



# **REGULATORY POLICY**

## **Registration or Licensing of Virtual Asset Service Providers**

**May 2024**



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## List of Acronyms

<b>CIMA</b>	Cayman Islands Monetary Authority
<b>VASPs</b>	Virtual Asset Service Providers
<b>VASP Act</b>	Virtual Asset (Service Providers) Act
<b>Regulations</b>	Virtual Asset (Service Providers) Regulations
<b>UBO</b>	Ultimate Beneficial Owner

## **Regulatory Policy**

### **Registration or Licensing of Virtual Asset Service Providers**

#### **1. Statement of Objectives**

- 1.1. This Regulatory Policy (the “Policy”) sets out criteria for the Cayman Islands Monetary Authority (the “Authority”) to approve registration or licence to virtual asset service providers (“VASPs”) pursuant to section 6, *Application for Registration*, and section 8, *Application for virtual asset service licence*, of the Virtual Asset (Service Providers) Act (“VASP Act”) respectively.
- 1.2. The Authority notes that the licensing component of this Policy will become effective only upon commencement of the licensing regime for virtual asset trading platform operators and virtual asset custodians, pursuant to the VASP Act and corresponding VASP Regulations.

#### **2. Scope of Application**

- 2.1. This Policy is applicable to:
  - 2.1.1. persons seeking to register under section 4(1)(a) of the VASP Act to carry on virtual asset service in or from within the Cayman Islands; and
  - 2.1.2. persons seeking a virtual asset service licence under section 8 of the VASP Act to provide virtual asset custody service or wanting to operate a virtual asset trading platform.
- 2.2. This Policy excludes persons seeking a sandbox licence under Part 3 of the VASP Act.
- 2.3. This Policy should be read in conjunction with:
  - (a) the VASP Act;
  - (b) the Virtual Asset (Service Providers) Regulations (the “Regulations”);
  - (c) the Anti-Money Laundering Regulations;
  - (d) the Guidance Notes on the Prevention (as amended), and Detection of Money Laundering and Terrorist Financing in the Cayman Islands; and
  - (e) any other applicable rules and regulatory measures issued by the Authority from time to time, including but not limited to, those covering fitness and propriety, internal controls, risk management, corporate governance, record keeping, outsourcing, and cyber security<sup>1</sup>.

#### **3. Statutory Authority**

- 3.1. Pursuant to section 4(1) of the VASP Act, “Subject to subsections (2) and (3),

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<sup>1</sup> Refer to regulatory measures applicable to VASPs as published on the Authority’s website.  
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a person shall not carry on, or purport to carry on, virtual asset service in or from within the Islands unless that person –

- (a) is a registered person;
- (b) in the case of the provision of virtual asset custodial services or the operation of a virtual asset trading platform, holds a virtual asset service licence;
- (c) is an existing licensee that has been granted a waiver from the Authority under section 16;...”

3.2. In respect of an application for registration, Section 6(1) establishes the following:

“Subject to subsection (3), a person, not being an existing licensee, who –

- (a) at the commencement of this Act is carrying on virtual asset service for which a licence is not required under this Act; or
- (b) wishes to carry on virtual asset service for which a licence is not required under this Act,

shall apply in the prescribed form to be a registered person under this Act and submit the application along with the prescribed assessment fee to the Authority.”

In addition, Section 6(2) states that “The Authority in determining whether to approve the application from a person in subsection (1), shall consider –

- (a) the matters set out in section 22 ...”

Further, section 6(3) stipulates that “The Authority shall, further to its determination under subsection (2) that the applicant is suitable to be registered, register the applicant upon payment of the application fee or reject the application for registration if the applicant is found to be unsuitable.”

3.3. In respect of an application for a virtual asset service licence, section 8(2) establishes the following<sup>2</sup>:

“The Authority shall, in relation to an application received under subsection (1), either –

- (a) grant a virtual asset service licence;
- (c) direct the applicant to apply for a licence under one of the other regulatory laws where the virtual asset service is similar in nature to a service for which registration or a licence is required under another regulator law and for which supervision under this Act is not required; or

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<sup>2</sup> For the purpose of this Policy, section 8(2)(b) which states “direct the applicant to apply for a sandbox licence in accordance with section 19(1)” is excluded.

