

**Administrative Decision no. (11) of 2021 concerning Guidance for Crypto
Asset Regulations**

The Chief Executive Officer of the Securities and Commodities Authority,

Having perused;

The Authority's Board of Directors' Decision No. 23/Chairman of 2020 concerning
Crypto Assets Activities Regulation;

And as required by the public interest;

**Article (1)
Guidance Approval**

The governance notes attached to this decision shall be approved.

**Article (2)
Decision Publication and Application**

The present decision shall be applied from the date of its publication.

**Dr Obaid Saif Al-Zaabi
Chief Executive Officer**

Issued in Abu Dhabi on 17/03/2021 A.D.



هيئة الأوراق المالية والسلع
SECURITIES & COMMODITIES AUTHORITY



CRYPTO ASSET REGULATIONS EXPLANATORY GUIDE

March 2021



1. APPLICATION

- 1.1 The Regulation applies to most forms of Crypto Assets whether Securities or otherwise, which are listed and available for trading on an organised market. The Regulation is not intended to capture items regulated by the UAE Central Bank, which, as of the date of this guide apply to stored value facilities and "Payment Token" (which broadly captures stable-coins/tokens backed by fiat currency).
- 1.2 Limited disclosure based requirements will apply to Crypto Assets offered or promoted in the UAE, which are not Securities and are not listed and available for trading on an organised market. Such disclosures are designed to explain the risks to investors and illiquidity of the Crypto Asset (essentially that such items should not be treated as "investments" where any form of return should be expected). These disclosure requirements would not apply to "Loyalty Schemes" and "Specific Use Credits" – i.e. items issued in the ordinary course of administering a customer loyalty arrangement, or through "in-game" credits for example.
- 1.3 A flow-chart of the application of the Regulation to different Crypto Assets is set out in Section 5 below.
- 1.4 The SCA has not at this time chosen to characterise Crypto Assets by way of their intended use (such as distinguishing a genuine utility feature from the nature of an investment) to drive regulatory approach. In the SCA's view, this could unduly class a Crypto Asset which is in fact traded as an investment as a non-regulated instrument, due to a subjective judgment of the likely intent of such item. However, such an approach may be considered in the future, depending on how the market develops.
- 1.5 This Regulation applies generally to SCA regulated: "Financial Activities" in respect of Crypto Assets in the UAE and would include:
 - 1.5.1 *Promotion and marketing, issuance and distribution, advice, brokerage, custody and safekeeping, fundraising, operating an exchange.*
- 1.6 A further breakdown of activities and the regulatory approach is set out in Section 6 below.
- 1.7 Whilst existing securities rules of the SCA will apply to certain Crypto Assets, where available on an organised market, this Regulation is not intended to impose ongoing responsibilities on issuers of Crypto Assets which are not otherwise treated as Securities, unless such person has sought approval of the Authority for such Crypto Assets to be listed on an exchange.
- 1.8 Where a Crypto Asset is to be listed on a regulated Crypto Asset Exchange, the SCA's approval would be needed other than for listing Crypto Assets on exchanges permitted to operate only for Qualified Investors.
- 1.9 Defined terms used in this guide are the same as those set out in the Regulation.



2. **APPROACH TO SECURITY DESIGNATION AND UNDERLYING REGULATIONS**

- 2.1 As is the case in most jurisdictions, when a Crypto Asset is considered a Security, existing regulations of the SCA related to such security will apply. There will be a broad and substantive assessment as to whether a Crypto Asset is a Security and market participants should expect most items with a contractual right against an "issuer" entity (or a pool of assets) will be considered a Security of a particular form. The SCA is open to engaging with participants to identify the right type of Security rules to apply, having satisfied the broad substantive test of whether the items should be a Security.
- 2.2 Once a specific Security is identified as applicable to the Crypto Asset, existing investor rights and protections under applicable SCA regulations are not reduced (noting the capacity of the SCA to grant the various exemptions from its regulations in certain circumstances). However, the Regulation adds additional protections specific to the nature of Crypto Asset Securities compared to traditional equivalents and it also sets out how existing regulations of the SCA may be applied differently in certain circumstances. Investor disclosure will be required to understand any Security designation and how their rights may be different to the usual rules applicable to that Security in respect of the relevant Crypto Asset.
- 2.3 Where a Crypto Asset is not considered a Security, SCA regulations will only apply in specific circumstances. Principally, this will be where the Crypto Asset (i) is available for exchange on an organised market and promoted or the subject of financial activities in the UAE, and not on a purely transferred peer to peer basis and (ii) is not otherwise regulated by the UAE Central Bank (i.e. falling within "Regulated Commodity Tokens" and not excluded by the Regulation).

3. **CRYPTO ASSET SPECIFIC RULES**

- 3.1 Additional requirements specific to Crypto Assets covered in the Regulation include:
 - 3.1.1 Minimum disclosure standards applicable to Crypto Assets to ensure risks are fully identified to investors. This includes a standard disclosure obligation in respect of all Regulated Commodity Tokens marketed or sold to investors in the UAE setting out that investors should, amongst other things, be willing to lose their entire investment.
 - 3.1.2 Technology governance and security standards applied in respect of the Crypto Assets are set out and intended to align with internationally accepted standards – following a principles based approach. The SCA has not identified specific types of approach to technology but, for instance, will require that all features marketed to investors in respect of relevant Crypto Assets must be well defined and incorporated into the operation of the relevant software underpinning the operation of the Crypto Assets.



- 3.1.3 Specific obligations for custodians and fund-raising platforms. These types of providers are considered to raise unique concerns in respect of Crypto Assets and require a specific approval from the SCA for their operations in the UAE.
- 3.1.4 Crypto exchange rules must build on existing regulatory requirements for securities and commodity exchanges approved by the SCA (covering common processes such as market oversight and effective non-discretionary trading rules) and reflect measures to cover the risks specific to operating an exchange for Crypto-Assets. This includes matters such as custody and settlement arrangements, member / participant rules, Crypto Asset segregation and security standards. Additional rules are provided for these matters in Chapter 6 of the Regulation.
- 3.1.5 Financial crime controls, including AML protections and market abuse, are critical features of emerging Crypto Asset business requirements, along with the incorporation of additional FATF standards which have been issued in respect of Virtual Assets and Virtual Asset Service Providers (as defined in FATF standards) in applying AML rules to such market participants. The regulations focus on this area and provide for enhancements as global standards develop.

