# Client Memorandum

**CAYMAN ISLANDS LICENSING AND REGISTRATION REGIME FOR VIRTUAL ASSET SERVICE PROVIDERS UNDER THE VIRTUAL ASSET (SERVICE PROVIDERS) ACT**

**February 2026**

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## 1. Introduction

1.1. The provision of virtual asset services as a business, in or from within the Cayman Islands, is governed by the *Virtual Asset (Service Providers) Act* (as amended) ("**VASP Act**") (and associated regulations[1] and regulatory measures) and falls within the remit of the Cayman Islands Monetary Authority ("**CIMA**"). CIMA is the body responsible for financial services regulation, including the application of anti-money laundering/combatting of terrorist and proliferation financing requirements to financial services providers.

## 2. Virtual Asset Services under the VASP Act

2.1. "*virtual asset services*" under the VASP Act means the business of providing one or more of the following services or operations for or on behalf of a natural or legal person or legal arrangement:

(a) exchange between virtual assets and fiat currencies;

(b) exchange between one or more other forms of convertible virtual assets;

(c) transfer of virtual assets;

(d) virtual asset custody service (defined as "*the business of safekeeping or administration of virtual assets or the instruments that enable the holder to exercise control over virtual assets*"); and

(e) participation in, and provision of, financial services related to a virtual asset issuance or the sale of a virtual asset.

2.2. The VASP Act also regulates public issuances of virtual assets.

## 3. Operating a virtual asset trading platform

3.1. The VASP Act specifically provides that operating a virtual asset trading platform requires licensing under the VASP Act. A "virtual asset trading platform" means "*a digital platform—*

*(a) which provides a virtual asset service and facilitates the exchange of virtual assets for fiat currency or other virtual assets on behalf of third parties for a fee, commission, spread or other benefit; and*

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[1] *Virtual Asset (Service Providers) Regulations, 2020* (as amended).

*(b) which —*

*(i) holds custody of or controls virtual assets on behalf of its clients to facilitate an exchange; or*

*(ii) purchases virtual assets from a seller when transactions or bids and offers are matched in order to sell them to a buyer,*

*and includes its owner or operator, but does not include a platform that only provides a forum where sellers and buyers may post bids and offers and a forum where the parties trade in a separate platform or in a peer-to-peer manner."*

## 4. Virtual Assets – Definition

4.1. "Virtual assets" is defined in the VASP Act, as "*a digital representation of value that can be digitally traded or transferred and can be used for payment or investment purposes but does not include a digital representation of fiat currencies*".

4.2. For the purpose of the VASP Act a "virtual service token" (defined as "*a digital representation of value which is not transferrable or exchangeable with a third party at any time and includes digital tokens whose sole function is to provide access to an application or service or to provide a service or function directly to its owner*") is not a virtual asset and issuances or services involving virtual service tokens only are not within the ambit of the VASP Act.[2]

## 5. VASP Act Regime

5.1. The virtual asset service provider regime under the VASP Act provides for licensing or registration, depending on the nature of the virtual asset service being undertaken.

5.2. The business of providing one or more of the following services or operations for or on behalf of a customer requires registration (as opposed to licensing) under the VASP Act:

(a) exchange between virtual assets and fiat currencies;

(b) exchange between one or more other forms of convertible virtual assets;

(c) transfer of virtual assets; and

(d) participation in, and provision of, financial services related to a virtual asset issuance or the sale of a virtual asset.

5.3. Public issuances of virtual assets also require registration under the VASP Act.

5.4. Provision of the following virtual asset services requires licensing (as opposed to registration) under the VASP Act:

(a) virtual asset custody service; and

[2] s. 3(2), *VASP Act*.

(b) operation of a virtual asset trading platform.

5.5. CIMA may direct an applicant to apply for licensing or registration under another regulatory law where the applicant is carrying on financial services business that is materially similar to financial services business for which there is a licensing or registration regime under any of the other regulatory laws that provides sufficient oversight and supervision for that financial services business. On approval of such a licence or registration, CIMA will cancel the registration or revoke the licence under the VASP Act and waive the requirement for registration or a licence under the VASP Act.[3] [4]

5.6. The authorisation, ongoing and conduct of business requirements and fees in respect of virtual asset service provider ("**VASP**") licensees and registrants are outlined below.[5]

### 6. CIMA Fees

6.1. CIMA fees range, depending on the revenue generated and the type of virtual asset service being undertaken.[6]

## 7. Application Requirements

### Registration

7.1. An applicant for a VASP Act registration is required to apply to CIMA using the prescribed form. CIMA may impose conditions on an applicant for registration at the time of application or at any time thereafter, as CIMA may consider appropriate having regard to the nature, risk and scale of the business.[7]

