

EMAIL SUBMISSION TO: fsra.consultation@adgm.com

To whom it may concern,

Re: FSRA of the ADGM Consultation Paper on Proposed Amendments to the Digital Assets Regulatory Framework

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 Watts – 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 Amendments to the Digital Assets Regulatory Framework**” 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 continuing to build and further develop a comprehensive regime for crypto and digital assets. It is a welcome step forward, and GDF and its members also appreciate the consideration of evolving global regulation in the development of this framework. 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 digital assets. Our response to this CP looks to provide feedback on the proposals and identify areas of the regulatory framework which are welcomed by industry, as well as areas where further consideration or specificity may be beneficial. Overall, our aim with this response 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 digital assets. The core areas identified are:

- 1. We welcome the introduction of self-assessment for approval of virtual assets (VAs), and would support additional clarifying guidance as well;**
- 2. We believe that allowing custodians to hold any VAs (not only approved VAs) would encourage overall ecosystem growth as well as that of the custodial industry; and**
- 3. We would urge further consideration of the treatment of foreign fiat referenced tokens (FRTs) and encourage the FSRA to enable the same self-assessment requirements for foreign FRTs as they do for VAs.**

1. We welcome the introduction of self-assessment for approval of virtual assets (VAs)

GDF members support the self-assessment proposal and feel it is beneficial and competitive in the following ways:

- Self-assessment supports responsible innovation;
- Self-assessment enables for greater flexibility of business models; and
- Self-assessment is aligned to the FSRA’s broader risk-based approach.



However, we would raise the following additional points for consideration and clarification by the FSRA. These points include:

- The cost/fee for market participants;
- Additional detail on the “revised VA Guidance” which will include more granular VA assessment guidance, to be used by market participants in performing their VA assessments;
- Clarification of the AVA and VA listing requirements for firms to maintain on their website; and
- A potentially more flexible approach to the 20 day approval window.

2. We believe that allowing custodians to hold any VAs (not only approved VAs) would encourage overall ecosystem growth as well as that of the custodial industry

More specifically, GDF members believe that the FSRA should allow custodians to hold a wide range of digital assets that the Custodian has assessed (as per their VA assessment methodology) to their own satisfaction, not only approved VAs (AVAs). This could include digital assets such as tokenised securities and digitally native securities, (e.g., BUIDL) but is likely not to include privacy coins or algorithmic stablecoins.

3. We would urge further consideration of the treatment of foreign fiat referenced tokens (FRTs) and encourage the FSRA to enable the same self-assessment requirements for foreign FRTs as they do for VAs

GDF would suggest that the FSRA consider foreign FRTs to be subject to the same self-assessment requirements as VAs. We feel that this approach would be beneficial for the FSRA as it would better support 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 not responded to each question in the Consultation Paper (referred to henceforth as The Consultation). Instead, we have provided feedback and input on the specific questions and chapters that are relevant to the key areas. Where we have not provided further feedback, we have no comment on the proposals set out.

1. Do you agree with the proposed changes to the process by which VAs are accepted for use within ADGM?

Yes, GDF is very supportive of the proposed changes and in particular of the self-assessment notification process. The self-assessment is one area where there seems to be standardisation emerging across various jurisdictions of the Gulf Cooperation Council and we commend the FSRA for taking into account broader regional harmonisation.

In addition to this, GDF members feel that the self-assessment proposal is beneficial and competitive in the following ways:

- *Self-assessment supports responsible innovation* within firms and also encourages them to be proactive in their compliance and risk monitoring;
- *Self-assessment enables for greater flexibility of business models* by not taking a blanket approach to regulation. However, as noted it is still harmonised with other regional regulatory frameworks which is beneficial for firms operating on a regional or a global scale;
- *Self-assessment is aligned to the FSRA's broader risk-based approach* to regulation. It encourages firms to self-assesses the risks their business model may present then mitigate them in a proportionate and appropriate manner.

However, in our addition to our overall support for the proposed changes we would raise the following additional points for consideration by the FSRA. First, GDF would note that within the proposals there does not seem to be a reference to the cost /fee of this process for market participants. It seems, as set out in the proposal that this will be a cost-free process, particularly in light of the lighter burden placed on FSRA. GDF would appreciate clarification on this point, noting that a cost-free process is much more business-friendly and welcome.

Second, paragraph 8 references “revised VA Guidance” which will include more granular VA assessment guidance, to be used by market participants in performing their VA assessments. We would welcome the FSRA providing additional detail on updated assessment guidance so that market participants can best prepare for compliance.

