

THE WORLD'S LEADING AND
MOST COMPREHENSIVE

**VIRTUAL ASSETS
FRAMEWORK BY
ABU DHABI
GLOBAL MARKET**

CONDUCTING VIRTUAL ASSET ACTIVITIES IN ADGM

A COMPREHENSIVE AND ROBUST REGULATORY FRAMEWORK FOR VIRTUAL ASSET ACTIVITIES

In response to global demand from industry players, in 2018, the Financial Services Regulatory Authority (FSRA) of ADGM became the first jurisdiction globally to introduce and implement a comprehensive and bespoke regulatory framework for the regulation of exchanges, custodians, brokers, and other intermediaries engaged in virtual asset activities.

ADGM's virtual assets framework is based on international regulatory standards which address the full range of associated risks including those relating to money laundering and financial crime, consumer protection, technology governance, custody and exchange operations, this framework is further underpinned by ADGM's strong rule of law through the direct application of English common law, providing legal certainty and comfort for transactions undertaken in its market.

ADGM's virtual asset firms benefit from the FSRA's forward-thinking approach to regulation, supporting its ecosystem with the governance, oversight, and transparency needed to allow for future growth and innovation, as well as foster market confidence for all participants.

Leading The Way- From The 1st Comprehensive Virtual Assets Framework to Setting International Standards with its Guiding Principles

“Since 2018 ADGM has made significant enhancements to its capital markets framework and has contributed to the growth of virtual assets globally through its guiding principles. FSRA's ongoing significant regulatory enhancements further elevate ADGM's flourishing financial ecosystem, the economy of Abu Dhabi and broader UAE region. The FSRA continues to enhance its virtual assets framework, supporting its licensed firms, providing the transparency and regulatory governance for entities looking to establish in the region and ultimately, the trust and credibility for investors. ”

Emmanuel Givanakis,
CEO, Financial Services
Regulatory Authority

UNIVERSE OF DIGITAL ASSETS – WHAT DOES THE FSRA REGULATE?

The diagram below illustrates ADGM FSRA’s regulatory approach under the Financial Services and Markets Regulations (FSMR) in relation to various types of digital assets. The universe of digital assets and associated products regulated by the FSRA includes Virtual Assets, Digital Securities, Stable Tokens and Derivatives/Funds.

Digital Assets				
Virtual Assets	Digital securities	Stable Coins	Derivatives/ Funds	Other Digital Tokens
E.g., non-fiat virtual currencies (e.g., Bitcoin, Ether).MTFs, custodians and intermediaries conducting Virtual Asset business in ADGM are required to apply and hold a relevant license under FSMR	Digital Assets with Security characteristics (including ‘tokenised’ offerings of Securities). Financial services activities in relation to Security Tokens (e.g., the offering of, dealing in, providing custody of, or advising) are regulated under FSMR.	Digital tokens that are fully (1:1) backed by fiat currency. Some activities, where tokens are used as payment instruments, may be regulated as Providing Money Services under FSMR.	Derivatives over Digital Assets, and Collective Investment Funds investing in Digital Assets, are regulated as Derivatives and Units in a Fund under FSMR. Market operators and intermediaries dealing in such Derivatives and Funds are licensed by FSRA.	E.g., utility tokens which do not exhibit the features and characteristics of a regulated investment / instrument under FSMR

• The dotted line indicates the Digital Assets that are regulated by the FSRA within ADGM

WHAT IS A VIRTUAL ASSET?

Within ADGM, "Virtual Asset" means a digital representation of value that can be digitally traded and functions as

(1) a medium of exchange; and/or (2) a unit of account; and/or (3) a store of value, but does not have legal tender status in any jurisdiction.

A Virtual Asset is:

- neither issued nor guaranteed by any jurisdiction, and fulfils the above functions only by agreement within the community of users of the Virtual Asset; and
- distinguished from Fiat Currency and E-money*.

**Intended to distinguish Virtual Assets from legal tender fiat currencies.*

CONCEPT OF ACCEPTED VIRTUAL ASSETS UNDER FSMR

FSRA will only allow authorised firms to use "Accepted Virtual Assets" within ADGM.

FSRA has a general power to determine each Accepted Virtual Asset that will be permitted in relation to virtual asset activities within ADGM.

