



**PRIVATE SECTOR CONSULTATION**  
**RULE AND STATEMENT OF GUIDANCE**  
**MARKET CONDUCT FOR VIRTUAL ASSET**  
**SERVICE PROVIDERS**

**Private Sector Consultation**  
**Rule and Statement of Guidance on Market Conduct for Virtual Asset Service Providers**

**A. Introduction**

1. The Cayman Islands Monetary Authority ("CIMA" or "the Authority") seeks consultation and comment from private sector associations concerning the Rule and Statement of Guidance on Market Conduct for Virtual Asset Service Providers ("VASPs") (attached as **Appendix I**).

2. Requirements specific to the private sector consultation are outlined in section 4(1) of the Monetary Authority Acts (2020 Revision) ("MAA") which states:

*"(b) before proceeding with the proposed measure, the Authority shall have regard to any representations made by the private sector associations, and shall give a written response, which shall be copied to all the private sector associations."*

3. Section 34(1)(a) of the Monetary Authority Act (2024 Revision) ("MAA") states that:

*"After private sector consultation and consultation with the Minister charged with responsibility for Financial Services, the Authority may -*

*(a) issue or amend rules or statements of principle or guidance concerning the conduct of licensees and their officers and employees, and any other persons to whom and to the extent that the regulatory laws may apply;"*

**B. Background and Rationale**

4. Recognising the growing prominence of virtual assets in global financial markets in February 2021, the Authority issued a Statement of Principles – Conduct for Virtual Asset Services ("SOP") to provide broad, high-level expectations for the conduct of VASPs operating in or from within the jurisdiction. While the SOP remains instrumental in setting the regulatory tone and promotes the general principles for VASPs operating in or from within the Cayman Islands, there exists the need for further clarity with regards to requirements and guidelines for the conduct of virtual asset services.

5. Since the issuance of the SOP, international standard-setting bodies, including the Financial Stability Board ("FSB"), Bank for International Settlements ("BIS"), International Organisation of Securities Commissions ("IOSCO"), G20, and the Organisation for Economic Cooperation and Development ("OECD"), have updated their recommendations, calling for greater regulatory clarity, enhanced cross-border cooperation, and stronger investor/client protections. These developments underscore the need for jurisdictions to adopt structured and enforceable regulatory frameworks that can respond to the complexity and risks associated with VASP operations.

6. To reflect these international developments and provide further clarity, the VASP Act (2024 Revision) (the "VASP Act") has been built on earlier amendments and marked significant progress in the Cayman Islands' VASP regime. The revision of the legislation has strengthened the overall regulatory architecture by reinforcing

governance expectations, improving transparency, and elevating operational standards applicable to VASPs. This momentum culminated with the commencement of *Phase 2* of VASP Act in April 2025 by the Cayman Islands Government, bringing into force the licensing and waiver regime for Virtual Asset Custodians and Virtual Asset Trading Platforms.

7. To support these legislative advancements and to ensure alignment with evolving international standards, the Authority is proposing to issue a proposed Rule and Statement of Guidance on Market Conduct for Virtual Asset Service Providers ("RSOG"). This RSOG will introduce enforceable obligations and tailored guidance to enhance regulatory clarity, improve supervision, and promote the sustainable growth of the virtual asset sector while safeguarding market integrity and consumer interests.

### **C. International Standards**

8. International standard-setting bodies recognise the unique risks and challenges posed by VASPs and have issued comprehensive guidelines to address market conduct, consumer protection, and regulatory oversight within the virtual asset ecosystem, as summarised below:

9. *FSB*

The FSB issued a report titled ["High-Level Recommendations for the Regulation, Supervision, and Oversight of Crypto-Asset Activities and Markets"](#) (July 2023), which outlines key market conduct principles to promote fairness, transparency, and investor protection in the crypto-asset sector. The report emphasises the need for clear governance structures, ethical business practices, and conflict-of-interest management, ensuring that firms operate with accountability and integrity. It also highlights comprehensive disclosure requirements, recommending that crypto-asset providers offer accurate, timely, and transparent information on financial risks, governance, and operational activities. Additionally, the FSB stresses the importance of regulatory enforcement to prevent misleading advertising, unfair trading practices, and misuse of client assets, reinforcing trust and stability in the market.

