



# **An overview of the regulation of virtual assets in Bahamas**

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# 1. Digital asset laws and regulations in Bahamas

The Bahamas established itself as a pioneer in digital asset regulation, becoming one of the first jurisdictions to introduce legislation for Digital Asset Businesses in 2020. The [Digital Assets and Registered Exchanges Act, 2020](#) brought into force on 14 December 2020, set the foundation for regulating the issuance, sale, and trade of digital assets. The commission found some gaps in the existing legislation and to cure these defects introduced the Digital Assets and Registered Exchanges Act, 2024 ([DARE Act, 2024](#)), the previous legislation has been repealed. DARE 2024 governs the issuance, sale, and trade of digital assets both within The Bahamas and for entities operating from the jurisdiction. It also sets out the process for registering any individual or entity involved in digital asset businesses (**DABs**) or as digital asset service providers (**DASPs**). This legislation creates a clear regulatory structure, ensuring that all virtual asset offerings and related activities meet defined standards. DABs operating in The Bahamas must comply with legislation such as the [Proceeds of Crime Act, 2018](#), the [Anti-Terrorism Act, 2018](#), [Securities Industry Act, 2024](#) and the [Financial Transactions and Reporting Act, 2018](#).

In addition, DABs must adhere to the [Digital Assets and Registered Exchanges \(Anti-Money Laundering and Countering the Financing of Terrorism\) Rules, 2022](#), which provide guidelines on AML/CFT compliance for digital asset businesses. Adhering to these laws is crucial for DABs to establish and maintain effective AML/CFT programmes, helping to prevent financial crimes and maintain the integrity of the digital asset sector in The Bahamas. This progressive approach reinforces The Bahamas' position as a leading jurisdiction for digital asset regulation, ensuring that businesses can operate in a transparent and secure environment.

## **What is considered a digital asset in Bahamas?**

The Digital Assets and Registered Exchanges Act, 2024 defines a digital asset as any value or right that can be transferred and stored electronically, typically using blockchain or similar technology. This definition covers a range of assets, from cryptocurrencies to tokenized assets, and other digital financial products.

The Act identifies several types of digital assets. One is asset tokens, which represent a claim against an issuer and are often backed by real-world assets. These tokens get their value from the underlying asset, making them more stable. Another type is digital asset derivatives, which are contracts that rely on the value of another digital asset, like options or futures, and are used for investment or trading purposes.

Digital currencies, such as government-backed digital money, are also included under the Act. These work like regular currency but are entirely digital. Non-fungible tokens (**NFTs**) are unique digital items, like digital art or collectibles that cannot be swapped one-for-one because each is different. stablecoins are digital assets designed to have a stable value by being tied to things like fiat currency or other assets, reducing the price swings seen with other cryptocurrencies.

In simple terms, the Act regulates all types of digital assets, ensuring they are securely managed and traded within The Bahamas. This allows for innovation while protecting users and promoting trust in the growing digital economy.

## **Who do such laws and regulations apply to?**

This comprehensive Act applies to a broad spectrum of participants, including businesses that operate cryptocurrency exchanges, facilitate digital payments, or offer services such as digital asset custody, trading, and advisory. Whether you're issuing digital tokens, trading on exchanges, or managing digital portfolios, compliance with these regulations is essential. The Act meticulously governs everything from initial coin offerings (**ICOs**) and token sales to stablecoins and digital asset derivatives, ensuring all players operate with integrity and accountability. Specifically, it targets:

- a) **Digital Asset Businesses:** Any business that deals with digital assets, such as cryptocurrency exchanges, payment service providers, or entities offering digital asset custody, trading, or management services. These businesses must be registered and follow specific regulations, including financial requirements, reporting, and data protection.
- b) **Issuers of Digital Assets:** This includes any entity or individual that creates, sells, or offers digital assets (like tokens or stablecoins) to the public. They must comply with rules on disclosure, registration, and ensuring the security and backing of the assets they issue.

- c) **Investors and Purchasers:** People or organizations that buy, trade, or hold digital assets within The Bahamas are also covered by the Act. This ensures that they engage with regulated entities and have protection from fraudulent or unfair practices.
- d) **Token Offering Participants:** Any individual or group involved in the formation, promotion, sale, or redemption of tokens must operate in accordance with the Act. This includes organizers, founders, or those participating in token sales.
- e) **Service Providers Related to Digital Assets:** Professionals like auditors, advisors, or legal representatives who assist in managing or advising on digital assets are also impacted by the Act if their work relates to registered digital asset businesses or offerings.

### **Who are the relevant regulatory authorities in relation to digital assets in Bahamas?**

The **Securities Commission of The Bahamas** is the primary authority overseeing digital assets under the Digital Assets and Registered Exchanges Act, 2024. The SCB is responsible for the registration, licensing, and regulation of digital asset businesses, ensuring compliance with anti-money laundering and counter-financing of terrorism laws. It also issues guidelines and rules for the proper conduct of these businesses, including overseeing token offerings and stablecoin issuance. Additionally, the SCB protects investors by promoting transparency and preventing fraud or market manipulation. Collaborating with bodies like the **Central Bank of The Bahamas** and the Bahamas' Financial Intelligence Unit (**FIU**), the SCB ensures a secure and compliant digital asset landscape.

