Dubai Financial Services Authority

CONSULTATION PAPER 168

ENHANCEMENTS TO THE REGULATION OF CRYPTO TOKENS

1 October 2025

PREFACE

Why are we issuing this Consultation Paper?

1. This Consultation Paper (CP) seeks public comment on proposals for amendments to our regulatory regime for persons wishing to provide financial services in respect of Crypto Tokens. The development of these proposals is based on global regulatory developments, our regulatory experience in licensing and supervising the market, and feedback from the market on the operation of the regime.

What is not covered under this Consultation Paper?

2. All the proposals in this paper relate only to Crypto Tokens. The regulation of Investment Tokens is not dealt with in this paper apart from in Proposal 5.

Who should read this CP?

3. The proposals in this paper will be of interest to:

   a) Authorised Market Institutions (AMI) wishing to admit Crypto Tokens to trading, or clearing or settlement, on their facilities;

   b) Operators of Alternative Trading Systems (ATS) wishing to allow trading of Crypto Tokens on their facilities;

   c) Custodians and Third Party Agents who safeguard and administer Crypto Tokens;

   d) Authorised Firms wishing to carry on other Financial Services relating to Crypto Tokens, such as dealing in, advising on, or arranging transactions relating to Crypto Tokens, managing discretionary portfolios or collective investment funds investing in Crypto Tokens;

   e) Persons who intend to make or approve a Financial Promotion or make an Offer to the Public in respect of a Crypto Token;

   f) Persons who intend to apply to the DFSA for a licence to carry out the activities specified above;

   g) Issuers and creators of Crypto Tokens;

   h) Persons providing technology support; and

   i) Persons providing legal, accounting, audit, or compliance services to any of the above.

Terminology

4. Defined terms have the initial letter of the word capitalised, or of each word in a phrase. Definitions are set out in the Glossary Module (GLO). Unless the context otherwise requires, where capitalisation of the initial letter is not used, the expression has its natural meaning.

What are the next steps?

5. Please send any comments using this online response form. You will need to identify the organisation you represent when providing your comments. The DFSA reserves the

right to publish, including on its website, any comments you provide. However, if you wish your comments to remain confidential, you must expressly request so at the time of making comments and give your reasons for so requesting. The deadline for providing comments on this consultation is **31 October 2025.**

6. Following the public consultation, we will decide which changes to the proposed regime are necessary and amend the proposed draft legislation as appropriate. The final version of the Rulebook modules will be published on our website, and we will issue a notice on our website when this happens. You should not act on the proposals until changes are made and are in force.

Structure of this CP

Part I – Introduction;

Part II – Suitability of Crypto Tokens;

Part III – Other regulatory requirements in relation to Crypto Tokens;

Part IV – Transitional provisions;

Appendix 1 – Draft amendments to the General (GEN) module;

Appendix 2 – Draft amendments to the Conduct of Business (COB) module;

Appendix 3 – Draft Amendments to the Collective Investment Rules (CIR) module;

Appendix 4 – Draft amendments to the Fees (FER) module;

Appendix 5 – Draft amendments to the Authorised Market Institutions (AMI) module;

Appendix 6 – Drafted amendments to the Market (MKT) module; and

Appendix 7 – Draft amendments to the Glossary (GLO) module.

Part I - Introduction

7. In March 2022, the DFSA published CP 143[1] on the regulation of Crypto Tokens, with the first set of Rules coming into force in November 2022. The Rules put in place were comprehensive and addressed a wide range of risks associated with Crypto Token businesses, including risks relating to AML/CTF, technology, governance, custody, disclosure, market abuse and fraud.

8. We acknowledged, at the time the Rules came into force, that there were certain areas where we expected our policy to evolve, for example, in relation to financial crime and custody.[2] Further, as regulating this market was new to us (as it was for many global regulators), we acknowledged that we would need to reassess the regime to reflect supervisory experience, market events and other regulatory (including international standard setter) developments.

9. We have since made several amendments to this regime including minor updates in CP 150[3] in 2023, and more significant updates in CP 153[4] in 2024, relating to custody and staking, funds, and financial crime, which reflected our commitment to develop our policy in this area.

10. Again, we have looked at the regime, and in this CP, we have focused on further alignment with regulatory counterparts, bringing additional flexibility to the market in order to support responsible growth and innovation while remaining aligned with international regulatory standards and, supporting the DIFC, Dubai and the UAE's strategic priorities.

