

Cabinet Decision No. 111/2022 On the Regulation of Virtual Assets and Their Service Providers

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The Council of Ministers,

After perusal of the Constitution;

Federal Law No. 1/1972 on Competencies of the Ministries and Powers of the Ministers, and its amendments;

Federal Law No. 4/2000 on the Emirates Securities and Commodities Authority and Market, and its amendments;

Federal Law No. 8/2004 on Financial Free Zones;

Federal Decree-Law No. 14/2018 on the Central Bank and the Organisation of Financial Institutions and Activities, and its amendments;

Federal Decree-Law No. 20/2018 on Combating Money Laundering and the Financing of Terrorism and Illegal Organisations, its amendments and its Implementing Regulation;

Cabinet Decision No. 11/2000 on the Regulation of the Licensing and Control of the Market;

And Cabinet Decision No. 13/2000 Concerning the Regulation Governing the Work 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 Council of Ministers,

Has decided the following:

Article 1 - Definitions

In application of the provisions of this Decision, the following terms and expressions shall have the meanings assigned against each, unless the context indicates otherwise:

- UAE: The United Arab Emirates.
- Authority: The Securities and Commodities Authority.
- Central Bank: The Central Bank of the United Arab Emirates.
- Local Licensing Authorities: The local authority with competence to regulate Virtual Assets in the concerned Emirate.
- Free Zones: Any free zone existing or established within the UAE under any federal or local legislation.
- Financial Free Zones: The Free Zones governed by the provisions of Federal Law No. 8/2004 on Financial Free Zones.
- Virtual Assets: A digital representation of value that can be digitally traded or transferred and can be used for investment purposes. This does not include the digital representation of fiat currency, securities or other assets.
- Virtual Asset Activities: The activities related to the provision of Virtual Asset services in the UAE, or the related transactions, that 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 the Virtual Asset.
- Virtual Asset Service Providers: Any legal person who engages in one or more activities related to the Virtual Assets or the transactions related thereto for or on behalf of a Person, in their capacity as Virtual Asset Platform Operator, Virtual Asset broker or 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 and executing related clearing and settlement transactions, and storing and saving information and data through the Distributed Ledger Technology, or any other similar technology.
- Virtual Asset Platform Operator: The legal person licensed by the Authority to regulate trading of Virtual Assets through the Virtual Asset Platform in accordance with the provisions of this Decision.
- Distributed Ledger Technology: A public or private digital database for recording, creating, saving and sharing dispositions of Virtual Assets, whereas their validity and ownership are established in a network of cluster of nodes executed automatically from multiple locations and places, including the blockchain technology.
- Stored Value Facilities: Non-cash facilities in an electronic or magnetic form that are purchased by the user as a means of payment for commodities and services.

Article 2 - Objectives of the Decision

This Decision shall aim to achieve the following objectives:

1. Putting in place the legislative system for the Virtual Asset sector in the UAE and the related activities and the Service Providers, such as to define and ensure the rights and duties of all relevant parties.
2. Regulating the Virtual Asset sector in the UAE and the related activities and the Service Providers.
3. The Virtual Asset sector in the UAE complying with all the provisions of Federal Decree-Law No. 20/2018 on Combating Money Laundering and the Financing of Terrorism and Illegal Organisations, its amendments and its Implementing Regulation, and the legislation in force related to the sector.

4. Supporting the efforts of the UAE to create an attractive investment, economic and financial environment for international companies and institutions operating in the Virtual Asset sector to provide their services in the UAE.
5. Protecting Virtual Asset investors from illegal practices.

Article 3 - Scope of Application

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

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

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

- a- The regulation of Virtual Assets within the Financial Free Zones, and all the related transactions.
- b- The digital securities and the digital commodity contracts that are subject to their respective regulations issued by the Authority.
- c- The Virtual Assets for payment purposes, including Stored Value Facilities, that fall under the jurisdiction of the Central Bank, save those approved by the Central Bank for listing and trading for the purposes of investment in the Virtual Asset Platform.

Article 4 - General Provisions

1- No Person may engage in Virtual Asset Activities in the UAE without obtaining the approval and licence from the Authority or the Local Licensing Authorities - as the case may be - in accordance with the provisions of this Decision.

2- A Person who wishes to engage in Virtual Asset Activities shall be based in the UAE to conduct his business, according to a legal form approved by the local authorities concerned with commercial licensing.

