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UNDERSTANDING FINTECH INITIATIVES IN THE UAE

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PART 1 – OVERVIEW OF THE UAE CORPORATE LANDSCAPE

Overview of the UAE Legal Framework

- **Civil law with multiple jurisdictions**
 - Two-tiered system; local and federal
 - Free zones
- **UAE financial services in three separate and independent jurisdictions**
 - mainland UAE, often referred to as the 'onshore'
 - Abu Dhabi Global Market (ADGM)
 - Dubai International Financial Centre (DIFC)

- **Regulators**

- Securities and capital market-related activities conducted in the UAE (outside of the DIFC and ADGM) are regulated by the UAE Securities and Commodities Authority (SCA)
- Banking and lending institutions are instead regulated by the UAE Central Bank
- Insurance activities are regulated by the Insurance Authority

- **Regulations**

- UAE Central Bank quoted on disapproving private cryptocurrencies
- SCA intends to regulate ICOs and recognize digital tokens as securities; regulations in draft

Abu Dhabi Global Market

- **Regulators**

- Corporate activities overseen by ADGM Registration Authority (ADGM RA)
- Financial activities overseen by Financial Services Regulatory Authority (FSRA)
- Independent common law legal framework based on English Common Law
- Zero tax-rate business environment and independent jurisdiction
- KYC, AML, and data protection and transfer regimes
- Independent ADGM Courts and the ADGM Arbitration Center
- First FinTech Regulatory regime and the first FinTech Regulatory Laboratory (FinTech RegLab), which today is the world's second most active fintech sandbox after London

- **Regulators**

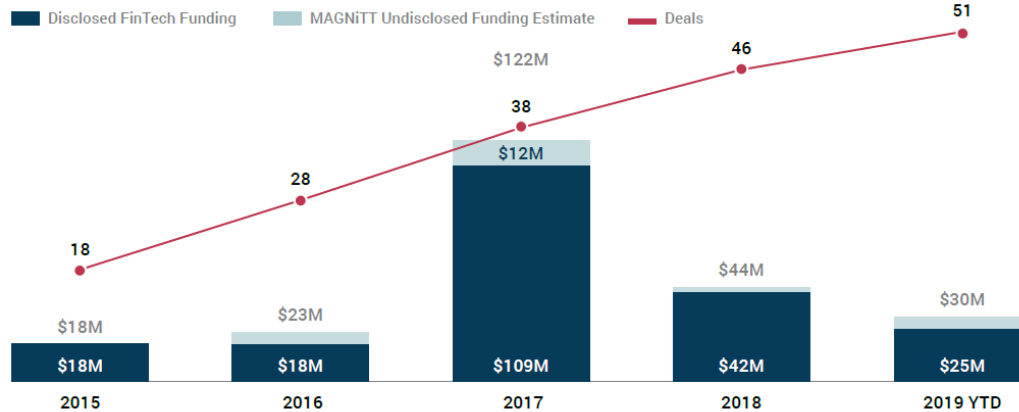
- DIFC Authority
 - DIFC Registrar of Companies
 - the DIFC Financial Services Regulatory Authority (DFSA)
- Expansive ecosystem of 500+ financial institutions and a widely recognized common law court system
 - DIFC Courts, consisting of a Court of First Instance and a Court of Appeal.
 - The DIFC legal framework is based on common law principles and similar to English Law

PART 2 – FINTECH IN THE UAE

Part 2

Fintech Funds & Accelerators

Annual number of deals (#) and total funding (\$) in MENA-based FinTech startups, 2015 – 2019 YTD



MENA Fintech Venture Report 2019 Edition,
MAGNiTT report in collaboration with the ADGM



4. REGULATORY SANDBOXES

Regulatory sandboxes: 9 regulatory sandboxes and RegLabs launched for the development and adoption of FinTech

Licensing initiatives: Several governments have launched licenses for startups



5. FINTECH FUNDS & ACCELERATORS

Government FinTech Funds: 5 regional investment funds open to FinTech startups, amounting to \$1.4B in cumulative capital

