



# Cayman Islands - Cryptoassets and Blockchain

(part 2)



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## Cryptoasset trading

### Fiat currency transactions

#### What rules and restrictions govern the exchange of fiat currency and cryptoassets?

Assuming the subject cryptoassets fall within the definition of “virtual assets” under the Virtual Asset (Service Providers) Act (As Revised) (the VASP Act), the exchange of fiat currency and cryptoassets will likely constitute a virtual asset service under the VASP Act and hence any person providing the service of exchange of fiat currency and cryptoassets in the course of their business will be a virtual asset service provider regulated by the Cayman Islands Monetary Authority (CIMA) under the VASP Act.

Furthermore, if the exchange of fiat currency and cryptoassets falls within one of the relevant financial businesses under the Cayman Islands’ Proceeds of Crime Act, the relevant service provider will be required to comply with the AML and KYC requirements under the AML Regulations, which include, inter alia, implementing client identification and verification, record-keeping, and internal reporting and control procedures.

### Exchanges and secondary markets

#### Where are investors allowed to trade cryptoassets? How are exchanges,

#### alternative trading systems and secondary markets for cryptoassets regulated?

There are generally no legal requirements or restrictions on where investors are allowed to trade cryptoassets in the Cayman Islands, so investors are usually free to trade cryptoassets wherever they desire.

Assuming the subject cryptoassets that are traded on the exchanges, alternative trading systems and secondary markets qualify as virtual assets under the VASP Act, such exchanges, alternative trading systems and secondary markets will have to apply for a licence with CIMA if either of them qualifies as a virtual asset trading platform under the VASP Act, which is defined as:

*“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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If the exchanges, alternative trading systems or secondary markets are licensed with CIMA as virtual asset trading platforms, each of them would be subject to various restrictions and obligations stipulated, inter alia, under section 11 of the VASP Act, such as being restricted from providing financing to its clients for the purchase of virtual assets unless disclosures are made to clients regarding the terms of, and the risk of, the financing, and being obligated to carry out reasonable due diligence procedures on virtual assets and their issuers that are listed on the platform.

Alternatively, the exchanges, alternative trading systems and secondary markets for cryptoassets may otherwise have to be registered or licensed with CIMA if its business activity constitutes any virtual asset service under the VASP Act.

At the same time, the exchanges, alternative trading systems and secondary markets for cryptoassets may be regulated by the Securities Investment Business Act (SIBA) if the subject cryptoassets fall within the definition of “securities” under the SIBA, and if they are engaged in certain securities investment business, which would mandate the registration or licensing with CIMA.

Furthermore, if the business of exchanges, alternative trading systems and secondary markets for cryptoassets

falls within one of the relevant financial businesses under the Proceeds of Crime Act, they will be required to comply with the AML and KYC requirements under the AML Regulations, which include, inter alia, implementing client identification and verification, record-keeping, and internal reporting and control procedures.

## Custody

### How are cryptoasset custodians regulated?

Assuming the cryptoassets that are the subject of the custody service of the relevant cryptoasset custodians qualify as “virtual assets” under the VASP Act, such custodians will have to apply for a licence with CIMA if either of them provides virtual asset custody service under the VASP Act, which is defined as “the business of safekeeping or administration of virtual assets or the instruments that enable the holder to exercise control over virtual assets”. If the custodians are licensed with CIMA to provide virtual asset custody service, each of them would be subject to various restrictions and obligations stipulated, among other things, under section 10 of the VASP Act, such as being obligated to:

- maintain best technology practices relating to virtual assets held in custody;
- not encumber or cause any virtual asset to be encumbered, unless specifically agreed to by the



beneficial owners of the virtual assets;

- ensure that all proceeds relating to virtual assets held in custody shall accrue for the benefit of the owner, unless otherwise agreed in writing;
- take such steps as may be necessary to safeguard the virtual assets held;
- have adequate safeguards against theft and loss; and
- enter into a custodial arrangement with the owner of a virtual asset, which includes the prescribed details set out in the VASP Act.

Furthermore, if the business of such cryptoasset custodians falls within one of the 'relevant financial businesses under the Proceeds of Crime Act, they will be required to comply with the AML and KYC requirements under the AML Regulations, which include, inter alia, implementing client identification and verification, record-keeping and internal reporting and control procedures.

## Broker-dealers

### How are cryptoasset broker-dealers regulated?

Assuming the broker-dealer business of the relevant cryptoasset broker-dealers involves cryptoassets that qualify as virtual assets under the VASP Act, it is likely that such broker-dealers will have to be registered with CIMA and be regulated accordingly because such broker-dealer business typically

involves either one or a combination of the following virtual asset services: transfer of virtual assets, virtual asset custody service, or participation in and provision of financial services related to a virtual asset issuance or the sale of a virtual asset.

At the same time, the cryptoasset broker-dealers may be regulated by the SIBA if the subject cryptoassets fall within the definition of securities under the SIBA, and if they are engaged in certain securities investment business (which would be likely in terms of dealing in securities and/or arranging deals in securities), which would mandate the registration or licensing with CIMA.

