



**SUMMARY OF PRIVATE SECTOR CONSULTATION AND FEEDBACK STATEMENT**

***Rule and SOG for the provision of virtual asset services – Virtual Asset Custodians and Virtual Asset Trading Platforms***

No.	Section	Comments	Authority's Response	Consequent Amendments to the Proposed Measure
<b>Rule and SOG - <i>Virtual Asset Custodians and Virtual Asset Trading Platforms</i></b>				
<b>GENERAL COMMENTS</b>				
1.	The rules and guidance refer to VASP 2020 revision, should be 2022 revision (applies throughout)		<p>The Authority has updated the Rule and Guidance to include the following wording:</p> <p>"References to any act or regulation shall be construed as references to those provisions as commenced, amended, modified, re-enacted or replaced from time to time."</p>	<p>Section 3 has been updated to include a new subsection 3.3 that reads as follows:</p> <p>"In this document, references to any act or regulation shall be construed as references to those provisions as commenced, amended, modified, re-enacted or replaced from time to time"</p>
2.	The Authority notes that it has included some administrative edits and refinements the RSOG to provide further clarity and to promote regulatory consistency with the VASPA.		<p>The amendments to the RSOG measures are as follows:</p> <ol style="list-style-type: none"> <li>1) replace the terms "licensed VASP" and or "licensees" that were used throughout the RSOG to "custodians" and "trading platforms", pursuant to definitions provided in the VASPA;</li> <li>2) align the effective date of the Rule with date of the commencement order for Phase Two of the VASPA. However, upon gazettment, the Authority encourages early adoption to allow for transition arrangements once the relevant sections of the Act relating to licencing of virtual asset custodians and virtual asset trading platforms are commenced;</li> </ol>	

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			<p>3) make affect the SOG immediately upon gazetteement to promptly communicate the recommendations and expectations that custodians and trading platforms should follow to enhance compliance with requirements; and</p> <p>4) to add important clarifying words or phrases, where needed, based on the increased experience in assessing issues, trends, and business models by the VASP &amp; Fintech Innovation Unit.</p>	
3.	The Authority has changed all mentioned instances of "Law" to "Act".			
<b>SECTION-SPECIFIC COMMENTS</b>				
4.	<p>Definitions</p> <p><b>"governing body"</b> means the Board of Directors where the entity is a corporation, the General Partner where the entity is a partnership, the manager where the entity is an LLC, or equivalent;</p> <p><b>"licensed VASP"</b> means a virtual asset custodian or virtual asset trading platform;</p> <p><b>"virtual asset custodian"</b> means a licensee under section</p>			<p>The Authority amended the definitions to better align with the VASP Act.</p> <p>Definitions were updated to read as follows:</p> <p><b>"governing body"</b> of a regulated entity means the Board of Directors where the entity is a corporation, the General Partner where the entity is a partnership, the manager (or equivalent) where the entity is a Limited Liability Company, and the Board of Trustees where the entity is a trust business.</p> <p><b>"independent third party"</b> means a party who, to the best of the governing body's knowledge, information and belief having made all reasonable enquiries, are independent of, and not connected with, the</p>

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	<p>8 of the Act who provides virtual asset custody services in or from within the Cayman Islands;</p> <p><b>"virtual asset custody service"</b> means the business of safekeeping or administration of virtual assets or the instruments that enable the holder to exercise control over virtual assets; and</p> <p><b>"virtual asset trading platform"</b> means a centralized or decentralized digital platform</p> <p>(a) which facilitates the exchange of virtual assets for fiat currency or other virtual assets on behalf of third parties for a fee,</p>			<p>regulated entity or any of its connected persons.</p> <p><b>"senior officer"</b> has the same meaning as defined in the Act.</p> <p><b>"virtual asset custodian"</b>, hereafter referred to as "custodian", has the same meaning as defined in the Act; and</p> <p><b>"virtual asset custody service"</b> has the same meaning as defined in the Act; and</p> <p><b>"virtual asset trading platform"</b> hereafter referred to as "trading platform", has the same meaning as defined in the Act.</p> <p><b>Amendment to Footnote 1</b></p> <p>A regulated entity refers to any natural or legal person (s) or arrangement (s) that has been licensed or registered under the Act.</p>

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	<p>commission, spread or other benefit; and</p> <p>(b) which —</p> <p>(i) holds custody of or controls virtual assets on behalf of its clients to facilitate an exchange; or</p> <p>(ii) purchases virtual assets from a seller when transactions or bids and offers are matched in order to sell them to a buyer; and</p> <p>(c) which is licensed under section 8 of the Act,</p> <p>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</p>			