7.2. An applicant for registration shall not be registered unless the applicant has satisfied CIMA that the applicant's shareholders, directors and senior officers are fit and proper persons.[8]

### Licensing - General

7.3. An applicant for a VASP licence is required to apply to CIMA using the prescribed form.

7.4. In determining whether to approve a VASP licence application, CIMA will consider whether:

(a) an approval of the application is against the public interest;

(b) the applicant has satisfied CIMA that the applicant's beneficial owners and senior officers are fit and proper persons;

(c) the applicant has:

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[3] It remains to be seen the extent to which CIMA will exercise this power.

[4] An existing licensee under another Cayman Islands regulatory law may be granted a waiver from registration or licensing from CIMA.

[5] Note that the VASP Act licenses/registers at the entity level, not the natural person level. Entity licensees are expected to have personnel with the requisite qualifications, and this is reviewed by CIMA as part of the entity's licence or registration application.

[6] See *Virtual Asset (Service Provider) Amendment Regulations 2025* for the full breakdown of CIMA fees.

[7] s. 6(2A), *VASP Act*.

[8] s. 6(2B), *VASP Act*.

(i) personnel with the necessary skills, knowledge and experience;
(ii) facilities, books, records and accounting systems;
(iii) adequate capital and cybersecurity measures,

as CIMA considers appropriate having regard to the size, scope and complexity of the business; and

(d) the applicant has complied with such other requirements under the VASP Act for which CIMA requests the applicant's compliance.

These heads of assessment are set out in the VASP Act.[9]

7.5. CIMA may impose conditions on an applicant for a licence under the VASP Act at the time of application or at any time thereafter, as CIMA may consider appropriate having regard to the nature, risk and scale of the business.[10]

## 8. Licensing – Virtual Asset Custody Services

8.1. CIMA may, where necessary, impose requirements on a licensee that provides virtual asset custody services, including, but not limited to:

(a) net worth requirements;

(b) reporting requirements;

(c) disclosures to clients;

(d) requirements for the safekeeping of client assets, including the segregation of assets, insurance requirements and cybersecurity measures;

(e) requirements for the manner in which virtual assets are held and maintained on behalf of clients, including any necessary arrangements regarding the safe custody of virtual assets;

(f) requirements for the provision of products and services which derive their value from underlying virtual assets; and

(g) any other requirement CIMA determines is in the best interest of the beneficial owners of the assets held by the licensee.[11]

8.2. Licensees providing virtual asset custody services are required to:

(a) enter into a custodial arrangement with the owner of a virtual asset listing at a minimum certain specified information and the manner in which the virtual assets are to be held;

[9] s. 8(4), *VASP Act*. CIMA will not grant a license unless satisfied on these heads of assessment.
[10] s. 8(5A), *VASP Act*.
[11] s. 10(1) *VASP Act*.

(b) maintain information technology best practices relating to virtual assets held in custody;

(c) ensure that all ancillary or subsidiary proceeds or tangible benefits relating to virtual assets held in custody shall accrue to the benefit of the owner of the virtual asset unless otherwise agreed to with the owner in writing;

(d) where a licensee holds fiat currency on behalf of a client, hold the fiat currency in a bank regulated by CIMA or another regulator in a non high-risk jurisdiction in a manner where the fiat currency is segregated from any fiat currency owned by the licensee;

(e) take steps as may be necessary to safeguard the virtual assets held on behalf of third parties including where virtual assets are held on behalf of the virtual asset service licensee by third parties;

(f) have adequate safeguards, including safeguards against theft and loss;

(g) maintain accurate and up-to-date records and accounts of client assets that readily establish the precise nature, amount, location and ownership status of client assets and the clients for whom the assets are held; and

(h) segregate client assets from proprietary assets and the assets of any affiliate or a virtual asset service provider held by the licensee, and place client assets in trust or in segregated bankruptcy remote accounts (or provide equivalent protection through legal or accounting mechanisms recognised in the relevant jurisdiction) so that client assets are separate and distinct from the licensee's own assets or estate.[12]

## 9. Licensing – Operating a Trading Platform

9.1. CIMA may, where necessary, impose requirements on a licensee that operates a virtual asset trading platform, including, but not limited to:

(a) the type of client that it may market its services to;

(b) the types of virtual assets that may, or may not, be traded on the virtual asset trading platform;

(c) requirements for the listing of virtual assets;

(d) net worth and reporting requirements;

(e) price discovery mechanisms to prevent price manipulation and other unfair trading practices;

(f) disclosures to clients;

(g) the monitoring and supervision of trading activity;

[12] s. 10(3), *VASP Act*.

