



## GUIDELINES ON CREDIT TOKEN BUSINESS AND ISLAMIC CREDIT TOKEN BUSINESS IN LABUAN INTERNATIONAL BUSINESS AND FINANCIAL CENTRE

### 1.0 Introduction

- 1.1 Digital token<sup>1</sup> development is evolving with new technologies and innovations constantly emerging to shape the landscape. It is recognised that there has been a significant increase in the popularity of digital tokens, driven by the growth of financial technology. Consequently, ensuring the security, efficiency and intelligence of digital token ecosystem is pivotal for their continued innovation and adoption across diverse industries.
- 1.2 In Labuan International Business and Financial Centre (Labuan IBFC), a credit token licensee may issue a token under the credit token business in a digital or non-digital means. A token issued under the credit token business will be classified as a “non-securities token<sup>2</sup>” and is not prescribed as “securities” under Section 2 of the Labuan Financial Services and Securities Act 2010 (LFSSA) or Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA).
- 1.3 The issuance of a non-securities token shall not be for a purpose that is unlawful, immoral, or contrary to public policy in Malaysia and/or any countries where the credit token licensee intends to operate.
- 1.4 Credit token business<sup>3</sup> in Labuan IBFC is governed under Part VI of the LFSSA or LIFSSA. Nevertheless, this Guidelines should be read together with the requirements of the relevant Guidelines and Circulars including those listed in the **Appendix**.

<sup>1</sup> Include securities and non-securities token.

<sup>2</sup> Other than securities token as defined in the Guidelines on Labuan Services Token Offering.

<sup>3</sup> Including Islamic credit token business.

## 2.0 Legal Provision

- 2.1 An applicant is required to be licensed by Labuan FSA pursuant to Section 90 of the LFSSA and/or Section 65 of the LIFSSA.
- 2.2 The Guidelines is issued pursuant to Section 4A of the Labuan Financial Services Authority Act 1996 (LFSAA) to clarify the provisions of Part VI of the LFSSA and Part VI of the LIFSSA.
- 2.3 Any person who fails to comply with the Guidelines may be subject to enforcement actions which include a compound and/or an administrative penalty and/or other enforcement actions under Section 36B and Section 36G of the LFSAA.

## 3.0 Effective Date

- 3.1 The Guidelines shall come into effect immediately and would remain effective and applicable unless otherwise amended or revoked.
- 3.2 All approvals granted by Labuan FSA prior to the effective date of this Guidelines shall remain valid unless otherwise revoked.

## 4.0 Definition of Credit Token Business

- 4.1 Section 86 of the LFSSA or Section 60 of the LIFSSA defines “credit token business” and “Islamic credit token business” as any business where a token, being a cheque, card, voucher, stamps, booklet, coupon, form or other document or thing is given or issued to a person (referred to as “**customer**”), by the person carrying on the business (referred to as “**issuer**”), whereby such issuer undertakes that:
  - (i) on the production of the token, whether or not some other action is also required, the issuer will supply cash, goods or services on credit; or
  - (ii) where, on the production of the token to a third party, whether or not any other action is also required, the third-party supplies cash, goods or services, the issuer will pay the third party for them, whether or not deducting any discount or commission, in return for payment to be made thereafter to the issuer by the customer,

and for the purposes of this definition, the use of a token to operate a machine provided by the issuer or by a third party shall be regarded as the production of the token to the person providing the machine.

- 4.2 A non-securities token which is recorded digitally on a distributed ledger, either secured with cryptography or not, can be issued, listed, or traded on a digital platform.
- 4.3 A non-securities token shall have the following characteristics:
- (i) backed by asset that may be recognised by Labuan FSA, which can be either tangible or intangible, such as fiat currency, real-world assets like property or commodities, or other forms of value; and
  - (ii) gives the customer rights or privileges associated with the asset, such as right to use, or access a product or service, but not ownership of the asset.

