



QFC Digital Asset Regulations 2024

Summary

September 2024

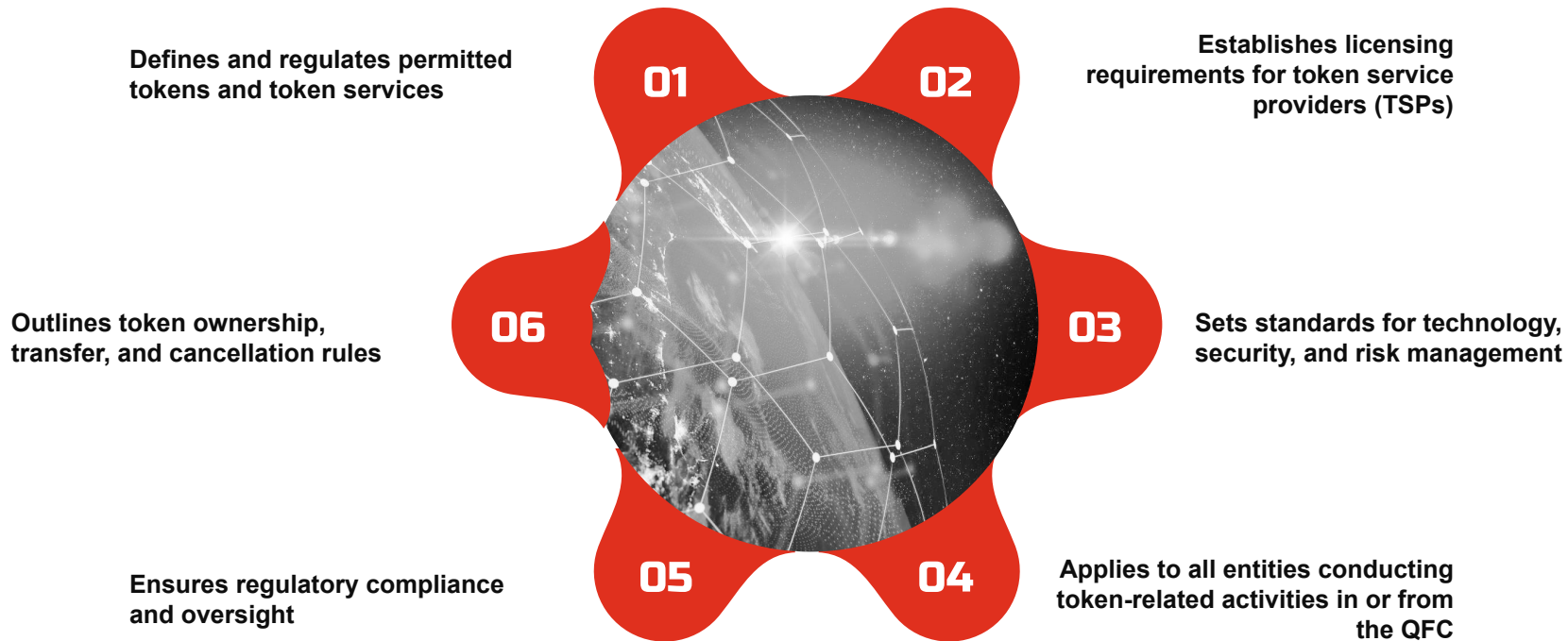




The Qatar Financial Centre (QFC) has introduced new regulations for digital assets, effective from September 1, 2024. These regulations aim to establish a comprehensive framework for token-based activities within the QFC.



QFC has defined a broad scope for the new regulations, focusing on permitted tokens and token services providers



QFC has established key definitions for digital assets to provide clarity and consistency

Investment Token

A **Virtual Asset** that represent ownership or a stake in an underlying investment, including:

- Listed derivatives and specified financial products as approved by the QFC
- Specified financial products include shares, securities, options, futures, contract for differences, and Islamic finance contracts.

