

Dubai Passes Landmark Law Regulating Virtual Assets (Including Cryptocurrencies)

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On February 28, 2022, Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Ruler of Dubai, approved Law No. 4 of 2022 on the Regulation of Virtual Assets in the Emirate of Dubai (the “**Virtual Assets Law**”). The landmark Virtual Assets Law is an exciting and significant legislative development in Dubai and is applicable to virtual asset services provided throughout the Emirate of Dubai and Dubai’s special development and free zones (with the exception of the Dubai International Finance Centre (“**DIFC**”). The Virtual Assets Law serves as an important step in establishing the Emirate of Dubai’s position in the virtual assets sector and will undoubtedly have important implications for the future landscape of virtual assets in Dubai. The enactment of the new Virtual Assets Law is reflective of the increasing interest in virtual assets in the United Arab Emirates (“**UAE**”) and the region more generally.

We set out below the key features of the new Virtual Assets Law and the implications for virtual assets and related activities in the Emirate of Dubai.

Key Features of the Virtual Assets Law

- Establishment of a New Regulatory Authority:** The Virtual Assets Law establishes the Dubai Virtual Assets Regulatory Authority (“**VARA**”), an entity affiliated to the Dubai World Trade Centre Authority (“**DWTC Authority**”), as Dubai’s primary virtual assets regulator. Under the Virtual Assets Law, VARA aims to promote Dubai’s position as a regional and international destination in the virtual assets sphere and to develop Dubai’s digital economy. VARA further seeks to enhance investment awareness of the virtual assets sector, attract investment and companies operating in the field of virtual assets to establish themselves in Dubai and provide the regulations, rules and standards necessary to regulate, supervise and control all matters related to virtual assets.
- Entry into Force:** The Virtual Assets Law entered into force on March 11, 2022, which is the date of its publication in the Official Gazette. Any provisions in other legislation which are contrary to, or conflict with, the provisions of the Virtual Assets Law are effectively repealed. While the Virtual Assets Law is an important first step in the legislative framework for virtual assets in Dubai, further clarification and detail is required. The Director General of the DWTC Authority is mandated with the responsibility of issuing the decisions necessary to implement the Virtual Assets

We continue to monitor developments in this area. If you have questions regarding the recent developments or how they could apply to your current or future business, please contact any member of our UAE corporate team:

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Law, although the precise timeframe for the issuance of such decisions is not prescribed under the Virtual Assets Law.

3. Scope of the New Law: The scope of the Virtual Assets Law is expansive, with “virtual assets” defined broadly as “a digital representation of value which can be digitally traded, transferred, or used as an exchange or payment instrument or for investment purposes”; this, therefore, would include cryptocurrencies, tokens, non-fungible tokens and any other virtual asset determined by VARA.
4. Activities Subject to Authorization: While the Virtual Assets Law applies throughout the Emirate of Dubai and the various special development and free zones (with the exception of the DIFC), it does not regulate virtual assets services at a federal level. Entities operating in Dubai which fall within the scope of the Virtual Assets Law shall be prohibited from engaging in certain regulated activities in Dubai unless authorized to do so by VARA; any permitted activities shall thereafter be conducted within the limits of the authorization granted. A broad range of activities require authorization from VARA under the Virtual Assets Law, including the operation and management of a virtual asset platform and the custody and management of virtual assets. The Virtual Assets Law further clarifies that VARA may establish rules and conditions for the practice of the regulated activities and may expand the list of activities which are subject to the authorization and control of VARA.
5. Licensing and On-Going Requirements: In order to obtain a license, the Virtual Assets Law stipulates that applicants must establish Dubai as the headquarters for their business and must obtain a commercial business license from the relevant licensing authority in Dubai. The specific licensing process and additional ongoing requirements with respect to anti-money laundering, disclosure, transparency and know-your-client (“**KYC**”) procedures are expected to be set out in the regulations and decisions supplementing the Virtual Assets Law.
6. Coordination with Other Authorities: VARA is expected to coordinate with the UAE Central Bank to implement measures to ensure the protection and stability of the financial system, which may lead to an increase in the number of bank transactions involving virtual assets and the regulation of decentralized finance (“**DeFi**”) applications and virtual asset lending, both of which have significantly evolved over recent years.
7. Responsibilities of the New Regulatory Authority: Pursuant to the Virtual Assets Law, VARA shall have a broad mandate, including regulating the operation and management of virtual asset platforms, service providers and all that relates to virtual assets and authorizing exchange services between virtual assets and currencies or between one or more forms of virtual assets. In addition, under the Virtual Assets Law, VARA is tasked with organizing, supervising and controlling the issuance and offering of virtual assets, together with preventing illegal practices, increasing transparency and developing and implementing the regulations necessary for the protection of both investors and dealers of virtual assets. Indeed, all persons subject to the Virtual Assets Law are required to fully cooperate with VARA, including providing the information and documents VARA requires to exercise its powers and achieve its objectives.
8. Penalties and Sanctions: Under the Virtual Assets Law, VARA is permitted to take various actions and measures, including suspending the issuance of authorizations, suspending the activities of any virtual asset service provider and suspending

dealings with any virtual assets in certain circumstances. A resolution of the Board of Directors of the DWTC Authority shall, in due course, set out the acts that constitute a violation of the provisions of the Virtual Assets Law and the corresponding penalties applicable. In addition to any penalty imposed, the Virtual Assets Law confirms that VARA may suspend an authorization granted for a period of up to six months or may revoke the authorization entirely (in addition to coordinating with the competent commercial licensing authority in the Emirate of Dubai to cancel the trade license of the entity). The potential sanctions for violation of the Virtual Assets Law may therefore be significant and have wide-ranging repercussions.

The Broader Landscape

The Virtual Assets Law comes at an opportune time for the UAE, which is the Middle East's third-largest crypto market, with a transaction volume of approximately \$26 billion, trailing Turkey and Lebanon. In accordance with the UAE's mandate to facilitate business while providing appropriate investor protections, there have been various other recent developments in the regulation of virtual assets. For example, in February 2022, it was reported that the federal Securities and Commodities Authority ("**SCA**") is amending legislation to allow virtual asset service providers to set up in the UAE. Moreover, the Financial Services Regulatory Authority ("**FSRA**") of the Abu Dhabi Global Market (a financial free zone in the Emirate of Abu Dhabi) has issued crypto exchange licenses to a number of companies. In addition, as of November 2021, three companies were undergoing FSRA's approval process and various other companies (which include providers of custody services to investors) were in the process of establishing operations. In March 2021, the Dubai Multi Commodities Centre ("**DMCC**"), the largest free zone in the UAE, set up a regulatory framework for crypto firms in collaboration with the SCA. The recent enactment of the Virtual Assets Law together with these developments, and a number of others, reflect the ever-growing interest in virtual assets in the UAE.

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