AN FTI TECHNOLOGY REPORT

Understanding the Digital Assets Landscape and Ecosystems in the Middle East Region

PART I: Dubai as World Innovation Incubator

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The Middle East is contributing to a surge in initiatives focused on new technology development. The region invests resources and enacts regulations to help safely adopt and innovate with digital/virtual assets and cryptocurrencies. Included in the push for innovation are the creation of specific regulators to oversee virtual assets and virtual assets service providers (VASPs), the expansion of existing regulatory frameworks to accommodate virtual assets activities and business models (preceded in most cases by public consultations), the proliferation of innovation hubs, technology and regulatory sandboxes or public-private collaborations in the field of blockchain and digital assets.

For entrepreneurs, virtual asset service providers, investors and other participants, understanding the comprehensive and rapidly changing ecosystem in the Middle East is key to attaining its benefits. This paper, in a series of instalments, will serve as a guide to distil the most essential information, outline the main stakeholders and explain the guidelines for doing business in the region. Blockchain and digital assets experts from FTI Technology share perspectives on the regulatory landscape, the economic environment, the stance of financial institutions on virtual assets, the innovation ecosystem, the initiatives supporting companies in the space and the national blockchain initiatives or relevant developments in the public and private sectors using blockchain technology.

Economic Progress Driving Technological Exploration

The Middle East has emerged as a significant economic player. Central to its influence is the region's standing as a top oil and gas producer, which has driven economic growth and allowed many nations in the Middle East to invest in infrastructure, technology and diversified industries.

Additionally, the Middle East and, in particular, the Gulf Cooperation Council countries have strategically leveraged their geographical location at the crossroads of Europe, Asia and Africa to develop into a global trade and logistics hub. Countries like the United Arab Emirates, with cities such as Dubai and Abu Dhabi, or the Kingdom of Saudi Arabia with Riyadh, have attracted international businesses and facilitated the flow of goods and services. These factors are playing a notable role in driving interest and growth for the digital assets industry across the Middle East.

Dubai's Forward-looking Approach

Dubai is known for a robust and diversified economy, home to multinational corporations and with growth across sectors including finance, tourism, real estate, aviation and technology.

In 2016, Dubai initiated its blockchain and digital assets journey through the Dubai Blockchain Strategy aimed at positioning Dubai as a global leader in blockchain technology adoption and implementation across various sectors, including government services, education, transportation and more.

The strategy focused on three main pillars:

1. Government efficiency

2. Industry creation

3. International leadership

In line with the directives of His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President, Prime Minister and Ruler of Dubai, H.H. Sheikh Hamdan bin Mohammed bin Rashid Al Maktoum, Crown Prince of Dubai and Chairman of Dubai's Higher Committee of Future Technology Development and Digital Economy, Dubai also launched the Dubai Metaverse Strategy in July 2022. This strategy outlines three primary objectives:

1. Multiply by five the number of blockchain and metaverse companies in five years.
1. Metaverse to support 40,000 virtual jobs and add USD$4 billion to Dubai's economy in five years
1. Become the number one in the region and one of the top 10 cities globally for metaverse economy

The strategy aims to attract more than 1,000 companies in the fields of blockchain and metaverse and is focused on infrastructure and regulation refinement; adoption, scaling and global advocation of safe platforms; metaverse innovation and economic contribution, metaverse talent development through education and training; and development of metaverse use cases and applications in Dubai government.

"The digitization of financial services has seen rapid evolution in recent years, and Dubai continues to command a leadership position as the world's premier digital assets hub. Dubai's vision and pragmatism in equal measure has helped the Emirate to forge an accelerated growth trajectory, ahead of its international counterparts.

Dubai's focus on economic diversification, SME empowerment and commitment to new age fintech and emerging assets - all of which is exemplified by the visionary D33 Agenda - has created a dynamism and vibrancy in digital assets which continues to attract the world's leading virtual assets companies to setup and expand in the UAE.

Striking the right balance between innovation and regulation is critical in ensuring the industry continues to innovate and accelerate safely. This is an area where Dubai stands differentiated. National drives for experimentation and testing through local sandboxes, combined with expansive crypto community-building are helping to foster increasing innovation at great pace, whilst creating the avenues for exciting new innovators to come to market.

With world-class technology infrastructure, burgeoning tech talent, openness of government and progressive regulation, Dubai remains one of the most attractive places in the world for digital assets firms to do business. The future ahead is bright, one I am truly excited to see continue to flourish."

— **CHARLIE PALMER**, GLOBAL HEAD OF TMT, FTI CONSULTING STRATEGIC COMMUNICATIONS

Operating in Dubai, a Nascent Ecosystem

If a digital assets firm decides to setup a business in Dubai, there are multiple options to do so. These options can be summarised in three categories:

1. Mainland, meaning the company is registered under the Department of Economic Development of Dubai
2. Free zone
3. Financial free zone (Dubai International Financial Centre, or DIFC, in the case of Dubai)

The decision for which option to follow may influence which regulatory body will license the firm's activity and supervision, if the business activity is regulated.

Digital assets companies in mainland or in a free zone will be regulated by the Virtual Assets Regulatory Authority, or VARA, while companies in the DIFC will be regulated by the Dubai Financial Services Authority, or DFSA.

VARA

As of early 2024, Dubai has the only regulator in the world dedicated exclusively to oversight of virtual assets: the Virtual Assets Regulatory Authority (VARA). Established in February of 2022, Law No.4 of 2022 "Regulating Virtual Assets in the Emirate of Dubai" established VARA and its jurisdiction covering virtual asset services provided in all zones across the Emirate of Dubai, including special development zones and free zones, excluding the Dubai International Financial Centre.

VARA was established with the following five objectives:

1. To promote Dubai as a regional and international hub for virtual assets and related services; to boost the competitive edge of the Emirate at the local and international levels; and to develop the digital economy in the Emirate;
2. To increase awareness of investing in the virtual asset services and products sector, and encourage innovation in this sector;
3. To contribute to attracting investments and encourage companies operating in the field of virtual assets to base their business in the Emirate;
4. To develop the regulations required for the protection of investors and dealers in virtual assets, and to endeavour to curb illegal practices in coordination with the relevant entities; and
5. To develop the regulations, rules, and standards required for licensing, supervising, and overseeing virtual asset platforms, VASPs, and all other matters related to virtual assets.

"VARA, as a pioneering regulatory authority, stands at the forefront of shaping a progressive future for digital assets. It embodies the vision of Dubai's economy—dynamic, innovative, and forward-looking. For the industry, VARA is not just a regulator; it's an enabler of trust and security in a landscape brimming with potential. Its regulatory frameworks are crafted to foster growth, ensure market integrity, and protect investors, thus cementing Dubai's position as a beacon for digital asset enterprises globally."

— **VINIT SHAH,** VARA

VARA's fundamental principles and goals include:

1. **Market integrity and stability.** The market should be fair, orderly, transparent and prevent fraud and other criminal activity. The market should be systemically safe with consideration given to prudential risks. The market can be volatile whilst still being considered to be fair and orderly. The regime should be fully Financial Action Task Force compliant.
2. **Consumer protection.** The regime seeks to prevent harms arising from misinformation, abuse and/or poor operational practices. Market participants are free to engage with risk, so long as they give "informed consent" about their investments and VASPs have provided them with all information necessary for such consent in accordance with all applicable laws and regulations.
3. **Technology neutrality and supportive innovation.** The regime must not discriminate against technology, but instead against illicit or harmful activities. If an activity is not illicit, it should be possible and desirable to regulate it without banning it entirely. VARA does not regulate products or protocols as the starting point for achieving its policy goals (except in special cases). VARA does not decide which innovations are subjectively valuable or not.
4. **Regulatory resilience.** The regime must not become quickly outdated with loopholes given the fast-paced nature of the industry. The regime is principles driven and VARA is mindful when it makes prescriptive carve-outs.
5. **Regulatory efficiency and proportionality.** Enforce a regime that is not only effective (i.e., achieves the policy intent), but does so in the least burdensome way possible for both VARA and VASPs. Any burden imposed is justified relative to the potential harm that is being mitigated.

In February 2023, VARA issued the Virtual Assets and Related Activities Regulations 2023 giving VARA supervisory, examination and enforcement powers for all virtual assets and virtual assets activities in Dubai (excluding DIFC), with the exception of tokenised assets. Tokenized assets, payment tokens and CBDCs are regulated by other governmental authorities.

Obtaining an operating License with VARA

Any firm seeking to carry on virtual asset activities in or from Dubai (excluding DIFC) must apply for a VARA license prior to commencing operations.

For new firms, applying for a VARA license is completed in two stages.

First, application for initial approval to establish a legal entity and to commence operational setup:

1. Submit an Initial Disclosure Questionnaire to the Dubai Department of Economy and Tourism or a relevant free zone authority.
2. Provide additional documentation as required. Such documentation will include a business plan and details of the firm's beneficial owners and senior management.
3. Pay initial fees (normally 50% of licence application fee) required to commence the application review.
4. Receive an initial approval to finalise the firm's legal incorporation and to complete operational set-up including office space rental, employee on-boarding, etc. At this point, the firm is not permitted to begin virtual asset activities. An initial approval may not be issued in case the firms activities fall outside VARA's regulatory perimeter or the firm does not meet appropriate standards to be regulated

Second, application for the VASP license (following receipt of an initial approval):

1. Prepare and submit documentation according to the guidance provided by VARA upon receipt of the initial approval.
2. Receive feedback directly from VARA on the submission which may include meetings, interviews and submission of further documentation.
3. Pay remaining portion of application licence fees and first year's supervision fees.
4. Receive a VASP Licence, which may be subject to operational conditions.