(h) the technology used in the operation of the trading platform;

(i) the clearing and settlement process;

(j) the provision of financing for the purchase of virtual assets;

(k) controls to mitigate against money laundering, terrorist financing and proliferation financing; and

(l) any other requirement that CIMA considers to be in the best interest of the users of the virtual asset trading platform.[13]

9.2. Licensees operating a virtual asset trading platform may not:

(a) provide financing to its clients for the purchase of virtual assets unless disclosures are made to clients regarding the terms of, and the risk of, the financing;

(b) engage in trading or market making behaviour for its own account which could be detrimental to the interests of its clients unless these activities are necessary for the operation of the virtual asset trading platform and these activities have been disclosed to the clients of the platform;

(c) allow a virtual asset to be traded on its platform unless it has assured itself that the virtual asset is not presented in a deceiving manner or in a manner that is meant to defraud holders of funds or value;

(d) allow a client to purchase or trade in virtual assets unless the licensee has assured itself that the client is aware of the risks of purchasing, holding or trading the virtual asset and has provided disclosures in a form that the client can understand; or

(e) provide fiat currency to fiat currency exchange services to users of the trading platform.[14]

## 10. Application Forms – Registration and Licensing

10.1. The statutory application form[15] requires detailed information and supporting documentation concerning, amongst other things, the applicant's:

(a) identity, legal structure, regulatory history (if any), internal management structure, systems and controls (business and anti-money laundering, counter terrorist, counter proliferation and sanctions and service providers (lawyers, bankers, auditors);

(b) directors, senior officers and shareholders with 10% or greater of issued share capital;[16]

[13] s. 11(1) *VASP Act*.
[14] s. 11(2), *VASP Act*.
[15] Application must be made via CIMA's electronic portal, "REEFS".
[16] A registrant or licensee is required to have no fewer than three directors, one of whom must be an independent director (section 9(3)(aa), *VASP Act*). All the individuals enumerated in (b) are required to submit a personal questionnaire.

(c) financial resources, audited financials and insurance (where appropriate);[17] and

(d) anti-money laundering compliance officer, money laundering reporting officer ("**MLRO**") and deputy MLRO (together "**AML officers**").

10.2. CIMA has also issued a regulatory policy on registration or licensing of virtual asset service providers which further articulates application requirements and regulatory expectations. CIMA strongly encourages prospective applicants to meet with them to discuss the application requirements in advance of submission of an application. It typically takes CIMA approximately 3-4 months to process a properly completed VASP registration application and 6-8 months to process a properly completed VASP licence application.

## 11. Physical Presence Requirements

11.1. There are no physical presence requirements under the VASP Act, but a virtual asset service provider must have a registered office in the Cayman Islands.[18] Where a VASP elects to have an operating presence in the Islands, it will be exempted from licensing under the *Trade and Business Licensing Act*, by virtue of its VASP Act authorisation; however, pursuant to the *Immigration Act*, any non-local staff will require work permits.

11.2. Note also that if the VASP is "carrying on business in the Islands" as defined under the *Local Companies (Control) Act* ("**LCCA**"), it will be required to comply with that Act, as (unlike the case in other regulatory Acts e.g. the *Securities Investment Business Act* (as amended) ("**SIBA**")), there is no LCCA exemption in the VASP Act.

See also: *Economic Substance* below.

## 12. Capital Requirements

12.1. A licensee is at all times required to maintain capital in the form of the higher of:

(a) the risk-based capital as determined having regard to the size, scope, complexity and nature of the activities and operations of the custodian or trading platform and the type and level of risks the custodian or trading platform is exposed to;

(b) the amount equal to six months fixed overheads of the custodian or trading platform; or

(c) such amount as determined by CIMA.[19]

12.2. There are no such capital requirements for VASP registrants.

## 13. Notification of changes

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[17] Coverages required, where appropriate, are professional liability of senior officers, loss of client assets held in custody, business interruption and cyber security, per rule 8.9, *Rule – Virtual Asset Custodians and Virtual Asset Trading Platforms (December 2024)*.
[18] s. 9(4)(a), *VASP Act*.
[19] Rule 8.1, *Rule - Virtual Asset Custodians and Virtual Asset Trading Platforms (December 2024)*.