4. OUTLINE OF THE RULES

4.1 The Regulation is set out as follows:

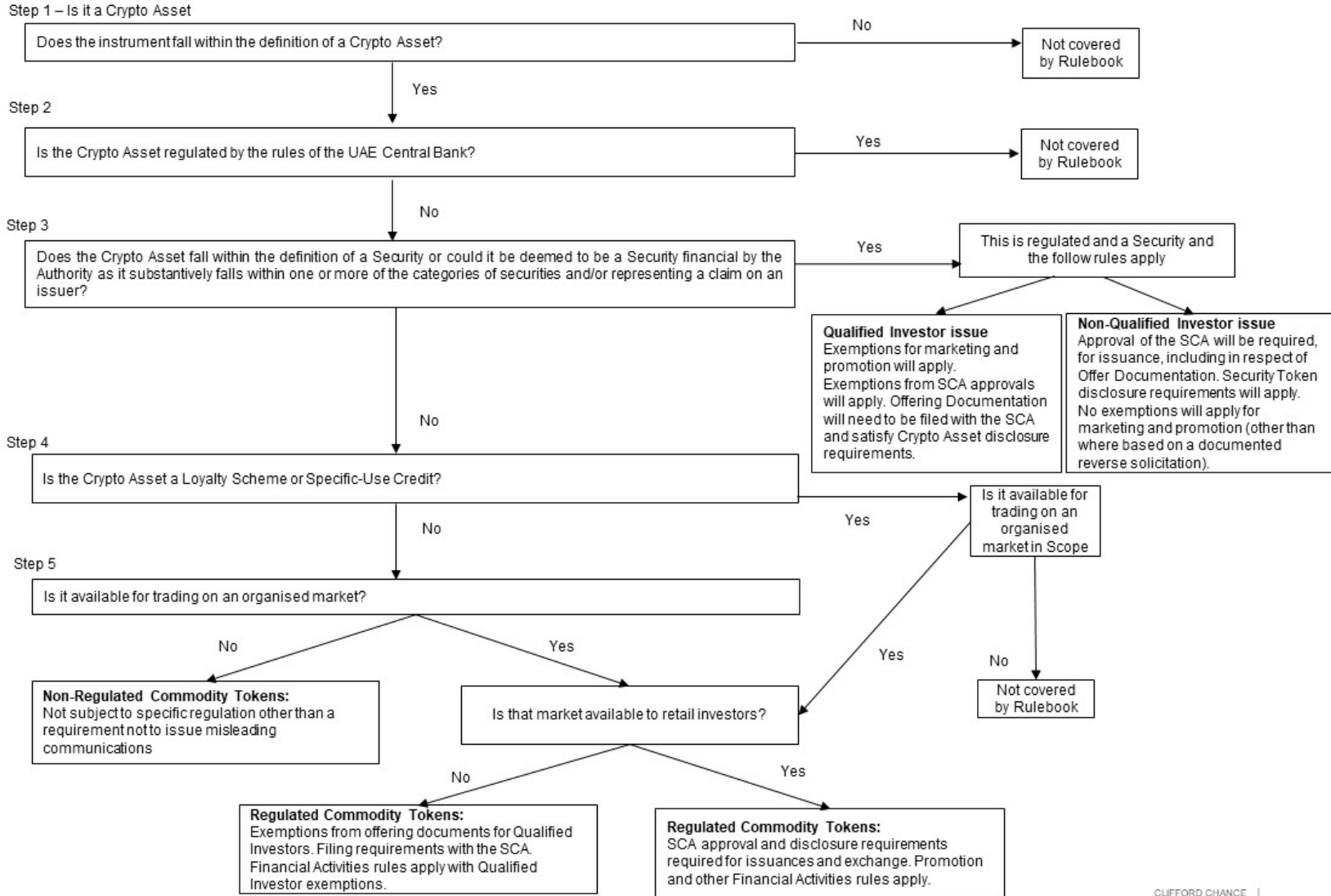
- 4.1.1 **Scope and General Provisions: Chapter 1** covers the scope, application of the regulations and approach of the SCA. This details which types of Crypto Assets are covered, the approach in respect of Security Tokens and the scope of activities related to Crypto Assets which are covered by the rules. This section identifies what is covered by the regulations, how guidance is applied and the principles used by the SCA in making decisions in respect of Crypto Asset regulation.
- 4.1.2 **Conduct Obligations and Disclosures: Chapters 2 and 3** cover the conduct of business requirements for Crypto Assets, including investor disclosures. There are different approaches designed for different types of Crypto Assets, including broad disclosure requirements generally applicable for all Security Tokens and Regulated Commodity Tokens. These requirements are designed to protect investors in Crypto Assets through adequate disclosure of risks and the avoidance of misleading conduct.
- 4.1.3 **Custody: Chapter 4** covers the requirements unique to the custody of Crypto Assets, drawing from existing SCA regulations for custodians. In principle, all Crypto Asset custodians will need a license equivalent to a traditional custodian but must also comply with a number of new or modified regulations specific to how Crypto Asset custody differs from traditional security safekeeping. This includes, but is not limited to, following international best practices on "private key" storage. The definitions applied to this activity are designed to regulate



where responsibility for private key (or equivalent) storage is undertaken by the custodian but not where self-custody software or hardware is provided to investors (with appropriate warning on what this entails).

