



**Virtual Asset Regulatory
Authority (VARA)**

New Regulatory Framework

2023

Background

The Dubai Virtual Assets Authority (VARA), an affiliate of the Dubai World Trade Centre Authority (DWTCA), was established in February 2022 by the UAE’s Virtual Assets (VA) Law as the competent entity in charge of regulating, supervising and overseeing all Virtual Assets Service Providers (VASPs) and virtual assets activities across the Emirate of Dubai (excluding the Dubai International Financial Centre or DIFC).

On 7th February 2023, VARA issued the much-anticipated Virtual Assets and Related Activities Regulations 2023 (the Regulations), setting out the regulatory framework governing Virtual Assets and all related activities in the Emirate.

These new Regulations include compulsory rulebooks for all VASPs, as well as specific ones for each VA activity established under the VARA regime.

Most notably, VARA is setting high standards for the virtual assets landscape in the UAE. Most of the new requirements are at par with capital markets regulations set out in other jurisdictions, bringing for the first time a comprehensive regulatory framework for virtual assets into the region.

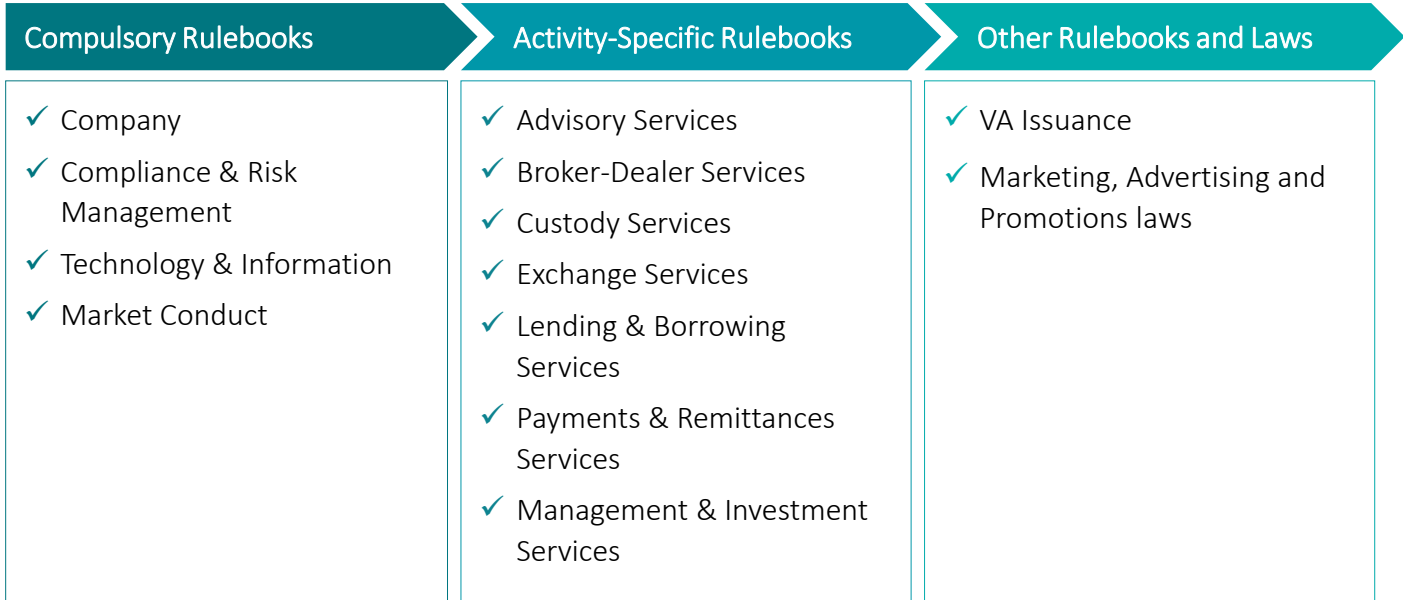
These new developments are relevant to all existing and prospective VARA applicants, but also to any VASPs offering or planning to offer its services in the Emirate.