13.1. Virtual asset service providers are required to notify CIMA of any changes in the information provided in the registration/licence application, within 15 days of such changes occurring.[20]

## 14. Continuing Obligations

### Conduct of Business Requirements

14.1. CIMA has issued a number of Rules and Statements of Guidance in relation to aspects of business conduct, to which registrants and licensees would need to have regard (see "regulatory measures" hyperlink in the introduction to this memo).[21]

### AML Audit

14.2. CIMA may, at the virtual asset service provider's expense, require a virtual asset service provider to provide an auditor's report, prepared by an independent auditor, on the anti-money laundering systems and procedures for compliance with the *Anti-Money Laundering Regulations* (as amended).[22]

### Audited Financial Statements

14.3. All virtual asset service providers are required to prepare accounts annually and make the accounts available for inspection upon request by CIMA at the registered office at such reasonable time as CIMA may specify.[23]

### Registrants

14.4. CIMA may require a registered person to provide audited financial statements where CIMA determines that they are required due to the nature, size or complexity of the registered person; or has reasonable grounds for believing that the registered person has provided false or misleading accounts.[24]

### Licencees

14.5. All licensees under the VASP Act must submit the following to CIMA:

(a) audited accounts annually, within six months of the licensee's financial year end;[25] and

(b) consolidated accounts in respect of the parent undertaking of the group of which the licensee is a member within three months after the end of the financial year of the parent undertaking of the group.[26]

### CIMA Notifications

[20] s. 6(5) and s. 8(10) respectively, *VASP Act*.
[21] As at the date of this memo, CIMA is also consulting with the private sector with regard to a new Rule and Statement of Guidance - *Market Conduct for Virtual Asset Service Providers*.
[22] s. 9(1), *VASP Act*.
[23] s. 9(2), *VASP Act*.
[24] s. 9(2A) *VASP Act*.
[25] s. 31(1) and 31(2), *VASP Act*.
[26] s. 31(2A), *VASP Act*.

14.6. All virtual asset service providers must notify CIMA within 30 days of:

(a) any licence or registration in another jurisdiction;

(b) the opening of an office, subsidiary, agency, branch or other physical presence in another jurisdiction;

(c) any penalties that are imposed or enforcement actions taken against it or any litigation proceedings brought against the virtual asset service provider in this or another jurisdiction; or

(d) the holding of, or the acquisition of, a controlling interest in another person or legal arrangement engaged in virtual asset service.[27]

### CIMA Prior Approval - Share Transfers

14.7. No shares totalling 10 per cent or more of the total shares in a company which is a virtual asset service provider under the VASP Act may be issued, and no issued shares or interests may be voluntarily transferred or disposed of, without the prior approval of CIMA.[28]

### CIMA Prior Approval - Business Plan Changes

14.8. All virtual asset service providers must seek the prior written approval of CIMA:

(a) to make a change to the approved business plan which modifies or changes the provision of the virtual asset services for which it has been granted registration or a licence;

(b) to provide additional virtual asset services which were not included in the approved application or business plan; or

(c) to appoint a senior officer or trustee.[29]

### Annual Fees

14.9. All virtual asset service providers must pay an annual renewal fee, due by 15th January.[30]

### Cessation of VASP Activities

14.10. A virtual asset service provider intending to cease its virtual asset service operations must notify CIMA in writing within 15 days of the date on which the decision to cease its virtual asset service operations is made.[31]

14.11. Where a virtual asset service provider has not commenced virtual asset service business within one year of the date of the grant of the licence, registration, or waiver, it must notify

[27] s. 9(4), *VASP Act*.
[28] s. 28(1) *VASP Act*.
[29] s. 9(3)(cb), *VASP Act*.
[30] s. 5(5), *VASP Act*. See *CIMA Fees* above.
[31] Rule 6.1, *Rule – Cancellation of Licences, Registrations, or waivers for virtual asset service providers*.

CIMA in writing at least 15 days prior to the expiration of the one-year period if it anticipates it will not commence business within that timeframe. The notification must also state, where applicable, whether the virtual asset service provider does not intend to commence business at all.[32]

### Restrictions

14.12. A virtual asset service provider must not

(a) engage in securities investment business unless it is a licensee or registered person in accordance with SIBA or has been exempted from licensing or registration in accordance with SIBA;

(b) carry on virtual asset services outside of the information given in its approved application for registration, waiver or a licence and in the business plan or, the virtual asset services for which it has been licensed, registered or granted a waiver.

