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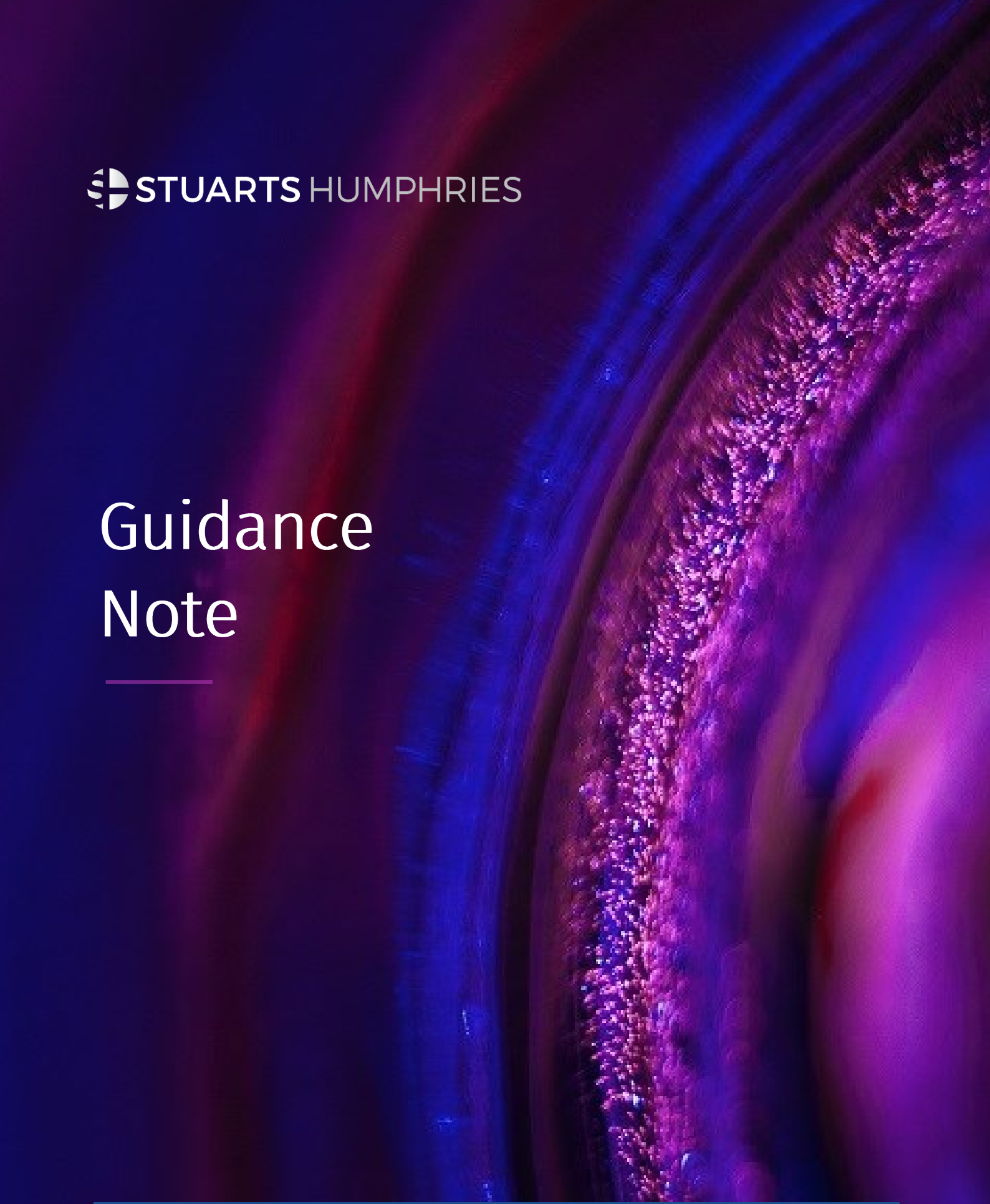
Guidance Note



Registration and Continuing Obligations of a Virtual Asset Service Provider

Guidance Note

Registration and Continuing Obligations of a Virtual Asset Service Provider

Registration and Continuing Obligations of VASPs

Introduction

This Guidance Note sets out the registration and continuing obligations of a virtual asset service provider registered with the Cayman Islands Monetary Authority ("**CIMA**") under the Virtual Asset (Service Providers) Act, (2024 Revision), as amended ("**VASPA**").

