

EMAIL SUBMISSION TO: fsra.consultation@adgm.com

To whom it may concern,

Re: FSRA of the ADGM Consultation paper on Proposed Regulatory Framework for the issuance of Fiat-Referenced Tokens

About Global Digital Finance (GDF)

GDF is the leading global members association advocating and accelerating the adoption of best practices for crypto and digital assets. GDF's mission is to promote and facilitate greater adoption of market standards for digital assets through the development of best practices and governance standards by convening industry, policymakers, and regulators.

The input to this response has been curated through a series of member discussions, industry engagement, and roundtables, and GDF is grateful to its members who have taken part.

As always, GDF remains at your disposal for any further questions or clarifications you may have, and we would welcome a meeting with you to further discuss these matters in more detail with our members.

Yours faithfully,
Elise Soucie – Executive Director – GDF



Response to the Consultation Paper: Executive Summary

GDF convened its MENA policy Working Group to analyse the Consultation Paper on **The Proposed Regulatory Frameworks for the Issuance of “fiat-referenced tokens” (“FRTs”)** published by the Financial Services Regulatory Authority ("FSRA") of the Abu Dhabi Global Market ("ADGM"). Please note that as this response was developed in collaboration with GDF members, as well as community partners, that portions of our response may be similar or verbatim to individual member responses.

GDF is supportive of the aim of the CP, as well as the FSRA’s broader aims of developing a comprehensive regime for crypto and digital assets. It is a welcome step forward, and GDF and its members appreciate the consideration of evolving global regulation in the development of this framework. In particular, we welcome the FSRA reviewing and considering the proposals of the New York DFS, the European Supervisory Authorities, and Bank of England/FCA with regards to Stablecoins. GDF and its membership is global, and this consideration of evolving approaches in pursuit of broader harmonisation, while balancing the FSRA’s competition objectives is most welcome.

We also appreciate the industry engagement and thoughtfulness with which the FSRA has aimed to develop their approach to FRTs. Our response to this CP looks to provide feedback on the proposals and identify areas of the requirements which are welcomed by industry, as well as areas where further consideration or specificity may be beneficial. GDF would note that as the ecosystem, as well as use cases and implementation of FRTs is still evolving across the industry, our aim is to support the FSRA in developing future-proof and forward-looking regulation.

In collaboration with our members, GDF has aimed to provide technical feedback, as well as high-level analysis on the proposals, taking into consideration the requirements that industry must also comply with in other jurisdictions. Through this process GDF members identified key areas that we believe the ADGM should consider as they move forward to develop a regulatory regime for FRTs. The core areas identified are:

- 1. Support FRTs being a unique regulated Activity**
- 2. Encouraged Amending of Attestation Timing from Monthly to Quarterly**
- 3. Further Clarity Requested on Redemption Actions to be Taken in T+2 Timeframe**
- 4. Additional Guidance Requested with Regards to Foreign Stablecoins**

1. Support FRTs being a unique regulated Activity

GDF is supportive of the issuance of FRTs being considered a distinct regulated activity. We feel that this would provide necessary clarity to the market, and that including FRTs under the scope of ‘Providing Money Services’ may not be the best fit for the technology, nor take into account the unique nuances of utilising distributed ledger, or other similar technologies.



2. Encouraged Amending of Attestation Timing from Monthly to Quarterly

GDF would note that industry has raised concerns with the requirements proposed for monthly attestations as this would set a high compliance burden on issuers and is not consistent with attestation requirements for other asset classes, or in other jurisdictions. We would instead encourage the FSRA to mandate quarterly attestations, noting that additional information can be requested by supervisors at any time additional information may be needed.

3. Further Clarity Requested on Redemption Actions to be Taken in T+2 Timeframe

If a T+2 approach is adopted, GDF and its members believe it would be beneficial for the FSRA to provide additional clarity on what is required within that timeframe. For example, within T+2 an issuer may be able to start the redemption process but given global discrepancies in working days and time differences they may then be waiting on other parties to complete their roles in the process. Additionally, GDF would encourage FSRA to also acknowledge that there is a difference (and potentially a warranted difference in redemption timelines) for FRT contractual holders for whom an issuer will have the necessary KYC/AML information, and general holders of the token. For general holders a different timeframe, or best-efforts clause may be beneficial as the issuer may need more time to conduct the appropriate KYC/AML checks.

