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Elven Global Crypto Compliance Research

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# Deep Dive into Dubai VARA License

Elven Research September 2024



# Content

<b>Global Crypto Compliance Landscape.....</b>	<b>3</b>
<b>Report Introduction.....</b>	<b>5</b>
<b>Dubai VARA license registration and eligibility criteria.....</b>	<b>6</b>
<b>Record Keeping / Compliance Documents.....</b>	<b>10</b>
<b>Client Asset Custody.....</b>	<b>13</b>
<b>Conclusion.....</b>	<b>14</b>
<b>About Elven.....</b>	<b>15</b>
<b>Case Study.....</b>	<b>16</b>
Case Study - Regulated Exchange (Coinhako).....	16
Case Study - Listed Company (SINOHOPE).....	17
Case Study - OTC (Hashkey OTC).....	18
Case Study - Payment (DTC Pay).....	19
<b>Reference.....</b>	<b>20</b>

## Global Crypto Compliance Landscape

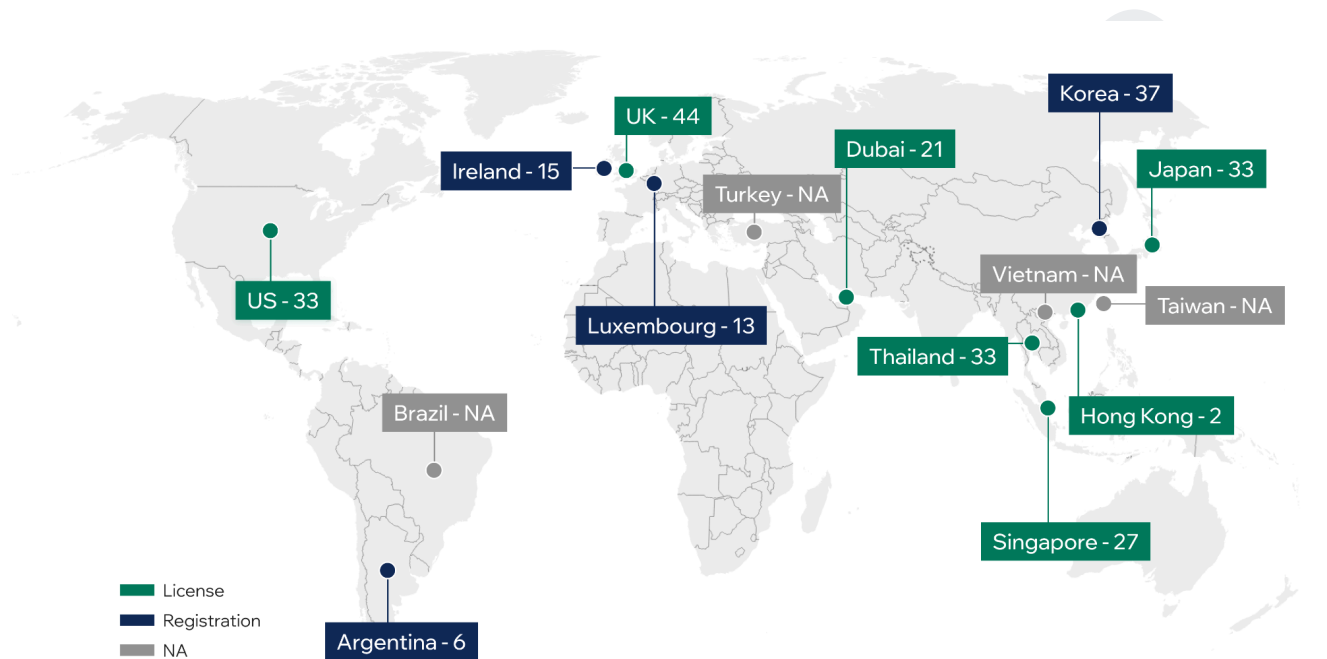


Figure 1: Licensed / Registered Virtual Asset Service Provider in Selected Jurisdiction  
 Source: Regulators (Retrieved 23 Aug), compiled by elven research

There is an increased emphasis on compliance of virtual asset service providers globally. Based on research done by the Financial Action Task Force (FATF),<sup>1</sup> 82 jurisdictions in 2024 require crypto licensing / registration.