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The New Regulatory Framework

VARA has set out a comprehensive regulatory framework which includes compulsory rulebooks covering general operations, compliance, and market conduct requirements for all applicants. It has also included seven additional activity rulebooks which cover requirements specific to the services offered by each applicant. VARA has also published rules for the issuance of all virtual assets in a separate rulebook.

These new regulations complement the previously established *Guidelines for Virtual Assets Marketing activities*, published by VARA in November 2022, which apply to all players promoting or planning to promote services in the Emirate, whether licensed by VARA or not.



Key Highlights of the Regulations

Outlined below is an overview of the key requirements within the new Regulations¹

Compulsory Requirements for all VASPs	Scope and Applicability	No entity may carry out any VA activity by way of business, or offer to do so in Dubai, unless it is either duly authorized by VARA or is an approved <i>Exempt Entity</i> ² (which is required to obtain a specific no objection confirmation from VARA).
	Marketing	Marketing, promotion, and advertising rules apply to all entities promoting services in the Emirate, whether supervised or not by VARA.
	Enforcement and Fines	Enforcement actions available to VARA for non-compliance of laws and regulations include, amongst other actions, fines or other civil penalties: up to 20M AED for any individual; up to 50M AED or 15% annual revenue for any VASP; up to 300% of profits or losses avoided.
	Prudential Requirements	Regulations set out minimum initial and on-going paid-in capital requirements (ranging from 100K AED to 1.5M AED or 25% of Fixed Annual Overheads per VA activity), as well as Net Liquid Assets and Reserve Assets requirements.
	Company	VARA highlights organizational requirements, including Board and Senior Management, Fit & Proper, Corporate Governance, Environmental and Social requirements (e.g., mandatory and voluntary ESG Disclosures).
	Compliance & Risk	VARA sets out detailed requirements across compliance and risk topics (AML/CFT, CDD, record keeping, transaction monitoring, etc.) and establishes specific rules for the treatment of both client money and Client Virtual Assets, mirroring the treatment of client assets in other securities regulations globally.
	Technology & Information	VARA establishes requirements for governance, controls and security, notably including the safeguarding of cryptographic keys and VA Wallets management. It also covers the use and protection of confidential information.
	Market Conduct	VARA classifies investors into Retail, Qualified, and Institutional investors to establish different levels of consumer protection requirements.

Activity-Specific Requirements ¹	Advisory Services	VARA sets the rules of engagement for advisors that intend to advise clients in the VA space. Amongst others, there are clear guidelines on suitability questionnaires, advisory staff knowledge and training and disclosures requirements.
	Broker-Dealer Services	VARA sets here requirements on subjects such as best execution, proprietary trading, margin trading and specific prudential requirements.
	Custody Services	VARA sets out to attract large VA Custodians installed in other jurisdictions. The rulebook places large emphasis on private key management of hot and cold wallets.
	Exchange Services	VARA focuses on the rules and systems that will allow trading venues to control access to trading in virtual assets, namely with regards to the ability to suspend market participants in cases of non-compliance.
	Lending and Borrowing	VARA focuses on rules related to business conduct and risk management of virtual assets lenders. The rulebook sets out specific requirements for reporting and valuation, record keeping, risk management, due diligence, and disclosures.
	Management & Investment Services	VASPs will be required to provide detailed reports to clients about their virtual asset's investments on a regular basis. It also sets new rules for the introduction of fees, client due diligence and suitability. Interestingly, this rulebook bans Payment For Order Flow (PFOF) related to virtual assets.