For firms that were conducting virtual assets activities in or from Dubai (excluding DIFC) prior to the release of the regulations in February 2023 (legacy firms), VASPs were required to contact their commercial licensor to submit an initial disclosure questionnaire and were required to complete the VASP license application.

After submitting the initial disclosure questionnaire to VARA, and upon acceptance by the regulator, legacy firms obtain a legacy operating permit or LOP, which permits the firm to operate under a light touch regime and supervision while they meet the full license requirements.

It's worth noting that VARA applies incentives to encourage legacy firms to engage by reducing requirements and fees and by communicating potential shutdowns for non-compliance.

In order to obtain a VARA license, every VASP, regardless of its business activities, will be required to comply with four compulsory rulebooks (summarised from VARA):

1. **Company.** Including requirements related to company structure, corporate governance, outsourcing management, environmental, social and governance, capital and prudential requirements, insolvency and wind down.
2. **Compliance and Risk Management.** Including requirements related to compliance management, tax reporting and compliance, AML-CFT, client money rules, client virtual asset rules, anti-bribery and corruption.
3. **Technology and Information.** Including requirements related to technology governance, controls and security (include cybersecurity policies, cryptographic keys and virtual asset wallet management, virtual assets transactions, algorithmic governance), personal data protection and use and protection of confidential information.
4. **Market Conduct.** Including all requirements related to marketing, advertising and promotions, client agreements, complaints handling, investor classifications (addressing retail, qualified and institutional investors), public (including risk) disclosures, market transparency, prohibition for trading own account and virtual assets standards.

In addition to the compulsory rulebooks and depending on the activity of the VASP, there are an additional seven activity-specific rulebooks (summarised from VARA):

1. **Advisory Services.** Offering, providing or agreeing to provide a personal recommendation to a client, either upon its request, or on the initiative of the entity providing the recommendation, in respect of one or more actions or transactions relating to any virtual assets.
2. **Broker-Dealer Services.** Means any of the following: arranging orders for the purchase and sale of virtual assets between two entities; soliciting or accepting orders for virtual assets and accepting fiat currency, or other virtual assets, for such orders; facilitating the matching of transactions in virtual assets between buyers and sellers; entering into virtual asset transactions as a dealer on behalf of the entity for its own account; making a market in virtual assets using client assets; or providing placement, distribution or other issuance related services to clients issuing virtual assets.
3. **Custody Services.** Safekeeping virtual assets for or on behalf of another entity and acting only on verified instructions from or on behalf of such Entity. All VASPs shall be subject to rules regarding the storage and custody of clients' virtual assets. Only VASPs which segregate each client's assets in separate wallets will qualify for a Custody Services Licence. VARA updated this rulebook in August 2023, permitting staking from custody services, provided that the prescribed requirements of the amended rulebook are met. This change allows VASPs to offer staking without requiring a separate license for virtual asset management and investment services.
4. **Exchange Services.** Includes: conducting an exchange, trade or conversion between virtual assets and fiat currency; conducting an exchange, trade or conversion between one or more virtual assets; matching orders between buyers and sellers and conducting an exchange, trade or conversion between virtual assets and fiat currency, or one or more virtual assets; or maintaining an order book in furtherance of the items above.
5. **Lending and Borrowing Services.** Carrying out a contract under which a virtual asset shall be transferred or lent from one or more parties to one or more other parties, where "borrower" shall commit to return the same, at the request of the "lender," at any time either during or at the end of the period agreed upon.
6. **Management and Investment Services.** Acting on behalf of an entity as an agent or fiduciary or otherwise taking responsibility for the management, administration or disposition of that entity's virtual assets. Examples may include, but shall not be limited to: investment management services or otherwise managing virtual assets; and taking responsibility for the staking of virtual assets for the purposes of earning fees or other amounts paid to validators and/or node operators.
7. **Transfers and Settlements.** The transmission or transfer, and/or settlement of virtual assets from one entity to another, or from one entity to another wallet, address or location.

In addition to the activity rulebooks, there is a specific rulebook for virtual asset issuance, which any company operating in Dubai (except the DIFC) that issues a virtual asset “in the course of business” must comply with. The rulebook defines “permitted virtual assets” that require registration, but not approval from VARA, as well as “prohibited virtual assets,” such as anonymity-enhanced cryptocurrencies, due to the lack of mitigating technologies or mechanisms to allow traceability or identification of ownership.

This rulebook was amended in September 2023 to contemplate the issuance of specific categories of virtual assets backed by real world assets including but not limited to fiat. In regard to fiat-referenced virtual assets, VARA defines them as a type of virtual asset that purports to maintain a stable value in relation to the value of one or more fiat currencies but does not have legal tender status in any jurisdiction. VARA included an exception which entailed stablecoins pegged to the UAE currency, the AED.

Across different information and requirement categories, VARA may require a significant number of documents and policies from the applicants, asking for detailed information around corporate structure and governance, risk and compliance, technology or other matters. The information included in these documents should be verifiable and demonstrable, an exercise that will require a sizeable amount of work for applicants. This can create a real challenge for new entrants. Certain policies or procedures related with risk management and control, corporate governance or compliance require specific knowledge that the founding VASP teams may not have. External support is often needed. FTI Technology’s Blockchain and Digital Assets practice has extensive experience in supporting clients with completing a fulsome assessment of their needs and strategy and application disclosure.

The current list of VARA licensed VASPs is here.

VARA closely monitors the activity of the licensed companies and the application progress of those proceeding through the licensing journey. Regulatory notices help protect consumers and businesses operating in Dubai by providing access to essential information about VARA-registered VASPs. VARA’s regulatory notices include licensing notices, enforcement notices and warning notices.

Free Zones

Free zones, free trade zones or free zone authority economic areas are ruled by unique, specific regulations that do not apply to businesses outside the zone. Free zone companies trade services and products, leveraging special tax and foreign ownership laws.

VASPs can establish operations either in Dubai mainland under the remit of Dubai Department of Economy and Tourism or in any of the available free zone authorities.

Some free zones provide licenses specific for crypto-related activities. These include:

Dubai Multi Commodities Centre free zone

Prior to the creation of VARA, DMCC was the first free zone authority with a regulatory framework for the offering, issuance, listing and trading of crypto assets.

The crypto license activities that can be obtained in DMCC are:

- Business activities: Blockchain-as-a-service, metaverse service provider, crypto proprietary trading and crypto mining.
- Regulated virtual assets activities, as available from VARA: advisory, broker-dealer, exchange, custody, lending and borrowing, transfer and settlement and management and investment services.

Dubai World Trade Centre

The DWTC Free Zone, established as part of the Dubai World Trade Centre complex, offers a range of business opportunities to companies seeking to set up their operations in the region. The proximity with the Dubai Virtual assets regulator, which is affiliated to DWTC and the world class facilities such as One Central are attracting multiple virtual asset service providers to this free zone.

Dubai International Financial Centre (DIFC)

The DIFC is the financial free zone of the emirate of Dubai and has an independent financial services regulator, the Dubai Financial Services Authority (DFSA). In October 2021, the DFSA introduced a regime for the regulation of investment tokens in line with its oversight of the financial ecosystem. The DFSA's second phase was introduced in November 2022 through the crypto token regime with the intent to foster innovation in a measured, responsible and transparent manner, while still meeting the DFSA's regulatory objectives. The regime is comprehensive, covering not only AML/CFT risks in respect of trading, clearing, holding or transferring crypto tokens and fiat crypto tokens, but also in addressing risks relating to consumer protection, market integrity, custody and financial resources for service providers. The DFSA has taken a balanced approach in the development of this regime and will consider, as the sector develops, further changes and amendments to the regime in alignment with best practices and standards adopted by international standards bodies. A new consultation paper released in January 2024 seeks public comment on proposals for amendments to the regulatory regime around crypto tokens, and covering crypto custody, DeFi, stablecoins, crypto investment funds and crypto insurance as well as money laundering and terrorist financing.

The DFSA has extended the scope of many current financial services activities. For example, advising, dealing, arranging, trading and custody, to allow firms in the DIFC to be able to provide products and services in relation to crypto tokens. Firms that are providing, or want to provide, financial services in relation to crypto tokens in or from DIFC will need to obtain the appropriate license from the DFSA, including existing DFSA authorised firms that wish to obtain a variation of their license to include crypto tokens.

Financial services or activities can only be undertaken with a crypto token if such token has been recognised by the DFSA. At the time of writing this report, the list of recognised crypto tokens by DFSA includes Bitcoin (BTC), Ethereum (ETH), Litecoin (LTC), Toncoin (TON) and Ripple (XRP).

In early March 2024, DIFC announced the enactment of its new Digital Assets Law (DIFC Law No. 2 of 2024), considered to be the first legislative enactment to comprehensively set out the legal characteristics of digital assets as a matter of property law, and provide for how digital assets may be controlled, transferred and dealt with by interested parties, aiming to provide legal certainty for investors in, and users of, Digital Assets.

This law defines a Digital Asset as a something that exists as a manifestation of a combination of software operation and network-instantiated data, exists independently of any particular person and legal system, and exhibits non-duplication (i.e. the use or consumption by one person of such asset precluding the use and consumption by another). Cryptocurrencies, stablecoins and NFTs are expected to qualify as digital assets.