For the purposes of determining whether a Virtual Asset meets the requirements of being an Accepted Virtual Asset, FSRA will consider:

- a. a maturity/market capitalisation threshold, at the time of an application; and
- b. such other factors that, in the opinion of FSRA, need to be taken into account in determining whether or not a particular Virtual Asset meets the requirements to be considered an Accepted Virtual Asset



CONDUCTING VIRTUAL ASSET ACTIVITIES WITHIN ADGM

regulated firms within ADGM will be issued with a single Financial Services Permission (FSP) for the purposes of its Regulated activities, which can include both 'conventional' and 'Virtual Asset' related activities.

Two key specific activities attract higher regulatory requirements, namely:

- Operating a Virtual Asset Multilateral Trading Facility (an 'exchange'); and
- Operating as a virtual asset Intermediary; a custodian, broker-dealer, asset manager and advisor

WHICH VIRTUAL ASSET ACTIVITIES ARE REGULATED?



THE FSRA'S REGULATORY OVERSIGHT

Focused on 5 key risk areas:

AML/CTF/TAX

FSRA AML Rulebook applies in full to Virtual Asset activities. Entities will need to consider reporting obligations in relation to FATCA and Common Reporting Standards.

1

Consumer Protection

All material risks associated with Virtual Assets generally, Accepted Virtual Assets and Virtual Assets products, services and activities must be disclosed.

2

Technology Governance

Systems and controls must be in place in relation to Virtual Asset wallets; origin and destination of Virtual Asset funds; private keys; security and risk management.

3

Exchange Type Activities

Virtual Asset trading platforms regulated as 'Multilateral Trading Facilities' (MTFs). (including market surveillance settlement processes; transaction recording; transparency & public disclosure mechanism; and exchange-like operational systems and controls (including in relation to access).

4

Custody

Custodians regulated similarly to FRSA regulated 'conventional' custodians, FSMR includes Virtual Assets as Client Assets and Client Investments, and requires more frequent reconciliations/reporting.

5

ADGM'S GUIDING PRINCIPLES FOR VIRTUAL ASSETS

1. A Robust and Transparent Risk-Based Regulatory Framework

The virtual assets framework includes a full suite of regulations, activity specific rules and supporting guidance which applies to every licensed entity. The framework provides a clear taxonomy defining virtual assets as commodities within the universe of digital assets, offering greater protection to investors, maintaining market integrity, and helping to future-proof against financial stability risks through its dynamic approach to new industry trends.

2. High Standards for Authorisation

ADGM has issued several Financial Services Permissions (FSPs) to trading venues (MTFs) and market intermediaries (brokers, dealers, custodians, and asset managers) and continues to enhance its regulatory architecture to build a vibrant ecosystem. One of ways in which ADGM's FSRA achieve this is through engagement with its community and sandbox-type initiatives, such as the RegLab and DigitalLab which enables close collaboration between the different participants in a secure testing environment.

The FSRA recognise the operation of exchange-type activities as a key factor of connecting virtual assets to the mainstream financial system. Its oversight of Virtual Assets transactions is calibrated to ensure fair and orderly markets, to prevent market abuse, and operators within the jurisdiction must meet the transparent and high standards of regulatory compliance to instil market confidence.

3. Preventing Money Laundering and other Financial Crime

Some of the features associated with virtual assets such as user anonymity, ease of access, infrastructure segmentation and jurisdictional location can make it susceptible to money laundering and terrorism financing. The FSRA's Financial & Cyber Crime Prevention Unit acts as a centre of expertise and leads efforts in promoting sound practices in financial crime compliance. The FSRA applies the same AML/CFT rules for virtual assets to ensure international best practices of beneficial ownership transparency and applicable reporting obligations.

4. Risk-Sensitive Supervision

The FSRA adopts a risk-based approach to supervision of virtual asset firms and expects entities to have sound risk management practices in place as appropriate to the nature, materiality, and size of their business. ADGM's framework also includes safeguarding to ensure market integrity, investor protection and financial stability. In its supervisory programme, the FSRA will look at certain risk drivers including Custody of Virtual Assets, Technology and Governance Controls, Exchange-Type Operations, and Investor Protection.