Registration & Licensing

All virtual asset service providers (a "**VASP**") are required to register with, or be licenced by, CIMA. VASPs must not conduct any virtual asset business without such registration or licensing in place subject to penalty. Registrations must be made through CIMA's Regulatory Enhanced Electronic Forms Submission ("**REEFs**") web portal. Stuarts has access to REEFs and will attend to registration/licensing and ongoing filings for our clients.

Phase 1 of VASPA was brought into force on 31 October 2020. This phase implements the 'registration' regime under VASPA which covers VASPs that are providing the following virtual asset services: (i) the issuance of virtual assets; (ii) exchange between virtual assets and fiat currencies; (iii) exchange between one or more other forms of convertible virtual assets; (iv) transfer of virtual assets; (v) virtual asset custody service; or (vi) participation in, and provision of, financial services related to a virtual asset issuance or the sale of a virtual asset.

Phase 2 of VASPA was brought into force on 1 April 2025. This phase implements the 'licensing' regime under VASPA which will require VASPs that provide (i) virtual asset custody services or (ii) virtual asset trading platform services to apply to CIMA for a VASP licence.

This Guidance Note covers VASPs which fall under Phase 1 of VASPA which require 'registration' with CIMA. For ongoing obligations of VASPs that fall under Phase 2 of VASPA which require 'licensing' by CIMA please see our Guidance Note on VASP Licensing and Continuing Obligations.

In order to register with CIMA, a VASP is required to file with CIMA the items set out in the Appendix to this Guide.

Ongoing Obligations for VASP Registered Entities

Registration and Annual Fee. The VASP registration application fee payable to CIMA is US$1,220. There is also an annual fee payable to CIMA. The amount of the annual fee will be within the prescribed range and determined by CIMA based on, but not limited to, the nature, size, scope and complexity of the virtual asset service or fintech service. Such fee must be paid by 15 January in each year subject to penalties.

Updated Information. A VASP registrant or applicant must seek prior written approval by CIMA - (i) 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 (ii) to provide additional virtual asset services which were not included in the approved application or business plan. A person who contravenes this requirement is liable on summary conviction to a US$25,000 fine.

Directors. A VASP must have no less than three directors at all times; including, at least one independent director without a vested interest in the VASP.

Registration and Continuing Obligations of VASPs

Beneficial Owners. A VASP must ensure that its beneficial owners are fit and proper persons to have such control and ownership.

Senior/AML Officers. A VASP must ensure that its senior officers/trustees, as applicable, are fit and proper persons for such positions or to have such control and ownership. A VASP must not appoint a senior officer (including a director or AML officer) or trustee without the prior approval of CIMA. A person who contravenes this requirement is liable on summary conviction to a fine of US$25,000 fine.

Shares. No shares totaling ten per cent or more of the total shares in a VASP shall be issued, and no issued shares or interests shall be voluntarily transferred or disposed of, without the prior approval of CIMA. A person who contravenes this requirement is liable on summary conviction to a fine of US$25,000.

Notification: A VASP shall 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 VASP in the Cayman Islands 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; and (e) provide such other information as may be specified by CIMA.

Operational Standards: A VASP must ensure the accuracy of all disclosures, advertising materials and communications relating to their virtual asset services with clients and members of the public. Knowingly making, issuing or permitting any misleading representation to the public about the VASP's activities is an offence.