(d) refuse the application to grant the licence.”

Section 8(3) states that “An application under this section shall include such information and may be prescribed and any additional information as may be specified by the Authority...”

Section 8(4) stipulates that “The Authority in determining whether to approve the application from a person in subsection (1), shall consider the matters set out in section 22...”

Further section 8(5) states that “On payment of the application fee, the Authority shall grant the licence to the applicant and the licence shall set out the specific service under subsection (1) that the licensee is permitted to carry on.”

- 3.4. In accordance with the Regulations, the Authority provides application forms<sup>3</sup> (and any information to accompany such forms) to persons wishing to make an application for registration and or licensing to the Authority.

## 4. Definitions

- 4.1 For the purpose of this Policy, the following definitions have been provided for clarity.
- 4.1.1. **“Applicant”** refers to a person seeking to register and or obtain a licence under the VASP Act to carry on virtual asset service as a VASP in or from within the Cayman Islands.
- 4.1.2. **“Control”** means an aggregate percentage of ownership (through both voting and non-voting shares) that equals or exceeds 10% of the issued shares of the Applicant, either directly or indirectly; or a right to exercise directly or indirectly 10% or more of the of shares of the Applicant; or the ability to instruct or direct the directors of the Applicant.
- 4.1.3. **“Independent Director”** means a person with no previous business affiliations with the Applicant including but not limited to any affiliation with the ultimate shareholders and other principals and officers of the Applicant.
- 4.1.4. **“Registered person”** means “a person registered in accordance with section 6” of the VASP Act.

## 5. General Considerations Before Applying for Registration or Licensing

- 5.1. The Authority invites prospective applicants to obtain a formal written independent legal opinion to support the application on how it meets the requirement for registration or licence under the VASP Act. The legal opinion may also consider and opine, as appropriate, whether the applicant’s proposed activities would require licence or registration under any other regulatory law(s).
- 5.2. Prospective applicants are strongly encouraged to contact the Authority to

<sup>3</sup> Forms are available on the Authority’s website.  
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schedule a meeting to discuss the prospective application and the Authority's requirements prior to submitting an application for registration and or licence under the VASP Act.

- 5.3. The Authority encourages prospective applicants to understand the registration and licensing requirements and also their compliance obligations under the relevant Acts, Regulations and regulatory measures to satisfy themselves that they would be in a position to comply with the relevant obligations once it is registered and/or licensed with CIMA.
- 5.4. Where the activity of an applicant includes any transfer of virtual assets, the Authority expects that the applicant will have systems and controls in place to comply with Part XA of the AMLRs and related provisions under the VASP Act. The applicant must provide relevant policies and procedures to demonstrate its ability to comply with the aforementioned compliance obligations and related regulatory reporting requirements. The applicant should also demonstrate its ability to securely and effectively transfer or receive, and maintain relevant originator/beneficiary information.
- 5.5. Where the activity of an applicant does not involve the transfer of virtual assets, the applicant's business plan should reflect the same and the applicant should indicate why it is not required to comply with Part XA of the AMLRs, related provisions under the VASP Act and any applicable reporting requirements.

## **6. Procedure for Registration and Licensing VASPs**

- 6.1. The Authority will apply provisions of the VASP Act, its Regulations, and this Policy to assess applications when considering granting registrations and approving licences under the VASP Act.
- 6.2. Persons seeking to carry on virtual asset services are required to register and or obtain a licence under the VASP Act, as applicable. For this purpose, they shall submit the relevant completed application form(s) with all the information required pursuant to the VASP Act and Regulations. The Authority may request additional information from the applicants to ensure the suitability of applicants for registration and or licensing under the VASP Act.
- 6.3. If a registered person wishes to engage in activities for which a licence is required under sections 10 and 11 of the VASP Act, the registered person shall apply for a licence pursuant to the requirements set out in this VASP Act and in the Regulations.
- 6.4. The Authority, where satisfied with the application, may process and issue registration and or a licence in accordance with the VASP Act. The application review process only commences when the Authority is in receipt of a complete application form(s) with all the required information and supporting documentation.
- 6.5. The Authority may reject or return an application if it is considered by the Authority to be incomplete.
- 6.6. Applicants shall pay assessment fees as prescribed under the Regulations when making an application.