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	<p>parties trade in a separate platform or in a peer-to-peer manner.</p> <p>For the purpose of the definition of</p> <p><b>“virtual asset trading platform”,</b> where a single entity or group that controls the platform cannot be identified, the operator of the platform shall be deemed the owner of the entity under which the platform operates.</p>			
5.	<p><b>Rule 6.4.</b></p> <p>The number of individuals appointed to the governing body must be commensurate to the size, nature, and complexity of the licensed VASP's operations, provided that this number is not less than two.</p>			<p>The Authority made the following amendment to better align with the Act:</p> <p>“The number of individuals appointed to the governing body must be commensurate to the size, nature, and complexity of the custodian or trading platform operations, provided that this number meets the minimum required under the Act.”</p>

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6.	<p><b>Rule 7.4</b></p> <p>"In dealing with clients and potential clients, licensed VASPs must act ethically and with integrity at all times"</p>	<p>How will a licensed VASP prove that they acted ethically and with integrity at all times?</p> <p>Is this question of fitness &amp; propriety of the board?</p>	<p>For clarity, the Authority has amended the section "<i>Treating clients fairly</i>" of the SOG to provide more specific examples of how a custodian or trading platform may prove that it has acted ethically and with integrity.</p> <p>Whilst this is not solely a question of fitness and propriety, there is an overlap with both concepts. For a person to be fit and proper, which is a usual industry wide standard that senior management and key personnel are expected to meet to be eligible or suitable for their posts, such persons must operate ethically and with integrity. However, this Rule addresses how a custodian or trading platform must act when dealing with a client as opposed to addressing an expected standard which a custodian's or trading platform's personnel must meet. It is true that if your personnel are not fit and proper, they may not act ethically or with integrity. However, being fit and proper does not only concern the ability to act ethically or with integrity. It also concerns competence and capability as well as financial soundness.</p> <p>Additionally, the Regulatory Policy on Fitness and Propriety provides the framework that can also be used to assess this requirement. Section 3.2 of the Policy provides that the assessment should be performed on an ongoing basis as deemed necessary.</p>	<p>A new paragraph 7.3 has been inserted in the "Treating clients fairly" section of the SOG which reads as follows:</p> <p>"A custodian or trading platform may demonstrate that it has acted ethically and with integrity if, at all times, the custodian or trading platform :</p> <ul style="list-style-type: none"> <li>a) observes high standards of integrity and fair dealing in the conduct of its business;</li> <li>b) acts within its powers;</li> <li>c) uses information obtained in confidence by their customers for the benefit only of their customers and for the purpose for which it was obtained;</li> <li>d) acts professionally and execute its responsibilities properly; and</li> <li>e) does not behave in a way that is dishonest, reckless or misleading.</li> </ul> <p>The list set out above is non exhaustive."</p>
7.	<p><b>Rule 7.6</b></p> <p>"Licensed VASPs must not, deliberately or negligently, mislead a client in relation to the</p>	<p>Could this be broadened to also include virtual asset services? Only speaks of virtual assets...</p>	<p>The Authority has made the change as suggested. However, we have not used the term "virtual asset services" as that term has a broader definition in the Virtual Asset (Service Providers) Act (which includes other services which are not covered within</p>	<p>Rule 7.6 has been updated to read as follows:</p> <p>The custodian or trading platform must not, deliberately or negligently,</p>

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	real or perceived benefits of any virtual assets"		the scope of the Rule (e.g., the issuance of virtual assets or the participation in, and the provision of, financial services related to a virtual asset issuance or the sale of a virtual asset).	mislead a client in relation to the real or perceived benefits of any virtual assets or any services carried out by the custodian or trading platform.
8.	<p><b>Rule 7.10</b></p> <p>"Any disclosure of conflicts of interest must be in written form and include sufficient detail, taking into account the nature of the client, to enable the client to take an informed decision with respect to the product of service in the context of which the conflict of interest arises."</p>	Will guidance be provided as to indicate what would be considered a conflict of interest for a licensed VASP?	The Authority has considered the suggestion and has updated the SOG to include guidance on what would be considered a conflict of interest for a custodian or trading platform.	<p>Four new paragraphs (7.4 – 7.7) have been added to the SOG under the "<i>Client communications and full disclosure</i>" sub-section in the SOG.</p> <p>New paragraphs 7.4 to 7.7 read as follows:</p> <p>"7.4 A conflict of interest is considered to exist if the conflict may damage the interests of a client.</p> <p>7.5 A conflict of interest or potential conflict of interest may occur between:</p> <ul style="list-style-type: none"> <li>a) the custodian or trading platform and their beneficial owners, directors, senior officers, employees and clients;</li> <li>b) one client and another; and</li> <li>c) business of another subsidiary or entity within the group.</li> </ul> <p>7.6 The types of conflict of interest that may arise in the course of a custodian or trading platform providing services and which should be disclosed may include, but is not limited to, cases where the custodian or trading platform:</p>