- 4.1.4 **Fundraising: Chapter 5** covers fundraising platforms and specific requirements. As a large number of the identified instances of fraud relating to crypto assets have come through methods of raising funds from investors (whether intentionally or through compromises to such platforms), this is a key area of specific regulation in respect of Crypto Assets.
- 4.1.5 **Crypto Asset Exchanges: Chapter 6** is specifically related to exchanges in respect of Crypto Assets. The existing regulations of the SCA relating to markets will apply, depending on whether the Crypto Asset Exchange will include Securities (for which Securities exchange rules will apply) or a Regulated Commodity Token (for which commodity exchange rules will apply). Existing regulations will be referred to for common processes such as market oversight and effective non-discretionary trading rules. Additional regulations in the Regulation will reflect measures to cover the risks specific to operating an exchange for Crypto-Assets. This includes custody and safeguarding arrangements, member/participant rules, conflicts of interest management, clearing and settlement and security standards. Other requirements relevant to exchanges, such as market abuse rules, are covered elsewhere.
- 4.1.6 **Other Regulated Activities: Chapter 7** is designed to ensure that all other activities regulated by the SCA in respect of Securities are captured in respect of Regulated Commodity Tokens, where applicable, including Securities standards and licensing requirements which are not specific to a particular class of Security (e.g. regulations for the issuance of debt securities).
- 4.1.7 **Filings for Qualified Investors: Chapter 8.** This chapter covers specific filing requirements for issuing Crypto Assets only to Qualified Investors, which picks up this process since such issuances are not subject to specific SCA approval under Article 9(Second).
- 4.1.8 **Systems and Controls: Chapter 9** covers specific measures relating to technology governance and financial crime controls. As key risk areas for Crypto Assets, firms operating in this area in the State must ensure adequate technology standards are applied and that financial crime control measures are adopted that are specific to the risks presented by Crypto Assets. FATF standards applicable to Crypto Assets should be applied (as noted at 3.1.5 above), with emerging international standards.

5. CRYPTO ASSET FLOWCHART



6. **BREAKDOWN OF HOW CRYPTO ASSET RULES ARE APPLIED TO VARIOUS ACTIVITIES**

#	Activity	Explanation	Approach
1.	Distribution / issuance	Foreign and local persons issuing crypto assets to investors or third parties distributing on behalf the issuer online/through existing platforms	The Regulation requires approval for Security Token issuances (or filings for Qualified Investors – depending on applicable securities rules). For Regulated Commodity Tokens, specific disclosures are required and approval is required to issue tokens available for trading on an exchange available to retail investors
2.	Marketing / promotions	Both local promoters and foreign promoters may target UAE investors to purchase Crypto Assets	SCA Promotion and Introduction rules apply to Security Tokens in the usual way and are applied to Regulated Commodity Tokens under the Regulations.
3.	Pre-issuance offering / marketing	"Pre-issuance" investments may be considered Crypto Assets and regulated in the same way as an issuance of the underlying tokens.	See item #1 above. Where the pre-issuance is the grant of tokens which will become used in the future, these will be Crypto Assets. Where the subscription agreement refers to future tokens which may or may not be issued, these instruments may not be considered Crypto Assets (depending on the arrangements), but it must be clear to investors that no rights are being obtained. See specific Guidance at Article 6 at Section 9.
4.	Advice	Financial advice and recommendations issues by way of business to investors in the UAE in respect of Crypto Assets	SCA Financial Consultation and Analysis rules apply to advice in respect of Security Tokens in the usual way and are applied to Regulated Commodity Tokens under the Regulations.
5.	Brokerage	Acting as a Crypto Asset broker through arranging for UAE investors to acquire Crypto Assets from overseas exchanges.	SCA Brokerage Regulations typically apply to brokers who conduct brokerage in respect of a UAE securities exchange (e.g. DFM / ADX). The Regulation applies the brokerage regulations to Security

#	Activity	Explanation	Approach
			<p>Tokens and Regulated Commodity Tokens to brokerage activities whether or not related to a UAE exchange.</p> <p>Where the brokerage platform gives the impression of access to a market and displays live prices, it may be holding itself out as an exchange and may either need to meet the regulatory requirements for an exchange or amend its approach to clearly identify itself to investors as a brokerage operation..</p>
6.	Principal trading	Many "brokers" in respect of Crypto Assets are typically purchasing and holding Crypto Assets for re-sale.	Existing SCA regulations do not have a separately regulated activity for "dealing as principal". Therefore this activity should be considered as akin to brokerage when conducted by way of business in the UAE.
7.	Custody and safekeeping	In respect of crypto assets, this may be through holding wallets for investors, arranging for third party storage of private keys. In some cases, investors are provided with technology in order to store their own Crypto Assets.	<p>At a high level, an entity that provides services to safeguard private cryptographic keys on behalf of its customers, to hold, store and transfer crypto assets, generally requires a custody license.</p> <p>Where, under the services, the custodian takes responsibility for such safe-guarding, by way of holding private keys, maintaining wallets for investors or otherwise, a custody license should be required.</p> <p>Where an investor is provided with the technological means to store its own Crypto Assets, a license as a custodian to provide such tech will generally not be needed. However, investor disclosures are required where investors are required to self-custody.</p> <p>Note that an exchange offering the above services would also need a custody license.</p>

#	Activity	Explanation	Approach
8.	Exchange	A platform or facility for the trading, conversion and/or exchange of Crypto Assets in return for other Crypto Assets, money, Securities and/or Commodities as defined in the SCA Glossary or the Regulation, whether or not amounting to a Market as defined in the SCA Glossary or the Regulation.	<p>This activity is intended to capture a broader range of activities to what is covered by markets regulation (which is intended only for traditional securities exchanges). Where a platform is publishing live prices and offering market matching services, or running a trading engine/order books, they will require an exchange license to offer this to investors.</p> <p>Peer to peer arrangements and facilities whereby a person may offer online, at their discretion, to exchange crypto assets for fiat currencies would not be captured. However, this will be a matter of fact and degree and websites which are substantively being held out as market place are likely to be considered in scope for Crypto Asset Exchange regulation.</p> <p>Existing markets rules would apply to traditional exchange functions, where applicable to securities rules with additional regulations applying to custody and safeguarding arrangements, member/participant rules, conflicts of interest management, clearing and settlement and security standards.</p>
9.	Others ancillary activities	Ancillary activities related to Securities which are regulated by the SCA, such as Securities Lending etc.	Such regulations will be applied to Security Tokens and Regulated Commodity Tokens, which such exemptions as the SCA may determine from time to time. It is not proportionate to map out the entirety of all regulated activities at this stage, but this will be subject to ongoing review as SCA rules are developed.
10.	Airdrops /Airgrabs	This is the process whereby Crypto Assets are provided to persons participating in a network, hold the Crypto Assets or otherwise signed up and provide personal information to a	Where no funds are raised and no marketing of Crypto Assets occurs in the UAE, permitting UAE persons who have pre-actively signed up on a website to receive Crypto Assets will not be regulated.

