



An overview of the regulation of virtual assets in the Cayman Islands

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Contents

1. Virtual asset laws and regulations in the Cayman Islands	3
What is considered a virtual asset in the Cayman Islands?	3
Who do such laws and regulations apply to?	4
Who are the relevant regulatory authorities in relation to virtual assets in the Cayman Islands?	5
What are the penalties for breaches of virtual asset laws and regulations in the Cayman Islands?	5
2. Regulation of virtual assets and offerings of virtual assets in the Cayman Islands	6
Are virtual assets classified as 'investments' or other regulated financial instruments in the Cayman Islands?	6
Are stablecoins and NFTs regulated in the Cayman Islands?	6
Are decentralised finance (DeFi) activities (e.g. lending virtual assets) regulated in the Cayman Islands?	7
Are there any restrictions on issuing or publicly offering virtual assets in the Cayman Islands?	7
Are there any exemptions to the restrictions on issuing or publicly offering of virtual assets in the Cayman Islands?	7
3. Regulation of VASPs in the Cayman Islands	8
Are VASPs operating in the Cayman Islands subject to regulation?	8
Are VASPs providing virtual asset services from offshore to persons in the Cayman Islands subject to regulation in the Cayman Islands?	8
What are the main requirements for obtaining licensing / registration as a VASP in the Cayman Islands?	8
What are the main ongoing requirements for VASPs regulated in the Cayman Islands?	10
What are the main restrictions on VASPs in the Cayman Islands?	11
What are the main information that VASPs have to make available to its customers?	12
What market misconduct legislation/regulations apply to virtual assets?	12
4. Regulation of other crypto-related activities in the Cayman Islands	13
Are managers of crypto funds regulated in the Cayman Islands?	13
Are distributors of virtual asset funds regulated in the Cayman Islands?	13
Are there requirements for intermediaries seeking to provide trading in virtual assets for clients or advise clients on virtual assets in the Cayman Islands?	13
Are Airdrops under the regulatory oversight of CIMA?	13
Under what condition can licence, waiver, registration or issuance of Crypto be revoked?	14
5. Other relevant regulatory information	14
Are there any upcoming regulatory developments in respect of crypto-related activity in the Cayman Islands?	14
Has there been any notable events in the Cayman Islands that has prompted regulatory change recently?	14
6. Pending litigation and judgments related to virtual assets in the Cayman Islands (if any)	14
7. Government outlook on virtual assets and crypto-related activities in the Cayman Islands	14
8. Advantages of setting up a VASP in the Cayman Islands	14

1. Virtual asset laws and regulations in the Cayman Islands

The regulatory landscape governing virtual assets in the Cayman Islands is governed by several legislative instruments. The **Virtual Assets (Service Providers) Law, 2020** which was enacted on 25 May 2020, is the foundational framework. Subsequent amendments and additions were made to the VASP Act 2020, including the **Virtual Assets (Service Providers) Regulations, 2020** enacted on October 28, 2020, and the **Virtual Asset (Service Providers) (Savings and Transitional) Regulations, 2021**, introduced on January 11, 2021, provide additional specifications and transitional provisions. The enactment of the **Virtual Asset (Service Providers) Act (2022 revision)** published on December 31, 2021, further provided some amendments with an aim to refine the regulatory landscape of Virtual Assets. Notably, the **Virtual Asset (Service Providers) (Amendment) Act, 2023**, implemented on May 16, 2023 extended inclusion of various corporate structures and the clarification of responsibilities in case of default. The amendment also involves modifications to the definition of VASPs and outlines offenses related to incorporation. The Cayman Islands Government passed further amended legislation for the purpose of Revision to the VASP Amendment Act of 2023, which was superseded by the **Virtual Asset (Service Providers) Act (2024 Revision)**, which came into force from 31 July 2024, introduced measures such as mandatory segregation of client assets, enhanced financial disclosures, and non-refundable fee for applications and licences.

Recognising need for amendment in VASP Act (Revision 2024) the Cayman Islands Monetary Authority published **Virtual Assets (Service Providers) (Amendment) Bill, 2024**, Supplement No. 13 in Legislation Gazette No. 41 dated 15 November 2024 with further amendments by changing and substituting definitions, including audit requirements, enhanced client protection measures, and penalties of up to CI\$100,000 for violations.

This amendment, along with previous acts, regulations, and subsequent changes, will be collectively referred to as the **VASP Act** here. Complementing these acts are related legislative measures such as the Securities Investment Business (Amendment) Law, 2020 (**SIBA**), Anti-Money Laundering Regulations (2023 Revision) on January 12, 2023 (**AMLR**), and the Proceeds of Crime Law (2020 Revision) (**POCA**). The regulatory framework is further supported by the **Mutual Funds Act (2021 Revision)**, Private Funds (Annual Returns) Regulations, 2021 (**PFA**), and the **Monetary Authority (Administrative Fines) Regulations (2022 Revision) (Fines Regulations 2023)**. Additionally, the International Tax Co-operation (Economic Substance) Act (**ITCESA**) complements these regulations, underscoring the comprehensive approach adopted by the Cayman Islands in regulating virtual assets, ensuring compliance, and fostering a robust and transparent financial environment.

What is considered a virtual asset in the Cayman Islands?