11. On this basis, we are proposing changes to the current DFSA-led suitability assessment for Crypto Tokens (excluding Fiat Crypto Tokens) and will place responsibility on Persons to undertake a suitability assessment to determine whether a Crypto Token is suitable for use. The proposals in this CP set out our expectations in terms of how a suitability assessment should be undertaken, changes in respect of certain conduct requirements, and how funds invest (whether directly or not) in Crypto Tokens.

Part II – Suitability of Crypto Tokens

A. Crypto Tokens (excluding Fiat Crypto Tokens)

Introduction

12. Financial Services and activities listed in GEN Rule 3A.2.1(1) can only be carried on in or from the DIFC with a Recognised Crypto Token that the DFSA has deemed suitable for use in DIFC. This restriction is cast widely and includes, for example, a derivative transaction relating to a Crypto Token, and the making and approving of a Financial Promotion relating to a Crypto Token.

13. This restriction does not apply to an Authorised Firm that Provides Custody in the DIFC, which may safeguard or administer any Crypto Token except for a Prohibited Token (that is, any Privacy Token or Algorithmic Token).[5] It also does not apply to a Fund that

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1 Consultation Paper (CP) 143.
2 Please see the Feedback Statement to CP143.
3 https://dfsaen.thomsonreuters.com/rulebook/consultation-paper-no-150-proposals-relation-money-services-crypto-tokens-and-crowdfunding
4 https://dfsaen.thomsonreuters.com/rulebook/consultation-paper-no-153-updates-regulation-crypto-tokens
5 GEN 3A.2.1(2).

is established or domiciled in the DIFC and is a Qualified Investor Fund, which may invest (directly or indirectly) up to 30% of the gross asset value of the Fund Property in Crypto Tokens that are not recognised.

14. GEN section 3A.3 sets out that an Authorised Person, an applicant for a Licence to be an Authorised Person, or an issuer or a developer of a Crypto Token can apply to the DFSA for a Crypto Token to be recognised in the DIFC.

15. In order for a Crypto Token to be deemed suitable for use in the DIFC by the DFSA and thus "Recognised", the DFSA currently considers the matters set out in GEN Rule 3A.3.4(2) which are also referred to in this paper as the "Crypto Token criteria" and currently include:

    a) the regulatory status of the Crypto Token in other jurisdictions;

    b) whether there is adequate transparency relating to the Crypto Token;

    c) the size, liquidity and volatility of any existing market for the Crypto Token;

    d) the adequacy and suitability of the technology used;

    e) whether the risks associated with the Crypto Token are mitigated; and

    f) for Fiat Crypto Tokens[6], additional criteria regarding the adequacy of reserves, how it maintains a stable price and if there is a person clearly responsible and liable to investors for the Fiat Crypto Token.

16. Applications are not accepted for any Privacy Tokens and Privacy Devices or Algorithmic Tokens as these are Prohibited Tokens and are prohibited from use in the DIFC as per GEN Rules 3A.2.2 and 3A.2.3, respectively.

17. We adopted this recognition approach due to the large number of Crypto Tokens that are traded, mainly in unregulated markets. Many of these Crypto Tokens have little to no liquidity, offer limited price discovery, and are susceptible to price manipulation. We had considered that there had to be constraints on what types of Crypto Tokens could be permitted to prevent potential higher-risk activities relating to illiquid or less mature Crypto Tokens.

18. When the regime was enacted in 2022, we published an initial one-off list of Recognised Crypto Tokens. The Crypto Tokens on that list were Bitcoin (BTC), Ethereum (ETH) and Litecoin (LTC).[7] We have since added more Crypto Tokens to this list which can be found on our website.[8]

19. Since adoption of the regime, we have received specific feedback on our recognition approach with concerns being raised about the process, and also that we were no longer aligned with other comparable international regulators. This feedback has prompted us to review our approach, as well as to look at what regulatory approaches other regulators have adopted, to see if any adjustments should be made.

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[6] In the DFSA rules we use the term Fiat Crypto Tokens to refer to so-called "stablecoins."

[7] https://www.dfsa.ae/news/notice-amendments-legislation-october-2022-2

[8] https://www.dfsa.ae/innovation

Crypto Token assessment

i. Suitability assessment

20. We are proposing to amend the existing recognition approach adopted by the DFSA and instead place responsibility on the Person who wants to conduct an activity in relation to a Crypto Token (excluding Fiat Crypto Tokens) to conclude, on reasonable grounds, that the Crypto Token is suitable for use by that person in relation to that activity.