> "Each of the DIFC and the DFSA have a rich history of embracing innovation in financial services and have long recognised that regulatory certainty and engagement with the market underpins confidence. This is seen in the measured approach adopted by the DFSA on digital assets, first through its investment token regime and then through its crypto token regime, supported along the way by public consultations. Although the "whitelist" approach to crypto token recognition is somewhat unusual when set against a global context, the recognition process underscores the careful approach being followed by the DFSA. A deliberate upshot from the token-by-token recognition model is the market confidence that attaches to the recognised token. This will be particularly important in the years to come given DIFC's strategy for growth and the increasingly important role that digital assets will play in the future of commerce"
>
> — **RAZA RIZVI**, PARTNER AND MIDDLE EAST FINTECH LEAD, SIMMONS & SIMMONS LLP

Ecosystem Support

Dubai Blockchain Centre

Dubai Blockchain Centre was inaugurated by His Highness Sheikh Mohammed bin Rashid Al Maktoum Vice President and Prime Minister of the UAE and Ruler of Dubai on 15 May 2018.

Under the leadership of Dr. Marwan Alzarouni, Dubai Blockchain Center continues to drive innovation and positive change in the global blockchain ecosystem. The Center has successfully attracted top industry experts, thought leaders, developers, and investors to Dubai, establishing itself as a leading destination for blockchain education, research, consultation, and community building.

By partnering with events like Satoshi Roundtable and offering incubation, acceleration, and advisory programs, the Center is accelerating the adoption and advancement of blockchain technology, ultimately contributing to the transformation of the global digital infrastructure.

> "Our goal this year at Dubai Blockchain Center is to consolidate our ecosystem partnerships and work together to create new value for the UAE's blockchain, crypto, Web3, and AI communities. We believe that by combining our efforts and fostering collaboration, we can drive innovation and growth in these cutting-edge fields, while solidifying Dubai's position as a global hub for technological advancement."
>
> — **DR. MARWAN ALZAROUNI**, CEO BLOCKCHAIN CENTRE

DMCC Crypto Centre

In 2021, the DMCC Crypto Centre was created as a hub for crypto businesses, with the intention of fostering growth, collaboration and integrity across the global crypto, web3 and blockchain economy. To date, the centre has generated a rapidly-growing community of more than 550 crypto firms, making it the largest ecosystem of crypto and blockchain companies in the region.

DMCC Crypto Centre hosts and organises frequent meetups, summits, hackathons and other competitions, gathering together the Dubai blockchain and digital assets community.

> "To this day, Web3 businesses across the world continue to face a great deal of regulatory complexity and uncertainty. We saw this challenge emerge in 2021 and emphatically responded with the DMCC Crypto Centre to increase the ease of doing business for crypto, blockchain and Web3 firms. The Centre's success lies in its ability to provide access to capital through global partners, a cohort of highly innovative peers to collaborate with, the best pool of crypto talent in the region, genuine world leaders such as Bybit and Solana to learn from and tap into, and access to our community of 24,000 member companies to source new business opportunities. By working closely with regulatory bodies such as VARA, we offer a truly comprehensive home for any type of crypto business."
>
> — **BELAL JASSOMA**, DIRECTOR OF ECOSYSTEMS AT DMCC AND HEAD OF THE DMCC CRYPTO CENTRE

DIFC Innovation Incubation

In 2023, the DIFC included more programs aimed at fostering innovation in the region. Focused on metaverse, artificial intelligence, web3 and supporting infrastructure vendors, DIFC developed the DIFC Metaverse Platform, the Dubai AI and Web3.0 Campus, and is home to the DIFC Innovation Hub.

To attract and develop global talent in emerging technology and support Dubai's position as a global metaverse leader, the "DIFC Metaverse Platform" was launched. The development includes an accelerator programme with a studio for metaverse technology and was created with the intention to be a hub for Dubai's burgeoning metaverse community, as well as a centre to identify metaverse laws and legislations.

For the Dubai AI and Web3.0 Campus, the stated goal was to promote growth and creation of a large cluster of emerging technology companies in the Middle East and North Africa region. The campus issues AI and web3 licenses and offers support for related innovation including distributed ledger technology services, specialised AI research and consultancies, IT infrastructure builders, technology research and development and public networking services.

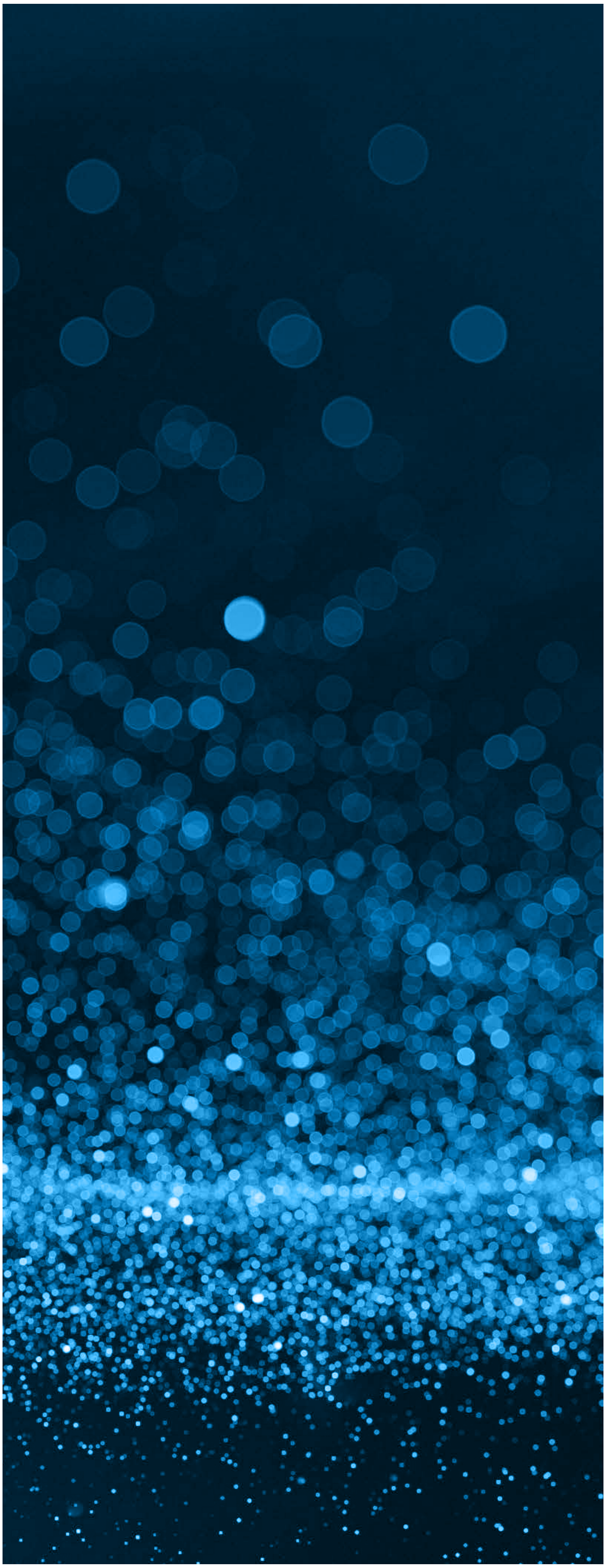
The AI and web3 license is a subsidised commercial license for enterprises looking to establish business in Dubai and is issued with access to co-working spaces and discounted visas. This initiative is supported with high growth goals as outlined by the DIFC.

The DIFC Innovation Hub is defined as an innovation community hosting more than 700 innovation and technology firms, ranging from start-ups to "unicorns." It aims to generate new economic value by fostering innovation, enterprise and talent across various sectors, especially in future-oriented industries like digital assets.

Crypto Oasis Ecosystem

The Crypto Oasis is a Middle East-focused blockchain ecosystem with stakeholders including investors and collectors, start-ups and projects, corporations, science and research institutions, service providers and government entities and associations.

Crypto Oasis is a major player in networking and industry collaboration in Dubai, organising gatherings and acting as ecosystem partner for the promotion and activation of many events related with the blockchain industry in Dubai.



Events

Dubai's strategic and unique location has positioned it as an ideal host for international events on a global scale. Nestled at the crossroads of Europe, Asia, and Africa, Dubai serves as a geographically advantageous meeting point, facilitating easy accessibility for participants from various continents.

The city's commitment to innovation and its ability to seamlessly blend tradition with modernity make it an attractive destination for conferences, exhibitions, and other global gatherings, fostering collaboration and networking on an international level.

Dubai is home for many flagship events in the digital assets and blockchain industry, of which is worth mentioning:

— **Dubai Fintech Summit**
https://dubaifintechsummit.com/

— **Future Blockchain Summit**
https://www.futureblockchainsummit.com/

— **ETH Dubai**
https://www.ethdubaiconf.org/

— **Token2049 Dubai**
https://www.dubai.token2049.com/

— **Satoshi roundtable**
https://satoshiroundtable.org/

"The onset of Covid-19 significantly accelerated the adoption of cryptocurrencies in the UAE, with Dubai experiencing a notable influx of communities from the global crypto ecosystem. Leveraging its status as finance and technology hub, Dubai holds a unique position in the blockchain and crypto industry, fostering a progressive environment conducive to innovation in virtual assets for investors, startups and developers. These factors render Dubai as a fertile ground for hosting events.

The Future Blockchain Summit is a reflection of Dubai's commitment to become a global leader in blockchain adoption. The show serves as a platform for global collaboration and partnerships while providing a stage to showcase cutting edge blockchain tech, hosting startups and industry leaders."

— **SUNITA KHATRI**, COMMERCIAL DIRECTOR AND HEAD OF THE FUTURE BLOCKCHAIN SUMMIT

Conclusion

Across Dubai, numerous steps have been taken to support the safe and effective growth of the digital assets ecosystem. The region should be expected to participate as a notable driver of technology innovation and disruption in the space, and a global leader in establishing regulatory frameworks that can be emulated in other markets. Subsequent parts of this series will further explore regulatory activity and market trends in other jurisdictions within the Middle East.

