



The rise of crypto scams in the UAE and how to secure your crypto transactions

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The UAE crypto industry's exponential growth has led to an increase of cryptocurrency-related scams: How to detect and avoid them

It has become increasingly clear that the UAE has recognized the tremendous potential of cryptocurrency and blockchain technologies, and is set to become a hyper-connected city and ever-evolving business hub.

One of the consequences of standardizing crypto transactions in Dubai is the increasing ability to buy real-world assets using cryptoassets. In fact, cryptocurrencies have become accepted in select UAE restaurants in conducting small transactions such as buying coffee or a meal. These purchases using cryptocurrencies have been possible ever since the UAE Central Bank issued a new Stored Value Facilities Regulation in 2020, being a regulatory framework for stored values and electronic payment systems which provides that: *“Cryptographically secured digital representations of value or contractual rights that use a form of distributed ledger technology and can be transferred, stored or traded electronically.”*

Indeed, this regulation might allow for cryptoassets to be used as an electronic payment system when purchasing goods and services, but for now this is not an official legal tender.

Another consequence of the UAE's, notably Dubai, will to become a global center for crypto assets is the establishment in the Emirate of the biggest crypto exchange platforms. In April 2022, two of the most important crypto exchanges announced their decision to establish in Dubai: Bybit is relocating its headquarters from Singapore to Dubai and crypto.com is creating a regional hub in Dubai.

Eric Anziani, crypto.com's Chief Operating Officer stated *"We are opening regional head office for Middle East and Africa here in Dubai. It is going to be a great addition to run our operations from here because the UAE is diversifying its industries and trying to be bold and create opportunities. We are not here only to gain more market share but to create a broader ecosystem where there are more opportunities for all."*

In addition, Binance, the world's largest cryptocurrency trading platform, plans to carry out regional business and has been granted a license to operate in Dubai.

As a part of UAE's drive to become a global crypto hub, Dubai's government has enacted a new law aimed at establishing the Emirate as an international center for crypto assets and related industries, such as the metaverse. Sheikh Mohammed bin Rashid Al Maktoum, the Prime Minister of the United Arab Emirates stated recently in his Twitter account *"Today, we approved the virtual assets law and established the Dubai Virtual Assets Regulatory Authority. A step that establishes the UAE's position in this sector. The Authority will cooperate with all related entities to ensure maximum transparency and security for investors"*.

Under the new legislation, a Dubai Virtual Assets Regulatory Authority will be established, which would be responsible for regulating virtual assets. In addition, it is also planned to be an independent authority which will oversee the regulation, governance, and licensing of cryptocurrencies, non-fungible tokens ("NFT") and other virtual assets.

Learn more about Dubai's new virtual assets law: Dubai's new virtual assets law will lead to increased investments by firms already in the crypto industry | BSA Middle East Law Firm (bsabh.com)

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What are the risks of making cryptoasset transactions in the UAE

Unfortunately, the government's efforts to secure cryptoasset transactions does not yet prevent scams. Indeed, the downside of the exponential growth of the crypto industry is the increase of crypto scams in the UAE.

Several UAE authorities have raised concerns about cryptoasset transactions, including the Securities and Commodities Authority who have previously issued several warnings to UAE residents about cryptoasset-related frauds. The dangerous aspect of cryptoasset transactions is its online anonymous nature, a medium that can lead to fraud.

Therefore, according to Tarek Mohammed, Head of the Digital Assets Crime Section at the Dubai Police, in the first half of 2021, there were hundreds of cases of crypto scams in Dubai with victims losing up to 80 million AED in total.

How do scammers operate?

