



# **STATEMENT OF PRINCIPLES**

## **Conduct of Virtual Asset Services**

**November 2020**

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## List of Acronyms

<b>CIMA</b>	Cayman Islands Monetary Authority
<b>MAL</b>	Monetary Authority Law
<b>VASP</b>	Virtual Asset Service Provider

# **Statement of Principles**

## **CONDUCT OF VIRTUAL ASSET SERVICES**

### **1. Introduction**

- 1.1. This document establishes the Cayman Islands Monetary Authority's (the "Authority" or "CIMA") Statement of Principles for the Conduct of Virtual Asset Services. The Statement of Principles should be read in conjunction with the following:
- a) Virtual Asset (Service Providers) Law, 2020 ("VASP Law");
  - b) Other relevant laws and regulations
  - c) Anti-Money Laundering Regulations
  - d) Guidance Notes on the Guidance Notes on the Prevention and Detection of Money Laundering, Terrorist Financing and Proliferation Financing in the Cayman Islands; and
  - e) Any other regulatory measures issued by the Authority from time to time.

### **2. Statutory Authority**

- 2.1. Section 34(1)(a) of the Monetary Authority Law ("MAL") provides that:
- (1) After private sector consultation and consultation with the Minister charged with responsibility for Financial Services, the Authority may -
- (a) issue or amend rules or statements of principle or guidance concerning the conduct of licensees and their officers and employees, and any other persons to whom and to the extent that the regulatory laws may apply.

### **3. Statement of Objectives**

- 3.1. This Statement of Principles sets out the general standards by which all persons should conduct virtual asset services including connected and incidental business. It will be used as a measure against which the Authority will assess compliance.
- 3.2. The measure is consistent with the Authority's statutory objectives as prescribed in the MAL, including to regulate and supervise financial services business carried on in or from within the Islands.

### **4. Scope of Application**

- 4.1. This Statement of Principles applies to all virtual asset service providers and/or persons engaged in virtual asset services, as defined in the VASP Law.

### **5. Definitions**

- 5.1. For the purposes of this Statement of Principles, the following definitions are provided:
- a) **"Virtual Asset"** - has the same meaning as the VASP Law and 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".

- b) **“Virtual Asset Service”** has the same meaning as the VASP Law, which includes 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 —
- (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; or
  - (e) participation in, and provision of, financial services related to a virtual asset issuance or the sale of a virtual asset
- c) **“Virtual Asset Service Provider”** has the same meaning as in the VASP Law and means:
- (a) a company incorporated under the Companies Law (2020 Revision);
  - (b) a general partnership established under the Partnership Law (2013 Revision);
  - (c) a limited partnership registered under the Partnership Law (2013 Revision);
  - (d) an exempted limited partnership registered under the Exempted Limited Partnership Law (2018 Revision);
  - (e) a foreign company registered under Part IX of the Companies Law (2020 Revision);
  - (f) a limited liability company formed and registered under the Limited Liability Companies Law (2020 Revision); or
  - (g) a limited liability partnership formed and registered under the Limited Liability Partnership Law, 2017,
- and provides virtual asset service as a business or in the course of business in or from within the Islands and is registered or licensed in accordance with this Law or is an existing licensee that is granted a waiver by the Authority under section 16.

## 6. General Principles

### ***Principle 1: Honesty and Integrity***

- 6.1. Persons providing virtual asset services should conduct their operations and communications in an honourable and forthright manner and never pose a risk to the public or to the reputation of the Cayman Islands.

### ***Principle 2: Fair treatment of customers***

- 6.2. Persons providing virtual asset services must offer the utmost standard of customer care and demonstrate fairness of treatment to customers. All communications to customers should be clear-cut and transparent; and all customer complaints or issues dealt with swiftly and in a consistent manner.

***Principle 3: Protection of Customer Data***

- 6.3. Persons providing virtual asset services must protect the personal data of clients by way of adequate storage, data protection, proper record keeping and other appropriate measures to ensure the maximum well-being of all data.

***Principle 4: Protection and Segregation of Client Assets***

- 6.4. Persons providing virtual asset services should take all steps to protect assets of clients and ensure that client assets are clearly identified and segregated from proprietary assets.

***Principle 5: Maintenance of Security Systems***

- 6.5. Persons providing virtual asset services should ensure that all systems and security access protocols are maintained to international standards together with other appropriate measures to ensure maximum security against cyber threats; and all employees, including senior management and board members, must be fully aware of relevant cyber security threats.

***Principle 6: Due Skill, Care and Diligence***

- 6.6. Persons engaged in virtual asset services must conduct their business with due skill, care and diligence, employ forward-looking risk management practices and always consider risks to its customers and the reputation of the Cayman Islands in addition to risks to its own business.

***Principle 7: Prevention, Detection and Disclosure of Financial Crimes***

- 6.7. Persons engaged in virtual asset services should take a proactive stance against financial crime by complying with the Anti-Money Laundering Regulations (as revised) and other laws relating to the combating of money laundering, terrorist financing and proliferation financing.

***Principle 8: Avoidance of Conflict of Interest and Unfair Dealings***

- 6.8. Persons engaged in virtual asset services should avoid conflicts of interest and, where applicable, put in place price discovery mechanisms to prevent price manipulation and other unfair trading practices including collusion and front-running.

***Principle 9: Adequate Resources***

- 6.9. Persons engaged in virtual asset services should ensure that adequate financial and non-financial resources are available including adequate capital and insurance (including against theft or loss).

***Principle 10: Full Disclosure***

- 6.10. Persons engaged in virtual asset services must provide full disclosure as to their operations including disclosure of (a) the capacity they are acting in (in relation to a relevant transaction), (b) risks associated with custodial arrangements or investments and/or methods of access to virtual assets held (c) the amount, value or arrangements for the payment or provision, of commissions or other inducements and, (d) where applicable, provisions for custodial arrangements.

***Principle 11: Corporate Governance and Resilience***

- 6.11. Persons engaged in virtual asset services must have effective corporate governance arrangements and must take careful consideration regarding structure, strategy, procedures and corporate culture. They must also be fully prepared for all possible contingencies to ensure minimal loss and disruption to clients, even in the event of the company winding down.

***Principle 12: Compliance with Regulatory Laws***

- 6.12. Persons engaged in virtual asset services must continuously assess their business operations, activities and management systems to ensure compliance with regulatory laws.

**7. Enforcement**

- 7.1 Whenever there has been a contravention of the Statement of Principles, the Authority's policies and procedures as contained in its Enforcement Manual will apply, in addition to any other powers conferred by the MAL, VASP Law and any other law, as amended.



SIX, Cricket Square  
PO Box 10052  
Grand Cayman KY1 - 1001  
CAYMAN ISLANDS

General Office: 345-949-7089

[www.cima.ky](http://www.cima.ky)