10. *BIS*

The Financial Stability Institute ("FSI") of the BIS published a report titled ["Supervising Crypto Assets for Anti-Money Laundering"](#) (April 2021), which, while primarily focused on AML/CFT, also has implications for market conduct among VASPs. The report highlights the importance of regulatory frameworks, enhanced supervision, and international cooperation to ensure that VASPs operate with transparency, accountability, and ethical business practices. It emphasises that weak AML/CFT measures can lead to market manipulation, fraud, and unfair trading practices, undermining market integrity and investor protection. By strengthening oversight, requiring clear disclosures, and enforcing ethical compliance, the report indirectly promotes fair market conduct within the crypto asset sector, reinforcing trust, financial stability, and consumer confidence.

11. *IOSCO*

IOSCO has issued a report titled ["Policy Recommendations for Crypto and Digital Asset Markets"](#) (November 2023), which outlines regulatory measures aimed at enhancing market conduct, investor protection, and integrity in crypto-asset markets. The report highlights the need for clear governance frameworks, conflict-of-interest management, and transparent order-handling practices to ensure fair trading and ethical business conduct. It emphasises trade disclosures, listing standards, and market surveillance mechanisms to prevent fraud, insider trading, and manipulative practices that undermine market integrity. Additionally, IOSCO

stresses cross-border regulatory cooperation to close gaps that could lead to regulatory arbitrage and misconduct. While the report does not explicitly define a "market conduct" section, its recommendations collectively establish principles of fair dealing, transparency, and accountability, reinforcing ethical behaviour and investor trust in the crypto-asset ecosystem.

12. *Group of Twenty ("G20") and FSB*

The G20/ OECD's 12 High-Level Principles on Financial Consumer Protection outline key elements of an effective consumer protection framework. These principles emphasize that financial service providers and their authorized agents must act in their customers' best interests and uphold consumer protection standards. Embedding consumer protection policies within regulatory and supervisory frameworks enhances financial stability, reduces information asymmetries, and ensures fair treatment and adequate safeguards for consumers. The principles, inter alia, provide for:

*"Principle 6: Equitable and Fair Treatment of Consumers*

All financial consumers should be treated equitably, honestly and fairly at all stages of their relationship with financial services providers..."

*"Principle 7: Disclosure and Transparency*

Financial services providers and intermediaries should provide consumers with key information on the fundamental benefits, risks and terms of the product, including for cross-border payments and other transactions, regardless of the distribution channel. They should also provide information on conflicts of interest associated with the intermediaries through which the product is sold..."

*"Principle 9: Responsible Business Conduct and Culture of Financial Services Providers and Intermediaries*

Financial services providers and intermediaries should have as an objective to work in the best interest of consumers and be responsible for upholding financial consumer protection. Financial services providers should also be responsible and accountable for the actions of their intermediaries..."

*"Principle 10: Protection of Consumer Assets against Fraud, Scams and Misuse*

Relevant information, control and protection mechanisms should be appropriately developed and implemented by oversight authorities and financial services providers and with a high degree of certainty protect consumers' deposits, savings, and other similar financial assets, including against fraud, scams, misappropriation or other misuses..."

*"Principle 12: Complaints Handling and Redress*

Jurisdictions should ensure that consumers have access to adequate complaints handling and redress mechanisms that are accessible, affordable, independent, fair, accountable, timely and efficient... financial services providers and intermediaries should have in place mechanisms for complaint handling and redress..."

**D. Purpose of Proposed Measure and Consistency with the Authority's Functions**

13. The purpose of the proposed measure is to set out clear, enforceable and transparent framework for the conduct, operational, and governance standards applicable to VASPs under the VASP Act. In addition, to incorporate the Authority's approach to, and expectations in, supervising VASPs, including the manner in which its powers under the VASP Act will be exercised to ensure compliance and mitigate market and consumer risks.