The Central Bank of The Bahamas is responsible for the supervision of supervised financial institutions such as digital assets operating in and from within The Bahamas. Therefore, SFIs that are jointly supervised entities are expected to adopt the more conservative approach where there are conflicts between the Central Bank's guidelines and any requirements outlined by the SCB.

### **What are the penalties for breaches of virtual asset laws and regulations in Bahamas?**

The DARE Act, 2024 outlines penalties such as fines, suspension of operations, and revocation of registrations, but it does not provide specific monetary amounts for fines directly within the text of the Act. Instead, the exact monetary value of penalties is typically determined by the Securities Commission of The Bahamas, which has the authority to impose fines based on the severity and nature of the violation.

The Commission may set these penalties through subsequent regulations or guidelines, which could outline fine ranges or minimum amounts, based on the type of breach, such as failure to comply with financial reporting requirements, engaging in insider trading, or market manipulation. These fines are usually calculated depending on factors like the financial impact of the violation or the size of the business involved.

The table below sets out the main offences for contravention of the DARE Act:

<b>Violation Type</b>	<b>Penalties</b>	<b>Relevant Provisions</b>	<b>Brief Description of Violation</b>
Failure to Register Digital Asset Business	Fines and revocation of registration	Section 9 (Registration of Digital Asset Business)	Operating a digital asset business without proper registration.
Operating Without Sufficient Financial Solvency	Suspension of operations and fines	Section 15 (Financial Reporting Requirements)	Failing to maintain adequate financial solvency or liquidity for operations.
Insider Trading	Criminal charges, imprisonment, and fines	Section 68 (Inside Information)	Using non-public, material information to trade digital assets for personal gain.
Market Manipulation	Market ban, fines, and criminal charges	Section 71 (Prohibition of Market Manipulation)	Engaging in activities to distort market prices or deceive other market participants.

Violation Type	Penalties	Relevant Provisions	Brief Description of Violation
Non-compliance with AML/CFT Requirements	Fines and suspension of business operations	Section 33 (AML/CFT Prevention Measures)	Failure to comply with anti-money laundering or counter-terrorism financing regulations.
Issuing Unapproved Stablecoin	Revocation of registration and fines	Section 49 (Requirements for Stablecoins)	Issuing stablecoins without obtaining the necessary approval from the Securities Commission.
Failure to Submit Required Financial Reports	Fines and administrative sanctions	Section 15 (Financial and Other Reporting Requirements)	Failing to submit the required financial statements or reports to the Securities Commission.

## 2. Regulation of virtual assets and offerings of virtual assets in Bahamas

### **Are virtual assets classified as 'investments' or other regulated financial instruments in Bahamas?**

Under the Securities Industry Act, 2024 and the Digital Assets and Registered Exchanges Act, 2024, the classification of virtual assets in The Bahamas is based on their characteristics and usage, not automatically as "investments" or financial instruments. The Bahamas Test helps determine when a digital asset is decentralized enough to avoid being classified as a security. "Sufficiently decentralized" refers to the point at which a digital asset, project, or platform can operate independently without the need for ongoing intervention or control from its creators or any central authority. The key question the test asks is whether the asset would still function if its creators stopped working on it. If the answer is yes, then the asset is considered "sufficiently decentralized," reducing the risk of fraud and indicating it's not a security. This suggests that there is no ongoing contractual obligation to build or manage the software, and the absence of such a contract means the asset is not regulated as a security.

Additionally, the second part of the test focuses on whether the asset meets the "expectation of profit" requirement from the Howey framework, which is used to identify securities. However, applying the Howey test to digital assets, especially those issued in initial coin offerings or on decentralized platforms, can be challenging. Even if people buy tokens expecting a profit, decentralized platforms often lack a central entity managing the project, making it hard to apply traditional securities criteria. As a result, many digital assets may not be classified as securities even when they are bought with profit expectations. Differentiating between utility tokens and investment tokens might require close consideration of the facts surrounding each case. Utility tokens are used for consumption within a specific platform or service, while investment tokens are designed to generate returns. However, some digital assets serve both purposes, making their classification more complex.

However, the DARE Act 2024 generally governs virtual assets and their issuance, sale, and trade, providing exemptions for certain types of digital assets that do not fall under traditional securities laws. Virtual assets intended for utility purposes, such as those used solely within a particular platform or service, are typically not classified as securities. Section 2 of the DARE Act defines "digital assets" and sets out the criteria for distinguishing between utility tokens and securities. Meanwhile, Section 198(1) of the Securities Industry Act specifically states that certain virtual assets or classes of instruments, such as those within prescribed exemptions, may not be treated as securities.

### **Are stablecoins and NFTs regulated in Bahamas?**

Stablecoins and NFTs are regulated in The Bahamas under the DARE Act, 2024, but their treatment depends on their nature.

Stablecoins, designed to maintain a stable value by being pegged to reserve assets like fiat currency or commodities, face strict regulation. Issuers must maintain adequate reserves, undergo regular audits, and report to the Securities Commission of The Bahamas to ensure transparency and financial stability. The SCB can also intervene, such as halting or delisting non-compliant stablecoins.

NFTs, which represent unique digital items like art or collectibles, are regulated based on their functionality. NFTs generally aren't considered securities unless they offer investment-like features, such as profit-sharing or ownership rights. Utility-based NFTs, which merely grant access or ownership, face lighter regulation unless they cross into the realm of financial products.

Stablecoins are closely regulated to protect the financial system, while NFTs are regulated based on their use and potential investment attributes.

