

inBrief



The Era of Crypto

By Shahram Safai | March 18, 2022

The new year, 2022, will be the year in which cryptocurrencies gain more legitimacy worldwide through government regulation, oversight and further acceptance. Indeed, in December 2021, the Dubai World Trade Centre announced that it will become a crypto zone and a regulator for cryptocurrencies and other virtual assets - including digital assets, products, operators and exchanges. In September 2021, the country of El Salvador officially recognized Bitcoin as legal tender. Mexico has stated that it will have its own digital currency by 2024.

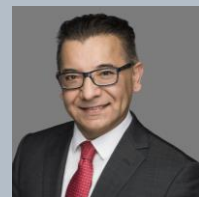
What is cryptocurrency?

Cryptocurrency is an electronic cash system, which removes the need for a centralized server (or bank) when a transaction is made. Instead of using a bank as intermediary, a transaction is communicated to and stored electronically simultaneously in multiple, geographically diverse computers (servers) at once. Such distributed, simultaneous notification and storage of such transaction on all these computers establishes that it is legitimate and prevents unauthorized changes later to such transaction. This is how blockchain technology works. A blockchain is a distributed database that is shared among the nodes of a computer network. As a database, a blockchain stores information electronically in digital format. Blockchains are best known for their crucial role in cryptocurrency systems, such as Bitcoin, for maintaining a secure and decentralized record of transactions. The innovation with a blockchain is that it guarantees the fidelity and security of a record of data and generates trust without the need for a trusted third party (i.e., a bank).

Why are cryptocurrencies popular?

One reason why crypto is so popular is because it doesn't require too much effort or the involvement of third parties - only a computer.

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Furthermore, many have predicted that cryptocurrencies will become the future primary currency in the world as they remove the need for banks from transactions and significantly reduces the cost of transactions.

Initial coin offerings

Much like in the physical world in which private companies go public by listing and selling their shares on public exchanges such as the New York Stock Exchange, cryptocurrencies have initial coin offerings. An initial coin offering is an event where a company sells a new cryptocurrency to raise money. Investors receive cryptocurrency in exchange for their financial contributions. In many ways, an initial coin offering is the cryptocurrency version of an initial public offering in the stock market. With the growth of the crypto industry, initial coin offerings have also increased in popularity.

NFTs

The new trend in the crypto industry is NFTs. A non-fungible token (NFT) is a unique and non-interchangeable unit of data stored on a blockchain (the Ethereum blockchain is one of the most popular for this purpose), a form of digital ledger. NFTs can be associated with reproducible digital files such as photos, videos, and audio. So NFTs can really be anything digital (such as drawings or music), but a lot of the current excitement is around using the tech to sell and trade digital art. This has very recently created a unique market of buyers and sellers for digital art.

Legal considerations

In the United Arab Emirates, the Securities and Commodities Authority's Decision No. 23 of 2020 concerning Crypto Assets Activities Regulation. This regulation aims at regulating the offering, issuing, listing and trading of crypto assets in the UAE and related financial activities. The Central Bank has also issued the Retail Payment Services and Card Schemes Regulation regulating payment tokens.

The two financial free zones in the UAE are also becoming more active with respect to the crypto industry. The Dubai International Financial Centre has recently released the first part of a regulatory framework for digital tokens. The Abu Dhabi Global Market issued the Financial Services and Markets Regulations 2015 which regulates virtual assets.

The Dubai Virtual Assets Regulation Law

On March 11, 2022, the Dubai government issued the Dubai Virtual Assets Regulation Law (VAR Law). His Highness Sheikh Mohammed Al Maktoum said "We have established an independent authority to oversee the development of the best business environment in the world for virtual assets in terms of regulation, licensing and governance and in line with local and global financial systems".

The VAR Law regulates virtual assets (which include Bitcoin) and virtual tokens (such as NFTs) via the Dubai Virtual Assets Regulatory Authority (VARA) at the Dubai World Trade Centre. VARA aims, among other things, to promote Dubai's position as a regional and global destination in the field of virtual assets; contribute to attracting investments and companies operating in the field of virtual assets; provide the necessary systems to protect investors and dealers in virtual assets; and set up the regulations, rules and standards necessary related to virtual assets. VARA will also organize, supervise and control the issuance and offering of virtual assets and virtual tokens (such as initial coin offerings).

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With the increased digitalization of business, the crypto industry, cryptocurrencies and other virtual assets are making their claim in the future of business. Regardless of the risks involved and the volatility, crypto is an undeniable trend which will be a challenge to the status quo. The VAR Law is the Emirate of Dubai's pronouncement of its willingness to promote and compete in this new digital economy. ■

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