The VASP Act defines virtual assets as digital representations of value that can be digitally traded or transferred. These assets hold utility for both payment and investment purposes. It's important to note that within this definition, virtual assets exclude digital representations of fiat currencies, further under section 3(2) of VASP Act, explicitly excludes virtual service tokens as well. Virtual services tokens are digital representation of value which is non-transferable, non-exchangeable and non-refundable and their sole function is to provide access to an application or service or to provide a service or function directly to its owner such as credit card awards, or similar loyalty program rewards or points, which an individual cannot sell onward in a secondary market. For the purposes of this VASP Act (2024 Revision), virtual service tokens are not virtual assets and a person or legal arrangement that provides services that involve virtual service tokens only are not required to have a licence or registration under the VASP Act (Revision 2024).

The definition of virtual assets specifically excludes a digital representation of fiat currency like Central Bank Digital Currencies (**CBDCs**). Conversely, Stablecoins are pegged to the value of dollar or some other asset and are not sanctioned by state machinery, and considering its impact on financial landscape of the country, it would fall within the definition of virtual asset under the VASP Act. The definition of virtual assets is expansive and can be construed to cover stablecoins and security tokens. However the definition can be stretched to envelope utility tokens only to the extent where they are not covered under the definition of virtual services tokens. Non-Fungible Tokens (**NFTs**) are not subject to specific regulations under the VASP Act, however it might be covered under the definition of virtual assets on a case to case basis where characteristics of NFTs match with either virtual assets or securities. That said, NFTs that will satisfy and fall within the scope of virtual service tokens will not be considered as virtual assets.

The Amendment Bill of 2024 inserts the definition of *Convertible virtual asset*:

“convertible virtual asset” means a virtual asset which may be accepted, exchanged or transferred in exchange for another virtual asset or fiat currency or any other value by way of any type of function or feature of the virtual asset or third-party intermediary;

The word 'accepted' creates a new relationship which could imply that any virtual asset designed to be usable in exchange for goods, services, or other assets might fall under the regulatory framework, regardless of whether a formal "sale" takes place.

Who do such laws and regulations apply to?

The VASP Act in the Cayman Islands applies to all entities that are either currently engaged in, or have the intention to provide, virtual asset services. These services, as defined under the VASP Act, covers a range of activities, including the issuance of virtual assets and the provision of various services related to virtual assets. These include the exchange between virtual assets and fiat currencies, exchange between different forms of convertible and non convertible virtual assets, transfer of virtual assets, virtual asset custody services, and participation in or provision of financial services linked to virtual asset issuance or sale. The definition ensures that it covers a wide range of entities, including issuers of virtual assets, virtual asset custodians, virtual asset trading platforms, and those offering financial services related to the sale of virtual assets, such as virtual asset dealers and intermediaries to the extent they come under the scope of definition under virtual asset services. The VASP Act provides a framework for the conduct of virtual asset business in the Cayman Islands, the registration and licensing of persons providing virtual asset services and for incidental and connected purposes.

In accordance with the VASP Act, under Section 3, the term "virtual asset service provider" includes the following types of entities:

- i. a company incorporated under the Companies Act (2023 Revision);
- ii. a general partnership established under the Partnership Act (2024 Revision);
- iii. a limited partnership registered under the Partnership Act (2024 Revision);
- iv. an exempted limited partnership registered under the Exempted Limited Partnership Act (2021 Revision);
- v. a foreign company registered under Part IX of the Companies Act (2023 Revision);
- vi. a limited liability company formed and registered under the Limited Liability Companies Act (2023 Revision);
- vii. a limited liability partnership formed and registered under the Limited Liability Partnership Act (2023 Revision),

When the above mentioned entities provide virtual asset service as a business or in the course of business in or from within the Cayman Islands and is registered or licensed in accordance with the VASP Act (Revision 2024) or is a supervised person that is granted waiver by CIMA, will fall under the meaning of a VASP.

Virtual asset service means the issuance of virtual assets or the business of providing exchange between virtual assets and fiat currencies or exchange between one or more other forms of convertible virtual assets, or transfer of virtual assets or virtual asset custody service, or participation in, and provision of, financial services related to a virtual asset issuance, or the sale of a virtual asset, for or on behalf of a natural or legal person or legal arrangement.

Under Section 3(2) of VASP Act (Revision 2024) Virtual service token are are not virtual assets and a person or legal arrangement that provides services that involve virtual service tokens only are not required to have a licence or registration under VASP Act (Revision 2024).

When assessing whether a particular activity qualifies as a virtual asset service in the Cayman Islands, it is crucial to analyse the nature of the service and its practical function. For instance, engaging in activities related to non-fungible tokens or virtual service tokens, even if not explicitly named as such, may still be categorised as virtual asset services if these tokens are intended for payment or investment purposes in practice. The determination of whether an activity falls under the definition of a virtual asset service should be made on a case-by-case basis, emphasising the practical implications and functions of the services provided, rather than relying solely on specific terminology.

Who are the relevant regulatory authorities in relation to virtual assets in the Cayman Islands?

