READOUT

GBBC Digital Finance VARA Closed Door Industry Roundtable

1. Product and Technology agnostic regulations - Keeping pace with innovation

- What are the key principles / areas that deserve the most attention to ensuring product and technology agnostic regulation are keeping pace with innovation?

- How important are "on-market" digital sandboxes and "safe harbour" environments to the scaling and cross-border effectiveness of blockchain, DLT, and virtual asset technologies and solutions?

Delegate Input

- The crypto industry is lobbying for more (not less) regulations, contrary to popular belief, and is seeking greater clarity through proportional regulations

- Sandboxes, and a risk-based approach to firms in the sandbox that reflect their stage of growth and size needs to be considered in order not to stifle early stage innovators and put high barriers to entry in place

- VARA had delivered the only comprehensive framework for Virtual Assets, next to MiCA, where others are very "bottom up" and can be idiosyncratic in the requirements of VASPs

- Regulators should take a risk-based approach to evaluating firms for the requirement for a Compliance Officer. Many smaller firms in the earlier stage of growth may not be able to "afford" this role (high demand, and limited supply of specialists in VA) – sandboxing may offer an opportunity to approach this issue

- There is a need for greater education and "capacity building" for policy makers and regulators around the capability of the technology, and in particular the implications for new regulations, as related to regulations for traditional financial services/broader economy (eg. Tech, Data, IP rights etc.)

- Technology can solve some of the existing problems in TradFi that may mean some restrictions could be removed

- VARA must be commended for it model to industry engagement and dialogue

- Technology is so fast-paced that the sandbox approach is the approach that should be pursued

- Consider a process for evaluating where existing regulation may fit rather than inventing new (e.g. crowd funding)

- Dubai is the place where there is the best and most open conversation with the regulators

- Regulation needs to cover profitability/business sustainability - too stringent/conservative a regulatory framework, or one that is inordinately prolonged in procedures can prevent businesses from being able to operate and sustain themselves, or force businesses offshore to survive

- Virtual assets on the blockchain are different from traditional assets in that they can be borderless and be traded anywhere (outside of a jurisdiction). If an investor finds offshore jurisdictions cheaper or easier to access then local, local businesses can suffer. Consideration needs to be given to how to effectively align between peer authorities to regulate a “global” virtual asset that can be bought or sold cross border with minimum friction, where risks are likely to be globally transferred without each country being able to fully supervise/control the exposure to its people

- Most firms seek to hedge their regulatory risk - get more licenses than are required in different jurisdictions due to the changes in regulation, and this adds to cost. Certainty in regulation helps firms to commit to a jurisdiction

- Some jurisdictions require that staff and technology be based in that jurisdiction which can stifle global scaling / business models – and defies the principles of a borderless economic model. Authorities must consider more practical methods for establishing ‘economic substance’

- Digital business grows around blockchain protocols (e.g. to enable DeFi applications) and funding comes from issuance. A leading jurisdiction must be able to attract innovators like blockchain protocols and application/software tech developers on the protocols

- While much blockchain technology is maturing (over 10 years old), new products and services continue to be developed and innovate. Jurisdictional sandboxes that are interoperable with each other, across borders, will help to drive the development of global products and services (and regulations)

- Technology is meant to drive innovation, and the products are likely to rapidly evolve to meet market needs, it is hence the services offered that should be closely monitored to ensure effective market protection

- There is discomfort in many firms with the Managing Director / Chief Executive Officer also being the Compliance Officer. Compliance should be independent for effective governance, and at the centre of all regulated entities. It must be a pre-requisite consideration for market-entry (less capital requirements), and not be considered as a cost but rather as security and assurance

- Regulators need to better communicate with each other and harmonized global regulations for VASPs. The IOSCO Crypto Digital Assets (CDA) consultation just released may be a good opportunity to address cross-border regulatory collaboration

- Privacy and security are paramount issues for regulations

- Institutions contemplating on-chain assets are not holding back due to custody, but often due to the network token

- Collaborative economy between small and large VASPs, and regulators to be able to cross-train/ upscale / upskill the whole environment

- There are an estimated 1000 legacy firms (VASPs) in just the Dubai ecosystem now, and global crypto events since mid-2022 have severely constrained growth for many.. Mandating them to have two people on the ground will add a further financial burden

- Cross border asset protection, data protection, and the segregation of funds are critical to risk management

- Tax regimes / tax liabilities are important to prevent jurisdictional arbitrage

- There needs to be a much stronger KYC regime for tracking IP addresses and real ownership of wallets

- There needs to be a greater consideration of the handling of complex products, and high value, high risk, cross border payments from sensitive regimes and economies

- Consider an “Authorised Representative” scheme (similar to FCA) to allow smaller firms to access the market in a regulated way

2. Tokenisation of the Real Economy - Real World Assets [RWA]s

- Leading financial institutions are signalling the tokenization of the real economy, with real world assets and smart contracts. Which real world asset classes / markets will see tokenization early in this next phase of innovation?

