

Merkle Science

Regulatory Snapshots

Unraveling Abu Dhabi's Crypto
Market Regulations



April 2023

A Glimpse into ADGM's Robust Framework for Virtual Asset Service Providers (VASPs)

- **Abu Dhabi Global Market (ADGM)** is one of the two regulators in Financial Free Zones that regulates virtual asset activities. It regulates virtual asset activities such as trading, custody, issuance, exchange, ICOs, and STOs.
- **Financial Services Regulatory Authority (FSRA)** is the financial regulatory body responsible for regulating and supervising financial services activities within ADGM.
- ADGM takes a technology-agnostic approach focused on activities, risk-based framework, high standards for authorization, and prevention of financial crimes.
- Licensing requirements for VASPs to obtain Financial Service Permission (FSP) from FSRA and comply with regulations.

ADGM's regulatory framework for digital assets

01

Financial Services and Market Regulations, 2015 ("**FSMR**") and the related rulebooks;

02

Guidance on Regulation of Virtual Asset Activities ("**Virtual Assets Guidance**");

03

Guidance on Regulation of Digital Securities Activity in ADGM ("**Digital Securities Guidance**"); and

04

Guidance on Regulation of Digital Security Offerings and Virtual Assets

Guidance types

ADGM's Digital Securities Guidance: Sets Regulatory Requirements for marketing intermediaries and operators dealing in digital securities under the FSMR and Markets Rules.

Virtual assets Guidance under ADGM

The regulatory requirements for virtual assets that fall under Sections 58 to 71 of the Financial Services and Markets Regulations and Chapter 4 of the Markets Rules include the following:



Authorization: Any person dealing with virtual assets must be authorized by (FSRA) of ADGM.



Disclosure: Inform individuals about virtual asset risks and activities.



Technology governance: VASP to Implement adequate systems and controls to manage virtual asset risks.



Custody: VASPs to have adequate arrangements for the safe keeping of virtual assets.





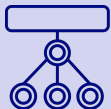




Prevention of financial crime: VASPs to integrate best practices to prevent AML/CFT activities



Record-keeping: VASPs must maintain records of their activities and transactions.

Type of assets covered

ADGM's Digital Securities Guidance: Sets Regulatory Requirements for marketing intermediaries and operators dealing in digital securities under the FSMR and Markets Rules.

	Digital assets Refers to digital or virtual tokens that can be issued using distributed ledger technology, such as initial coin or token offerings (ICOs).
	Virtual assets Virtual assets are defined as digital representations of value that can be traded and used as a medium of exchange or store of value. E.g. bitcoin.
	Derivatives Refers to financial instruments that derive their value from an underlying asset, such as futures, options, and swaps.
	Collective investment funds Refer to investment funds that pool money from multiple investors to invest in a portfolio of assets, such as mutual funds and exchange-traded funds (ETFs).
	Utility Tokens Utility tokens allow access to a specific product or service, and they do not possess the attributes of a regulated investment under the FSMR.
	Fiat Tokens Fiat tokens are digital representations of fiat currency and their use as a payment instrument typically falls under the regulatory framework of Providing Money Services.
	Security Tokens Security tokens are digital tokens that represent ownership of an underlying asset, providing income rights and exhibiting security-like features under the FSMR.

Overview of activities that can be licensed by ADGM

The six guiding principles of the FSRA's approach to virtual asset regulation and supervision are:

- Internationally recognized regulatory framework
- High standards for authorization
- Money laundering and other financial crimes under FSRA
- Risk-focused approach
- Commitment to enforce regulatory breaches
- International cooperation implementing the principles

Types of Licenses

Activities are classified into four broad categories, as illustrated below:

(Category 2)

Market maker and credit provider – Dealing with investments as principal and granting loans

(Category 3A)

Brokerage Activities – Investing as a Matched Principal and Investing as an Agent

(Category 3C)

Asset Manager, Fund Manager Activities – Asset Management, Collective Investment Fund Management, Custody Management, PSIAr Management, Trust Services,

(Category 4)

Activities in category four include the following: managing investment deals, advising on credit and financial products, arranging asset custody, and providing trust services.

What you need to know as a crypto business?

Crypto asset exchanges can obtain a license by applying for and obtaining an Operating a Crypto Asset Business (OCAB) license under the FSMR. The principal rules for operating a crypto asset business are set out in Chapter 17 of the FSRA Conduct of Business Rulebook (COBS).

The regulations are applicable to crypto asset custodians mandated by ADGM are outlined in COBS Rule 17.8, which sets specific additional requirements for virtual asset custodians.

AML CFT compliance requirements

ADGM's AML/CFT requirements for crypto businesses align with international standards set up by FATF, including compliance with UAE AML/CFT Federal Laws and adoption of international best practices. The guidelines require a risk-based approach, business risk assessment, governance, systems and controls, suspicious activity reporting, and record-keeping



Key Requirements for crypto businesses under ADGM



Registration

The Financial Services Regulatory Authority (FSRA) expects all authorized persons to have fully compliant client onboarding processes due to the challenges posed by virtual assets and their anonymity features.



Business risk assessment

The business risk assessment process involves identifying, assessing, and managing the risks associated with a crypto-related business's products, services, customers, and geography.



Risk Assessment

Authorized Persons should assess and rate all their Clients according to the Client's risk profile prior to transacting any business on behalf of the Client and must comply in full with Chapter 8 of the AML Rules.



Customer Due Diligence

To ensure compliance and prevent illegal activities, crypto businesses must verify customer identities, source of funds, and transaction purpose through CDD, utilizing blockchain analytics for added security.



Transaction monitoring

Tapping into blockchain analytics to detect and monitor suspicious transactions, including large and frequent transfers, activity in high-risk regions, and transactions with sanctioned actors.



Ongoing monitoring

Crypto businesses must monitor their customers' transactions on an ongoing basis to detect any suspicious activity.



Recording keeping

Maintain comprehensive records of their transactions and customer due diligence measures.



Reporting

Crypto businesses must report suspicious transactions within 24 hours of detection to the FIU of the UAE.



Training

Effective AML/CFT policy training is mandatory for employees of crypto businesses.



About Merkle Science

Merkle Science provides predictive blockchain risk intelligence and monitoring services that empower compliance teams to prevent illicit cryptocurrency activities and exceed regulatory requirements with confidence. We've raised over \$27MM in funding from top-tier investors and are the leading innovator in blockchain analytics. Our solutions power over 100+ crypto companies, law enforcement agencies, and financial institutions.

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