



Regulation of Crypto Tokens

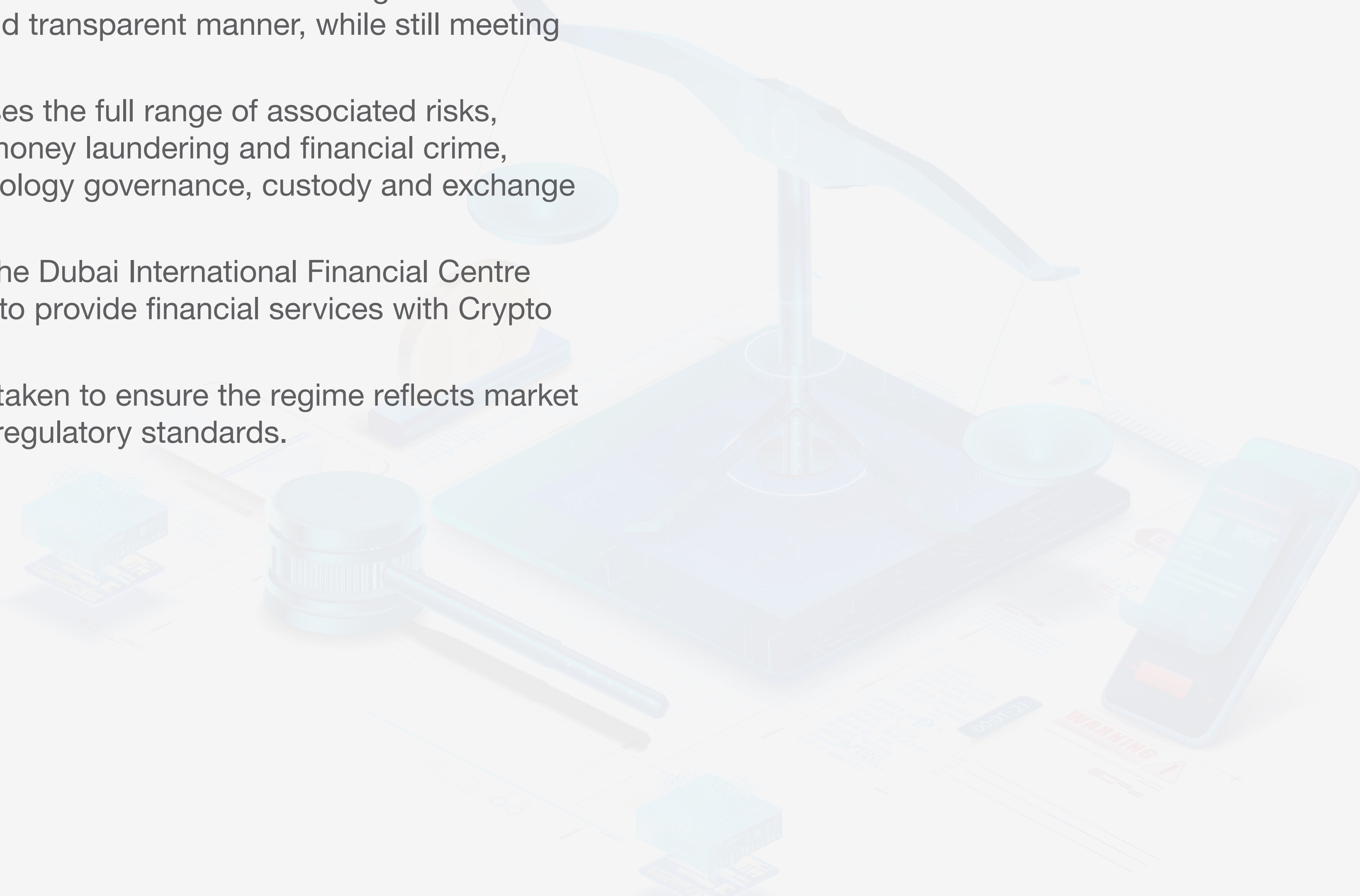
Introduction

The Dubai Financial Services Authority (DFSA) set out to regulate crypto businesses in 2022 with the intention of fostering innovation in a measured, responsible and transparent manner, while still meeting our regulatory objectives.