In the Cayman Islands, the Cayman Islands Monetary Authority (**CIMA**) plays a crucial role in regulating and supervising the financial services industry, monitoring compliance with anti-money laundering regulations, and providing regulatory guidance through policies, procedures, rules, statements of principle and guidance. Additionally, the regulatory landscape for the FinTech industry is governed by designated authorities with specific responsibilities. The Financial Intelligence Unit (**FIU**), operating under the Cayman Islands' Financial Reporting Agency (**FRA**), is tasked with deterring, preventing, and detecting money laundering, terrorist financing, and proliferation financing. Additionally, the FIU oversees sanctions compliance. Further, the VASP and FinTech sector may encounter additional regulatory oversight from various authorities. The Department for International Tax Cooperation (**DITC**) supervises economic substance and automatic exchange of information. Beneficial ownership is monitored by the Cayman Islands Registrar, while data protection falls under the purview of the Cayman Islands Data Protection Ombudsman. These ancillary regulations complement the broader regulatory framework, ensuring a comprehensive approach to governing the VASP and FinTech industry in the jurisdiction.

What are the penalties for breaches of virtual asset laws and regulations in the Cayman Islands?

In the Cayman Islands, under section 37 of the VASP Act, individuals contravening any provision of the VASP Act without a specified penalty commit an offence. Upon summary conviction, such individuals may face a fine of four thousand dollars. Offences in the jurisdiction are classified into three levels – very serious, serious, and moderate – based on the severity and nature of the violation. The penalties prescribed under the VASP Act (2024 Revision) and the VASP (Amendment) Bill, 2024 are outlined in the table below:

Violation	Description	Fine (CI\$)	Recurring Penalty
General contraventions	Contravention of provisions for which no specific penalty is provided	4,000	None
Non-compliance with Authority direction	Failing to comply with a cease and desist direction	50,000 (summary) or 100,000 (indictment)	10,000 per day after conviction
Providing false or misleading information	Providing false or misleading information to the Authority	20,000	None
Unauthorized virtual asset services	Operating without registration, license, or waiver	25,000	10,000 per day after conviction
Unauthorized custody/trading platform operations	Operating custody services or trading platform without license	100,000	10,000 per day after conviction
Auditor non-compliance	Auditor failing to notify Authority of fraudulent or criminal behavior	20,000	None
Late payment of renewal fees	Failing to renew license/registration by January 15	Varies (1/12 monthly surcharge)	10% administration fee upon lapse
Wilful obstruction of investigation	Obstructing a constable during investigation or search	100,000	Up to 5 years imprisonment
Contraventions of Anti-Money Laundering Regulations	Failure to comply with AML obligations	Determined by Authority	Additional administrative fines possible

Violation	Description	Fine (CI\$)	Recurring Penalty
Failure to notify CIMA	Failure to notify CIMA within 15 days to the changes to the information provided in application for registration	20,000 on summary conviction	None

2. Regulation of virtual assets and offerings of virtual assets in the Cayman Islands

Are virtual assets classified as ‘investments’ or other regulated financial instruments in the Cayman Islands?

In the Cayman Islands, virtual assets are not generally classified as ‘investments’ but instead are defined as digital representations of value that can be digitally traded or transferred and which have the necessary capacity to be used for payment or investment purposes. Virtual assets may be classified as securities if they demonstrate the characteristics as outlined in SIBA. It is noteworthy that the definition of “securities” within SIBA encompasses virtual assets that can be immediately sold, traded, or exchanged, and either represent or can be converted into traditional securities forms (such as equity interests, debt instruments, options, or futures), or represent a derivative of traditional securities. Any entity established, registered, or operating within the Cayman Islands engaging in the dealing, arranging, managing, or advising on the acquisition or disposal of digital assets may fall under the purview of SIBA to the extent that the relevant digital assets qualify as “securities” as defined by SIBA. Such entities might be required to obtain registration or licensing from CIMA under the SIBA framework. This requirement may be in addition to obtaining registration or a licence mandated under the VASP Act. Although CIMA reserves the rights to waive such obligation upon application by an applicant entity to CIMA, if they are satisfied that the regulation of such entities is better suited to be regulated under the VASP Act, due to the technology involved and complexity of the business activity. The requirement of additional licence under SIBA or other regulatory laws arises when the licensee of VASP Act is carrying on a business activity that is materially similar to business activity which falls under the scope and regulation of SIBA or other regulatory laws. The requirement of additional licence arises when CIMA is of the view that additional licence would provide sufficient oversight and supervision for the relevant business activity. If CIMA approves that such business activity is suited for supervision under SIBA or another regulatory laws, CIMA shall cancel the registration or revoke the licence under VASP Act (Revision 2024). In certain situations, relevant business activity might require additional oversight under SIBA or another regulatory laws, and to ensure compliance, the registered person or licensee have to apply for additional licence, without cancellation of registration or licence under VASP Act (Revision 2024).

Are stablecoins and NFTs regulated in the Cayman Islands?

As stablecoins are pegged to the value of dollar or some other asset, it would likely fall within the definition of virtual asset under the act given that it is not a representation of fiat currency. Non-fungible tokens are regulated under the Cayman Islands regulations to the extent where they fall under the definition provided under the VASP Act. However virtual service tokens which are defined as non transferrable or exchangeable with any third party at any time are outside the ambit of the regulations of Cayman Islands. The exclusion is limited to the scope of virtual service tokens whose sole function is to provide access to an application or services or to provide a service or function directly to its owners.