Crypto scams occur using diverse means and tactics, some examples include:

- **Transfer recall scam:** the scammer who buys cryptocurrencies sends funds to the seller, receives the tokens, and files a fraudulent complaint with his bank, pretending he was the victim of a scam to recall the transferred funds.
- **Peer-to-peer transactions using illegally gained money:** a person offers to purchase tokens at a good price in exchange for cash, bank transfers or a cheque. Cryptoasset sellers are, in fact, receiving money from criminal proceedings and are indirectly becoming a partner in the crime.
- **Rubber cheque:** the scammer offers to buy cryptocurrency at a good price using a bank cheque, which is in fact a rubber cheque, later refused by the seller's bank.
- **Third party scam:** the scammer, posing as a broker, finds a seller and a buyer and offers them a lucrative deal. The broker would then convince the buyer and the seller to meet in person for the transaction and asks the buyer to bring cash. The fake broker then gives the buyer's money to the seller and asks the seller to send the cryptocurrency to a trading account being his own account instead of the buyer's account.
- **Copycat administrator:** occurs in Telegram groups, often after a member of the group requests advice. The scammer messages the user, posing as an administrator, pretends to have interest in the query and offers help which involves asking for the target's private keys or requesting that they login into a fake platform meant to steal the member's account details and have access to his wallet.

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- Pump and dump crypto group: generally occurs in a Telegram group or in forums in which the scammer tries to coordinate price manipulation on a cryptocurrency exchange. Supposed, utility tokens with little or no future potential use are pumped by the scammer (the founder or an insider) who then sells his tokens on a short-lived exponential rise in price on crypto exchanges, which then crashes, leaving the second wave of investors holding useless and worthless tokens.
 - Giveaway scam: the victim is tricked by being offered free cryptoassets (cryptocurrency or NFTs) in exchange for his wallets' public addresses and private keys. The giveaway advertisement can be from legitimate pages.
 - Counterfeit NFTs: the scammer hacks a NFT, recreates it and sells it on legitimate platforms.

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In most of these scams the scammer enters into agreements with the victim via social media platforms, mostly Telegram groups, without having a formal agreement to this effect. Therefore, making it harder on the victim to support legal actions intended to be initiated against the scammer.

BSA has acted for a number of crypto-scam victims in the UAE. One such case involves an investor, who intended to conduct a real estate transaction in Dubai using his crypto assets, however fell victim to an unforeseen scam.

The investor initially entered into an agreement with an international 'over the counter' dealer for the issuance of a manager's cheque in exchange for cryptocurrency, to complete the transaction. The investor then received the concerned cheques issued by a UAE company and deposited them in a UAE bank.

A few days following the deposit of the cheques, the investor was informed that the cheques had been stopped due to law enforcement and regulatory directives without further substantiation from the bank. The stoppage of the cheques turned out to be due to the blockage of the UAE company's accounts as it is subject to anti-money laundering investigations/charges.

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How to avoid these scams

There are general precautions to keep in mind when buying or selling crypto assets. First and foremost, it is primordial not to share one's personal information or entertain anonymous calls, messages and ads that often claim to be from licensed companies.

Then, it is essential to conduct all transactions using exchange platforms regulated by the UAE financial regulator, by checking, for example, with Dubai Financial Service Regulatory Authority (DFSA) or the Abu Dhabi Global Market (ADGM) for their license and regulatory permission.

Furthermore, the Digital Assets Crime Section of Dubai police was created last year as a proactive approach in response to the increase of cybercrimes happening around crypto matters. In order to raise awareness in this regard, Tarek Mohammed, the head of section stated, *“Always do due diligence with whom you deal with”* and added *“There is no harm in asking companies and people to provide them with a copy of trade license because it's a public information and not confidential. Also make sure the license is not photoshopped because there have been some cases of documents being photoshopped.”*

In addition, the UAE Security and Commodities Authority (SCA) has added entity names or Twitter accounts to its list of alerts for falsely claiming to be regulated by the SCA (Warnings | Open Data | Securities and Commodities Authority (sca.gov.ae)).

As for DIFC, the DFSA has sent alerts about fraudulent cryptoassets falsely claiming to be regulated by DIFC (Alerts | DFSA | THE INDEPENDENT REGULATOR OF FINANCIAL SERVICES).

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