



Legal500

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The Legal 500  
Country Comparative Guide  
Blockchain 2024:  
Cayman Islands

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## 1. Please provide a high-level overview of the blockchain market in your jurisdiction. In what business or public sectors are you seeing blockchain or other distributed ledger technologies being adopted?

The Cayman Islands is a leading global financial centre and has developed a reputation as one of the world's most innovative and business-friendly places to operate. The jurisdiction offers a stable society and political system, judicial and legislative links to the United Kingdom, tax neutrality, sophisticated service providers, and a proportionate regulatory regime that focuses closely on the financial services industry, and in particular those catering to sophisticated and institutional investors based elsewhere.

It is this reputation and these attributes that have helped the jurisdiction become an obvious choice for many of those proposing to establish fintech related structures, whether it be in the form of a fund vehicle investing in cryptoassets, an exchange, an initial coin or token offering, or the launch of a decentralised finance protocol or network. Most recently, the Cayman Islands has become the premier jurisdiction for decentralized autonomous organisations (“**DAOs**”) and other decentralised projects that are looking for a legal entity to provide a separate legal personality for the project. As discussed further below, the Cayman Islands foundation company (“**Foundation Company**”), which can exist without members (i.e., shareholders) and can provide for certain control mechanisms to be held by persons other than the directors, has proven to be a particularly popular vehicle to accomplish this. As an indication of the popularity of the use of Foundation Companies for DAOs and other projects, there are, at the time of writing, over 1,000 Foundation Companies registered in the Cayman Islands.

Each of the Cayman Islands Government, the Cayman Islands Monetary Authority (“**CIMA**”), and industry bodies such as Cayman Finance and the Blockchain Association of the Cayman Islands, acknowledge the importance of continuing to attract fintech and cryptoassets business to the jurisdiction and ensuring the further growth of the sector. They are also aware, however, of the need to balance this approach with maintaining the Cayman Islands' commitment to the highest standards of financial probity and transparency and the specific considerations that can accompany cryptoassets.

Consequently, in May 2020, the Cayman Islands introduced the Virtual Asset (Service Providers) Act, 2020, later amended in 2024 (the “**VASP Act**”), to align with the newly adopted international standards set by the Financial Action Task Force. This framework was established to supervise and regulate virtual asset services businesses in the Cayman Islands.

## 2. Please outline the principal legislation and the regulators most relevant to the use of blockchain technologies in your jurisdiction. In particular, is there any blockchain-specific legislation or are there any blockchain-specific regulatory frameworks in your jurisdiction, either now or envisaged in the short or mid-term?

The primary regulatory regime to consider in the Cayman Islands is the Virtual Asset (Service Providers) Act (the “**VASP Act**”), which was established to supervise and regulate virtual asset services businesses in the Cayman Islands. Virtual assets themselves and parties dealing with virtual assets for their own purposes are generally not subject to specific regulation in the Cayman Islands.

The VASP Act was designed to be implemented in two phases: the first primarily to ensure compliance with anti-money laundering (“**AML**”) requirements and to provide regulatory oversight which requires virtual asset service providers (“**VASPs**”) to be registered; and the second phase dealing with licensing and other matters. The regulator under the VASP framework is the Cayman Islands Monetary Authority (“**CIMA**”). With the first phase now in operation, attention has shifted to the anticipated implementation of the second phase of the VASP Act.

A VASP is an entity that is incorporated or registered in the Cayman Islands and that provides a virtual asset service as a business or in the course of business. A “virtual asset service” for this purpose means the issuance of virtual assets or the business of providing any of the following services or operations for or on behalf of another person or entity:

- 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, which is the business of safekeeping or administration of virtual assets or the instruments that enable the holder to exercise control over virtual assets; or
- participation in, and provision of, financial services related to a virtual asset issuance or the sale of a virtual asset.

Cryptocurrency and other cryptoasset businesses may also be subject to other regulation in the Cayman Islands, including under the Securities Investment Business Act (“**SIBA**”) and the Money Services Act.

## 3. What is the current attitude of the government and of regulators to the use of blockchain technology in your jurisdiction?

The Cayman Islands Monetary Authority and the Cayman Islands Government have shown a supportive stance towards blockchain innovations, while at the same time adopting a degree of caution in order to maintain the very high standards of the financial services industry.



#### 4. Is there a central bank digital currency ('CBDC') project in your jurisdiction? If so, what is the status of the project?