- What are the major opportunities and barriers of tokenizing real world assets from the perspective of regulated financial institutions, and the ecosystem of network participants?

Delegate Input

- Real world asset (RWA) tokenisation is easier than other areas of crypto to regulate

- There is an assumption that TradFi institutions will lead the way in RWA tokenisation - that is being challenged as (i) TradFi doesn't typically support financial inclusion; and (ii) Tthere are different stages of life of a token in this context that should be accounted for (must not rush to box the tokens into tradfi categories of security or commodity)

- Do we really need expensive market making liquidity venues to create liquidity if technology can replace it?

- The BIG question is which assets will be tokenised? Where is the most noise, where is the most action? Most noise is real estate and private market assets. Action is public funds

- Regulators must consider the requirement for feeder funds which should not be required with the tokenisation of funds

- Careful consideration of what RWAs are tokenised to ensure liquidity in order to prevent people being trapped in assets

- Web 3 is really about a distributed economy and should help with the tokenisation of RWAs

- In Dubai, real estate, energy, commodities are potentially prominent areas and a clear framework for the tokenisation of the RWAs is important

- The tokenisation of debt use cases are emerging, digitalising a traditional asset, and markets seem receptive - this may lead to more investors and greater liquidity

- Investor suitability is particularly important in selecting complex products

- Opportunities for stablecoin-based tokenisation of products, for example interest rate products, etc. need to be considered

3. The Dubai Ecosystem - and Global Interoperability

- What are additional and or new regulatory or government programmes that Dubai should be considering for the future of the financial services sector as they relate to blockchain / DLT, and virtual assets?

- How might the Dubai ecosystem attract even greater global market participation in both regulated and un-regulated financial markets for the next generation of global growth?

Delegate Input

- VARA's licensing regime requires that for cross-border activities, the firm should ensure that the local regulators in other jurisdictions are comfortable with the firm offering such activities

- The speed of development and execution in Dubai should be celebrated. A VARA mindset in other government agencies would help (e.g. Talent Visas, Company registration and setup, etc.)

- Industry needs to lead and be seen to lead with good compliance, responsibility, transparency and maturity

- Perception of the UAE; some firms won't do business with the UAE due to incorrect perceptions; the communications and messaging to address this needs to be targeted and global

- Banking experience in UAE opening accounts is remarkable in terms of openness to dialogue even as there is a willingness to support the sector, but VASPs must consider hedging their banking relationships.

- Moving away from USD settlements will help more cross-border trade

- Travel Rule - regulators must be able to break it down to an operational level

- Regulators should facilitate more sandboxes to invite a diversity of players from the ecosystem, e.g. banks and the central bank

- Create the environment where there is an opportunity to learn from mistakes and move on (feeling safe) and not feel threatened

- Deliver a community fraud / scam database to share knowledge and reduce exposure

- The FATF grey list perception is preventing some firms doing business here, or with entities here, this needs to be addressed – particularly with banking in some specific global markets now becoming closed to the industry further exacerbating the risk of damaging interbank relations

- Cost of talent and doing business in Dubai has become very high, discouraging firms other than the biggest to move here, this needs to be addressed

- Opportunity for Dubai to create a digital ID token than creates a standard AML/KYC and a high watermark

The GDF Industry / Regulator and Agency Roundtable Format

- A closed loop event with industry delegates chaired by GDF who will produce a summary statement of key messages which will be made available
- Topics / questions / areas have been circulated ahead of the roundtable to allow participants to prepare statements and input, please come PREPARED
- Delegates are asked: to leave their cameras on during the roundtable; to leave their microphones on mute unless they are speaking
- Be prepared, the Chair may, unprompted, call on you to speak. Please decline if you have nothing to say
- Each roundtable delegate has the floor for optimally 2-3 and no more than 5 mins to share their insights – the chair will cut-off any breach of time violation
- The roundtable will be subject to **Chatham House Rules**: participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed
- Please DO NOT record the event
- Please DO NOT use social media in any way related to the event

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