#	Activity	Explanation	Approach
		<p>website. Crypto Assets are provided free of charge. An airdrop deposits Crypto Assets to users, an airgrab permits users to claim Crypto Assets if they follow certain actions.</p>	<p>Where the airdrop/airgrab is marketed and the Crypto Assets are Regulated Commodity Tokens or Security Tokens, securities marketing rules would apply (the SCA Promotion and Introduction Regulations).</p> <p>Where there are obligations committed to in return for the Crypto Assets, including the provision of personal information or rights granted to the issuer (such as computer space rights etc.), such issuance could be regulated as a distribution of Crypto Assets. Where the Crypto Asset is a Security, such as a share, existing SCA rules on rights issues may apply.</p> <p>Exchanges will be obligated to notify customers to ensure awareness and they have the right information to exercise their rights through the relevant platform.</p>
11.	Forks	<p>Where the nature of a Crypto Asset is fundamentally changed by way of a "fork" in the underlying DLT protocol. For example, where the bitcoin protocol splits to create two different types of Crypto Assets.</p>	<p>This process performs similar to a corporate event, such as a stock split, but could have many different impacts on user rights and obligations. As the protocol updates may not be controllable, such actions would be regulated by effective disclosure to investors on the possible forks which may occur as a risk disclosure. When such events arise, information on the event and its management by the relevant platform, such as an exchange, must be provided to investors. This would likely apply only to custodians, exchanges and, if involved in the process and having distributed tokens to investors in the UAE, issuers.</p> <p>For Security Tokens, investor consents may be required for certain events related to a fork. For example, where rights and obligations of a Crypto Asset bond are materially changed.</p>

#	Activity	Explanation	Approach
12.	Mining / mining contracts	Persons who invest IT resource in order to receive Crypto Assets. In practice, such persons are creating crypto assets by solving mathematical challenges requiring massive computing power.	Not regulated – mining typically involves crypto-currencies (such as BTC and ETH) with "proof of work" protocols. Generally, this is not subject to regulation but could be considered in the future should there be detriment to investors speculating through complex mining contracts and this practice grows (rather than continuing to diminish).
13.	Running a node	Actively participating in a DLT network, including validating transactions on the network on respect of the Crypto Assets.	Not regulated, unless the function is to perform a regulated activity in respect of the Crypto Asset, such as custody, settlement or acting as registrar for Security Tokens.
14.	Smart contract preparation / audit	Reviewing software code related to the administration of Crypto Assets	Not regulated – this is an IT function, similar to validating a fundamental software system for a regulated institution,
15.	Blockchain / DLT provider	The software development company/developer which has produced the DLT platform on which the Crypto Assets are created/recorded.	Not regulated – this is a chosen software protocol applied at the election of regulated institutions. It is the responsibility of other regulated providers to ensure the choice of software is appropriate for the administration of the relevant Crypto Asset.

7. CRYPTO ASSET APPLICATION TABLE

	Security Tokens (UAE Issuer)		Security Tokens (Foreign Issuer)		Commodity Tokens	Commodity Tokens	Commodity Tokens	Commodity Tokens	Commodity Tokens
	Qualified Investor	Retail	Qualified Investor	Retail	- Domestic Issuer - Not listed on exchange	- Domestic or foreign Issuer - Listed on UAE exchange for public	- Domestic or foreign Issuer - Listed on UAE exchange for Qualified Investors only	- Foreign Issuer - Listed on foreign exchange - Promoted in UAE	- Foreign Issuer - Not listed on exchange - Promoted in UAE
All Security Token Rules	✓	✓	✓	✓	✗	✗	✗	✗	✗
Documentation Required	Art 10 re Security Tokens only	Art 9 re Crypto Assets Art 10 re Security Tokens	Art 10 re Security Tokens only	Art 9 re Crypto Assets Art 10 re Security Tokens	No	Art 9 re Crypto Assets Art. 11 re Commodity Tokens N/A for Payment Tokens regulated by CBUAE	Art. 11 re Commodity Tokens N/A for Payment Tokens regulated by CBUAE	Art. 11 re Commodity Tokens N/A for Payment Tokens regulated by CBUAE	No
Filing or Approval Requirements	Filing	Approval	Filing	Approval	✗ Promoter to update SCA if it becomes traded	Approval	Filing	✗	✗ Promoter to update SCA if it becomes traded
Activities regulated	✓	✓	✓	✓	✗	✓	✓	✓	✗

	Security Tokens (UAE Issuer)		Security Tokens (Foreign Issuer)		Commodity Tokens	Commodity Tokens	Commodity Tokens	Commodity Tokens	Commodity Tokens
	Qualified Investor	Retail	Qualified Investor	Retail	- Domestic Issuer - Not listed on exchange	- Domestic or foreign Issuer - Listed on UAE exchange for public	- Domestic or foreign Issuer - Listed on UAE exchange for Qualified Investors only	- Foreign Issuer - Listed on foreign exchange - Promoted in UAE	- Foreign Issuer - Not listed on exchange - Promoted in UAE
(custodians, brokers, exchanges and promotor)	Security rules generally apply	Security rules generally apply	Security rules generally apply	Security rules generally apply		"Regulated Commodity Token"	"Regulated Commodity Token"	"Regulated Commodity Token"	
SCA Promotion Rules apply – with disclosure re Crypto Assets to SCA?	✘ Qualified Investors exempt under promotion rules	✔	✘ Qualified Investors exempt under promotion rules	✔	No	✔	✘ Qualified Investors exempt under promotion rules	✔	No

8. LICENSING AND REQUIREMENTS FOR LICENSES

- 8.1 As set out in the Regulations, a license from the Authority is required to conduct Financial Activities in relation to Crypto Assets.
- 8.2 At Chapter 10, the licensing process for Financial Activities, other than those of operating a Crypto Fundraising Platform and operating Crypto Asset Exchange, will be the process prescribed by the Authority generally in respect of the relevant Financial Activities (whether conducted in respect of Securities or Crypto Assets), with some modifications. The Authority will, from time to time, publish specifications for licensing such Financial Activities to be conducted in respect of Crypto Assets. When no such specifications are published, applicants should contact the licensing division of the Authority for guidance.
- 8.3 Each applicant shall have corporate personality and the legal form specified by the Authority in the relevant application form, to the extent not specified in the Regulations.
- 8.4 The license application to engage in a Financial Activity or the application for accreditation to engage in any tasks or activities associated with any Financial Activities shall be submitted to the Authority using the format prepared for that purpose. This application must be accompanied by the supporting documents, data, and information required in the form.
- 8.5 Fees payable and minimum capital requirement for various types of licensing applications relating to Crypto Assets are as follows:

