

*MEDIA RELEASE:*

## **DUBAI FINANCIAL SERVICES AUTHORITY CONSULTS ON REGULATION OF SECURITY TOKENS**

**Dubai, UAE, 29 March 2021:** The Dubai Financial Services Authority (DFSA) today published its “Framework for Regulating Security Tokens” for public consultation for a period of 30 days.

The DFSA is proposing a comprehensive and innovative regulatory framework for regulating Security Tokens, a new and growing area of interest for many industry participants. We are actively engaged with key stakeholders in Dubai and around the world on the future of finance and the rapidly growing area of financial technology, including various Distributed Ledger Technology (DLT) applications.

Security Tokens create rights and obligations that are the same as, or are substantially similar to conventional investment instruments. We use the term Security Tokens as this is a commonly used term in the industry, but the framework goes beyond typical securities to cover derivatives as well. This enables the use of DLT and similar technologies across the full spectrum of investments in a consistent manner.

We propose updating our regulatory regime to facilitate DLT-based activities of:

- the offer of Security Tokens to the public, and the admission to trading of Security Tokens on trading facilities;
- the trading of Security Tokens; and
- the provision of other financial services relating to Security Tokens, such as providing custody relating to Digital Wallets holding Security Tokens, and advising and arranging.

Some of the key changes proposed are:

- allowing facilities that trade Security Tokens to have direct access members, including retail clients;
- enhanced systems and controls requirements to address risks associated with the use of DLT or similar technology;
- enhanced disclosure in prospectuses; and
- enhanced requirements for those providing custody of Digital Wallets.

Allowing direct access is a significant shift from the current intermediated model of trading in markets. Our proposals include appropriate safeguards to tackle investor protection needs and misconduct risks, whilst also addressing market integrity, financial stability and, crucially, money laundering and terrorism financing threats in the direct access environment.

We will soon issue proposals for other types of tokens that are not Security Tokens, such as exchange tokens and utility tokens, later in 2021.

Bryan Stirewalt, the Chief Executive of the DFSA, said: *“The proposal for regulation of Security Tokens is a key milestone in paving a clear and certain path for those issuers who wish to raise capital in or from the DIFC using DLT and similar technology, and for those firms who intend to be involved in this market, by conducting or providing financial services.”*

*Our proposals promote and facilitate innovation, while also protecting consumers, addressing market integrity and mitigating ML/FT and other risks. We have drawn on the experience of other regulators who have taken cautious steps in this rapidly developing area, while addressing DIFC specific needs. We look forward to receiving public comments on these proposals.”*

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**Editor’s notes:**

**The Dubai Financial Services Authority (DFSA)** is the independent regulator of financial services conducted in and from the Dubai International Financial Centre (DIFC), a purpose built financial free zone in Dubai. The DFSA’s regulatory mandate covers asset management, banking and credit services, securities, collective investment funds, custody and trust services, commodities futures trading, Islamic finance, insurance, crowdfunding platforms, money services, an international equities exchange and an international commodities derivatives exchange. In addition to regulating financial and ancillary services,



the DFSA is responsible for administering Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) legislation that applies to regulated firms and Designated Non-Financial Businesses and Professions in the DIFC. Please refer to the DFSA's website for more information.

**Bryan Stirewalt** was appointed Chief Executive of the DFSA on 1 October 2018, after nearly eight years as the DFSA's Managing Director of Supervision. In his role as Chief Executive, Bryan steers the work of the DFSA, further developing its capability as a robust regulator delivering world-class financial services regulation in the DIFC. Bryan plays a vital part in executing the DFSA's regulatory mandate and developing its risk-based supervision framework. Bryan also plays an active role in supporting the work of international standard-setting bodies. He serves as the Co-Chair of the Basel Consultative Group (BCG), which provides a forum for deepening the Basel Committee on Banking Supervision's engagement with non-member, global supervisors on banking supervisory issues. Through this role, Bryan also serves as an Observer at the Basel Committee on Banking Supervision.