



NAVIGATING ADGM'S DLT FOUNDATIONS:

A COMPREHENSIVE GUIDE

MARCH 2024

What is the ADGM DLT foundations regime?

In November 2023, the Abu Dhabi Global Market (ADGM) introduced the Distributed Ledger Technology (DLT) Foundations Regulations 2023 (the Regulations) providing a legal framework to govern activities related to blockchain and DLT within the ADGM jurisdiction – a world first!

ADGM has been actively broadening its regulatory framework relating to digital assets and DLT, with the objective of establishing a comprehensive legal and regulatory structure for such businesses.

The Regulations provide a comprehensive framework for DLT foundations - a legal entity that can hold and manage digital assets for a specified purpose such as to operate and issue tokens. The assets belonging to a DLT foundations remain distinct from those held by its founder, council members, guardian, or beneficiaries and are not subject to foreign laws that could impact their ownership or transfer.

With the introduction of the Regulations, the ADGM is now poised to revolutionise the industry by providing a unified solution for the needs of digital asset related activities and the broader foundations landscape - providing a pathway for a vibrant and sustainable crypto ecosystem within the ADGM jurisdiction.

“The DLT Foundations Regulations 2023 [are] a world first legal framework for blockchain within its jurisdiction.”

Who can register?

Entities or individuals interested in registering a DLT foundations with the ADGM Registration Authority (ADGM RA) must meet the application criteria set out in the Regulations.

There are a wide range of entities with potential to operate under the legal framework, including blockchain foundations, web3 entities, decentralized autonomous organizations (DAOs), and conventional foundations seeking to elevate their operations through the adoption of DLT.

What is the benefit?

The ADGM DLT foundations regime provides a supportive environment for blockchain-based businesses while ensuring the protection of investors and maintaining the integrity of the financial market.

The Regulations provide clear guidelines tailored specifically for blockchain and DLT, offering clarity and certainty for businesses operating in this sector. Additionally, the Regulations provide a comprehensive legal framework focusing on transparency, accountability, and investor protection, thereby fostering investor confidence. Numerous benefits are presented for the legal organization of decentralized protocols such as, regulated token issuance, programmable governance through tokenization, legal protection for members of a DOA, legal connection between on-chain and off-chain realms.

These features make the Regulations a pioneering legal framework designed to support the growth and development of the blockchain and digital asset industries. By addressing the unique challenges and opportunities presented by decentralized technologies, the ADGM offers a conducive environment for innovation, investment, and development in the sector.

How do I register?

For a successful DLT foundation licence application, a comprehensive business plan must be submitted that thoroughly details the operation and management of the business, including its model, target market, and benefits. This plan must be accompanied by a series of additional documents, such as the foundation charter (which acts as the constitutional guiding document of the foundation), information about the founders and management team, a description of the proposed activities of the DLT foundations, the organizational structure, a declaration of compliance, and any other pertinent information as required. Additionally, the submission should include the payment of the specified application fee. This combination ensures efficient processing of the application, with the business plan being a key factor in the evaluation process.

The foundation charter must specify that the DLT foundations will have initial assets with a minimum initial asset value of USD50,000 to be paid within 6 months of receipt of the registration certificate.

Upon successful registration of a DLT foundations, the ADGM RA will enter particulars of the foundation on a public DLT foundation register. This register contains its name and registration number, the name and ADGM address of the foundation's Company Service Provider (if any), the names of each council member, the date of incorporation, and, if applicable, the date of continuation under the Regulations. Additionally, information regarding the scope of business activities, the expiry of the commercial licence, a copy of the Charter, and copies of any Annual Accounts and Auditor's Reports filed with the ADGM RA will also be added to the public record.

The names of beneficiaries of a DLT foundations (if any), are excluded from public disclosure unless the beneficiary also holds the position of a council member, founder, beneficial owner, or guardian. This practice ensures a level of privacy for beneficiaries while maintaining transparency about the foundation's operational and governance structures through the public register. Selective disclosure is part of the ADGM RA's approach to balancing the need for transparency with the protection of individual privacy.