The DFSA’s regime addresses the full range of associated risks, including those relating to money laundering and financial crime, consumer protection, technology governance, custody and exchange operations.

Under the regime, firms in the Dubai International Financial Centre (DIFC) can obtain a licence to provide financial services with Crypto Tokens in or from the DIFC.

Work is continuously undertaken to ensure the regime reflects market practices and international regulatory standards.



What are Crypto Tokens?

A **Token** is a cryptographically secured digital representation of value, rights or obligations, which may be issued, transferred and stored electronically, using distributed ledger technology or other similar technology.

A **Crypto Token** is a type of Token that is used, or is intended to be used, as a medium of exchange or for payment or investment purposes (or that confers a right or interest in such Token). The definition of a Crypto Token does not include an Excluded Token*, Investment Token** or any other type of Investment.

Only Crypto Tokens that have been recognised by the DFSA (see Token Recognition Criteria section) can be used in the DIFC (with limited exceptions)***.

Crypto Tokens

(include, for example, cryptocurrencies such as Bitcoin and so-called 'stablecoins' such as USD Coin)



Token Recognition Criteria

All Crypto Tokens

Suitable for use in the DIFC, having regard to:

- regulatory status in other jurisdictions;
- transparency, including on purpose, protocols, consensus mechanism, governance arrangements, founders, key persons, miners and significant holders;
- size, liquidity and volatility of the market;
- adequacy and suitability of technology used;
- risk mitigation, including risks relating to governance, legal and regulatory issues, cybersecurity, money laundering, market abuse and other financial crime.

Additional criteria for Fiat Crypto Tokens

- Ability to maintain a stable price relative to the reference fiat currency;
- A person has clear responsibility and liability to investors;
- The reserves:
 - provide full backing;
 - are denominated in the reference currency;
 - are held in assets that are likely to maintain their value, including during periods of stress, are highly liquid, are appropriately diversified and carry minimal credit risk;
 - are valued daily; and
 - are held in segregated accounts with properly regulated banks or custodians;
- Monthly publication of the information on reserves, verified by an independent and suitably qualified professional.

How to get a Crypto Token recognised by the DFSA?

1 **Send an initial enquiry** to get access to the application form for Crypto Token recognition.

2 Assess the Crypto Token per the DFSA Token recognition criteria ([GEN 3A.3.4](#)) and submit the form to the DFSA. Pay recognition application fee of USD 5,000.

3 The DFSA will process your application typically within 3 weeks, provided the submitted form contains the required information.

As of September 2024, the DFSA has recognised Crypto Tokens comprising approximately 80% of the global market capitalisation of crypto assets (Bitcoin, Ethereum, Litecoin, Toncoin and Ripple). If a Crypto Token no longer meets the DFSA’s recognition criteria, the DFSA may revoke the recognition with notice. Always check the DFSA website for an up-to-date list of Recognised Crypto Tokens.

* The use of Excluded Tokens (see [GEN A2.5.2](#) for the definition) is not regulated in the DIFC except:

- Some issuers or service providers of Non-Fungible Tokens (NFTs) and Utility Tokens must be registered as a Designated Non-Financial Business or Profession (DNFBP) for anti-money laundering purposes (see [the DFSA’s DNFBP webpage](#)).
- An Authorised Person cannot carry on both Crypto Token Business and business relating to NFTs and Utility Tokens (unless they are Providing Custody) (see [GEN 3A.2.4](#)).

** Investment Token is what is typically referred to as a tokenised investment. See [GEN A2.1.1\(3\)](#) for the definition. Financial Services can be carried on with Investment Tokens subject to compliance with regulatory requirements.

*** See [GEN 3A.2.1](#) for certain restrictions relating to Crypto Tokens.

**** Fiat Crypto Token is what is typically referred to as a stablecoin. See [GEN A2.5.5](#) for the definition.

What Financial Services apply to Crypto Tokens?