At the time of writing, the Cayman Islands does not have a central bank and as such no CBDC project exists.

#### 5. What is the current approach in your jurisdiction to the treatment of cryptoassets and decentralised finance ('DeFi') for the purposes of financial regulation?

As noted in question 3 above, any entity which carries on virtual asset services will be subject to the Virtual Asset (Service Providers) Act (the "**VASP Act**") and may also be subject to other regulation in the Cayman Islands, including under the Securities Investment Business Act, the Money Services Act and the economic substance regime.

Each project should be assessed on a case-by-case basis. For instance, a DeFi application (i.e. the software program) itself should not be a virtual asset service provider ("**VASP**"), on the basis that the VASP Act does not apply to underlying software or technology. However, in line with Financial Action Task Force guidance, creators, owners and operators or some other persons who maintain control or sufficient influence in the DeFi arrangements, even if those arrangements seem decentralised, may fall within the scope of the VASP Act as a VASP if they are providing or actively facilitating virtual asset services. Specialist advice is recommended.

#### 6. What is the current approach in your jurisdiction to the treatment of cryptoassets and DeFi for the purposes of anti-money laundering and sanctions?

Pursuant to the provisions of the Proceeds of Crime Act, the Anti-Money Laundering Regulations, and the guidance notes thereon (together, the "**AML Laws**"), any person formed, registered or based in the Cayman Islands conducting "relevant financial business" is subject to various obligations aimed at preventing, identifying, and reporting money laundering and terrorist financing. "Relevant financial business" is defined in the Proceeds of Crime Act and includes the provision of virtual asset services (which is defined slightly differently for this purpose than under the Virtual Asset (Service Providers) Act (the "**VASP Act**")).

In summary, any person subject to the regime will generally need, among other things, to do the following:

- appoint a named individual as an AML compliance officer to oversee its adherence to the AML Laws and to liaise with the supervisory authorities (and, under the VASP Act, a virtual asset service provider ("**VASP**") must have such officer approved by the Cayman Islands Monetary Authority);
- appoint named individuals as the money laundering reporting officer and a deputy for the same to act as a reporting line within the business; and
- implement appropriate procedures including to ensure that counterparties are properly identified, risk-based monitoring is carried out (including with specific regard to the nature of the counterparties, the geographic region of

operation, and any risks specifically associated with new technologies such as virtual assets), proper records are kept, and employees are properly trained.

In addition, the Cayman Islands Monetary Authority has issued specific AML-related guidance for VASPs, and new regulatory requirements have been put in place to ensure sufficient information is obtained relating to transfers of virtual assets by intermediaries.

#### 7. What is the current approach in your jurisdiction to the treatment of cryptoassets and DeFi for the purposes of taxation?

There are no income, inheritance, gift, capital gains, corporate, withholding or other such taxes imposed by the Cayman Islands Government, including with respect to the issuance, holding, or transfer of cryptoassets.

Entities formed or registered in the Cayman Islands may apply for and, upon the payment of a relatively small fee, receive a tax exemption undertaking that no law enacted in the Cayman Islands after the date thereof imposing any tax to be levied on profits income, gains or appreciations shall apply to such entity or its operations. Such certificates will generally apply for a period of between 20 and 50 years (depending on the type of entity).

#### 8. Are there any prohibitions on the use or trading of cryptoassets in your jurisdiction? If permitted, is cryptoasset trading common?

The proprietary use and trading of cryptoassets is not prohibited or regulated in the Cayman Islands. However, to the extent any such use or trading activities would fall within the scope of the Virtual Asset (Service Providers) Act (the "**VASP Act**"), then registration under the VASP Act would be required before any such use or trading may be carried on. Cayman Islands companies are frequently used to carry out the trading of cryptoassets.

#### 9. To what extent have initial coin offerings ('ICOs') taken place in your jurisdiction and what has been the attitude of relevant authorities to ICOs? If permissible, what are the key requirements that an entity would need to comply with when launching an ICO?

During the ICO boom of 2017-18, the Cayman Islands was a popular jurisdiction for the undertaking of ICOs. However, with the introduction of the VASP Act in May 2020, the issuance of newly created virtual assets to the public for consideration, triggers a registration requirement. Following the enactment of the VASP Act, public sales of cryptoassets, including ICOs, are rarely seen.

#### 10. Are there any legal or regulatory issues concerning the transfer of title to or the granting of security over cryptoassets?