Next, we would also note that paragraph 11 proposes that market participants will be required to maintain a list of AVAs on their website. GDF members would welcome additional clarification from the FSRA on if this list would include VAs which have been sent to the FSRA for non-objection but are within the initial 20 day SLA (noting that therefore the FSRA may still reject the VA). To avoid misinterpretation and support firms in building a compliance first approach, we would welcome the FSRA to including a more granular account of its expectation in this regard, including expected timelines. For example, beneficial guidance could include a specification such as “the list must be updated to included AVAs within 5 business days of the expiration of the initial 20 business...”

Furthermore, we would also note that the 20 day window raised in paragraph 11 is quite a lengthy timeline between assessment and listing, yet we appreciate that it may not be feasible



for the FSRA to set a shorter timeline. We propose two potential alternative approaches used by Dubai's Virtual Assets Regulatory Authority (VARA) and the Central Bank of Bahrain (CBB) which may offer greater flexibility than the 2- day window and also support firms in meeting regulatory expectations. Additionally, our proposed approaches may also have the tangential benefit of leading to closer regulatory harmonization within the GCC and MENA region in regard to listing requirements. This in turn would support Abu Dhabi in being a hub for firms to build a base in order to better position themselves for regional growth:

1. CBB: CRA-4.3.8 of the CBB's Rulebook¹ requires licensees to notify the CBB of their intent to list the virtual asset and provide the results of the performed risk assessment prior to listing. This, however, is a notification requirement, and no separate approval is required from the regulator. Under CRA-4.3.9, licensees are required to provide a list of all virtual assets listed on the platform to the CBB within 10 days after the end of each quarter. These requirements enable the CBB to exercise appropriate oversight, while also allowing the licensees to move at pace when it comes to listing.

2. VARA: Part VIII of VARA's Market Conduct Rulebook does not require licensees to notify VARA of their intent to list virtual assets, however, licensees must preserve records of the risk assessment done on each individual asset listed on the platform for 8 years and make the assessment available for the regulator's inspection upon request. Furthermore, Virtual Asset Service Providers (VASPs) are required to subject assets listed on their platforms to ongoing monitoring and must immediately notify the regulator if an asset listed on the platform no longer conforms to the licensee's listing standards. This approach also enables licensees to move quickly with listing, while maintaining responsibility for notifying the regulator if there is a shift in the listed asset's risk profile, based on which the regulator can instruct the licensee to take appropriate action as the regulator sees fit.

2. Do you agree with the proposed changes to the capital requirements applicable to VA Firms?

GDF would note that while a reduction in the capital requirements proposed by the FSRA, and the further nuancing of the requirements are welcome developments and will increase the accessibility of the framework for smaller companies, the requirements are still significantly higher for certain service categories compared to regional counterparts and may remain prohibitive for grass-roots start-ups. For example, VARA requires VASPs providing Exchange Services to set aside 15% of fixed annual overheads OR AED 800,000, whichever higher, as paid-up capital, if the VASP is using a VARA-licensed/approved custody service provider, or 25% of fixed annual overheads OR AED 1,500,000, whichever is higher, in other cases. This decreases entry costs for smaller companies and offers more flexibility compared to the fixed 6 months OPEX (for operating an MTF) proposed by the FSRA. GDF welcomes the FSRA's intent to issue further consultation in 2025 on the prudential framework applicable to Category 3 and 4 firms.

3. Do you have any comments on the proposed change to fee requirements for VA Firms?

GDF is supportive of the proposed amendment of not having to pay application and supervision fees separately for each VA activity conducted by licensees and believes this to be a welcome change to the FSRA's rules, however, the application and license fees are still significantly higher compared to regional counterparts such as VARA or the CBB, particularly as they relate to exchange services (i.e., Category 4 MTFs).

¹ <https://cbben.thomsonreuters.com/entiresection/605460>



For example, the FSRA's proposed amendments would require Category 4 MTFs providing services in virtual assets to pay USD 125,000 as application fee and USD 60,000 as annual supervision fee (in addition to the non-virtual asset licensing and supervision fees), compared to VARA, where the application fee is approx. USD 27,000, and the annual supervision is approx. USD 54,000. As such, the total application and supervision fees for starting an exchange under VARA is USD 81,000 for year 1, compared to the FSRA's proposed USD 185,000 (+ non-VA activity licensing and supervision fee).

While the removal of the requirement to pay separate licensing and supervision fees for each separate VA activity might benefit larger companies looking to provide multiple VA services, such high fees might be prohibitive for start-ups looking to enter the regulated market through the ADGM. As global competition and innovation in 'Web3' develops, and other jurisdictions also begin to offer competitive frameworks, driving growth and supporting smaller innovative companies to build in the UAE will become increasingly more important. GDF would encourage a balanced and proportionate approach that supports innovation and growth for both large and small firms within the ecosystem.