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PART II: The United Arab Emirates

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This paper is a continuation of a broader initiative to examine the landscape across the various regions across the Middle East. Part I, which covers Dubai specifically, is available on ftitechnology.com. The remainder of jurisdictions across the UAE are covered in this edition, Part II. As the blockchain and digital assets regulatory landscape changes rapidly and significantly across global jurisdictions, FTI Technology's team will provide amendments and updates for the region in subsequent parts and articles to follow changes in the region. The firm's experts in the Middle East Region are available to discuss this dynamic landscape as it evolves as well.

The United Arab Emirates has become an important hub for the digital and virtual assets industry. The country was among the first to adopt a comprehensive strategy to support the use of blockchain technology and the crypto ecosystem.

According to the latest figures, the growing crypto market in the UAE includes roughly 1,800 organisations, 70% of which are native to the region. More than 8,500 professionals are working in organisations spanning cryptocurrency, blockchain, metaverse and web3. This growth was driven by numerous blockchain development companies, crypto businesses, and investment funds attracted to the region following bull markets in late 2017 and late 2020. Initiatives such as the UAE government's Emirates Blockchain Strategy 2021 has also supported growth, given its goal of using blockchain technology to conduct 50% of government transactions by that year.

As digital assets startups and international companies consider moving to the UAE, it's important to understand the various options for licensing, jurisdictions, economic zones and innovation communities. Choosing the right path that aligns with specific business risks and objectives is key to establishing a successful and cost-effective presence in the region.

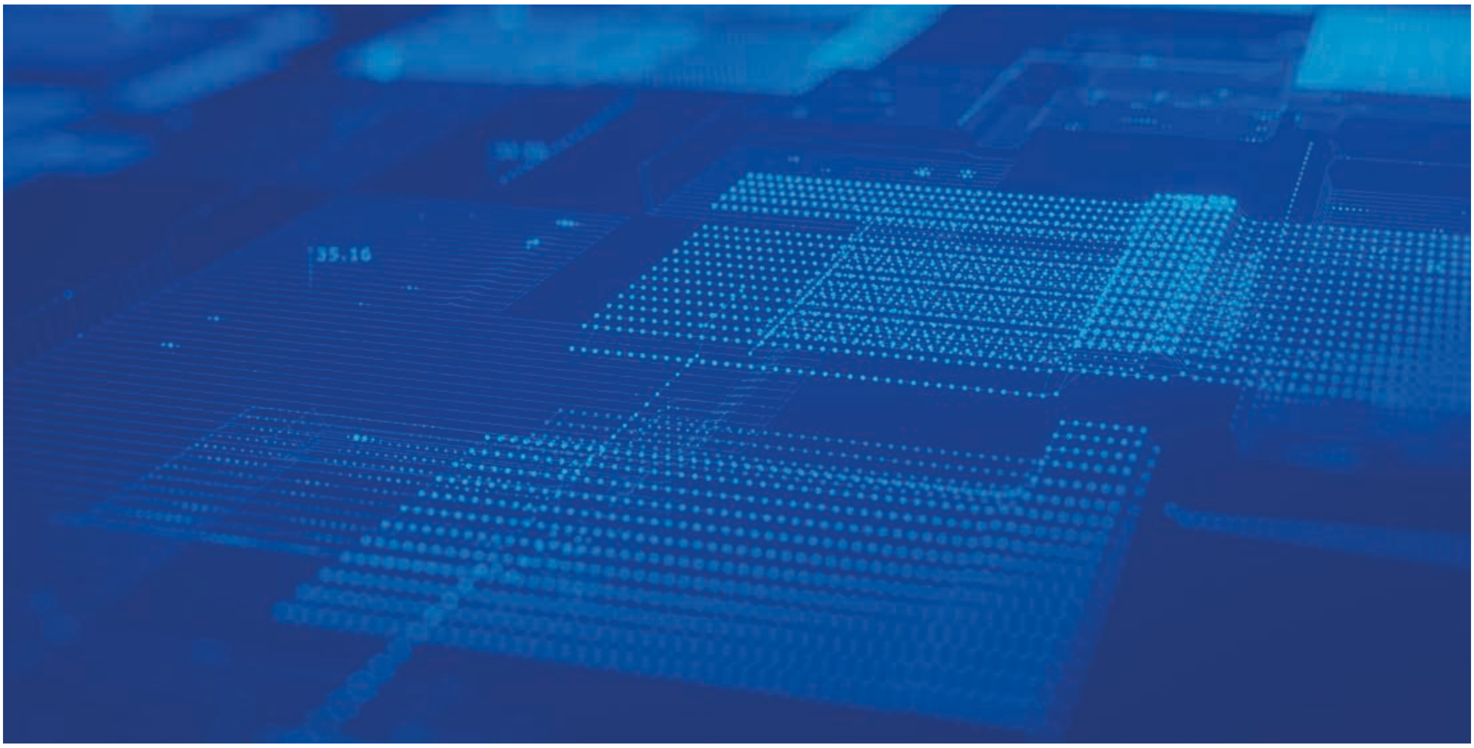
Establishing as a Virtual Asset Service Provider in the UAE

Across a rapidly evolving and highly competitive virtual assets industry with hundreds of participants, the UAE and its regulatory agencies have demonstrated diligence in staying up to date with market demands, providing licensing models and regulatory sandboxes to accommodate new business models while remaining at the forefront of innovations in central bank digital currencies and stablecoins.

In order to keep the economy stable and protect customer interests, regulators in the UAE are paying special attention to and increasing enforcement rigor over areas such as corporate governance, market conduct, risk assessment, controls and policies around anti-money laundering and combating the financing of terrorism. Alongside increased scrutiny, regulators in the UAE have demonstrated intentions to continue to support innovation in the digital assets space, positioning the country for additional growth.

Virtual asset service providers considering setting up in the UAE should carefully assess the following:

- **Understanding the regulatory environment**, including the remit, roles and responsibilities of the different stakeholders in the regulatory landscape in the UAE, and which ones need to be engaged depending on the activity of the company and the jurisdiction of choice.
- **Selection of jurisdiction.** Once the company has understood the regulatory landscape, it will need to choose a jurisdiction that either provides a regulatory regime for its activities, or that provides more favourable conditions to the company's interests, such as access to investors, to a particular community or to potential customers.
- **Selection of the economic area or free zone.** The UAE offers more than 40 multidisciplinary free zones, 26 of which are in the Emirate of Dubai, in which expatriates and foreign investors can retain full ownership of companies. Many of these free zones offer tailored packages and benefits for virtual assets businesses, and are capturing the growth in the industry.
- **Selection of the banking partner.** This is particularly important in the case of virtual assets service providers. Many financial institutions do not yet provide services to companies in the virtual assets industry, which can make it very difficult for these companies to operate. In early 2023 and to address this issue, the Central Bank of the UAE provided guidelines to licensed financial institutions on how to serve and evaluate VASPs. Since the release of the guidelines, banks are adopting them gradually and more options are becoming available for companies in this field.



Federal Authorities

In the UAE, a federal authority is a government agency or organisation overseeing the entire country to ensure uniformity and coordination across all seven Emirates: Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al-Quwain, Ras Al Khaimah and Fujairah. Three of these federal authorities are relevant for VASP-related activities: the Central Bank of the UAE, the Securities and Commodities Authority and the Financial Intelligence Unit.

Central Bank of the UAE

The CBUAE is the supervisory and regulatory authority of the banking and insurance sector. It promotes financial and monetary stability, efficiency and resilience in the financial system, and the protection of consumers through effective supervision that supports economic growth for the benefit of the UAE and its people.

Among the responsibilities within the CBUAE's official mandate, some are relevant to the virtual assets industry, including:

- To prepare and implement monetary policy in line with the national agenda.
- To exercise the privilege of currency issuance, relevant to the introduction of CBDCs.
- To organise licensed financial activities, establish the foundations for conducting them and determine the standards required for developing and promoting prudential practices.
- To establish and supervise appropriate regulations and standards for the protection of customers of licensed financial institutions. Like in the case of the guidelines issued to licensed financial institutions on risks related to virtual assets and VASPs.
- To regulate, develop, oversee and maintain the soundness of financial infrastructure systems, including electronic payment systems, digital currency and stored value facilities. This would encompass the regulation around stablecoins issued by private parties or the acceptance of cryptocurrencies for retail payments.

Financial Infrastructure Transformation Program

In February 2023, the CBUAE launched the Financial Infrastructure Transformation program to accelerate the digital transformation of the financial services sector. The program comprises nine key initiatives to enable the UAE's competitiveness to become the financial and digital payment hub and a centre of excellence for innovation.

In addition to initiatives focused on electronic know your customer, open finance, supervisory technology, instant payments, an innovation hub or a card domestic scheme, an important initiative focuses on CBDCs. This aims to address the problems and inefficiency of cross-border payments and help drive innovation for domestic payments.

Guidance for Financial Institutions Serving VASPs

Some of the activities of VASPs are considered riskier and subject to tighter scrutiny and control, even after obtaining operating licenses from the corresponding regulatory authority. To provide guidance to licensed financial institutions, mostly banks, the CBUAE issued by mid 2023 the "Guidance for Licensed Financial institutions on risks related to virtual assets and virtual assets service providers," outlining measures licensed financial institutions should take when assessing virtual assets and serving VASPs.

It does not constitute additional law or regulation but takes into account standards and guidance issued by the Financial Action Task Force, industry best practices and red flag indications to look at carefully.