<sup>1</sup> Financial Action Task Force (FATF) (June 2024) Targeted Update On Implementation Of The FATF Standards On Virtual Assets And Virtual Asset Service Providers

Jurisdiction - Regulator	Status	Number of VASP
Singapore - MAS	License	27
Hong Kong - SFC	License	2
US - NYSDFS	License	33
Japan - JVCEA	License	33
Thailand - SEC	License	33
Dubai - VARA	License	21
UK - FCA	License	44
Ireland - CBI	Registration	15
Luxembourg - CSSF	Registration	13
Argentina - CNV	Registration	6
Korea - FSC	Registration	37
Turkey	NA	
Brazil	NA	
Taiwan	NA	
Vietnam	NA	

Figure 2: Licensed / Registered Virtual Asset Service Provider in Selected Jurisdiction

Source: Regulators (Retrieved 23 Aug), compiled by elven research

# Report Introduction

## VARA license

Dubai has warm and transparent compliance regulations by the Virtual Assets Regulatory Authority [VARA] in place for virtual assets service providers (VASP) regulated by law No. [4] of 2022 Regulating Virtual Assets in the Emirate of Dubai [Dubai VA Law]. Till date, there are a total of 13 licensed VASP with another 8 VASP applicants.

## Disclosure

In terms of record keeping and compliance documents, the top 3 regulatory disclosure requirements for the VARA license are daily reconciliation of customer assets, monthly, quarterly and annual submissions to VARA and annual audit.

## Safeguarding

Customer asset’s safeguarding is key and they are to be segregated in separate wallets. Assets are 1:1 held and provide customers with all benefits such as “airdrops” or “staking gains”. Keys to be stored in more than one physical location and backup of keys and seed phrases are stored in separate location

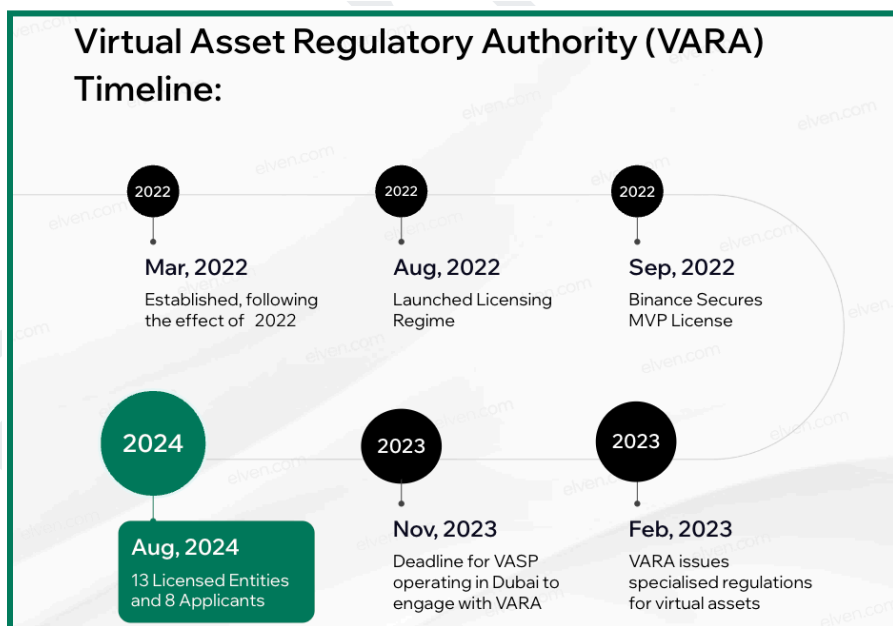


Figure 3: VARA Timeline

Source: [Vara Press Release<sup>2</sup>](#) (Retrieved 23 Aug), compiled by elven research

<sup>2</sup> VARA (Accessed 23 August). *Press Release*

# Dubai VARA license registration and eligibility criteria

## Registration/licensing

The Dubai Virtual Assets Regulatory Authority [VARA] was established and authorised by Law No. [4] of 2022 Regulating Virtual Assets in the Emirate of Dubai [Dubai VA Law] to regulate Virtual Assets and Virtual Asset Service Providers [VASPs].

VARA<sup>3</sup> is affiliated to the Dubai World Trade Centre Authority [DWTCA] and is the competent entity in charge of regulating, supervising, and overseeing Virtual Assets and VA Activities in all zones across the Emirate of Dubai, including Special Development Zones and Free Zones but excluding the Dubai International Financial Centre [the Emirate].

VASPs seeking to offer the below activities must apply for and receive a licence from VARA before undertaking VA activities in Dubai.