21. In concluding whether a Crypto Token is suitable for use, we propose to require that a Person undertake an assessment of that Crypto Token having regard to the following Crypto Token criteria listed in GEN Rule 3A.2.1(3):

    a) the characteristics of the Crypto Token including whether there is adequate transparency about its purpose, governance arrangements and founders;

    b) the regulatory status of the Crypto Token in other jurisdictions, including whether it has been assessed or approved for use by a Financial Services Regulator in another jurisdiction;

    c) the size, liquidity and trading history of the market for the Crypto Token;

    d) the technology used in connection with the Crypto Token; and

    e) whether the use of the Crypto Token could prevent a Person from complying with legislation administered by the DFSA.

22. In addition to the suitability assessment undertaken, a Person will also have to consider the nature, scale, and complexity of the financial services activity being undertaken, the types of products and services offered, and the customer base it has, or intends to have. For example, a large, well-established global fund manager assessing a Crypto Token against the criterion in GEN Rule 3A.2.1(3)(c), may reasonably conclude that low market capitalisation does not prevent its inclusion in a closed-ended fund targeted only at Professional Clients within the DIFC. Conversely, a smaller, more recently established investment firm, which is dealing as agent on behalf of Retail Clients, may not reach the same conclusion especially if they do not have the appropriate tools, and systems and controls to monitor the Crypto Token, for example.

23. We also expect that an Authorised Person in the DIFC will develop, as per the requirements in GEN section 5.3, policies and processes and systems and controls to be able to ensure proper governance of, and compliance with, the requirements in GEN section 3A.2. We would expect these to be reviewed, periodically, in order to reflect any market, product and/or regulatory changes.

24. Lastly, we propose to include a requirement that a Person must be able to demonstrate to the DFSA's satisfaction, upon request, the grounds upon which it deemed, and continues to deem, a particular Crypto Token to be suitable for use in or from the DIFC.

ii. Only Suitable Crypto Tokens to be used in the DIFC

25. GEN Rule 3A.2.1(1) sets out that a Person must not engage in any of the activities listed in this rule in or from the DIFC in relation to a Crypto Token unless it is suitable.

26. We are proposing to update this list of activities to make clear that, in relation to a Fund that invests in Crypto Tokens, this requirement also applies to Persons Managing a

Collective Investment Fund, Providing Trust Services, Providing Fund Administration or Acting as the Trustee of the Fund.

iii. Continuing obligations

Publication of Suitable Crypto Tokens

27. We propose that Persons list all Crypto Tokens they have assessed to be suitable for use in a clear and prominent position on their website and include:

- The name and ticker symbol[9] of the Crypto Token; and
- The DLT or other technology on which the Crypto Token operates.

28. We expect Persons to consider whether to provide more detailed information regarding the activities and customer base for which they have assessed a Crypto Token to be suitable.

29. This proposal is consistent with approaches we have seen taken by other regulators. We are aware, however, that some Persons will not have a local website to be able to provide this information. We invite comment on suitable alternatives that will achieve the same transparent outcome.

On-going assessment of suitable Crypto Tokens

30. Given that the crypto market can change, sometimes rapidly, we propose that a Person continuously monitor and regularly review its assessment that a Crypto Token is suitable. If a Person is no longer satisfied that a Crypto Token is suitable with reference to a particular activity, then the Person must immediately cease that activity in relation to the Crypto Token. If it is not possible to cease this activity immediately, then a Person must take all reasonable steps to cease this activity.

31. In taking such a decision, a Person will need to focus on the interests of their customers, and how they intend to protect them, for example, looking at how they will inform the customers of their decision, and how they will allow their customers to unwind their position and divest their interests, where relevant. A Person will also need to remove the Crypto Token from the list of suitable Crypto Tokens on their website.

Record keeping

32. While not a proposal, we also remind all Authorised Persons that they will need to retain records of all decisions made, assessments undertaken, and documentation reviewed and produced by those responsible for overseeing the suitability assessment. These records will need to be capable of reproduction within a reasonable period not exceeding 3 business days as per GEN Rule 5.3.24.

iv. Supervisory Guidelines

33. When we finalise our policy and publish the final Rules, we will also publish Supervisory Guidelines that will set out the DFSA's expectations as to how a Person will typically

[9] A "ticker" symbol is the short combination of letters that is used to represent a Crypto Token. For example, Bitcoin's ticker symbol is BTC, and Ethereum's ticker symbol is ETH.

seek to achieve compliance with GEN Rule 3A.2.1(2)(a). A draft of the Supervisory Guidelines is available here.