Token

A **Cryptographically secured** electronic data unit representing **property rights**

- **Permitted Token**: Generated in accordance with regulations, not an excluded token
- **Excluded Token**: Does not represent property rights or used as currency substitute.

Token Service Provider (TSP)

A person, who **by way of business**, performs any of the following activities:

Token Generation

Issuance or generation of a token on a token infrastructure on behalf of the owner of the underlying represented by the token.

Token Custody and Transfer

A service to **safeguard**, or to **hold**:

- **Tokens** on behalf of clients, or
- private **cryptographic keys** on behalf of clients in order to hold, store and transfer tokens; or
- **receive and transact** tokens on behalf of clients.

Token Exchange

Sale or transfer of a token, where it is the **first occasion on which that token is sold or transferred**.

QFC has outlined comprehensive licensing requirements for various token services



There are five types of token services where licensing from QFC Authority required. There is also an additional authorization needed for investment tokens

Token Generation (Investment)

- Issuing (**minting**), redeeming or destroying (**burning**) the permitted token
- **Validating rights:** confirming underlying ownership and rights of the token
- **Developing technology** for the issuance of tokens

Tokens Allowed:

- Investment tokens only

Focus on next slide

Token Custody Services

- **Operating the infrastructure:** permissioned or permissionless blockchain
- **Storage of private keys:** cryptographic custodial (hosted) or non-custodial (self-hosted) wallets

Tokens Allowed:

- Permitted tokens only

Token Exchange and Conversion

- **Operating the Exchange:** buy/sell/trade allowed tokens on the platform through a centralised order book
- **Trading:** against fiat (on/off ramping tokens Tokens)

Tokens Allowed:

- Permitted tokens only

Token Transfer Services

- **Facilitate the movement of tokens:** transfer of a token to, or from, a person from, or to, a third party.

Tokens Allowed:

- Permitted tokens only

Token Validation Services

- **Validation of ownership rights:** confirming underlying ownership and rights of the token at the token issuance stage
- **Transaction validation:** authorisation of transactions of a permitted token

Tokens Allowed:

- Permitted tokens only

QFC has established specific requirements for Investment Token Licenses

Responsibilities

- Issuing investment tokens upon deposit of fiat currency, where applicable and permitted by QFC
- Transferring investment tokens to the wallet nominated by the purchaser upon request
- Operating an exchange to facilitate the distribution and trade of investment tokens

Restrictions

- Only Investment tokens are allowed under the QFC's regime
- Tokens that do not represent a property right or are a substitute for currency/means of payment are excluded

Reserve Requirements

- No specific reserve requirements are outlined in the QFC's regulation
- Investment tokens should be sufficiently backed by the underlying assets or rights they represent
- Specific reserve requirements would be assessed on a case-by-case basis during the licensing process

Key Steps to secure a Commercial License and Authorisation



1

Consultation & Submission of **initial documents** to the QFC

2

Initial assessment & approval by the QFC. **Submission of RBP** to the QFCRA

3

RBP approval by the QFCRA. **Registration & Commercial Licence** submission to QFC

4

Review of all documents and issuance of **additional requirements** as needed

5

Issuance of the **License** and **operations** may **commence**

QFC has defined clear rules for token ownership and transfer to ensure legal certainty



Ownership of permitted token confers ownership of underlying asset



Transfer only by transferring control over power to transfer the token



Transfer of token results in transfer of underlying asset

QFC has defined clear rules for token ownership and transfer to ensure legal certainty



Cancellation allowed under specific circumstances

Required by token's terms and conditions
Underlying asset ceases to exist
Court order upon application



QFC requires strong KYC and compliance procedures

TSPs are required to implement robust (KYC) procedures and maintain comprehensive transaction records for AML/CFT compliance



QFC can prohibit certain activities and designate excluded tokens

QFC maintains the right to update the list of excluded tokens based on market developments and regulatory considerations



Regular audits, risk assessments, and reporting required

TSPs must conduct annual independent audits of their operations and submit detailed risk assessment reports to the QFC Authority

QFC has mandated comprehensive security, governance, and risk management practices for TSPs

What should you do to comply as a Token Service Provider?

