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TOKEN ISSUANCE IN DUBAI

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Introduction

Dubai is cementing its position as a global leader in the virtual asset ("**VA**") industry through a robust regulatory framework designed to foster innovation, attract investment, and ensure market integrity. The establishment of the Virtual Assets Regulatory Authority ("**VARA**") demonstrates the UAE's commitment to creating a safe and dynamic environment for VA activities. The Virtual Asset Issuance Rulebook ("**VA Issuance Rulebook**"), issued by VARA, sets forth detailed obligations for entities wishing to issue VAs in Dubai, offering clarity and compliance standards for this burgeoning industry. This article provides a comprehensive examination of the requirements for VA issuance, including the distinctions between the two primary categories, mandatory disclosures, compliance obligations, and supervisory mechanisms.

Virtual Asset Categories: A Closer Look

The VA Issuance Rulebook[1] categorizes virtual assets into two distinct groups, each with its own regulatory requirements. Category 1 virtual assets include Fiat-Referenced Virtual Assets ("**FRVAs**"), designed to maintain stable value relative to fiat currencies but without legal tender status. Entities issuing FRVAs pegged to AED must comply with additional supervisory and authorization requirements under the oversight of the Central Bank of the UAE. In contrast, Category 2 encompasses utility tokens and all other tokens. These require prior approval from VARA when thresholds are met, such as transactions exceeding AED 40,000, distribution to 150 or more entities, or accruing a total consideration exceeding AED 2,000,000 in a year.

The **prohibition of anonymous-enhanced cryptocurrencies** underscores Dubai's commitment to transparency and its alignment with global standards to prevent financial crimes.

Key Requirements for Issuing Virtual Assets

Issuing virtual assets in Dubai involves a structured process of licensing or obtaining approval, depending on the asset's category. Entities must present comprehensive documentation demonstrating compliance with governance, operational standards, and risk mitigation strategies.

A cornerstone of the issuance process is the Whitepaper. This document provides detailed disclosures on the virtual asset's nature, governance, and associated risks. Beyond basic descriptions, issuers must elaborate on governance structures, technological underpinnings, rights attached to the token, issuance schedules, and allocation plans. Transparency in the use of proceeds, environmental impacts, and detailed risk disclosures (spanning financial, technical, and operational dimensions) is critical.

Specific Whitepaper requirements outlined by VARA include a description of the issuer and involved entities,

[1] See Virtual Asset Issuance Rulebook, Issued by Virtual Assets Regulatory Authority, 1 October 2024.

smart contract audit results, applicable fees, governance frameworks, and mechanisms for keeping the document accurate and updated throughout the virtual asset's lifecycle.

Compliance and Technology Standards

Issuers are required to establish and maintain robust systems to mitigate cybersecurity risks. These include adopting international standards for distributed ledger technology (DLT), conducting regular vulnerability assessments, and engaging third-party audits of smart contracts. Compliance with UAE's Federal AML-CFT laws is also mandatory, ensuring thorough risk assessments, tailored AML/CFT policies, and robust transaction monitoring systems.

Supervision and Oversight by VARA

VARA retains extensive powers to supervise, examine, and enforce compliance with the VA Issuance Rulebook. This includes the authority to conduct audits, request records, and impose penalties for non-compliance, ranging from monetary fines to suspension or revocation of licenses. Issuers must provide periodic updates and reports, enabling VARA to monitor compliance effectively.

Exemptions and Special Provisions

Certain entities may qualify for exemptions under specific conditions. Exempt entities can issue permitted virtual assets without prior approval, provided the total consideration for each project **does not exceed AED 2,000,000**, and the aggregate consideration across all projects remains **below AED 10,000,000**. Despite these exemptions, **entities must still adhere to general rules, including ensuring transactions involving intermediaries are conducted through licensed distributors and maintaining compliance with data protection and AML regulations**.
VARA reserves the right to determine exemption eligibility and revoke this status in cases of non-compliance.

Sanctions for Non-Compliance

Failure to adhere to the VA Issuance Rulebook can result in significant consequences, including financial penalties, suspension or revocation of licenses or approvals, and legal actions for regulatory breaches or misrepresentation.

Conclusion

Dubai's regulatory framework for virtual assets reflects its ambition to become a global leader in this dynamic industry. By combining stringent oversight with clear guidelines, VARA ensures market integrity while fostering innovation. Entities looking to issue virtual assets in Dubai must navigate this detailed regulatory landscape with precision and diligence. As the industry evolves, Dubai's proactive approach will likely solidify its position as a hub for virtual asset innovation

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