Proposal 1 – Suitability of Crypto Tokens (excluding Fiat Crypto Tokens)

34. We propose to:

a) place responsibility on a Person who wants to conduct an activity in relation to a Crypto Token (excluding Fiat Crypto Tokens) to conclude, on reasonable grounds, that the Crypto Token is suitable for use by that person in relation to that activity having regard to the Crypto Token criteria and any other relevant matters;

b) require a Person to be able to demonstrate, and evidence, to the DFSA's satisfaction, upon request, the grounds upon which they deem a particular Crypto Token to be suitable;

c) update the list of activities that are subject to the prohibitions relating to Crypto Tokens specified in GEN Rule 3A.2.1(1);

d) require a Person to maintain on their website a list of all Crypto Tokens deemed suitable for use including the name and ticker of the Crypto Token and the network on which it operates; and

e) require a Person to continuously monitor and regularly review the assessment of the Crypto Token as suitable, and if it is not satisfied it meets the criteria to be suitable, to stop, or take reasonable steps to stop the activity in relation to that Crypto Token and update the list of suitable Crypto Tokens on their website.

Please see draft amendments to GEN 3A.2.1, 3A.2.1A, 3A.2.5, 3A.3, 3A.4, 11.10.21, APP 2.5, COB 9.4.1, 9.6.11, 15.6.9 in Appendix 1, GLO in Appendix 7, AMI 5.8.1(4), 5B.7.6 & 7.2.5A in Appendix 5, & MKT 1.1 Guidance Note 4 in Appendix 6.

Question 1: Do you agree with the proposals in paragraph 34? If not, why not?

B. Fiat Crypto Tokens

i. Fiat Crypto Tokens

35. While Fiat Crypto Tokens are classified as a type of Crypto Token, Fiat Crypto Tokens have special features, for example:

- 1:1 peg: they are designed to maintain a stable value by pegging their value to a fiat currency, e.g., the US dollar;
- Reserves: the peg is maintained by holding reserve assets made up of a range of high-quality liquid assets and cash; and
- Redemption: typically, issuers commit to redeem at par e.g., 1 USD for 1 Token.

36. Due to these features, we are seeing a growth in the use cases for Fiat Crypto Tokens, for example, in relation to facilitating and settling transactions with Crypto Tokens, cross border payments, lending, trading and liquidity management in decentralised finance (DeFi) applications. We may also, in the future, see them serving as a means of payment, for goods and services.

37. Given the wide range of use cases developing, concerns have been voiced by the international standard setters specifically in relation to the potential systemic impact Fiat

Crypto Tokens may create. For example, in their recent Annual Economic Report 2025,[10] the Bank for International Settlements issued a warning about Fiat Crypto Tokens and the potential for them to undermine monetary sovereignty and create risks of capital flight from emerging economies. Further, Fiat Crypto Tokens can also present, for example, AML/CTF concerns as they can appeal to harmful actors, due to the ability to conduct peer-to-peer transactions nearly instantaneously and without any intermediary on a global basis.

ii. Proposals

Suitability assessment

38. Based on these concerns, and the developing regulatory environment in this space, we intend to retain the current approach whereby the DFSA determines whether a Fiat Crypto Token is suitable for use in the DIFC. This approach would be broadly comparable to that of other regulators who are continuing to closely oversee activities in relation to Fiat Crypto Tokens in their market.

39. An Authorised Person will continue, as per the requirements in GEN chapter 5, for example, to be required to create policies, processes and systems and controls to ensure proper governance of activities related to Fiat Crypto Tokens.

iii. Policy Statement

40. At present our Rules set out the criteria the DFSA will take into account when assessing the suitability of a Fiat Crypto Token. We are proposing to include these criteria in a Policy Statement which we intend to publish when we finalise our policy and publish the Rules. Fiat Crypto Tokens that the DFSA has assessed to be suitable will also be listed in this Policy Statement. A draft of the Policy Statement is available here.

