

Crypto Asset Exchanges in the Middle East: Kingdom of Bahrain and the Abu Dhabi Global Market (ADGM)

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Two jurisdictions in the Middle East have sought to codify regulation of crypto assets, crypto exchanges, crypto custodians and related business: the Abu Dhabi Global Market (ADGM), a free zone in the Emirate of Abu Dhabi in the United Arab Emirates, and the Kingdom of Bahrain.

Crypto Assets Exchanges in ADGM

Investors, traders and issuers of cryptocurrencies face an ambiguous regulatory climate in the UAE. On the one hand, the it is government policy to be at the forefront of new industries and innovation and promoting distributed ledger technology (including its subset blockchain) is a government priority. On the other hand, the UAE is a jurisdictional patchwork of seven Emirates and approximately fifty free zones, of which two are financial free zones that are carved out from the UAE civil and commercial legal structure. Different government entities in different UAE jurisdictions have issued guidance notes, white papers, circulars and announcements regarding cryptocurrencies that do not reflect a consistent approach.

Of these UAE jurisdictions, ADGM has sought to be the first regulator in the region to address this emerging area of fintech and has issued Guidance on Regulation of Initial Coin/Token Offerings and Virtual Currencies on 9 October 2017 and Guidance on Regulation of Crypto Asset Activities in ADGM on 25 June 2018. The ADGM now licenses crypto asset exchanged and is the first jurisdiction in the UAE to expressly allow for such license.

The process for opening a crypto asset exchange in the ADGM is time-consuming, costly and complex. This is because the ADGM seeks to set the highest standard for crypto asset regulation in the Middle East.

Adding any level of complexity to the crypto asset exchange application, such as by incorporating fiat currency, deposits or derivatives, further complicates an application.

A crypto asset exchange authorisation fee is \$125,000. In addition, license holders are to pay \$60,000 annually as a supervision fee and exchanges must pay a trading levy.

Crypto Assets Exchanges in the Kingdom of Bahrain

Bahrain has a regulatory framework for cryptocurrency that is relatively expedited when compared to the ADGM. In an effort to position itself as the fintech hub of the Middle East Bahrain has launched a variety of initiatives that include the Central Bank of Bahrain Regulatory Sandbox, introduced in May 2017, and Bahrain FinTech Bay, a fintech ecosystem formed through a collaboration between the Bahrain Economic Development Board and Singapore's FinTech Consortium established in 30 August 2018.

In February 2019, Bahrain became the first Middle Eastern country to publish regulations on crypto assets in the form of the crypto asset Module of the Central Bank of Bahrain Rulebook (Directive). The Directive governs matters including licensing, compliance, governance, capital, security and risk mitigation and issues licenses for “regulated crypto asset services.”

Applicants for a regulated crypto asset service license from the CBB must pay a non-refundable application fee of one hundred Bahraini Dinars (BHD100) when applying. Licensees must pay an annual license fee that is calculated at 0.25% of the licensee’s operating expenses.

Current State of Play

ADGM is seen as being the first global standard regulatory system in the Middle East. Accordingly, several crypto asset exchanges that purport to be in the Middle East from an operational or marketing standpoint have moved, but which in fact are registered in a different jurisdiction, are believed to be in the process of moving licenses into the ADGM framework. The crypto asset exchanges in the process of doing so include Gemini, Binance, Haven, BitOasis (the largest cryptocurrency exchange in the Middle East), Securrency, MidChains and Bithumb.

Around thirty blockchain companies are currently incubated and are testing their product in the Bahrain Regulatory Sandbox including Palmex, BitOasis, Hawala, BitArabia Digital Assets Exchange, Belfrics Global, NOW Money, SprinkleXchange and Tramonex.

If you would like more information about this topic, please contact us.

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