

## SUPERVISORY GUIDELINES

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**Date:** [TBC]

**Version:** VER1

**Re:** Supervisory Guidelines on Assessing the Suitability of Crypto Tokens

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### Introduction

1. This document sets out guidelines to facilitate a Person's assessment of the suitability of a Crypto Token under GEN Rule 3A.2.1(2)(a). It communicates the DFSA's expectations as to how a Person will typically seek to achieve compliance with relevant requirements in the Rules.
2. Unless otherwise defined, the terms contained in these Supervisory Guidelines have the same meaning as in the DFSA Rulebook Glossary (GLO).

### Assessing the suitability of a Crypto Token

3. In concluding whether a Crypto Token is suitable, a Person must undertake an assessment of a Crypto Token and conclude on reasonable grounds, having regard to the Crypto Token criteria listed in GEN Rule 3A.2.1, that it is suitable for use by that Person in relation to the relevant activity.
4. The assessment of a Crypto Token should involve consideration of the relative importance of each criterion taking into account all relevant factors. These will include the Person's proposed activity, its customer base and the nature, scale and complexity of its DIFC operations. For example, a large, well-established global Fund Manager assessing a Crypto Token against the criterion in GEN Rule 3A.2.1(3)(c) may reasonably conclude that a low market capitalisation does not prevent its inclusion in a closed-ended Fund targeted only at Professional Clients within the DIFC. Conversely, a smaller, more recently established firm, which is Dealing in Investments as Agent on behalf of Retail Clients, may not reach the same conclusion.
5. Where a Person identifies one or more negative indicators in the annex, the onus will be on the Person to satisfy itself that it can demonstrate why the Crypto Token is nonetheless considered suitable for use by that Person, consistent with the requirement in GEN Rule 3A.2.1A(c). A Person's reasoning should be documented and supported by objective evidence, demonstrating how the risks have been identified, assessed and found to be acceptable.

6. A Crypto Token assessed to be a Suitable Crypto Token by one Person in respect of a specific activity, is not an indication that the Crypto Token will be suitable for use by that same Person in connection with another activity or for use by another Person.

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## ANNEX

GEN	Rule	Guidelines	Indicators
3A.2.1(3)(a)	The characteristics of the Crypto Token including as regards its purpose, governance arrangements and founders.	A Person should assess whether:	
		<ul style="list-style-type: none"> <li>the Crypto Token demonstrates a clear use case, for example, helping to solve a fundamental problem or creating value;</li> </ul>	<p>✓ The Crypto Token is designed as a low-fee medium for decentralized identity protocol, enabling users to verify credentials without relying on centralized authorities; solves a real-world problem related to digital trust; has measurable adoption by third-party platforms; its utility directly drives demand for the Crypto Token.</p> <p>✗ The Crypto Token is a 'meme coin'<sup>1</sup> that represents community initiatives, and is speculative in nature, lacking real-world application. Often affiliates of such a Crypto Token's developers hold a significant portion of the total Crypto Token supply (e.g. 15%+). This group disposing of their Crypto Tokens could have a severe and immediate negative impact on the price of the Crypto Token.</p>
		<ul style="list-style-type: none"> <li>the Crypto Token can be effectively traced and on-chain activity monitored on an ongoing basis (e.g. in relation to Travel Rule<sup>2</sup> compliance);</li> </ul>	<p>✓ The Crypto Token operates on a public, permissionless blockchain and supports full transaction visibility through standard blockchain explorers.</p>

<sup>1</sup> Crypto Tokens created to follow trends, employ humor, and try to build a tangible sense of community to attract users.

<sup>2</sup> The "Travel Rule" in the crypto market, derived from Financial Action Task Force (FATF) Recommendation 16, requires service providers to share originator and beneficiary information during Crypto Token transfers.

GEN	Rule	Guidelines	Indicators
			<p>✓ Transfers, wallet balances and historical activity can be monitored in real time, allowing for effective AML screening, risk analysis and compliance reporting.</p> <p>✗ The Crypto Token employs technologies such as ring signatures and stealth addresses to hide sender, receiver, and transaction amounts, making it impossible to monitor them on a public ledger without advanced, specialized tools that are often insufficient for full, ongoing monitoring.</p>
		<ul style="list-style-type: none"> <li>the protocols, consensus mechanism, governance arrangements involved with the Crypto Token are adequately explained in the relevant Crypto Token documentation;</li> </ul>	<p>✓ The Crypto Token is supported by comprehensive documentation that clearly explains its underlying protocol, consensus mechanism (e.g. proof of stake) and governance structure, including how decisions are made, who can propose changes and how upgrades are implemented. The information is accessible, detailed and aligned with the token's on-chain behaviour.</p> <p>✗ There is a misalignment between the Crypto Token's real-world application and the use case claims made by its issuer (including in the whitepaper).</p>
		<ul style="list-style-type: none"> <li>the founders, developers and primary team members, including those who have significant influence over the Crypto Token's</li> </ul>	<p>✓ The Crypto Token is backed by a publicly known team of founders and core developers whose identities, professional backgrounds and roles in the project are clearly disclosed.</p>

