

Virtual Asset Service Providers

**Navigating the future of digital
assets with PwC**

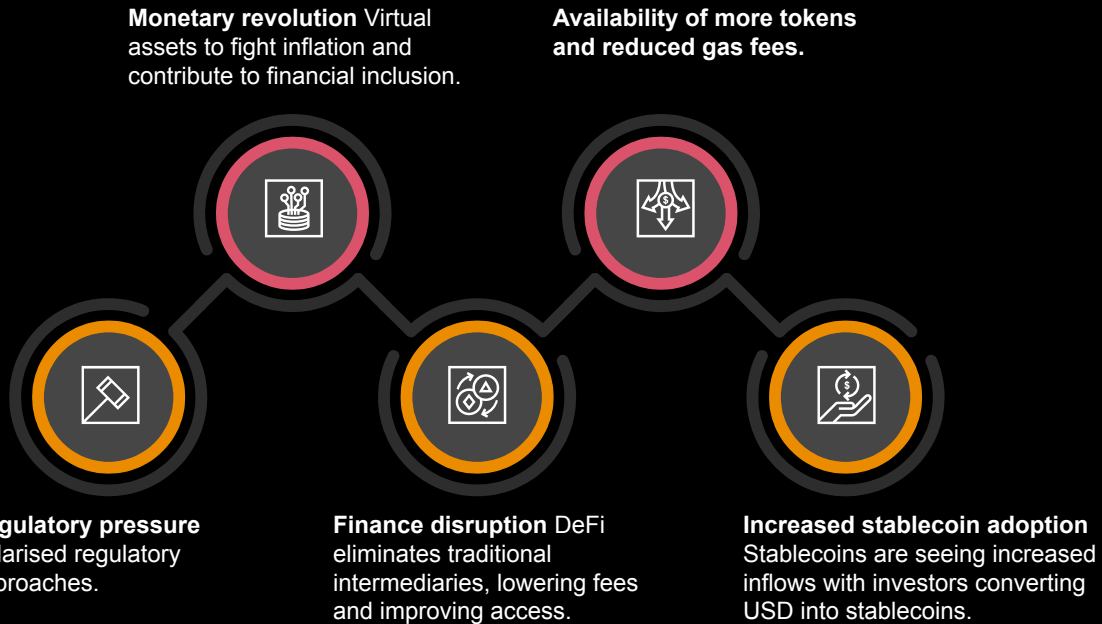


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In recent years, there has been an increased adoption of virtual assets, driven by key global and regional trends

Global trends

In spite of recent market turbulence and regulatory pressure, the adoption of virtual asset is moving from the fringes of finance to the largest institutions in the world, driven by macro factors.



Regional trends

A subset of regional factors are creating the 'pull' for adoption of virtual assets and associated business models.

01 Expansive virtual assets ecosystem

Government investments, clear strategies, ease of doing business and favourable tax regimes, have attracted more than 1,400 virtual assets and Web3 companies* to the UAE.

01

03 Regulatory clarity

The UAE has a comparatively clear regulatory regime and welcoming stance. Companies from hostile jurisdictions are migrating here to establish regional/global headquarters. Other GCC territories are on the same journey.

03

02 Institutional investors and financial institutions entering the market

Traditional financial institutions and banks are exploring opportunities to enter the virtual assets space with multiple services, such as accounts opening for Virtual Asset Service Providers (VASPs), brokerage and custody services.

02

04 Currency devaluation in some MENA countries

Currency devaluation in Turkey and Egypt has strengthened the appeal of virtual assets (stablecoins) to preserve savings.

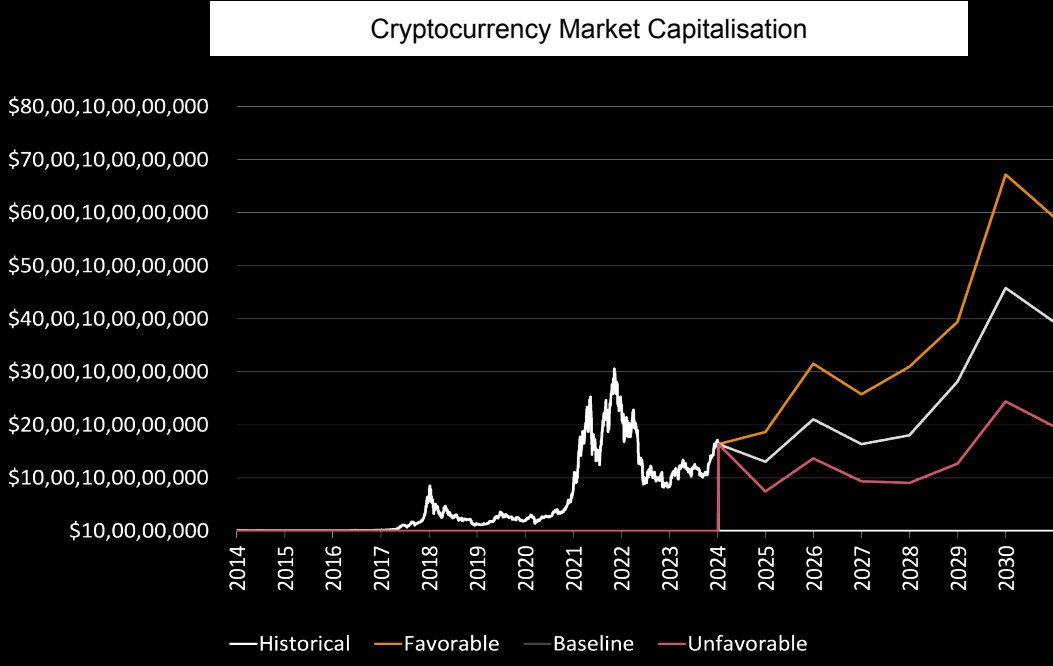
04

*Crypto Oasis Report 2023

While the global market prepares for its cyclical resurgence, the local virtual assets market is strategically positioned to capitalise on the growth

The crypto asset market has historically exhibited a four-year cyclical pattern — one year of a bear market followed by three years of market recovery and growth — fuelled by technological and regulatory developments and accelerated by halving events.