5. Commitment to Enforce on Regulatory Breaches

For the FSRA to meet its statutory objectives ADGM legislation sets out a range of supervisory and enforcement tools and actions to identify, address and deter any regulatory breaches, irrespective of sector or regulatory activity. The FSRA and enforcement authorities can investigate any breaches and publish full details of formal actions that are undertaken as a result.

6. International Cooperation

Due to virtual assets global reach, the FSRA believe that collaboration between regulators internationally is vital in mitigating the variety of risks they pose. Since pioneering the regulatory framework for virtual assets, the FSRA has entered a number of bilateral and multilateral Memorandum of Understanding (MoU) to support the exchange of information between regulators. The FSRA has built a deep understanding and has practical experience on risks in this sector and continues to revise its framework to keep pace with industry developments as well as engage with and provide insight to other international financial centres.

FEES AND CAPITAL REQUIREMENTS

Given that heavy supervisory resources will be required, high fees are imposed for authorisation and supervision of Virtual Asset activities

	MTF	Virtual Asset – GENERAL
Authorisation Fee	US\$125,000	US\$20,000
Supervision Fee	US\$60,000	US\$15,000

A sliding-scale Trading Levy will apply to MTFs conducting Virtual Asset activities:

AVERAGE DAILY VALUE (ADV) (\$USD)	LEVY
ADV ≤ 10m	0.0015%
10m < ADV ≤ 50m	0.0012%
50m < ADV ≤ 250m	0.0009%
ADV > 250m	0.0006%