### Policies and Procedures

14.13. A VASP will be required to put in place and maintain a full suite of policies and procedures in order to comply with the applicable regulatory measures.[33]

### CIMA Inspection

14.14. Virtual asset service providers may be subject to periodic inspections by CIMA. Such inspections are conducted primarily for the purpose of assessing the virtual asset service providers compliance with the VASP Act and associated regulations and regulatory measures.[34]

14.15. CIMA can impose administrative fines in accordance with the *Monetary Authority Act* (as amended) and the *Monetary Authority (Administrative Fines) Regulations* (as amended).

## 15. AML/CFTP Requirements

15.1. The provision of virtual asset services (except for the issuance of virtual assets)[35] falls within the definition of "relevant financial business" under the *Proceeds of Crime Act* and therefore VASP licensees and registrants are required to comply with the *Anti-Money Laundering Regulations* (as amended) and must appoint AML officers. In addition to the legislation cited, licensees are to have regard to CIMA's *Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands.*

## 16. Tax Information Reporting

[32] Rule 6.2, *Rule – Cancellation of Licences, Registrations, or waivers for virtual asset service providers*.
[33] Your TTA client contact will be happy to assist with the preparation of such policies and procedures upon request.
[34] Your TTA client contact can assist with preparation for such inspections, upon request.
[35] See "virtual asset service" definition in the *Proceeds of Crime Act* (as amended) ("**PCA**"), which (unlike the VASP Act) does not include the issuance of virtual assets. Note, however, that a stablecoin issuer is likely to be caught under the PCA "relevant financial business" head of "issuing and managing means of payment" (item 5 of Schedule 6 of the PCA).

16.1. It will need to be considered in each case whether a VASP is a financial institution ("**FI**") for the purpose of the FATCA/CRS regime. A VASP with custody of client assets would for example be likely to be classified as an FI.[36]

16.2. The Cayman Islands have also committed to implement the Organization for Economic Co-operation and Development's Crypto-Asset Reporting Framework ("**CARF**"), which is expected to take effect in Cayman's regime from 1 January 2026.

16.3. CARF applies to a "Reporting Crypto-Asset Service Provider", which means any individual or entity that, as a business, provides a service effectuating "Exchange Transactions" for or on behalf of customers, including by acting as a counterparty, or as an intermediary, to such "Exchange Transactions", or by making available a trading platform. A Reporting Crypto-Asset Service Provider" will be required to report "Relevant Transactions" (i.e. any "Exchange Transaction" and any "Transfer of Relevant Crypto-Assets").

## 17. Economic Substance

17.1. The Cayman Islands introduced economic substance requirements to implement the OECD BEPS 5 rules on 1 January 2019, under the *International Tax Co-operation (Economic Substance) Act* ("**ES Act**"). Under the ES Act, only a "relevant entity" doing a "relevant activity" is required to satisfy the economic substance test ("**ES test**").

17.2. Cayman Islands entities within scope of the ES test have certain annual compliance reporting obligations to TIA, as specified in the ES Act. Separately, for general ES Act purposes, all Cayman Islands entities are required to make an annual classification/notification filing, via their registered office provider, indicating whether or not a "relevant activity" is being undertaken and if so, whether or not the entity is a "relevant entity".

17.3. In most cases, a virtual asset service provider will not be carrying on a relevant activity, but this will need to be assessed in each case.[37]

## 18. Penalties and Enforcement

18.1. A person who carries on, or purports to carry on, a virtual asset service in or from within the Cayman Islands for which registration is required who is not a registered person or the holder of a waiver under the VASP Act, commits an offence and is liable on summary conviction to a fine of twenty-five thousand dollars and to imprisonment for one year. The person can be liable to a fine of ten thousand dollars for each day during which the offence continues.

18.2. A person who carries on, or purports to carry on -

(a) virtual asset custody services; or

(b) operate a virtual asset trading platform,

[36] Your TTA client contact can provide a FATCA/CRS analysis for a VASP, upon request.
[37] Your TTA client contact can provide an economic substance assessment upon request.

in or from within the Cayman Islands who is not a licensee or is not a person who is in receipt of a waiver under the VASP Act, commits an offence and is liable on summary conviction to a fine of one hundred thousand dollars and to imprisonment for one year and in the case of a continuing offence, to a fine of ten thousand dollars for each day during which the offence continues.

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***This client memorandum is intended to provide only general information for the clients and professional contacts of Travers Thorp Alberga. It does not purport to be comprehensive or to render legal advice. Please do not hesitate to contact Travers Thorp Alberga at any time if you have any specific questions or would like more detail on any of the points made in this memorandum.***


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