Only the following Financial Services apply directly to Crypto Tokens:

Dealing in Investments as Principal	Dealing in Investments as Agent
Advising on Financial Products	Arranging / Providing Custody*
Arranging Deals in Investments	Managing Assets
Operating a Clearing House	Operating a Multilateral Trading Facility

Other Financial Services may indirectly relate to a Crypto Token. For example, a Fund Manager may manage a Collective Investment Fund that invests in a Crypto Token, or an Authorised Firm may (subject to the express restrictions) Provide Credit to or Arrange Credit for a non-retail Crypto Token investor or a Money Services Provider may use a Crypto Token in limited circumstances**.



Businesses new to the DIFC need to obtain an appropriate Licence to carry on a Financial Service in relation to a Crypto Token. Businesses that are already authorised by the DFSA should consider whether they require a variation to their Licence (See FAQ 9 on page 6).

How to obtain/vary a Licence?

STEP 1

Determine which Financial Service you require. Review [GEN 2 Financial Services](#). If you are unsure, seek advice from appropriate legal and other professional advisers.

STEP 2

New applicants: Fill the [enquiry form](#) to request a meeting with the DFSA's Authorisation team.

Existing firms: Use the Supervised Firm Contact Form on the DFSA ePortal to request a meeting with your supervisor to discuss the potential variation.

STEP 3

Submit a Regulatory Business Plan (RBP) and three-year financial projections to the DFSA via email. Address the DFSA's preliminary comments, if any.

STEP 4

New applicants: Submit the authorisation application along with supporting documents*** through the ePortal (access provided by the DFSA).

Existing firms: Submit a variation application along with supporting documents using your existing ePortal credentials.

STEP 5


Pay the application/variation fee.

STEP 6

If the application is satisfactory, the DFSA grants the relevant authorisation. Such authorisations may be issued subject to certain conditions being met (e.g., setting up a legal structure or evidence of share capital).



Firms carrying on Financial Services relating to Crypto Tokens must be incorporated in the DIFC (with limited exceptions****).



Application processing time depends on the nature, scale and complexity of the application.



Fees are based on a combination of the Financial Services and endorsements. See the [DFSA Fees Module](#).

* Staking is only available under a Licence to Provide Custody (see [COB 15.6.5](#)). Staking refers to the activity where holders of Crypto Tokens lend their Tokens to firms, miners or other persons, in exchange for a return or other reward for the use of the Tokens.
 ** The activity is limited to Money Transmission and executing a Payment Transaction provided that a Recognised Fiat Crypto Token is sent, held or received in the name of the Money Services Provider and not in the Client's name (i.e., back-end operations) (see [GEN 3A.2.5](#)).
 *** The supporting documents will be requested by the DFSA's Authorisation team and will typically include final RBP, incorporation certificate, board/shareholder approvals, shareholder information, policies and procedures and three-year projections.
 **** See [GEN 7.2.2\(7\)](#).

Frequently Asked Questions

1. What are the key conduct requirements related to Crypto Tokens?

Key conduct requirements specific to firms providing Financial Services in relation to Crypto Tokens include, but are not limited to, the following:

- Provision of a key features document, which includes information about the Crypto Token – including about its issuer, characteristics, technology used, valuation, risks, etc. (see [COB 15.3.1](#) and [COB 15.5.1](#));
- Custody requirements, including systems and controls for safeguarding Client Crypto Tokens, record keeping, disclosure and reconciliation (see [COB 6.13](#), [COB 6.14](#) and [COB App6](#));
- Technology governance requirements and independent technology audits (see [COB 15.7](#) and [COB 15.8](#));
- Risk warnings (see [COB 15.5.3](#));

When dealing with Retail Clients, additional obligations apply. These include, but are not limited to:

- Appropriateness assessment (see [COB 15.6.2](#));
- Ban on incentives (see [COB 15.6.4](#)).

2. What is the process for applying for recognition of multiple Crypto Tokens?

To date, the DFSA has recognised Crypto Tokens comprising approximately 80% of the global market capitalisation of crypto assets (Bitcoin, Ethereum, Litecoin, Toncoin and Ripple). Where an applicant requires recognition of multiple Crypto Tokens, the DFSA will work closely with the applicant to facilitate appropriate timelines.