1. Advisory Service
2. Broker-Dealer Service
3. Custody Service
4. Exchange Service
5. Lending and Borrowing Service
6. Management and Investment Service
7. Transfer and Settlement Service
8. VA-Issuance Category 1

Application submissions can be made through Dubai Economy and Tourism [DET] for mainland firms, or any Dubai Freezones [FZ] in the Emirate of Dubai [excluding DIFC].

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<sup>3</sup> VARA (Accessed 23 August). *Licensed Activities*

A VASP can apply to be licensed for multiple activities and aggregate them under a single overarching license, except where certain Custody Services are concerned. Where Custody Services are concerned, there are specific requirements to segregate activities and/or demonstrate independence of governance or arms-length association from another.

In the current list of eight activities, Virtual Asset Custody Services is the only regulated activity that is required to be segregated from other Virtual Asset Services license categories. In this instance, a VA Custodian must be set up as a distinct legal entity with a standalone license.

Licensed VASPs are prohibited from proprietary trading or trading their Group's portfolio of assets under the regulated activity(ies) license. A separate company must be set up for proprietary trading. VASPs that are licensed to undertake multiple activities must meet the requirements for each activity in full and maintain compliance at all times.

Any VASP or traditional economy entity seeking to offer the above VA activities must apply for and receive a license from VARA before it can begin operations in or from the Emirate of Dubai, whether offered to customers that are residents of the Emirate, or to global customers where the activity is permissible.