4. Do you have comments on the proposals outlined in paragraphs 28 and 29?

In order to better support firms in meeting regulatory objectives, GDF members would welcome the FSRA providing nuanced and clear definitions of what the FSRA considers 'algorithmic stablecoins' and 'privacy tokens'. We would also encourage the FSRA to align definitions where possible with federal and local licensing authorities in the UAE.

With regards to algorithmic stablecoins for example, we would note that algorithms exist in many products, including stablecoins that are deemed acceptable so we would encourage that the policy in the "Guidance – Regulation of Virtual Asset Activities in ADGM (VER05.181223)" takes account of this. We would welcome the FSRA clarifying that this requirement does *not* prohibit stablecoins where the use of the algorithm is incidental to the primary method of ensuring stability (e.g., fiat backed stablecoins). Additionally, we would encourage proportionality with other regimes – for example the EU MiCAR compliance regime is regarded as strict, and yet has not introduced a blanket prohibition on algorithmic stablecoins. We would encourage the FSRA to consider taking a similar approach, distinguishing between algorithmic and asset-backed stablecoins.

A policy middle ground which allows for algorithmic innovation in a controlled or test environment - with price volatility, cybersecurity and capital/liquidity thresholds - may move the UAE closer to EU and US regulatory positions in the future and enable the UAE to be more future-proof in its framework, as other innovations and solutions are developed on the market.

With regards to privacy tokens, we would note that there is a difference between anonymity and privacy that we would welcome the FSRA taking into account in their delineation.

5. Do you agree with the current AVA assessment criteria?

GDF members are mostly supportive of the current AVA assessment criteria. However, we would raise for consideration by the FSRA that the assessment criteria may not be binary or work as a one size fits all across the whole of the market. For example, innovation or maturity criteria doesn't necessarily equate to less risk for clients. Maturity may not exist for innovative solutions, and likewise utility may not always be obvious in early stages. For example, given the rapid state of technological development, care should be taken definitionally, so that



algorithmic or artificial intelligence stabilization mechanisms are not precluded, particularly where they may assist in regulatory oversight efforts in future.

Additionally, we would note that overall, in the context of listing it is a Regulated VA Firm's responsibility to ensure the business of the firm is controlled effectively. We would recommend that the process be sensitive to that distinction, and to where the responsibility falls for the firm to make assessments that in line with regulatory guidance and objectives.

Finally, with regards to 'maturity', we note the AVA criteria does not appear to include provisions for Governance Frameworks, including voting mechanisms and unilateral changes to protocols. We would recommend including a carve out or go-to-market control system for strategic technologies in areas such as DeFi gaming, supply chain management or commodities which may help future-proof the criteria. Overall, we would encourage the FSRA to consider how the criteria could be more nuanced and proportionate.

6. Do you consider that certain criteria should only be applicable to particular Regulated

GDF is broadly supportive of the existing criteria and also feels the criteria could be extended with additional analytic categories, such as to the issuing team and token governance.

7. Do you consider that some or all of the AVA assessment criteria should apply to Regulated Activities other than those referred to in paragraph 2?

GDF has no comment on this point.

8. Should custodians be permitted to hold a broader range of digital assets? If so, what assets should custodians be permitted to hold?

Yes, GDF members believe that the FSRA should allow custodians to hold a wide range of digital assets that the Custodian has assessed (as per their VA assessment methodology) to their own satisfaction, not only approved VAs (AVAs). This could include digital assets such as tokenised securities and digitally native securities, (e.g., BUIDL) but is likely not to include privacy coins or algorithmic stablecoins. In particular, we are supportive of this where the appropriate systems and controls exist so that firms are still meeting the appropriate regulatory objectives.

We believe that this would encourage overall ecosystem growth, as well as that of the custodial industry. Additionally, having more assets within the ecosystem held under custody by regulated custodians could be a beneficial way to encourage broader compliance and could mitigate the risks of consumers or businesses operating in regulatory 'grey areas'.

9. Do you have any comments on the VA staking business models identified by the FSRA? Are you aware of additional business models?

GDF agrees with the FSRA that solo staking and staking as a service (SAAS) should be treated as unregulated activities. However, we would welcome more clarity on the test to differentiate between SAAS vs an intermediary with control (e.g., if all criteria align with SAAS outcomes, the activity qualifies as unregulated. However, if one or more criteria align with intermediary outcomes, we would recommend that the activity should be classified as regulated under the intermediary framework). We provide further comments on the responsibility that we believe should lie with an intermediary under Q11.



10. Do you have any comments on the preliminary considerations outlined by the FSRA in respect of regulating VA staking, including the Regulated Activities that may apply to such activity?