Furthermore, if the business of such cryptoasset broker-dealers falls within one of the relevant financial businesses under the Proceeds of Crime Act, they will be required to comply with the AML and KYC requirements under the AML Regulations, which include, inter alia, implementing client identification and verification, record-keeping and internal reporting and control procedures.

## Decentralised exchanges

### What is the legal status of decentralised cryptoasset exchanges?

Since the definition of “virtual asset trading platform” under the VASP Act also covers those trading platforms with



a decentralised nature, the legislations and regulations mentioned above (see Exchanges and secondary markets) shall similarly apply to decentralised cryptoasset exchanges so long as the subject cryptoasset and business activities fall within the corresponding scopes.

## Peer-to-peer exchanges

### What is the legal status of peer-to-peer (person-to-person) transfers of cryptoassets?

Assuming the cryptoassets that are the subject of the peer-to-peer transfers qualify as virtual assets under the VASP Act, if such peer-to-peer transfers are conducted in the course of the relevant party's business, such peer-to-peer transfers may constitute a virtual asset service with respect to transfer of virtual assets under the VASP Act, which renders the need to be registered with CIMA.

Similarly, a party of peer-to-peer transfers of cryptoassets may be regulated by the SIBA if the subject cryptoassets fall within the definition of securities under the SIBA, and if that party is engaged in certain "securities investment business" (which would be likely in terms of dealing in securities), which would mandate the registration or licensing with CIMA.

Furthermore, if such peer-to-peer transfers fall within one of the relevant

financial businesses under the Proceeds of Crime Act, the relevant party will be required to comply with the AML and KYC requirements under the AML Regulations, which include, inter alia, implementing client identification and verification, record-keeping, and internal reporting and control procedures.

## Trading with anonymous parties

### Does the law permit trading cryptoassets with anonymous parties?

In general, there are no legal restrictions on trading cryptoassets with anonymous parties, unless such trades are considered to be conducted in the course of business of the relevant party and the relevant party is considered to be providing the services of transfer of virtual asset under the VASP Act, and/or carrying out the relevant financial business under the AML Regulations, in which the relevant party will then be subject to certain due diligence requirements of the transaction parties and/or customers, hence making it difficult for a party to keep itself anonymous.

## Foreign exchanges

### (a) Are foreign cryptocurrency exchanges subject to your jurisdiction's laws and regulations governing cryptoasset exchanges?

In general, the location of domicile of a foreign cryptocurrency exchange does

laws and regulations may govern such exchange.

For the VASP Act, what matters is whether any virtual asset service is provided in or from within the Cayman Islands in the course of business, the affirmation of which will render the foreign cryptocurrency exchange to register or be licensed with CIMA.

In addition, SIBA also does not differentiate between the treatment for varying locations of domicile of a foreign cryptocurrency, and what matters is the actual business activity conducted by the relevant exchanges and whether the service is being provided in or from within the Cayman Islands.

### **(b) Under what circumstances may a citizen of the Cayman Islands lawfully exchange cryptoassets on a foreign exchange?**

From the perspective of Cayman Islands laws, there is generally no legal restriction or requirement on how a citizen of the Cayman Islands shall exchange cryptoassets on a foreign exchange.

### **Taxes**

#### **Do any tax liabilities arise in the Cayman Islands in the exchange of cryptoassets (for both other cryptoassets and fiat currencies)?**

There is generally no Cayman Islands tax liability for the exchange of

cryptoassets.

### **Has the Cayman Islands' government recognised any cryptoassets as a lawful form of payment or issued its own cryptoassets?**

No, the Cayman Islands government has not recognised any particular cryptoasset as a lawful form of payment, nor has it issued its own cryptoasset so far.

### **Bitcoin**

#### **Does Bitcoin have any special status among cryptoassets in the Cayman Islands?**

No, Bitcoin does not have any special status in the Cayman Islands as compared against other cryptoassets. So long as Bitcoin falls within the definitions of virtual asset under the Virtual Asset (Service Providers) Act (As Revised) (the VASP Act), it will be subject to the corresponding regulations under the VASP Act.

### **Banks and other financial institutions**

#### **Do any Cayman Islands' banks or other financial institutions allow cryptocurrency accounts?**

No, except for institutions that qualify as virtual asset service providers under the VASP Act such as cryptoasset exchanges, we are not aware of any bank or other financial institution in the



Cayman Islands that allows cryptocurrency accounts. However, we do note that an increasing number of banks and/or other financial institutions have been willing to allow cryptoasset-related businesses (e.g., exchanges or investment funds) to establish traditional bank accounts with them.

### **Cryptocurrency mining - Legal status**

#### **What is the legal status of cryptocurrency mining activities?**

There is currently no specific legislation or regulation in the Cayman Islands that regulates, restricts or prohibits cryptocurrency mining activities.

### **Government views**

#### **What views have been expressed by the Cayman Islands' government officials regarding cryptocurrency mining?**

We are not aware of any particular view expressed by government officials in the Cayman Islands specifically regarding cryptocurrency mining.

