HOW THE UAE AND UK ARE STEPPING UP AS FINTECH AND BLOCKCHAIN HUBS

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It's been quite a year in crypto so far - we've seen the regulatory framework in many countries develop and the focus shift sharply more favourable regions, being those that have introduced clarity and detail for organisations to be able to operate with some level of regulatory conference.

Business has been on the move and have been for some time. The likes of OKX, Bybit and Binance have left Canada behind, while Gemini has shifted operations to Singapore. Among the emerging favourable environments for the operation of blockchain business, the UAE and the UK are standing out, with even certain EU jurisdictions such as Luxembourg, France and Germany hold some attraction since the Markets in Crypto-Assets Regulation (MiCA).

Turmoil and arrests in the crypto space

The Binance deal with US authorities and high profile collapses and asset seizure such as FTX and Three Arrows have changed the conversation around crypto. Now that co-founder Sam Bankman-Fried has been **convicted for money laundering and fraud** in New York, there's no doubt that crypto companies have more to prove to all kinds of stakeholders.

Ever since 2009, when the emergence of Bitcoin changed everything, there have been various failures among the success stories. Take the collapse of Mt Gox in 2014, for example. At its high point, the company handled 75% of all BTC in circulation. Creditors are soon to see recoveries of at least 20 cents on the dollar.

There's no doubt that FTX has damaged crypto in the eyes of many. Once apparently a proponent of taking crypto fully mainstream, Bankman-Fried was ironically seen as (too) close to regulators, particularly in the US, and managed to secure backing (and trust) from the likes of Temasek (owned by Singapore's government) and Tiger Global. As with other more established sectors, how effectively these failures are addressed by insolvency practitioners, regulators and law enforcement is key to moving forward with better practices and greater investor confidence.

Asset recovery professionals draw obvious parallels to the wider asset management and financial services failures such as Madoff, Wirecard, the systemic factors leading to the 2008 Global Financial Crisis and other crises before. Many of the largest frauds and business failures follow familiar patterns with only the asset class changing.

The impact of the FTX fraud was substantial. Billions of dollars worth of assets had been misappropriated and there is an ongoing global asset recovery project across multiple jurisdictions and sets of proceedings. The systemic impact was also felt in other cryptocurrencies, causing their values to fall. In response, regulators across a number of jurisdictions have stepped up their activity in the sector this year, including producing new regulations, oversight and enforcement proceedings. The SEC in the USA has drawn particular attention with a range of law suits against many of the largest industry participants. Binance has reached a settlement with regard various AML and securities law violations, with surprisingly little turbulence in cryptocurrency market volatility, yet the outcomes of further suits against industry participants will be varied and illuminating.

New projects struggled to attract investment in what has been called the Crypto Winter, although this shows signs of improvement more recently. There is increased discussion around Bitcoin ETFs, the outcome of the Ripple case and interesting projects with a range of industry applications.

Crypto and digital assets still have a strong future

While some commentators insist that "crypto" is on its last legs and has no meaningful future outside of speculators and libertarian wish fulfilment fantasies, in reality, many of the biggest businesses across a range of industries, not just financial services, have already invested heavily in the technology. Government have also invested in creating and adapting an apposite regulatory framework, is well as looking at how they might use the technology to improve efficiency and transparency of operations. The possibilities for Central Bank Digital Currencies and serious risks to human rights are worthy of lengthy discussion in their own right.

The settlement in the US of many of Binance's legacy issues was notable. Given the relative dominance of Binance in the industry, any serious damage to that business would have large ramifications, yet the markets seemed surprisingly upbeat that CZ had stepped away from being CEO and that the incumbent board was able to successfully negotiate the settlement.

Turning from North America to emerging crypto hubs

While the US and Canada are generally considered relatively uncertain or even hostile environments in which to operate, experts are turning their sights to Dubai, Abu Dhabi and the UK.
Over the past year, the UAE and the UK have both overhauled their approach to crypto regulations, with the aim of opening up to global companies.