3- A Person who wishes to engage in Virtual Asset Activities shall obtain the necessary initial approval and permits from the Authority or the Local Licensing Authorities - as the case may be - prior to commencing the licensing procedures by the local authorities concerned with commercial licensing.

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

5- The provision of this Article shall not apply to Virtual Assets designated for payment purposes that fall under the jurisdiction of the Central Bank.

Article 5 - Virtual Asset Activities Subject to Licensing

1- The following activities shall be subject to licensing and control by the Authority in accordance with the provisions of this Decision:

- a- Providing services for the operation and management of Virtual Asset Platforms.
- b- Providing services for the exchange between one or more forms of Virtual Assets.
- c- Providing services for the transfer of Virtual Assets.
- d- Providing brokerage services in Virtual Asset trading.
- e- Providing services for the custody and management of Virtual Assets and enabling control over them.
- f- Providing financial services in connection with the Issuer's offer and/or sale of Virtual Assets or participating in the provision of such services.

2- The Council of Ministers may, based on the Authority's proposal, and after it coordinates with the Local Licensing Authorities and the Central Bank, amend by addition or deletion the activities set out in this Article.

Article 6 - Competencies of the Authority

1- For the purposes of implementing the provisions of this Decision, the Authority shall exercise the following competencies:

- a- Overseeing and controlling the Virtual Asset Activities, the Service Providers and the transactions executed within the UAE, including the Free Zones.
- b- Issuing the decisions regulating Virtual Asset transactions, and licensing the Service Providers, and the work mechanism thereof.
- c- Verifying compliance by Virtual Asset Service Providers with the legislation in force in the UAE in relation to the protection of personal data.

- d- Issuing the necessary instructions and directions in coordination with the concerned authorities to set up a mechanism for assessing and monitoring Virtual Asset Service Providers, and the procedures and measures to be taken in respect of suspicious transactions executed in violation of the provisions of Federal Decree-Law No. (20) of 2018 on Combating Money Laundering and the Financing of Terrorism and Illegal Organisations, its amendments, its Implementing Regulation, the decisions issued thereunder, the legislation in force in the UAE and international requirements.
- e- Raising awareness and educating investors about the Virtual Asset investment sector and its risks.
- f- Obtaining the approval of the Central Bank in all matters related to ensuring the protection and stability of the financial and monetary system in the UAE.

2- The Authority may - based on a decision of the Authority's Board of Directors - delegate any of its competencies set out herein to Virtual Asset Service Providers.

Article 7 - Minimum Requirements In the Virtual Asset Sector

1- The Authority shall verify that the following requirements are met when licensing Virtual Asset Service Providers:

- a- Neither the licence applicant nor the partners therein shall be included in the lists of sanctions or terrorist watchlists issued by the official authorities in the UAE or by international organisations recognised by the UAE, especially those concerned with combating money laundering and the financing of terrorism and illegal organisations, and they shall not be subject to any criminal investigations inside or outside the UAE at the time of submitting or examining the application for registration, and no final court judgment shall have been issued against them in a crime of money laundering or of financing terrorism or illegal organisations.
- b- The technical systems used by Virtual Asset Service Providers shall be efficient and capable of protecting investor data in accordance with international best practices and current technology and/or cybersecurity standards.
- c- The Virtual Asset Service Providers shall meet the requirements and conditions for capital, credit guarantees, securities, compliance management systems and other controls, in accordance with the executive decisions issued by the Authority.

2- The Authority shall verify, through the development of inspection programmes and control procedures, the fulfilment of the following requirements when Virtual Asset Service Providers engage in Virtual Asset Activities:

- a- Obligation of Virtual Asset Service Providers to provide their services to investors in accordance with the provisions of this Decision and the decisions issued hereunder, and to disclose to them all the risks associated with those services in a clear, fair and non-misleading manner.
- b- Compliance by Virtual Asset Service Providers with the provisions and requirements set out in Federal Decree-Law No. (20) of 2018 on Combating Money Laundering and the Financing of Terrorism and Illegal Organisations and its Implementing Regulation as well as the FATF requirements, particularly those related to Virtual Assets and their Service Providers.
- c- Provision of an effective mechanism whereby the Virtual Asset Service Providers shall notify the Authority and the concerned authorities in the event that the services they provide are exposed to security risks, security breaches or any behaviour that constitutes cybercrime.

