

Cabinet Decision No. (111) of 2022

Concerning the Regulation of Virtual Assets and their Service Providers

The Cabinet

Having reviewed the Constitution,

And Federal Law No. (1) of 1972 concerning the competencies of ministries and the powers of ministers, and its amendments,

And Federal Law No. (4) of 2000 concerning the Emirates Securities and Commodities Authority and Market, and its amendments,

And Federal Law No. (8) of 2004 concerning Financial Free Zones,

And Federal Decree-Law No. (14) of 2018 regarding the Central Bank and the organization of financial institutions and activities, and its amendments,

And Federal Decree-Law No. (20) of 2018 on combatting money laundering crimes and the financing of terrorism and illegal organizations, and its amendments, and its executive regulations,

And Cabinet Decision No. (11) of 2000 concerning the system for licensing the market and its supervision,

And Cabinet Decision No. (13) of 2000 concerning the working system of the Securities and Commodities Authority, and its amendments,

And based on the proposal of the Chairman of the Board of Directors of the Securities and Commodities Authority, and the approval of the Cabinet,

Has decided:

Article (1)

Definitions

For the purposes of this Decision, the following words and phrases shall have the meanings assigned to them below, unless the context otherwise requires:

The State : The United Arab Emirates.

The Authority : The Securities and Commodities Authority.

The Central Bank : The Central Bank of the United Arab Emirates.

Local Licensing Authorities : The competent local authority for regulating Virtual Assets in the concerned Emirate.

Free Zones : Any existing or future free zone established within the State by any federal or local legislation.

Financial Free Zones : The free zones subject to the provisions of Federal Law No. (8) of 2004 concerning Financial Free Zones.

Virtual Assets : A digital representation of value that can be digitally traded or transferred, and can be used for investment purposes. It does not include digital representations of fiat currencies, securities, or other funds.

Virtual Asset Activities : Activities related to providing Virtual Asset services in the State, or operations related thereto, which are subject to licensing in accordance with the provisions of this Decision.

Person : Any natural or legal person.

Issuer : Any natural or legal person who issues a Virtual Asset.

Virtual Asset Service Providers : Any legal person who engages in one or more activities related to Virtual Assets or their related operations for the benefit of or on behalf of a person, such as a Virtual Asset platform operator, Virtual Asset broker, Virtual Asset custodian, and any other activities in accordance with the provisions of this Decision.

Virtual Asset Platform : A digital platform for listing, trading, and transferring ownership of Virtual Assets, conducting clearing and settlement operations related thereto, and storing and preserving information and data through distributed ledger technology or any other similar technology.

Virtual Asset Platform Operator : A legal person licensed by the Authority to regulate dealings in Virtual Assets through a Virtual Asset Platform in accordance with the provisions of this Decision.

Distributed Ledger Technology : A public or private digital database through which transactions on Virtual Assets are recorded, created, saved, and shared, such that their validity and ownership are proven in a network of nodes automatically from multiple sites and locations, and it includes "Blockchain" technology.

Stored Value Facilities : Non-monetary facilities, in electronic or magnetic form, purchased by a user as a means of payment for goods and services.

Article (2)

Objectives of the Decision

This Decision aims to achieve the following:

1. To develop the legislative framework for the Virtual Asset sector in the State, its related activities, and its service providers, in a manner that defines and guarantees the rights and obligations of all relevant parties.
2. To regulate the Virtual Asset sector in the State, its related activities, and its service providers.
3. To ensure the compliance of the Virtual Asset sector in the State with all provisions of Federal Decree-Law No. (20) of 2018 on combatting money laundering crimes and the financing of terrorism and illegal organizations, its amendments, its executive regulations, and other relevant legislation in force in the sector.

4. To support the State's efforts to provide an attractive investment, economic, and financial environment for international companies and institutions operating in the Virtual Asset sector to offer their services in the State.

5. To protect investors in Virtual Assets from illicit practices.

Article (3)

Scope of Application

1. The provisions of this Decision shall apply to the following:

- a. The Virtual Asset sector in the State, including Free Zones.
- b. Activities related to Virtual Assets in the State, including Free Zones, as set out in Article (5) of this Decision.
- c. Virtual Asset Service Providers in the State, including Free Zones.

2. The provisions of this Decision shall not apply to the following:

- a. The regulation of Virtual Assets that take place within Financial Free Zones, and all related operations.
- b. Digital securities and digital commodity contracts, which are subject to their own regulations issued by the Authority.
- c. Virtual Assets for payment purposes, including stored value facilities, which fall under the jurisdiction of the Central Bank, except for those approved by the Central Bank for listing and trading for investment purposes on a Virtual Asset Platform.