Proposal 2 – Fiat Crypto Tokens

41. We propose to:

a) retain the current approach whereby the DFSA determines whether a Fiat Crypto Token is suitable for use the DIFC; and

b) publish a Policy Statement to set out how the DFSA will assess the suitability of Fiat Crypto Tokens and a list of Fiat Crypto Tokens that the DFSA has assessed as suitable.

Please see draft amendments to 3A.2.1 in Appendix 1.

Question 2: Do you agree with the proposal in paragraph 41? If not, why not?

Part III – Other regulatory requirements related to Crypto Tokens

Recognised Jurisdictions

42. As we have seen further global regulatory developments in the Crypto Token market, coupled with standards being set, and applied, at the international level, we are

[10] https://www.bis.org/publ/arpdf/ar2025e.htm

proposing to remove the provisions on Recognised Jurisdictions in relation to Crypto Tokens found in GEN and COB. For some firms, this may allow for a wider range of home jurisdictions.

Proposal 3 – Recognised Jurisdictions

43. We propose to remove the regulatory requirements relating to Recognised Jurisdictions in relation to Crypto Tokens.

Please see draft amendments to GEN 3A.5 & 7.2.2(8)(b) in Appendix 1, COB 15.4.3(b) in Appendix 2, and GLO in Appendix 7.

Question 3: Do you agree with the proposal in paragraph 43, if not, why not?

Funds

i. Permissible Crypto Token activities in relation to Collective Investment Funds

44. When we set out proposals for Crypto Tokens in CP143, in relation to Funds, we limited the Fund activities which could be undertaken stating:

- that a DIFC Fund Manager could not manage an External Fund that invested in Crypto Tokens; and
- that there was to be no offering or marketing of Foreign Funds that invested in Crypto Tokens.[11]

45. Only Domestic Funds (that is those established in the DIFC) were able to invest in Crypto Tokens and, where relevant, we also required the Fund Manager to appoint an Eligible Custodian to safeguard the Crypto Tokens.

46. We put these requirements in place at that time because it aligned with our proposed requirement for all Crypto Token businesses and activities to be based in the DIFC. We also said that we would review our regulatory approach, and consider how to provide more flexibility, as we saw further regulatory developments in this space.

47. In late 2023, we reviewed these requirements as we had had both fund and asset aanagers approaching us with a desire to expand their activities to include Crypto Tokens, saying that our approach was too stringent, especially in respect of the limitations on Foreign Funds and, for some, the restriction to Recognised Crypto Tokens only. On that basis, we updated our approach, as part of CP 153 proposals, and introduced various thresholds in relations to Domestic, External and Foreign Funds, and the amounts they could invest in Crypto Tokens.

48. However, in light of proposal 1, and additional feedback we have received from the market regarding additional flexibility in relation to External and Foreign Funds investing in Crypto Tokens, we are putting forward the following proposals.

[11] As set out in CIR Rule 1.6.1, for the purposes of CIR, a Fund invests in Crypto Tokens if: (a) any of its Fund Property consists of Crypto Tokens; (b) it has a derivative exposure to Crypto Tokens.

ii. Proposals

Definition of a Fund investing in Crypto Tokens

49. CIR Rule 1.6.1(1) and (2) set out, for the purposes of the CIR module, where a Fund invests in Crypto Tokens, e.g., where any of its Fund Property consists of Crypto Tokens or where it has any derivative exposure to Crypto Tokens. This definition is replicated in GEN 3A.2.1.

50. A particular issue with this definition has been communicated to us is in relation to (1)(d) where it refers to a *fund or entity* which has property that includes, or has a derivative exposure to, Crypto Tokens.

51. A problem arises where a fund tracks an index that is composed of *entities* which may have property that includes, or has exposure to, Crypto Tokens, such as the Nasdaq 100, or the S&P 500. Such a situation would mean that a firm would have to assess whether each entity that makes up the index has Crypto Token investments and then whether they are recognised which would be challenging to achieve.

52. We are therefore proposing to amend this definition to exclude any investment in another Fund or entity with exposures to Crypto Tokens that results solely from tracking an index other than an index that tracks the Crypto Token.

Thresholds and restrictions in relation to Crypto Token Funds

53. We are proposing to remove the thresholds and restrictions currently applied in respect of Funds that invest directly, or indirectly, in Crypto Tokens. This proposal will mean that a Fund Manager, or asset manager, for example, will be able to manage investments in Funds, whether Domestic, External or Foreign, that invest directly or indirectly, in Crypto Tokens. This is on the proviso that they have conducted an appropriate suitability assessment on the Crypto Tokens.