Prioritize security and smart contract management...

- > Implement and maintain robust **cybersecurity** measures and **data protection** practices
- > Regularly conduct thorough **code reviews** and **audits** of all smart contracts
- > Develop and maintain **clear procedures** for **system updates** and **incident response**

... whilst focusing on 3rd party management and governance

- > Carefully **evaluate** and continuously **monitor** all vendors and outsourcing partners
- > Develop and implement a comprehensive **risk management framework**
- > Regularly **update policies** and conduct frequent **risk assessments**



1

Appendix

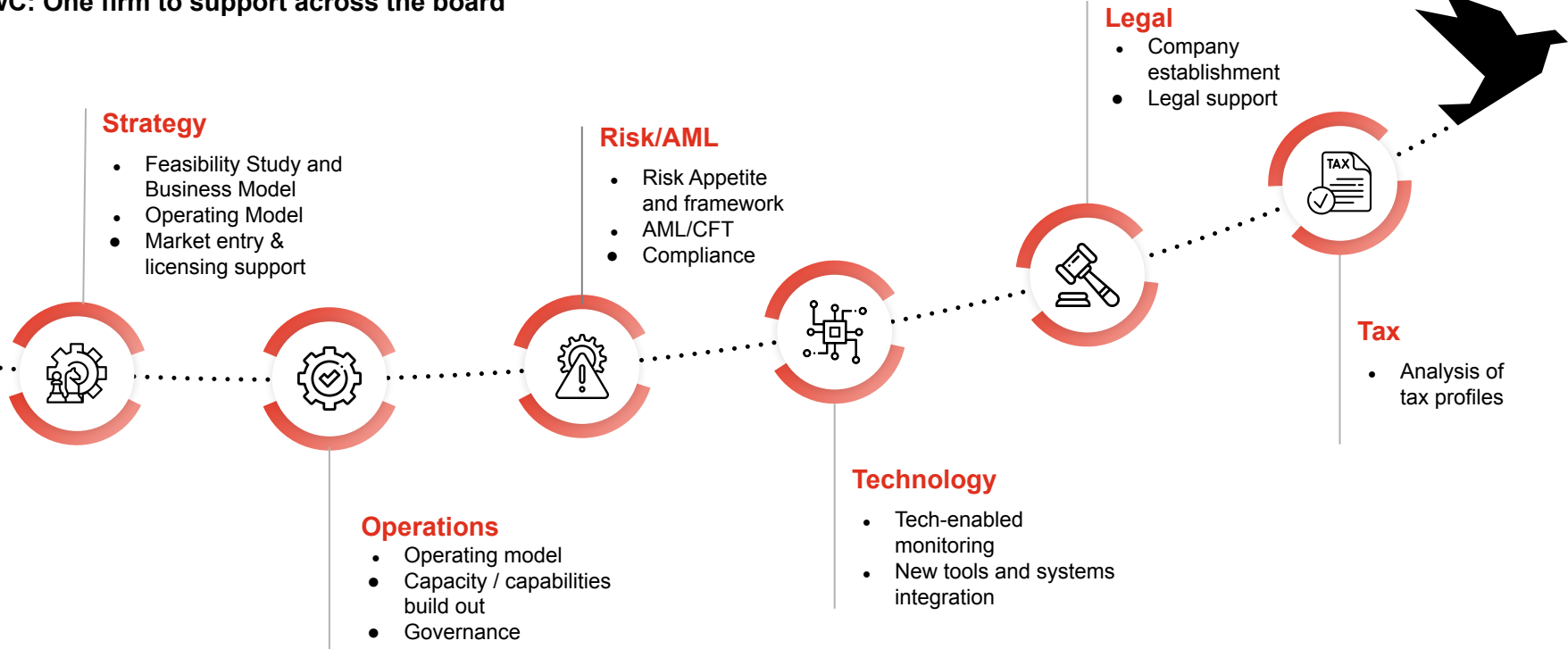
How PwC can help



pwc

PwC has a holistic service offering for Virtual Assets, being able to provide you with an end-to-end support tailored to your needs