### **Are decentralised finance (DeFi) activities (e.g. lending virtual assets) regulated in Bahamas?**

Yes, decentralized finance activities, such as lending virtual assets, are regulated in The Bahamas under the Digital Assets and Registered Exchanges Act, 2024. While the Act does not explicitly mention DeFi, it regulates digital asset activities broadly, encompassing those typically associated with DeFi platforms. According to Section 6, digital asset businesses include services like exchanging, managing, and transferring digital assets, which applies to DeFi platforms offering lending or borrowing services. These platforms must register with the Securities Commission of The Bahamas and comply with financial reporting requirements set out in Section 15, ensuring their solvency and transparency. Additionally, under Section 33, DeFi platforms must follow anti-money laundering and counter-financing of terrorism regulations, implementing systems to monitor and report suspicious activities. The SCB holds the authority under Section 5 to oversee these platforms, ensuring compliance, issuing fines, and safeguarding users from fraud or market manipulation. In essence, DeFi activities such as virtual asset lending are regulated by the Act to ensure a secure, transparent, and legally compliant digital asset ecosystem in The Bahamas.

### **Are there any restrictions on issuing or publicly offering virtual assets in Bahamas?**

In The Bahamas, the issuance and public offering of virtual assets are subject to strict regulatory oversight under the DARE Act, 2024, which establishes a clear framework to ensure transparency, investor protection, and market integrity. Any entity or individual seeking to issue or publicly offer virtual assets must first navigate a detailed registration process, as mandated by Section 9 of the Act. This section requires digital asset issuers to submit an application to the Securities Commission of the Bahamas providing essential details about their operations, financial standing, and key management figures. Without this registration, it is prohibited to issue or offer virtual assets within or from The Bahamas.

Public offerings of virtual assets are further regulated under Part IV of the Act, which covers token offerings. Issuers must prepare and submit an offering memorandum, similar to what is required in traditional securities offerings. This document must include detailed disclosures about the nature of the offering, risks involved, and the rights associated with the digital assets. Only after the SCB reviews and approves the offering can it be marketed or sold to the public. This process ensures that investors have access to critical information before participating in any virtual asset offerings.

The Bahamas DARE Act places specific regulatory requirements on certain types of digital assets, such as stablecoins. Under Section 49, stablecoin issuers must ensure adequate reserve backing and undergo regular audits to maintain their peg to an underlying asset. The SCB reserves the right to halt or delist any stablecoin if these requirements are not met.

### **Are there any exemptions to the restrictions on issuing or publicly offering of virtual assets in Bahamas?**

In The Bahamas, while the issuance and public offering of virtual assets are tightly regulated under the Bahamas DARE Act 2024, the Act does provide certain exemptions to these restrictions. These exemptions are outlined to ensure that not all digital asset activities fall under the same level of regulatory scrutiny, particularly for assets that may not pose significant risks to investors or the financial system.

According to Section 3(2) of the Act, the following activities are exempt from the restrictions on issuing or publicly offering virtual assets:

- a) Security Tokens: If a digital asset qualifies as a “security” under the Securities Industry Act, it is regulated under that Act rather than the Digital Assets and Registered Exchanges Act. This applies when the asset has characteristics of traditional securities, such as equity or debt instruments.
- b) Affinity or Rewards Programs: The issuance of digital assets as part of loyalty or rewards programs, where the value cannot be exchanged for fiat currency, bank credit, or other digital assets, is exempt from the regulations. These types of tokens are purely for use within specific ecosystems and do not function as investments or currency.
- c) Non-Fungible Tokens (NFTs): NFTs, which are used purely for access or ownership of digital items (like art, collectibles, or game items), are exempt provided they are not used for payment or investment purposes. If the NFT is not a digital representation of another financial asset, it typically does not fall under the same regulatory requirements.
- d) Online Game Tokens: Digital assets issued by or on behalf of a publisher for use within an online game or game platform are also exempt. These tokens must be used strictly within the game environment and should not be transferable or used for investment purposes.
- e) Electronic Representations of Fiat Currency or Other Financial Assets: Digital representations of fiat currency, such as digital dollars issued by a central bank, or other financial assets that are not intended for payment or investment purposes are exempt from the 2024 Act.

These exemptions ensure that certain low-risk or utility-based digital assets, which are not designed to function as investments or securities, are not subject to the full regulatory burden of the 2024 Act. However, if a digital asset falls outside of these specific categories, it would need to comply with the full regulatory requirements, including registration with the Securities Commission of The Bahamas and the issuance of offering memoranda for public offerings.

### 3. Regulation of DASPs in Bahamas

#### **Are DASPs operating in Bahamas subject to regulation?**

Yes, Digital Asset Service Providers operating in The Bahamas are subject to regulation under the Bahamas Digital Assets and Registered Exchanges Act, 2024. This comprehensive legal framework ensures that DASPs comply with strict regulatory requirements to maintain transparency, consumer protection, and financial integrity in the digital asset space.

Any entity or individual offering services related to digital assets, such as exchanges, custody services, payment processing, or advisory services, falls under the definition of a DASP and must be registered and licensed by the Securities Commission of The Bahamas. Section 9 of the Bahamas DARE Act requires DASPs to submit detailed applications for registration, providing information about their operations, management, financial resources, and compliance structures.