## **5.0 Eligibility of Applicant**

The applicant for licence to carry on credit token business shall have the following:

- 5.1 minimum paid-up capital of RM1,000,000 or equivalent in any foreign currency and must always be maintained at all times and unimpaired by losses. Labuan FSA may also exercise its discretion to require additional capital to commensurate with the business operations of credit token business taking into account the risk profile as well as nature, scale, complexity and diversity of their business activities;
- 5.2 the applicant, directors, principal officer, controller, and any person who is primarily responsible for the operations or financial management shall be fit and proper persons;
- 5.3 possess expertise and has good track records in managing and/or trading in credit token business or digital asset's related activities, including sufficient number of years of experience<sup>4</sup>;
- 5.4 manage risks associated with their business and operation including demonstrating the processes and contingency arrangement in the event the issuers are unable to carry out their operations;
- 5.5 sufficient financial, human and other resources for their operation, at all times;
- 5.6 appropriate security arrangements which include maintaining a secured environment;

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<sup>4</sup> Typically, Labuan FSA would expect the applicant to have at least three years of experience in credit token business. Notwithstanding this, all applicants would be assessed holistically based on their own merits of the application.

- 5.7 credible and viable business plan that includes a clear and well-defined use case of the token and the approach to implement the proposed strategic business objectives or operations; and
- 5.8 a set of proper internal policies and controls that commensurate with the business profiles or risks including secure and scalable infrastructure of the token.

## **6.0 Appointment of Service Providers to Support the Issuance of Non-securities Token**

- 6.1 In order to facilitate the issuance, listing, trading, and safekeeping of non-securities token, the following are the service providers that may involve in the business transactions:
- (i) a person who operates a platform for issuing, distributing, and managing non-securities tokens (token issuance platform, for example, blockchain developer);
  - (ii) a person who operates a platform where non-securities token is traded and facilitates exchanging between the token and fiat currencies (trading platform, for example, digital exchanges); and
  - (iii) a person who facilitates transferring of token and safekeeping and/or administration of token using custodial wallet (custodian, for example, banks).
- 6.2 The credit token licensee shall conduct appropriate due diligence on the service providers listed in paragraph 6.1 prior to their appointment, ensuring their credibility and integrity. The level of due diligence shall be commensurate with the level of exposure of the service providers.
- 6.3 In addition, the credit token licensee shall ensure the appointed service providers have:
- (i) sufficient knowledge and experience in relevant fields including information technology, distributed ledger technology (DLT) and their underlying technologies; and
  - (ii) clear understanding of the issuer's business, allowing them to fulfil their responsibilities diligently and effectively.

## **7.0 Anti-Money Laundering and Counter Financing of Terrorism**

- 7.1 The credit token licensee shall ensure that the issuance and operations of the non-securities token, comply with the Anti-Money Laundering and Anti-Terrorism Financing Act 2001 and any relevant guidelines issued relating to Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT).
- 7.2 In this regard, the credit token licensee shall take appropriate measures to mitigate Money Laundering/Terrorism Financing (ML/TF) risks across the business ecosystem which may include the following:
- (i) take appropriate steps to identify, assess and understand the ML/TF risks;
  - (ii) develop policies, controls and procedures in relation to the conduct of customer due diligence and transaction monitoring, screening, reporting suspicious transactions and record keeping to manage and mitigate the ML/TF risks;
  - (iii) apply relevant AML/CFT requirements to person<sup>5</sup> that either purchase tokens from, or sell tokens back to, the issuer of those tokens; and
  - (iv) perform enhanced measures where higher ML/TF risks are identified, to effectively manage and mitigate those higher risks.

## **8.0 Internal Controls and Risk Management**

- 8.1 The credit token licensee shall establish and maintain adequate and effective internal policies and procedures, approved by the Board, for its operations, compliance, corporate governance and risk management that are appropriate to the nature, size, complexity, structure and diversity of its business which include but not limited to the following:
- (i) manage and mitigate any potential risks of buying and selling of a token; and
  - (ii) ensure purchasers understand the risks involved in the token transactions.
- 8.2 The credit token licensee shall ensure the policies and controls on technology related, especially information security, system resilience and business continuity management including IT governance, cybersecurity, online client on-boarding processes and systems are adequate.

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<sup>5</sup> Includes a corporation, partnership, a body of persons, corporate or unincorporated and a corporation sole.