3. Who can apply for recognition of a Crypto Token?

An Authorised Person, an applicant for a Licence to be an Authorised Person, or an issuer or developer of the Crypto Token may apply to the DFSA for a Crypto Token to be recognised in the DIFC. The DFSA expects any applicant to obtain and provide the information required for recognition. Where key information is not available and cannot be sourced from the issuer, an applicant should assess whether the Crypto Token meets the criteria for adequate transparency (see [GEN 3A.3.4\(2\)\(b\)](#)).

4. If a Crypto Token is already recognised by the DFSA, is it available for use by all Authorised Persons?

If the DFSA recognises a Crypto Token, it will be available for use by any Authorised Person, provided they have the required authorisation on their Licence. Notwithstanding that the relevant Crypto Token recognition was applied for and obtained by another person, we would always expect an Authorised Person to carry out appropriate levels of due diligence before offering any Crypto Token-related products to their clients.

5. Are firms expected to use external service providers to submit a Crypto Token recognition application?

The DFSA Crypto Token recognition criteria (set out in [GEN 3A.3.4](#)) do not go beyond the information that we would expect a prudent Financial Services firm to obtain as part of its product due diligence and business planning. Therefore, we do not anticipate that firms would have to rely on external assistance or incur significant internal resources to apply for recognition. We are available to discuss any concerns with the process in more detail with potential applicants.

6. Will the DFSA allow self-recognition of Crypto Tokens or remove the recognition process in the future?

When the DFSA introduced the Crypto Token regime in November 2022, we were of the view that self-recognition, or a similar approach, was not the right approach to adopt in the DIFC at that time. We explained that we would need to see the development of a compliance culture (including a better understanding of regulatory obligations), and international standards, before any potential adaptations to our approach. We still hold this view. We do not rule out the introduction of such an approach in the future.

7. What is the DFSA's approach to stablecoins?

The DFSA refers to stablecoins as Fiat Crypto Tokens. A Crypto Token is a Fiat Crypto Token if, to stabilise its price or reduce volatility in its price, the value of the Crypto Token purports to be determined by reference to a single fiat currency. The DFSA sets additional recognition criteria for Fiat Crypto Tokens (set out in [GEN 3A.3.4\(4\)](#)) because they are typically marketed as providing a stable value relative to other crypto assets and hence attract broader use cases. In the DIFC, recognised Fiat Crypto Tokens are allowed for additional use in certain circumstances in the context of the Financial Service of Money Transmission and executing Payment Transactions, clearing and settlement and margining in connection with trading in Crypto Token Derivatives.

We define Fiat Crypto Tokens as those pegged to a single fiat currency. This is because it is challenging to maintain a peg to two or more currencies as it would require, for example, a constant change in reserves composition, as a result, deteriorating the promised stability of the token. Therefore, stablecoins pegged to multiple currencies would likely be considered by the DFSA as Crypto Tokens. In case a stablecoin is pegged to multiple currencies that are pegged to each other (e.g., USD and AED), the DFSA may consider such a case individually.

Although, as at September 2024, the DFSA does not regulate the issuance of Fiat Crypto Tokens, its recognition criteria (set out in [GEN 3A.3.4](#) and summarised on [page 3](#) of this explainer) are designed to allow the DFSA to recognise (following receipt of an application to do so) Fiat Crypto Tokens issued in other comparable jurisdictions while ensuring they maintain a stable value relative to their peg. Stablecoins that do not meet the definition of or recognition criteria for a Fiat Crypto Token may nonetheless meet the criteria for a Crypto Token.

8. Does the DFSA impose any limits on trading volumes of Crypto Tokens?

No, the DFSA does not set limits on the trading volumes of Crypto Tokens (including Fiat Crypto Tokens).

9. Do DFSA Authorised Firms require a variation of their licence to carry on Financial Services with investments relating to Crypto Tokens?