#### **Are DASPs providing virtual asset services from offshore to persons in Bahamas subject to regulation in Bahamas?**

Yes, Digital Asset Service Providers providing virtual asset services from offshore to persons in The Bahamas are subject to regulation under the Bahamas DARE Act, 2024. The Act is designed to regulate not only DASPs operating within The Bahamas but also those offering services to Bahamian residents, even if the service provider is based offshore.

Section 3(1)(b) of the Bahamas DARE Act specifically states that it applies to any person or entity conducting digital asset business from outside The Bahamas, provided the services are being offered to persons residing in The Bahamas. This includes virtual asset exchanges, custody services, advisory services, and other types of digital asset-related activities. The Act is designed to ensure that Bahamian residents are protected from potential risks associated with digital asset services, regardless of where the service provider is physically located.

## **What are the main requirements for obtaining licensing / registration as a DASP in Bahamas?**

To obtain licensing or registration as a Digital Asset Service Provider in The Bahamas under the Digital Assets and Registered Exchanges Act, 2024, applicants must meet a comprehensive set of requirements, overseen by the Securities Commission of The Bahamas. These regulations are designed to ensure transparency, consumer protection, and financial stability in the digital asset sector.

### **Key Requirements for Licensing/Registration:**

According to Section 9, any entity seeking to provide digital asset services must first be registered as a legal entity, such as a company or firm, and submit a complete application to the SCB. This application includes detailed information about the entity's founders, directors, senior officers, beneficial owners, and relevant persons in the business. The forms required for this process include Form 1 (company registration), Form 2 (information about the founders and key persons), and Form 3 (appointment of the chief executive officer, compliance officer, and money laundering reporting officer). The registration ensures that the SCB has a full view of the operational and management structure of the DASP.

In terms of governance, Sections 10 and 11 require the appointment of a Chief Executive Officer who is suitably qualified and experienced. The CEO must demonstrate a thorough understanding of the digital asset business, its operational risks, and governance structure. If the digital asset services are being added as an additional activity to an existing business (e.g., financial institutions), Section 11 specifies that a separate application must be filed for this additional service.

Under Section 12, the SCB conducts a "fit and proper" assessment of the applicant and its key personnel. This assessment evaluates factors such as financial solvency, the educational qualifications and experience of those involved, and the applicant's ability to run the business competently, honestly, and fairly. If the SCB deems the applicant or any of its key figures unfit, the registration will be denied.

Financial solvency and reporting are key components of the registration process. Section 15 outlines that DASPs must have sufficient financial resources to support their operations and meet their obligations. The SCB may determine specific capital or liquidity requirements based on the DASP's risk profile, size, and the nature of its services. DASPs must submit audited financial statements on an annual basis and maintain adequate liquid capital to cover operational risks.

The technological infrastructure of the DASP is also scrutinized under Section 12(e). The applicant must demonstrate that it has appropriate systems and controls to manage risks effectively, particularly in relation to market surveillance, cybersecurity, and fraud detection. This includes implementing robust cybersecurity measures and ensuring that client data and digital assets are properly secured. Adequate systems to prevent market abuse, detect suspicious transactions, and manage cyber risks are essential for approval.

One of the most critical areas of regulation for DASPs is Anti-Money Laundering and Counter-Financing of Terrorism compliance, governed by Section 33. Every DASP must have systems in place to monitor and report suspicious transactions, ensuring that their operations are not used for illicit activities. This includes the appointment of a Compliance Officer and a Money Laundering Reporting Officer, responsible for ensuring that the DASP complies with AML/CFT laws.

The registration process is not a one-time requirement. Under Section 13, DASPs must renew their registration annually by submitting updated financial documentation, paying the required registration fee, and completing Form 6. If a DASP fails to meet the requirements for renewal, including submitting required financial reports, the SCB may revoke its registration.

For those DASPs offering custody services, Section 18 stipulates that they must segregate customer assets from their own and maintain proper controls to ensure the safekeeping of client assets. This is essential for ensuring that customer funds are protected in the event of insolvency or business failure. The DASP must also have systems in place to promptly return assets to customers upon request.

Additionally, Section 17 requires prior approval from the SCB for certain changes in the business, such as mergers, acquisitions, or significant alterations to the scope of activities. The DASP must apply for approval at least 28 days in advance of any planned changes, ensuring that the SCB can assess the potential impact on the market and clients.

Requirement	Details
Legal Entity Registration	Must be a registered legal entity; submit application with forms (Form 1, 2, 3) to SCB.
Governance and Management	Appointment of qualified CEO and other key personnel; separate application required for additional activities.
Fit and Proper Assessment	Evaluation of financial solvency, qualifications, experience, and integrity of key individuals (Section 12).
Financial Resources and Capital Requirements	Adequate financial resources; submission of audited financial statements; liquidity and solvency (Section 15).
Technology and Security Infrastructure	Implementation of market surveillance tools, cybersecurity measures, and systems to protect client data (Section 12(e)).
AML/CFT Compliance	Must appoint Compliance Officer and MLRO; establish systems for monitoring and reporting suspicious activities (Section 33).
Annual Registration Renewal	Annual submission of financial documents and renewal fees; failure to comply may result in revocation (Section 13).
Customer Asset Protection	Segregation of customer assets from company assets; ensure safe return of customer assets (Section 18).
Approval for Business Changes	Prior approval required for mergers, acquisitions, or major business changes; apply 28 days in advance (Section 17).