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				<p>a) is likely to make a financial gain, or avoid a financial loss, at the expense of the client;</p> <p>b) has an interest in the outcome of the service provided to the client or of a transaction carried out on behalf of the client, which is distinct from the client's interest in that outcome;</p> <p>c) has a financial or other incentive to favour the interest of another client or group of clients over the interests of the client; and</p> <p>d) receives or will receive from a person other than the client an inducement in relation to a service provided to the client, in the form of monies, goods or services, other than the standard commission or fee for their service.</p> <p>7.7 A custodian or trading platform should maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps to prevent conflicts of interest from adversely affecting the interests of its clients."</p>
9.	<b>Rule 7.17</b> "Licensed VASPs must ensure that advertising or marketing communications do not, deliberately, or negligently, mislead a	Could this be broadened to also include virtual asset services? Only speaks of virtual assets...	The Authority has made the change as suggested. However, we have not used the term "virtual asset services" as that term has a broader definition in the Virtual Asset (Service Providers) Act which includes other services which are not covered within the scope of the Rule (e.g., the issuance of virtual assets or the participation in, and the provision of,	Rule 7.17 has been updated to read as follows:  "The custodian or trading platform must ensure that advertising or marketing communications do not, deliberately or negligently, mislead a



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	client in relation to the real or perceived advantages of virtual assets."		financial services related to a virtual asset issuance or the sale of a virtual asset).	client in relation to the real or perceived advantages of virtual assets or any services carried out by the custodian or trading platform."
<b>10.</b>	<p><b>Rule 7.22.</b></p> <p>Licensed VASPs must develop and implement a comprehensive outsourcing policy to guide the assessment of whether any activity can be appropriately outsourced. The policy must include periodic review of the third party, contingency plans and exit strategies.</p>			<p>The Authority saw the need to remind entities to do both the first due diligence at selection and then the periodic review. Therefore, to enhance clarity and emphasise this critical aspect, the Authority revised the wording in 7.22 to explicitly mention both the initial due diligence assessment and the periodic review as integral components of the outsourcing policy. The amendments to 7.22. reads as follows:</p> <p>A custodian or trading platform must develop and implement a comprehensive outsourcing policy to guide the assessment of whether any activity can be appropriately outsourced. The policy must include an initial due diligence assessment at the selection of third parties, periodic review of the third party's performance, contingency plans, and exit strategies.</p>
<b>11.</b>	<b>New Rule added 7.29.</b>			<p>To align with the Act, the Authority added the Rule 7.29. as follows:</p> <p>A custodian or trading platform must notify and/or seek prior approvals from the Authority as required under the Act. These include, but are not</p>

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				limited, to changes in business plans, issue or transfer of shares and appointment of senior officers.
<b>12.</b>	<p><b>Rules 8.1. – 8.6.</b></p> <p>8.1. Licensed VASPs must, at all times, have in place capital in the form of the higher of:</p> <ul style="list-style-type: none"> <li>a) the minimum capital amount as set out in rule 8.2 in a) to d) below;</li> <li>b) their risk-based capital; or</li> <li>c) the amount equal to six months fixed overheads of the licensed VASP; or</li> <li>d) such amount as determined by the Authority</li> </ul> <p>8.2. The amount of required minimum capital will be dependent on the activities or services that a licensed VASP is authorised to provide, as follows:</p>			<p>The Authority removed fixed dollar amounts and adopting a flexible, risk-based approach ensures the Rule is robust, adaptable, and reflective of the diverse nature of custodians or trading platforms . This approach aligns with international best practices, supports proportionality in regulation, and provides the Authority with the discretion to respond effectively to entity-specific and industry-wide risks. Additionally, the Authority may issue separate prudential guidelines as necessary.</p> <p>The Rules now read as follows:</p> <p>“8.1. A custodian or trading platform must, at all times, have in place capital in the form of the higher of:</p> <ul style="list-style-type: none"> <li>a) the risk-based capital as determined pursuant to sections 8.2 below; or</li> <li>b) the amount equal to six months fixed overheads of the custodian or trading platform; or</li> </ul>

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	<p>a) virtual asset custodians are required to hold a minimum capital amount equal to CI\$125,000;</p> <p>b) virtual asset trading platforms that do not hold custody of or control virtual assets on behalf of clients to facilitate an exchange, but purchase virtual assets from a seller when transactions or bids and offers are matched in order to sell them to a buyer, are required to hold a minimum capital amount equal to CI\$75,000;</p> <p>c) virtual asset trading platforms that hold custody of or control virtual assets on behalf of clients to</p>			<p>c) such amount as determined by the Authority.</p> <p>8.2. Risk based capital must be determined having regard to the size, scope, complexity and nature of the activities and operations of the custodian or trading platform and the type and level of risks the custodian or trading platform is exposed to.<sup>1</sup></p> <p>8.3. A custodian or trading platform must hold any additional capital buffer as required by the Authority.</p> <p>8.4. Custodians or trading platforms must review the adequacy of their capital at least on an annual basis, or when there has been a material change to the business.</p> <p>8.5. A custodian or trading platform must notify the Authority of any breaches in regulatory capital."</p>

<sup>1</sup> Note, the removal of the previous 8.2. as seen in column 2.