¹At the time of writing, VARA has not yet published the specific rulebook for Payments and Remittances Services

² UAE government entity or a public, not-for-profit and charitable entity of a UAE government entity

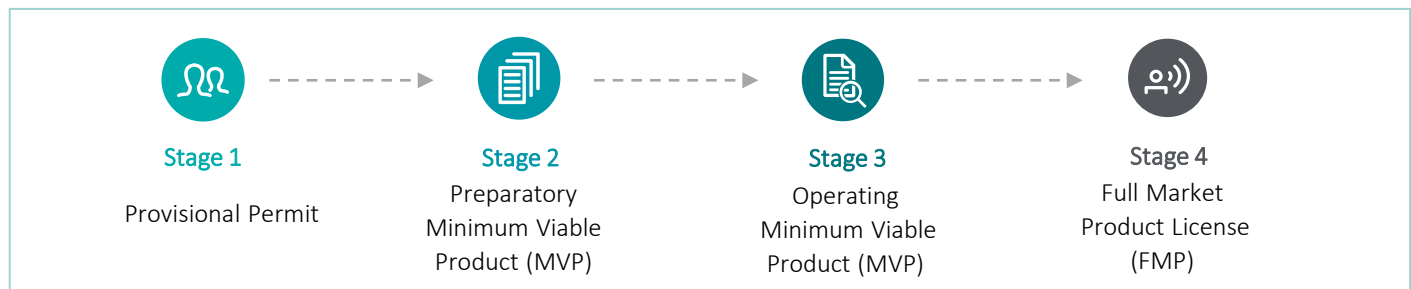
Impact on VARA's Licensing Journey

In March 2022, shortly after being officially established, VARA announced a 4-stage licensing process allowing applicants to progress through a tiered approval gateway, as depicted in the image below. All applicants must go through the 4 stages, where VARA evaluates and ensures applicants operate within its regulatory framework, before granting them a Full Market Product (FMP) License.