Following is a summary of the points included in the guidance:

- Requirements for licensed financial institutions to assess when a company is a VASP and if the assets involved in their activities shall be considered virtual assets for the purpose of these guidelines.
- Allowed exposures to virtual assets and VASPs.
- Requirements for licensed financial institutions to meet prior to providing services to a company considered to be a VASP.
- Requirement to perform a one-time review assessment of the existing customer portfolio to understand if any existing customer meets the definition of a VASP.
- General customer due diligence and enhanced due diligence recommended measures when dealing with VASPs.
- Specific due diligence measures for all VASP customers.
- Guidelines on proprietary investments in virtual assets and VASPs.
- Recommendations for training.
- Sanctions obligations, governance, independent audit and record keeping requirements.
- These guidelines also include examples of:
    - What is and what is not considered a virtual asset.
    - What is and what is not considered a VASP.
    - Typical business models under which VASPs operate.
    - Threats and vulnerabilities related to virtual assets, VASPs and VASP business models.
    - Red flag indicators of illicit activity conducted by a VASP or with a virtual asset.

CBDCs

Beyond the initiative that focuses on CBDCs within the Financial Infrastructure Transformation program, the CBUAE journey with CBDCs started back in 2019. Back then, the CBUAE announced together with the Saudi Arabia Monetary Authority the trial of a joint digital currency, known as project Aber, to be used in financial settlements between the two countries through blockchain and distributed ledger technologies. In January 2024, the CBUAE made the first cross-border payment to China using mBridge (a government led project to create innovative CBDC infrastructure) and CBDCs, on a transference of 50 million dirham ($13.6 million).

Payment Token Services Regulation

In June 2024, the CBUAE released a regulation for the issuance, conversion, custody and transfer of payment tokens, particularly focusing on stablecoins. This regulation is a significant development in the UAE's approach to digital payments and virtual assets, and can be summarised in the following points:

- It makes a clear distinction between Dirham payment tokens (backed by the UAE Dirham) and foreign payment tokens (e.g. backed by the US Dollar).
- Dirham payment tokens can be used to buy goods and services and also virtual assets (including crypto and NFTs), while foreign payment tokens can only be used to buy virtual assets and their derivatives.
- Dirham payment tokens are subject to a full licensing regime, on activities related with the issuance, conversion, custody and transfer of these tokens.

- In relation to the issuance of Dirham payment tokens, the issuer is allowed to invest up to 50% of the client reserves into government securities, a 1:1 parity between tokens and reserves must exist at all times, and redemption of tokens must happen with the issuer in order to avoid the risk of depegging.
- Foreign payment tokens are subject to a light touch regime, where issuers will need to register only with the CBUAE and not with any other regulator, and the conversion (into Dirhams), custody and transfer activities will need an NOC from the CBUAE, subject to being already licensed from VARA or SCA.
- Issuers of stablecoins backed by digital assets or powered by self-securing algorithms can't obtain a license from the CBUAE.

It is worth noting that if cryptocurrencies are converted into Dirhams or Dirham payment tokens, they can be used to buy goods and services.

Entities in financial free zones (ADGM and DIFC) are exempt from this regulation and its requirements, meaning that stablecoins backed by currencies other than the Dirham, like the U.S. dollar for example, can still apply for licenses from the regulators in these zones.

This new regulation is expected to come into force in June 2025.

Securities and Commodities Authority

The SCA is the regulatory body responsible for overseeing and regulating the securities and commodities markets within the country. Its primary role is to ensure the integrity, transparency and fairness of these markets, as well as to protect the interests of investors and market participants.

The UAE designated the SCA as the UAE's federal regulator for VASPs through the Cabinet Resolution No. 111 of 2022, regulating virtual assets and related service providers, which took effect in January of 2023.

This resolution aims to achieve the following:

1. Developing the legislative system of the virtual assets sector in the UAE, its related activities and service providers in a way that defines and guarantees the rights and duties of all related parties.
2. Regulating the virtual assets sector in the UAE and its related activities and service providers.
3. The compliance of the virtual assets sector in the UAE with all provisions of the Federal Decree-Law No. (20) of 2018 concerning combating money laundering crimes, combating financing of terrorism and financing of illegal organisations, as amended, and its executive regulations and applicable legislations related to the sector.
4. Supporting the UAE efforts to provide an attractive investment, economic and financial environment for global companies and institutions operating in the virtual assets sector to provide their services in the UAE.
5. Protecting investors in virtual assets from illegal practices.

It applies to the virtual assets sector, activities related to virtual assets and virtual asset service providers in the whole UAE, including free zones. It does not apply to financial free zones (ADGM in Abu Dhabi and DIFC in Dubai), digital securities and digital commodity contracts.

The Cabinet Decision No. 112 of 2022 delegates SCA's competencies into VARA when the licensing of the activities of virtual assets and the providers of virtual asset services take place within Dubai and its free zones, and its within VARA's framework. In such cases, companies must only obtain a license from VARA, which will inform the SCA to have a unified register of all licensed VASPs in the UAE.

Real world asset tokenisation schemes and security tokens, classified as securities, fall outside VARA's remit, and must be approved by SCA, with their issuance and trading being subject to the same regulations as other securities.

> "The inter-relationship between the SCA and VARA is an example of inter-regulator cooperation, which is a hallmark of common practices in the UAE. VARA is set up to be a specialised regulator and the delegation of authority from the SCA is a sign of the seriousness with which the UAE government treats virtual assets. By understanding the pivotal role that digital assets are likely to play in the years to come, the UAE has set itself up to become a centre of best practice for the regulation and implementation of web3"
>
> — SOHAM PANCHAMIYA, FOUNDER AT TLP ADVISORS

Financial Intelligence Unit

The Financial Intelligence Unit is designed to help protect the UAE and the global economy from money laundering, terrorism and other financial crimes.

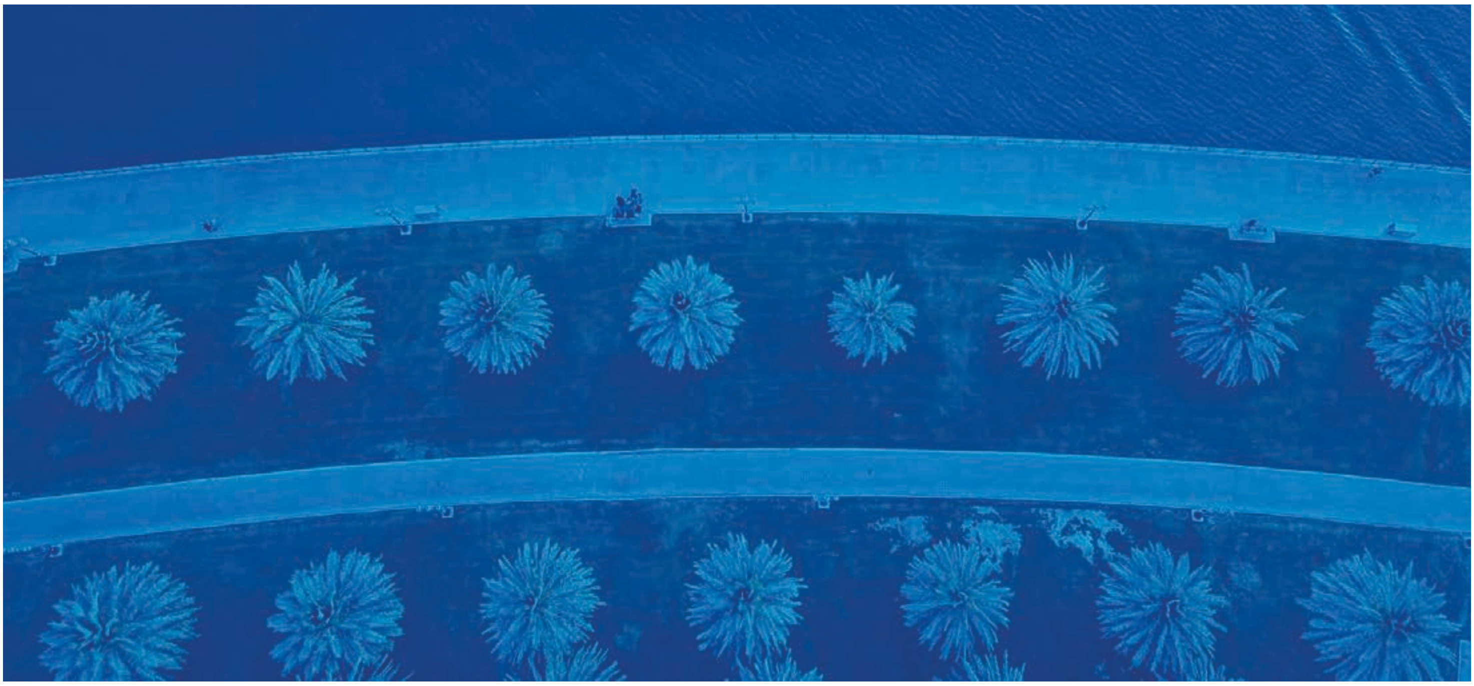
This entity is relevant for VASPs, and their compliance with AML/CFT regulations. Upon suspicion or reasonable grounds to suspect that the proceeds of a transaction are related to a crime, or the intention to use funds for committing or benefiting from a crime, the money laundering reporting officer must immediately report to the agency and any other respective regulatory authorities.

These reports must be made using the goAML platform or any other means approved by the UAE Financial Intelligence Unit. The goAML portal is developed by the United Nations Office on Drugs and Crime to facilitate the receipt, analysis and dissemination of suspicious transactions and activity reports to the UAE's Law Enforcement Authorities.