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	<p>facilitate an exchange, regardless of whether they purchase virtual assets from a seller when transactions or bids and offers are matched in order to sell them to a buyer, are required to hold a minimum capital amount equal to CI\$100,000; and</p> <p>d) virtual asset trading platforms that are also virtual asset custodians are required to hold a minimum capital amount equal to CI\$175,000.</p> <p>8.3. Risk based capital will be determined having regard to the the size, scope, complexity and nature of the activities and operations of the licensed VASP and the type and level of risks the licensed VASP is exposed to.</p>			

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	<p>8.4. The Authority may require a Licensed VASP to hold an additional capital buffer as it deems fit.</p> <p>8.5. Licensed VASPs must review the adequacy of their capital at least on an annual basis, or when there has been a material change to the business.</p> <p>8.6. Licensed VASPs must notify the Authority of any decision to increase regulatory capital held and must seek approval from the Authority for any reduction in regulatory capital.</p>			
<b>13.</b>	<p><b>Rule 8.2. (a)</b></p> <p>The amount of required minimum capital will be dependent on the activities or services that a licensed VASP is</p>	<p>It might be useful here to specify the currency or type of value which can be held as capital. The guidance mentions "equal to" throughout. Does this mean the</p>	<p>The Authority has considered the suggestion and has removed 8.2 which included point (a). As mentioned in a previous comment, the Authority removed fixed dollar amounts and adopting a flexible, risk-based approach ensures the Rule is robust, adaptable, and reflective of the diverse nature of custodians or trading platforms.</p>	<p>While no change has been made to the Rule, the SOG has been amended to include new paragraphs 8.6 and 8.7 for clarity.</p> <p>New paragraphs 8.6.1 (originally 8.7) and 8.6 (originally 8.7) read as follows:</p>

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	<p>authorised to provide, as follows:</p> <p>a) virtual asset custodians are required to hold a minimum capital amount equal to CI\$125,000;</p>	<p>capital must be held in CI\$, or simply be equivalent to CI\$? Given VASPs' tendency to hold capital in the form of virtual assets (bitcoin, ethereum, etc). Is this acceptable to satisfy this requirement? Further, can this capital be held anywhere? In a blockchain? Does it need to be held in a bank account at a licensed bank?</p>	<p>Paragraph 8.6 of the SOG supplements the Rule and clarifies that a custodian or trading platform may use virtual assets as part of its regulatory capital. Therefore, a custodian or trading platform will be able to satisfy its prudential obligations by holding capital in the form of virtual assets.</p> <p>Paragraph 8.6 of the SOG also mentions that consideration should be given to the security and storage controls in place to manage the virtual assets which are used as part of a custodian's or trading platform's or regulatory capital. This suggests that whilst capital may be held on different platforms, the Authority will consider these scenarios on a case-by-case basis. This provides flexibility to custodians or trading platforms in relation to compliance with their prudential obligations. The Authority has amended SOG to clarify this.</p>	<p>"8.6.1 If a custodian or trading platform decides to use virtual assets as part of its regulatory capital, the Authority will consider the particulars of each circumstance (including security and storage controls) and work with the custodians or trading platforms to ensure that it is in a position to be able to meet its prudential obligations on an on-going basis.</p> <p>8.7 If a custodian or trading platform decides to hold regulatory capital in a foreign currency, the custodian or trading should consider the need to have an adequate capital buffer to mitigate risks such as exchange rate fluctuations."</p> <p>*Previous Rule 8.2. no longer exist in the updated measure.</p>
14.	<p><b>Rule 10.3. (c)</b></p> <p>Licensed VASPs must have in place adequate and documented policies around:</p> <p>c) backups and business continuity.</p>			<p>The Authority amended this rule as back-ups are a sub-set of disaster recovery. Disaster recovery is a broader term that covers maintaining or re-establishing all technology components and infrastructure. Therefore, adding the term "disaster recovery" would better align the guidance with industry standards and ensure a more complete focus on both data back-ups and the overall recovery of critical systems and</p>

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				<p>infrastructure. The rule now reads as follows:</p> <p>"The custodians or trading platform must have in place adequate and documented policies around:</p> <p style="padding-left: 40px;">c) disaster recovery (including backups) and business continuity."</p>
15.	<p><b>Rule 11.1 (a)</b></p> <p>Licensed VASPs that provide virtual asset custody services must:</p> <p>a) take all reasonable steps to protect client assets and ensure that client assets are clearly identified and segregated from proprietary assets.</p>			<p>The Authority amended this rule as group entities that combine assets making it challenging to fully know and account for the Cayman subsidiary's assets. Therefore, it is crucial to ensure that client assets are clearly identified and segregated not only from proprietary assets but also from the assets of other group entities. The rule now reads as follows:</p> <p>"A custodian or trading platform that provide virtual asset custody services must:</p> <p style="padding-left: 40px;">a) take all reasonable steps to protect client assets and ensure that client assets are clearly identified and segregated from proprietary assets as well as assets of its group entities."</p>