The global nuances between regulatory frameworks mean that it's necessary for new and existing projects to shop around. Finding the friendliest regulatory jurisdiction makes sense for any business yet given the breadth of blockchain projects, the friendliest jurisdictions is not the same as the most permissive. Confidence and certainty are key as well as having a regulator and legal systems that have the right resources and expertise. Many projects have every intention of being retail-facing, knowing that in order to scale, they will have to interface with multiple sets of regulations which means significant investment in the right compliance and Know Your Customer (KYC) infrastructure. There is some advantage to building these systems anew from the very beginning.

Given the global increase in flexible and remote working, there is very little reason for crypto-related professionals not to relocate to a more conducive environment. There is strong competition for global talent with many organisations shifting operations lock, stock and barrel. The infrastructure and business environment in places like the UAE or UK are proving compelling.

How the UAE is moving to a leadership position

Regions that already have regulations in place are naturally courting companies that find operations too unpredictable in the US or Canada. Even the biggest companies are considering moves to more favourable regions.
For example, following the SEC suing Coinbase (the biggest crypto exchange in the US) as mentioned earlier, it shouldn't be a surprise that Hong Kong quickly offered the company a licensing opportunity.

Coinbase was also quick to publicise its meetings with UAE authorities to discuss the possibility of expansion there. Of course, it's not just about regulation – start-up business owners and big companies alike are attracted by a generally favourable investment environment and being among a cadre of experts, being in a jurisdiction with the freedom and amenities to attract global talent, attractive tax regimes and the ease with which they can do business.

Developments across the UAE

Since March 2022, interest in Dubai has grown considerably thanks to the UAE's announcement of VARA. The UAE has stated its intention to provide legal and regulatory clarity for blockchain organisations and is attracting all kinds of interest from around the world. The UAE has been proactively and progressively aiming towards being a global hub for innovative technology business. Already host to various crypto exchanges and trading platforms, VARA pushed its strategy even further forward.

Recently, the UAE has announced the launch of the Ras Al Khaimah (RAK) Digital Assets Oasis. While Cayman and BVI were among the first to provide regulatory sandboxes, this is being marketed as the World's first (and so far, only) free zone specifically designed to attract digital start-ups that are truly innovative and forward-looking. Singapore has also seen efforts in this area.

A report from the Dubai Chamber of Digital Economy in Q1 2023 said that the RAK Digital Assets Oasis should help the country's digital economy increase to more than USD140bn by 2031. Currently, it's worth around USD38 billion but this is a statement of intent that the UAE is here for crypto for the long haul.

A closer look at VARA and UAE crypto regulatory initiatives

Also in Q1 2023, VARA launched its FMP Regulations (Full Market Product) for the first time. This brings a tailor made virtual asset regulatory framework laying out rules for every digital asset provider in the UAE. Everything from licensing, operations and cybersecurity is incorporated in the regulations.

This year, the federal securities regulator in the UAE (the SCA) took on the role of regulator in this space.

Further regulations issued in 2023 include anti-money laundering and counter-terrorism guidance for institutions and some of the Emirates have gone on to establish local regulations and guidelines. This is an important development for how the UAE is perceived and interacts with the global financial system.

The UK's renewed commitment in the UK, the **Law Commission of England and Wales** released recommendations to reform the digital assets regulatory and legal landscape. These recommendations were released in June 2023, with the stated aim of advancing the UK's position as a global blockchain and future of finance hub.

The UK has stated that it is clear that blockchain technology has enormous potential to transform the financial inclusion and business landscape. Furthermore, the country wants to put a stop to innovative ventures migrating their businesses elsewhere due to regulatory blockages or legal uncertainty.

Earlier in the year, the Bank of England and the Treasury underpinned their commitment to cryptocurrency and digital assets by putting forward a case for the development of a Central Bank Digital Currency (CBDC). Whether or how this ever materialises is yet to be seen, but the regulatory and legal framework of traditional finance in the UK could not be better set up to absorb deal with the unique challenges associated with crypto assets.

For 2024, we can expect to see more of the same in both regions, possible continued recovery in digital asset assets values and a stronger growth environment for crypto projects, albeit the global political and macro-economic environment remains turbulent.

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