PwC: One firm to support across the board



Our Middle East VA Leadership can support your journey by bringing in cutting-edge insights and long-lasting expertise in the global and domestic VA space



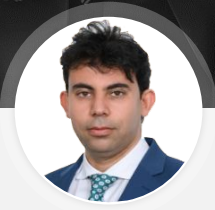
Serena Sebastiani

Virtual Assets Consulting Leader,
Fintech and the Future of Money

Serena is a Senior Director with 15 years of experience in the FS industry across Europe and the GCC. Serena advises Sovereign Wealth Funds, Government entities and the private sector to support innovating the Financial Sector (future of money and virtual assets).

Serena is a strategic advisor for Regulators in the Virtual Assets space, and supports banks and VASPs in the Region to build and enhance their capabilities in this space.

In the Securities services for more than 10 years and deeply involved in the Virtual Assets global community, Serena is contributing to a robust local ecosystem and shaping / implementing the main use cases in the VA space.



Hafedh Ajmi

Partner – Virtual Assets
Financial Crime and
Compliance

Hafed is a Partner in the Financial Services Advisory Practice in PwC Dubai providing Regulatory and Financial Crime Compliance, Operation, Business and Risk advisory solutions for banking clients across Middle East and North Africa ('MENA') region

Core Competencies:

- Regulatory Compliance and Financial Crime (KYC, AML/CTF and Sanctions) - end to end transformation program
- Business and operation transformation internal Controls and Corporate governance
- Data Analytics



Oliver Sykes

Partner - Cybersecurity &
Digital Trust

Oliver is a Partner in our Technology business

He is adept at guiding clients around Blockchain and other distributed ledger technologies to help limit technology risks, optimise resilience and comply with relevant regulations.

He has advised several companies in the blockchain and cryptocurrency ecosystem with a focus on the technology governance, led a technology assurance engagement focused on a specific blockchain use case for a Bank in the UAE, and Provided advice to a local cryptocurrency exchange in relation to their technology and security controls requirements to meet best practice standards.



Mark Stanley

Partner – Front Office
Transformation

Mark is a Partner in PwC Financial Services Consulting and leads our Front Office Transformation (FOT) offering. He is a seasoned Financial Services consultant with over 18 years experience and specializes in the delivery of strategic transformation across front and middle office functions of retail and corporate banks.

He had led multiple programs to help clients design and build new digital customer value propositions across wealth and asset management, including for the affluent and private banking segments.

How PwC can help

You will have access to a group of **global experts** having an extensive knowledge of the Virtual Assets space that would shape your VA journey



Matt Blumenfeld

US, Director, Digital Asset Specialist



Thomas Campione

CFA Director, Blockchain and Crypto-assets Leader
PwC Luxembourg



Pauline Adam-Kalfon

France, Blockchain Leader



Duncan Fitzgerald

HK, Partner
Digital Currencies



Razi Daureeawo

Partner, PwC Legal
(Mauritius) Ltd



Dr. Michael Huertas

Partner FS Legal Leader
Europe PwC Legal
Business Solutions



Laura Talvitie

UK, Senior Manager,
Crypto Asset Regulation



Gary NG

HK, Partner Risk
Assurance



Sagan Rajbhandary

Director, Crypto Assets
PwC Australia



Dr Andrew S Nevis

Nigeria, Financial
Services Leader and Chief
Economist



Stefano Rossi

Italy, Senior Manager,
Blockchain Competence
Center



Andreas Traum

Partner Digital Assets
PwC Germany



pwc

Thank you !