

**The Chairman of the Authority's Board of Directors' Decision
No. (.../Chairman) of 2024 Concerning the Regulation as to
Security Tokens and Commodity Tokens Contracts**

**The Chairman of the Securities and Commodities Authority'
Board of Directors,**

Having perused Federal Law No. (4) of 2000 Concerning the UAE
Securities and Commodities Authority and Market, as amended.

Has decided:

Chapter 1: General Provisions

Preamble

Distributed Ledger Technology is one of the most prominent technological innovations that redefined the concepts of issuance, trading, and investment in financial markets. Among its most significant applications is the emergence of Security Tokens and Commodity Tokens, representing a qualitative shift in how securities and commodity contracts are issued and traded. These tokens combine the traditional aspects of securities and commodity contracts with the

power of technology to provide more flexible and efficient tools for investors.

Security tokens are digital assets created using Distributed Ledger Technology to represent financial rights or tangible assets. Examples include:

Equity Tokens: Represent ownership rights in specific companies.

Bond Tokens: Represent debts that investors can trade as digital tokens.

Commodity Tokens: A type of digital assets that are based on the value of physical commodities such as gold, oil, metals, or agricultural products. These tokens are used to facilitate the trading of commodities on digital platforms while reducing the costs and risks associated with traditional trading. Examples include:

Gold Tokens: Each token represents a specific quantity of gold stored in certified vaults.

Oil Tokens: Provide investors with the opportunity to invest in oil without dealing with logistical constraints.

Accordingly, this system cannot be read in isolation from and other related legislation in the country, to the extent applicable to the

obligor, ensuring they are fully aware of all aspects of the issuance process and in compliance with this regulation.

Definitions

Article (1)

First: The following words and phrases shall have the meanings assigned thereto unless the context indicates otherwise:

- State** : The United Arab Emirates.
- Law** : Federal Law No. (4) of 2000 concerning the UAE Securities and Commodities Authority and Market, as amended.
- Authority** : The Securities and Commodities Authority.
- Market** : The securities and commodities market licensed by the Authority.
- Alternative Trading System** : Multilateral Trading Facility (MTF) or Organized Trading Facility (OTF) licensed by the Authority.
- Securities** : As defined in the Authority's Law.
- Commodities** : As defined in the Authority's Law.
- Security Token** : A security based on a distributed ledger.
- Commodity Token Contracts** : A commodity contract based on a distributed ledger.

- Distributed Ledger Technology** : A technology that enables the operation and use of distributed ledgers.
- Distributed Ledger** : An information repository that holds records of transactions and is shared and synchronized across a set of distributed ledger network nodes and by using a consensus mechanism.
- Consensus Mechanism** : The rules and procedures under which agreement is reached among Distributed Ledger Technology network nodes regarding the validity of a transaction.
- Obligor** : A person who is legally obligated towards another person.
- Registration Agreement** : An agreement whose details, including terms of issuance, ownership, and transfer, are recorded in a distributed ledger through a process that uses cryptography, algorithms, and consensus mechanisms.

Second: Words and phrases not defined in this regulation shall have the meanings assigned to them in the law, regulations and decisions of the Authority.

General Provisions

Article (2)

- 1) The offering, issuance, promotion and registration of the security token and commodity token contracts in the State shall be subject to the applicable regulations and decisions of the Authority relating to the relevant securities and commodity contracts in addition to this regulation.
- 2) The Authority may issue such directives as it deems appropriate from time to time in relation to the provisions and application of this regulation.

Article (3)

Scope of Application

The provisions of this regulation shall apply to security token and commodity token contracts issued from or in the State, without prejudice to the applicable regulations and decisions of the Authority relating to securities and related commodity contracts.