NFTs are not subject to specific regulations under the VASP Act, however it might be covered under the definition of virtual assets on a case by case basis where characteristics of NFTs match with either virtual assets or securities. That said, NFTs that will satisfy and fall within the scope of virtual service tokens will not be considered as virtual assets. Any NFTs having characteristics of virtual services tokens are not regulated in Cayman Islands nor are the person or legal entity engaged in such business activity required to have a license or registration under the VASP Act.

Are decentralised finance (DeFi) activities (e.g. lending virtual assets) regulated in the Cayman Islands?

The Cayman Islands do not aim to regulate the technology behind virtual assets but focus on the individuals or entities using technology or software applications to conduct virtual asset services as a business. Those involved in developing or selling software applications or new virtual asset platforms (such as FinTech service providers) are not considered VASPs solely for developing or selling the application or platform. However, they may be classified as VASPs if they use the application or platform to engage in virtual asset services on behalf of others. Similarly, decentralized finance (**DeFi**) applications themselves are not VASPs, but individuals or entities involved in creating, owning, operating, or maintaining control over DeFi arrangements may fall under the FATF definition of a VASP if they provide or actively facilitate VASP services. It may fall under the scope of the regulations VASP Act only to the extent they are covered under the definitions of FinTech services. The term 'FinTech services' under the VASP Act means services that uses technology to improve, change or enhance how a financial service business is conducted but FinTech services are not considered as virtual asset services under the VASP Act. FinTech service provider means a person who is carrying on fintech service in or from within Cayman Islands but does not provide virtual asset service. In absence of regulatory guidance on FinTech services related to virtual assets, entities involved in financial business activities must seek instructions either in form of registration or waiver from CIMA to conduct their business.

The determination of whether an activity falls under the regulations should be made on a casebycase basis, emphasising the practical implications and functions of the business activity.

Are there any restrictions on issuing or publicly offering virtual assets in the Cayman Islands?

Entities seeking to publicly offer Virtual Assets in the Cayman Islands are required to be licensed by the CIMA under the VASP Act. The issuance of virtual assets is subject to restrictions when there is a material risk to the welfare of the public and the stability of the financial services in the Cayman Islands.

Under section 7(1) of the VASP Act, a registered person is prohibited from issuing virtual assets directly to the public in excess of the prescribed threshold. Restrictions on the public offering of virtual assets are in place to prevent disruption or prejudice to the CIMA's functions, the public's interests, or the financial services in the Islands. These measures are designed to regulate and safeguard the issuance of virtual assets, ensuring adherence to established thresholds and maintaining the stability of the financial environment in the Cayman Islands.

In the context of virtual asset issuance, CIMA's approval decisions hinge on whether a sale of newly created virtual assets to the public within the Cayman Islands is deemed applicable. This determination is guided by the assessment of various factors, including:

- i. CIMA evaluating whether the virtual asset sale is advertised through promotional materials, announcements, or statements in a manner accessible to individuals or entities within the Cayman Islands. The participation of local entities or individuals in the issuance, either directly from the issuer or indirectly through a third party facilitating the sale, is a key consideration;
- ii. for offering from within the Islands, a person or entity listed in section 3(1) of the VASP Act offers newly created virtual assets for sale from within the Cayman Islands, CIMA examines whether the sale is not advertised locally, and individuals or entities within the Islands are not able to participate in the issuance; and
- iii. CIMA distinguishes between a private sale and a public sale. A private sale involves a limited number of persons or entities selected through a private agreement and is not subject to public advertisement. Whereas a public sale of virtual assets are made to the public at large and CIMA requires advertisement of such assets before they are sold to the public. [Public not defined?]

Where the virtual asset is classified as a 'security' and falls within the scope of the SIBA framework, the entity must obtain a licence under the SIBA framework or a waiver from CIMA for the issuance.

Are there any exemptions to the restrictions on issuing or publicly offering of virtual assets in the Cayman Islands?

If a registered person wishes to issue virtual assets directly to members of the public in excess of the prescribed threshold, then they must submit an issuance request to CIMA and obtain its approval Notwithstanding the provisions in section 7(1),7(1A) and 7(2) of the VASP Act (2024 Revision), a registered person is permitted to involve one or more virtual asset trading platforms that are either obliged entities or licensed under the VASP Act for the

issuance of newly created virtual assets exceeding the prescribed threshold. A Registered person, prior to engaging an obliged or licensed Virtual asset trading platform must submit a virtual asset issuance request to CIMA and obtain its approval. Upon approval by CIMA, the issuance of newly created virtual assets can be facilitated through the engaged virtual asset trading platforms. What does this mean?

3. Regulation of VASPs in the Cayman Islands

Are VASPs operating in the Cayman Islands subject to regulation?

Yes, a person who wishes to carry on in or from within the Cayman Islands involved in the business of providing virtual asset services must apply to CIMA for registration as a VASP. Licensed VASPs are able to (i) carry on the business of providing a virtual asset service; (ii) engage in the business of providing a virtual assets custody service; or (iii) operate a virtual asset exchange.

Are VASPs providing virtual asset services from offshore to persons in the Cayman Islands subject to regulation in the Cayman Islands?

Yes, any offshore VASP that wishes to provide virtual asset services to persons in the Cayman Islands will need to be registered or licensed with CIMA based on the nature of services rendered by VASP and the requirements associated with it the VASP Act.

What are the main requirements for obtaining licensing / registration as a VASP in the Cayman Islands?