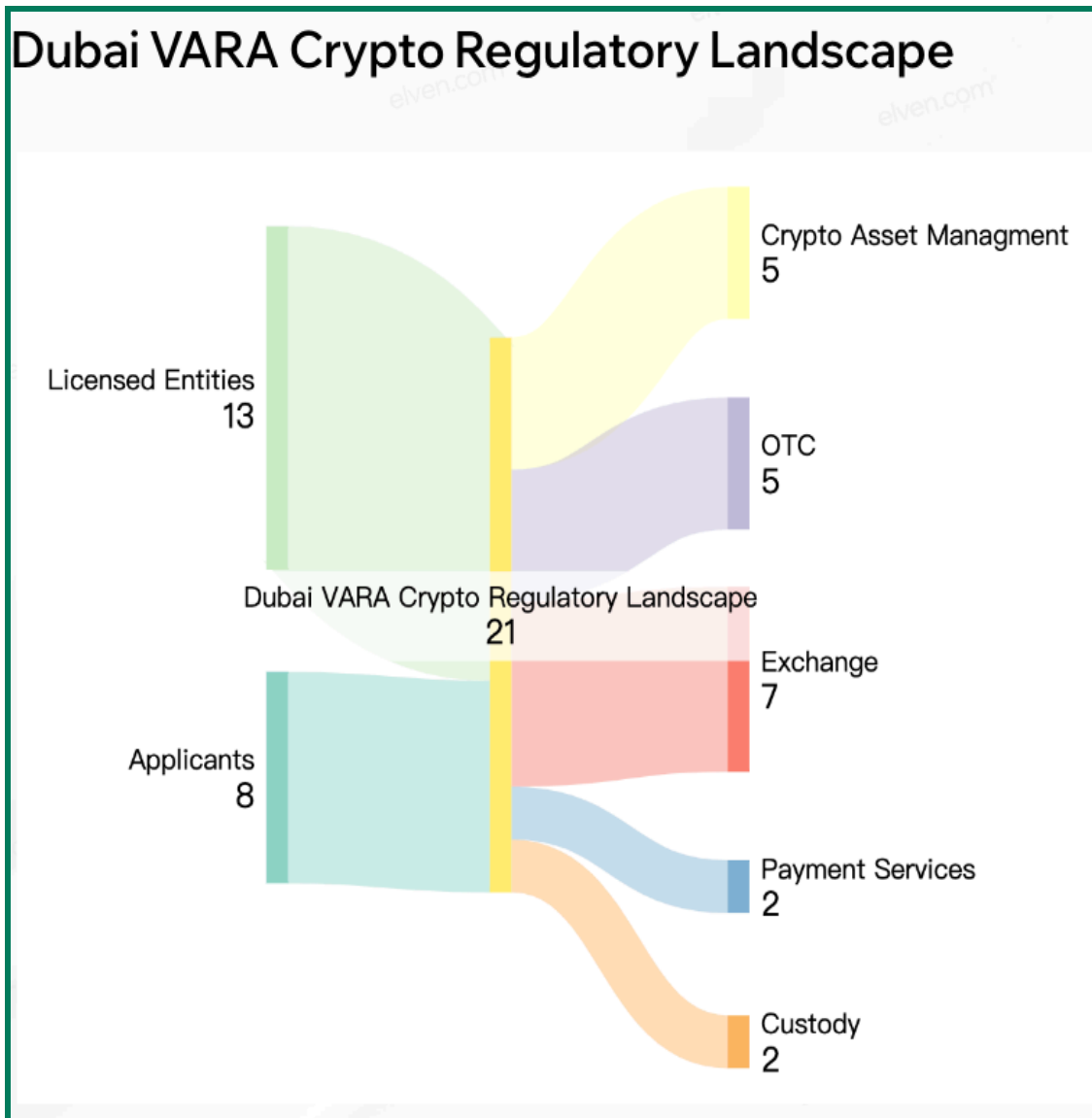


Figure 4: Dubai Crypto Regulatory Landscape  
 Source: VARA Public Register<sup>4</sup> (Retrieved 23 Aug), compiled by elven research

**Crypto Asset Management (4+1)**

 <b>HexTrust</b> <u>HT Markets</u>	 <b>AQUANOW</b> <u>Aquanow</u>	 <b>AYA</b> <u>AYA*</u>
 <b>Nine Blocks Capital Management</b> <u>Nine Blocks Capital</u>	 <b>Laser Digital</b> <u>Laser Digital</u>	








<sup>4</sup> VARA (Accessed 23 August). *Public Register*



OTC (5)

 Roma <u>Roma</u>	 CoinMENA <u>CoinMENA</u>	 GCEX <u>GCEX</u>
 FUZE <u>FUZE</u>	 BitOasis <u>BitOasis</u>	

Exchange (4 + 3)

 Binance <u>Binance</u>	 Crypto.com <u>Crypto.com</u>	 Deribit* <u>Deribit*</u>
 OKX* <u>OKX*</u>	 Backpack <u>Backpack</u>	 TOKO <u>TOKO</u>
 Bybit* <u>Bybit*</u>		

Payment services (1+1)

 WadzPay* <u>WadzPay*</u>	 Fasset <u>Fasset</u>	
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Custody (2)

 Komainu <u>Komainu</u>	 HEX TRUST <u>HEX TRUST</u>	
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Figure 5: VARA Licensed Entities

Source: VARA Public Register<sup>5</sup> (Retrieved 23 Aug), compiled by elven research

\*: Pending status, the rest are active licensed entities

<sup>5</sup> VARA (Accessed 23 August). *Public Register*

## Record Keeping / Compliance Documents

To ensure compliance with VARA<sup>6</sup>, we have summarized the top 3 regulatory disclosure requirements for the VARA license.

- **Daily Reconciliation** of customer assets
- Monthly / Quarterly and Annual submissions to VARA
  - **Monthly:** Financial statements, transactions record and related party transactions
  - **Quarterly:** Financial projections and Reserve assets report
  - **Annual:** Audited financial statements
- **Annual Audit**

- Daily Reconciliation of customer assets

1. VASPs must maintain a system to ensure that accurate reconciliations of the Virtual Assets owned by each client are carried out daily. The reconciliation must include—

- a. a full list of individual client credit ledger balances, as recorded by the VASP; and
- b. a full list of individual client debit ledger balances, as recorded by the VASP.

2. VASPs must notify VARA where there has been a material discrepancy with the reconciliation which has not been rectified.

- Monthly / Quarterly / Annual submissions to VARA

1. On a monthly basis, VASPs shall as a minimum submit to VARA the following information—

- a. their balance sheet and a list of all off-balance sheet items;
- b. their statement of profit and loss;
- c. their income statement;

<sup>6</sup> VARA Rule Book (Accessed 23 August). *Regulatory Framework*

- d. their cashflow statements;
- e. addresses of their VA Wallets;
- f. a full list of Entities in their Group that actively invest their own, or the Group's, portfolio in Virtual Assets, and a complete record of all transactions, including but not limited to loans or any transactions involving any VA Activity for which the VASP is Licensed, with all such Entities identified; and
- g. transactions with Related Parties as prescribed in the Company Rulebook.