While GDF is supportive of the overall approach to VA staking, we would encourage the FSRA to not solely regulate based on staking mechanisms which may keep users from participating in other yield bearing activities.

11. Do you have any comments on the key risks that relate to VA staking? Are there any specific regulatory requirements that should be introduced for that activity?

GDF would note that paragraph 40 proposes requirements including:

- Disclose clients staking-specific risks;
- Conduct due diligence in respect of the custodian's / validator's suitability in providing the staking services for clients;
- Conduct due diligence and risk assessment on the relevant PoS protocol; and
- Have insurance coverage for slashing risks, penalties, and loss of staked assets that may arise from staking activities.

While GDF agrees that the first three proposals are both appropriate and proportionate, we are concerned that the last requirement mandating insurance coverage to be maintained by the intermediary could place an undue burden of responsibility on the intermediary. Given that the staking services would be agreed, and the contractual obligations entered into between the underlying client and the staking service provider, it would not be proportionate to apply the liability to the intermediary.

Expanding upon this, we are concerned that it is unclear whether this kind of insurance coverage exists in the UAE. There are also other aspects which may make this difficult to apply in practice such as, validator downtime, malicious behaviour, or smart contract vulnerabilities would be underwritten, particularly if this would be applied across borders. Due to the lack of vendors this could involve significant premiums for intermediaries. Higher costs and an increased compliance burden could then compromise the regulatory ecosystem.

Instead, GDF would propose that insurance may be encouraged as an optional or an additional risk management tool to be implemented at the intermediary's discretion and to be differentiated from their core product offering.

Additionally, GDF would also urge the FSRA to consider clarifying requirements for staking service providers (with the exception of technology providers) regarding client consent (i.e., opt-in versus opt-out models).

Overall, however GDF is supportive of the risk management proposals and would note many of our members use clear product disclosure statements² to highlight potential risks for prospective user.

² For example, see Binance's Risk Warning for Simple Earn and Staking products: <https://www.binance.com/en/risk-warning>



12. Do you have any comments on yield farming and other yield-generating activities involving VAs? What are the considerations that should inform the FSRA's regulatory approach to such activities?

GDF would note that DeFi and CeFi yield products evolve over time and may at some point involve regulated activities. Thus, it is crucial to disclose the relevant risks to consumers, and if these products evolve to being traditional regulated activities than we are supportive of the respective existing regulation applying.

In contrast, we would encourage that regulation on the underlying technical mechanisms be minimised to reflect a desire to ensure technology neutrality in a well-designed and proportionate regulatory framework.

13. Do you have any comments relating to business models offering VA borrowing and lending and other forms of financing arrangement and the key associated risks? What are the considerations that should inform the FSRA's regulatory approach to such business models?

GDF would note that lending products can also be principal protected³, mitigating any risk of loss. We believe that this type of model is markedly different to securities borrowing and lending in traditional finance, and indeed could provide additional protections to consumers than we see in existing traditional financial services markets.

14. Do you agree with the proposed approach to enabling Authorised Persons to transact in FRTs?

GDF welcomes the FSRA's intent not to restrict access to foreign issued FRTs and believes that the disclosure requirement proposed by the FSRA is an appropriate measure to take. However, we would welcome additional clarity particularly on how FRTs will be individually assessed by the authority in practice. Furthermore, we would also welcome an impact assessment of decisions where there is a rejection of an FRT listing of a large cap stablecoin.

15. Do you have any view on the criteria to be applied when considering whether a Foreign FRT should be considered as an Accepted FRT?

GDF members note that the proposal for the FSRA conducting assessment of foreign FRTs renders the approval of foreign FRTs more stringent than non "stable" VAs which are inherently riskier than FRTs which meet all of the FSRA's criteria yet are issued in another jurisdiction. Foreign FRTs are likely to be quite common over time, and GDF believes it is important for the FSRA to consider the opportunity for the market to engage with them on a global scale.

GDF would note that the current proposal may not be a proportionate approach and would instead suggest that the FSRA consider foreign FRTs to be subject to the same self-assessment requirements as VAs (where possible). We feel that this approach would be beneficial for the FSRA as it would better support 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.

³ This is where a model offers principal protection, and the VA intermediary solely bears counterparty risk.



Additionally, where a foreign FRT may lack some or all of the VA assessment criteria, the FSRA could also consider stipulating that where a Foreign FRT is already regulated in an equivalent tier 1 jurisdiction then that standard will suffice.

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. Leveraging global expertise from Foreign FRT issuers will also enhance the regulatory framework over time and contribute towards economic transformation.

16. Do you agree with the proposal to allow managers of VC Funds to invest in instruments or tokens issued by start-up businesses which do not currently qualify as a Security under section 258 of FSMR?

Yes, GDF is supportive of this proposal.