



30 October 2020

To: All Applicable Entities

Supervisory Information Circular

RE: VASP Registration/Notification Requirements

Introduction

Further to the commencement order that brought the Virtual Asset (Service Providers) Law, 2020 (**"the VASP Law"**) into effect, the Cayman Islands Monetary Authority (**"the Authority"**) announces the opening of registration or notification for entities wishing to provide virtual asset services with effect from 31 October 2020.

The regulatory framework for the VASP Law will be implemented in two phases. Phase one will focus on anti-money laundering (**"AML"**) and countering the financing of terrorism (**"CFT"**) compliance, supervision and enforcement, and other key areas of risk. Under phase one, entities engaged in or wishing to engage in virtual asset services must be registered with the Authority under the VASP Law. Entities engaged in or wishing to engage in virtual asset services, already subject to the Authority's supervision under another regulatory law, must notify (in the case of licensees) or register with (in the case of registrants) the Authority under the VASP Law.

Phase two will include a licensing and virtual asset issuance approval process that will begin when the appropriate clauses and aspects of the VASP Law come into effect.

Phase one (registration or notification) targets three groups:

1. Entities wishing to perform virtual asset services for the first time (**"New Market Entrants"**);
2. Entities providing virtual asset services prior to the commencement of the VASP Law (**"Pre-Existing Service Providers"**); and
3. Existing Authority licensees that provide or propose to provide virtual asset services (**"Other Authorized Entities"**).

Registration or notification can be done through the VASP Application Form on the Authority's Regulatory Enhanced Electronic Forms Submission (REEFS) online platform. The VASP Application Form window will begin on 31 October 2020. In order to ensure that registrations are completed before 1 February 2021, the Authority encourages applications to be submitted by 12 December 2020. The Authority will then assess the applications and revert where information may be incomplete or unclear. Entities engaging in virtual asset services on and after 1 February 2021, which have not completed the registration or notification process, may be subject to penalties and other enforcement measures.

As a part of the registration or notification process, entities will also be required to complete an AML/CFT form which will also be available on the Authority's REEFS platform. Details regarding the availability of the AML/CFT form will be released shortly.

This supervisory circular provides practical information to market participants with respect to their obligations upon commencement, time frames and future expectations.

Key Information

1. To which entities does the VASP Law apply?

The VASP Law applies to all entities that intend to or currently provide virtual asset services in or from within the Cayman Islands.

Virtual asset services as defined under the VASP Law means:

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.

This includes 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.

2. What obligations apply to entities upon commencement of the VASP Law?

Beginning 31 October 2020, all New Market Entrants, Pre-Existing Service Providers and Other Authorized Entities will be required to complete the VASP Application Form via the Authority's REEFS platform. These entities will also be required to complete an AML/CFT form which will be available on REEFS. If entities do not have access to REEFS, they may email vaspinfo@cima.ky.

3. What is the REEFS platform and how can it be accessed?

REEFS is the Authority's online portal for electronic submission of required financial services information to the Authority as well as providing payments information where applicable. Industry users are able to communicate electronically with the Authority by: submitting financial return filings, filing new applications (licences and registrations), submitting change requests to existing licence/registration information already on file and viewing payments information regarding outstanding fees and payment history. REEFS accounts are provided to local service providers (registered offices, law firms, auditors etc.) and licensees.

4. What entities are required to register in phase one?

All New Market Entrants and Pre-Existing Service Providers wishing to provide virtual asset services will be required to register in phase one. This includes entities engaged in virtual asset custodial services or in the operation of virtual asset trading platforms. In a later phase, the licensing regime will commence, and these entities will be required to apply for a license. However, the initial registration process will not immediately result in additional requirements for virtual asset custodians or virtual asset trading platforms but rather will apply VASP Law and

regulation requirements in a phased manner. The additional licensing requirements will begin in phase two.

5. What are Other Authorized Entities required to do?

In phase one, registration is not required for Other Authorized Entities; however, they will have to provide notification of their current or proposed virtual asset services by completing the VASP Application Form via the REEFS platform. The form to be completed is the same as that applicable to registration applicants; however, information already provided to the Authority through their existing authorization will not be required to be resubmitted. Other Authorized Entities will also be required to complete an AML/CFT form which will be available on the Authority's REEFS platform.

6. When are applications or notification required to be submitted by?

The VASP Law will commence on 31 October 2020 and the VASP Application Form will be open via REEFS on that date. Entities engaging in virtual asset services on and after 1 February 2021, which are not registered or have not provided notification, will be subject to penalties and other enforcement measures. The VASP Application Form window will begin on 31 October 2020. In order to ensure that registrations are completed before 1 February 2021, the Authority encourages applications to be submitted by 12 December 2020.

7. Can I do business after 31 January 2021 if I am not registered?

Importantly, entities engaging in virtual asset services on or after 1 February 2021, that are not registered or have not notified the Authority, will be in breach of the VASP Law. Such entities may be subject to penalties and other enforcement measures from the Authority, including to cease and desist providing virtual asset services.

8. Can entities currently providing virtual asset services continue to do so upon commencement?

Yes. Entities currently providing virtual asset services can continue to provide such services if they complete the VASP Application Form and are registered or have notified the Authority by 31 January 2021. However, they must cease providing virtual asset services if they are not registered by 31 January 2021 or they have not notified the Authority.

9. Can entities not currently providing virtual asset services begin providing services after the VASP Law has been commenced?

Entities not providing virtual asset services as of 31 October 2020 cannot do so until their application for registration has been approved or the requisite notification made.

10. What are the fee requirements for phase one and how can they be paid?

All applications for registration must be accompanied by a KYD 1,000.00 assessment fee. This fee can be paid via the REEFS portal at the time of application submission. There will also be an assessment fee payable by registrants on approval of an application for registration. The Authority will provide further details with respect to the application fee during the application process.

11. What requirements apply to entities providing virtual asset services during phase one?

In addition to the VASP Law, all entities providing virtual asset services are required to comply with AML/CFT/CPF and Sanctions obligations including requirements under the Anti-Money Laundering Regulations (2020 Revision) and the Authority's Guidance Notes (Amendment) (No. 5): Virtual Asset Service Providers, February 2020.

A Statement of Principles for entities providing virtual asset services, to be issued by the Authority in due course, will also be applicable to all VASPs. The objective of the Statement of Principles is to provide a broad framework and guidance for the conduct of virtual asset activities in or from the Cayman Islands. The Statement of Principles will establish general standards by which all entities providing virtual asset services should conduct their business, and will be used as a measure against which the Authority will assess compliance for AML/CFT and prudential purposes, while the full VASP framework is developed and consulted on by the Authority.

12. Will virtual asset service providers be required to be authorized under any other law?

As some VASPs may engage in multiple business lines, those other different business lines may also require licensing or registration under other regulatory laws (as is consistent with current practice).

13. What are the next steps for the development of the VASP Law framework?

Over the coming months, the Authority will further develop its framework for entities providing virtual asset services. This will include rules, procedures and guidance tailored to each entity type. In accordance with its usual practice, the Authority will engage in a fulsome consultation process on this framework and will seek feedback from the public.