Veront Solutions OÜ
Company number: 14993973
Registered address: Harju maakond, Tallinn,
Lasnamäe linnaosa, Väike-Paala tn 2,
11415, Estonia
Email: info@veront.com
(hereinafter also referred to as "The Company")

21th of September 2021

Estonian Financial Intelligence Unit (FIU)
Address: Tallinn, Pronksi 12, 10416
(hereinafter also referred to as "Authority")

Subject: Official inquiry regarding the use of fiat-pegged stablecoins as a medium of exchange on the platform of a virtual currency services provider

Dear representatives of the Estonian Financial Intelligence Unit (FIU),

Veront Solutions OÜ, company number: 14993973, has a license of Virtual currency services provider (license number: FVT000245), which was issued by the Estonian Police and Border Guard Board.

Information about Company's licence is available on the Authority official website: https://mtr.mkm.ee/taotluse_tulemus/541584?backurl=%40juriidiline_isik_show%3Fid%3D285628
Please note: The Company has no license on providing payment services in the sense of Estonian Payment Institutions and E-money Institutions Act.

The Company would like to ask your Authority about the use of fiat-pegged stablecoin(s) by the Company as a medium of exchange between the Company's clients and the Company itself for the purposes of selling fiat-pegged stablecoins to its clients, buying (redeeming) fiat-pegged stablecoins from its clients, and allowing the exchange of fiat-pegged stablecoins for other virtual assets (and vice versa) *(hereinafter also referred to as "fiat-pegged stablecoin activity")* in connection with virtual currency services – within the scope of permitted activities under The Company's license (license number: FVT000245):

- Providing services of exchanging a virtual currency against a fiat currency
- Providing a virtual currency wallet service
- Providing services of exchanging a virtual currency against a virtual currency

Legal framework and e-money test:
The Company has carried out a thorough analysis of the existing Estonian and European regulation in order to determine whether and/or to what extent its intended Purpose of using fiat-pegged stablecoins falls under the regulation of an activity for which it is required to obtain a licence different from the Company's existing licence (licence number: FVT000245).

The primary purpose was to clarify whether and/or to what extent the activity of selling and buying (redeeming of) fiat-pegged stablecoins (regardless of whether the issuer of the fiat-pegged stablecoin is the company itself or a third party) would be regulated by law as an e-money related activity under Section 6 of the Estonian Payment Institutions and E-money Institutions Act or by any other law:

1. In general, the term stablecoin, as used by market participants, including Company, denotes crypto-assets that are supposed to have a stable value over time.[1] Fiat-pegged stablecoins are then a subclass of stablecoins, referring to tokens whose main specificity is the 1:1 pegging of their value to the value of the government-issued currency (e.g. EUR).
2. Under Estonian law, fiat-pegged stablecoins meet the definition of virtual currency under Section 3(9) of the Estonian Money Laundering and Terrorist Financing Prevention Act. However, no specific regulation of fiat-pegged stablecoins exists at the level of the European Union in general or Estonia in particular (or, in general, any other type of virtual currency that would not be regulated at the current time - e.g. a security tokens, which are regulated under MiFID II). After all, the European Commission itself has stated that this type of stablecoins is not yet regulated. For more information, please see Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on Markets in Crypto-assets, and amending Directive (EU) 2019/1937 ((MiCA) proposal).
3. (MiCA) proposal is the only official source of information that points to how fiat-pegged stablecoins might be regulated in the future, but it does not provide any specific information that could be applied at this time, nor in the future, as the European Commission offers several ways of future regulation (there is no legal certainty at the moment). The company therefore drew on several expert studies focusing on the issue of fiat-pegged stablecoins in the context of European legislation and came to the following conclusions:
    a. Fiat-pegged stablecoins cannot meet the definition of e-money (under Section 6 of the Estonian Payment Institutions and E-money Institutions Act) if they do not cumulatively meet definition of e-money.
    b. In order to determine whether a fiat-pegged stablecoin meets the definition of e-money, it is necessary to perform the e-money test, based on the detailed criteria set out in the Table 1 below.[2]

Criteria number	**Criteria**
1	the asset is stored electronically
2	the asset is a representation of monetary value
3	the asset is issued on receipt of banknotes, coins, scriptural money or e-money (funds) meaning that the asset has a „prepaid“ nature and no credit facility is provided

[1] ECB Crypto-Assets Task Force, 2019, 14

[2] Sokolov, Mykyta, Are Libra, Tether, MakerDAO and Paxos Issuing E-Money? Analysis of 9 Stablecoin Types Under the EU and UK E-Money Frameworks (August 15, 2020). Available at SSRN: https://ssrn.com/abstract=3746250 or http://dx.doi.org/10.2139/ssrn.3746250

4	the issuance of the asset creates financial liabilities of the issuer towards the asset holder equal to the funds received in exchange for the asset
5	the asset is issued for the purpose of making payment transactions
6	interest or other benefits related to the length of holding are not paid on the asset by the issuer
7	the asset is accepted not only by the issuer and/or limited network services providers and vendors
8	the asset is not excluded under the electronic communications exclusion (ECE) under the EU Directive 2015/2366 in its article 3 „Exclusions“