FinTech focused accelerators: 4 government FinTech accelerators and incubators have been set up as well

Onshore Regulatory Aspects

- No regulations on cryptoassets or ICOs; however no clear set of guidelines prohibiting
- UAE Federal Law (10) of 1980
 - Financial and monetary intermediaries may be subject to licensing requirements issued by the UAE Central Bank; potentially to develop so as to apply to cryptocurrency exchanges
- UAE Central Bank's Regulatory Framework for Stored Values and Electronic Payment Systems
 - Digital Money: monetary value represented by a claim on its issuers, against AED, stored on e-channels
- SCA issued draft regulations in 2019, inviting feedback from market players on:
 - Token issuance requirements
 - Trading and safekeeping practices (emphasis on investor protection)
 - Financial crime prevention
 - Information security controls
 - Cryptoassets issued by government or state-owned entities exempt

ADGM Regulatory Aspects

- **Relevant laws and guidance notes:**
 - Financial Services and Markets Regulations 2015 (“FSMR”)
 - Rulebooks of the FSRA
 - FSRA’s Guidance & Policies Manual
 - Guidance – Regulation of Digital Security Offerings and Virtual Assets under the Financial Services and Markets Regulations
 - Guidance – Regulation of Digital Securities Activity in ADGM
 - Guidance – Regulation of Virtual Asset Activities in ADGM
 - Guidance – Regulatory Framework for Private Financing Platforms
 - Supplementary Guidance

ADGM Regulatory Aspects (cont'd)

- Thoughtful regulatory interaction of digital asset activities on:
 - Market abuse/consumer protection – appropriate disclosures, monitoring and updating
 - Technology governance – systems and controls of e-wallets, private keys, risk management and system recovery
 - AML/CFT/Tax – reporting obligations under FACTA and Common Reporting Standards
 - Custody – frequent reconciliations and reporting, appropriate controls to safeguard
 - Exchange-type activities – market surveillance, fair and orderly trading, settlement processes, transaction recording, rulebooks, transparency and disclosure mechanisms

ADGM Regulatory Aspects (cont'd)

“Virtual Assets”

- Non-fiat virtual currencies (e.g., Bitcoin)
- representation of value that can be digitally traded; distinguished from fiat currency or e-money
- Treated as commodities
- Only activities in Accepted Virtual Assets will be permitted in the ADGM
- Capital formation activities are not envisaged under ADGM rules
- MTFs, custodians and market intermediaries conducting Virtual Asset businesses in the ADGM are required to apply and hold the relevant licenses under the FSMR

Applicants seeking FSRA licenses in relation to Virtual Assets must be prepared to “engage heavily” with the FSRA. The Application process is broadly broken down into five stages, as follows:

- 1) Due Diligence & Discussions with FSRA team(s);
- 2) Submission of Formal Application;
- 3) Granting of In Principle Approval;
- 4) Granting of Final Approval; and
- 5) ‘Operational Launch’ Testing

ADGM Regulatory Aspects (cont'd)

“Digital Securities”

- Digital assets with security characteristics (including tokenized offerings of securities)
- Key question is whether asset would be deemed a Security under the FSMR
- All financial services activities in relation to Digital Securities, including operations in primary/secondary markets, dealing, trading and managing investments in or advising on Digital Securities are subject to relevant regulatory requirements applicable to such activities in Securities under the FSMR.
- Consistent treatment under the ADGM regulatory framework regardless whether operations in Securities are conducted “digitally” through a DLT platform or in a “conventional” manner. For example:
 - If an ICO is deemed to be an offer of “Securities” under the FSMR, it will be subject to the requirement to publish a Prospectus under the FSMR (unless the offer is an Exempt Offer); and
 - Market intermediaries and market operators dealing in Digital Securities need to be licensed by the FSRA as Financial Services Permission (“FSP”) holders.

Similar application process as for Virtual Assets for approval from FSRA to operate a Recognised Investment Exchange, Multilateral Trading Facility, Digital Settlement Facility or Recognised Clearing House.