### **What are the main ongoing requirements for DASPs regulated in Bahamas?**

Under the Digital Assets and Registered Exchanges Act, 2024, Digital Asset Service Providers in The Bahamas must adhere to several ongoing requirements designed to ensure compliance, transparency, and consumer protection. These obligations are crucial for maintaining the integrity of the digital asset industry and fostering trust between businesses and their customers.

One of the key requirements is the annual renewal of registration, which must be completed by January 31st each year. DASPs are required to submit Form 6, which includes an updated declaration and supporting documents such as a copy of their professional indemnity insurance policy. The renewal process also involves paying the appropriate fee, \$15,000 for digital token exchanges and \$10,000 for other digital asset businesses. Failure to renew on time can result in suspension or revocation of their registration.

Financial reporting is another critical requirement. DASPs must submit audited financial statements annually, demonstrating their financial health and solvency. These reports must show that the business maintains sufficient capital reserves to cover its operational risks, ensuring it can continue to meet its obligations. This is a key part of ensuring financial stability within the digital asset market.

Compliance with Anti-Money Laundering and Counter-Financing of Terrorism regulations is mandatory for all DASPs. This includes appointing a Compliance Officer and Money Laundering Reporting Officer who oversee adherence to these laws. They are responsible for monitoring transactions, conducting due diligence, and reporting suspicious activities to authorities. These measures are critical for preventing illegal activities within the digital asset space.

DASPs must also maintain strong cybersecurity measures to protect digital assets and customer information. Regular security audits and updates are essential to prevent data breaches, and any incidents must be reported to the Securities Commission of The Bahamas immediately. This ensures the safety and security of client assets and data.

For DASPs providing custody services, client assets must be kept separate from the company's operational funds. This segregation protects customer funds in the event of insolvency or operational failure. The DASP must also have systems in place to promptly return client assets upon request, ensuring they are safeguarded at all times.

DASPs must maintain accurate records of all transactions, filings, and communications, making these available to the SCB when requested. In addition, any significant changes to the business, such as changes in ownership or key personnel, must be reported using Form 7, with prior approval required for major operational shifts.

If a DASP has conducted an Initial Token Offering, they are required to keep the Offering Memorandum up-to-date, reflecting any changes in the project or risk profile. Additionally, businesses must maintain adequate regulatory capital to meet their operational risks, ensuring they can continue to function effectively and meet client demands.

The SCB may conduct regular audits and inspections to ensure ongoing compliance. Non-compliance during these audits can result in penalties, including fines or suspension of operations.

Requirement	Provision	Amount (USD)
Annual Registration Renewal (Digital Token Exchanges)	Form 6, Section 13	\$15000
Annual Registration Renewal (Other Digital Asset Businesses)	Form 6, Section 13	\$10000
Annual Renewal of Key Personnel (CEO, Compliance Officer)	Section 13	\$500
Audited Financial Statements	Section 15	Depends on Auditor
Initial Token Offering (ITO) - Updating Offering Memorandum	Section 15	\$6000
Director Appointments/Changes	Section 17	\$400
Approval of Digital Asset-Related Actions	Section 17	\$400
Extension for Filing Financial Statements (3 months)	Section 15	\$150
Extension for Audited Statements	Section 15	\$700
Surrender of Registration Certificate	Section 15	\$300

### **What are the main restrictions on DASPs in Bahamas?**

Digital Asset Service Providers in The Bahamas, under the Digital Assets and Registered Exchanges Act, 2024, are subject to a range of restrictions designed to ensure a secure and transparent environment for digital assets. These restrictions aim to protect investors and uphold the integrity of the digital asset ecosystem.

First, all DASPs must be registered and authorized by the Securities Commission of The Bahamas before offering any digital asset services. Operating without proper registration, as stipulated in Section 9, is prohibited. Additionally, DASPs cannot expand their service offerings beyond what is approved during registration without receiving explicit approval from the SCB. Any unauthorized activity can result in fines or suspension of operations.

When it comes to issuing tokens, DASPs are restricted by the requirement to submit an offering memorandum to the SCB for approval, as outlined in Part IV of the Act. This ensures that any public token sales or offerings are conducted with full disclosure of risks and structural details. For stablecoins, the issuance is further restricted under Section 49, which mandates adequate reserve backing and regular audits. Issuing stablecoins without meeting these requirements is not allowed.

DASPs must also comply with strict Anti-Money Laundering and Counter-Financing of Terrorism rules, as set out in Section 33. They are required to monitor transactions, conduct due diligence, and report any suspicious activity. Engaging in activities that facilitate money laundering or terrorism financing is strictly prohibited, with severe penalties for non-compliance.

Insider trading and market manipulation are both strictly forbidden under Sections 68 and 71. DASPs, as well as their employees, must not use non-public information to trade digital assets for personal gain or to give an unfair advantage to others. Additionally, any activity that distorts market prices or creates misleading conditions is considered market manipulation, which carries significant penalties, including fines and potential criminal charges.

A key protection for customers is the segregation of assets. Under Section 18, DASPs that provide custody services must keep customer assets separate from their own operational funds. This ensures that client assets are protected in the event of insolvency or business failure. Mixing customer and company funds is prohibited to safeguard client interests.

Further restrictions apply to marketing practices, as outlined in Section 60. DASPs are prohibited from engaging in false or misleading advertising. All public communications must be transparent and accurate, ensuring that customers are fully informed about the services and the risks involved.