14. The Authority's mandate for this proposed RSOG is found under Section 6(1)(b) of the MAA which states:
- "(i) to regulate and supervise financial services business carried on in or from within the Islands in accordance with this Law and the regulatory laws;*  
*(ii) to monitor compliance with the anti-money laundering regulations; and*  
*(iii) to perform any other regulatory or supervisory duties that may be imposed on the Authority by any other law;"*
15. Furthermore, Section 6(3) of the MAA provides that in performing its regulatory functions and its co-operative functions, the Authority shall, inter alia:
- (a) endeavour to promote and enhance market confidence, consumer protection and the reputation of the Islands as a financial centre;*  
*(b) endeavour to reduce the possibility of financial services business or relevant financial business being used for the purpose of money laundering or other crime;*  
*(c) recognise the international character of financial services and markets and the necessity of maintaining the competitive position of the Islands, from the point of view of both consumers and suppliers of financial services, while conforming to internationally applied standards insofar as they are relevant and appropriate to the circumstances of the Islands;"*

#### **E. Jurisdictional Comparison**

16. The Authority conducted a review of Dubai, Malaysia, the Bahamas, Malta, and Abu Dhabi. These jurisdictions were selected based on their recently published regulatory frameworks, which included regulatory requirements that address market conduct within the virtual asset sector and their comprehensive approach to market conduct. Each of the above jurisdictions has adopted distinct approaches to regulating VASPs summarised in **Table 1** below. The jurisdictional analysis compared the regulatory frameworks governing VASPs, focusing on the legislation, guidelines, or rules issued, enforceability and reporting and disclosure requirements.

**Table 1** Overview of regulatory frameworks across these comparable jurisdictions in relation to market conduct and disclosures for VASPs.

Jurisdiction	Relevant Legislation	Regulatory Measures Issued	Enforceability of Regulatory Measures Issued	Reporting Requirements
<b>Dubai</b>	Law No. 4 of 2022 (Dubai Virtual Assets Regulatory Authority - VARA)	<a href="#">VARA Market Conduct Rulebook (2023)</a> (Rule) requires asset assessments, record-keeping (8 years), and risk notifications. It broadly covers: <ul style="list-style-type: none"> <li>• <a href="#">Marketing</a>, Advertising and Promotions;</li> <li>• Client Agreements;</li> <li>• Complaints Handling;</li> <li>• Public Disclosures;</li> <li>• Market Transparency; and</li> <li>• Trading Own Account.</li> </ul>	Yes - Mandatory for all licensed VASPs; failure to comply may result in penalties or loss of license.	Yes - VASPs must maintain records for 8 years and provide them upon request; licensing details and risk disclosures must be made publicly available.
<b>Malaysia</b>	Guidelines on Digital Assets (2024) under Capital Markets and Services Act 2007	<a href="#">Digital Asset Guidelines (2024) (Guidance)</a> regulate token issuers, Initial Exchange Offering (IEO) platforms, and custodians; and require investor disclosures. It broadly Covers: <ul style="list-style-type: none"> <li>• Marketing and Promotion;</li> <li>• Reporting and Audit;</li> <li>• Issuer.</li> </ul>	Yes - Mandatory for all regulated entities under the Securities Commission Malaysia.	Yes - Issuers must provide comprehensive investor disclosures, including risk factors, investment rights, and terms.
<b>Bahamas</b>	Digital Assets Guidelines (2023) issued by the Central Bank of The Bahamas	<a href="#">Digital Assets Guidelines (2023)</a> (Guidance) establish operational and disclosure requirements for supervised financial institutions engaged in digital asset activities. It broadly Covers: <ul style="list-style-type: none"> <li>• Forms of Digital Asset Engagement;</li> <li>• Prudential Treatment;</li> <li>• Central Bank Reporting Requirements.</li> </ul>	Partially - Guidelines provide regulatory expectations but are not legally binding until incorporated into statutory laws.	Yes - Institutions must ensure disclosures are clear, comprehensive, and consistently reported across entities.
<b>Malta</b>	Virtual Financial Assets Act (VFA Act, 2018) regulated by Malta Financial Services Authority (MFSA)	<a href="#">VFA Rulebook (updated 2021) (Rule)</a> includes record-keeping (10 years), disclosure requirements, and enforcement mechanisms. It broadly Covers: <ul style="list-style-type: none"> <li>• Disclosures to the Public;</li> <li>• Own Funds Requirements;</li> <li>• Custodian.</li> </ul>	Yes - Mandatory for all licensed VFA service providers under MFSA; non-compliance may result in fines or license revocation.	Yes - Entities must retain accounting records for at least 10 years and provide disclosures on financial conditions and risks.