#	Crypto Asset License Category	Application Fee (in AED)	License / Renewal (in AED) [#]	Cancellation of License (in AED)	Minimum Capital Required* (in AED)
1.	Exchange	10,000	200,000	10,000	5,000,000
2.	Fundraising Platform Operator	10,000	200,000	10,000	2,500,000
3.	Custody Services	3,000	500,000	1,000	5,000,000
4.	Brokerage	5,000	50,000	1,000	1,000,000

[#] If it is licensed by the Authority as a stock market or commodity market or a Securities custodian, fees do not apply.

* A Crypto Asset Exchange or Crypto Asset Custodian or Crypto Fundraising platform must, on a continuous basis, maintain the capital adequacy necessary to operate the activity in order to secure its ability to meet its obligations for at least 12 months;

- 8.6 The Authority shall, within thirty (30) business days of receipt of a complete application, issue its decision accepting or rejecting the application in accordance with the public interest. No response shall be tantamount to rejection of the application.

- 8.7 The Authority may, within the period it specifies, cancel licensing applications that have been submitted but do not fulfil the requirements, and the fees paid shall not be refunded.
- 8.8 The Authority may restrict the license or accreditation with the requirements it deems appropriate. Moreover, it may suspend the license for a particular Financial Activity, if it deems that in the public interest, for the period it deems appropriate.
- 8.9 A new application may only be submitted after three months of the date on which the first application was rejected or deemed rejected.
- 8.10 The Authority may cancel a licensee's license in any of the following instances:
- 8.10.1 if it fails to satisfy any of the licensing requirements;
 - 8.10.2 if it fails to pay the fees prescribed in accordance with the decisions issued by the Authority, or fails to pay the prescribed fines;
 - 8.10.3 if it fails to execute the decisions issued by the Authority;
 - 8.10.4 if it is in or commits a material breach of any of its obligations set forth in the Regulations or fails to remedy a breach of the Regulations within a prescribed period;
 - 8.10.5 if it fails to provide any information requested by the Authority within the prescribed period, or if it provides incorrect or misleading information;
 - 8.10.6 in the event of voluntary or involuntary liquidation;
 - 8.10.7 upon a request from the licensee or
 - 8.10.8 in any other instances specified by the Authority.
- 8.11 Following the cancellation of the license, the Authority may require the relevant licensee to settle and complete all transactions made prior to such cancellation. The Authority may also require a guarantee until the licensee settles all obligations arising from engaging in its activities.
- 8.12 Each Licensee and its personnel shall:
- 8.12.1 provide the Authority with information requested by the Authority within the time limits it set. In addition, the Authority may, through the competent authorities in the State, verify the accuracy of the information and data provided;
 - 8.12.2 apply the "fitness" and "suitability" criteria, internal control and corporate governance standards in accordance with the decisions issued by the Authority, relevant to its Financial Activities;
 - 8.12.3 ensure the right balance between engaging in the commercial activity and reinforcing the principles of proper and fair dealing, prioritize the public interest and the interests of those dealing with them over their own interests, as well as manage and disclose conflicts of interest;

- 8.12.4 refrain from harming the Market and those trading therein;
- 8.12.5 seek the prior approval of the Authority before a change in its control (including any person who would, by itself or with persons within its corporate group, own more than 50% of the shares in the Licensee or exercises majority control), pursuant to the application and approval prescribed by the Authority from time to time;
- 8.12.6 notify the Authority in writing of its intention to cancel the license, provided that no licensee ceases to carry out the activity or liquidate its business until the Authority approves cancellation of its license in accordance with the controls instituted by the Authority, and after verifying settlement of the claims, obligations and customer accounts and fulfilling the other requirements associated with cancelling the approved license.

9. REGULATIONS SPECIFIC GUIDANCE

Chapter 1 SCOPE, PURPOSES AND APPLICATION

Article 1 Definitions

Guidance

1. *The definitions in this Regulation reflect the standard definitions across the SCA's rules and regulations, including its Glossary, as modified for Crypto Assets.*
2. *Offers and Promotions are distinguished in the definitions. Offers relate to a new subscription in Crypto Assets being offered in the State and Promotions refers to a broader term encompassing all adverts and specific marketing for Crypto Assets. Generally, Offers made in the State to persons in the State are regulated specifically under the Regulations. Promotions of Crypto Assets not relating to an Offer are regulated more broadly, including by the Promotion and Introduction Regulations in respect of Security Tokens and Regulated Commodity Tokens (see Article 18 (Third) of the Regulations).*

Article 2 Purpose, Principles and Guidance

Guidance

1. *The Authority will provide further information on its website from time to time regarding the ability of persons to seek Guidance and the process (including fees). Engagement with the Authority and availability of Guidance, will be subject to its discretion, including that any Guidance (including any specific references to any particular Crypto Asset) may be published on the Authority's website.*
2. *Article 4 also sets out a process whereby Offering Persons (and other relevant persons) may seek a designation from the Authority regarding a Crypto Asset's treatment as a Security.*

Article 3 Scope of Application: General

Guidance

1. *The definition of Crypto Assets is intentionally broad as most regulation under this Regulation would only apply where the item constitutes or represents a Security or the item is traded through an exchange.*
2. *In the limited instance when there are prescribed disclosure requirements for issuances or offers of Commodity Tokens in the State under Article 11, there are carve outs for Specific Use Credits and Loyalty Schemes.*
3. *The exclusion set out in Article 3 / Second / (3) is partly designed to avoid the mere fact that securities are held in dematerialised form, commonly adopted for the holding of securities in various clearing systems or depositories, rendering them Security Tokens under these rules. Other types of electronic record used*

by services providers should also not have this effect. A Crypto Asset will be an item issued to investors in a cryptographic form, typically with investors using cryptographic keys to evidence their ownership.