GEN	Rule	Guidelines	Indicators
		development, are publicly identifiable;	
		<ul style="list-style-type: none"> <li>the number of years since the Crypto Token's initial issuance; and</li> </ul>	✓ There is sufficient data on which to assess the Crypto Token's long-term viability, security or resistance to adverse market events.
		<ul style="list-style-type: none"> <li>there is any concentration of token holders, or control by a small number of individuals that may result in price manipulation or fraud.</li> </ul>	✓ 5% of the supply of the Crypto Token is held by the top 10 wallets collectively.
<b>3A.2.1(3)(b)</b>	The regulatory status of the Crypto Token in other jurisdictions, including whether it has been assessed or approved for use by a Financial Services Regulator.	<p>A Person should assess whether:</p> <ul style="list-style-type: none"> <li>the Crypto Token has been assessed, approved for use or otherwise formally classified in other jurisdictions by another Financial Services Regulator;</li> <li>the Crypto Token issuer is subject to ongoing supervision by a Financial Services Regulator, including in relation to AML/KYC requirements, transaction</li> </ul>	<p>✓ The Crypto Token has been reviewed and approved for offering to retail investors under a full licensing regime in another jurisdiction (e.g. under MiCA<sup>3</sup> in the EU).</p> <p>✗ The Crypto Token is listed on overseas exchanges or referenced in third party registration documents but no Financial Services Regulator has expressly approved the Crypto Token for use.</p> <p>✓ The Crypto Token issuer is licensed by a Financial Services Regulator. The issuer's ongoing compliance obligations and status can be verified through public registers and disclosures.</p>

<sup>3</sup> Regulation (EU) 2023/1114 of 31 May 2023.

GEN	Rule	Guidelines	Indicators
		monitoring and reporting obligations;	
		<ul style="list-style-type: none"> <li>the Crypto Token has been subject to any enforcement actions, fines or bans in any jurisdiction.</li> </ul>	<p>✓ A Crypto Token with a clean record of no enforcement actions or related bans.</p>
3A.2.1(3)(c)	The size, liquidity and trading history of the market for the Crypto Token globally	A Person should assess:	
		<ul style="list-style-type: none"> <li>the trading history, including trading volumes, price volatility and current market capitalisation of the Crypto Token;</li> </ul>	<p>✓ A Crypto Token has a substantial market capitalisation relative to its trading volume and ecosystem size, indicating broad adoption and liquidity; the Crypto Token's price and circulating supply are stable, supporting a resilient market and reducing susceptibility to manipulation.</p> <p>✗ A small number of holders could significantly influence market movements in the Crypto Token, generating investment and liquidity risk.</p>
		<ul style="list-style-type: none"> <li>the ability of a Person to accurately price the Crypto Token;</li> </ul>	<p>✓ The Crypto Token is actively traded on multiple exchanges with sufficient liquidity and observable market prices.</p> <p>✗ The Crypto Token's price is highly volatile and easily influenced by a small number of trades.</p>
		<ul style="list-style-type: none"> <li>that the total, circulating and maximum supply of Crypto Tokens</li> </ul>	<p>✓ The Crypto Token with supply metrics that are consistent across blockchain explorers and</p>

GEN	Rule	Guidelines	Indicators
		is clearly disclosed and verifiable on-chain; and	whitepapers, providing transparency for investors and reducing inflation or dilution risk.
<b>3A.2.1(3)(d)</b>	The technology used in connection with the Crypto Token	A Person should assess: <ul style="list-style-type: none"> <li>the blockchain/s that the Crypto Token utilises including the age and resilience of that blockchain network, number of active nodes and stability over time (e.g. lack of crisis events or technical issues, outages, attacks or forks); and</li> </ul>	<p>✓ The Crypto Token issued on a well-established blockchain that has been operational for over five years with high uptime and no major security incidents. The network has thousands of geographically distributed nodes, strong community support, and a proven track record of processing transactions reliably and securely over time.</p>
		<ul style="list-style-type: none"> <li>the ability of the Crypto Token to respond and/or adapt to any adverse technology incidents including cyber-attacks (by way of patching or remedial updates).</li> </ul>	<p>✓ The Crypto Token built on a blockchain that has established incident response procedures, a history of patching vulnerabilities quickly, and a transparent process for communicating with users during security events.</p> <p>✓ The Crypto Token's protocol includes upgradability features and has demonstrated the ability to coordinate community responses to mitigate past cyber events effectively.</p> <p>✗ The Crypto Token lacks any formal mechanisms for responding to technological incidents.</p> <p>✗ During a recent cyber-attack on the network, the protocol was unable to halt exploitative transactions, there was no coordination among</p>

GEN	Rule	Guidelines	Indicators
			developers or node operators, and users received no official guidance, highlighting a lack of preparedness and adaptability.
<b>3A.2.1(3)(e)</b>	Whether the use of Crypto Token could prevent the Person from complying with DFSA administered Laws and Rules.	A Person should assess:	
		<ul style="list-style-type: none"> <li>the DFSA Laws and Rules applicable to the proposed use and whether any aspect of the Crypto Token would prevent the Person from complying with such Laws or Rules to which they would be subject.</li> </ul>	✓ A Crypto Token that would not inhibit a Person's compliance with AML regulations as transactions are transparent, on-chain activity can be monitored, and protocol supports KYC/transaction screening where required.