

Amendments to the regulatory framework for virtual assets

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On **1 April 2025**, several key updates will be made to the framework for the regulation of virtual assets in the Cayman Islands. These updates include the introduction and commencement of the VASP licencing framework for persons providing virtual asset custody services and operators of virtual asset trading platforms¹.

Commencement orders and Regulations

On 27 February 2025, the following commencement orders and Regulations were published:

- Virtual Asset (Service Providers) Act, 2020 (Commencement) Order, 2025;
- Virtual Asset (Service Providers) (Amendment) Act, 2024 (Commencement) Order, 2025; and
- Virtual Asset (Service Providers) (Amendment) Regulations, 2025.

The Commencement Orders commence certain provisions of the Virtual Assets (Service Providers) Act (as revised) (the “**VASP Act**”) as amended by the Virtual Asset (Service Providers) (Amendment) Act, 2024 (the “**VASP Updates**”).

VASP updates – key details

Licensing

A person or entity that provides virtual asset custody services or operates a virtual asset trading platform², will need to obtain a virtual asset service licence. Any entity that is already registered with the Cayman Islands Monetary Authority

(“**CIMA**”) under the VASP Act (a “**VASP**”) that will, following the implementation of the VASP Updates, require a licence will have until **29 June 2025** (90 days from the commencement date for the VASP Updates) to submit an application for a licence.

Licence applications

The information that will need to be provided to CIMA to apply for a virtual asset service licence is set out in the amendments to the Virtual Asset (Service Providers) Regulations and includes new requirements for custodians and operators of virtual asset trading platforms compared to the information such parties would have been required to submit for registration under the VASP Act prior to the VASP Updates.

Director requirements

A VASP (whether registered or licenced under the VASP Act) will now also be required to have at least three directors, including at least one independent director without a vested interest in the VASP. Accordingly, existing VASPs and prospective VASPs will need to consider whether the appointment of an additional director(s) and/or independent director is required.

Waiver

In limited cases CIMA may now grant a waiver to a person or entity, exempting them from the requirement to be registered or licenced to provide virtual asset services under the VASP Act. If a person is a supervised person under another regulatory law in the Cayman Islands (e.g. under the Securities

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Investment Business Act (as revised)), CIMA may grant a waiver in respect to a person or entity obtaining a registration or licence where CIMA determines that:

- the virtual asset service does not materially change the nature of the activity for which the supervised person is licensed; and
- the supervision and oversight carried out in relation to the business of the existing supervised person is sufficient to include the virtual asset service.

Virtual asset custodians

Persons or entities providing virtual asset custody services will have an expanded set of ongoing obligations, including:

- obligations which will always apply such as:
 - a. fiat currency custody;
 - b. record keeping;
 - c. custodial arrangements with clients;
 - d. IT practices; and
 - e. client asset segregation requirements; and
- obligations which may, where necessary, be imposed by CIMA such as:
 - a. client disclosures;
 - b. net worth requirements;
 - c. reporting requirements; and
 - d. cyber security and insurance requirements.

Virtual asset trading platforms

Virtual asset trading platform operators will also have an ongoing set of obligations, including:

- obligations which will always apply such as:
 - a. not engaging in detrimental trading or market making for its own benefit;
 - b. not allowing clients to trade virtual assets presented in a deceiving manner; and
 - c. carrying out reasonable due diligence on virtual assets and their issuers; and

- obligations which may, where necessary, be imposed by CIMA such as:
 - a. marketing restrictions;
 - b. listing requirements for virtual assets;
 - c. conflicts of interest / price discovery mechanisms; and
 - d. client disclosures.

CIMA's powers

The VASP updates also provide CIMA with additional powers, including but not limited to:

- examining and confirming that a VASP is in a sound financial position;
- examining and assessing that a VASP's cybersecurity safeguards are sufficient to protect client information and assets;
- requesting information from any person who CIMA has reasonable grounds to believe is carrying on virtual asset services in contravention of the VASP Act; and
- revoking a licence in certain prescribed circumstances.

Conclusion

The introduction of the VASP Updates is a significant milestone for the Cayman Islands virtual assets regime and provides clarity for centralised exchanges and custodians. It is imperative that existing and prospective VASPs quickly familiarise themselves with the changes. In particular, VASPs who have registered but will now need to apply for a licence will need to move quickly to ensure they can make the new application within the stipulated timeframe.

To discuss whether the VASP Updates impact your business and/or the licensing process further please contact our digital assets team in our Cayman Islands office.

¹ Which have, to date, obtained registration pending the introduction of the licensing framework.

² Under the VASP Act, a virtual asset trading platform is defined to mean a centralised or decentralised digital platform –
a. which facilitates the exchange of virtual assets for fiat currency or other virtual assets on behalf of third parties for a fee, commission, spread or other benefit; and
b. which –

(i) holds custody of or controls virtual assets on behalf of its clients to facilitate an exchange; or

(ii) purchases virtual assets from a seller when transactions or bids and offers are matched in order to sell them to a buyer,

and includes its owner or operator, but does not include a platform that only provides a forum where sellers and buyers may post bids and offers and a forum where the parties trade in a separate platform or in a peer-to-peer manner.

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