4. *The Authority appreciates that there are a variety of scenarios when distributed ledger technology is applied in the administration of Securities and many forms will not result in a "tokenisation" in the manner necessary to render the item a Crypto Asset. The Authority appreciates that approaches and practices will develop over time. Offering Persons are encouraged to engage with the Authority at an early stage on its approach for a relevant Security Offering.*
5. *The Regulations will not apply to a currency, virtual currency, unit of stored value or any other item, including any item issued within a facility, in each case approved or required to be approved by the Central Bank pursuant to its regulations from time to time. A key consideration of the Authority will be ensuring that maintains a distinction from Crypto Assets regulated by the Authority and any Crypto Asset regulated from time to time by the Central Bank. The Authority expects that this would mean the following items are currently excluded from the scope of the Regulations:*
 - *any Crypto Asset (including "stable-coins) which are linked to fiat currency, in the form of a derivative or direct representation of monetary value*
 - *any other form of stored value or virtual currency regulated by the Central Bank under the Regulatory Framework for Stored Values and Electronic Payment Systems*
6. *Please also see Part [5] of this Guidance Paper for a flowchart of characterisation of Crypto Assets.*

Article 4 Security Tokens: Scope of Application

Article 4 also sets out a process whereby Offering Persons (and other relevant persons) may seek a designation from the Authority regarding a Crypto Asset's treatment as a Security.

Article 5 Filings Process

Guidance

1. *Please see Section 5 of this Guidance Paper for a flowchart of characterisation of Crypto Assets and Section 4 for further details on the intended scope of application in respect of Securities.*
2. *The Authority is likely to designate any Crypto Asset as a Security Token if it considers that the Crypto Asset demonstrates the substantive features of, or poses equivalent risks to investors of, a Security or is otherwise a right to a financial claim on an Offering Person, or the electronic representation thereof.*
3. *Where the Authority designates a Crypto Asset as a Security Token under Article 4.4, it will take into account the treatment of its regulations and*

decisions in respect of persons Offering, Promoting, holding or administering the Crypto Assets.

4. *The Authority will accept requests for designations online under Article 4.4 through its Legal Consultation service. This process is intended to provide some clarity for issuers and Offering Persons. However, applicants will be expected to provide a proposed designation and conduct a detailed analysis and rationale to support this. Where relevant, specialist advice will be required in respect of applying the Authority's regulations and decisions, where the applicant has limited experience of such matters. Applications which do not provide the Authority with sufficient clarity and explanation behind the approach will not be accepted.*

Conduct of Business and Required Disclosures Module

Chapter 2 CONDUCT OF BUSINESS

Article 6 General Obligations in Respect of Crypto Assets

Guidance

1. *Arrangements whereby future Crypto Assets yet to be created will be issued to investors subscribing for such future Crypto Assets, will generally be considered an Offer of Crypto Assets of the future type or, where applicable, as the issuance of rights to future Crypto Assets which themselves shall be treated as Crypto Assets, unless subscribers have agreed, in terms which are clear, fair and not misleading, that their contribution is a mere donation with no future rights and without reference to any specified Crypto Asset expected to be issued.*
2. *Where subscription terms for the collection of funds relating to future Crypto Assets provide that investors shall have no rights to future Crypto Assets, but, the surrounding messaging on the relevant website or fund raising platform refer to investors receiving a specific issuance of Crypto Assets or represent that future Crypto Assets will be issued to investors, the Authority shall treat such arrangement as an Offer of Crypto Assets.*

Chapter 3 **DOCUMENTARY AND DISCLOSURE REQUIREMENTS**

Article 9 **Documentation Requirements for Crypto Assets Generally**

Guidance

1. *The Authority expects investors to be made aware of all material matters relevant to their rights and obligations in respect of the Crypto Assets and may publish additional expected disclosures from time to time in Guidance.*
2. *The Authority expects the following risks to be highlighted in respect of Crypto Assets as part of a detailed disclosure containing all risks specific to the relevant Crypto Asset:*
 - *Illiquidity*
 - *Volatility and unpredictability compared to other Securities*
 - *Reliance upon new technologies*
 - *Reliance upon technology providers*
 - *Cyber security*
 - *Settlement risks and irreversibility of transactions*
 - *Thin capitalisation and susceptibility to inefficient markets, arbitrage on exchanges and irrational market forces*
 - *Rapidly evolving international regulation outside the UAE which may restrict the operations connected to the Crypto Assets*
3. *The Authority recognises some overlap with the required risks disclosures at Article 11(First), but expect the prescribed form risk disclosures at Article 14 to be expanded on in respect of the specific Crypto Assets.*
4. *References to "where applicable" are since the Authority expects that not all required disclosures, or those published in Guidance, under this Article 9 will be relevant for certain Crypto Assets and expects relevant persons to apply such disclosures to the extent applicable, with disclosure to the Authority. The Authority may require applicants to explain why certain disclosures are not applicable.*

Article 10 **Documentation Requirements for Security Tokens**

Guidance

1. *The Authority requires Security Tokens to be legitimately linked to the underlying income streams represented to investors and not, by use of the relevant technology, imposing enforcement risks or opacity for investors.*
2. *The Authority refers to Article 7 (Third) on the permitted use of electronic registers, which is subject to compliance with this Article 12.*

Article 11 **Documentation Requirements for Commodity Tokens and Approvals**

Guidance

1. *These disclaimers are generally expected to be added for Regulated Commodity Tokens where not providing investors with the level of protections afforded to Securities issuances, with limited exceptions for Specific Use Credits and Loyalty Schemes.*

2. *Article 11 (Third) is designed to permit persons to seek the approval of the Authority, where not otherwise required to do so under this Regulation. This may apply to a Commodity Token which is not listed on an exchange, but may plan to do in the future (with the appropriate disclaimers).*

Chapter 4 **CRYPTO CUSTODY SERVICES**

Article 12 **Regulation of Custody of Crypto Assets**

Guidance

1. *Persons planning to conduct Crypto Custody Services, should carefully review the Custody Regulations. Unless a specific case for a modification or exemption is made by applicants, the Authority will expect the Custody Regulations to be applied.*