54. In respect of proposal 2, where we propose to retain the current regime for Fiat Crypto Tokens, it will mean that Funds will only be able to invest, directly or indirectly, in suitable Fiat Crypto Tokens. We invite comment on whether this proposal would cause any unintended consequences in this area.

55. In proposing these changes, and for the avoidance of doubt, all other existing Fund requirements found in CIR will continue to apply, including but not limited to:

    a) CIR section 13.13 which states that a Fund Manager must ensure that its offer document or marketing material does not refer to a Fund as a “Crypto Token Fund” or “Crypto Fund”, or otherwise hold it out as being a Fund which has as its main purpose investing in Crypto Tokens, unless the Fund meets the criterion in CIR Rule 3.1.16;

    b) CIR Rule 8.2.6 which requires an Eligible Custodian to be appointed for safeguarding and administering an External and Foreign Funds’ Crypto Tokens;

    c) CIR Rule 10.5.7 which sets out that, subject to a Fund’s Constitution and its most recent Prospectus, the Fund Manager of a Public Fund must ensure that the Fund’s borrowing does not exceed 20% of the net asset value of the Fund Property; and

d) CIR Rule 15.1.9 which requires that a Foreign Fund's investments in Crypto Tokens are safeguarded and administered by a Person who is a separate legal entity from the Fund Manager and is either: (i) an Authorised Firm whose Licence authorises it to Provide Custody Services of Crypto Tokens; or (ii) a Person whom the Authorised Person Offering Units of the Fund has reasonably determined to have adequate custody and asset safety arrangements after performing proper due diligence on that Person.

Proposal 4 – Collective Investment Funds

56. We propose to remove the thresholds and restrictions currently applied in respect of Funds that invest directly, or indirectly, in Crypto Tokens.

Please see draft amendments to GEN 3A.1.2 in Appendix 1, and CIR 1.6.1, 6.1.6, 6.2.4, 15.1.5(f), 15.1.6(1)(e) & 15.1.9(3) in Appendix 2.

Question 4: Do you agree with the proposals in paragraph 56? If not, why not?

Conduct of Business requirements

i. Key Features Documents

57. COB Rule 14.4.2 (in relation to Investment Tokens) and COB 15.5.1 (in relation to Crypto Tokens) set out that an Authorised Firm must not provide a Financial Service relating to a Crypto Token to a Person unless it has given the Person a key features document (KFD) containing the information about the Investment Token or Crypto Token.

58. However, in relation to a firm providing or arranging custody, the production of a KFD is unnecessary. Rather, this information is important to a prospective investor when they are deciding whether to invest in a particular Crypto Token, not when they are looking at a custody provider. Furthermore, requirements exist, for example, in COB Rule A6.7.1 which deal with disclosures relating to custody of a Crypto Token.

59. On this basis, we propose to remove the application of COB Rule 15.5.1 in relation to those arranging or providing custody for Crypto Tokens and the application of COB Rule 14.4.2 for those arranging or providing custody of Investment Tokens.

ii. Client Classification

60. Following CP 143, we adopted a limit on the percentage of Crypto Tokens that could contribute to a Net Asset Test for an Assessed Professional Client in COB Rule 2.3.7(1)(a). We required that when calculating net assets of an individual for the purposes of the requirement under Rule 2.3.7(1)(a), an Authorised Firm:

(a) must exclude the value of the primary residence of that Person;
(b) must exclude Crypto Tokens belonging to that Person that are not Recognised Crypto Tokens;
(c) must include only 33% of the market value of Recognised Crypto Tokens belonging to the Person; and
(d) may include any other assets held directly or indirectly by that Person.

61. We adopted the restrictions for Crypto Tokens to be considered in the Net Asset Test due to their high volatility, and an apparent lack of valuation methodologies. While we still hold that view, we appreciate that more clients have Crypto Tokens that form part of

their assets, and the valuation methodologies have evolved. On this basis, we propose to remove these restrictions. However, Authorised Persons may impose their own limits in allowing suitable Crypto Tokens to contribute to a Net Asset Test where appropriate.

Proposal 5 – Conduct of Business requirements

62. We propose to:

a) remove the requirement for those Arranging or Providing Custody to provide a KFD in relation to Crypto Tokens and Investment Tokens; and

b) remove the restrictions relating to percentage, and type of Crypto Tokens that can form part of the Net Asset Test.