- 8.3 In addition, the credit token licensee and counterparties of the credit token business operations including but not limited to the appointed service providers in paragraph 6.1, shall have adequate cyber risk management policy in relation to issuance of non-securities token which include but not limited to the following:
- (i) occurrence and severity of cyber breaches including the maximum service downtime, recovery time objectives, contingency measures, etc.;
  - (ii) measures to manage cyber risk encompassing prevention, detection, and recovery from a cyber breach;
  - (iii) roles and responsibilities of key personnel and functions involved in cyber risk management; and
  - (iv) processes and procedures for the management response to cyber breach risk events (e.g. assessment, decision-making rectification, communication to stakeholders).

However, the credit token licensee shall ensure the use of any technologies fosters innovation by enabling secure, efficient, and intelligent non-securities token ecosystems.

- 8.4 Have a robust Know-Your-Customer (KYC) including electronic-KYC framework which consist of proper customer due diligence and enhance due diligence processes for onboarding clients and for transactional activities.
- 8.5 The internal policies and procedures which include security as well as technology related arrangements need to be regularly reviewed to ensure that they remain appropriate, relevant, and prudent.

## **9.0 Market Conduct**

The credit token licensee and its appointed service providers shall:

- 9.1 conduct its business with due skill, care, diligence and sound principles, safeguarding market integrity which is an essential prerequisite for an efficient, transparent and integrated financial market;
- 9.2 ensure proper policies and procedures are in place to ensure a sound compliance framework which safeguards clients' interests;
- 9.3 communicate with its clients in a fair, clear and not misleading manner;
- 9.4 establish the policies and procedures to manage issues of conflict of interest including potential conflicts of interest, effectively and efficiently;

- 9.5 have arrangements and mechanisms in place for the protection of client's monies and ensure that the client's monies are kept segregated from the credit token licensee's monies or assets;
- 9.6 have effective administration arrangements;
- 9.7 establish and maintain transparent procedures for the prompt, fair and consistent handling of complaints received from clients and shall publish descriptions of those procedures;
- 9.8 maintain all its systems and security access protocols to appropriate international standards; and be considered as a subject person; and
- 9.9 co-operate with the Labuan FSA in an open and honest manner and shall provide the Authority with any information it may require.

## **10.0 Information Package for Token Holders**

- 10.1 Credit token licensee is required to create and provide documents that are clear and easy to understand. These documents should include essential information about the company, details regarding the operations of the token, potential risks involved, the rights of token holders, and specific characteristics of the token itself. Examples of such documents include whitepapers and marketing materials which must be made available to the client/customer to enable them to make an informed assessment before purchasing the non-securities token.
- 10.2 The minimum information that needs to be disclosed in the documents are as follows:
  - (i) general information and company background of the issuer i.e. credit token licensee;
  - (ii) operations of the token including creation, distribution, management, and usage within its ecosystem and the underlying technology such as the blockchain infrastructure and protocols that support these operations;
  - (iii) risks arising from purchasing or use of the token and any other potential risks attached with the token;
  - (iv) rights and obligations attached or related to the token including redemption etc;
  - (v) key features of the token issued including the rights or privileges associated with the asset backed by the token as well as terms and conditions of the token; and

- (vi) a statement containing the following:

*“Labuan FSA takes no responsibility for the contents of this document, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon any part of the contents of this document.*

*A client/customer is advised to clearly understand the risk(s) of the token issued, seek professional consultancy, if necessary and request for sufficient information to enable them to make a reasonable evaluation of the token issuance.”*

- 10.3 Credit token licensee must ensure that all information provided to the client/customer is true and accurate and shall not contain any information or statement that is false or misleading or from which there is a material omission.