In order to conduct Financial Services in or from the DIFC by way of business, a person needs to seek authorisation from the DFSA. Authorisation is given in the form of a Licence which is issued by the DFSA and specifies the type of Financial Services the firm is authorised to carry on, and the type of Investments allowed (Shares, Debentures, Futures, etc.), where applicable. If an Authorised Firm has the relevant type of Investment specified in its Licence and that Investment has an indirect exposure to a Crypto Token (e.g., through funds or other financial products), such Firm is not required to obtain a variation of its Licence.

For example, if a firm is licensed to carry on the Financial Service of Arranging Deals in Investments and its Licence specifies certain derivatives as types of permitted Investment, such a firm will not require a variation of its Licence to arrange for investments in derivatives that reference Crypto Tokens. However, this does not mean that the Crypto Token regime does not apply to such a firm – it will still have to ensure compliance with relevant requirements, for example, in this case – requirements relating to Crypto Token Derivatives in [COB 15](#), Recognised Crypto Tokens in [GEN 3A.2.1](#) and other applicable requirements.

10. What businesses are prohibited from providing Crypto Token-related services?

The DFSA does not permit Representative Offices to market Crypto Tokens or Crypto Token-related products and services (see [GEN 2.26.1\(4\)](#)) and Crowdfunding Operators to operate a Crowdfunding Platform that facilitates investments in Crypto Tokens (see [GEN 2.2.10F](#)). Further, a branch is not permitted to carry on Crypto Token-related services* (see [GEN 7.2.2\(8\)](#)).

11. What is the DFSA's approach to funds investing in Crypto Tokens?

Funds established or domiciled in the DIFC do not have limitations on investing in Recognised Crypto Tokens - they may invest all or part of their Fund Property in Crypto Tokens directly or indirectly. If the Fund is a Qualified Investor Fund (i.e., a Fund, the Units of which are offered only to Professional Clients by way of Private Placement with a minimum initial subscription of USD 500,000), it is also allowed to have 30% of its gross asset value invested in unrecognised Crypto Tokens, provided certain requirements are met (see [GEN 3A.2.1](#)).

External Funds (i.e., those established or domiciled outside the DIFC and managed by a DFSA authorised Fund Manager) are allowed to invest in Recognised Crypto Tokens, provided the investment does not exceed 20% of the Fund's gross asset value and subject to meeting certain requirements (see [CIR 6.2.4](#) and [CIR 14.2.6](#)). The Units of such Fund may only be offered to Professional Clients by way of Private Placement at a minimum initial subscription of USD 50,000. Offering Units of Foreign Funds (i.e., those established or domiciled in a jurisdiction other than the DIFC) that invest in Recognised Crypto Tokens is also allowed under similar conditions (see [CIR 15.1.9](#)).

Fund Managers should manage their portfolios to avoid breaching the limits. They should take into account the volatility of Crypto Tokens and apply a prudent investment approach to stay below the limits. For firms offering Units of Foreign Funds the limit applies at the time of the offering.

12. Can a DFSA Authorised Firm offer foreign spot Crypto exchange traded Funds?

An Authorised Firm must not offer Units of a foreign ETF, if the Fund's investment in Crypto Tokens exceeds 20% of the gross asset value of the Fund (see the requirements for marketing of Foreign Funds in [CIR 15](#)). Given that most foreign spot Crypto ETFs are likely to be wholly invested in a single Crypto Token, they cannot be offered in the DIFC. We will monitor the developments in this market and may change this approach in the future; however, we stress that an approval of a product in a foreign jurisdiction does not mean that the product may be offered in the DIFC – firms must always check the applicable requirements before offering any financial products.

Note that some types of transactions are excluded from being treated as Offers and as a result do not attract the restrictions mentioned above. These include (but are not limited to) execution-only transactions and transactions for the purposes of managing a discretionary portfolio for a client (see [CIR 4](#)).