Chapter 2: Security Token and Commodity Token Contracts

Article (4)

Origin

- 1) The security token and commodity token contracts are a right under an agreement **between two parties** that is:
 - A. Recorded in the distributed ledger in accordance with Clause 2 of this Article.
 - B. May be exercised, traded and transferred to others only through the distributed ledger.
- 2) The distributed ledger for security tokens and commodity tokens contracts must meet the following requirements:
 - A. Distributed ledger technology is used to give creditors, not the obligor, the power to dispose of its rights.
 - B. Its integrity is ensured by adequate technical and organizational measures, such as joint management by multiple independent participants, to protect it from unauthorized modification.
 - C. The content of the rights, the operation of the ledger and the registration agreement are recorded in the distributed ledger or in association with the accompanying data.
 - D. Creditors can view relevant information and ledger entries, and verify the integrity and accuracy of its contents relating to them without third-party interference.

- 3) The Obligor shall ensure that no security token and commodity token contracts are issued short or with a debit balance or that security token and commodity token contracts are created or deleted improperly.
- 4) The Obligor shall ensure that the security token and commodity token derivative contracts are regulated in accordance with their intended purpose and in particular that the distributed ledger operates in accordance with the registration agreement at all times.

Article (5)

Effect of Origin

- 1) The obligor under the security token and commodity token contracts shall have the right and is obligated to perform only against the (creditors) shown in the distributed ledger.
- 2) The obligor shall be exempted from fulfilling the performance towards (creditors) once the performance is fulfilled on the maturity date shown in the distributed ledger. In this case, the obligor is discharged from any obligations towards (creditors) even if they are not the real beneficiaries, unless the obligor is guilty of gross negligence and/or commits intentional harm.

- 3) When the security token and commodity token contracts are owned by the (creditors) shown in the distributed ledger, the owner is protected even if the seller does not have the right to dispose of those token instruments, unless the owner acts in bad faith or with gross negligence.
- 4) The obligor may object to a claim derived from security token or commodity token contracts only if the objections:
 - A. Aim at challenging the validity of the registration or the origin of the security token or commodity token contract itself or the data accompanying thereto;
 - B. The person has the right to personally object to the existing creditor of the security token or commodity token contracts; and
 - C. Are based on direct relationships between the obligor and the previous creditor of the security token or commodity token contracts, if the current creditor intentionally harmed the obligor when holding those tokens.

Article (6)

Transfer

1. Subject to the provisions of Federal-Decree Law No. (31) of 2024 Regarding Netting, the transfer of a security token or commodity token derivative contracts shall be subject to the provisions of the registration agreement.
2. Without prejudice to the provisions of the applicable Bankruptcy Law, if the creditor of the security token or commodity token derivative contracts is declared bankrupt, if its property is seized or if the restructuring of its debts is stopped, the decisions of the creditor with respect to the security token or commodity token derivative contracts are legally binding and effective towards third parties if:
 - A. They are submitted in advance;
 - B. They become irrevocable under the rules of the distributed ledger or any other trading facility; and
 - C. They are actually recorded in the securities ledger within 24 hours.
3. When the owner of a security or commodity contract and the owner of a security token or commodity token contracts are in good faith and there is a conflicting claim for the same right, the former has precedence over the latter.

Article (7)

Pledge

1. A private pledge of a security token or commodity token contracts is subject to:
 - A. The provisions of pledges that apply to securities and commodity contracts.
2. Without limiting the requirements of Clause (1), a pledge may be made without transfer of a Security Token or Commodity Token Contract provided that:
 - A. The pledge is visible on its Distributed Ledger.
 - B. It is ensured that it may only be disposed of by the pledgee.

Article (8)

Cancellation

The beneficiary of a security token or commodity token contracts may request the court to cancel the token instrument, provided that he submits reliable evidence on his principal authority to dispose and its loss. After cancelling the instrument, the beneficiary may exercise his right out of the distributed ledger or request the obligor to allocate a new token instrument at his own expense.

Article (9)

Information & Responsibility

1. The obligor, pursuant to a security token contract, commodity token contracts or any right so provided, shall inform every owner of the following:
 - A. The content of the security token and the commodity token contracts.
 - B. The working method of the distributed ledger of the security token and the commodity token contracts and the measures taken according to Clauses (2 & 3) of Article (4) for protecting the validity and integrity of the distributed ledger operation.
 - C. The technology details or the computer software requirements that the investors should manage and/ or operate in order to exercise their rights.
 - D. Details of all essential risks related to investment as a result of the technology adopted by the issuer.
 - E. Details of any disaster recovery cases and/ or backup and/ or applicable security/ guarantee arrangements in the event of failure occurrence or confirmation in the absence of such arrangements.