“[T]he business plan....[is] a key factor in the evaluation process of an application to register a DLT foundation”

1. Exemptions may apply under Section 11(2) of the ADGM DLT Foundations Regulations 2023.

“The ADGM aims to revolutionise the digital asset industry with a unified regulatory solution.”



How long does it take?

Although the timeline for each application can vary, based on our expertise, the preparation and finalization of an application for the ADGM RA typically requires 5 to 7 weeks. Following submission, the approximate timeline for review and approval by the ADGM RA is 4 weeks.

Compliance

DLT foundations are bound by numerous ongoing and **annual compliance obligations** to ensure their operations align with legal standards. These ongoing obligations necessitate DLT foundations to maintain a registered office within the ADGM, serving as a central point for all communications and notices. Additionally, foundations are required to appoint a Company Service Provider¹ responsible for several critical functions. This provider must keep all corporate records as mandated by applicable laws, ensure the foundation has a registered office within the ADGM, act as the foundation's representative in all interactions with the ADGM RA, including the service of documents, and manage all required notifications and filings with the ADGM RA in accordance with relevant laws.

Furthermore, DLT foundations must appoint an auditor registered with the ADGM.

Annual compliance obligations include actions to uphold the entity's effective governance and compliance with regulatory reporting obligations, as specified below.

	Obligation	Due Date²
1	Council to approve licence and data protection renewal and submission of Confirmation Statement to the ADGM RA	<i>License renewal date - 1 month</i>
2	Licence renewal	<i>License renewal date</i>
3	Confirmation Statement filing with the ADGM RA	<i>License renewal date + 1 month</i>
4	Data protection renewal filing with the ADGM RA	<i>License renewal date</i>
5	Data protection assessment of processing activities and compliance with ADGM Data Protection Regulations 2021	<i>License renewal date - 1 month</i>
6	Operational audit including a security audit of the framework for using DLT adopted and maintained by the foundation	<i>At least once per calendar year</i>
7	Submission of operational audit reports to the ADGM RA	<i>14 days from completion of above</i>
8	Preparation of Annual Accounts and Auditor's Reports	<i>30/09</i>
9	Publishing of Annual Accounts	<i>30/09</i>
10	Council to approve Annual Accounts and submission to the ADGM RA	<i>30/09</i>
11	Economic Substance Regulations Assessment of whether the DLT foundation has undertaken any "relevant activities"	<i>30/05</i>
	Notification ³ to the Ministry of Finance	<i>30/06</i>
	Reporting ⁴ to the Ministry of Finance	<i>31/12</i>
12	FATCA/CRS assessment and filing with the ADGM RA	<i>30/04</i>

2. Approximate dates

3. If the foundation is assessed to be a "Reporting Entity" under the ESR.

4. If the foundation is assessed to be a "Reporting Entity" under the ESR.

With the recent introduction of UAE corporate tax (CT), DLT foundations should also assess their tax obligations from day one of operation. Under the CT regime, “Qualifying Free Zone” persons can benefit from a 0% CT rate on their “Qualifying Income”. However, free zone relief is not granted as a matter of course; seizing this opportunity requires adherence to certain conditions.

DLT foundations either in the process of registration or already registered with ADGM are strongly recommended to consult with tax professionals. This ensures adherence to all applicable tax laws and regulations.

Governance

The Regulations contain governance requirements designed to ensure DLT foundations operate with transparency, accountability, and in compliance with regulatory standards.

The organisational and management structure of a DLT foundations is made up of a foundation council, founders, guardian and beneficiaries (if any). If the foundation issues tokens, the category of tokenholders exercising their rights by voting, will be included in the organisational and management structure of the foundation.

