CHARLTONS
QUANTUM

Overview of Digital Assets Regulations in Qatar

www.charltonsquantum.com

Contents

In recent years, Qatar has taken cautious yet progressive steps to regulate the digital asset sector. While the country initially maintained a conservative stance, as reflected in its 2019 prohibition of virtual asset services, the introduction of the QFC Digital Asset Regulations on 1st September, 2024 marked a more innovative phase.

This new framework aims to support innovation while ensuring the financial system stays stable and safe for investors. By focusing on tokenised assets and keeping strict rules on volatile cryptocurrencies, Qatar is creating a system that aligns with its broader Third Financial Sector Strategic Plan, which seeks to enhance the country's financial services sector and promote economic diversification in line with the Qatar National Vision 2030.

Background: The QFCRA's 2019 Alert on Virtual Assets in Qatar

On 26th December, 2019, the Qatar Financial Centre Regulatory Authority (**QFCRA**) issued a strict alert banning virtual asset services within the Qatar Financial Centre (**QFC**). The alert defined virtual assets as digital substitutes for currency that can be used for trading, transfer, or payment purposes but excluded fiat currencies from this definition. The prohibited activities included exchanging virtual assets for fiat currencies, transferring and safekeeping virtual assets, and offering financial services related to virtual asset issuances. However, digital securities and other financial instruments regulated by authorities like the Qatar Central Bank or the Qatar Financial Markets Authority were explicitly excluded from the restrictions.

Qatar's 2024 Digital Assets Framework

On 1st September, 2024, Qatar launched its Digital Assets Framework as part of its Third Financial Sector Strategic Plan. This framework, which includes the Qatar's Digital Asset Regulations 2024, Qatar's Investment Token Rules 2024, and the Qatar's Investment Token (Miscellaneous Amendments) Rules, lays out the rules for digital assets in the QFC. It defines different types of tokens, the rules for tokenisation, the legal assumptions of ownership, and licensing requirements for companies dealing with digital assets.

The Qatar's Digital Asset Regulations 2024 provide a clear classification of tokens. The regulations define "Permitted Tokens" as digital representations tied to verified rights, meaning they have a basis in real-world assets or legal rights. This framework also defines "Excluded Tokens," which include cryptocurrencies, stablecoins, and central bank digital currencies (**CBDCs**), classifying them as substitutes for currency and excluding them from Qatar's digital asset regulatory framework. This exclusion reflects Qatar's cautious stance on cryptocurrencies, keeping them separate from other digital assets to avoid market risks associated with speculation and instability.

To create a permitted token under the Qatar Digital Assets Regulations, involves a structured process of tokenisation. This includes three key steps. First, Validation, where a validator issues a certificate verifying the ownership of the asset to be tokenised. Secondly Request for Tokenisation, where the asset owner formally requests the creation of a token representing the asset. Finally, Token Generation, where a licensed token generator creates the token on a specific digital infrastructure, allowing the owner or custodian to control it. These steps ensure that tokens are securely tied to real-world assets or rights, preventing unauthorised or speculative use. Additionally, the regulations presume that the person who controls a token's transferability is its owner unless proven otherwise in the QFC courts.

A key feature of the Qatar's framework is regulatory exclusivity. Within the QFC, digital asset activities are governed separately from the broader Qatari law, allowing for a specialised regulatory environment similar to models seen in Dubai's DIFC and Abu Dhabi's ADGM. This approach is aimed at encouraging innovation in digital finance while providing a stable and clear legal structure for companies operating within the QFC. To ensure market security, entities that want to engage in digital asset activities such as token generation, custody, or exchange must obtain licenses from the QFC. They are also required to implement strong operational systems to avoid conflicts of interest, which is in line with international best practices, such as the standards set by the European Markets in Crypto-Assets (**MiCA**) regulation.

The Qatar's Investment Token Rules 2024 add further specifics, focusing on tokens representing rights in financial products or assets, classifying these as financial instruments. These rules integrate existing frameworks related to anti-money laundering (**AML**), customer protection, and investment management, setting standards for transparency in disclosures, advertisements, and custody of investment tokens. Regulated activities under these rules include operating exchanges for investment tokens and providing custody services, ensuring that companies dealing in investment tokens maintain a high standard of security and consumer protection.

Despite the detailed structure, cryptocurrencies, stablecoins, and other currency substitutes remain excluded, continuing the cautious stance outlined in the QFCRA's 2019 alert. The decision to exclude these assets aligns with Qatar's focus on financial stability and conservative risk management.

Qatar's Digital Assets Approach Compared to Neighbours in the Middle East

In contrast to countries like the UAE and Bahrain, which have adopted more open policies towards cryptocurrencies, Qatar's approach reflects cautious and controlled innovation. The regulatory framework prioritises financial stability and investor protection, emphasising tokenisation of real-world assets such as real estate and sukuk, rather than embracing cryptocurrencies. Qatar's emphasis on creating a distinct, highly regulated environment within the QFC mirrors models like Dubai's DIFC and Abu Dhabi's ADGM, where regulatory clarity is prioritised without risking market volatility.

The UAE has established comprehensive frameworks through the Abu Dhabi Global Market (**ADGM**) and Dubai's Virtual Asset Regulatory Authority (**VARA**), regulating a wide range of digital assets including cryptocurrencies, stablecoins, and NFTs. The UAE's open regulatory environment contrasts with Qatar's more conservative stance, which excludes more speculative digital assets to minimise risk.

Bahrain's Central Bank Digital Assets Framework also openly regulates cryptocurrencies, permitting exchanges to operate under clear licensing protocols. Bahrain emphasises consumer protection and market integrity but is still open to a wider range of digital assets, unlike Qatar's framework, which restricts itself to asset-backed tokens.

Furthermore, Saudi Arabia has taken a more conservative approach, focusing on blockchain technology for business applications rather than regulating cryptocurrencies directly. Although the Saudi Arabian Monetary Authority (**SAMA**) has not issued specific cryptocurrency regulations, it is actively exploring the development of central bank digital currencies (**CBDCs**).

Strengths and Challenges of Qatar's Digital Assets Approach

By excluding more speculative assets, Qatar reduces the potential for market volatility, aligning with global AML and CFT guidelines, such as those from the Financial Action Task Force (**FATF**). Additionally, the QFC's specialised regulatory zone offers flexibility and autonomy, allowing Qatar to explore innovation within a controlled environment. The focus on asset tokenisation (such as real estate and sukuk) aligns well with the country's economic diversification goals under Qatar National Vision 2030. This emphasis on real-world use cases seeks to ensure that digital asset innovation is directed towards stable and productive sectors, reducing risk while supporting Qatar's long-term economic strategy.

However, there are limitations inherent in Qatar's cautious approach. The exclusion of cryptocurrencies and stablecoins limits Qatar's appeal to global crypto companies, which may view the regulatory stance as overly restrictive compared to the more open environments in the UAE and Bahrain. By upholding its 2019 stance that cryptocurrencies are "unsuitable", Qatar can appear somewhat out of step with global trends where cryptocurrencies are increasingly recognised as legitimate digital assets. Additionally, Qatar's focus on tokenised assets may miss opportunities in areas like decentralised finance (**DeFi**) and Web3, which could be key to the digital economy's future growth.

CHARLTONS
QUANTUM

Hong Kong Office

Dominion Centre 12th Floor
43-59 Queen's Road East
Hong Kong

enquiries@charltonslaw.com
www.charltonsquantum.com
www.charltonslaw.com
Tel: + (852) 2905 7888
Fax: + (852) 2854 9596