- F. Explanation of the responsibility and distribution of risks between the obligor and the service provider for matters related to the computer program, as well as disclosing the risks related to any malfunction or potential termination of the relationship between the issuing person and the service provider.
2. The obligor shall be responsible for damage incurred by the owner as a result of inaccurate or misleading information or information that violates the legal requirements, unless if the obligor can prove that he acted with due diligence.
 3. The agreements that limit or excludes this responsibility shall be void.

Article (10)

Applicable Technical Standards

The standards stipulated in this Article shall apply to any technology related to the security token or the commodity token contracts.

1. The best international standards shall be met concerning the applied technology, including the cyber security, data protection, software development and supervision, encryption, regular internal and external testing, and implementation of required updates.

2. Taking cyber security measures and notifying the Authority of any significant cyber security breaches, data loss or other events when damage is caused to its technology.
3. The technology shall be supervised by employees with adequate skills and experience to ensure compliance.
4. Directives issued by the Authority in accordance with Article (2) of this Regulation from time to time concerning the applicable technical standards.

Article (11)

Trading & Settlement

1- The security token and the commodity token contracts may only be traded and settled through the market or the alternative trading system.

2- Notwithstanding the provisions of paragraph (1) above, the trading and settlement of bonds and sukuk tokens may be conducted over-the-counter (OTC).

Chapter 3

Control, Inspection & Penalties

Article (12)

1) The Authority may take all necessary procedures to supervise, control, and inspect, periodically or suddenly, the obligor, the parties to the offering process, and the licensees, with the aim of ensuring their compliance with this Regulation, the decisions and directives issued in implementation hereof and the applicable legislations, and to investigate any violates detected through inspection or included in the complaints filed before the Authority.

2) The Authority may access and inspect the computer systems, computer data, computer data movement, or equipment in which the data of the obligor, the parties to the offering, and the licensee are stored.

Article (13)

Request of Information and Data

The Authority may request all information, data, documents, and any additional clarifications, information, data, or documents - it deems necessary for the purposes of control and investigation - from the obligor, the parties to the offering process, the licensees, their employees, members, and clients.

Article (14)

Complaints and Grievances

The Authority shall be competent to receive complaints and grievances related to the provisions of this regulation in accordance with the controls and decisions issued thereby in this regard.

Article (15)

Administrative Measures

In the event of a violation of the provisions of this Regulation, the Authority may take any of the following administrative measures:

- 1) Suspend the offering, issuance, subscription or registration processes.
- 2) Cancel investors' subscriptions and oblige the relevant authorities to return the amounts paid by subscribers and the revenues resulting therefrom.

Article (16)

Penalties

- 1) Without prejudice to any more severe penalty stipulated by the law, the Companies Law, or the regulations or the decisions issued pursuant thereto, the Authority may, in the event of a violation of the provisions of this regulation, the law, or the decisions, controls or

circulars issued pursuant thereto, impose any of the following penalties:

2) Without prejudice to any more severe penalty stipulated by the Law, the Companies Law, the regulation or the decisions issued pursuant thereto, the Authority may, in the event that members of the Board of Directors, the Chief Executive Officer, or the authorized employees of the licensees violate the provisions of this regulation, the law, the regulations, the decisions, or the circulars issued pursuant thereto, impose any of the following penalties:

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Article (17)

Publishing Names of Violators

The Authority may publish the names of violators of the provisions of this regulation or the decisions, controls, or circulars issued pursuant thereto, and the violations, penalties and administrative measures issued against them in accordance with the mechanism it decides.

Chapter 4: Final Provisions

Article (18)

This Decision shall be published in the Official Gazette and shall come into effect after (30) days from the date of its publication.