

Crypto Asset Businesses, including Exchanges and Custodians can now operate at ADGM

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In brief

The Abu Dhabi Global Market (ADGM), one of the two Financial Free Zones in the UAE, is set to welcome crypto asset businesses as the Financial Services Regulatory Authority (FSRA), ADGM's financial regulator, issued its new guidance on the "Regulation of Crypto Asset Activities in ADGM" on 25 June 2018 (New Guidance). The New Guidance identifies a number of crypto asset business activities that can be carried out subject to obtaining a licence from the FSRA and describes, amongst other things, the licensing process, the requirements for obtaining such licence and the licensing fees.

In detail

Following the guidance on the 'Regulation of Initial Coin/Token Offerings and Crypto Assets under the Financial Services and Markets Regulations'¹, issued by the FSRA on 9 October 2017, the FSRA is now, with the New Guidance, setting the stage to enable an ecosystem to develop in the ADGM around the crypto asset business.

In summary, the New Guidance classifies digital assets into a number of categories, including security tokens, crypto assets, utility tokens as well as derivatives and collective investment funds of the aforementioned three categories of digital assets. The New Guidance focuses on crypto asset business activities, identifying examples of regulated crypto asset business activities that require a licence to be issued by the FSRA, and provides details and examples of compliance and operational requirements for such regulated crypto asset business activities. The New Guidance also leaves room for other crypto asset business activities to be considered and added by the FSRA, from time to time, and also lists certain crypto asset activities that do not currently fall under the application of the New Guidance.

The takeaway

An operator of a crypto assets business, licensed by the FSRA, can operate a crypto asset business, involving one or a combination of crypto asset activities, in or from the ADGM, including:

- buying, selling or exercising any right in accepted crypto assets (whether as principal or agent)
- managing accepted crypto assets belonging to another person

¹ <https://www.adgm.com/media/192772/20171009-fsra-guidance-for-icos-and-virtual-currencies.pdf>

- making arrangements with a view to another person (whether as principal or agent) buying, selling or providing custody of accepted crypto assets
- marketing of accepted crypto assets
- advising on the merits of buying or selling of accepted crypto assets or any rights conferred by such buying or selling
- operating:
 - o a crypto asset exchange; or
 - o as a crypto asset custodian.

The New Guidance forms an important building block in the regulatory ecosystem surrounding the crypto asset business sector in the UAE and the region. It is a welcome development that acts as a signal of assurance to businesses and investors seeking the right jurisdictions to host their business. Clarity around regulation is a key component in choosing the right jurisdiction, particularly when considering the regulatory uncertainty in the crypto asset ecosystem in many jurisdictions around the globe.

We will continue to monitor these developments and how the implementation of the New Guidance will unfold in practice, something that will provide further insights into the regulation of the crypto assets business in the ADGM.

The ADGM's FSRA is the first regulatory authority in the UAE to directly regulate ICO's and certain crypto asset business activities. Similar steps have not yet been taken by the 'onshore' regulatory authorities in the UAE or the Dubai International Financial Centre, although we anticipate to see developments in those jurisdictions as well in due course.

PwC offers advisory services to businesses that want to operate as crypto asset businesses or prepare for ICOs which may include, legal, tax, governance, risk and controls. Please contact us if you would like to discuss.

PwC Middle East Contacts

Matthew White, *Dubai*
 Head of Digital Trust
 E: matthew.white@pwc.com

Sajidah Abu Zeit, *Dubai*
 Government and Regulatory Leader -
 PwC Legal Middle East
 E: sajidah.abuzeit@pwc.com

Chirag Shah, *Dubai*
 International Tax Services,
 including Tax Structuring
 E: chirag.shah@pwc.com

Panagiotis Dermatis, *Dubai*
 FinTech Legal Services
 E: panagiotis.dermatis@pwc.com

Gianfrancesco Martinico, *Dubai*
 Financial Services, Digital and
 Technology Consulting
 E: gianfrancesco.martinico@pwc.com

Stefan El-Khoury, *Beirut*
 Data and Analytics, Tax
 Technology
 E: stefan.el-khoury@pwc.com

Muhammad Hassan, *Dubai*
 Capital Markets and Accounting
 Advisory Services
 E: muhammad.hassan@pwc.com

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