Section 6(1) of the VASP Act outlines the relevant requirements and fee for registration of VASPs along with procedures and documents required by CIMA. CIMA requires that entities engaged in or wishing to engage in virtual asset services must complete the two application forms for VASPs [(APP-101-84 and APP-101-84a)] which are available on 'REEFS' portal. The applicant, as part of outlining the requirements, is mandated to furnish details such as its name, any previous names or trading names, date and places of formation, legal entity identifier, legal structure, and registration number. The applicant is also required to disclose its licensing or registration status in other jurisdictions, including relevant details such as the date of commencement, licensing authority, and any associated requirements or restrictions. Additionally, the applicant must provide information about its involvement or control over other entities engaged in virtual asset services in various jurisdictions. The applicant further needs to furnish details about any virtual asset services provided in jurisdictions outside those listed initially. Lastly, the applicant is obligated to acknowledge and disclose any penalties or enforcement actions imposed in other jurisdictions.

The application for registration as a VASP requires the submission of various documents along with application forms APP-101-84 and APP-101-84a.

The application for applying to CIMA to be registered as a VASP must include, amongst others, the following information:

- i. the nature, function and purpose of the virtual asset service;
- ii. the revenue for the prior twelve months or, if unavailable, the projected revenue for the twelve month period following an application for each virtual asset service to be provided;
- iii. the manner in which the virtual asset service will be provided to the public; and
- iv. identified risks associated with the virtual asset service, including data security risks and steps put in place to mitigate these risks, including any insurance arrangements;
- v. provide an outline of internal safeguards and data protection systems that will be put in place to protect the assets and data of clients;
- vi. copies of cyber security policies following CIMA's guidance on cyber security;
- vii. copies of Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) policies in line with the Anti-Money Laundering Regulations and Guidance Notes;

- viii. comprehensive business plan;
- ix. transaction flow charts;
- x. details of outsourced arrangements and related agreements.
- xi. completed Declaration of Source of Funds/Source of Wealth form with supporting evidence for major shareholders;
- xii. list of the applicant's blockchain addresses (per coin);
- xiii. details of all shareholders with more than a 10% shareholding along with a completed CIMA personal questionnaire;
- xiv. information on Chief Information Officer/Chief Information Security Officer;
 - a. certified copies of academic and professional qualification certificates of senior management staff;
 - b. police Clearance certificate or affidavit of no criminal convictions;
 - c. a fully completed Personal Questionnaire;
 - d. two character references;
 - e. one financial reference;
 - f. an updated and comprehensive curriculum vitae;
- xv. details of each Anti-Money Laundering Compliance Officer, Money Laundering Reporting Officer, and Deputy Money Laundering Reporting Officer;
- xvi. if the service provider be issuing virtual assets, the entity shall complete an issuance request form and include it with this application.

Apart from the VASP Act, entities offering virtual asset services in the Cayman Islands are obligated to adhere to Anti-Money Laundering, Countering the Financing of Terrorism, and Countering Proliferation Financing (AML/CFT/CPF) requirements, as well as sanctions obligations outlined in the AMLR and the CIMA's Guidance Notes.

Every application for registration requires a KYD 1,000 assessment fee, payable through the REEFS portal at the time of submitting the application. It should be noted that the assessment fee paid to CIMA is non-refundable. Additionally, registrants are obliged to pay the application fee upon approval of their registration application as per the specifications provided by CIMA. The table below provides for fee as required to be paid by applicant/ approved entity as the case may be;

Category	Sections	Fee (in KYD)
Assessment fee for registration (fee applies to all applications for registration)	6(1)	\$1000
Application fee for registration of an existing licensee or person already registered under another regulatory Law	5(2)	\$1,000

Category of VASP	Amount Raised/ Revenue generated	Category	Fee (in KYD)
VASP engaging in issuance of virtual assets only			
	Not exceeding one million dollars	Issuance of not convertible virtual assets through exchanges	\$1,500
	Not exceeding one million dollars	Issuance of not convertible virtual assets directly to the public	\$2,500
	Not exceeding one million dollars	Issuance of convertible virtual assets	\$2,500 - \$5,000
	Exceeding one million dollars	Issuance of not convertible virtual assets through exchanges	\$3,500
	Exceeding one million dollars	Issuance of not convertible virtual assets directly to the public	\$5,000
	Exceeding one million dollars	Issuance of convertible virtual assets	\$5,000 - \$10,000
VASP providing virtual asset services not including issuance services			
	Generated revenue not exceeding five hundred thousand dollars	Virtual asset services offered to persons within the islands	\$1,000 - \$1,500
	Generated revenue not exceeding five hundred thousand dollars	Virtual asset services offered to persons outside of the islands	\$2,500 - \$5,000
	Generated revenue exceeding five hundred thousand dollars	Virtual asset services offered to persons within the islands	\$3,500 - \$5,000
	Generated revenue not exceeding five hundred thousand dollars	Virtual asset services offered to persons outside of the islands	\$7,500 - \$15,000

What are the main ongoing requirements for VASPs regulated in the Cayman Islands?

