

Abu Dhabi Global Market regulates the exchange of crypto currencies

During the last months several countries around the world have expressed their intentions to regulate the exchange of crypto currencies, as well as the making of Initial Currency Offers (ICO) and Abu Dhabi, through the Abu Dhabi Global Market (ADGM), an International Financial Centre (IFC) located in the capital of the United Arab Emirates that opened its doors on October 21, 2015 established by the Federal Decree of the United Arab Emirates as a broad-based financial centre, seeks to join these countries. As we know, financial technologies constitute a new business model and as such represent a risk, since they do not fit within the current regulation. Due to this, the Financial Services Regulatory Authority (FSRA), attached to the ADGM, expressed in a statement its intention to create a legal framework that regulates and supervises the activities of currency exchange houses and intermediaries. The above is very important since the risks range from the user to the economy in general. For the users we can highlight two main risks: making liquid the virtual assets and the possibility that an institution can honor the operation carried out. In the case of the most popular crypto currency, Bitcoin, which rose more than 1,000 percent last year or other less popular but with a greater increase as the NEM (New Economy Movement) that had an increase of 29,842 percent or Ardor with one of 16,809 percent and the rest of them, are not supported by any financial institution and are not accepted in many establishments. For those who have crypto coins, it may be difficult to make a profit and convert them to local currency, and it is very likely going through a speculative bubble. For the economy in general the risks are many since the effectiveness of monetary policy could be lost and there is even the possibility of a systemic effect due to a crisis in the market of financial technologies. Financial technologies are not governed by the cost of money over time or the market interest rate, and therefore their amount fluctuates in response to determinants that have no relation with the economy of a country or with the monetary policy objectives of the central banks of the world. If the market interest rate is not the reference, then the credit can expand as quickly as collective financing institutions are generated, promoting greater leverage and increasing the risk on the financial system. For the companies of financial technology there is a high risk to be outside of regulation, because of the possibility of users falling into defaults or not honoring the agreed operations. Faced with the bankruptcy of this type of institutions, a crisis may come, with a systemic effect on the financial system, to the extent that users have the possibility of arbitrating between the market of financial technologies and the traditional financial market. The FSRA indicated that it will consult and work with professionals and relevant institutions in the crypto active industry to develop a robust bill according to the risks presented by the blockchain ecosystem to regulate the financial technology sector in the country. The ADGM stated that: *"Virtual currencies, although not legal tender, are gaining interest globally as a medium of exchange for goods and services. However, there are risks and concerns. Given the anonymous and cross-border nature of virtual currency transactions, they are particularly vulnerable to the risk of money laundering and the financing of terrorism, as well as other financial crimes. The incidents of cyber attacks and cybercrimes are also on the rise."* These arguments have been used by different authorities in the world with different nuances. Although some decide to completely ban the exchange of crypto currencies and some international institutions such as the Bank for International Settlements strongly attacks the system, other countries such as Japan or South Korea have opted to accept crypto currencies in their markets under a serie of legal requirements. Abu Dhabi and the United Arab Emirates in general have been very positive in terms of the adoption of blockchain technology and the digital asset market, so more than waiting for a ban a regulation is expected to structure this system. A sign of this is that in December last year the central banks of Saudi Arabia and UAE reported that they are working on a pilot test of cross-border payments based on blockchain, recognizing its potential to economize and facilitate international financial operations. Among other benefits, the technology facilitates the real-time traceability of the goods as well as the digital verification of the data. Undoubtedly the blockchain technology aims to create a global network of exchange of digital assets safely and without intermediaries. Its characteristics are perfectly adapted to the supply chain and to the business needs of international trade, currently focused on transparency and security, automation, the ability to audit data by third parties and scalable solutions. The FSRA itself, published in

October a supplementary guide for the regulation of ICO, a document that opens the doors to new legal frameworks such as the one they now intend to discuss. This guide will remain valid as the respective regulatory document in the matter until the new regulations are drafted. The financial control agency, the FSRA, also said it would not consider digital currencies as legal tender, but would classify them as commodities, such as precious metals or fuels. Which, as mentioned previously, do not yet have official regulations. The impossibility of considering them as currencies is that there are characteristics that do not meet the criteria to be considered according to the traditional definition of money. This is due to its high volatility, since money is traditionally considered as a reserve of value (even if it is subject to periods of hyperinflation) and does not meet the definition of being a widely spread means of exchange, since you can barely buy things with them nowadays. When determining them as commodities, their value would be determined based on their supply and demand. This exchange of commodities would be carried out with prices known by all the subjects and would be set in real time (as has been done up to now), in addition to being fully regulated. The crypto currencies, despite having triggered its value during 2017, are still a risk value, as we saw with the sharp fall that bitcoin suffered in the first months of 2018 and Abu Dhabi is trying to find a balance seeking to protect its citizens of the dangers of ICO's, letting the digital currency market develop in their country; its position as a global center for business and finance undoubtedly serves as a strategic link between the growing economies mainly of the Middle East, Africa and South Asia. **What are the points on which the FSRA should pay special attention to regulation?**

- Financial integrity in terms of money laundering and financing of terrorism and the reporting of certain movements to the authorities and consequently the corresponding monitoring by the authorities.
- Protection to the main users.
- Volatility and the risks that may be involved.
- The tax aspects.
- The impact on the monetary stability of the country itself.

When considered commodities, crypto currencies are recurrently compared to gold. We have to go back a little bit in the history of the gold itself, why did we give it so much value? It is a precious stone to which we assign that value. So, crypto currencies or blockchain will not be precious technology too? Well, gold was initially used in order to be transactional, something that does not happen with bitcoin and its partners. Without counting that today's functionality of a real currency is the assignment of a value to a good, a form and means of payment, something that is still difficult to see in crypto currencies **Me Julien Dif**