Article 8 - Compliance with Legislation on Combating Money Laundering and the Financing of Terrorism and Illegal Organisations

All Virtual Asset Service Providers in the UAE shall comply with the legislation in force on combating money laundering and the financing of terrorism and illegal organisations, and the decisions issued in implementation thereof.

Article 9 - Obligations and Oversight of Local Licensing Authorities

1- The Local Licensing Authorities shall provide the Authority with all data and information related to Virtual Asset Service Providers, the licences issued to them and the transactions in respect of the assets, upon the Authority's request, in a manner that achieves compliance with the legislation in force and international obligations.

2- The Authority shall have the power to supervise and oversee Providers of Virtual Asset Services licensed in the UAE, including those licensed by the Local Licensing Authorities.

3- The Authority shall coordinate among the various Local Licensing Authorities, the Central Bank and the concerned authorities, to exchange information and hold the necessary events for raising awareness concerning the regulation of Virtual Assets.

Article 10 - International Representation in Organisations and Events

Without prejudice to the powers of the Central Bank under the legislation in force in the Financial Free Zones, the Authority shall have the competence to participate in organisations and events related to Virtual Assets that require the representation of the UAE, and it may invite the Local Licensing Authorities and the concerned authorities to participate in such organisations and events.

Article 11 - Fees

The Authority shall collect the fees and commissions that are determined by a Cabinet decision for the issuance of licences and approvals and the other services it provides in accordance with the provisions of this Decision and the decisions issued hereunder, subject to non-duplication with any fees collected by the Local Licensing Authorities for the services they provide hereunder.

Article 12 - Violations and Penalties

The Board of Directors of the Authority shall, after coordination with the Local Licensing Authorities and the Ministry of Finance, and upon approval of the Council of Ministers, issue a decision determining the violations and administrative penalties for acts that occur in violation of the provisions of this Decision and the decisions issued hereunder, provided that the decision includes the power of the Authority or the Local Licensing Authorities - as the case may be - to impose one or more of the following penalties:

1. Issuing a warning.
2. Suspending the listing or trading of Virtual Assets.
3. Discontinuing the use of the technologies related to Virtual Assets that are used by the Service Providers and adopting alternative means.
4. Discontinuing or preventing the operation of the Virtual Asset Platform, and seeking assistance of the concerned authorities in the UAE in the implementation thereof.
5. Suspending any Virtual Asset Services Providers from practising their activity or revoking their licence in accordance with the provisions of this Decision.
6. Suspending any activity practised without a licence in accordance with the provisions of this Decision, and preventing any natural person from carrying out any tasks or related activities without the Authority's approval thereof. The Authority may seek assistance of the competent authorities in the implementation of its decisions or the closure of the violating establishment.
7. Imposing a fine not exceeding (10.000.000) ten million dirhams.
8. Imposing a fine equal to the proceeds of the violation or the avoided losses.
9. Referring the violator of the provisions of this Decision to the Public Prosecution.

Article 13 - Grievances

Whoever is subjected to a penalty may file a grievance with the Chairman of the Board of Directors of the Authority or whomever he delegates against any administrative penalty or measure imposed upon him in accordance with the provisions of this Decision, pursuant to the procedures of the Authority.

Article 14 - Adjustment of Situation

All Virtual Asset Service Providers licensed in the UAE prior to the entry into force of this Decision shall adjust their situation and fulfil the conditions and operational requirements hereunder, within (3) three months from the date of its entry into force. The Authority may extend this period for other periods as required by public interest.

Article 15 - Delegation

The Council of Ministers may, based on the Authority's proposal, delegate any of the Authority's competencies set out in this Decision to any of the Local Licensing Authorities - if any - pursuant to the controls it deems appropriate.

Article 16 - Executive Decisions

The Board of Directors of the Authority shall issue the necessary decisions for the implementation of this Decision in coordination with the Local Licensing Authorities and the concerned authorities.

Article 17 - Abrogation

Any provision that is contrary to or inconsistent with the provisions of this Decision shall be abrogated.

Article 18 - Publication and Entry Into Force of the Decision

This Decision shall be published in the Official Gazette, and it shall come into force (30) thirty days from the date of its publication.

Issued by Us:

On: 18 Jumada Al-Awwal 1444 H.

Corresponding to: 12 December 2022

Mohammed bin Rashid Al Maktoum

Prime Minister

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