## **11.0 Operational Requirements**

The credit token licensee shall:

- 11.1 Ensure that the person in control, directors and principal officer meet the fit and proper person requirements as specified in the Guidelines on Fit and Proper Requirements issued by Labuan FSA. It is expected that the employees are competent and possess sound knowledge of the services offered.
- 11.2 Ensure that the counterparties including but not limited to the service providers in paragraph 6.1, are regulated by a recognised supervisory or regulatory authority and have good track record, where applicable.
- 11.3 Maintain an operational office in Labuan. The operational office should be used for business purposes only and must be appropriately furnished with office equipment.
- 11.4 Maintain adequate and proper records and books of accounts in Labuan that will sufficiently explain its transaction and financial position as required by the Directive on Accounts and Record-keeping Requirement for Labuan Entities issued by Labuan FSA. Its name and company number must be clearly indicated on its letterhead, stationery, and other documents.
- 11.5 Appoint a Labuan approved auditor to carry out an annual audit of its accounts in respect of the business operations pursuant to LFSSA and LIFSSA that is fit and proper.



- 11.6 Obtain prior approval from Labuan FSA on the following matters:
- (i) change of business plan including the addition of new or additional issuance of non-securities token;
  - (ii) change of ten per centum (10%) or more of the shareholding<sup>6</sup>;
  - (iii) appointment of its directors and principal officer;
  - (iv) reduction of paid-up capital which shall not be lower than the minimum paid-up capital required in paragraph 5.1;
  - (v) establishment of additional office; or
  - (vi) change of name.
- 11.7 Notify Labuan FSA within 7 days pertaining to the following matters:
- (i) change of bank account where the paid-up capital has been deposited;
  - (ii) resignation of directors or principal officer;
  - (iii) change of place of business or office in or outside of Labuan;
  - (iv) change to its constituent documents;
  - (v) significant event that affects its going concern or reputation;
  - (vi) change of its financial year end; or
  - (vii) change of the counterparties of the business operations including the appointed service providers in paragraph 6.1.
- 11.8 Comply with applicable laws, rules and regulations relevant to the credit token business activity, including relevant guidelines issued by Labuan FSA, regulatory requirements of the jurisdictions where the Labuan credit token licensee is authorised to operate in as well as the Malaysian Foreign Exchange Administration rules, where applicable, at all times. In this regard, the Labuan credit token licensee is expected to obtain the necessary approvals from the authorities in the markets it intends to operate in including promotional activities prior to commencing its business in those respective markets and shall provide a copy of the said approval to Labuan FSA, where relevant.

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<sup>6</sup> For branch set-ups, only notification to Labuan FSA is required for the change of shareholding structure and appointment of its board of directors.

11.9 Notwithstanding the above, Labuan FSA may impose any additional operational requirements depending on the riskiness level of the credit token business on a case-by-case basis.

## **12.0 Reporting Requirement**

Labuan credit token licensees are required to submit to Labuan FSA the following:

- 12.1 audited financial statements via COR@L, through its respective appointed resident secretary or trust company, within six (6) months after the closure of each financial year; and
- 12.2 statistics and information as Labuan FSA may require from time to time.

## **13.0 Islamic Credit Token Business**

- 13.1 Labuan credit token licensee that undertakes Islamic credit token business shall appoint Shariah adviser(s) pursuant to Directive on Islamic Financial Business in Labuan IBFC and Shariah Pronouncement on Labuan Islamic Digital-Based Solution by the Shariah Supervisory Council of Labuan FSA.
- 13.2 The issuance of any Islamic non-securities token shall be approved and endorsed by a Shariah adviser(s) to ensure compliance with Shariah principles on its documentation (including smart contract), structuring, transaction as well as other administrative and operational matters.
- 13.3 The criteria for Islamic credit token business are multifaceted and must adhere to specific guidelines to ensure compliance with Shariah principles, as outlined below:
  - (i) it must be in existence at the time of buy and small transactions;
  - (ii) it is valuable, identifiable and permissible in accordance to Shariah point of view;
  - (iii) the transaction must be on spot basis and absolute;
  - (iv) if the underlying asset comprises Ribawi items namely gold and silver, it shall abide by the trading of Ribawi items and requirements; and
  - (v) any other assets approved by the Shariah adviser as underlying assets for the non-securities token issuance.
- 13.4 The Islamic credit token licensee must ensure that any utilisation of the non-securities token, including the proceeds from its issuance, must be for Shariah-compliant purposes only.