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<b>16.</b>	<p><b>Rule 11.3.</b></p> <p>Licensed VASPs holding virtual assets on behalf of clients must ensure that client funds are kept in clearly identifiable segregated wallets from that of the licensed VASP.</p>			<p>Same as the above comment, the Authority updated the rule, because it is crucial to ensure that client assets are clearly identified and segregated not only from proprietary assets but also from the assets of other group entities. The rule now reads as follows</p> <p>“A custodian or trading platform holding virtual assets on behalf of clients must ensure that client assets are adequately segregated in compliance with the relevant requirements under the Act, including, but not limited to, use of clearly identifiable segregated wallets.”</p>
<b>17.</b>	<p><b>Rule 11.5</b></p> <p>Licensed VASPs holding fiat currencies on behalf of clients must ensure that client funds are kept safe and are held with a licensed bank or other similar institution acceptable to the Authority, in clearly identifiable segregated accounts.</p>			<p>The Authority amended the Rule to better align with the Act, it reads as follows:</p> <p>A custodian or trading platform holding fiat currencies on behalf of clients must ensure that client funds are kept safe and are held with a licensed bank or other similar institution acceptable to the Authority, clearly segregated, in compliance with the relevant requirements under the Act.</p>



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<b>18.</b>	<p><b>Rule 11.7.</b></p> <p>Licensed VASPs that provide virtual asset custody services must:</p> <p style="padding-left: 40px;">e) arrange for security audits to be performed on a regular basis.</p>			<p>The Authority amended this rule because audits should be performed by independent persons to ensure their reliability and credibility.</p> <p>The rule 11.7. (e) now reads as follows:</p> <p>"The custodian or trading platform that provide virtual asset custody services must:</p> <p style="padding-left: 40px;">e) arrange for security audits to be performed on a regular basis by an independent third party."</p>
<b>19.</b>	<p><b>Rule 12.15</b></p> <p>When determining whether or not to accept virtual assets to be listed on their platform, a virtual asset trading platform must consider the quality of the virtual asset, taking into account the experience, track record, and reputation of the issuer and its development team.</p>	<p>"easily" and "quality"</p> <p>These two terms are vague and subject to interpretation. Consider outlining how this is measured, or clarifying</p>	<p>The Authority has considered the suggestion and updated the Rule to read "<i>must consider the nature and features of the virtual asset</i>" instead of "<i>the quality of the virtual asset</i>".</p> <p>The SOG has also been updated to elaborate on this.</p>	<p>Rule 12.15 has been amended to read as follows:</p> <p>"When determining whether or not to accept virtual assets to be listed on their platform, a virtual asset trading platform must consider the nature and features of the virtual asset, taking into account the experience, track record, and reputation of the issuer and its development team."</p> <p>The SOG has been updated to include a new paragraph 12.22 which reads as follows:</p> <p>"When considering the nature and features of a virtual asset to determine whether it should be listed, a virtual asset trading platform may</p>

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				<p>consider the following non-exhaustive factors:</p> <ul style="list-style-type: none"> <li>a) whether the technological features of the virtual asset can offer enhanced anonymity and adds hurdles to the usual customer due diligence;</li> <li>b) whether the issuer has a good reputation and whether it is well established;</li> <li>c) the liquidity of the virtual asset; and</li> <li>d) information on the technical aspects of the virtual asset such as source code and code audits, the openness and transparency of the underlying technology and network security." </li></ul>
<b>20.</b>	<p><b>Rule 15</b></p> <p>This Rule will come into effect within six months of the date that it is published in the Gazette.</p>			<p>The Authority updated this rule to ensure that it aligns with the Act to be enforceable. It now reads as follows:</p> <p>"This Rule will come into effect upon commencement of the relevant sections of the Act relating to licencing of virtual asset custodians and virtual asset trading platforms. Early adoption of this Rule is encouraged."</p>

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<b>Statement of Guidance – Virtual Asset Custodians and Virtual Asset Trading Platforms</b>				
SECTION-SPECIFIC COMMENTS				
21.	<p>Definitions</p> <p><b>“governing body”</b> means the Board of Directors where the entity is a corporation, the General Partner where the entity is a partnership, the manager where the entity is an LLC, or equivalent;</p> <p><b>“licensed VASP”</b> means a virtual asset custodian or virtual asset trading platform;</p> <p><b>“virtual asset custodian”</b> means a licensee under section 8 of the Act who provides virtual asset custody services in or from within the Cayman Islands;</p> <p><b>“virtual asset custody service”</b> means the business of safekeeping or administration of virtual</p>			<p>The Authority amended the definitions to better align with the VASP Act.</p> <p>Definitions were updated to read as follows:</p> <p>“governing body” of a regulated entity means the Board of Directors where the entity is a corporation, the General Partner where the entity is a partnership, the manager (or equivalent) where the entity is a Limited Liability Company, and the Board of Trustees where the entity is a trust business.</p> <p>“independent third party” means a party who, to the best of the governing body’s knowledge, information and belief having made all reasonable enquiries, are independent of, and not connected with, the regulated entity or any of its connected persons.</p>