4. Additional Guidance Requested with Regards to Foreign Stablecoins

GDF believes it would be beneficial for the FSRA to provide additional guidance on their approach to foreign stablecoins and FRTs, issued in other jurisdictions under the supervision of regulatory bodies similar to the FSRA. We would propose that it may be beneficial for the FSRA to develop a streamlined registration process to enable the interoperability and usability of foreign stablecoins that meet the criteria and requirements for FRTs. This would account for the inherently lower risk associated with stablecoins and FRTs specifically when issued as per similar regulations and within the supervisory purview of a well reputed regulators. The cross-border nature of stablecoins and FRTs offers a unique opportunity for exploring international cooperation and potential mutual recognition agreements or registration schemes that would still entail certain limitations on the use of a foreign stablecoin or FRT.

Response to the Consultation paper: Questions for Public Consultation

Please note that given our focus areas set out in the executive summary, we have provided feedback and input relevant to these themes throughout our response.

1. Do you agree with the FSRA's definition of a Fiat-Referenced Token and its treatment as an asset which is distinct from a Virtual Asset?

Yes, GDF is supportive of the definition. We feel that it is clear and believe that having a distinct regulatory treatment is consistent with broader stablecoin regulation that is being developed globally. We would only suggest, that to further future proof the definition it may be beneficial to amend the sentence that states, "The FSRA has considered definitions in other jurisdictions and proposes that an FRT be defined as a digital asset whose transfer and storage is achieved electronically through the use of distributed ledger technology". We would propose amending to, "The FSRA has considered definitions in other jurisdictions and proposes that an FRT be defined as a digital asset whose transfer and storage is achieved electronically through the use of distributed ledger, **or other similar or equivalent**, technology". This would support the definitions usability as technology continues to evolve.



While supportive of the approach more broadly, we would note that having a unique sub-category of stablecoins may result in some cross-border challenges as other regulatory frameworks evolve. To this end, GDF would encourage the FSRA to collaborate with authorities via Global Bodies such as IOSCO and other Standard Setters to work towards more harmonised global definitions. GDF would be happy to support such efforts. In the absence of global alignment, cross-border coordination between authorities in order to support consistent and appropriate supervision is welcome.

Finally, GDF is also supportive of the exclusion of algorithmic stablecoins. This is consistent with other global frameworks, noting in particular the EU's MiCAR does not include them within their categorisation of stablecoin.

2. Should the issuance of a Fiat-Referenced Token be a distinct Regulated Activity or fall within the scope of the Regulated Activity of Providing Money Services?

Yes, GDF is supportive of the issuance of FRTs being considered a distinct regulated activity. We feel that this would provide necessary clarity to the market, and that including FRTs under the scope of 'Providing Money Services' may not be the best fit for the technology, nor take into account the unique nuances of utilising distributed ledger, or other similar technologies.

3. Do you agree that the proposed range of permitted Reserve Investments described in paragraph 14 is sufficiently broad?

Yes, GDF welcomes in particular the broad approach the FSRA has taken to permitted reserve instruments. As noted in some of our discussions and consultation responses in other jurisdictions we are supportive of a regime for backing assets that requires a mixture of cash and cash-equivalent High Quality Liquid Assets (HQLA). Parameters could be set around permissible HQLA that would ensure only assets having minimal liquidity, counterparty, and market risk exposure (as noted in The Consultation's clarification on appropriate credit ratings) could be used as backing assets. The proposed FSRA regime could also mandate risk management arrangements and methods (including potentially mitigants such as over-collateralisation) that would be proportionate to the level and type of risk taken by the issuer, and firms' proposals around backing asset composition and management could be individually assessed by the regulator, similar to advanced model approval.