2. On a quarterly basis, VASPs shall as a minimum submit to VARA the following information—

- a. the minutes of all Board meetings and Board committee meetings;
- b. a statement demonstrating compliance with any financial requirements established by VARA including but not limited to Reserve Assets;
- c. financial projections and strategic business plans; and
- d. a risk exposure report prepared and submitted to the Board in accordance with Rule I.D.4 of this Compliance and Risk Management Rulebook.

3. On an annual basis, VASPs shall as a minimum submit to VARA the following information—

- a. audited annual financial statements, together with an opinion and an attestation by an independent third-party auditor regarding the effectiveness of the VASP's internal control structure;
- b. an assessment by Senior Management of the VASP's compliance with such applicable laws, Regulations, Rules and Directives during the fiscal year covered by the financial statements;
- c. certification of the financial statements by a member of the Board or a Responsible Individual attesting to the truth and correctness of those statements;
- d. a representative sample of all documentation relating to client onboarding [including actual documentation of the first one hundred [100] clients onboarded of the year];
- e. descriptions of product offerings relating to their VA Activities;
- f. Group structure chart including shareholding of the VASP and the identity of all UBOs;

- g. the names of each of the members of the Board and the Senior Management in the VASP, a brief biography of each such member including their qualifications and experience and any position that a member of the Board or the Senior Management holds in other Entities;
- h. the identification of any independent director[s] if applicable;
- i. the names of all the members of any committees, the authorities and assignments entrusted thereto, and activities carried out by the committees during that year; and
- j. the number of meetings held by the Board and the committees, and the names of the attendees.

- Annual Audit

## Client Asset Custody

### Segregating clients' assets in separate wallets

- **Assets are 1:1 held and provide customers with all benefits** such as “airdrops” or “staking gains”
- **Keys** to be stored in **more than one** physical location
- **Backup of keys and seed phrases** are stored in separate location

In accordance with the VARA [rulebook](#)<sup>7</sup>, we highlight some key points below:

1. VASPs shall hold Client VAs in separate VA Wallets from all Virtual Assets of the VASP.
2. VASPs must hold Client VAs on a one-to-one basis and shall not authorise or permit rehypothecation of Client VAs, unless they have explicit prior consent from the client providing discretionary authority to do so, and are appropriately authorised and Licensed by VARA to carry out all relevant VA Activity[ies] in respect of such Virtual Assets.
5. All proceeds related to Client VAs, such as “airdrops”, “staking gains” or similar proceeds shall accrue to the client’s benefit, unless the VASP has the client’s prior consent specified in a written agreement with the client or otherwise. VASPs may decide not to collect or distribute certain proceeds, including where such proceeds are below a value to be determined by the VASP, provided that the VASP has disclosed this to the client and obtained acceptance in accordance with all applicable laws.
6. Adopt industry best practices for storing the private keys of clients, including ensuring that keys stored online or in any one physical location are insufficient to conduct a Virtual Asset transaction, unless appropriate controls are in place to render physical access insufficient to conduct such Virtual Asset transaction. VASPs

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<sup>7</sup> VARA Rule Book (Accessed 23 August). *Regulatory Framework*

must further ensure that backups of the key and seed phrases are stored in a separate location from the primary key and/or seed phrase;

## Conclusion

As of August 3rd, Dubai has licensed three of the top five centralized exchanges by 24-hour volume on CoinGecko: Binance, Bybit, and OKX. The term “industry best practice” is frequently referenced in the regulatory framework, indicating VARA's recognition that technology and industry standards will continue to evolve and that licensed entities are expected to stay current. With its favorable tax rates and established financial center, Dubai maintains its position as a welcoming and transparent hub for cryptocurrency.

## About Elven

### Professional crypto accounting software

Elven is a professional crypto accounting software designed for OTC, payment, exchanges, and Web3 projects, facilitating regulatory compliance, audit readiness, and accounting automation. Elven has received SOC 2 Type 1 & Type 2 and SOC 1 Type 2 audit reports from Insight Assurance, we are firmly committed and invested in data security and information privacy with our clients.

Trusted by more than 800 industry-leading enterprises in the Web3 sphere, including Hashkey and Coinhako, Elven provides comprehensive solutions such as integrated fiat and crypto accounting, streamlined technical support, 24/7 advisory assistance, and SOC2 audited security.