VASPs registered in the Cayman Islands are subject to the certain ongoing obligations under the VASP Act including, amongst others, the following:

- i. VASPs are required to annually provide for auditor's report at their own expense, prepared by an independent auditor on Anti-money Laundering (**AML**) systems and procedures for compliance with the AMLR;
- ii. VASPs are required to implement measures to identify and report unusual or suspicious movements of funds, value, or transactions indicative of potential involvement in illicit activity;
- iii. VASPs shall prepare accounts annually and make it available for inspection upon request by CIMA;
- iv. senior officers, trustees and beneficial owners should be fit and proper;
- v. VASPs shall take necessary steps to protect and secure personal data and virtual assets of the clients;

- vi. VASPs shall ensure communications relating to virtual assets service are clean;
- vii. VASPs shall ensure compliance with AMLR and other laws relating to the combating of money laundering, terrorist financing (**TF**) and proliferation financing (**PF**) and shall put in force AML systems and procedures along with an officer with responsibility for the same;
- viii. VASPs shall be ready to provide any document, statements or such other information required by the CIMA to perform its functions;
- ix. VASPs shall pay renewal fee on or before 15th January of every year for renewal of their license or registration; and

directors, senior officers and other relevant persons of VASPs must continue to comply and satisfy with the “fit and proper” criteria.

What are the main restrictions on VASPs in the Cayman Islands?

The Cayman Islands imposes various restrictions on entities involved in virtual asset services to ensure compliance with international standards and prevent illicit activities. Any VASP that wishes to conduct its business in or from within the Cayman Islands would require to be registered or licensed under the VASP Act (Revision 2024). Additionally, SIBA regulates entities engaged in securities investment business, relevant business activities include dealing, arranging, managing, or advising on digital assets where they meet the definition of “securities” under the SIBA. VASPs are restricted from issuing virtual asset which have the inherent characteristics of securities without prior licensing or waiver. Any VASP issuing securities must have a license under the SIBA framework or obtain a waiver from CIMA to engage in such activities.

Further, a VASP is prohibited from providing financing to clients for virtual asset purchases without adequate disclosures on terms and risks. Additionally, engaging in trading or market making for the licensee’s own account is restricted unless necessary for platform operation and disclosed to clients. The platform must ensure that virtual assets traded are not presented deceptively, and clients are only allowed to trade after being made aware of associated risks through comprehensible disclosures. Furthermore, providing fiat-to-fiat exchange services to platform users is not permitted. These regulations aim to foster transparency, client protection, and the integrity of virtual asset trading within the jurisdiction.

As per Section 4 of the VASP Act (Revision 2024) and further amended by the Amendment Bill of 2024 mandates any person or entity issuing or publicly offering virtual assets must either, be registered or licensed under the VASP Act (Revision 2024) or obtain a specific waiver from the CIMA. Public offering or issuance without appropriate authorization is strictly prohibited. Virtual asset activities that are materially similar to regulated financial services (e.g., securities or fund offerings) may require additional licensing under other relevant regulatory laws. Section 9 of the VASP Act (Revision 2024) and subsequent Amendment Bill mandates that a VASP must have its business plan, including any planned issuance of virtual assets, approved by CIMA. Changes to the approved plan, such as initiating new token issuances, require prior written consent from CIMA and virtual assets issued must align with the approved business model and comply with the conditions of the license or registration.

Section 4(5) of the VASP Act (Revision 2024) and subsequent Amendment Bill, entities not licensed, registered, or granted a waiver are prohibited from representing themselves as being authorized to issue virtual assets. Under Section 9(3)(c) of the VASP Act (Revision 2024) and subsequent Amendment Bill, issuers must ensure all communications, disclosures, and promotional materials are accurate and transparent. Under Section 10, custodians of virtual assets must provide full disclosures to clients about risks, custodial safeguards, and any associated fees or obligations.

As per Section 15(3) of the VASP Act (Revision 2024) and subsequent Amendment Bill, virtual service tokens used strictly for digital services within a closed ecosystem may be exempt from certain requirements. In reference with the Convertible Virtual Assets, tokens that can be exchanged for fiat currency or other assets are subject to stricter regulations, particularly around Anti-Money Laundering (**AML**) and Countering the Financing of Terrorism (**CFT**) compliance. Virtual assets offering financial returns, ownership rights, or dividends may fall under securities regulations in addition to the VASP Act. Tokens distributed as part of a promotional strategy (e.g., airdrops) without monetary or tradeable value may not fall under the same issuance restrictions, provided they meet criteria outlined in Section 15(3).

What are the main information that VASPs have to make available to its customers?

VASPs involved in the sale of virtual assets must provide detailed risk disclosures, market volatility and liquidity risks. Pricing information, fees and exchange rates must be clearly outlined. Additionally, transaction receipts detailing the asset, quantity, and value must be furnished. Maintaining buyer identity (**KYC**) and transaction records is mandated under the AML regulations of Cayman Islands.

For exchanges, VASPs must disclose current and historical exchange rates, fees, and the operational status of the platform. Transaction history, timestamps, amounts, and trading pairs, must be available for audit and client reference. Compliance with AML/CFT mandates the collection of beneficiary and originator information. Operational disclosures should include downtime notices, processing times, and refund policies for failed transactions.

A VASP providing virtual asset custody services is required to disclose information concerning transparency of operations, which includes risks associated with the custodial arrangements, internal safeguards, method of access to virtual assets, any associated fees or obligations and insurance agreements. They further require a VASP to disclose their custodial arrangement providing information about the manner which includes detailed records of client assets, including their nature, amount, location in where virtual assets will be held, the nature and manner of transactions that the custodian is permitted to engage in, disclosures relating to risk in safekeeping and mitigating factors, fees and spreads or other remuneration to the custodian, information about how clients can access their virtual assets, grounds on which the agreement can be terminated, matters relating to licensees security safeguards and remedies available to owners upon any unforeseeable loss of virtual assets by the custodian.