According to Federal Decree-Law No. (20) of 2018, and related to VASPs, the Financial Intelligence Unit shall have competence over the following:

- Receive, study and analyse reports from VASPs according to the models approved thereby and save the same in its database.
- Requesting VASPs and the competent authorities to provide it with any additional information or documents relating to the reports and information it has received and other information it deems necessary for the performance of its functions, on the date and the form specified by the Financial Intelligence Unit.
- Providing VASPs with feedback to enhance the effectiveness of the implementation of procedures to confront money laundering, related predicate offences or terrorist financing or financing of illegal organisations and detect suspicious transactions.
- Cooperating and coordinating with the supervisory authorities to ensure the compliance of VASPs with the procedures for combating money laundering, related predicate offences or terrorist financing or financing of illegal organizations.

> "The UAE's proactive and whole-of-government approach to crypto regulation, coupled with blockchain's inherent transparency, is transforming the virtual asset landscape. By embracing technology and global best practices, the UAE is fostering a trustworthy ecosystem that balances innovation with security. This forward-thinking strategy strengthens the nation's AML/CFT framework and enables responsible development of the crypto industry, creating a model for sustainable growth in the digital economy."
>
> — ARUSHI GOEL, POLICY LEAD, MIDDLE EAST AND AFRICA, CHAINALYSIS



Emirate of Abu Dhabi

Abu Dhabi, the capital of the UAE, boasts immense economic potential and has diversified its economy, with a significant focus on sectors including finance and technology. Its strategic initiatives, including the Abu Dhabi Vision 2030 plan, aim to transform the emirate into a global business and innovation hub, with a focus on sustainability, innovation and knowledge-based industries.

Abu Dhabi Global Markets

ADGM is the international financial centre and the financial free zone of the emirate of Abu Dhabi. Its jurisdiction covers the islands of Al Maryah and Al Reem Island, making it one of the largest financial districts in the world and home of various blue-chip companies and local, regional and international institutions.

ADGM has taken a proactive approach towards cryptocurrency and blockchain technology, creating a regulatory environment supportive for the growth of the digital assets market.

Within ADGM, there are four entities: The ADGM Authority, the Financial Services Regulatory Authority (FSRA), the Registration Authority and ADGM Courts.

The ADGM Authority

Established in 2021 to position ADGM as one of the world's leading international financial centres, the authority brings together strategic and support functions to ensure the development of best-in-class services. Its business development division is responsible for attracting VASPs to ADGM and its marketing and corporate communications division is responsible for the Abu Dhabi Finance Week, a reference event for the fintech and virtual assets businesses in the region and globally.

Financial Services Regulatory Authority

FSRA is the independent financial regulator of the ADGM financial free zone, supporting and facilitating all financial activities in ADGM. FSRA ensures integrity for such activities by managing potential risk exposure and certainty through its regulatory framework, modelled on internationally recognised standards and best practices focused on consumer protection.

In 2018, FSRA became the first jurisdiction globally to introduce and implement a comprehensive and bespoke regulatory framework for virtual asset service providers, including exchanges, custodians, brokers and other intermediaries.

ADGM's virtual assets framework is based on international regulatory standards to address the full range of associated risks including those relating to money laundering and financial crime, consumer protection, technology governance, custody and exchange operations. ADGM applies English common law, providing legal certainty and comfort for transactions undertaken in its market.

As a full-spectrum regulator, FSRA addresses primary areas of regulatory risks, including prudential, conduct, operational, money laundering, terrorist financing and financial stability risks, paying particular attention to firms' mitigation of the risks associated with virtual assets. Some of the requirements in this regard are listed as follows:

- Firms operating in virtual assets markets are required to participate in FSRA's surveillance program.
- Each firm must demonstrate that they have implemented appropriate governance processes to manage technology risks, around the origin and destination of virtual asset funds, private keys, security and risk management.

- Firms that provide custody services must demonstrate that they have procedures that adequately protect customers' assets, requiring more frequent reconciliations/reporting from these firms.
- All firms using virtual assets must monitor their customers' transactions to prevent money laundering and terrorist financing risks. Entities will need to consider reporting obligations in relation to the Foreign Account Tax Compliance Act and common reporting standards.
- Firms must also make appropriate disclosure of the risks associated with virtual assets, including enhanced disclosure where relevant.

Given the ongoing evolution of the digital assets space, FSRA has to maintain an open approach and continues to refine its framework according to evolving international standards and new global regulations, responds to market innovations and new developments in the use of virtual assets, and strengthens its regulations in response to industry feedback through consultation papers.

Three examples include:

- The consultation paper issued on DeFi in April 2022, to engage with industry practitioners and other stakeholders to explore the potential opportunities arising from DeFi, associated risks and what a future regulatory framework may resemble.
- The consultation paper with amendment proposals to its capital markets framework, covering virtual assets, spot commodities and emissions allowances, published in March 2022. This was part of the transition to a refreshed virtual assets framework, which proposed changes to guidance around the use, sharing and reuse of public keys, the risk disclosure requirements and the conduction of NFT related activities by MTF/custodian groups.
- The consultation paper released in August 2024 with the proposed regulatory framework for the issuance of fiat-referenced tokens, defined as a category of stablecoins backed by high-quality, liquid assets denominated in the same currency as the token, and that can be liquidated rapidly with minimal adverse price effect.

The table below illustrates ADGM FSRA's regulatory approach under the Financial Services and Markets Regulations (FSMR) in relation to various types of digital assets.

Category of Digital Assets or Instruments	Regulatory Approach
Virtual assets Non-fiat virtual currencies (e.g., Bitcoin, Ether), virtual asset "exchange tokens."	— Treated as commodities and therefore not deemed specified investments under FSMR. — Market intermediaries (e.g., broker dealers, custodians, asset managers) dealing in or managing virtual assets and multilateral trading facilities using virtual assets, need to be licensed or approved by FSRA. Only activities in accepted virtual assets will be permitted. — Capital formation activities are not provided for under the virtual asset framework, and such activities are not envisaged under the market rules.
Digital securities Digital/virtual tokens that have the features and characteristics of a security under FSMR (such as shares, tokenised offerings of securities or debentures and units in a collective investment fund).	— Deemed to be securities — All financial services activities in relation to digital securities, such as operating primary or secondary markets, dealing, trading or managing investments in or advising on digital securities, are subject to the relevant regulatory requirements under FSMR. — Market intermediaries and market operators dealing or managing investments in digital securities need to be licensed or approved by FSRA as financial services permissions holders (including as multilateral trading facilities), recognised investment exchanges or recognised clearing houses, as applicable.
Derivatives and collective investment funds of virtual assets, digital securities and utility tokens.	— Regulated as derivatives and units in a fund under FSMR. — Market intermediaries and market operators dealing in such derivatives and collective investment funds will need to be licensed or approved by FSRA as financial services permissions holders, recognised investment exchanges or recognised clearing houses, as applicable.
Fiat tokens/stablecoins Stablecoins with value fully backed by underlying fiat currencies.	— Treated as a form of digital representation of fiat currency. — Where used as a payment instrument for the purposes of money transmission as defined under FSMR, the activity will be licensed and regulated as providing money services under FSMR.
Utility tokens Tokens that can be redeemed for access to a specific product or service, typically provided using a distributed ledger technology platform.	— Unless such utility tokens are caught as accepted virtual assets, spot trading and transactions in utility tokens do not constitute regulated activities, activities envisaged under a recognition order (e.g., those of a recognised investment exchange or recognised clearing house), or activities envisaged under the market rules.

For the purposes of determining whether a virtual asset meets the requirements of being an accepted virtual asset, FSRA will consider:

— A maturity/market capitalisation threshold, at the time of an application; and

— Such other factors that, in the opinion of FSRA, need to be taken into account including market demand, volatility, innovation, efficiency, practical application and functionality, security measures implemented, monitoring, traceability or exchange connectivity.

At the time of writing this report, only an estimated 50 virtual assets are considered accepted. This list is not public and is provided only to applicants for the relevant licenses.