In addition, any significant business changes—such as changes in ownership, management, or the scope of services—require prior approval from the SCB under Section 17. Without this approval, DASPs are not allowed to make major alterations to their business operations.

Lastly, while DASPs may offer services to international clients, they must adhere to the regulatory requirements of the countries where those clients are based. Offering services in jurisdictions with sanctions or insufficient regulatory frameworks is restricted to protect the DASP and the broader financial system.

### **What are the main information that DASPs have to make available to its customers?**

Virtual Asset Service Providers, encompassing entities like cryptocurrency exchanges, wallet providers, and other crypto service providers, are obligated to furnish specific information to their clientele to ensure adherence to regulations, transparency, and customer safeguarding. Although the particulars may differ across jurisdictions, there are common categories of information that DASPs are typically mandated to offer to their customers:

- a) DASPs must clearly disclose their business and regulatory information which includes their registration status with the Securities Commission of The Bahamas, along with accessible contact details for customer support.
- b) detailed explanation of their service offerings and provide a schedule of fees to enable customers need to understand the specific services available, such as trading, custody, or staking, and be fully informed of any fees they will incur. Hidden fees or unexpected charges are prohibited, ensuring that all costs are clearly outlined upfront.
- c) disclosure of risk information and the general risks associated with digital assets, such as price volatility and technological vulnerabilities. They must also provide specific risk disclosures for each service offered, so customers are aware of the potential risks tied to each activity, such as trading or custody services.
- d) legal or regulatory risks that could affect the business or customers' assets, such as changes in legislation or regulatory actions that may impact operations.
- e) terms of service delineating the guidelines for utilizing their platform or services such as account registration procedures, trading protocols, fee structures, transaction limits, security protocols, and mechanisms for resolving disputes.
- f) the rights and responsibilities of both the customer and the service provider, as well as any limitations or restrictions on the services provided.
- g) DASPs are required to furnish privacy policy elucidating the collection, storage, utilization, and protection of customer data. Customers should be informed about the nature of personal information gathered, its intended purposes, and the measures implemented to safeguard their data.
- h) DASPs are required to make transaction records available to customers in a timely and accessible manner. Customers should be able to view their transaction history, including deposits, withdrawals, trades, and fees charged.
- i) DASPs must provide customers with an audit trail or transaction confirmations that verify the integrity of the digital asset transactions, for services like custody or trading;
- j) Information on how customer assets are protected must be disclosed including explanations on how customer assets are segregated from the company's operational funds, ensuring that assets are safe even if the business faces financial difficulties;
- k) If any insurance or protection mechanisms are in place to safeguard customer assets, this information must also be communicated;

- l) DASPs must outline the process for handling disputes and complaints. Customers should be informed of how to file a complaint and how any disputes will be resolved. The steps of the resolution process and expected response times should be made clear.
- m) In the event of changes to services or terms, DASPs are required to provide customers with advance notice;
- n) DASPs must also explain the withdrawal and transfer processes for digital assets. Customers need clear instructions on how to withdraw assets from the platform, including any applicable fees or timeframes;
- o) the procedures for transferring assets to and from the platform must be disclosed to customers.
- p) DASPs must disclose their regulatory and compliance obligations, particularly regarding Anti-Money Laundering (**AML**) and Counter-Financing of Terrorism (**CFT**) requirements.

Section	Disclosure Type	Disclosure Required	Event/Trigger	Purpose
<b>Section 9</b>	Business Registration & Contact Info	Business registration status and contact information	Upon onboarding customers	To verify that the DASP is properly authorized and regulated
<b>Section 15</b>	Transaction Information	Transaction records, financial history, and audit trails	At any time; accessible for customer reference	To maintain transparency and enable customers to track activity
<b>Section 17</b>	Changes to Services	Notice of significant changes to services, terms, or fees	Before making significant changes to services	To keep customers informed about modifications that affect them
<b>Section 18</b>	Asset Protection & Custody	Asset segregation practices and protection measures	For customers using custody services	To assure customers their assets are segregated and protected
<b>Section 33</b>	AML/CFT Compliance	Explanation of AML/CFT policies and customer due diligence	During onboarding and ongoing transaction monitoring	To ensure compliance with anti-money laundering regulations
<b>Section 60</b>	Service Offerings & Fees	Detailed description of services and schedule of fees	Before service usage; at the point of charging fees	To ensure transparency regarding services offered and costs
<b>Section 60</b>	Terms and Conditions & Privacy Policy	User agreements, terms of service, and privacy policy	Before customers agree to use services	To clarify user rights, responsibilities, and data handling
<b>Section 61</b>	Withdrawal & Transfer Procedures	Instructions on withdrawing or transferring digital assets	Upon customer request for withdrawals or transfers	To clarify the process and conditions for asset withdrawals
<b>Section 64</b>	Dispute Resolution Process	Clear process for handling complaints and disputes	When a customer files a complaint	To provide a structured mechanism for resolving issues
<b>Section 66</b>	Risk Disclosures	General and specific risks of digital assets	Before customer engagement in digital asset services	To inform customers of potential risks, including volatility

## **What market misconduct legislation/regulations apply to virtual assets?**

In The Bahamas, market misconduct regulations and legislation that apply to virtual assets are primarily governed by the Digital Assets and Registered Exchanges Act, 2024, along with other key legislative frameworks like the Securities Industry Act, Proceeds of Crime Act, and Financial Transactions Reporting Act. These regulations are designed to prevent fraud, market manipulation, insider trading, and other forms of misconduct within the digital asset space. A brief overview of the various market misconduct provisions in the Bahamas legislation that may apply to virtual assets is set out below:

(i) *The Securities Industry Act, 2024:*

- a) Misleading Information (Section 123): This section prohibits making any false or misleading statements that could affect market prices or transactions. While primarily focused on securities, if a virtual asset is classified as a security under the SIA, this section would apply.
- b) Disclosure of Material Changes (Section 115): Companies must disclose material information in a timely and accurate manner. This can include information about virtual asset offerings or financial statements of companies involved in digital asset issuance or trading.
- c) Designation Orders (Section 198): In public interest the Commission may, without providing an opportunity to be heard or make representations, order to the effect that digital assets are security or not.

(ii) *The Proceeds of Crime Act, 2018:*

- a) Money Laundering (Section 43): Engaging in or facilitating money laundering using virtual assets is strictly prohibited. This includes transferring, concealing, or using virtual assets obtained through criminal activities. Any involvement in laundering proceeds derived from illegal activities is punishable under this Act.
- b) Freezing Orders and Forfeiture (Section 54): Authorities can issue freezing orders for virtual assets suspected to be linked to criminal activities, and virtual assets can be forfeited if proven to be derived from crime.

(iii) *Financial Transactions Reporting Act (FTRA), 2018:*

- a) Know Your Customer (KYC) Requirements (Section 10): DASPs must verify the identity of their customers and implement KYC procedures to prevent the facilitation of illegal activities, such as money laundering, through virtual assets.
- b) Suspicious Transaction Reporting (Section 17): DASPs are required to monitor and report any suspicious transactions involving virtual assets that could indicate money laundering, terrorism financing, or other illicit activities.

(iv) *Financial and Corporate Service Providers Act, 2020:*

- a) Fit and Proper Requirements (Section 4): Companies and individuals involved in virtual asset services must meet "fit and proper" standards, including having the necessary expertise, qualifications, and good standing to operate within The Bahamas. Non-compliance with these standards can lead to penalties or the revocation of licenses.

(v) *Anti-Terrorism Act, 2018:*

- a) Financing of Terrorism (Section 5): DASPs are prohibited from knowingly assisting in or facilitating the financing of terrorism using virtual assets. They are required to report any suspicious transactions that could be related to terrorism financing.

(vi) *Companies Act, 1992:*

- a) Good Standing (Section 277): Virtual asset businesses must demonstrate that they are in good standing under The Companies Act, meeting all their legal and regulatory obligations. This includes compliance with filing requirements and maintaining accurate financial records.

## 4. Regulation of other crypto-related activities in Bahamas

### **Are managers of crypto funds regulated in Bahamas?**

Managers of crypto funds in The Bahamas are regulated depending on the nature of their activities and the structure of the fund. If the fund primarily invests in cryptocurrencies or digital assets, the regulatory framework is determined by the Investment Funds Act, 2019, and the Digital Assets and Registered Exchanges Act, 2024. However, the applicability of these regulations depends on the specific facts and circumstances of the fund's operations, and it is crucial to seek proper legal advice for compliance. However, it's crucial to recognize that regulatory frameworks for digital assets and associated activities, like fund distribution, may differ based on jurisdiction and the types of digital assets involved. Fund managers must register as Digital Asset Service Providers with the Securities Commission of The Bahamas, as mandated by Section 9, ensuring their activities comply with the law. The Act also imposes market conduct rules under Sections 68 and 71, prohibiting insider trading and market manipulation. Fund managers cannot use non-public information for trading or engage in practices that artificially influence asset prices. Section 60 requires fund managers to provide clear disclosures about the risks associated with digital assets, such as price volatility, while avoiding false or misleading information. Section 33 of the DARE Act, 2024 mandates crypto fund managers to adhere to AML/CFT regulations, implementing anti-money laundering measures and ensuring proper identity verification and reporting of suspicious transactions. Given the complexity of these requirements, legal advice is essential to ensure full compliance.

### **Are distributors of virtual asset funds regulated in Bahamas?**

Distributors of virtual asset funds in The Bahamas are regulated under various laws, depending on their role and the specific activities they perform. The primary regulatory framework comes from the Digital Assets and Registered Exchanges Act, 2024 and the Securities Industry Act, 2011, as well as other applicable legislation related to financial services.

The Digital Assets and Registered Exchanges Act, 2024 regulates entities involved in the distribution of virtual assets, including virtual asset funds. Distributors who engage in activities such as offering, selling, or marketing virtual asset funds to investors must comply with the Act's requirements.

- Registration as a Digital Asset Service Provider (Section 9): Distributors of virtual asset funds must register as Digital Asset Service Providers with the Securities Commission of The Bahamas
- Market Conduct (Sections 68 & 71): Distributors are required to adhere to strict rules regarding insider trading and market manipulation. They must not engage in practices that artificially inflate the value of the virtual assets they distribute, nor can they use non-public information for personal gain.
- Disclosure Requirements (Section 60): Distributors must provide transparent and accurate information to investors regarding the nature, risks, and potential returns of the virtual asset funds they distribute. Misleading or deceptive advertising is prohibited.