VASPs issuing virtual assets must provide whitepapers or offering documents explaining the asset's purpose, utility, and specifications. Business plans outlining fund usage, timelines, and operational goals must accompany the issuance. Clear risk and regulatory disclosures are mandatory, along with accurate and non-misleading marketing materials. Compliance involves verifying participant identities (**KYC**) and maintaining detailed records of the initial distribution, including recipients and allocations.

A VASP providing the services of a trading platform must make disclosures to customers concerning the transparency of operations of the virtual asset trading platform, including disclosures to clients regarding custodial arrangements and insurance against theft or loss of assets.

What market misconduct legislation/regulations apply to virtual assets?

A brief overview of the various market misconduct provisions in Cayman Islands legislation that may apply to virtual assets is set out below:

- i. **VASP Act**: provides for relevant rules and requirements concerning conduct of VASPs registered in the Cayman Islands and includes various offences including, amongst others, carrying out virtual asset services without licensing;
- ii. **SIBA**: provides for requirements for licensing of entities engaged in investment services in the Cayman Islands and includes various offences including, amongst others, carrying out investment services without licensing; and
- iii. **AML/TF / PF Regulations**: VASPs are required to comply with AMLR and the POCA to ensure adherence to ML/TF/PF regulations and ensure reporting of any illicit activity that comes under their notice promptly to CIMA;
- iv. **Economic Substance Requirements**: The ITCESA provides for VASPs to mandates that all Cayman Islands entities, including foreign entities registered in the Cayman Islands, must submit an annual notification to the Cayman Islands Tax Information Authority (**TIA**). It should be noted that economic substance does not include investment funds.

4. Regulation of other crypto-related activities in the Cayman Islands

Are managers of crypto funds regulated in the Cayman Islands?

The managers of crypto funds or the act of managing crypto funds in or from within, in the context of Cayman Islands regulation, investment funds focused on virtual assets that do not issue tokenized equity interests are likely to be regulated under the Private Funds Act or the Mutual Funds Act depending on the characteristics of the fund. Pending guidance from the CIMA, funds intending to issue tokenized equity interests may engage in virtual asset issuance, qualifying as a VASP activity, requiring licensing or registration with CIMA before launch. Funds considering virtual asset subscriptions or redemptions in-kind should seek advice on their regulatory status. Regarding offerings within the Cayman Islands, exemptions prohibit certain companies from offering securities to the public, and caution is advised to avoid activities constituting "carrying on a business" within the Cayman Islands, necessitating legal guidance. While these restrictions typically do not pose significant concerns, careful consideration of exempt entities and target investors is recommended. That said, if a crypto fund has the characteristics of securities, the managers would require to either get a license or registration from CIMA or apply for waiver of such requirements under CIMA.

Are distributors of virtual asset funds regulated in the Cayman Islands?

Distributors of virtual asset funds, or the act of distributing virtual assets fund in the context of Cayman Islands regulation, will fall in the category of private sale or public sale of virtual assets. In a private sale, virtual asset distribution is conducted through a controlled and exclusive process. The issuer, through private agreements, selectively chooses a limited number of individuals or entities, ensuring that the sale remains confidential and not publicly advertised. Participation is by invitation or within a closed network, allowing for a targeted and confidential distribution to a pre-approved audience. Notably, participants in a private sale benefit from an exemption from registering with CIMA.

Conversely, in a public sale, the distribution of virtual assets is open to a broader audience, with information disseminated through diverse channels such as online platforms and social media. This inclusive process enables interested individuals to participate without the need for pre-selection or private agreements, aiming to attract a diverse range of participants. Public sales are typically advertised widely to reach a broader market and generate interest from potential investors. Due to the larger and potentially riskier pool of participants involved, issuers are obligated to register with the CIMA to ensure compliance with regulatory measures.

That said, investment funds focused on virtual assets that do not issue tokenized equity interests are likely that they require additional licensing or registration under the Private Funds Act or the Mutual Funds Act in addition to the licensing or registration requirement of VASP Act (2024 Revision).

Are there requirements for intermediaries seeking to provide trading in virtual assets for clients or advise clients on virtual assets in the Cayman Islands?

The provision of trading services in virtual assets are explicitly listed as one of the services falling under virtual asset services, and entities intending to engage in such activities are required to obtain a licence as a Virtual Asset Trading Platform (VATP) under the VASP Act. Entities or intermediaries intending to provide trading services are required to submit an application for a virtual asset service license using the prescribed form. For a comprehensive understanding of the registration prerequisites, please refer to the relevant sections outlined above.

The VASP Act does not include advising clients on virtual assets as one of the services under the definition of virtual asset services. However the SIBA amendments 2020 expanded the definition of securities to include virtual assets which can be immediately sold, traded or exchanged with underlying characteristics of securities or derivatives as provided in schedule 1 of SIBA. Entities engaged in advising on virtual assets that qualify as securities are now subject to registration or licensing under the SIBA.

Are Airdrops under the regulatory oversight of CIMA?