2. *Regulated crypto custodians licensed in the recognized jurisdiction may seek exemptions from licensing requirements to operate in the UAE – it is expected that there will be common minimum standards applicable. However, this will be without prejudice to needing to establish a commercial presence to do business in the UAE in the ordinary course. Crypto custodians may also seek to outsource to service providers in recognized jurisdictions as permitted under Article 22 (Third) and in consultation with the Authority.*

Chapter 5 **FUNDRAISING**

Article 14 **Fundraising Standards**

Guidance

1. *For the purposes of Article 14 (2), equivalent amounts to AED 350,000 shall be calculated by the fundraising platform pursuant to methods disclosed to the Authority in respect of the non-AED currencies and other Crypto Assets it plans to accept in its application to the Authority.*

Article 15 **Operating a Crypto Fundraising Platform**

Guidance

1. *The Authority will prepare a licensing process and set of additional requirements for persons seeking to conduct fundraising. These requirements will be prepared in line with the development of crowd funding regulations by the Authority which will cover similar ground.*

Chapter 6 CRYPTO ASSET EXCHANGES

Article 16 Crypto Asset Exchange Rules

Guidance

1. *It should be noted that, in respect of Commodity Tokens, the regulations and decisions of the Authority applicable to markets in Commodities shall apply.*
2. *Regarding the definition of Crypto Asset Exchanges all persons seeking to operate a marketplace in respect of Crypto Assets in the State shall be expected to engage with the Authority regarding the application of this Regulation. Peer to peer proprietary trading and discretionary brokerage arrangements to exchange fiat currency for Crypto Assets are not intended to be covered. However, persons must carefully consider whether other Financial Activities may apply under Chapter 7.*

The Authority may grant exemptions from its rules and regulations generally, where the exchange is limited to Qualified Investors – under Article 2 / Second / (1)

3. *Quasi trading platforms which are substantially brokerage operations need to engage with the Authority and get approvals as brokerage operations and not hold themselves out as true exchanges*
4. *The Authority will require specific measures to be adopted by operators of Crypto Asset Exchanges to ensure clear, accurate and timely disclosures to users, including risk acceptance procedures and identification of commissions and fees paid in respect of the users' trading activity.*
5. *The Authority will require proposed Crypto Asset Exchanges to provide detailed demonstrations of its operations and how it controls the trading on its exchange in a manner which protects investors, including but way of limits on trading, and ensures the relevant markets are not abused.*
6. *The Authority will also require worked demonstrations of stress testing to show how client assets will be protected upon a full default of the exchange and how bad actors within its organisation would be prevented from profiting by use of client assets or market abuse.*
7. *As noted under Article 16(Fourth), exchanges must restrict access to certain classes. It is recognised that Crypto Asset Exchanges will likely need to use "tick box" type online forms to satisfy matters such as suitability and knowledge base in practice. The process for ensuring informed approval of these matters should be demonstrated.*
8. *It is also appreciated by the Authority that Crypto Asset Exchanges may need to use software solutions to prevent the access/use of exchanges by non-Qualified Investors if this is the intended operation of the exchange.*

9. *In respect of the Regulation required to be put in place under Article 16 / Fourth / (6), the following items should also be considered by applicants, where relevant:*

General Rules:

- *charges, commissions and fees;*
- *margin and solvency requirements for participants, including day trading limits permits;*
- *permitted movement limits of listed Crypto Assets;*
- *"know your customer" and other information disclosure requirements;*
- *suitability assessments to be undertaken;*
- *use of information by the exchange;*
- *publication of transactions and quotations;*
- *use of and connected devices and algorithms and fraud avoidance methods;*
- *customer confirmations provided;*
- *conflicts of interest and relationships with token issuers;*
- *any discretionary accounts permitted;*
- *the extent to which sharing in accounts/joint accounts is/are permissible;*
- *communications with users and the public;*
- *offers and marketing to be made;*
- *mandatory systems testing;*
- *discipline and trading suspension process;*
- *procedures for supervision of participant's conduct and compliance with applicable requirements;*
- *review of activities of participant, including periodic examination of customer accounts to detect and prevent irregularities or abuses;*
- *the prevention of the misuse of material non-public information;*
- *forwarding of proxy and other issuer-related materials;*
- *market making on the exchange.*

Financial and Operational Rules for issuers:

- *publication of financial information and interrelation with Authority;*
- *rules for securities disclosures (where applicable);*
- *disclosures of material developments.*

Market Abuse Prevention Rules:

- *market manipulation, fictitious transactions;*
- *excessive sales by participants, manipulative transactions;*
- *dissemination of false information;*
- *prohibition against trading ahead of customer orders, joint activity;*

- *influencing data feeds;*
- *trade shredding; best execution;*
- *publication of transactions and changes;*
- *front running of block transactions;*
- *a prohibition against disruptive quoting and trading activity.*

Trading Rules:

- *offer process, price certainty and order execution process;*
- *access to and conduct on the market place, days/hours;*
- *units of trading;*
- *minimum price variant;*
- *Opening the Marketplace;*
- *Trading Halts;*
- *Order Entry;*
- *Audit Trail;*
- *Execution and Price Time Priority;*
- *Risk Controls;*
- *Trade Execution and Reporting;*
- *Dissemination of Quotations;*
- *Error Trades;*
- *Short Sales;*
- *Locking or Crossing Quotations in Crypto Assets;*
- *Settlement.*

Listing rules: *to be based on existing UAE exchange rules and processes in respect of Securities. To include, Suspension and Delisting; Guide to Filing Requirements; Procedures for Review of Exchange Listing Determinations; and Fees and Other Charges.*

Article 17 Listing of Crypto Assets on a Crypto Asset Exchange

Guidance

1. *The Authority will apply equivalent assessment procedures in considering the approval of Crypto Assets on the market as it presently applies in the content of approving the listing of Securities on a Market. However, such procedures will be modified as appropriate to take into account the nature of the investments and oversight of compliance with the requirements under the Regulations.*

