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Key Takeaways from the CBUAE Payment Token Services Regulation

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The CBUAE has issued the Payment Token Services Regulation under Circular 2/2024 (**Regulation**), outlining the rules and conditions for licensing and registering Payment Token service providers in the UAE.

The following are the key takeaways from the Regulation:

1. **Payment Token:** Defined as a Virtual Asset (**VA**) that aims to maintain a stable value referencing the same fiat currency it is denominated in or another Payment Token denominated in the same fiat currency. The scope of the Regulation includes both Dirham Payment Tokens and Foreign Payment Tokens. The latter has been defined as Payment Tokens denominated in fiat currencies other than UAE Dirham.
2. **Payment Token Services:** The Regulation defines Payment Token services as the following-
 - i. **Payment Token Issuing (Issuing):** Enables the first sale or transfer of a Payment Token. It is pertinent to note that Issuing Dirham Payment Tokens requires a license from the CBUAE.
 - ii. **Payment Token Conversion (Conversion):** Enables the selling or buying of payment tokens in return for any form of remuneration.
 - iii. **Payment Token Custody and Transfer (Custody and Transfer):** To safeguard, or to safeguard and administer, receive, hold and transfer Payment Tokens on behalf of clients similar to traditional VA custodians.

3. **Licensing:** Entities incorporated in the UAE, including free zones, may apply to the CBUAE for licenses for these services. This is suitable for entities not licensed by Dubai Virtual Assets Regulatory Authority (**VARA**), that seek to offer services in relation to Payment Tokens. Licenses require initial capital:
 - i. **Issuing:** AED 15 million.
 - ii. **Conversion, Custody and Transfer:** AED 3 million if the monthly average value of Payment Token transfers is AED 10 million or more, and AED 1.5 million if below AED 10 million.
4. **NOR for VASPs licensed by VARA:** Virtual Asset Service Providers (**VASPs**) (licensed by VARA) can apply for a Non-Objection Registration (**NOR**) for the below mentioned services. According to the Regulation: (i) VARA licensed VA exchange platform operator may apply to perform Conversion, and (ii) VARA licensed VA custody service providers may apply to perform Custody and Transfer. It is pertinent to note however, that VASPs seeking to offer Custody and Transfer will only be able to do so with respect to Foreign Payment Tokens. Therefore, providing Custody and Transfer for Dirham Payment Tokens will require a license from the CBUAE.
5. **Registration of Foreign Payment Token Issuers:** An issuer of Foreign Payment Tokens, incorporated outside UAE, may apply to the CBUAE for obtaining a Foreign Payment Token Issuer Registration. This registration is crucial for issuers whose Foreign Payment Tokens are used as a means of payment in the UAE, as there are restrictions on VASPs and licensees regarding the transfer and promotion of Foreign Payment Tokens not issued by registered issuers.

6. **Merchant Payments:** The issuance of the Regulation has now provided regulatory clarity to VA payments. The Regulation stipulates that merchants can accept Dirham Payment Tokens. While merchants cannot receive other VAs directly, partnerships with entities licensed or registered to conduct Conversion along with VA trading services can convert VAs to Dirham Payment Tokens and deposit the same to the payor's VA wallet. These tokens can then be used to directly pay merchants for goods and services. Foreign Payment Tokens can be accepted to purchase other VAs and VA derivatives.
7. **Amendment to RPSCS and SVF regulations:** The RPSCS and SVF regulations have been amended by the Regulation and shall cease to apply to crypto/virtual asset-related activities and services, with licenses issued thereunder in this respect ceasing to exist one (1) year (or as amended by the CBUAE) after the commencement of the Regulation.
8. **Exempted Categories:** Certain Payment Token services can be exempted from the licensing requirement under the Regulation. These include Payment Tokens for reward or bonus points schemes, where the Payment Token is used as a means of payment for non-financial goods or services provided by the Payment Token issuer, or de-minimis Payment Tokens which have no more than 100 token holders or the required reserve assets of the Payment Token issuer does not exceed AED 500,000.

9. **Reserve of Assets:** Dirham Payment Token issuers are required to maintain its reserve of assets in the form of cash in an escrow account with a bank (not in the issuer's group) licensed by the CBUAE. The issuer must hold 100% of the reserve of assets for the Dirham Payment Tokens it has issued in cash. For example: If issuer ABC issues AED 1 million worth of Dirham Payment Tokens, it must hold AED 1 million in cash in an escrow account. For wholly owned subsidiaries of banks licensed by the CBUAE, 50% of the reserves can be invested in UAE government bonds and CBUAE Monetary Bills (M-bills) that have an average duration of 6 months or less. If an issuer issues more than one Dirham Payment Token, then the reserve of assets for each token must be held in separate escrow accounts.
10. **Prohibited Tokens:** Issuance and promotion of algorithmic stablecoins and privacy tokens is prohibited under the Regulation.

Conclusion:

The issuance of the Regulation marks a major step forward in regulating Payment Tokens, also known as Fiat-Referenced Virtual Assets (FRVA) and colloquially referred to as 'stablecoins'. This move is in line with other local and global regulatory efforts to regulate FRVAs.



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