- 13.5 The digital platform used to issue Shariah-compliant non-securities token must ensure its facilities and features to issue the token is done in a Shariah compliant manner.
- 13.6 The Listing of Shariah Adviser in Labuan IBFC is available on Labuan FSA's website for any person who are seeking Shariah advisory services for their Islamic businesses.
- 13.7 The Islamic credit token licensee shall conduct a Shariah audit to ensure the business and operations are in compliance with Shariah principles.

#### **14.0 Environmental, Social and Governance (ESG) Non-securities Token**

- 14.1 The significance of ESG analysis in investment procedures is growing. A thorough comprehension of the businesses a company invests in is a key motivator for investment experts to examine ESG factors within their financial evaluations. In addition, ESG investing allows companies to pursue ethical business.
- 14.2 The credit token licensee may issue ESG non-securities token which has potential in enhancing data transparency by tracing its source and verifying its legitimacy and reliability. Acting as a financial tool, a non-securities token can encapsulate both value and data on the blockchain, enabling them to be efficiently and transparently transferred or traded almost instantaneously.
- 14.3 The credit token licensee seeking to issue ESG non-securities token must ensure alignment with Labuan International Business Financial Centre Sustainability Taxonomy (LiST) or other recognised international standards for ESG frameworks.

#### **15.0 Annual Fee**

- 15.1 The annual fee payable is as specified under the *Labuan Financial Services and Securities (Amendment) Regulations 2022*.
- 15.2 The subsequent payment of annual licence fee is payable by 15 January of each year.

## 16.0 Application Requirements

- 16.1 Submit a duly completed application form with the relevant supporting documents as stipulated in the *Form LFB-OFB and LFB-OFB/1 - Application for Licence to Carry on Other Labuan Financial Business*, downloadable at [www.labuanfsa.gov.my](http://www.labuanfsa.gov.my) under the category of “licence application form” together with a processing fee of USD350. The applicant may also opt for fast-track processing with additional fee<sup>7</sup>.
- 16.2 Labuan FSA may require from the applicant such other information or documents for the purpose of determining the merits of the application.

## 17.0 Submission of Application and Enquiries

- 17.1 The application can be submitted to:

Head of Authorisation and Licensing Unit  
Labuan Financial Services Authority  
17th Floor, Main Office Tower  
Financial Park Complex, Jalan Merdeka  
87000 Federal Territory of Labuan, Malaysia

- 17.2 Any enquiries or clarification may be directed to the following contact details:

Telephone no. : 03-8873 2000  
E-mail : [bpu@labuanfsa.gov.my](mailto:bpu@labuanfsa.gov.my) (Guidelines)  
[bplicensing@labuanfsa.gov.my](mailto:bplicensing@labuanfsa.gov.my) (Application)

**Labuan Financial Services Authority**

*7 February 2025*

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<sup>7</sup> Subject to the Authority's acceptance of fast-track application.

**List of Relevant Guidelines and Circulars**

The following is the list of Guidelines/Directives/Circulars applicable to Labuan Credit Token Business (including Islamic):

1. Guidelines on Market Conduct for Labuan Digital Financial Intermediaries
2. Guidelines on Technology Management
3. Guidelines on Digital Governance Framework
4. Guidelines on Fit and Proper Person Requirements
5. Directive on Financial Reporting Standards for Labuan Financial Institutions
6. Circular on Financial Reporting Standards for Labuan Financial Institutions
7. Directive on Accounts and Record-Keeping Requirements for Labuan Entities
8. Circular on Submission of Audited Financial Statements by Labuan Entities through Cor@L
9. Circular on Submission of Compliance Report and Anti-Money Laundering Counter Financing of Terrorism (AML/CFT) Independent Audit Report to Labuan FSA
10. Directive on Islamic Financial Business in Labuan IBFC
11. Guidelines on the Establishment of Labuan Marketing Office
12. Shariah Pronouncement on Labuan Islamic Digital-Based Solution by the Shariah Supervisory Council of Labuan FSA
13. Labuan International Business Financial Centre Sustainability Taxonomy (LiST)
14. Guidelines on Travel Rule for Labuan Digital Financial Services

*Note: The above list is not exhaustive and may be amended from time to time.*