Chapter 7 **OTHER REGULATED ACTIVITIES**

Article 18 **Regulated Functions in respect of Crypto Assets**

Guidance

1. *This Chapter broadly seeks to apply the scope of activities currently regulated by the Authority to Security Tokens and Regulated Commodity Tokens. The general approach required will be that persons conducting such activities will seek a license through the current process prescribed by the Authority, but would identify their proposed scope of activities in respect of Crypto Assets. There will be opportunity for applicants to demonstrate, taking into account the specific areas identified in Chapter 7 to request specific arrangements.*
2. *The financial activities to be regulated in respect of Regulated Commodity Tokens under Chapter 7, shall include brokerage, dealing as agent and principle, promotions, investment funds related activities, market making, securities lending, registered owner and beneficiary services.*
3. *Article 18 (Third) provides that Regulated Commodity Tokens shall be treated as securities and usual Securities rules will apply, as applicable. It is intended that SCA regulations specific to particular types of securities only, such as regulations specific to the issuance of debt securities or IPOs for equities, would not apply. It is also not intended that Disclosure and Transparency Rules would apply to Regulated Commodity Tokens not listed on a UAE exchange.*
4. *Article 18 (Fifth) seeks to ensure that brokerage, as commonly conducted in respect of Crypto Assets is properly caught within the scope of licensing, whether or not fitting the technical description of Securities Brokerage under the Authority's regulations.*
5. *Article 18 (Sixth) sets out the requirements when a person maintains the register determining who holds the Crypto Assets – this may be by way of maintaining a distributed ledger. In acting as such the person will be expected to comply with applicable rules of the Clearing, Settlement and Depository Regulations and, in respect of the Crypto Assets:*
 - *Ensure that the unauthorised creation or deletion of securities is prevented*
 - *Regularly verify that the relevant Crypto Assets records as in issue is equal to the aggregate number of crypto assets validly recorded as held by investors identifiable through the relevant database/ledger, whether by way of anonymous code/hash or otherwise*
 - *Implement adequate arrangements for information exchange between all other persons authorised to execute instructions to issue, hold and transfer the Crypto Assets through the relevant network.*
 - *Ensure that in the event that another person also has authority to maintain the register or make changes to the register determining the ownership of Crypto Assets (not including where one person holds Crypto Assets on behalf of another person or persons, but including*

persons who jointly decide on changes to the register), adequate procedures are implemented to ensure:

- *information is exchanged between each person for a daily reconciliation on ownership of the Crypto Assets and compliance with the above principles is maintained*
 - *in the event of a failure of insolvency of one person records would be maintained to avoid any loss of ownership rights over Crypto Assets*
 - *several transactions in the same Crypto Assets by different persons cannot take place*
6. *To ensure the compliance with Article 18 (Sixth), the Authority would expect Licensees conducting the relevant functions to engage with it on the arrangements in place and implement other requirements the Authority may have to ensure the soundness and security of the arrangements for the register of holdings in the Crypto Assets.*
7. *Article 18 (Seventh) addresses a core requirement of the Authority across all service providers in respect of applicable Crypto Assets (to be generally limited to Security Tokens and Regulated Commodity Tokens) that where a person conducts a function of being responsible for recording ownership and amounts of issued Crypto Assets, responsibilities akin to a depository must be considered. The Authority's Depository Regulations will be relevant.*
8. *Standards of training for Licensed Persons in respect of Crypto Assets shall be as set out in the fitness and propriety regulations established by the Authority*

Chapter 9 **MARKET ABUSE PREVENTION**

Article 20 **Market Abuse Prevention**

Guidance

1. *The Authority recognises that many Crypto Assets subject to these rules may be exchanged within a thin market and effective systems oversight to mitigate risks of market abuse will need to be adjusted proportionately compared to more deeply traded Securities.*
2. *The Authority expects a proportionate and risk adjusted approach to be adopted in accordance with international best practices to protect and detect fraudulent trading.*
3. *However, any perceived limitations in the nature of the relevant Crypto Assets in respect of market transparency and efficiencies, should be disclosed to investors.*
4. *Statutory references relevant to market abuse shall be added by the Authority in line with latest regulations been published*

Article 21 **Financial Crime Controls**

Guidance

1. *The Authority requires Licensed Persons to adopt adequate and effective systems and processes to monitor transactions involving Crypto Assets and to conduct appropriate enquiries and evaluate potentially suspicious transactions, including identifying the following for prevention or additional screening:*
 - *the use of proxies, any unverifiable or high-risk geographical locations, any disposable email addresses or mobile numbers, or use of a constantly changing device to conduct transactions;*
 - *transactions involving wallets or transferee/transferor addresses which show evidence of being processed through non-verifiable means;*
 - *transactions involving Crypto Assets with a higher risk or greater anonymity, including those designed to mask users' identities or transaction details.*
2. *Persons conducting financial activities in respect of Crypto Assets are expected to apply FATF guidance and recommendations in respect of the mitigation of AML risks for Virtual Assets and Virtual Asset Services Providers and apply the standards issued by the UAE Central Bank in respect of the application of FATF guidance and recommendations in the UAE from time to time.*

Chapter 10 **APPLICABLE TECHNOLOGY STANDARDS**

Article 22 **Technology Governance and Standards**

Guidance

1. *Cyber security measures are expected to include:*
 - *Security measures and procedures for the safe storage and transmission of data and protection of access rights and protocols shall be developed and continually monitored against external threats and regularly updated.*
 - *Access to network resources being tracked and activities monitored, with appropriate logging mechanisms to observe and prevent data compromises.*
 - *Procedures for the creation and management of services, interfaces and channels provided by or to third parties (as recipients and providers of data or services).*
 - *Policies and procedures for the management of personnel and decision-making by qualified staff, with staff possessing adequate technological expertise to make such decisions.*
 - *Policies and procedures that support an appropriate governance structure that identifies key systems or assets that could be at risk.*
 - *Physical or organizational measures to control and protect against cyber risks (e.g., vulnerability testing, penetration testing).*
 - *Measures to detect cyber anomalies.*
 - *Policies related to incident response.*
 - *Business continuity plans and/or disaster recovery plans, including procedures for business continuity and client engagement in the event of both planned and unplanned system outages.*

2. *Licensees are expected to provide the following information to the Authority in the form is shall prescribe for this purpose from time to time:*
 - *Data protection, software development and oversight and encryption standards*
 - *Software, systems and architecture standards*
 - *Use of third-party service providers and procedures for delegating activities to third parties*
 - *Information technology infrastructure located outside of the State and replication of data in real time.*