Annual Audit. VASP 'registered' entities are not generally obligated to conduct an annual financial audit, but CIMA does have the power, in its discretion, to require a VASP to provide audited financial statements due to the nature, size or complexity of the VASP. Where an auditor is appointed, it must be a CIMA approved auditor and audited accounts must be filed with CIMA within six months of the VASP's financial year-end. VASPs are required to make the accounts available for inspection upon request by CIMA. Failure to file an audit on time may result in a late filing fee of US$61 per day.

AML Obligations. A VASP is required to comply with the Anti-Money Laundering Regulations (2025 Revision) (the "**AML Regulations**") and CIMA's Guidance Notes (Amendment) (No. 5): Virtual Asset Service Providers, February 2020 and other Cayman Islands laws, rules and regulation relating to anti- money laundering ("**AML**"), combating terrorist financing ("**CTF**") and proliferation financing ("**PF**") and targeted financial sanctions ("**TSF**"). The VASP must establish AML systems and procedures for the purpose of complying with the AML Regulations. The VASP must also designate employees to fulfil the roles of AMLCO, MLRO and DMLRO that have the responsibility for procedures with responsibility for the procedures for combating AML/CFT/PF/TSF and undertake audits of its AML systems and procedures at the request of CIMA. A VASP is also required to comply with the 'AML Travel Rules' as more particularly described in our Guide on Travel Rules.

Compliance and Reporting. VASPs are required to establish and implement cyber security policies, data protection and internal safeguards, risk management methodologies, AML/CFT/PF/ TSF policies, safeguards asset protection and business model descriptions. VASPs must take steps to protect and secure personal data of clients and ensure communications relating to virtual assets are accurate. VASPs are required to maintain a registered office in the Cayman Islands.

Registration and Continuing Obligations of VASPs

Auditor's Report. CIMA may, at the VASP's expense, require a VASP entity to provide an auditor's report, prepared by an independent auditor, on the anti-money laundering systems and procedures for compliance with the AML Regulations.

Penalties. VASPA provides for extensive penalties up to US$122,000 as well as criminal penalties. VASPA provides that a person who carries on, or purports to carry on, virtual asset service in or from within the Islands for which registration or licensing is required who is not a registered person or licensed person or the holder of a waiver under VASPA, commits an offence and is liable on summary conviction to a fine of US$31,000 or US$122,000, as applicable, imprisonment for one year and a US$12,000 per day penalty for each day the offence continues after conviction. VASPA provides that a person who knowingly or recklessly provides any information to CIMA which is false or misleading in a material respect commits an offence and is liable on summary conviction to a fine of US$12,000 and imprisonment for six months. In the event CIMA provides directions to a person and that person fails to comply, such person commits an offence and is liable — (a) on summary conviction, to a fine of US$61,000 and imprisonment for one year; or (b) on conviction on indictment, to a fine of US$122,000 and imprisonment for five years, and if the offence continues after conviction, the person shall be liable to a fine of US$12,000 for every day on which the offence continues. In addition, CIMA has extensive power to impose a significant administrative fine of up to US$1.2 million for a breach of the AML Regulations.

Powers of CIMA. CIMA has broad enforcement powers under VASPA. CIMA has the power to, amongst other things, (i) revoke the licence or cancel the registration; (ii) impose conditions or further conditions upon the licence or amend or revoke any such conditions; (iii) apply to the court for any order which is necessary to protect the interests of clients or creditors of the licensee or registered person; (iv) at the expense of the VASP, require the licensee or registered person to obtain an auditor's report on the licensee's AML systems and procedures for compliance with the AML Regulations; (v) require the substitution of any senior officer or trustee of the VASP entity whenever appointed, or the divestment of ownership or control; (vi) at the expense of the licensee, appoint a person to advise the licensee on the proper conduct of its affairs and to report to CIMA thereon; or (vii) at the expense of the licensee, appoint a person who shall be known as CIMA's appointed controller, to assume control of the licensee's affairs who shall, subject to necessary modifications, have all the powers of a person appointed as a receiver or manager of a business appointed under section 18 of the Bankruptcy Act (Revised).