- 6.7. Applications for registrations and licensing under the VASP Act will be presented to the Authority's Management Committee, which generally meets weekly, for consideration. Once the approval requirements are met by the Applicant, the applicant will be issued with a notification letter within 2-3 business days.
- 6.8. Where an application is approved but is subject to requirements or conditions, the Applicant must meet the requirements within the prescribed time or, where no timeframe is given, within 6 months of the date of the approval. Upon request, the Authority may consider granting additional time to meet the prescribed requirements. Failure to meet the requirements within the prescribed time will result in the approval of the application becoming null and void and the applicant will be so advised.
- 6.9. The Authority may reject an application where the Applicant does not meet the requirements prescribed in the Act, Regulations, the criteria set out in this Policy or where the Authority believes that approving registration or issuing a licence would not be in the best interests of the public, proposed shareholders, customers, or creditors, or if it is not in line with the Authority's risk appetite.
- 6.10. Pursuant to section 6(5) and section 8(10) of the VASP Act, any changes to the information provided in the application must be disclosed to the Authority within 15 days of any changes. Such changes will have to be approved by the Authority.
- 6.11. The Authority may, at its discretion, contact an overseas regulatory authority, which supervises the Applicant, its parent or any affiliate of the Applicant or any key service providers, as part of its due diligence assessment of the application.

## **7. Assessment Criteria for Registering and Licensing VASPs**

- 7.1. The Authority assesses applications with respect to, among other things, fitness and propriety of the shareholders, proposed directors, senior officers, business plan, track record, transparency, risk management, internal controls, cyber security measures including IT or Blockchain infrastructure, and systems for combating money laundering and terrorist financing, proliferation financing and sanctions monitoring.
- 7.2. Applicants shall provide details of the intended transaction and features of the proposed entity to establish the nature of the virtual assets service that they intend to provide.
- 7.3. Applicants must demonstrate how they will comply with applicable Acts, regulations and regulatory measures in the Cayman Islands.
- 7.4. The Authority will consider each application on its own merits and will consider all relevant factors, including the criteria below.
- 7.5. ***Fit and Proper Criteria***
  - 7.5.1. Applicants must demonstrate that they are controlled and managed by a sufficient number of shareholders and senior officers who are fit and proper and pose no undue risk to the applicant, its shareholders, customers, creditors and the reputation of the Islands.



- 7.5.2. According to the VASP Act, the Authority in making a decision to register or grant a licence must consider and be satisfied that the applicant's beneficial owners are fit and proper persons to have such ownership or control and senior officers, anti-money laundering compliance officers and trustees are fit and proper persons to hold the respective positions.
- 7.5.3. The Authority will apply the criteria and procedure set out in the Authority's *Regulatory Policy and Regulatory Procedure on Fitness and Propriety*<sup>4</sup> in determining the fitness and propriety of persons holding control and senior officers (including directors and persons responsible for controlled functions) of the Applicant. Where controlled functions are to be outsourced to third parties, the Authority expects them to be fit and proper as well.
- 7.5.4. In determining whether a person is fit and proper, the Authority considers that person's:
- (a) honesty, integrity and reputation;
  - (b) competence and capability; and
  - (c) financial soundness.

7.6. ***Ownership and Control***

- 7.6.1. The Authority requires persons holding control of a VASP to be fit and proper to have such control or ownership. The Authority will reject the entire application if a person proposed to hold control is not found to be fit and proper.
- 7.6.2. An application must contain a complete ownership structure chart showing the link between the prospective applicant and its ultimate beneficial owners<sup>5</sup> ("UBO") in accordance with the Beneficial Ownership and Transparency Act (as amended) or any other applicable regulatory laws in the Cayman Islands.
- 7.6.3. The ownership structure chart should show all the intermediary holding and operating entities between the applicant and its UBOs with 10% or more control.
- 7.6.4. For each of the immediate shareholders, ultimate shareholders, and intermediary holding and operating entities with 10% or more control, the following information must be provided:
- (a) Full legal, business name, trade name, the place or country in which the entity is registered or has been incorporated;
  - (b) Nature of business; and
  - (c) Whether regulated by a financial services regulator, if so, name of regulating body.
- 7.6.5. Where the Applicant is part of a group, the ownership structure chart should provide details of all the affiliated entities, including non-financial services entities.