AML/CFT Compliance (Section 33): Distributors must comply with anti-money laundering and counter-financing of terrorism regulations. This involves verifying the identity of investors, monitoring transactions for suspicious activity, and reporting any suspicious activities to the authorities.

### **Are there requirements for intermediaries seeking to provide trading in virtual assets for clients or advise clients on virtual assets in Bahamas?**

Intermediaries seeking to provide trading services or advice on virtual assets in The Bahamas must comply with the Digital Assets and Registered Exchanges Act, 2024. They are required to register as Digital Asset Service Providers with the Securities Commission of The Bahamas, ensuring they meet "fit and proper" standards and adhere to compliance obligations. This includes implementing Anti-Money Laundering and Counter-Financing of Terrorism measures, such as verifying client identities and monitoring transactions for suspicious activity. Additionally, intermediaries must provide transparent information on the risks of virtual assets, avoid market manipulation or insider trading, and ensure client assets are protected by segregating them from operational funds.

Intermediaries that offer advisory services must also act in their clients' best interests, providing accurate, suitable advice based on the client's financial situation and risk tolerance. If the virtual assets being traded qualify as securities, intermediaries must comply with the Securities Industry Act, 2011 & 2024 and may need additional

licensing as securities dealers. In all cases, intermediaries must follow strict disclosure, reporting, and market conduct rules to ensure investor protection and market integrity, making legal advice essential to navigate these regulations effectively.

## 5. Other relevant regulatory information

### **Are there any upcoming regulatory developments in respect of crypto-related activity in Bahamas?**

No.

### **Has there been any notable events in Bahamas that has prompted regulatory change recently?**

In the backdrop of collapse of FTX exchange, Bahamas have made several steps to make the regulation globally compliant and to ensure customer protection and global recognition in crypto sphere.

## 6. Pending litigation and judgments related to virtual assets in Bahamas (if any)

There are no notable judgments in the jurisdiction however the case of FTX v SEC decided in the US courts which dealt with the FTX exchange registered in the jurisdiction. The SBC took extensive steps to safeguard the assets of the consumers by transferring digital assets from FTX to a safe wallet under the control and protection of the Government.

## 7. Government outlook on virtual assets and crypto-related activities in Bahamas

The government's vision for the digital asset sector in The Bahamas is to establish the country as a prominent hub for virtual assets in the Caribbean and a global leader in progressive regulation within this domain.

The Bahamas takes a forward-thinking yet cautious approach to regulating digital asset businesses. Recognizing the potential of digital assets like cryptocurrencies to drive financial innovation and economic growth, the Securities Commission of The Bahamas introduced a clear regulatory framework that allows businesses to operate while safeguarding consumers and investors. This framework, centered around the Digital Assets and Registered Exchanges Act, ensures that digital asset businesses are properly registered and follow strict guidelines on issues like anti-money laundering and protecting customer assets. The goal is to create a supportive environment for innovation, without compromising on the integrity of the market or the safety of the public.

At the heart of this approach is the belief that innovation and regulation can go hand in hand. The SCB sees itself as a partner to businesses, providing clear rules that help companies thrive while making sure they act responsibly. The focus is not just on allowing new technologies like blockchain and cryptocurrencies to flourish, but also on ensuring that risks such as fraud and financial crime are minimized. By maintaining a flexible, tech-neutral stance, The Bahamas is positioning itself as a global leader in digital finance, with a focus on creating a fair, transparent, and secure market for all participants.

Effective collaboration among regulatory entities, notably the Securities SCB of The Bahamas and the Central Bank of The Bahamas, is crucial for ensuring the continued sound regulation of the digital asset sector. Acknowledging the economic potential inherent in digital assets and distributed ledger technologies, the government recognizes the role of these innovations in generating new business opportunities and driving economic growth, particularly for small island economies like The Bahamas.

## 8. Advantages of setting up a DASP in Bahamas

Bahamas is one of the prominent offshore jurisdictions given its tax neutrality, confidentiality of data and information by the government, simple reporting systems, asset protections and limited liability protection.

The main advantages of setting up a DASP in the BVI are:

(i) *tax benefits*

The jurisdiction maintains a tax-neutral environment, characterized by the absence of direct taxation on personal or commercial revenue, capital gains, and inheritance. Key features of taxation in the Bahamas include the lack of corporate income tax on both domestic and global corporations, as well as no personal income tax imposed on residents and non-residents. There are no capital gains tax, wealth tax, or inheritance tax in the Bahamas. However, the country does impose Value Added Tax (VAT) on the supply of goods and services, customs duties on imported goods, real property tax on land and buildings, and stamp duties on specific operations.

(ii) *International cooperation*

The government recognizes the importance of cooperation with domestic and international supervisory authorities to address emerging trends, risks, and developments in the digital asset industry. Establishing national advisory panels and engaging with experts reflect a collaborative approach to staying informed and responsive to digital asset-related challenges

(iii) *asset protection*

The government's regulatory approach emphasizes investor protection by implementing measures such as disclosure of information, product suitability requirements, and registration and supervision processes for digital asset businesses. These measures are designed to safeguard investors and stakeholders participating in the digital asset market.

(iv) *Education and training*

The government, through the Securities SCB of The Bahamas, invests in staff training programs on cryptocurrency, blockchain technologies, and decentralized finance to enhance expertise in the digital asset sector. Additionally, collaboration with educational institutions and national advisory panels demonstrates a commitment to promoting understanding and knowledge in the digital asset space.

## Disclaimer

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