



საქართველოს ეროვნული ბანკი  
National Bank of Georgia

# Legal Aspects of Digital Assets, Services, and Central Bank Digital Currency In Georgia

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# Short Overview of the Presentation Part I

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- ❑ National Bank of Georgia started working on regulating virtual assets service providers In early 2021 - What was the motivation, what difficulties did we face at the moment, and how have we overcome those difficulties?
- ❑ In 2022 September 9, the Parliament of Georgia enacted respective amendments to the Organic Law of Georgia “On The National Bank Of Georgia” – How did the mandate of the National Bank of Georgia expand in regard to the virtual assets service providers?
- ❑ the National Bank of Georgia enacted a decree on the registration and regulation of virtual assets service providers.
- ❑ The National Bank of Georgia revised its decree on travel rule regulation.
- ❑ What have we learned from this process and what could be changed in the future for regulating virtual assets service providers?

## Short Overview of the Presentation Part II

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- Why could the experience have gained from regulating virtual assets service providers important for the CBDC project?
- The National Bank of Georgia started a pilot regime for the Digital Gel project – what has been done so far?
- Legal Framework on issuing and functioning Digital GEL.
- What legislative changes shall be expected?

## Motivation, Difficulties and First Outcome of Draft Law

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- ❑ National Bank of Georgia started working on regulating virtual assets service providers in early 2021, while around the world were very few examples and practices on the matter.
- ❑ NBG was under the influence of MONEYVAL and International Organizations, thus the process of “learning by doing” has been started.
- ❑ Importance of recourses and reediness for making full-scale regulation on established business models.
- ❑ Amendments has been made into Organic Law of Georgia on National Bank of Georgia in 2022 September 9<sup>th</sup>, while amendments did not go into force before 1<sup>st</sup> January 2023.

# Mandate of National Bank of Georgia

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- ❑ National Bank of Georgia is entitled to supervise virtual assets service providers, which include registration of virtual assets service providers, countermanding the registration, establishing compliance requirements for administrators of virtual assets service providers and rules regarding prevention of the money laundering, establishing rules and requirements for travel rule purposes.
- ❑ Does this mandate cover all the areas and necessary powers of supervisors to fully supervise virtual assets service providers? Was it written in this regard on purpose?
- ❑ What was other clauses amended on Organic Law regarding the virtual assets service providers for the moment?
  - ❑ Virtual Asset does not represent lawful means of payment; thus, it shall be prohibited to use virtual asset for means of payment, other than exemptions determined by decree of National Bank of Georgia;
  - ❑ NFT was excluded from the scope of virtual assets.

# Decree of the National Bank of Georgia regarding registration of virtual assets service providers

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- ❑ **Established requirements for registration of Virtual Assets Service Providers, requested information includes:**
  - ❑ Information regarding ownership structure, shareholders, and beneficial owners of the Virtual Assets Service Provider;
  - ❑ Information regarding administrators of the Virtual Assets Service Providers;
  - ❑ Business Plan of the Virtual Assets Service Provider and information regarding the financial situation of the shareholders;
  - ❑ Technical information regarding activities of Virtual Assets Service Provider, such as ownership certificate of website, technical aspects of application used for services, etc.
  - ❑ Systematic explanation of services and technical assessments;
  - ❑ All the necessary policies and processes for providing Services.

# Travel Rule in Georgia and other requirements for virtual assets service providers

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- ❑ **Transfer of Virtual Asset shall include information regarding:**
  - ❑ Full name of transferee/receiver;
  - ❑ The accounting number of the transferee or receiver determined by the DLT system or by the system of the provider;
  - ❑ Address of transferee/receiver, including country and jurisdiction;
  - ❑ Identification number of the receiver/transferee.
- ❑ **Information shall be exchanged via channels chosen by providers, nevertheless, channels of exchange shall be in compliance with security requirements and personal data protection laws.**
- ❑ **Transactions received from or sent to the “cold wallet” and the volume of transaction exceeds 1000 USD, VASP is obliged to take all necessary steps to identify the real person standing behind the wallet.**
- ❑ **The obligations arising out of this decree will be in force by the end of year 2027.**

# Central Bank Digital Currency, the project of learning by doing

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- ❑ The National Bank of Georgia started working on CBDC in 2019 by researching the prospects of the project.
- ❑ Throughout this time NBG met many different potential technical partners, made a selection process with 10 top organizations, and chose one
- ❑ **Pilot Phase will include four use-cases (less complex to most complex one):**
  - ❑ Tap-in tap-out systems for assigning free coffee tokens for the employees – the purpose of this use case is to test general transactions and integration possibilities with external systems;
  - ❑ Collectible coins use case – the purpose of this use case is to test the creation of different types of tokens and interchangeable possibilities;
  - ❑ Real property transactions use case – the purpose of the use case is to test integration with other governmental entities and specific transactions storage/execution issues;
  - ❑ Governmental bond issuance use case – the purpose of the use case is to test more complex financial instruments and transactions.

# Everything looks good as an Idea, but what is the legal framework for doing this project?

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- According to the Organic Law of Georgia on the National Bank of Georgia, NBG does not have the right to issue Central Bank Digital Currency – in what capacity does the NBG act when considering making a project?
- NBG is entitled to test systems and projects of future use, while issuance is prohibited.
- Digital GEL throughout the pilot phase will not be issued by central banks and only will exist for the testing of the systematic framework.
- The pilot phase will be carried out in a restricted open system, which will have specific participants contractually obliged toward each other – contractual arrangement.
- NBG has already onboard banks and technical partners.
- Amendments shall be made to the Organic Law of Georgia, Civil Code, Civil Procedure Code of Georgia, etc.
- New law or rulebook shall be written for the Digital GEL.

# Conclusions and Observations

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- ❑ **What have we learned from the experience of regulating VASPs from the scratch?**
  - ❑ At the start of the project only writing prudent regulations or requirements is sometimes not sufficient. Central banks shall go out of their comfort zones and start learning by doing.
  - ❑ The regulator shall take into consideration recourse at hand while making regulations and requirements for the supervised entities.
  - ❑ Long-term goals could be not sufficiently reflected in legislation and that could create long-term issues.
- ❑ **What experience from VASP regulations could be observed and used for the lawyers and policy departments of CBs for the project of CBDC?**
  - ❑ CBDC is mostly a project of learning by doing, thus lawyers shall be included in all conversations and raise awareness in the legal community.
  - ❑ Long-term projects could be very near future, thus restricting Central Banks with very narrow mandates could potentially create long-term issues.
  - ❑ Sharing of standards, practices, and opinions (especially between lawyers from different countries) is importance.