#### **Cryptocurrency mining licences - Are any licences required to engage in cryptocurrency mining?**

Unless cryptocurrency mining is considered to be one of the virtual asset services under the Virtual Asset (Service Providers) Act (As Revised) (which

is unlikely), there is no specific legislation or regulation in the Cayman Islands that requires a licence to be obtained before engaging in cryptocurrency mining.

### **Taxes**

#### **How is the acquisition of cryptocurrency by cryptocurrency mining taxed?**

There is generally no Cayman Islands tax liability for the acquisition of cryptocurrency by cryptocurrency mining in the Cayman Islands.

### **Blockchain and other distributed ledger technologies**

#### **Node licensing**

#### **Are any licences required to operate a blockchain/DLT node?**

Assuming the subject cryptoassets qualify as virtual assets under the Virtual Asset (Service Providers) Act (As Revised) (the VASP Act), it is likely that operating a blockchain or DLT node in the course of one's business may be considered as 'participation in and provision of financial services related to a virtual asset issuance or the sale of a virtual asset', hence qualifying such operator as a virtual asset service provider, which requires registration with Cayman Islands Monetary Authority (CIMA) under the VASP Act.

## Restrictions on node operations

### Is the operation of a blockchain/DLT node subject to any restrictions (e.g., based on sanctions/AML/KYC/FATF rules and standards)?

There is no legal restriction in the Cayman Islands that is specifically directed towards the operation of a blockchain/DLT node. However, if the operator of a blockchain/DLT node is considered to be a virtual asset service provider under the VASP Act, such operator shall generally be subject to the various anti-money laundering (AML) and know your customer requirements stipulated by the VASP Act and by the AML Regulations.

## DAO liabilities

### What legal liabilities do the participants in a decentralised autonomous organisation (DAO) have?

A DAO or its participants generally are not subject to any legal liability in the Cayman Islands, especially when a DAO does not have any legal personality.

However, if a DAO has been established with a corporate legal personality (eg, in the form of a Cayman foundation company or an exempted company), depending on the type of activity it undertakes in the course of its business, it might be subject to various legal regulations or restrictions in the Cayman Islands, such as the VASP Act

and the SIBA. For instance, if a corporate DAO's issuance of any tokens qualifies as an issuance of virtual asset under the VASP Act, the corporate DAO will be required to register with CIMA and obtain CIMA's prior approval before the issuance, but it is also important to note the exclusion of virtual service token from the definition of virtual assets.

## DAO assets

### Who owns the assets of a DAO?

The ownership of assets of a DAO will generally depend on various factors such as the DAO's specific structure and any rules encoded in the DAO's smart contracts or protocols, and such ownership is typically distributed among the participants or token holders of a DAO.

However, if a DAO is structured as a Cayman foundation company and such foundation company has shareholders (which is not mandatory), such shareholders would then be the ultimate owner of the assets of the DAO.

## Open source

### Is DLT based on open-source protocols or software treated differently under the law than private DLT?

No, the Cayman Islands law generally does not impose different treatments to DLT based on open-source protocols or software and private DLT.



## Smart contracts

### Are smart contracts legally enforceable?

Currently, there is no specific legislation or regulations in the Cayman Islands that govern the enforceability of smart contracts. However, the Electronic Transactions Act (As Revised) allows for the formation of a contract by electronic record, and it also recognises the validity of electronic signatures so long as such signatures satisfy the reliability requirement stipulated therein. Therefore, provided that all of the essential elements of a contract (ie, offer, acceptance, intention to be legally bound and consideration), are present, we are of the view that a properly executed smart contract will be legally enforceable in the Cayman Islands.

## Patents

### Can blockchain/DLT technology be patented?

There is no legislation or regulation in the Cayman Islands that prohibits blockchain/DLT technology from being patented. So long as the Patents Act (As Revised) of the Cayman Islands is complied with, the owner of the patent right of blockchain/DLT technology recognised in the United Kingdom may apply to extend such patent right to the Cayman Islands.

## Update and trends

### Recent developments

#### Are there any emerging trends, notable rulings or hot topics related to cryptoassets or blockchain in your jurisdiction?

The Mutual Funds (Amendment) Bill, 2026, the Private Funds (Amendment) Bill, 2026, and the Virtual Asset (Service Providers) (Amendment) Bill, 2026 (the “Bills”), collectively pave the way for tokenized funds in the Cayman Islands, by:

- (1) materially revising the definition of “issuance of virtual assets” to exclude both (i) the issuance of equity interests under the Mutual Funds Act, and (ii) investment interests under the Private Funds Act, from the requirement to register under the VASP Act; and
- (2) establishing specific registration requirements for tokenised funds. For example, a tokenised private fund that applies to CIMA for registration must (i) obtain and securely maintain all records relating to the issuance, creation, sale, transfer, and ownership of an investment interest that is represented by a “digital investment token”, including records containing any additional information which may be required by

CIMA. These records must be made available to CIMA or any person assigned by CIMA within such period as may be specified. Licensed mutual fund administrators are required to be satisfied that tokenised mutual funds are compliant with the same obligations.

This publication is not intended to be a substitute for specific legal advice or a legal opinion.  
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