We would welcome additional detail on 'any other instruments that are approved by the FSRA' as set out on page 8 of The Consultation and believe it may be beneficial for the FSRA to provide some examples of additional instruments they may consider permitting.

Overall GDF is supportive of the proposed range and believes that the broad range of Reserve Investments will give the ADGM a competitive advantage over some other jurisdictional proposals.

4. Do you agree with the FSRA's proposed approach to allocation limits?

GDF is supportive of the FSRA's proposed flexible approach to require applicants to submit their allocation limits in relation to the categories above of eligible Reserve Assets to the FSRA for approval.

We would also note however, that it may be beneficial for the FSRA to consider that to the extent that there is a defined or considered percentage for the allocation limits that it may be beneficial for this to be competitive in consideration with allocation limits across other jurisdictions.



5. Do you agree with the FSRA's proposed approach to periodic attestation and disclosure?

GDF is supportive of the proposal that the market value of the Reserve Assets held by an FRT issuer must be at least equal to the par value of all outstanding FRTs in circulation as of the end of each business day. GDF is also supportive of the GSRA's approach to not mandate daily disclosure of mark-to-market value of Reserve Assets or weekly disclosure on the composition of Reserve Assets at this point and welcomes the proportionate approach to attestation and reporting. GDF believes this takes into consideration appropriate risk management as well as existing best practice within industry.

However, we would note that we are not supportive of the proposal for monthly attestations as this would set a high compliance burden on issuers and is not consistent with attestation requirements for other asset classes, or in other jurisdictions. We would instead encourage the FSRA to mandate quarterly attestations, noting that additional information can be requested by supervisors at any time additional information may be needed.

6. Do you agree that Issuers of Fiat-Referenced Tokens should be able to distribute earnings from Reserve Investments to holders?

GDF acknowledges that this proposal from the FSRA may have certain benefits and is a competitive approach when looking across other jurisdictional regimes. However, we would also note that depending on the use cases for FRTs within the ADGM there may be certain risks which will need to be mitigated. If the objective is the use of FRTs as a payment utility, then it is important that earnings do not become the primary motivator for use of different FRTs. This could have potential financial stability risks, as well as risks to preserving the singleness of money within the ADGM.

GDF would note that we are not opposed to the proposal, but believe it is important for the FSRA to consider how they would mitigate these risks in order for the usability of FRTs to be preserved.

Additionally, as noted under Q1 above, as this is a significantly different proposal to those seen from other jurisdictions it may be difficult for issuers to utilise this feature of FRTs within their wider business model and could also cause regulatory friction when considering the scalability of their global products.

7. Do you agree with the FSRA's proposed approach to redemption requests?

Yes, GDF is supportive of the FSRA proposal that it is important to ensure an FRT maintains its value relative to its reference currency or currencies, and that the FRT can be promptly redeemed at par value by holders in a timely manner.

We are also supportive of the T+2 timeframe noting that currently most standards require the redemption period to begin at the time a holder *submits* documentation for AML/CFT checks. As a result, a T+1 timeline may be operationally infeasible for all AML/CFT checks particularly with higher risk holders.¹ The T+2 timeframe is relatively consistent with other jurisdictions, though we would note that some have taken even *further* relaxed standards, including the Monetary Authority of Singapore which requires processing within T+5 business days beginning on the date of request of a compliant holder (i.e., that has been successfully

¹ We acknowledge that some jurisdictions such as the US are moving to T+1 and other jurisdictions such as the EU have taken a more principles-based approach similar to that of MiCA, where no timeframe is prescribed. GDF would encourage the FSRA to be mindful of these other approaches as frameworks continue to evolve.



onboarded) and under EU's MiCA there is no prescriptive redemption timeframe. However, overall GDF is supportive of the approach noting it is consistent with the New York Department of Financial Services which requires processing of redemption requests not more than two full business days (T+2) beginning the day after a request and only upon successful onboarding of the holder.