13. What is the DFSA's approach to indirect investment by a fund in Crypto Tokens?

A Fund making an indirect investment in Crypto Tokens (by tracking an index that includes Crypto Tokens, having a derivative exposure to Crypto Tokens or investing in another Fund or entity that has direct/indirect exposure to Crypto Tokens) will be considered as investing in Crypto Tokens (see [CIR 1.6.1](#)) and will need to comply with all the requirements that are applicable to such a Fund.

*Branches that were authorised by the DFSA before our regime came into force (1 November 2022) are allowed (with some limitations) to make applications in relation to Crypto Tokens.

14. What custodians can be used to safeguard and administer Crypto Tokens?

Recognising that at the current development stage only a few regulated crypto custodians are available in the market, we allow the use of non-regulated custodians, as long as the relevant Fund Manager or Authorised Firm has, after performing proper due diligence, assessed the custodian as having adequate custody and asset safety arrangements. In conducting the required due diligence, firms must take into account the regulatory status of the custodian, its systems and controls for safeguarding and segregating Crypto Tokens, the adequacy of its policies and procedures on storage of Clients' private keys to protect against hacking, theft or fraud, the robustness of its technology governance, the independence and management of conflicts of interest, and appropriate Client disclosures and periodic reporting (see [CIR 8.2.6](#)).

15. What actions are custodians required to take in case of unauthorised or incorrectly executed transfers?

If an Authorised Firm that Provides Custody of Crypto Tokens is responsible for any unauthorised or incorrectly executed transfers of Client Crypto Tokens, the DFSA requires that firm to address the situation promptly and within three business days put the Client's account back in the position it would have been in, if the transfer had not taken place or had been executed correctly (as applicable) (see [COB 15.4.5](#)). In case of a failure to properly address the situation, the firm must disclose the matter to the DFSA.

Further, we require Authorised Firms Providing Custody of Crypto Tokens to report to the DFSA on a quarterly basis the number of unauthorised or incorrectly executed transfers of Client Crypto Tokens and their total value, the number and total value of such transfers that were reversed successfully and the total amount of compensation paid to Clients for any unauthorised or incorrectly executed transfers of Client Crypto Tokens (see [COB 15.4.6](#)).

Require more information?

This material is only intended to provide a general and informal overview of the matters stated in it. This material is not intended to be a comprehensive study of the subject matter discussed herein or a substitute for the relevant laws and Rules. It should be read in conjunction with the relevant legislation and Rules, which may change over time.

This material is not any form of, and must not be relied upon on any basis whatsoever, as legal, tax, financial, professional or any other form of advice and is provided on a general, non-binding basis only.

You should consult and seek advice from your own appropriate legal and other professional advisers as you deem appropriate, including on relevant legislation and Rules that may apply to you. This may include, but is not limited to, considering the extent to which any UAE Federal laws or Dubai laws or DIFC laws and regulations apply.

The DFSA makes no representation or warranties as to the accuracy, completeness or timeliness of any of the information in this material.

We provide the following helpful links for further information related to the DFSA's Crypto Token regime:

-  [The DFSA Rulebook](#)
-  [Consultation Paper No. 143 – Regulation of Crypto Tokens](#)
-  [Feedback Statement on Consultation Paper No. 143 – Regulation of Crypto Tokens](#)
-  [Consultation Paper No. 153 – Updates to the Regulation of Crypto Tokens](#)

If you require more information on the DFSA's Crypto Token regime, submit an [enquiry form](#) on the DFSA website to arrange a meeting. We look forward to discussing this with you.





About the DFSA

The Dubai Financial Services Authority (DFSA) is the independent regulator of financial services conducted in and from the Dubai International Financial Centre (DIFC), a purpose-built financial free zone in Dubai. The DFSA's regulatory mandate covers asset management, banking and credit services, securities, collective investment funds, custody and trust services, commodities futures trading, Islamic finance, insurance, crowdfunding platforms, money services, an international equities exchange and an international commodities derivatives exchange.

In addition to regulating financial and ancillary services, the DFSA is responsible for administering Anti-Money Laundering and Combating the Financing of Terrorism legislation that applies to regulated firms and Designated Non-Financial Businesses and Professions in the DIFC.

 www.dfsa.ae