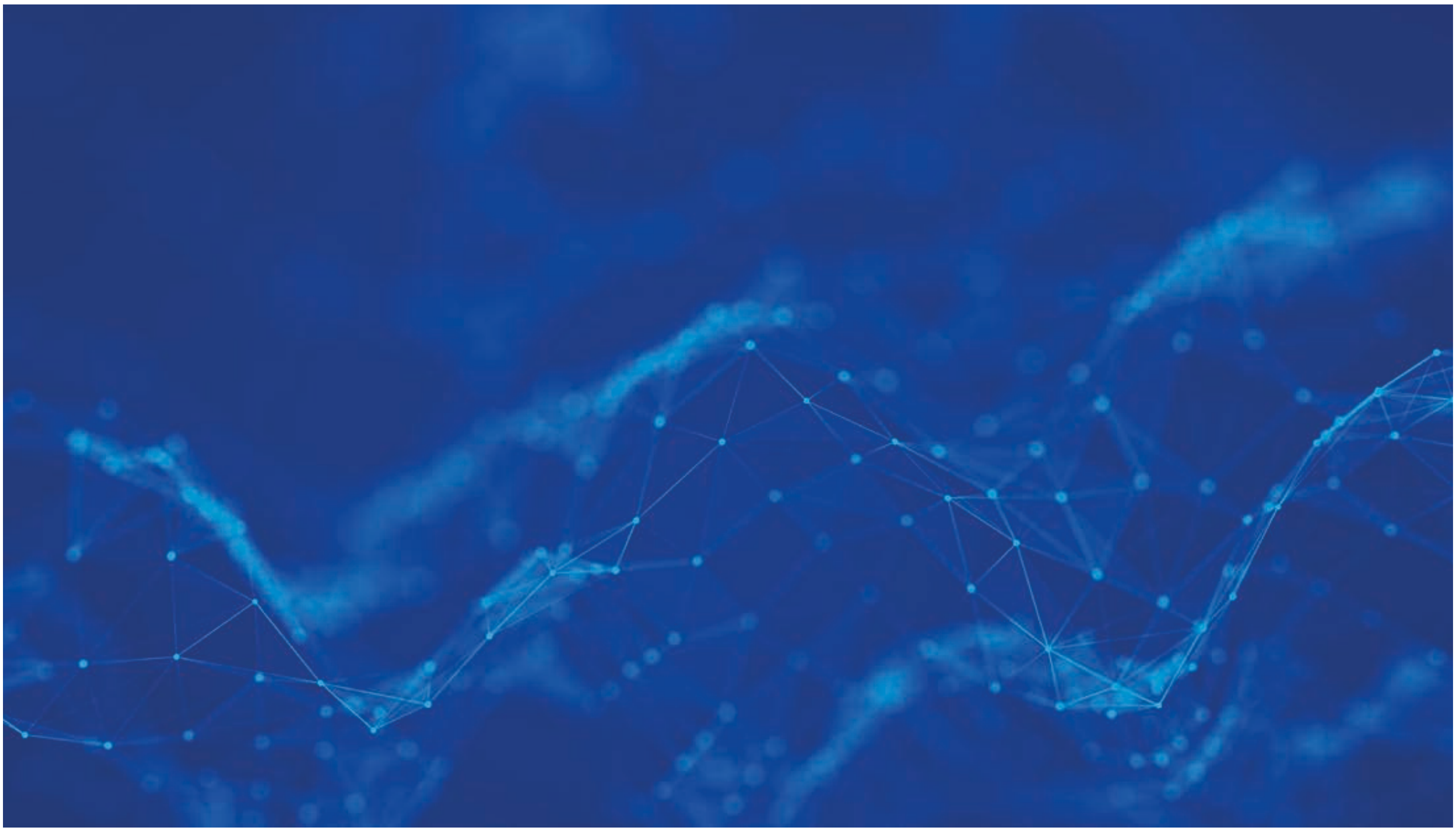
FSRA only allows authorised firms to use “accepted virtual assets” within ADGM. Regulated firms will be issued with financial services permissions for the purposes of their regulated activities, which can include both conventional and virtual asset related activities. Two categories of licenses related to virtual assets are considered:

— **Multilateral trading facilities using virtual assets**, regulating platforms that enable the trading of virtual assets, which are expected to meet requirements in relation to market surveillance, settlement, transaction recording, transparency and other systems and controls.

— **Virtual asset intermediaries**, including custodians, broker-dealers, asset managers and advisors, similar to their conventional counterparts with a particulate focus on the risks relating to financial crime, consumer protection, technology governance and custody arrangements, where applicable.

The application process is broadly broken down into five stages: due diligence and discussions with the FSRA team, submission of a formal application, granting of an in-principal approval, granting of a final approval and operational launch.

FSRA is a financial services regulator targeting both conventional financial activities and virtual assets related activities. Accordingly, its rulebooks and guidelines are designed to serve both categories, with specific considerations or requirements when the activities involve virtual assets. The lack of customised rules and regulations targeting only virtual asset activities represents a challenge for companies approaching this jurisdiction, as either they have to review information that is not applicable, or they miss an important part of it. Firms may require the help of outside partners and expert advisors who understand the regulatory framework, its nuances, what parts apply to specific virtual assets activities and strategies to address regulators' requirements effectively and efficiently.



Registration Authority
The Registration Authority is responsible for the registration, incorporation and licensing of legal entities in ADGM and supports with all government-related services. It guides and supports companies throughout the application and set up process, offering a range of activities to facilitate market entry and growth.

In April 2023, the Registration Authority issued a consultation paper on a proposed legislative framework for "Distributed Ledger Technology Foundations," seeking public feedback and comments for foundations that facilitate distributed ledger technology (e.g., Ethereum foundation) and token issuance (e.g., decentralised autonomous organizations or DAOs).

After the consultation period, the Registration Authority announced the Distributed Ledger Technology (DLT) Foundation Regulations in November of the same year, providing a legal structure tailored for blockchain foundations, DAOs and web3 entities.

The main features of the DLT Foundations framework are:

— Allowance for fast issuance of utility tokens, providing guidelines for token rights and promoting transparent governance.

— Recognition of decentralised governance through token voting and smart contract-enabled processes.

— Flexible operational setup without mandatory physical presence.

— Possibility of ownerless legal structures that can engage in legal proceedings.

If the DLT Foundation desires to engage in commercial or financial activities, it will require a financial services permission from FSRA.

ADGM Courts
The ADGM Courts represent one of the three independent authorities under ADGM's judicial system.

ADGM Courts are comprised of a Court of First Instance and a Court of Appeal that handle civil and commercial disputes. This entity is fully digital by default and has transformed the engagement and delivery of judicial and dispute resolution services via its electronic platform.

In November 2022, the ADGM Arbitration Centre within ADGM Courts announced a "Mediation in the Metaverse" service to fundamentally change the delivery of mediation, using web3 technology and allowing participants to access a 3D office space.

"At ADGM, we are dedicated to creating an optimal environment for entities engaged in distributed ledger technology and blockchain technology. Our DLT Foundations Framework provides a robust regulatory foundation. This framework underscores ADGM's commitment to fostering innovation within the DLT and blockchain space, offering regulatory certainty that enables these entities to thrive confidently in a stable and supportive environment. Our comprehensive support includes access to top-tier infrastructure, strategic partnerships and a collaborative ecosystem that drives growth and success for pioneering blockchain ventures, contributing to the broader economic diversification and technological advancement of Abu Dhabi."

— DMITRY FEDOTOV, HEAD OF DLT FOUNDATIONS OVERSIGHT, ADGM

Hub71
Hub71 is a technology ecosystem, home to over 300 startups operating in 24 sectors. Founded in March 2019, it aims to foster innovation, entrepreneurship and the growth of startups in the region. Hub71 plays a role in Abu Dhabi's efforts to become a technology and innovation hub in the MENA region, attracting and supporting startups working in various tech sectors. Additionally, it hosts and incubates companies establishing themselves in Abu Dhabi's virtual assets ecosystem.

Key features and objectives of Hub71 include:

1. **Incubation and acceleration:** Offers a supportive environment for early-stage startups and provides them with access to mentoring, funding and resources to accelerate their growth.
2. **Innovation ecosystem:** Aims to create a thriving innovation ecosystem by bringing together startups, corporates, government entities and academia to collaborate and innovate.
3. **Global connectivity:** Connects startups with global markets and investors, facilitating their expansion beyond the UAE.
4. **Incentives:** The Abu Dhabi government offers various incentives to startups and entrepreneurs who choose to set up their businesses in Hub71. These incentives may include financial support, office space and residency visas.

5. **Partnerships:** Hub71 collaborates with a range of corporate partners, venture capital firms and technology giants to provide startups with access to expertise, funding and potential customers.
6. **Events and programs:** The hub organises events, workshops and programs to help startups develop their skills, network with industry professionals and gain exposure.

One of the main programs of Hub71 is called Hub71+. Launched in February 2023, it is a dedicated web3 ecosystem. It provides an integrated launchpad that connects builders, regulators, investors, foundations and corporate partners.

The program supports selected startups in numerous ways:

— Incorporates them within a specialised ecosystem with regional and global web3 organisations.

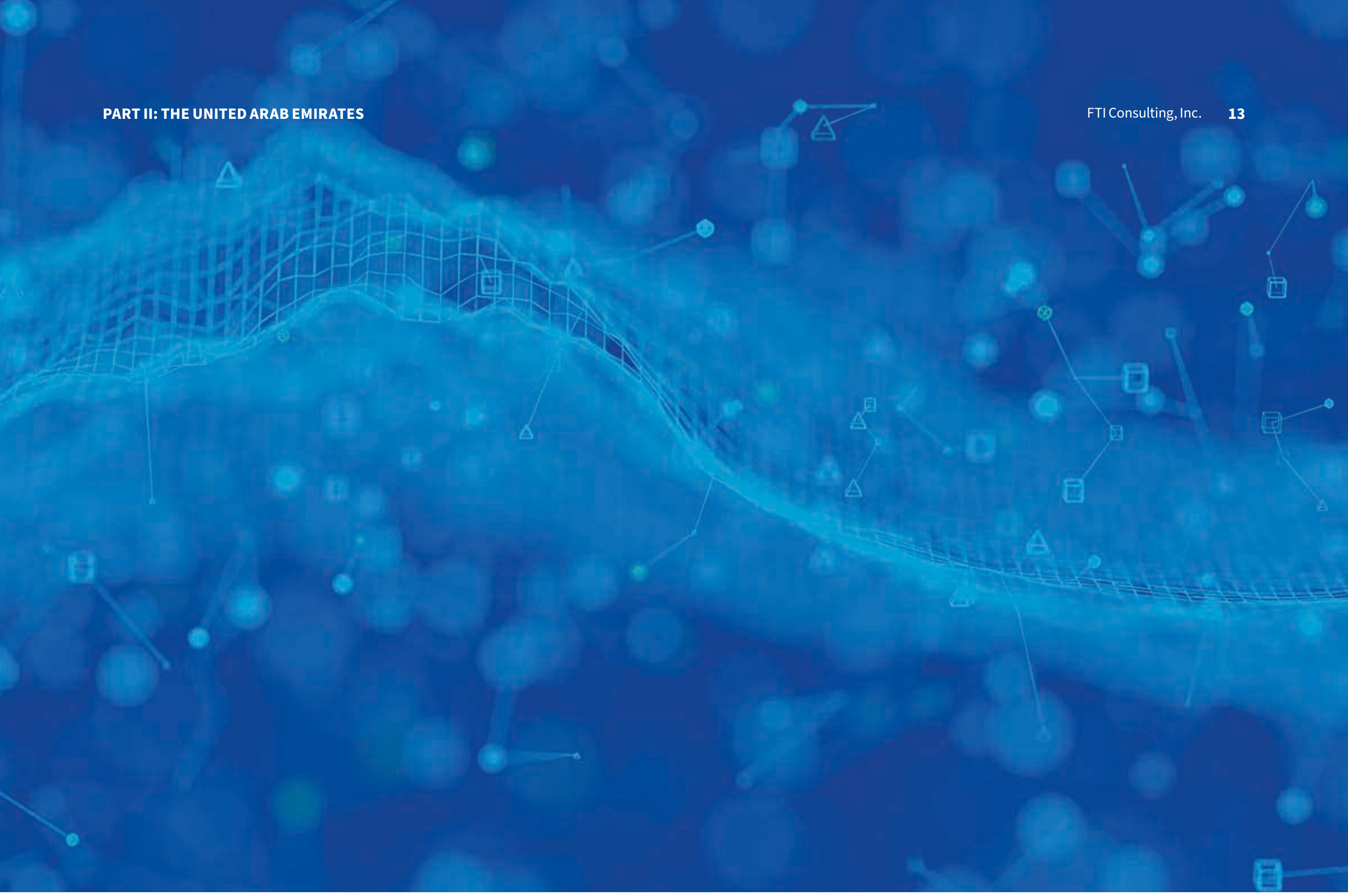
— Provides access to venture capitalists, fund managers and investors looking to invest in web3.