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	<p>assets or the instruments that enable the holder to exercise control over virtual assets; and</p> <p><b>“virtual asset trading platform”</b> means a centralized or decentralized digital platform</p> <p>(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</p> <p>(b) which —</p> <p>(i) holds custody of or controls virtual assets on behalf of its clients to facilitate an exchange; or</p> <p>(ii) purchases virtual assets from a seller when transactions or bids and offers are matched in order to sell them to a buyer; and</p>			<p>“senior officer” has the same meaning as defined in the Act.</p> <p>“virtual asset custodian”, hereafter referred to as “custodian”, has the same meaning as defined in the Act; and</p> <p>“virtual asset custody service” has the same meaning as defined in the Act; and</p> <p>“virtual asset trading platform” hereafter referred to as “trading platform”, has the same meaning as defined in the Act.</p> <p>Amendment to Footnote 1</p> <p>A regulated entity refers to any natural or legal person (s) or arrangement (s) that has been licensed or registered under the Act.</p>

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	<p>(c) which is licensed under section 8 of the Act,</p> <p>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.</p> <p>For the purpose of the definition of</p> <p><b>"virtual asset trading platform"</b>, where a single entity or group that controls the platform cannot be identified, the operator of the platform shall be deemed the owner of the entity under which the platform operates.</p>			
22.	<p><b>Paragraphs 6.1 to 6.3 (Governance)</b></p> <p>The governing body should have the appropriate balance of skills,</p>	<p>Should consideration be given to distributed (decentralized) governance models? In a decentralized governance model, directors may only have limited</p>	<p>The Authority has considered the comments and notes that the definition of trading platform used in the measure is as per with VASP Act. VASP Act provides that, "where a single entity or group that controls the platform cannot be identified, the operator of the platform shall be deemed the</p>	

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	<p>experience, independence, and knowledge of the industry to enable them to discharge their respective duties and responsibilities.</p> <p>Directors should review their commitments to ensure they have sufficient availability and resources to be able to carry out their role on the governing body effectively.</p> <p>The governing body should undertake a review on, and annual basis, that ensures that the licensed VASP's policies and procedures are effective in meeting the obligations set out in the Act and accompanying rules and guidance.</p>	<p>ability to influence the VASP. What governance functions MUST be controlled by the governing body, and which functions may delegated to decentralized governance models, e.g. via governance tokens.</p> <p>Consider if any governance functions should be kept within the governance body, instead of being distributed to "decentralized" governance systems.</p>	<p>owner of the entity under which the platform operates". This provision highlights the context within which governance is to be evaluated. No amendments to 6.1 and 6.2.</p>	<p>Amendment to 6.3</p> <p>The Authority added "formal independent" for clarity; the review needs to be formal, i.e. evidenced/provable.</p> <p>The section now reads as follows:</p> <p>The governing body should undertake a formal review by an independent third party on, an annual basis, that ensures that the policies and procedures of the custodian or trading platform are effective in meeting the obligations set out in the Act and accompanying rules and guidance.</p>
23.	<p><b>Paragraph 7.1. (a)</b></p> <p>The policies and procedures implemented by licensed VASPs for the identification and management of conflicts of interest should consider:</p> <p>a) conflicts of interest between licensed VASPs and their beneficial</p>			<p>The Authority included "directors" to address any instances of conflicts involving directors.</p> <p>The section now reads as follows:</p> <p>The policies and procedures implemented by custodians or trading platforms for the identification and management of conflicts of interest should consider:</p>

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	owners, senior officers, employees and clients;			a) conflicts of interest between custodians or trading platforms and their beneficial owners, directors, senior officers, employees and clients;
24.	<p><b>Paragraph 7.2 (b)</b></p> <p>Licensed VASPs should have policies and procedures for the fair treatment of clients that promote the following outcomes:</p> <p>b) providing clients with information before, during and after the point of sale that is accurate, clear, and not misleading;</p>			<p>The Authority replaced the term "point of sale" with "transaction" as this is more relevant and broader. It now reads as follows:</p> <p>A custodian or trading platform should have policies and procedures for the fair treatment of clients that promote the following outcomes:</p> <p>b) providing clients with information before, during and after the transaction that is accurate, clear, and not misleading;</p>
25.	<p><b>Paragraph 7.5.</b></p> <p>A conflict of interest or potential conflict of interest may occur between:</p> <p>a) the licensed VASP and their beneficial owners, senior officers, employees and clients; or</p> <p>b) one client and another.</p>			<p>The Authority included "directors" to address any instances of conflicts involving directors.</p> <p>The Authority included point (c) which addresses the potential for intergroup conflicts, where subsidiaries or entities within the same group could engage in business practices that place client interests at risk or create biased decision-making within the group structure. This addition would offer clearer safeguards against these conflicts, ensuring that custodian</p>