Please see draft amendments to COB 2.4.2, 14.4.1, and 15.5.1 in Appendix 2.

Question 5: Do you agree with the proposal in paragraph 62? If not, why not?

Fees

63. As we will no longer be recognising Crypto Tokens, we propose to remove the application fee for a Crypto Token to be a Recognised Crypto Token found in FER section 2.9B.

Proposal 6 – Fees

64. We propose to delete FER 2.9B.

Please see draft amendments to FER section 2.9B in Appendix 4.

Question 6: Do you agree with the proposal to remove the application fee for a Crypto Token to be a Recognised Crypto Token? If not, why not?

Reporting

i. Crypto Token reporting

65. We are proposing that Authorised Persons report to the DFSA certain information in relation to:

- Crypto Tokens deemed suitable, and the activities undertaken in relation to them;
- Crypto Tokens deemed unsuitable previously having been deemed suitable; and
- Depending on the activity undertaken, volumes, transaction size, numbers of clients and types of activities being undertaken in relation to suitable Crypto Tokens.

66. This is so we can monitor potential risks, trends and activities in both the DIFC market and in relation to specific firms.

67. We are proposing that an Authorised Person submit a monthly Crypto Token information return to the DFSA via the DFSA's e-portal within 14 calendar days following the end of the previous month. For example, a Crypto Token information return for the month of March would have to be submitted to the DFSA by 14 April. If an obligation to report falls

on a calendar date which is a Saturday or a Sunday, or an official holiday, the obligation takes effect on the next calendar day which is a business day.[12]

ii. Fixed Penalty Notices

68. The DFSA's Fixed Penalty Notice (FPN) regime deals with certain breaches of legislation administered by the DFSA namely requirements in relation to regulatory returns which are required to be submitted within a defined period. A list of returns which are subject to a FPN is set out in GEN 14.

69. Given we are proposing to require Authorised Persons to submit a Crypto Token information return to the DFSA on a monthly basis, e.g., within a defined period, we are proposing to add this return to the list of returns that will be subject to a FPN.

Proposal 7 – Reporting

70. We propose to:

a) introduce monthly reporting requirements via a Crypto Token information return; and

b) add the Crypto Token information return to the list of returns subject to a FPN.

Please see draft amendments to GEN 3A.2.1A(e) and 14.1 in Appendix 1.

Question 7: Do you agree with the proposals in paragraph 70? If not, why not?

Part IV – Transitional provisions

Transitional rules

i. Existing Recognised Crypto Tokens (excluding Fiat Crypto Tokens)

71. We are proposing to provide for a transition period whereby a Crypto Token, other than a Fiat Crypto Token, which was recognised by the DFSA will continue to be deemed suitable for a period of three months following the commencement date of the proposed Rules.

72. We also set out that if at any time during this transition period, a Person becomes aware of any significant event or development that reasonably suggests that the Crypto Token no longer meets the criteria referred to in Rule 3A.3.4 of the Previous Regime, then the Person must cease any activity in relation to that Crypto Token (see draft Rule 3A.2.1A(b)(i)) .

73. For the avoidance of doubt, if a Person wishes to provide a Financial Service, or other activities listed in GEN 3A.2.1(1), in or from the DIFC in relation to Recognised Crypto Tokens **following this period**, they will need to have conducted a suitability assessment and assess that Crypto Token. If deemed suitable for use, an Authorised Person will also need to list those Crypto Tokens on their website.

74. During the transition period, for the avoidance of doubt, Persons are not restricted from conducting suitability assessments on other Crypto Tokens they wish to conduct

[12] GEN Rule 6.2 Guidance 8.

activities in relation to, and subsequently undertaking the relevant business assuming all relevant requirements are complied with.

75. We will also, after the end of the transitional period, remove the existing list of recognised Crypto Tokens from the DFSA website.

ii. Previous transitional provisions

76. We propose to remove the previous transitional Rules for Crypto Tokens in GEN section 10.5 as they are no longer relevant.

Proposal 8 – Transitional provisions

77. We propose to introduce a transitional period in respect of the proposals set out in the CP and remove the previous references to transitional periods in the Rulebook.

Please see draft amendments to GEN section 10.5 in Appendix 1.

Question 8: Do you agree with the proposals in relation to a transitional period? If not, why not?