The **foundation council** is central to the governance and oversight of activities within the foundation. It is made up of a minimum of two and a maximum of 16 councillors which may be a founder, beneficiary, tokenholder or a legal person. The specific responsibilities and functions of the council are outlined in the Regulations and include carrying out the objects of the foundation, managing and administering the assets of the foundation, ensuring compliance by the foundation and the organisational and management structure with the Charter and applicable laws.

A **founder** responsible for registration of the foundation and thereafter has the option to be appointed a council member, beneficiary or to retain powers in the foundation.

A **guardian** may be a beneficiary, a tokenholder or a legal person but it may not be a founder, council member or sole beneficiary or sole tokenholder. A guardian’s duty is to supervise the foundation council and to ensure that the foundation council carries out its functions.

Council member(s) are subject to an equivalent standard of care and fiduciary duty to that of directors. Council members are in charge of the day-to-day decision-making and may also act as the authorized representative of the foundation.

A **beneficiary** is not an obligatory appointment. If appointed, a beneficiary will have the right to distribution of the DLT foundations assets in the event of termination of the DLT foundations and may have other rights granted to them by the Charter.

By adhering to these governance requirements, a DLT foundations can demonstrate its commitment to operating with integrity, accountability, and transparency while complying with regulatory standards. It is important for DLT foundations to regularly review and update their governance practices to adapt to evolving regulatory requirements and industry best practices.

[M/HQ's foundation 101 podcast series](#) provides a comprehensive analysis of foundations including their structure, governance and composition.

“DLT foundations are unique legal entities designed to manage digital assets for specific purposes.”

What are the costs?

The ADGM published fees associated with registration and ongoing operation of a DLT foundations are as follows:

Initial registration fees		Annual ongoing fees	
Description	Amount (USD)	Description	Amount (USD)
Name reservation	200	-	-
Commercial licence	8,000	Renewal of commercial licence	8,000
Application for registration	1,500	-	-
Business activity	5,000	Business activity	5,000
Data protection	300	Data protection annual renewal	300
Total	15,000	Total	13,300

These fees exclude: Corporate Service Provider fees, fees for the provision of registered office and any other third party service fees associated with the registration and ongoing maintenance of a DLT foundations.

“The regime supports blockchain businesses, ensuring investor protection and market integrity.”

Takeaways

The introduction of the ADGM DLT Foundations Regulations in 2023 represents a significant milestone for the UAE's cryptocurrency industry, positioning DLT foundations at the forefront of innovation and development within both the ADGM and beyond.

These Regulations establish unprecedented regulatory clarity, paving the way for a future that is both more transparent and efficient throughout the blockchain and Web3 domains.

Furthermore, the regional infrastructure is well-equipped to facilitate the establishment and expansion of DLT foundations within this regulatory framework.

The ADGM have rolled out the red carpet for future thinking entrepreneurs seeking to enhance their operations through DLT. The time is right - be part of the future!

“The DLT Foundations Regulations 2023 mark a significant milestone, positioning the UAE at the forefront of cryptocurrency innovation.”

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ACX Compliance

ACX Compliance is your one-stop shop for all your crypto/web3 regulatory needs. We only work with crypto/web3 firms and understand the unique needs of the industry.

We cover the entire regulatory spectrum, including full end-to end VARA and ADGM licensing support (e.g. pre-application review, drafting of policies and manuals) and full post-licensing support (e.g. outsourced MLRO support, SAR reporting, travel rule, ad-hoc compliance, incident management and transaction monitoring).

We also provide on-chain investigations and monitoring, third party compliance and AML/CFT audits as well as compliance and AML/CFT training.

ACX Compliance is an ACX International group company, with its 100+ strong team 100% focused on the crypto industry.



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We have extensive experience advising on a broad range of wealth structuring and legacy planning issues. We particularly assist in establishing and servicing Family-and Group- Holdings, Single- and Multi- Family offices, Foundations and other asset consolidation/protection and intergenerational wealth management structures.

Headquartered in the UAE, we are an entrepreneurial firm for entrepreneurial clients.