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				<p>or trading platform are not only mindful of conflicts within their operations but also within the broader context of their corporate group. The section now reads as follows:</p> <p>A conflict of interest or potential conflict of interest may occur between:</p> <ul style="list-style-type: none"> <li>a) the custodian or trading platform and their beneficial owners, directors, senior officers, employees and clients;</li> <li>b) one client and another; or</li> <li>c) business of another subsidiary or entity within the group.</li> </ul>
26.	<p><b>Paragraph 7.11</b></p> <p>Licensed VASPs should disclose to its client any conflict of interest or potential conflict of interest.</p>	<p>Consider providing guidance to indicate what would be considered a conflict of interest for a custodian or trading platform.</p>	<p>The Authority has considered the suggestion and has updated the SOG to include guidance on what would be considered a conflict of interest for a custodian or trading platform.</p>	<p>Four new paragraphs (paragraphs 7.4 – 7.7) have been added to the SOG under the “Conflicts of interest” sub-section in the SOG.</p> <p>New paragraphs 7.4 to 7.7 read as follows:</p> <p>“7.4 A conflict of interest is considered to exist if the conflict may damage the interests of a client.</p> <p>7.5 A conflict of interest or potential conflict of interest may occur between:</p>



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				<p>a) the custodian or trading platform and their beneficial owners, directors, senior officers, employees and clients;  b) one client and another; or  c) business of another subsidiary or entity within the group.</p> <p>7.6 The types of conflict of interest that may arise in the course of a custodian or trading platform providing services and which should be disclosed may include, but is not limited to, cases where the custodian or trading platform:</p> <p>a) is likely to make a financial gain, or avoid a financial loss, at the expense of the client;  b) has an interest in the outcome of the service provided to the client or of a transaction carried out on behalf of the client, which is distinct from the client's interest in that outcome;  c) has a financial or other incentive to favour the interest of another client or group of clients over the interests of the client; and  d) receives or will receive from a person other than the client an inducement in relation to a service provided to the client, in the form of monies, goods or</p>

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				<p>services, other than the standard commission or fee for their service.</p> <p>7.7 A custodian or trading platform should maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps to prevent conflicts of interest from adversely affecting the interests of its clients."</p>
27.	<p><b>Paragraph 7.10.</b></p> <p>Licensed VASPs should ensure that all information provided to clients: ...</p> <p>c) is sufficient for and presented in a way that is likely to be understood by the average client of the group to whom it is directed, or by whom it is likely to be received;</p>			<p>The Authority made the following amendments to point c) in order to clarify that communication and disclosures are appropriately tailored to the target audience or group of clients receiving the information, not necessarily implying that it applies only to group entities within a corporate structure. It now reads as follows:</p> <p>"The custodian or trading platform should ensure that all information provided to clients: ...</p> <p>c) is sufficient for and presented in a way that is likely to be understood by the average client in the group of clients to whom it is directed, or by whom it is likely to be received;"</p>

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28.	<p><b>Paragraph 7.17.</b></p> <p>Licensed VASPs should inform clients of the typical timeframes for the processing of account withdrawals, including where, as a result of safeguarding controls (such as virtual assets being stored in offline wallets) virtual asset withdrawals would take longer to process. Licensed VASPs should inform clients of any withdrawal limits and related timeframes for specific thresholds.</p>			<p>The Authority included "account closure" as well which needs to also be made clear to the clients how this would be handled. It now reads as follows:</p> <p>"A custodian or trading platform should inform clients of the typical timeframes for the processing of account withdrawals <b>or account closure</b>, including where, as a result of safeguarding controls (such as virtual assets being stored in offline wallets) virtual asset withdrawals would take longer to process. A custodian or trading platform should inform clients of any withdrawal limits and related timeframes for specific thresholds."</p>
29.	<p><b>Paragraph 7.18.</b></p> <p>Disclosures to clients should be made when any material changes have been made to the service(s) provided by the licensed VASP that may impact clients.</p>			<p>The Authority included additional language for clarity as we have a few entities shutting down and being sold. The paragraph now reads as follows:</p> <p>"Disclosures to clients should be made when any material changes have been made to the service(s) provided by the custodian or trading platform that may impact clients. This includes sale of the custodian or trading platform or ceasing of operations."</p>