— Offers an established regulatory environment for operations through ADGM.

— Connects the startups with corporate partners and a global network of strategic partners, such as blockchains and exchanges that are growing the web3 ecosystem around the world.

— Gives 250,000 AED in in kind incentives and 250,000 AED cash incentives for equity. Incentives include office space, health insurance, housing, workforce support, licensing, visa support, marketing, legal and financial assistance, back-office support, upskilling and growth marketing.

> “Abu Dhabi embraces disruptive tech entrepreneurs accelerating transformation on a global scale. As decentralization paves the way for blockchain-powered use cases, web3 startups have a home at Hub71 to scale up and deliver lasting impact in this growing sector.”
>
> — PETER ABOU HACHEM, HEAD OF GROWTH AND STRATEGY, HUB71



Northern Emirates

The Northern Emirates, including Sharjah, Ajman, Fujairah, Ras al-Khaimah and Um al-Quwain, have not established specific Emirate-level regulations for virtual asset activities, leaving them under the remit of the SCA.

RAK Digital Assets Oasis

RAK DAO was announced in February 2023 and officially launched in October in the emirate of Ras al-Khaimah, as the world's first free zone dedicated solely to digital and virtual asset companies. It provides licensing, fiat banking for local payments, legal, consultancy, accounting, compliance and auditing services.

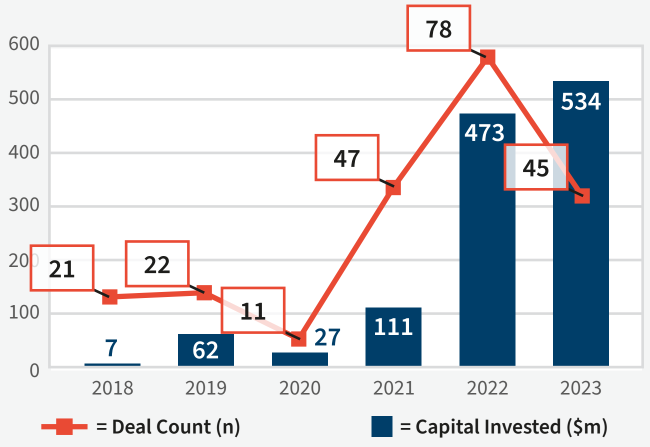
It has specialised regulations and license activities such as:

- Blockchain development, distributed ledger technology services and software
- Digital assets mining
- Gaming, e-gaming and GameFi
- Metaverse
- NFTs
- SocialFi projects
- Tokenisation of real-world assets
- Web3 accelerators, consultancy and services, incubators and venture studios

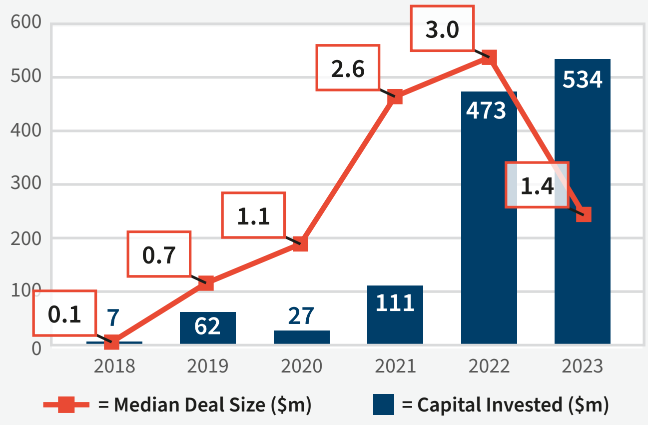
Since inception, it is worth highlighting that RAK DAO signed a memorandum of understanding with Tether in May 2024 to promote the introduction of Bitcoin and stablecoin technology in Ras al-Khaimah.

> "Our initiatives have built a thriving digital assets ecosystem in the Middle East, fostering economic growth and technological advancements. This is the inspiration and motivation we bring to the table.
>
> By providing a transparent and supportive framework, we empower blockchain enterprises to flourish. From business setup to workspaces, banking access, funding opportunities, residency visas and blockchain resources, our comprehensive approach solidifies the UAE's status as a top destination for digital technology innovation."
>
> — DR. SAMEER AL ANSARI, CEO RAK DAO

CAPITAL INVESTED & DEAL COUNT IN GCC



CAPITAL INVESTED & MEDIAN DEAL SIZE IN GCC



SOURCE: FTI Capital Advisors

Banking Ecosystem

As digital assets gain popularity among retail and corporate customers, financial institutions may be asked for services like holding digital asset balances, exchanging digital assets with fiat currencies and offering digital asset-based financial products. To meet these requests, financial institutions must understand the technical, operational and regulatory implications of dealing with digital assets.

To stay competitive and prepare for CBDCs and stablecoins, some banks have started implementing pilots in areas such as digital asset custody. They are also investing in the technology and regulatory side of digital asset solutions through digital assets labs.

In parallel, and following the recommendations from the CBUAE's guidance on risks related to virtual assets and VASPs, banks are starting to open their services to the growing number of VASPs arriving in the country.

Blockchain adoption initiatives among financial institutions in the UAE include:

— **UAE Trade Connect, rebranded earlier this year as Haifin:** First banking blockchain consortium in the UAE for trade finance use cases, currently focused on addressing the risk of double financing and fraud across the UAE and currently connecting 15 financial institutions in the country.

— **UAE KYC Blockchain Consortium:** The UAE launched this national ecosystem in early 2020 to allow data sharing between licensing authorities and banks in the country, making It easier to open an account. A key motivator behind its foundation was to create a national ecosystem in which the sharing of accredited KYC data among the licensing institutions and authorities is simpler, faster and safer.

Investing Ecosystem

The UAE's defined regulatory framework, along with well-funded government initiatives and a supportive financial ecosystem, have contributed to an increase in transaction volumes and investments within the country's crypto and blockchain sector in recent years. Investments have risen across the entire spectrum, involving international financial players, emerging local venture capitals and international strategic entities in search of stable and secure market environments.

Even after adjusting for singular large-scale deals, it is evident that the UAE's investment landscape has demonstrated sustained growth. This underscores the enduring interest and confidence of both domestic and international investors in the region's crypto and blockchain initiatives, establishing the UAE as a global player in this space.

This environment has sparked increased interest among both local and international investors who aspire to actively participate in the rapidly expanding blockchain and crypto ecosystem of the region. Within the institutional investor landscape, sector-specific funds such as the Investcorp Blockchain Fund, tech-focused venture capital and private equity firms have emerged, progressively shifting their focus toward blockchain assets as they seek higher-risk, higher-return investment opportunities. Institutional investors are also positioning in this arena.

Within the capital markets, it is worth highlighting the listing of Phoenix Group, a blockchain and cryptocurrency solutions provider, in the Abu Dhabi Stock Exchange, at the end of 2023, making it the first cryptocurrency company publicly listed in the region.

Conclusion

In conclusion, the UAE has evolved into a meaningful blockchain and crypto hub, propelled by a clear regulatory environment and strategic government initiatives that have effectively leveraged a challenging macroeconomic landscape to gain the confidence of traditional industry players and users at a time when trust in crypto and blockchain endeavours worldwide has needed reinforcing.

> "The UAE's well-defined regulatory framework and robust government initiatives have significantly boosted transaction volumes and investments in the crypto and blockchain sector. Our firm has observed a steady influx of international and domestic pools of capital, and strategic players seeking the stability and legal framework offered by UAE on the topic. The sustained growth in capital invested and deal flow reflects the enduring confidence of both domestic and international investors in the region. With landmark developments, the UAE is cementing its position as a global blockchain and crypto hub. Our firm is committed to continue guiding our clients through this rapidly expanding ecosystem, leveraging the UAE's strategic advantages to unlock high-risk, high-return opportunities."
>
> — FEDE MEMBRILLERA, GLOBAL CO-LEAD OF FTI CAPITAL ADVISORS

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