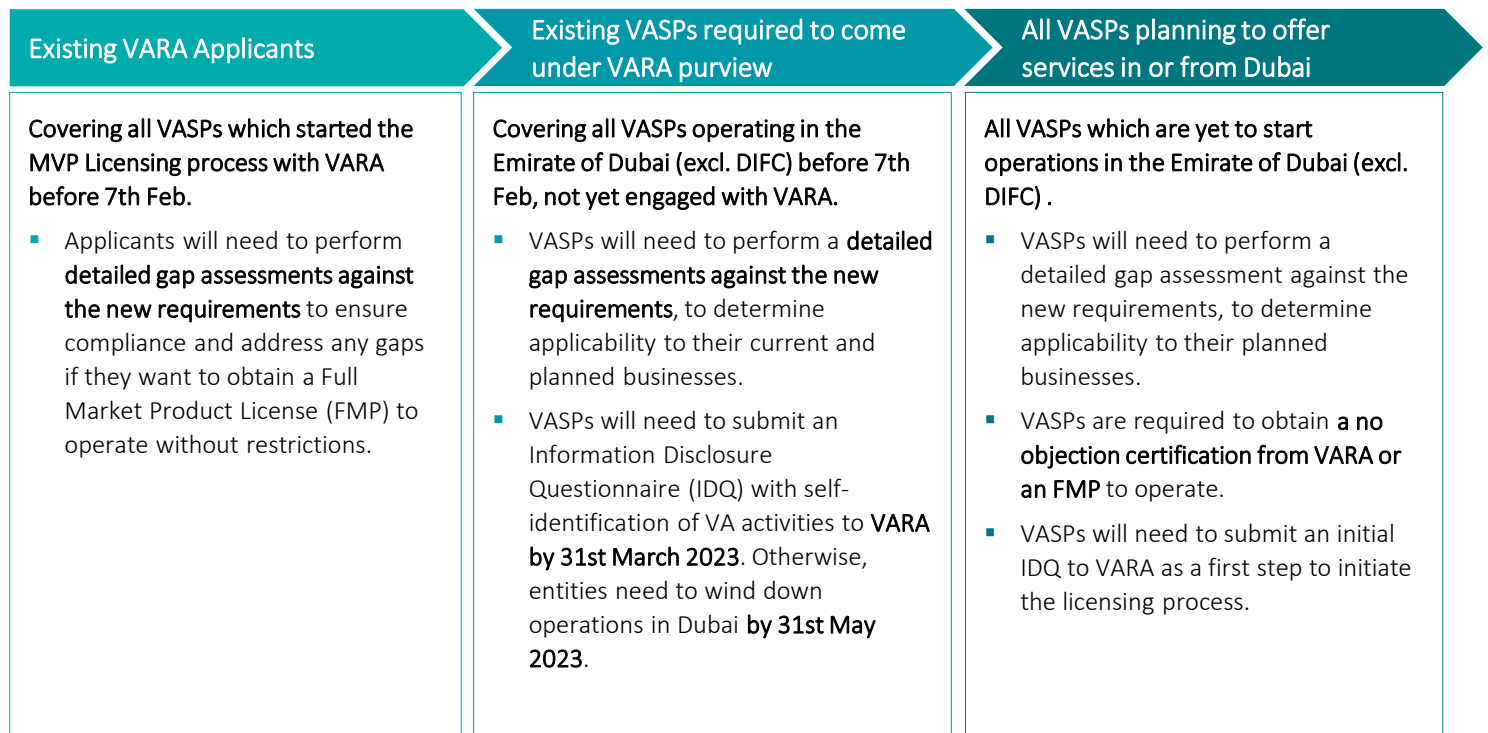


So far, VARA has only issued licenses within the stages (1) and (2). The new Regulations published on March 2023 are a crucial step for the consolidation of VARA's licensing journey – existing and future VARA applicants are now expected to demonstrate and evidence compliance with all applicable new regulations to ultimately obtain the FMP license from the regulator.

Current VARA 4-stage Licensing Journey



How does this impact you?



Other Financial Institutions

All Financial Institutions with existing or planned relationships with VASPs in the Emirate of Dubai (e.g., global and local banks offering client money services) are required to analyze and incorporate the new requirements into suitable due diligence and risk frameworks to avoid regulatory, compliance and reputational risks.

How can we help

Deloitte offers end-to-end support to a wide-range of entities in the virtual assets space within the region. We support local players and international VASPs looking to enter the market, helping them across their entire journey, from the development of the business and regulatory strategy, to regulatory license submission to relevant authorities, license operationalization and go-live.

Our Differentiators

Extensive experience assisting entities with **digital and innovative business** models in their **licensing journey across GCC countries**.

Global network and access to **specialized resources and industry leaders, including Deloitte's Blockchain Lab**, which collaborates with entities to roll out innovative blockchain-enabled solutions across different countries.



Deloitte has **assisted Regulators worldwide** to set up innovative licensing and regulatory frameworks for FinTech. These notably include collaborating with **DIFC¹ and DFSA²** to incorporate thought leadership on **market disruptions by new digital custodians into their supervisory practices**.

¹Dubai International Financial Center (DIFC);

²Dubai Financial Services Authority (DFSA)

Service Offerings



Pre-application phase

- **Strategy and Regulatory advisory:** development of an appropriate strategy and operating model for the offering virtual assets services into the region, including the appropriate regulatory frameworks and licenses to be obtained, by studying and analyzing several entry options.
- **Pre-application package development:** once the entity has selected the licensing path most appropriate for its business, we support to prepare all the required documents ensuring they meet regulatory expectations and global industry good practices to ensure a successful licensing journey.
- **Regulatory interaction:** support responding to regulatory queries and developing any additional materials as requested by regulators.



Pre-operational phase & go-live

- **License operationalization:** implementation across systems, policies, processes of the new entity to attain the target state.
- **Set-up or re-organization of key control functions** including risk management, compliance and internal audit, in line with the business and governance model.
- Development of monitoring and reporting dashboards.



Operational phase

- **Customized requirements and managed services** (including loan staffing arrangements) across control functions and daily operations for the entity.
- **PMO support and expert support** to execute any transformation or regulatory projects undertaken by the organization.

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