

An Overview of Cryptocurrencies in Terms of their Origin, Forms, and the Legal Framework Regulating them in the United Arab Emirates

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Abstract

Cryptocurrencies have emerged as a significant financial innovation, reshaping payment systems, investment practices, and regulatory approaches worldwide. In innovation-oriented jurisdictions such as the United Arab Emirates (UAE), their expansion presents complex legal challenges related to classification, supervision, and financial integrity. Despite growing regulatory attention, existing scholarship remains fragmented and largely focused on technical or economic perspectives, with limited consolidated legal analysis of the UAE framework following Dubai's Virtual Assets Law of 2022. This review paper aims to synthesise and critically analyse existing academic literature, international regulatory guidance, and UAE legal instruments concerning cryptocurrencies. Using a structured narrative review of authoritative sources, the paper identifies key regulatory themes and challenges. The findings indicate that the UAE adopts a risk-based, intermediary-focused regulatory model aligned with international standards. The paper contributes an integrated legal overview of cryptocurrency regulation in the UAE and outlines future research directions focusing on regulatory effectiveness, legal classification boundaries, and comparative analysis.

Keywords: Cryptocurrencies, Digital Currencies, Legal Regulation, Virtual Assets, United Arab Emirates

Introduction

The rapid evolution of financial technologies has fundamentally transformed the global monetary and investment landscape. Among the most significant outcomes of this transformation is the emergence of cryptocurrencies, which rely on cryptographic techniques and distributed ledger technologies to enable value transfer outside traditional financial intermediaries. While these innovations offer efficiency, transparency, and financial inclusion benefits, they also pose complex legal and regulatory challenges that traditional financial frameworks were not designed to address. Consequently, governments and regulators worldwide face increasing pressure to adapt legal systems in ways that preserve financial stability, protect consumers, and prevent illicit activities without stifling innovation (European Central Bank [ECB], 2015; FATF, 2019).

The problem becomes more pronounced in jurisdictions such as the United Arab Emirates (UAE), which simultaneously seeks to position itself as a global hub for financial innovation and digital assets while maintaining strict oversight of its financial system. Despite the growing economic relevance of cryptocurrencies, legal uncertainty persists regarding their classification, regulatory treatment, and institutional supervision. Cryptocurrencies occupy an ambiguous space between currency, commodity, and investment asset, raising questions about regulatory jurisdiction, licensing requirements, and applicable compliance standards (Yermack, 2013; Houben & Snyers, 2018).

Although international bodies have issued guidance on virtual assets, academic research in the UAE context remains limited. Much of the existing literature focuses on technical, economic, or religious perspectives, while fewer studies provide a comprehensive legal analysis aligned with recent legislative developments. This gap is particularly evident following the issuance of Dubai Law No. 4 of 2022 Regulating Virtual Assets, which introduced a specialised regulatory authority and a distinct legal framework for virtual assets. There is insufficient scholarly examination of how this law interacts with federal regulations issued by the Securities and Commodities Authority (SCA) and how the UAE framework aligns with international standards.

Accordingly, the objectives of this paper are threefold. First, it seeks to examine the origins and forms of cryptocurrencies and digital currencies in order to clarify their conceptual and legal foundations. Second, it analyses the UAE's regulatory approach to cryptocurrencies, with particular focus on the federal position and the Dubai virtual assets regime. Third, it aims to identify key findings, contributions, and future research directions that support coherent and adaptive regulation in the UAE.

Literature Review and Related Work

The conceptual foundations of cryptocurrencies can be traced to early proposals for decentralised digital money. Wei Dai's "b-money" proposal outlined a system for anonymous, distributed value exchange without reliance on a central authority (Dai, 1998). This vision was later realised in practice with the publication of Bitcoin by Satoshi Nakamoto in 2008. Bitcoin introduced a peer-to-peer electronic cash system that combined cryptographic verification, decentralised consensus, and immutable transaction records through blockchain technology (Nakamoto, 2008). These technical characteristics are central to legal debates because they challenge the traditional role of central banks and regulated financial intermediaries.

Scholarly and policy literature consistently highlights that cryptocurrencies blur the distinction between money and financial assets. The European Central Bank categorises virtual currencies as digital representations of value not issued by a central authority and emphasises risks related to volatility, consumer protection, and financial crime (ECB, 2015). Economic studies further argue that cryptocurrencies struggle to function as stable currencies due to price volatility, speculative behaviour, and lack of intrinsic backing, making them more akin to high-risk financial assets (Yermack, 2013).

