



Cayman Islands: A Prime Destination for Virtual Asset Service Providers (VASPs)

By AGPLAW

Virtual Asset Service Providers (VASPs), as outlined by the Financial Action Task Force (FATF), are entities that engage in virtual asset-related services. Their functions include facilitating conversions between virtual assets and fiat currencies, enabling transactions between different virtual assets, managing or securing virtual assets for clients, supporting the issuance or distribution of virtual assets, and offering financial services for token offerings.

There is a substantial discussion as to what is considered to be a virtual asset.

A virtual asset means 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.

The Cayman Islands, recognized as a leading financial hub, has implemented a comprehensive regulatory framework for VASPs under the Virtual Asset (Service Providers) Act (VASP Act) of 2020, setting out a full regulatory registration since July 2021.

Regulatory Framework

The Cayman Islands Monetary Authority (CIMA) is the primary regulator overseeing VASPs in the jurisdiction. The Virtual Asset (Service Providers) Act was introduced to align with international regulatory standards, including those set by the Financial Action Task Force (FATF). Under this framework, businesses that engage in virtual asset services must register or obtain a license to operate. The licensing procedure allows the service providers to operate in a compliant environment, promoting the assets in a relatively safe environment where risk exposure is lower compared to other non-European jurisdictions.

To what entities does the Law apply

The Law applies to all entities that intend to provide virtual asset services in or from within the Cayman Islands. The legal framework defines virtual asset services as the issuance of virtual assets or 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:

- exchange between virtual assets and fiat currencies
- exchange between one or more other forms of convertible virtual assets
- transfer of virtual assets
- virtual asset custody service
- participation in, and provision of, financial services related to a virtual asset issuance or the sale of a virtual asset.

The above applies to issuers of virtual assets, virtual asset custodians, virtual asset trading platforms, as well as entities providing financial services related to the sale of a virtual asset such as virtual asset dealers.

Licensing Requirements

All entities wishing to provide virtual asset services can apply to the CIMA. These include:

- Entities wishing to perform virtual asset services for the first time (New Market Entrants).
- Entities providing virtual asset services prior to the commencement of the VASP Law.
- Existing Authority licensees that provide or propose to provide virtual asset services.
- VASPs that wishes to register with CIMA must first comply with the Cayman Islands money laundering, countering the financing of terrorism, countering proliferation financing and sanctions regimes.

VASPs must apply for one of the following licenses, depending on their activities:

- Virtual Asset Trading Platform License: Required for platforms that facilitate the exchange of virtual assets.
- Virtual Asset Custodian License: Required for entities providing custody and safekeeping services.
- Broker- Dealer License: Required for entities engaged in trading on behalf of clients.
- Other Licenses: May be applicable depending on the nature of the virtual asset service.

Sandbox License

Under the VASP law, the provision of a sandbox license is feasible. A sandbox licence is a temporary licence granted for a period of up to one year and shall be subject to review at such time as CIMA may determine is appropriate.

It is worth mentioning that in case where CIMA grants a Sandbox License, it may further impose the requirements that are applicable to a licensed virtual asset service provider as well as restrictions considered necessary to effectively supervise, monitor and assess the virtual asset service or fintech service (such as the technologies or activities that may be provided; a limit on the number or type of clients; a limit on the value or amount of virtual assets offered to clients; the imposition of reporting requirements, restrictions on the sandbox licensee's advertising; requirements for disclosures to be made to clients).

CIMA may further exempt the sandbox licensee from requirements that are applicable to virtual asset service providers or modify any requirements at their sole discretion. Lastly, it may require that specified technical or operational functions relating to the fintech service or the virtual asset service be maintained in the Islands in order to facilitate the supervision or require a sandbox licensee to comply with the requirement relating to the annual auditing of financial statements.

AGPLAW team can provide continued legal support and assistance through all stages of the application process and afterward.

For all enquiries related to Virtual Asset Serviced Providers (VASPs), please contact our team of experts at agp@agplaw.com

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