### Customers



## Case Study

### Case Study - Regulated Exchange (Coinhako)



#### Brief intro

Coinhako is a regulated Major Payment Institution (MPI), licensed by the Monetary Authority of Singapore (MAS), to conduct Digital Payment Token (DPT) services and other payment services under the Payment Services Act (PSA). As a leading Singapore-based cryptocurrency exchange, it enables users to trade various cryptocurrencies like Bitcoin, Ethereum, and Ripple. The platform focuses on making cryptocurrency trading easy for Asian users, offering a user-friendly interface and multiple payment options such as bank transfers and credit/debit cards.

Official Website: <https://www.coinhako.com>

#### Customers' pain points

- Automated daily regulatory required reconciliation report
- Managing numerous financial data sources and handling large volumes of data in the hundreds of millions
- Manual reconciliation and accounting tasks present significant challenges for the finance team

#### We Provide

- Regulatory Compliance: Daily asset reconciliation for MAS reporting
- Client Segregation: Individual ledgers for each client's assets
- Deep Integration: Custom access to 20 chain balances and transactions, integrated with internal and custody systems
- Large Data Handling: Import billions of transactions, update millions of addresses automatically



## Case Study - Listed Company (SINOHOPE)



### Brief intro

Sinohope Technology Holdings Limited (stock code: [1611.HK](https://www.hkex.com.hk/stock/1611), "SINOHOPE") is an all-in-one platform for digital assets custody, focusing on digital asset custody and provides a variety of custody solutions to help every enterprise use digital assets safely and conveniently. SINOHOPE adopts MSC-CMP technology to support users to manage private key fragmentation and collaborative signature in a distributed way, which solves the single point risk of private key and effectively increases transparency and ease of use. Adhering to the principles of security, compliance, professionalism and diversity of services, SINOHOPE provides easy-to-use centralized and decentralized mixed services.

Based on the MPC self-custody platform and licensed digital asset custody services, SINOHOPE also provides customized OTC desk, virtual assets management, Web3 Full-stack Suite and other products and services for institutional and high net worth clients.

Official Website: <https://www.sinohope.com>

### Customers' pain points

- Manual bookkeeping is laborious and susceptible to inaccuracies
- Reconciliation processes are extensively time-consuming
- Financial report preparation for audits demands significant effort and resources

### We Provide

- Automated accounting rules aligned with SINOHOPE's business essence
- Realized and unrealized gains and losses for crypto are automatically calculated, with a traceable calculation process
- Automatically generates financial statements that meet regulatory standards.

## Case Study - OTC (Hashkey OTC)



### Brief intro

Hashkey OTC is a regulated Major Payment Institution (MPI), licensed by the Monetary Authority of Singapore (MAS) in-principle, to conduct Digital Payment Token (DPT) services and other payment services under the Payment Services Act (PSA). HashKey OTC is a service by HashKey Group which is a leading global fintech company that specializes in blockchain and digital asset management. HashKey OTC got approval from the Monetary Authority of Singapore for its payment service license, allowing it to operate legally in Singapore while offering these trading services.

Official website: <https://www.hashkey.com>

### Customers' pain points

- Exhaustive manual reconciliation process
- Time-consuming financial report preparation for auditing purposes
- Segregation of client funds

### We Provide

- Seamless integration with Hashkey's self-developed business system
- Providing clear audit evidence, streamlining transaction flow
- Segregating and accounting for client funds

Another leading OTC firm is also our client



## Case Study - Payment (DTC Pay)



### Brief intro

DTC Pay is a regulated Major Payment Institution (MPI), licensed by the Monetary Authority of Singapore (MAS), to conduct Digital Payment Token (DPT) services and other payment services under the Payment Services Act (PSA). DTC Pay provides digital payment solutions such as multi-currency swaps, online payments, in-store payments and crypto payments to help individuals and businesses worldwide conduct value transfers in a seamless and efficient way.

<https://dtcpay.com/about-us-dtcpay/>

### Customers' pain points

- Difficulty meeting requirements for internal management analysis which require business reports to cover multiple dimensions
- Difficulty in effectively tracking profits and costs per transaction
- Concerned about general ledger which cover crypto and fiat currency can meet external reporting and auditing requirements.

### We Provide

- Supports customised business auxiliary accounting fields, enabling business reports across multiple dimensions such as region, business line, customer, channel, etc. This meets the requirements for internal management analysis.
- Integrates with the DTC core business system to achieve P&L accounting at the granularity of each client order, calculating accounting metrics such as revenue, costs, expenses, net profit, etc., required for management reporting, meeting the needs for order profit analysis.
- Exports the results of business accounting to Oracle NetSuite general ledger module to meet external reporting and auditing requirements.