<b>Abu Dhabi</b>	Financial Services and Markets Regulations 2015 (FSMR) under the Financial Services Regulatory Authority (FSRA) of ADGM	<a href="#">Virtual Asset Framework (Guidance)</a> issued under FSMR, covering licensing, AML/CFT, capital requirements, technology governance, and consumer protection. It broadly Covers: <ul style="list-style-type: none"> <li>• Virtual Asset Risk Disclosures;</li> <li>• Market Abuse, Transaction Reporting and Misleading Impressions;</li> <li>• Protection of Client Money;</li> <li>• Safe Custody of Clients' Virtual Assets; and</li> <li>• Management of personnel and decision-making.</li> </ul>	Yes - Mandatory for all VASPs operating within ADGM; compliance with FSRA rulebooks and guidelines is required.	Yes - VASPs must submit regular compliance reports, adhere to financial disclosure requirements, and report market abuse or suspicious activities.
<b>Cayman Islands</b>	Virtual Asset (Service Providers) Act (VASP Act, 2020; Revised 2024) regulated by CIMA	<a href="#">Statement of Principles (2021)</a> (SOP) provides high-level guidance; Revised VASPA (2024) (Rule) strengthens licensing, AML compliance, and reporting obligations.	Not directly enforceable, but usable by the Authority in assessing compliance with the VASPA.	No: The SOP sets out the general standards by which all persons should conduct virtual asset services including connected and incidental business. The SOP Has 12 general principles. The principles are: <ul style="list-style-type: none"> <li>• Honesty and Integrity;</li> <li>• Fair treatment of Customers;</li> <li>• Protection of Customer Data;</li> <li>• Protection and Segregation of Customers Assets;</li> <li>• Maintenance of Security systems;</li> <li>• Due skill, care and Diligence;</li> <li>• Prevention, Detection and Disclosure of financial crimes;</li> <li>• Conflict of Interest and unfair Dealings;</li> <li>• Adequate Resources;</li> <li>• Full Disclosure;</li> <li>• Corporate Governance and Resilience; and</li> <li>• Compliance with Regulatory Acts.</li> </ul>

## F. Cost and Benefit Analysis

17. The Authority assessed the implications of issuing the RSOG, and the relevant costs and benefits are presented in **Table 4** below.

**Table 4:** Costs and Benefits of Implementing the Proposed RSOG on Market Conduct

Stakeholders	Costs	Benefits
<b>CIMA</b>	<ol style="list-style-type: none"> <li>1. CIMA will incur the usual administrative costs associated with publishing the new requirement measure and amending internal supervisory manuals.</li> <li>2. Costs related to processing new measures, conducting consultation, and reviewing feedback.</li> <li>3. Costs related to aligning Offsite and onsite procedures with the RSOG and investigating and taking action in response to any breaches of rules.</li> </ol>	<p>The Authority stands to benefit from:</p> <ol style="list-style-type: none"> <li>1. improved compliance by supervised entities with the measure, given the role enforceable rules play in dissuading non-compliance.</li> <li>2. providing clarity and certainty on the obligations of VASPs regarding market conduct.</li> <li>3. an enforcement framework for the supervision of VASPs as promulgated by the VASP Act and.</li> <li>4. strengthened regulatory/supervisory framework for the VASP sector that supports CIMA's mandate.</li> </ol>
<b>Cayman Islands</b>	<ol style="list-style-type: none"> <li>1. Risk that some entities will opt to leave the jurisdiction rather than comply with newly instituted obligations; however, this is expected to be minimal since the VASPA already exists.</li> </ol>	<p>The jurisdiction stands to benefit from:</p> <ol style="list-style-type: none"> <li>1. an enhanced jurisdictional profile as an international financial centre as a result of improved compliance with international best practices on market conduct for VASPs. Moreover, the adoption of globally uniform standards promotes consistency across jurisdictions, facilitating seamless international operations and reinforcing trust among clients and regulators.</li> <li>2. minimising risks associated with weak market conduct regulations for VASPs. Such risks include but not limited to: <ol style="list-style-type: none"> <li>1) marketing manipulation;</li> <li>2) consumer protection and transparency;</li> <li>3) complaints handling;</li> <li>4) public disclosures;</li> <li>5) market transparency; and</li> <li>6) trading own account.</li> </ol> </li> <li>3. the mandatory disclosures within the RSOG that will empower VASP clients with the necessary information to make informed financial decisions, while simultaneously strengthening industry discipline through greater accountability and clear redress mechanisms.</li> <li>4. improved results in international assessments and evaluations with greater clarity surrounding the enforceability of the requirements established in the proposed measure.</li> </ol>