The Airdrops as simple as it seems, covers a number of subtypes each displaying their own characteristics. To understand whether airdrops can be classified under sale or issuance of crypto asset, a case by case analysis is required. Airdrops refer to distribution of Virtual Asset or Virtual asset tokens to a number of people, often for free, as reward or for minimal effort, as a part of marketing strategy. Airdrops can be for promotion and increase visibility or reward users. Airdrop of Virtual asset token, both sale and issuance of tokens may fall outside the regulatory oversight of CIMA. For airdrops to be covered under sale or issuance of virtual asset under the VASP Act (Revision 2024) and the Amendment Bill of 2024, the regulation requires sale or issuance of the virtual asset,

where exchange takes place for certain consideration. By inserting term 'Convertible virtual asset' acceptance of virtual asset is brought under the regulatory oversight of CIMA. Airdrops could reasonably be covered under this definition if the distributed virtual assets are accepted within a network or ecosystem for exchange, transfer, or other transactions.

Under what condition can licence, waiver, registration or issuance of Crypto be revoked?

VASP Amendment Bill 2024 aims to delete section 27 of the VASP Act (Revision 2024), and substituting subsection (1). The amendments broadens the scope of revocation by the CIMA to cancel VASP licence, Sandbox licence, cancel waivers, cancel registration or even cancel the issuance of a virtual asset issuance under conditions like failure to comply with VASP 2024 Act, or act against the conditions of licencing, registration or waiver. CIMA can, among other actions, revoke issuance of crypto if an entity provides false or misleading investment, threatens client interest or violates the AML Regulations (2023 Revision). The amendment to subsection (2) deals with the duty of CIMA to publish revocation notices in the gazette. The amendment now makes the publishing of notice of revocation of licence, waiver, registration or cancellation of issuance of crypto is made obligatory by instituting 'it may' publish rather than the previous necessary mandate 'it shall' publish such Notice of revocation in Gazette.

5. Other relevant regulatory information

Are there any upcoming regulatory developments in respect of crypto-related activity in the Cayman Islands?

No.

Has there been any notable events in the Cayman Islands that has prompted regulatory change recently?

No.

6. Pending litigation and judgments related to virtual assets in the Cayman Islands (if any)

There are no notable judgments or any pending litigation in the jurisdiction.

7. Government outlook on virtual assets and crypto-related activities in the Cayman Islands

The Cayman Islands legal system is rooted in English Common Law which provides stability. The jurisdiction's significant financial and tax incentives for businesses, including the absence of local corporate, income, sales, or capital gains taxes. It is a leading International Financial Center with a stable, pro-business regulatory environment, meeting high anti-money laundering compliance standards. The Cayman Islands provide proximity to the U.S. and global markets, enabling businesses to leverage opportunities and operate within a diverse global team. Foreign ownership is allowed, with no earning criteria, and businesses benefit from world-class infrastructure, including cutting-edge IT, reliable telecommunications, and data centers etc.

8. Advantages of setting up a VASP in the Cayman Islands

Financial & Tax Incentives:

Tax Environment: The Cayman Islands offer an advantageous tax environment for businesses. There are no local corporate, income, sales, or capital gains taxes, providing a competitive edge in the global market. This allows CEOs and their businesses to operate without the burden of various taxation, fostering a financially favorable climate.

International Financial Center: The Cayman Islands hold the distinction of being one of the world's leading International Financial Centers. It serves as the top hedge fund jurisdiction globally, attracting financial institutions and businesses seeking a robust and reputable financial ecosystem.

Stable, Pro-Business Regulatory Environment:

Compliance and Stability: Cayman complies with the highest anti-money laundering standards, ensuring a secure financial environment. As a British Overseas Territory, it enjoys stability both politically and economically. The legal system, rooted in English Common Law, provides a solid foundation for businesses seeking regulatory clarity.

Intellectual Property Protection: The jurisdiction boasts comprehensive legislation surrounding intellectual property, assuring businesses that their assets are well-protected. This legal framework enhances confidence in establishing and operating businesses in the Cayman Islands.

Concessions for Cayman Enterprise City: Businesses establishing themselves through Cayman Enterprise City receive concessions, streamlining the set-up process. This initiative aims to make it quick, easy, and cost-effective for global businesses to operate within the jurisdiction.

Proximity to U.S and Global Markets:

Geographical Advantage: The Cayman Islands' strategic location, just an hour away from the U.S. by plane, offers businesses unique advantages. This proximity facilitates efficient engagement with U.S. opportunities, allowing companies to work within a diverse global team while benefiting from the stability and protections of UK laws.

Foreign Ownership and No Earning Criteria:

Global Corporate Citizen Program: Those officially designated as corporate personnel in the Cayman Enterprise City can participate in the Global Corporate Citizen Program. This program allows for 100% foreign ownership, enabling businesses to operate globally using a Zone Trade Certificate.

Flexibility in Staffing: The absence of earning criteria means that businesses, including C-suite executives, can operate without specific financial benchmarks, providing flexibility in staffing and operations.

World-Class Infrastructure:

Cutting-Edge IT and Infrastructure: The Cayman Islands lead in terms of infrastructure in the Caribbean. Special Economic Zones (**SEZs**) offer cutting-edge IT infrastructure for businesses to leverage. This includes offshore hosting, payment gateways, high-speed Internet, reliable cell service, and two Tier-3 data centers.

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