Global historical trends indicate market growth in coming years*



Key trends shaping the local virtual assets economy in the UAE

The UAE continues to lead in terms of **regulatory clarity** surrounding virtual assets service provision.

1,400+ Virtual Assets Service Providers are setting up local operations in the UAE (Source: CryptoOasis).

Local banks now look to commence virtual assets service provision in the UAE.



Target customer segmentation and opportunities

B2C

Cryptocurrency adoption among the UAE residents is estimated to be around 33 per cent. Despite local regulators awarding only a few licences for service provision to retail consumers, this is already a highly fragmented space.

B2B

Despite the growing interest, institutional adoption is relatively low. This presents an opportunity for Virtual Asset Service Providers entering the market to be the first mover in the segment, with a B2B tailored service offering.

B2B2C

As banks and other institutional players look to enter the market with their own virtual assets service offerings, Virtual Asset Service Providers providing infrastructure and products that enable seamless integration of virtual assets capabilities are finding themselves in a unique position.

*Based on PwC research and analysis utilising multiple sources

While Virtual Assets Service Providers in the gcc are supported by a vibrant ecosystem, they also face challenges in operating and growing



Regulatory obligations and licensing



Accessing banking products and services



Institutional access (Partnerships)



Funding

Challenges

VASPs performing **regulated activities** will need to be **licensed and comply with regulatory requirements**.

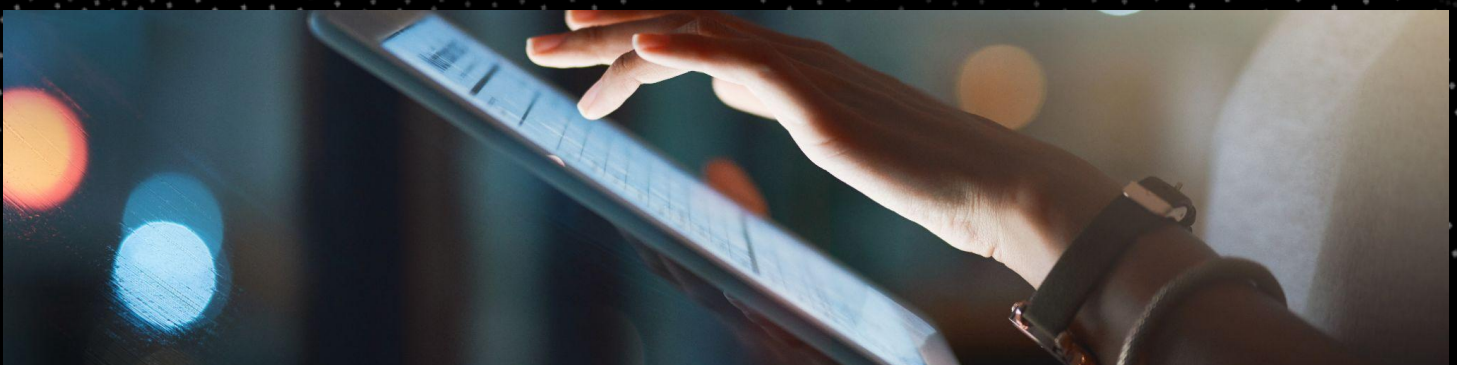
Due to the high-risk profile of virtual assets activities, institutions and FIs are concerned about the potential risks of partnering with VASPs.

VASPs with inadequate controls will be perceived as high risk, and are far less likely to have their product applications accepted.

VASPs, like many other startups and tech companies, continue to face challenges in raising capital.

Impact

| | | | |
|-------------------------------------|--------------------------------|--|---|
| Fines | Business expansion limitations | Difficulty in accessing credit to finance growth opportunities | Restricted growth and scalability of early stage ventures |
| Restrictions on business activities | Restricted customer reach | Negative market reputation | Limited innovation in local landscape |
| Licence suspension/ revocation | Integration challenge | Inability to operate | Reduced financial stability among Virtual Asset Service Providers, driving lower customer trust |



PwC offers an integrated team of cross-functional virtual assets specialists to support Virtual Assets Service Providers in entering the market, meeting compliance requirements and achieving growth targets

Strategy, business, operations and technology

Strategic positioning and blueprint development based on in-depth market analysis.

Development of a scalable **business model** aligned with the global virtual asset environment.

Roadmaps for entry into new markets/product development, aligned with local regulations and market conditions.

Target operating model (processes, technologies, capabilities, governance and education).

Integration and product deployment support.

Technology strategy, resilience, security, governance and implementation support including selection, quality assurance and partnering with vendors.

Risk, regulation, compliance and financial crime

Regulatory framework **navigation** across jurisdictions of interest in GCC.

Regulatory compliance **gap assessment, recommendations, and implementation support.**

Financial crime controls enhancements — assess, report and implementation support.

Risk assessment framework and risk scoring engine.

Regulatory compliance and financial crime compliance framework **maturity assessment.**

Support to meet regulatory and compliance obligations for **licence applications and maintenance.**

Growth, maturity and partnership

Partnership and alliance strategies to build a robust presence and foster growth.

Identifying opportunities for scalability and **product development.**

Defining **capital strategy and funding** opportunities to enable expansion and scalability

Technical due diligence and partner selection support for third-party strategic partnerships

Identification and assessment of **market expansion opportunities** by white-labelling infrastructure.

Meet our Virtual Assets Leadership Team



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