ADGM Regulatory Aspects (cont'd)

“Derivatives and Collective Investment Funds of Virtual Assets, Digital Securities and Utility Tokens”

- Regulated as Specified Investments under FSMR
- Market intermediaries and market operators dealing in such Derivatives and Collective Investment Funds will need to be licensed as FSP holders

“Utility Tokens”

- Tokens which can be redeemed for access to a specific product or service; no features of a regulated investment/instrument
- Treated as commodities
- Unless caught as Accepted Virtual Assets, spot trading and transactions in utility tokens are not envisaged under the ADGM regulatory framework

“Fiat Tokens”

- Stablecoins backed by underlying fiat currencies
- Digital representation of a fiat currency
- Framework only permits stablecoins fully backed 1:1 by fiat currency
- Activities could require license to provide money services under the FSMR

ADGM Regulatory Aspects (cont'd)

- Framework on Digital Investment Management (robo-advisers)
 - Investment management services using algorithms-based tools or other tech that require limited/optional human interaction
 - FSRA issues regulatory permissions required for robo-advisers in or from ADGM that may be fully digital or hybrid and provide advice, investment management, arrange deals in investments
 - Firms that operate solely as tech providers are not considered robo-advisers (therefore eligible for the ADGM Tech Start-up License)

- **What?**
 - A controlled environment for fintech participants to develop and test innovative fintech solutions
- **Who?**
 - Participants must demonstrate innovative tech solutions at the development stage for testing
 - The solutions should promote growth, efficiency or competition, risk management and better regulatory outcomes, and improve consumer choices
- **How?**
 - Participants must be authorized by the FSRA, which reviews business model and provides tailored regulatory controls
 - Once authorized and admitted, participants are eligible to operate for a period of up to two years
 - Once the innovation is ready to be commercially launched, the participant is migrated to full financial services authorized status within the ADGM
- **Cost?**
 - US\$1,700 for the first year and US\$700 for the second year, capped at US\$2,400 for two years

ADGM Tech Start-up License

- **Tech Start-up License**

- A new ADGM initiative, solely dedicated to technology-focused local and international start-ups
- A fully operational commercial license at minimal costs
- Available to any technology-focused entrepreneur, and any start-up with the potential to scale, is in the prototype stages or has a solid business model, with the view to contributing to the UAE's ever-growing economy
- Benefits:
 - Cost effective, with an **annual license fee of \$700**
 - 3-year visas, with option of up to 4 employee visas
 - Only one authorized signatory needs to be a UAE resident or an individual who has visited the UAE in the last 6 months
 - No physical office required
 - Access to the ADGM Entrepreneurship Support Programme to help develop the business model
 - Able to open and operate bank accounts and invoice clients as soon as the license has been issued

DIFC Regulatory Aspects

- The DFSA is the DIFC's independent regulator, overseeing the issuance of licenses and regulates the financial and banking activities in the DIFC.
- There are a number of ways in which a FinTech startup can establish its presence in the DIFC:
 - Innovation Testing License
 - FinTech Hive
 - Startupbootcamp
 - Commercial license
 - DIFC FinTech Fund

DIFC Regulatory Aspects (cont'd)

- DFSA prohibits financial services, including securities and derivatives, unless otherwise authorized (DIFC Law No. 1 of 2004 (Regulatory Law))
- Financial services include: accepting deposits, providing credit, money services, managing assets, advising on financial products, managing collective investment funds, operating an exchange, insurance, trust services, fund administration, etc.
- Prohibits also financial promotion "*which invites or induces a Person to (a) enter into, or offer to enter into, an agreement in relation to the provision of a financial service; or (b) exercise any rights conferred by a financial product or acquire, dispose of, underwrite or convert a financial product*"
- No regulation of dealing in digital tokens – room for these to fall within the financial services or promotions in the future
- The DFSA regulatory sandbox reportedly issued license to TokenMarket Capital Limited – adviser for issuers of or investors in security token offers – indicating future developments

DIFC Innovation Testing License

- **What?**

- A limited financial services license for nascent FinTech firms in a controlled environment to develop and test innovative solutions. Given the limits on activities permitted during testing, fintech firms will not have to comply with DFSA Rules where they are inappropriate at a testing stage.