Furthermore, if a T+2 approach is adopted it would be beneficial for the FSRA to provide additional clarity on what is required within that timeframe. For example, within T+2 an issuer may be able to start the redemption process but given global discrepancies in working days and time differences they may then be waiting on other parties to complete their roles in the process. Additionally, GDF would encourage FSRA to also acknowledge that there is a difference (and potentially a warranted difference in redemption timelines) for FRT contractual holders for whom an issuer will have the necessary KYC/AML information, and general holders of the token. For general holders a different timeframe, or best-efforts clause may be beneficial as the issuer may need more time to conduct the appropriate KYC/AML checks.

8. Do you consider the minimum Capital Requirement to be suitable for the activity of Fiat-Referenced Token issuance, or should a variable capital requirement be imposed?

Yes, GDF is supportive of a higher of approach as set out in the consultation. A variable capital requirement may result in a lack of clarity for the market. GDF members also noted that it would be beneficial for this to be proportionate and aligned to banking requirements.

9. Would the restriction on conducting other Regulated Activities place an undue restriction upon certain Fiat-Referenced Token business models?

No, GDF in discussion with members believes that most firms will likely setup a distinct business for FRTs that would not impact their other business activities. Thus, restrictions here would not likely impact a firm's businesses activities outside their FRT products.

10. Are there any additional disclosures which should be mandated for inclusion in a White Paper?

GDF members do not have any additional disclosures to propose.

11. Do you consider annual stress testing to be adequate or are there additional stress testing safeguards which the FSRA should consider including?

GDF is supportive of the annual stress testing approach.

12. Do you agree with the FSRA's approach to addressing AML and other risks in relation to Fiat-Referenced Tokens?

GDF is supportive of the FSRA's approach to addressing AML. We would also encourage the FSRA to consider how this could be integrated with FATF requirements as these are implemented across jurisdictions. This would enable firms to better comply on a cross-border basis.

Fiat-backed stablecoins typically have a central issuer, with the ability to freeze or burn tokens proactively per due process or at the behest of law enforcement. As stablecoins comprise majority of on-chain transaction volumes, the issuers may be required to undertake a tiered approach to risk management.

Stablecoin issuers have developed a practice of overseeing their stablecoin's usage in secondary markets, beyond just their direct counterparties. Considered feasible due to the inherent



transparency of blockchain networks, they proactively work with law enforcement to freeze assets linked to illicit or sanctioned activities.

As such, depending on their nature, scale and complexity, fiat-referenced token issuers in or from ADGM may also be urged to demonstrate their ability to manage the AML and related risks more effectively by having full visibility into their primary as well as secondary markets, in line with FATF's risk-based approach.

13. Do you have any further comments on the Fiat-Referenced Token regulatory framework and associated draft legislative amendments?

Yes, GDF believes it would be beneficial for the FSRA to provide additional guidance on their approach to foreign stablecoins and FRTs, issued in other jurisdictions under the supervision of regulatory bodies similar to the FSRA. We would propose that it may be beneficial for the FSRA to develop a streamlined registration process to enable the interoperability and usability of foreign stablecoins that meet the criteria and requirements for FRTs. This would account for the inherently lower risk associated with stablecoins and FRTs specifically when issued as per similar regulations and within the supervisory purview of a well reputed regulators. The cross-border nature of stablecoins and FRTs offers a unique opportunity for exploring international cooperation and potential mutual recognition agreements or registration schemes that would still entail certain limitations on the use of a foreign stablecoin or FRT.

Additionally, we would encourage the FSRA to provide further clarity on how the FRT approval list may interact with the ADGM's Accepted Virtual Asset List. It may cause regulatory uncertainty for example, if there is a mismatch in these approval processes. To mitigate this risk, we would encourage the FSRA to provide clarity on the average time it may take for an FRT to gain approval (as well as any detail on how approvals might be removed in certain circumstances). Furthermore, should approvals still be pending industry would welcome clarity on if the limitations on not yet approved FRTs would include multilateral trading facilities (MTFs) only being able to offer pairs in approved FRTs.