Table 1 – e-money test criteria

4. All stablecoins, including fiat-pegged stablecoins, are stored electronically (criteria 1 of the Table 1) and there are no grounds to apply electronic communications exclusion under the criteria 8 of the Table 1, i.e. there are no grounds to exclude stablecoins under the electronic communications exclusion. In addition to criteria 1 and 8 of Table 1, it remains to evaluate all the other six criteria of the Table 1 and if at least one of these remaining six criteria is not met (i.e. where the answer is "No"), the stablecoin cannot be considered as e-money under Section 6 of the Estonian Payment Institutions and E-money Institutions Act, and the Company, if it sells and redeems the stablecoin (in this case fiat-pegged stablecoin) from its clients, including allowing the exchange of the fiat-pegged stablecoin for other virtual currencies on its platform, will not provide services related to the issuance of e-money.

Based on the above information, the Company plans to issue its own fiat-pegged stablecoin (hereinafter referred to as "Veront Stablecoin") in the future and to use it in the framwork of its "fiat-pegged stablecoin activity". The Company will first analyse the proposed Veront Stablecoin life cycle below and then set out the key characteristics of Veront Stablecoin, analysed in accordance with the criteria set out in Table 1, in order to conclude whether an e-money issuer licence will be required for fiat-pegged stablecoin activity using Veront Stablecoin.

Proposed life cycle of Veront Stablecoin:
1. Client of the Company who is provided with the Company's virtual currency services sends funds to an account shown by the Company (Company’s bank account).
2. The Company issues the corresponding amount of Veront Stablecoin to the Client based on the funds received by the Company.
3. Client uses Veront Stablecoin solely for the purpose of exchanging Veront Stablecoin for another virtual currency (or vice versa). Virtual currencies will be offered for sale/purchase by the Company.
4. If the Client wishes to exchange Veront Stablecoin for fiat currency, the Client approaches the Company, which purchases the relevant amount of Veront Stablecoin from the Client.

The key characteristics of Veront Stablecoin, analysed in accordance with the criteria set out in Table 1, are set out below:

- Criterion 1 - YES, Veront Stablecoin will be stored on virtual currency wallets that the Company will open and maintain for its clients.

- Criterion 2 - YES, Veront Stablecoin will be pegged 1:1 to one of the official FIAT currencies (EUR, USD, etc.). However, Veront Stablecoin will not be pegged to a basket of currencies or other assets.
- Criterion 3 - YES, Veront Stablecoin will be issued upon receipt of an equivalent amount of FIAT currency in a non-cash form.
- Criterion 4 - YES, the Veront Stablecoin issued will represent financial liability of the issuer towards the asset holder equal to the funds received in exchange for the asset (Veront Stablecoin)
- Criterion 5 - **NO**, Veront Stablecoin will not be issued for the purpose of making payment transactions. It will be intended to be exchanged for other virtual currencies (in other words: to purchase a limited amount of other virtual currencies) that the Company will have on offer at any given time. According to Section 4(1)(10) of the Estonian Payment Institutions and E-money Institutions Act: *The following services and transactions are not deemed to be payment services and the provisions of this Act shall not apply thereto: (...) services or transactions based on payment instruments that can be used (...) for the purchase of a limited range of goods or services;* (hereinafter also referred to as **„limited product range exclusion"**)
- Criterion 6 - YES, Veront Stablecoin will not allow any benefits or interest related to the period of time it is held by the client.
- Criterion 7 - **NO**, Veront Stablecoin will only be accepted by the Company (hereinafter also referred to as **„limited network exclusion"**).
- Criterion 8 - YES - the exemption does not apply.

Questions:

1. May the Company use Veront Stablecoin in fiat-pegged stablecoin activity with no need for the Company to obtain permission of an e-money issuer (e-money institution) or any other license issued by the Authority?
2. Does fiat-pegged stablecoin activity with the use of Veront Stablecoin fall under the scope of permitted activities under The Company's license (license number: FVT000245)?
3. Are the above conclusions of the Company consistent with the views of FIU? If not, can FIU indicate what circumstances, parameters or criteria the company should have taken into account?

The Company's conclusion:

The Company considers that the failure to meet all 8 criteria set out in Table 1 in relation to the fiat-pegged stablecoin in question is sufficient for the stablecoin in question not to be considered e-money. The Company plans to issue Veront Stablecoin, the characteristics of which are set forth in this inquiry and which does not meet all of the criteria of the e-money test, i.e., its issuance and use in fiat-pegged stablecoin activity will not be considered e-money issuing activity and the Company will not be required to obtain e-money institution license.

In a situation where a stablecoin is not considered to be e-money, the Company cannot be required to obtain a licence to engage in e-money issuance activities. The Company further believes that the above test has the potential to remain relevant in the future, when the manner of regulation of fiat-pegged stablecoins will become apparent. However, this is not the subject of the present enquiry, only a logical conclusion of the Company.

The company also sent an inquiry to the The Estonian Financial Supervisory Authority with the aim that the authorities would cooperate in answering the company's inquiries in order to consolidate their answers in order to preserve the legitimate expectations of the company.