## Another leading payment firm is also our client



## Reference

### Global Crypto Compliance Landscape

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### **Report Introduction**

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### **Record Keeping / Compliance Documents**

16. VARA Rule Book (Accessed 23 August). *Regulatory Framework*

<https://rulebooks.vara.ae/rulebook/rulebooks>

### **Client Asset Custody**

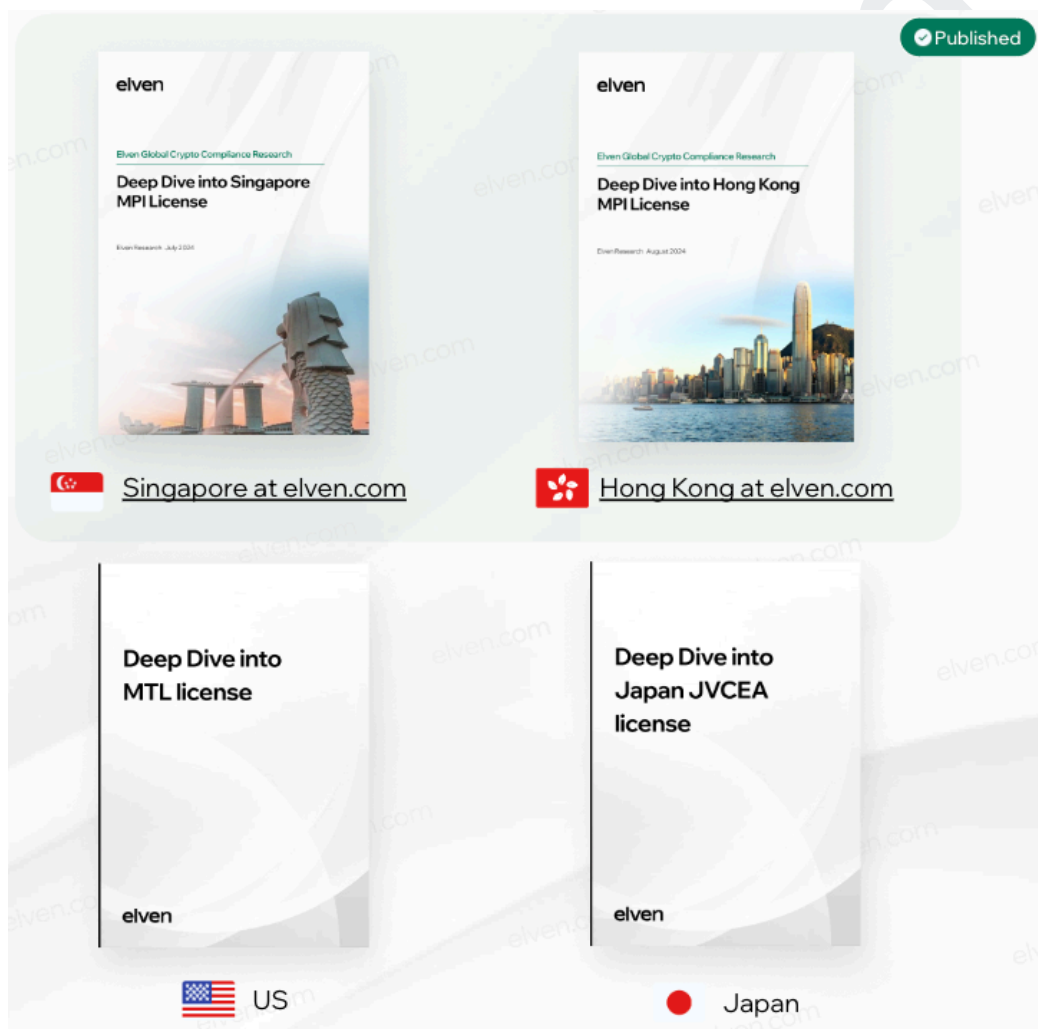
17. VARA Rule Book (Accessed 23 August). *Regulatory Framework*

<https://rulebooks.vara.ae/rulebook/rulebooks>

# Global Strategic Compliance for Crypto Market Series

Elven understand the key issues that CFOs and CCOs are concerned about and focused our research on:

- Licensing/Registration
- Record Keeping/Compliance Documents
- Client Asset Custody Requirements



Coming in 2024 Q3 at elven.com

# elven

Professional Crypto Accounting Software

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