CIMA Regulatory Measures. In addition to the requirements set out under VASPA, a VASP is subject to the general regulatory oversight of CIMA which includes the requirement to comply with CIMA's rules, statements of guidance, policies and procedures. Of note, a VASP must comply with the Statements of Principles on Conduct of Virtual Asset Services, Corporate Governance, Outsourcing, and Nature, Accessibility and Retention of Records.

AEOI. Where a VASP is a 'financial institution' for FATCA or CRS purposes it must comply with the automatic exchange of information ("**AEOI**") requirements. Financial institutions must have written policies and procedures in place. Please see our Guidance Note on the AEOI for further information and see CRS Enforcement Guidelines. In addition, Crypto-Asset Reporting Framework ("**CARF**") is a new OECD global standard for the automatic exchange of information on crypto-assets. The Cayman Islands intends to implement CARF and the first exchanges of information are expected to be made under CARF in 2027. See our Guide on CARF.

AML. All VASPs must comply with the anti-money laundering regime in the Cayman Islands including the travel rules applicable specifically to VASPs.

Data Privacy. The Cayman Islands Data Protection Act, 2017 ("**DPA**"), came into force on 30 September 2019. A VASP is typically a 'data controller' and must comply with the data protection principles set out in the DPA when processing personal data. It must also ensure those principles are complied with where the personal data is processed on behalf of the data controller (e.g., by a third-party administrator of the VASP). Please see our Guidance Note on Data Protection for further information.

Registration and Continuing Obligations of VASPs

Appendix

An Applicant for Registration as a VASP Entity will need to provide the following to CIMA as part of the Application Process:

(1) CIMA Forms:

(i) VA Declaration;
(ii) REEFs Application Form (APP-101-84);
(iii) REEFs AML/CFT Inherent Risk Form (AIR 157-84);
(iv) Personal Declaration (for each director/senior officer); and
(v) Personal Declaration (for each shareholder who holds over 10%).

(2) Consent Letter:

(i) Auditor Consent Letter (as applicable).

(3) Policies:

(i) Cyber Security Policy;
(ii) Data Protection / Internal Safeguards;
(iii) Risk Management Methodology;
(iv) AML/CFT/PF/TSF Policy;
(v) Business Plan and Safeguards Asset Protection Policy; and
(vi) Outsourcing Policy (as applicable).

(4) Corporate Documents:

(i) Certificate of Incorporation/Registration;
(ii) Register of Members; and
(iii) Register of Directors.

(5) Resumes:

(i) AML Officers Resumes/CVs;
(ii) CV (for each director/member/partner/senior officer); and
(iii) CV (for chief information officer/chief information security officer).

(6) Reference Letters (for each director/10%+ shareholder/senior officer):

(i) Academic and Professional Qualifications (certified copies);
(ii) CV (up to date and comprehensive);
(iii) Professional/Personal Reference Letter x 2 (see sample);
(iv) Bank Reference Letter x 1 (see sample);
(v) Police Clearance Certificate x1 (see sample); and
(vi) For 10%+ shareholders only - Declaration of Source of Funds (see sample) with supporting evidence.

(7) Additional information:

(i) List of the Applicant's Blockchain addresses (separated by coin);
(ii) Transaction flow charts;
(iii) Details of outsourced arrangements and related agreements;
(iv) A comprehensive full group companies structure chart, including UBOs;
(v) Details of regulated status of entities within the group the relevant regulated services and jurisdictions; and
(vi) Details of services provided by any related entity to the VASP.

(8) Fees:

(i) Application Fee – US$ 1,220.00; and
(ii) Registration Fee – variable – an additional fee of between US$ 1,220 and US$ 18,300 will be payable depending on the type of virtual asset services and, if applicable, CIMA's assessment of other factors including the nature, size and complexity of the services.

Registration and Continuing Obligations of VASPs

Guidance

This publication is for general guidance and is not intended to be a substitute for specific legal advice. Specialist advice should be sought about specific circumstances. If you would like further information, please contact:

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Registration and Continuing Obligations of VASPs

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