Financial crime risk has been a dominant driver of regulatory responses. The Financial Action Task Force (FATF) defines virtual assets broadly and extends anti-money laundering and counter-terrorist financing (AML/CFT) obligations to virtual asset service providers, including

exchanges and custodians (FATF, 2019). Subsequent FATF publications provide red-flag indicators and typologies illustrating how virtual assets can be exploited for illicit purposes if left unregulated (FATF, 2020). Empirical research supports these concerns, demonstrating that a substantial proportion of early cryptocurrency activity was linked to illegal transactions, although patterns have evolved as regulation and mainstream adoption increased (Foley et al., 2019).

Legal scholars increasingly emphasise that despite decentralised protocols, cryptocurrency ecosystems depend heavily on intermediaries such as exchanges, wallet providers, and token issuers. These actors represent regulatory “chokepoints” through which supervision and enforcement can be effectively applied (Houben & Snyers, 2018). This insight underpins many modern regulatory approaches, including those adopted in the UAE, which focus on licensing and supervising service providers rather than attempting to regulate decentralised code itself.

In addition, international research highlights the growing importance of tokenisation and virtual assets beyond cryptocurrencies. The OECD notes that distributed ledger technology is increasingly used to represent securities, commodities, and real assets in tokenised form, creating efficiency gains but also raising new legal questions concerning ownership, settlement finality, and investor protection (OECD, 2020). These developments reinforce the need for flexible legal frameworks capable of addressing evolving digital asset forms.

Within the UAE, the regulatory response reflects these global trends. At the federal level, the SCA issued the Crypto Assets Activities Regulation in 2020, establishing a framework for licensing and supervising crypto-asset activities while excluding certain currency-related matters under the Central Bank’s jurisdiction (SCA, 2020). At the local level, Dubai adopted Law No. 4 of 2022 Regulating Virtual Assets, which defines virtual assets broadly and created the Dubai Virtual Assets Regulatory Authority (VARA) to oversee virtual asset activities within the Emirate (Dubai Law No. 4 of 2022; VARA, 2022). This dual-level governance structure reflects an attempt to balance innovation, regulatory clarity, and financial integrity.

Findings

The reviewed literature and regulatory instruments reveal several consistent findings. First, cryptocurrencies are best understood as socio-technical systems that combine decentralised technology with centralised market intermediaries. This structure explains why effective regulation focuses on exchanges and service providers rather than attempting to control underlying protocols (Narayanan et al., 2016; Houben & Snyers, 2018). Second, global regulatory consensus prioritises risk-based governance, particularly AML/CFT compliance and consumer protection, rather than outright prohibition (FATF, 2019; FATF, 2020). Third, the UAE’s regulatory approach demonstrates an adaptive model that integrates federal oversight with specialised local regulation, particularly through Dubai’s establishment of VARA and its comprehensive licensing regime (SCA, 2020; Dubai Law No. 4 of 2022). These findings indicate that regulatory clarity depends not only on statutory definitions but also on institutional coordination, enforcement capacity, and alignment with international standards. They further suggest that Dubai’s model represents a pragmatic attempt to manage innovation while mitigating systemic and criminal risks.

Contributions

This paper makes both theoretical and practical contributions. Theoretically, it advances legal scholarship by linking the technological origins of cryptocurrencies to their legal classification challenges, reinforcing the view that cryptocurrencies cannot be adequately regulated using traditional monetary concepts alone. By framing cryptocurrencies within a socio-technical and regulatory-intermediary perspective, the study clarifies why contemporary regulation targets service providers and platforms rather than decentralised networks themselves.

From a regional perspective, the paper contributes to the limited body of UAE-focused legal research by offering an integrated analysis of federal and Dubai-level regulation following recent legislative developments. It positions the UAE as a case study of adaptive financial regulation in an innovation-driven economy.

Practically, the paper provides policymakers, legal practitioners, and market participants with a coherent overview of regulatory responsibilities, supervisory authorities, and compliance obligations applicable to cryptocurrencies in the UAE. It highlights areas where further clarification or harmonisation may strengthen regulatory effectiveness and investor confidence.

Future Research Directions

Future research should empirically assess the effectiveness of the UAE's virtual asset regulatory framework by examining licensing outcomes, compliance enforcement, and market behaviour before and after the introduction of Dubai Law No. 4 of 2022. Comparative studies between Dubai and other international virtual asset hubs would further illuminate best practices and regulatory trade-offs. Additionally, doctrinal research should explore classification boundaries between cryptocurrencies, tokenised securities, and central bank digital currencies, particularly as these instruments increasingly converge. Finally, interdisciplinary studies combining legal analysis with financial crime data would enhance understanding of how AML/CFT measures operate in practice within virtual asset markets.

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