- **How?**

- To access this environment, the participant must show: the tech innovation is in finance and for the benefit of consumers and the industry, and ready for live testing, with the intention to launch business on a broader scale in or from the DIFC once authorized
- In addition, the DFSA will need to approve the participant and therefore assess from a regulatory perspective
- Once approved to access the environment, the participant has 12 months for testing and development, and if it meets all DFSA regulatory requirements, the participant can migrate to an licensed authorized participant

- **Cost?**

- \$US5,000 for the license per year

PART 3 – OVERVIEW OF UAE INCUBATORS

- **DIFC's FinTech Hive**

- Established in partnership with Accenture, which has built and run FinTech Innovation Labs in London, New York and Hong Kong
- A platform that drives innovation and showcases success by identifying leading technology entrepreneurs and companies through a competitive process and then offering them the opportunity to develop, test and modify their innovations in collaboration with top executives from DIFC and regional financial institutions such as Emirates NBD, VISA and HSBC

- **Startupbootcamp FinTech Dubai Accelerator**

- A partnership with Visa, Mashreq Bank and HSBC, the DIFC incubator supports early stage tech firms for the scaling of their business
- The incubator offers programs, each tailored for a particular industry, including cyber security, AML/KYC and fraud prevention, payments

- **Hub71**

- In partnership with Microsoft, Mubadala, Abu Dhabi Investment Office, ADGM and SoftBank
- A flagship initiative of the AED 50 billion economic accelerator program, Ghadan 21, which means "tomorrow" in Arabic
- Incentive Program: 100% subsidized for seed stage startups (2 – 5 people; \$100k - \$ 500k of capital raised; for 2 years) and 50% subsidized for emergent state startups (up to 25 people; \$500k or more capital raised; for 3 years)

UAE Incubators (con'td)

- **Digital Lab**

- An accelerator program initiative of Ghadan 21, tools and guidance on the standards and IT securities requirements for open APIs, cloud adoption and data protection
- Digital platform for start-ups in the ADGM RegLab

- **Krypto Labs**

- Custom incubation and acceleration programs, mentorship, seed funding (and more) in Masdar City
- 4-6-month incubation program; 3-month acceleration program
- UAE NewSpace Innovation Program in partnership with the UAE Space Agency

- **Algorythma**

- Founded in 2016 focused on developing technology initiatives and products across 6 sectors including fintech
- In partnership with various AD governmental institutions as well as the Abu Dhabi DED, 500 Startups, Saal and Krypto Labs

Beyond ADGM and DIFC

- A number of government initiatives to foster innovations in the UAE fintech sector:
 - UAE Blockchain Strategy 2021 (50% of all government transactions on the blockchain network)
 - Smart Dubai (tasked with facilitating Dubai's smart growth)
 - Dubai Future Foundation (knowledge sharing; industrial revolution; industry sectors development)
 - Ghadan 21 (Abu Dhabi's US\$ 14 billion 3-year accelerator program)
- A partnership with the DIFC Courts and Smart Dubai is set to launch a "Court of Blockchain", an initiative to explore which blockchain solutions can be used in cross-border enforcements
- Announced in January 2020, DMCC Crypto Valley, in partnership with CV VC and CV Labs, intended to be the world's largest ecosystem for cryptographic, blockchain and distributed ledger technologies
- Dubai Silicon Oasis (integrated free zone tech park) partnership with Visa to support start-ups and exchange knowledge of emerging technologies

Successful UAE FinTech startups

- Investra (investment management platform)
- Beam (e-wallet)
- Now Money (mobile banking)
- Compareit4me (comparisons for loans, insurance and bank accounts)
- Durise (equity crowdfunding)
- Finerd (wealth management (robo advisor))
- Democrance (insurance)
- BitOasis (cryptocurrency wallet)

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