Article (4)

General Provisions

1. No Person shall engage in Virtual Asset Activities in the State without obtaining approval and a license from the Authority or the Local Licensing Authorities, as the case may be, in accordance with the provisions of this Decision.

2. A Person wishing to engage in Virtual Asset Activities must establish a headquarters in the State to conduct their business, in one of the legal forms approved by the relevant local commercial licensing authorities.

3. A Person wishing to engage in Virtual Asset Activities must obtain the necessary initial approvals and permits from the Authority or the Local Licensing Authorities, as the case may be, before commencing the licensing procedures with the relevant local commercial licensing authorities.

4. It is prohibited to deal with any Person who engages in Virtual Asset Activities in the State unless licensed by the Authority or the Local Licensing Authorities, as the case may be, in accordance with the provisions of this Decision.

5. Virtual Assets designated for payment purposes, which are under the jurisdiction of the Central Bank, are excluded from the provisions of this Article.

Article (5)

Virtual Asset Activities Subject to Licensing

1. The following activities are subject to the licensing and supervision of the Authority in accordance with the provisions of this Decision:
 - a. Providing services for the operation and management of Virtual Asset Platforms.
 - b. Providing exchange services between one or more forms of Virtual Assets.
 - c. Providing Virtual Asset transfer services.
 - d. Providing brokerage services in Virtual Asset trading operations.
 - e. Providing services for the custody and management of Virtual Assets and enabling control over them.
 - f. . Providing financial services related to the issuer's offer and/or sale of Virtual Assets or participating in the provision of such services.
2. The Cabinet may, upon the proposal of the Authority and after coordination with the Local Licensing Authorities and the Central Bank, amend the activities specified in this Article, whether by addition or deletion.

Article (6)

Competencies of the Authority

1. For the purposes of implementing the provisions of this Decision, the Authority shall have the following competencies:
 - a. To supervise and monitor Virtual Asset Activities, their service providers, and their transactions that take place within the State, including Free Zones.
 - b. To issue regulations governing Virtual Asset transactions, the licensing of their service providers, and their operating mechanisms.
 - c. To verify the compliance of Virtual Asset Service Providers with the legislation in force in the State related to the protection of personal data.
 - d. To issue the necessary instructions and guidelines, in coordination with the relevant authorities, to establish a mechanism for evaluating and monitoring Virtual Asset Service Providers, and the procedures and measures to be taken regarding suspicious transactions that violate the provisions of Federal Decree-Law No. (20) of 2018 on combatting money laundering crimes and the financing of terrorism and illegal organizations, its amendments, its executive regulations, the decisions issued thereunder, the legislation in force in the State, and international requirements.
 - e. To raise awareness and educate investors about the Virtual Asset investment sector and its risks.
 - f. To obtain the approval of the Central Bank in all matters related to ensuring the protection and stability of the financial and monetary system in the State.

2. The Authority may, based on a decision by its Board of Directors, delegate any of its competencies mentioned in this Decision to Virtual Asset Service Providers.

Article (7)

Minimum Requirements for the Virtual Asset Sector

1. The Authority shall verify the availability of the following requirements when granting licenses to Virtual Asset Service Providers:

- a. That the license applicant or one of its partners is not listed on sanctions lists or terrorism lists issued by official authorities in the State or international organizations recognized by the State, especially those concerned with combatting money laundering and the financing of terrorism and illegal organizations; that they are not subject to any criminal investigations inside or outside the State during the submission or review of the registration application; and that no final judicial ruling has been issued against them for a crime of money laundering, financing of terrorism, or financing of illegal organizations.
- b. The efficiency of the technical systems used by Virtual Asset Service Providers and their ability to protect investor data in accordance with best international practices, current technology, and/or cybersecurity standards.
- c. The fulfillment by Virtual Asset Service Providers of the requirements and conditions for capital, credit guarantees, insurance, compliance management systems, and other controls, in accordance with the executive decisions issued by the Authority.

2. The Authority shall, through the establishment of inspection programs and control procedures, verify the availability of the following requirements when Virtual Asset Service Providers engage in Virtual Asset Activities:

- a. The commitment of Virtual Asset Service Providers to provide their services to investors in accordance with the provisions of this Decision and the decisions issued thereunder, and to disclose to them all risks related to those services in a clear, fair, and non-misleading manner.
- b. The compliance of Virtual Asset Service Providers with the provisions and requirements contained in Federal Decree-Law No. (20) of 2018 on combatting money laundering crimes and the financing of terrorism and illegal organizations and its executive regulations, as well as the requirements of the Financial Action Task Force (FATF), particularly the provisions and requirements related to Virtual Assets and their service providers.
- c. Providing an effective mechanism that obliges Virtual Asset Service Providers to notify the Authority and the relevant authorities in the event that the services they provide are exposed to security risks, security breaches, or any act that falls within the scope of cybercrimes.

