

The Virtual Assets Regulatory Authority (“VARA”) releases the Full Market Product Regulations (the “FMP Regulations”)

On 7th February 2023, VARA released the FMP Regulations. This framework includes the Virtual Assets and Related Activities Regulations 2023 (“**the Regulations**”) and its related Rulebooks pursuant to Law No. (4) of 2022 Regulating Virtual Assets in the Emirate of Dubai (“**the Law**”) on the governance of Virtual Assets (“**VAs**”) and Virtual Asset Activities (“**Activities**”).

Following the Law establishing VARA as the VA regulator in Dubai (excluding the Dubai International Financial Centre or “**DIFC**”), the FMP Regulations have been issued to provide clarification and guidance on how VAs and the Activities are to be dealt with.

The Regulations aim to protect consumers, ensure market integrity and stability, ensure VARA is resilient and effective, and promote innovation.

VARA has also released a combination of Rulebooks, which VASPs are subject to. All VASPs must comply with the following Rulebooks:

1. Company Rulebook;
2. Compliance & Risk Management Rulebook;
3. Technology & Information Rulebook; and
4. Market Conduct Rulebook.

In addition, VARA has released Activity specific Rulebooks, which VASPs must comply with in relation to the Activity they are licensed to undertake:

1. Advisory Services Rulebook;
2. Broker-Dealer Services Rulebook;
3. Custody Services Rulebook;
4. Exchange Services Rulebook;
5. Lending and Borrowing Services Rulebook;
6. Payments and Remittances Services Rulebook; and
7. VA Management and Investment Services Rulebook.

Furthermore, any legal entity or individual (“**Entity**”) issuing VAs in the course of a business must comply with the VA Issuance Rulebook.



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Client Alert: VARA Full Market Product Regulations 2023

This is a significant development in the digital economy space, not only for the Emirate of Dubai but also globally. VARA is the world's first dedicated VA regulator.

This client alert highlights some of the key takeaways from the Regulations, with a more detailed summary to be published soon.

Who do the Regulations apply to?

- The Regulations regulate all VAs and Activities conducted in Dubai (excluding the DIFC). Thus, any Entity looking to carry out an Activity in Dubai must obtain an Activity license (“**License**”) from VARA.
- All activities relating to UAE Central Bank Digital Currencies shall remain under the sole and exclusive jurisdiction of the Central Bank of the UAE (“**CBUAE**”).
- Licensed entities (Virtual Asset Service Providers or “**VASPs**”) are still required to comply with any applicable CBUAE regulations in relation to VAs and Activities.

Prohibited VAs

- The issuance of anonymity-enhanced cryptocurrencies (“**AECs**”) and any related Activities are prohibited under the Regulations.
- AECs are VAs that prevent the tracing of transactions and recording of ownership through distributed public ledgers.

Licensing and/or registration

- The Regulations have introduced two mechanisms for operating a VA business in Dubai (excluding the DIFC). An Entity can either obtain a License or register with VARA.
- The licensing regime is aimed at VASPs, whereas the registration regime is primarily aimed at large VA traders. It is important to note that registration does not constitute a License. If a registered business aims to conduct an Activity, they will require a License as highlighted below.

Licensing

Any Entity looking to conduct the following Activities must obtain a License from VARA:

1. Advisory Services;
2. Broker-Dealer Services;
3. Custody Services;
4. Exchange Services;
5. Lending and Borrowing Services;
6. Payments and Remittances Services; and
7. VA Management and Investment Services.

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The Regulations have exempted the following from obtaining a License:

1. Employees facilitating their licensed employers; and
2. Select licensed business professionals.

Registration

Mandatory registration for large proprietary traders

- Any Entity actively investing in its own VA portfolio at or above USD 250 million during a rolling period of 30 calendar days must register with VARA prior to investing, or no later than 3 days after investing the amount.
- This registration does not constitute a License.
- This Entity cannot accept or trade VAs belonging to another Entity.

Voluntary registration for other market participants

Any Entity looking to obtain a commercial or free zone license from Dubai to carry out the following activities can also voluntarily register with VARA:

1. Providers of technology services relating to distributed ledger technology; or
2. Entities actively investing in their own Virtual Assets portfolio.

Final thoughts

The FMP Regulations offer stability and structure in a fast-paced market that was previously unregulated. It is essential for businesses to assess whether they fall within the remit of the FMP Regulations, and if so, what their next steps should be.

Our Fintech and Financial Services team at PwC Legal Middle East LLP is here to help you with any VARA related queries.

For further assistance, feel free to reach out to us. Stay tuned for further information.



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Contact us



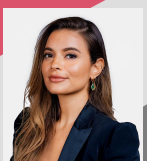
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