The Cayman Island courts have not yet directly ruled on the status of cryptoassets. Judgments in the English courts are persuasive authority in the Cayman Islands and recent

reported English court decisions support the interpretation that cryptoassets are a form of movable property, affirming that cryptoassets can be owned, transferred and used as security.

### 11. How are smart contracts characterised within your legal framework? Are there any enforceability issues specific to the operation of smart contracts which do not arise in the case of traditional legal contracts?

In the Cayman Islands, a smart contract that has the features of a legally binding contract between the relevant parties should be enforceable under standard contract law principles, but their self-executing nature may require careful planning. Given the risks of automated, irreversible actions, parties should consider whether to pair a smart contract with an off-chain, legally binding agreement to ensure, for example, that dispute resolution, interpretation and other key issues are suitably addressed.

### 12. How are Decentralised Autonomous Organisations ('DAOs') treated in your jurisdiction?

There is no registration regime specifically for DAOs in the Cayman Islands. A DAO that is truly decentralised is treated in the Cayman Islands as an arrangement without separate legal personality and may constitute a partnership.

However, for almost all DAOs it will at some stage be necessary to establish an entity with a separate legal personality to assist with any formal legal actions which the DAO may be required to take. Of the options and jurisdictions available, the Cayman Islands foundation company ("**Foundation Company**") has proven to be a particularly popular vehicle for use in conjunction with DAOs, as well as with many other forms of cryptoasset and decentralised projects.

One of the primary reasons why the Foundation Company is the vehicle of choice for DAOs and other projects is that a Foundation Company can exist without members (i.e., shareholders), making it an ownerless vehicle, which fits well with the decentralised ethos of DAOs.

The governing documents of a Foundation Company are extremely flexible, and can be tailored to, among other things, provide for control mechanisms to be held by persons other than the directors of the Foundation Company. Founding members, core team members, and tokenholders may all be granted powers of direction over the Foundation Company in the Foundation Company's constitution and/or bylaws.

As an indication of the popularity of the use of Foundation Companies for DAOs and other cryptoasset and decentralised projects, there are, at the time of writing, over 1,000 Foundation Companies registered in the Cayman Islands.

### 13. Have there been any governmental or regulatory enforcement actions concerning blockchain in your jurisdiction?

The Cayman Islands Monetary Authority ("**CIMA**") maintains a proactive regulatory stance, emphasizing compliance without over-regulating the blockchain space. Under the Virtual Asset (Service Providers) Act (VASP Act), CIMA oversees registration and compliance for virtual asset service providers, with a particular focus on AML/CTF controls.

To date, CIMA has not taken any public enforcement actions concerning blockchain companies, however it is empowered to impose administrative penalties, appoint examiners, conduct investigations, impose prohibitions or restrictions, remove directors or other persons, and revoke or suspend licenses.

### 14. Are there any other generally-applicable laws, case law or regulations that may present issues for the use of blockchain technology (such as privacy and data protection law or insolvency law)?

The Cayman Island's Data Protection Act ("**DPA**"), which is modelled on the GDPR, imposes stringent data privacy requirements, making it relevant for blockchain projects that process personal data. Privacy obligations extend to data storage, processing, and cross-border transfers, impacting decentralized projects that interact with personal information.

Insolvency laws also apply, though without specific provisions for cryptoassets. Blockchain entities benefit from the jurisdiction's corporate insolvency framework, which has proven adaptable for digital asset liquidation or restructuring scenarios.

Additionally, to the extent any intellectual property associated with blockchain technology is owed by a Cayman Island company and generates revenue, there may be economic substance considerations pursuant to the International Tax Co-operation (Economic Substance) Act (as revised), including a requirement that the Cayman company demonstrate substance in the Islands.

### 15. Are there any other key issues concerning blockchain technology in your jurisdiction that legal practitioners should be aware of?

For practitioners advising on blockchain and crypto projects in the Cayman Islands, it is essential to navigate a multifaceted regulatory landscape that includes the Virtual Asset (Service Providers) Act (VASP Act), Securities Investment Business Act, the International Tax Co-operation (Economic Substance) Act (as revised), among others.

Choosing the appropriate legal structure involves carefully considering the project's goals, investor protection, and governance needs. Practitioners should also be aware of the necessity for a multi-jurisdictional approach, given that Cayman Island-based projects will often have a global reach (i.e. tax and legal advice (including as to licencing and registration requirements) is likely to be required in other jurisdictions).

## Key contacts

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