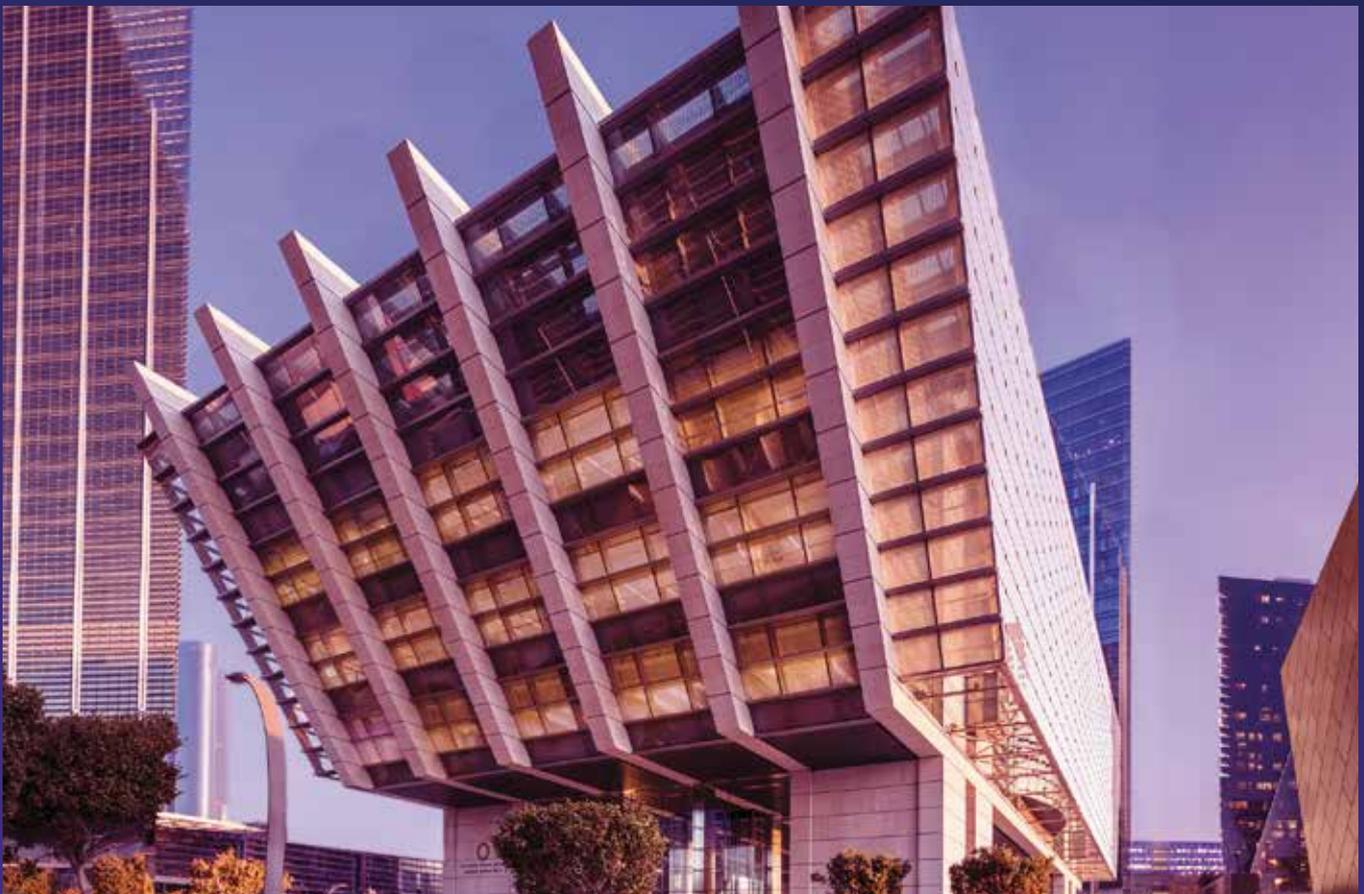
CAPITAL REQUIREMENTS

- ▶ Virtual Asset Exchanges = 12 months operational expenses
- ▶ Other Virtual Asset entities = 6 months operational expenses

One of the World's premier International Financial Centres in the capital of the UAE

Abu Dhabi Global Market (ADGM), is an award winning international financial centre located in Al Maryah Island and consists of three independent authorities – the Registration Authority, the Financial Services Regulatory Authority (FSRA) and ADGM Courts.

Operating in line with international best practices through its transparent and pioneering regulatory frameworks, business-friendly operations, application of English Common Law and independent legal jurisdiction, and its well-established local and international strategic partnerships, ADGM provides exceptional service and opportunities for its business community to thrive.



WHY ADGM?



WORLD-CLASS FINANCIAL AND BUSINESS SUPPORT

- Access to a vibrant and inclusive ecosystem of financial and non-financial entities, professional and corporate services
- Home to global institutions, icons and brands



INTERNATIONALLY-RECOGNISED LEGAL AND REGULATORY JURISDICTION

- An independent jurisdiction with its own civil and commercial laws
- English Common law directly applicable providing high levels of legal certainty
- Agile and responsive regulations to developments within the sector and market needs
- Fully digital Independent ADGM eCourts
- State-of-the-art Arbitration Centre with world-class hearing facilities and international mediator panels
- Use of standard form transactional documentation for increased efficiency



TAX ENVIRONMENT

- Tax friendly environment, with 0% direct tax
- No restrictions on repatriation of profits
- Benefit from UAE's extensive network of double tax treaties



BUSINESS-ORIENTED PROCESS AND PROCEDURES

- Fully digital application process to provide highest level of efficiency
- Support with visas and government services
- Access to a number of business services through approved Corporate Service Providers (CSPs)



INFRASTRUCTURE AND CONNECTIVITY

- Grade 'A' offices and modern infrastructure
- Global connectivity through world-class airlines
- Leading hotels, healthcare and lifestyle amenities on Al Maryah Island

ABU DHABI QUICK FACTS



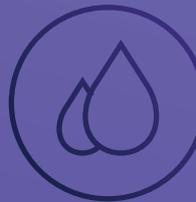
Accounts for 2/3 of the approx
\$400 BN economy of UAE



More than half of GDP from
from non-oil & gas sectors



Average GDP growth
of 11% p.a. since 2005



Owens 3% of the world's
gas reserves



Stable inflation
rate of 2%



Owens 9% of the world's
proven oil reserves



Per capita GDP
of \$76,000



Require more information?

The FSRA Team is available to provide more information and further explanation on the ADGM Virtual Assets Regulatory Framework and applications for Operating a Virtual Asset Business licence. Please feel free to contact us to arrange a meeting.

CONTACT US

For applicants applying for the approval of operating a Virtual Assets Multilateral Trading Facility (or Exchange) please email

✉ MIP@adgm.com

For applicants applying for the approval of operating as a Virtual Assets Intermediary (Broker, Dealer or Service Provider) please email

✉ authorisation@adgm.com

For more details about ADGM, please visit us at www.adgm.com

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