower, and the process is considered more environment-friendly.

## Simplifying The Web3 World

### VDA Broker

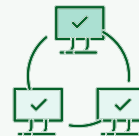


A VDA Broker is a platform or individual that executes trades on behalf of a client exchanges. In some cases, the broker is also the crypto exchange party, i.e. it owns the token the buyer wishes to purchase.

Brokers specialize in making things convenient for specific tokens that they already know how to trade with or those they already own.

Like traditional brokers, they charge a brokerage based on the amount of the transaction. This brokerage is usually higher than the amount charged if dealing with exchanges directly.

### VDA Exchange



A VDA exchange is a platform that facilitates trades between buyer and seller and enables clients to swap crypto-assets or other digital tokens for traditional fiat cash or other assets.

Exchanges can be broadly classified into 2 categories: Centralized and Decentralized

Centralized exchanges serve as middlemen between buyers and sellers and generate revenue through commissions and transaction fees.

Decentralized exchanges work via P2P networks, liquidity pools, or orderbooks without using a middleman.

# About Us

April '23

## Bharat Web3 Association

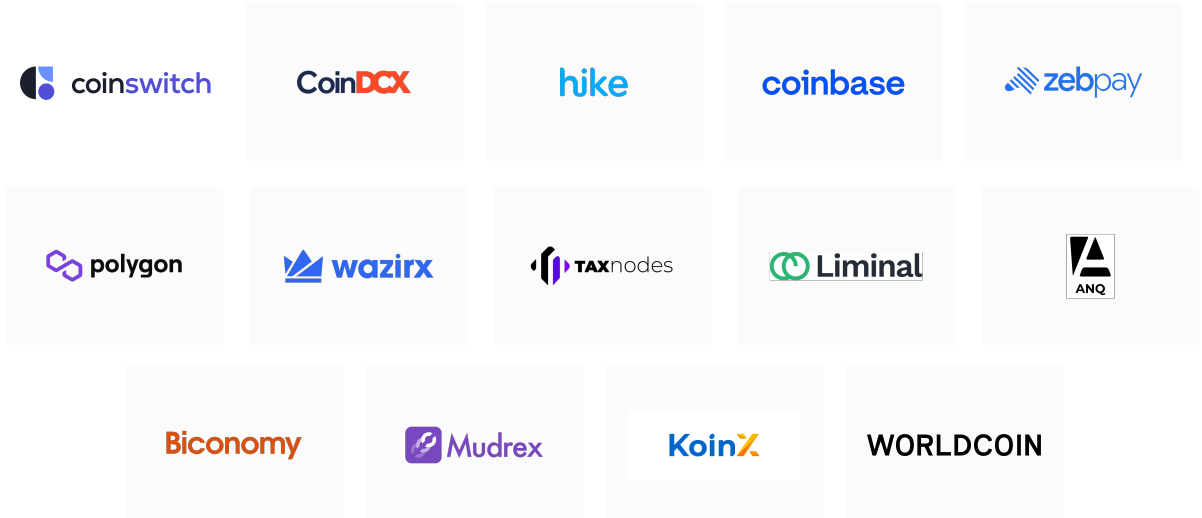
Bharat Web3 Association (BWA), is a platform that brings together leading Web3 players to enable and support the growth of India's Web3 ecosystem which includes Virtual Asset Service Providers (VASPs), Web3 Developers and infrastructure providers.

BWA believes that India has the potential to lead the world over the next decade by building a strong Web3 ecosystem in the country, in line with the government's "Make-in-India" and Digital India initiatives.



**BHARAT WEB3  
ASSOCIATION**

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### EDUCATE

Through Research To Keep Pace With Evolving  
Technology

### COLLABORATE

To Encourage Web3 And Blockchain Innovation And  
Nurture India's Talent Pool

### PROMOTE

Dialogue Between Key Stakeholders