Stakeholders	Costs	Benefits
<b>VASPs</b>	<p>1. VASPs may incur compliance costs relating to implementing proposed rules, including the operation of custodial accounts and handling of client's assets. However, most requirements in the proposed new RSOG are already in the VASPA 2024 revision, and the industry is generally aware of the same. It is, therefore, unlikely that the proposed new RSOG would add any material costs.</p>	<p>1. VASPs benefit from enhanced clarity regarding their market conduct obligations—reducing ambiguity—while also gaining increased certainty about evidence required during on-site inspections and CIMA's expectations.</p> <p>2. By mitigating the risk of regulatory breaches linked to unscrupulous business practices, the rules offer tangible benefits to VASPs. They reduce exposure to fines, penalties, and reputational damage while enhancing compliance and credibility.</p> <p>3. VASPs will benefit from the positive spillovers associated with increased client confidence emanating from good market conduct practices. This will result in positive knock-on effects on profitability, customer growth and overall VASP performance.</p>
<b>Summary</b>	Consequent to the above, it is determined that the benefits outweigh the costs and the issuance of the new RSOG should therefore be pursued by the Authority.	

## G. Consultation Feedback and Comments

18. Before proceeding with the proposed measure, the Authority shall have regard to any representations made by the private sector associations only. Feedback submitted by individuals, entities, or other bodies, unless acting on behalf of private sector associations, will not be accepted by the Authority. Representations from private sector associations must be submitted as a consolidated document, and a listing of the entities which provided feedback should be included. Private sector associations should ensure that conflicting positions are resolved prior to submission to the Authority. Where positions conflict within or across associations, the Authority will consider all available information in taking a decision, which will be at its sole discretion.
19. To ensure that all responses are given due consideration, it is important that private sector associations make clear reference to the sections of the measure being commented on, and that responses are unambiguous, clearly articulated and based on fact. The consultation process is not designed to address complaints or grievances. Feedback of this nature should be submitted through the established complaints process.
20. In cases where the feedback proposes to change a policy position of the Authority or substantially amend any requirement of the draft measure, information to support the position of the association must be provided. The table below provides an example of the Authority's expectation with regard to feedback for the proposed measure.

Reference	Example of a Helpful Comment	Examples of Comments needing more Support
Rule 4.2 <sup>1</sup>	In Rule 4.2 the current text omits the fair value measurement of liabilities. Also, as defined it is not asymmetrical with the Market Price definition and	<p>× This is not what is done in other jurisdictions.</p> <p>× I don't think we should do this.</p>

<sup>1</sup> This example is not reflective of the content of the proposed measure.

	<p>thus scenarios exists that fall into neither category.</p> <p><b><u>Suggested wording:</u></b>  <i>Hard-to-Value Securities means an asset or liability for which there is no Market Price which is required to be measured at fair value pursuant to 5.2</i></p>	<p>× CIMA is not considering the position of the experts.</p>
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21. All feedback submitted by private sector associations will be given due consideration, nevertheless, the decision to adopt any feedback provided into a proposed measure will be at the sole discretion of the Authority.

## H. Notice of Representations

22. The Authority seeks consultation through written comments and representations from the private sector associations concerning the:

*Rule and Statement of Guidance on Market Conduct for Virtual Asset Service Providers*

23. The Authority must receive representations by 1700hrs on **June 24, 2025**. Representations received after this deadline may not be considered and will not form part of the collated written response provided to private sector associations.

24. Comments and representations must be addressed to<sup>2</sup>:

The Chief Executive Officer  
Cayman Islands Monetary Authority  
P.O. Box 10052  
SIX, Cricket Square  
Grand Cayman KY1-1001  
Cayman Islands  
Tel: 345-949-7089  
Fax: 345-946-5611  
Email:

[consultation@cima.ky](mailto:consultation@cima.ky)  
and copied to [cianomacharia@cima.ky](mailto:cianomacharia@cima.ky)

25. The Authority shall have due regard to any representation made by the private sector associations and industry stakeholders. The Authority shall provide a written response collating the feedback received and the Authority's position on this feedback. This response shall be copied to all relevant private sector associations only.

<sup>2</sup> Where the private sector association or industry stakeholder has no comments or representations on the proposed measure, it is recommended that the Authority be informed of this fact.



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