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<sup>4</sup> Refer to the Authority's *Regulatory Policy and Regulatory Procedure on Assessing Fitness and Propriety* for detailed information.

<sup>5</sup> This is applicable to all ownership structures, even where the applicant is a decentralized finance ("DeFi") or any other emerging model.

- 7.6.6. Each of the UBO with 10% or more control must submit a Personal Questionnaire together with the documentation listed in the *Regulatory Procedure on Assessing Fitness and Propriety*. For clarity, this requirement applies to UBOs of both voting- and non-voting- shares.
- 7.6.7. Where a trust is part of the ownership structure or the proposed UBO of the applicant, the Applicant must provide details of the trust arrangement, beneficiaries, the trustee, protector (if any), the settlor or person(s) and any relationship of settlors to beneficiaries. Whether or not the trustee (if an entity) is regulated and if so, details of the regulatory body.
- 7.6.8. Where the applicant is ultimately owned by a fund (e.g., hedge fund or a private equity fund), the Authority expects to receive details of all the General Partners and any significant Limited Partners or investors including their names, nationalities and country of residence. The Authority will consider the informational requirement in line with its regulatory policy on criteria for approving changes in ownership and control.
- 7.6.9. Where the applicant is ultimately owned by a publicly traded company, the Authority expects to receive details of shareholders with 10% or more listed shares.
- 7.6.10. Where there is only one or two UBOs, the Authority may require a succession plan<sup>6</sup> developed to minimize the disruption of the Applicant's operations in the event one of the UBOs dies or becomes incapacitated.

## 7.7. **Corporate Governance**<sup>7</sup>

- 7.7.1. The Applicant must provide a draft corporate governance framework it intends to establish to provide sound and prudent management and oversight of its operations.
- 7.7.2. The Applicant must clearly list the names of all proposed directors, and state whether they are parent company or group representatives, or Independent Directors. The Authority strongly encourages applicants to have at least 3 directors including at least one independent director.
- 7.7.3. The Applicant must state, from their viewpoint, whether there is an appropriate number and mix of individuals as directors to ensure that there is an overall adequate level of competence at the Board level.

## 7.8. **Business Plan**

- 7.8.1. The application shall be accompanied by a sufficiently detailed business plan.
- 7.8.2. The business plan should align with the size, complexity, structure, nature of business and risk profile of the applicant.
- 7.8.3. The applicant must be able to demonstrate in its business plan, that it has adequate resources, in terms of manpower, systems and expertise,

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<sup>6</sup> Refer to the Authority's *Statement of Guidance on Succession Planning* for minimum expectations in relation to succession planning.

<sup>7</sup> Refer to the Authority's *Rule on Corporate Governance for Regulated Entities* for requirements in relation to corporate governance.

to meet its objectives and should contain details, including, but not limited to:

- (a) A detailed description of the business being undertaken or to be conducted;
- (b) Details of products and services being offered or to be offered in the future and details on the process of how those services are being offered;
- (c) the reasons for wanting to establish an operation in or from within the Islands;
- (d) background information: company or group history, management team, number of expected employees, corporate structure, names and percentage of all shareholder(s) including that of the parent and their regulated status;
- (e) Standalone financial statements covering two years and financial projections;
- (f) Physical location of operations;
- (g) Customer base (for example, information on the number of customers, risk profile, geography, jurisdictions, and procedures or controls to ensure that customers are compliant with applicable Acts in the Cayman Islands);
- (h) Delivery channels and marketing plan or strategy;
- (i) Corporate governance, for example, composition of board of directors, senior management and any committees;
- (j) Information about contracts with affiliates and outsourcing arrangements, where applicable and details on whether they are regulated in any jurisdictions;
- (k) explanation of strategy for risk management and internal controls within the business;
- (l) AML/CFT/CPF and sanctions related policies and procedures;
- (m) Cyber security related policies and procedures; and
- (n) an attestation outlining the jurisdictions in which the applicant will operate and confirmation that entity will comply with all relevant laws, rules, rules and regulations.