Article (8)

Compliance with Legislation on Combating Money Laundering, Terrorism Financing, and the Financing of Illegal Organizations

All Virtual Asset Service Providers in the State must comply with the legislation in force regarding combatting money laundering crimes, the financing of terrorism, and the financing of illegal organizations, and the decisions issued in implementation thereof.

Article (9)

Obligations of Local Licensing Authorities and their Supervision

1. Local Licensing Authorities shall provide the Authority with all data and information related to Virtual Asset Service Providers, the licenses issued to them, and the transactions of these assets, upon request by the Authority, in a manner that ensures compliance with the legislation in force and international obligations.
2. The Authority has the power to supervise and monitor licensed Virtual Asset Service Providers in the State, including those licensed by Local Licensing Authorities.
3. The Authority shall coordinate with the various Local Licensing Authorities, the Central Bank, and the relevant authorities to exchange information and hold necessary events to spread the required awareness regarding the regulation of Virtual Assets.

Article (10)

International Representation in Organizations and Events

Without prejudice to the powers of the Central Bank under the legislation in force in the Financial Free Zones, the Authority is competent to participate in organizations and events related to Virtual Assets that require representation of the State, and it may invite Local Licensing Authorities and relevant authorities to participate in such organizations and events.

Article (11)

Fees

In consideration for issuing licenses, approvals, and all other services it provides in accordance with the provisions of this Resolution and the resolutions issued thereunder, the Authority shall collect the fees and commissions determined by a resolution of the Cabinet, taking into account the avoidance of duplication with any fees collected by local licensing authorities for the services they provide under the provisions of this Resolution.

Article (12)

Violations and Penalties

The Authority's Board of Directors, after coordinating with the local licensing authorities and the Ministry of Finance, and with the approval of the Cabinet, shall issue a resolution specifying the violations and administrative penalties for acts committed in contravention of the provisions of this Resolution and the resolutions issued thereunder. The resolution shall grant the Authority or the local licensing authorities, as the case may be, the power to impose one or more of the following penalties:

1. Issuing a warning.
2. Suspending the listing or trading of Virtual Assets.
3. Suspending the operation of technologies used by service providers related to Virtual Assets and adopting alternative means.
4. Suspending or preventing the operation of a Virtual Asset platform, and seeking the assistance of the relevant authorities in the State to implement this.
5. Suspending any Virtual Asset service provider from practicing their activity or revoking their license in accordance with the provisions of this Resolution.
6. Suspending any activity conducted without a license in accordance with the provisions of this Resolution, and preventing any natural person from performing any related tasks or work without being accredited by the Authority. The Authority may seek the assistance of the competent authorities to implement its decisions or to close the violating premises.
7. Imposing a financial fine not exceeding (10,000,000) ten million dirhams.
8. Imposing a financial fine equal to the value of the profits gained from the violation or the loss avoided.
9. Referring the violator of the provisions of this Resolution to the Public Prosecution.

Article (13)

Grievances

Anyone upon whom a penalty has been imposed may file a grievance with the Chairman of the Authority's Board of Directors, or his delegate, against any penalty or administrative measure imposed on them in accordance with the provisions of this Resolution, and in accordance with the procedures in force at the Authority.

Article (14)

Reconciliation of Status

All Virtual Asset service providers licensed in the State before the entry into force of this Resolution must reconcile their status and fulfill the operational conditions and requirements in accordance with the provisions of this Resolution within (3) three months from the date it comes into effect. The Authority may extend this period for other periods as required by the public interest.

Article (15)

Delegation

The Cabinet, upon the proposal of the Authority, may delegate any of the Authority's competencies mentioned in this Resolution to any of the local licensing authorities, if any, in accordance with the controls it deems appropriate.

Article (16)

Executive Resolutions

The Authority's Board of Directors shall issue the necessary resolutions to implement this Resolution in coordination with the local licensing authorities and the concerned entities.

Article (17)

Repeals

Any provision that contravenes or conflicts with the provisions of this Resolution is hereby repealed.

Article (18)

Publication and Enforcement of the Resolution

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

Issued by us:

On: 18 / Jumada al-Awwal / 1444 H

Corresponding to: 12 / December / 2022 G

Mohammed bin Rashid Al Maktoum

Prime Minister