## 7.9. ***Risk Management, Internal Operational Systems and Controls***<sup>8</sup>

- 7.9.1. The applicant must provide details pertaining to its risk assessment and management framework that identify, assess, mitigate and monitor all internal and external sources of risk that could have a material impact on the business and operations.

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<sup>8</sup> Refer to the Authority's *Rule and Statement of Guidance on Internal Controls for Regulated Entities*.  
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- 7.9.2. The Authority must be satisfied that the applicant’s proposed policies, procedures, manuals, systems, and internal controls, relating to all areas of the applicant’s risk areas are appropriate for the size, nature, and complexity of its operations and comply with best practices and all applicable laws and requirements and all relevant regulations, rules, policies and statements of guidance.
- 7.9.3. Applicants must provide an overview of its information technology governance structure and overview of technology systems and platforms, blockchain tools to be used, including type of hardware, type of application software and risk assessment of information technology operations.
- 7.9.4. Applicants must demonstrate that they will implement a conflict-of-interest policy as well as a counter-insider trading policy and procedures. Applicants should demonstrate to the Authority how conflicts identified will be adequately managed or eliminated.
- 7.9.5. Applicants’ Money Laundering Reporting Officer and Anti-Money Laundering Compliance Officer and their deputies should have specific AML/KYC knowledge and experience as it relates to the Cayman Islands regulatory framework.
- 7.9.6. Where an Applicant chooses to outsource some aspects of its operations to an external party or an affiliate of the Applicant, the Authority requires that the service provider is adequately qualified, resourced, and fit and proper to carry on that outsourced function<sup>9</sup>.
- 7.9.7. Ideally, the service providers to which the applicant proposes to outsource any regulated activity or business function should be regulated (where applicable) and located in a jurisdiction that is deemed to be a non-high-risk country<sup>10</sup>.
- 7.9.8. Applicants should provide details on how and where its books and records, including management information will be stored securely and could be accessed at all reasonable times. Applicants must also show that the Authority will have reasonable access to records at all reasonable times.
- 7.9.9. Applicants should demonstrate that a comprehensive business continuity management framework<sup>11</sup> has been developed and implemented that addresses critical areas including technical and human considerations necessary for its ongoing operations. Provide details of the Applicant’s business continuity plan or arrangements that will be in place to ensure that specified operations can be maintained or recovered in a timely fashion in the event of a disruption.

## 8. Additional Requirements

- 8.1. In addition to the above, in accordance with sections 4 and 35 of the

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<sup>9</sup> Refer to the Authority’s *Statement of Guidance on Outsourcing Regulated Entities* for guidance on the establishment of outsourcing arrangements and the outsourcing of material functions or activities.

<sup>10</sup> Refer to regulation 8A of *Anti-Money Laundering Regulations*.

<sup>11</sup> Refer to the Authority’s *Statement of Guidance on Business Continuity Management* for guidance on business continuity plans.

VASP Act, the Authority will not consider an applicant who carries on, or purports to carry on, virtual asset services in or from within the Cayman Islands without registration or licence. This includes prospective applicants who, for example, undertake marketing, advertising, promotions of a virtual asset service, without an applicable registration or licence granted by the Authority.

- 8.2. Further, the Authority will adopt a consolidated supervisory approach to registration and licensing guided by the relevant regulatory laws and the Authority's *Regulatory Policy on Consolidated Supervision*.
- 8.3. The Authority may require any other information or documentation that is necessary for processing an application and granting a registration and/or issuing a licence pursuant to the VASP Act and Regulations.

## **9. Effective Date – Licensing**

- 9.1. This Policy is effective upon gazette, except for the licensing component which will become effective only upon commencement of the licensing regime for virtual asset trading platform operators and virtual asset custodians, pursuant to the VASP Act and corresponding VASP Regulations.



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