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30.	<p><b>Paragraph 7.22.</b></p> <p>Licensed VASPs should ensure that marketing communications do not compare their products or services to other forms of investment or trading unless the basis of comparison is clearly stated and the comparison is fair.</p>	<p>"comparison is fair" is subjective and unclear. How will this fairness be measured?</p>	<p>The Authority has considered the comment and has updated paragraph 7.22 of the SOG to provide further clarity.</p> <p>In terms of how this requirement is measured, the Authority will approach it on a case-by-case basis as it will depend on the product and services being marketed and how they are marketed.</p>	<p>Paragraph 7.22 (which has been renumbered as paragraph 7.27 due to other noted amendments in the SOG) now reads as follows:</p> <p>"A custodian or trading platform should ensure that marketing communications do not compare their products or services to other forms of investment or trading unless the reason for the comparison is clearly stated, justified and appropriate."</p>
31.	<p><b>Paragraph 7.26 c)</b></p> <p>Although not an exhaustive list, examples of the measures, licensed VASPs may take in this regard include:</p> <p><b>e)</b> assessing the volatility of a virtual asset, product or service and the extent to which clients can suffer financial loss and the ability of the client to bear losses;</p>	<p>Assessment of the ability of the client to bear losses: How feasible is this? Wouldn't this require that an assessment of the client's finances occurs?</p>	<p>The Authority has considered the comments and has updated the SOG to clarify the position.</p> <p>The purpose of this paragraph is to encourage custodians and trading platforms to consider the type of client it is servicing e.g., a retail client who is a pensioner, with a low-risk appetite should not be encouraged to consider a volatile virtual asset. The custodian or trading platform does not need to assess a client's finances in detail, but it should be aware of the type of the client's risk appetite and financial position. A client's financial position may be determined by requesting information on their source of funds, source of wealth or asking for a copy of a bank statement.</p>	<p>Paragraph 7.26 (c) (which has been renumbered as paragraph 7.31. c) due to other noted amendments in the SOG) has been amended to read as follows:</p> <p>"c) assessing the volatility of a virtual asset, product or service and the extent to which a product or service is suitable and appropriate for a client. This may include taking into consideration, the nature of the client (whether it is a retail or corporate client), the client's risk appetite and the client's financial position."</p>
32.	<p><b>Paragraph 7.27 a)</b></p> <p>Licensed VASPs should, when structuring a client</p>	<p>"other parties": this is a bit broad - does this include internet service providers, computer software used, cloud service hosting, etc?</p>	<p>The Authority has considered the suggestion and has updated the SOG to provide further clarity.</p> <p>For the avoidance of doubt paragraph 7.27 a) is meant to include third party service providers.</p>	<p>Paragraph 7.27 (a) (which has been renumbered as paragraph 7.32. a) due to other noted amendments to the SOG) has been amended to read as follows:</p>

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	<p>agreement, look to include the following:</p> <p>a) A description of all group entities and other parties involved in the services being provided;</p>	<p>Perhaps this could be expanded for clarity, e.g. services which are outsourced</p>		<p>"a description of all group entities and other parties, including any relevant third-party service providers carrying out outsourced functions, in connection with the services being provided;"</p>
33.	<p><b>Paragraph 7.27 e)</b></p> <p>"Licensed VASPs should, when structuring a client agreement, look to include the following:</p> <p>e) the jurisdiction and Authority that is responsible for regulating the licensed VASP;"</p>	<p>Consider whether this requirement should also be extended to third party service providers (for outsourced services/functions)</p>	<p>The Authority has considered the suggestion and has updated the SOG.</p>	<p>Paragraph 7.27 (e) (which has been renumbered as paragraph 7.32. (e) due to other noted amendments to the SOG) has been amended to now read as follows:</p> <p>"e) the jurisdiction and Authority that is responsible for regulating a custodian or trading platform and where relevant, the jurisdiction and Authority responsible for regulating any relevant third-party service provider;"</p>
34.	<p><b>Paragraph 7.30. (c)</b></p> <p>Licensed VASPs should:</p> <p>c) develop controls which are proportionate to the level of risk and the experience and vulnerability of clients.</p>			<p>The authority included "client assets" because, given the nature of their business, client assets are the most vulnerable. It now reads as follows:</p> <p>"A custodian or trading platform should:</p> <p>c) develop controls which are proportionate to the level of risk and the experience and vulnerability of clients and client assets."</p>

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35.	<p><b>Paragraph 7.32. (b)</b></p> <p>Licensed VASPs should, when structuring a client agreement, look to include the following:...</p> <p>b) the nature of the products and description of services being provided;</p>			<p>The Authority made an inclusion to the ending of 7.32. (b) for clarity to clients and a legal basis for action when things go wrong. It now reads as follows:</p> <p>"A custodian or trading platform should, when structuring a client agreement, look to include the following:</p> <p>b) the nature of the products and description of services being provided, and the name of the legal entity being contracted to provide those services;"</p>
36.	<p><b>Paragraph 8.1.</b></p> <p>Licensed VASPs should conduct periodic risk assessments and stress tests on their business strategy and operations and consider the impact on their capital.</p>			<p>The Authority amended this section so that it aligns with the Rule. It now reads as follows:</p> <p>"A custodian or trading platform should always hold adequate regulatory capital, being the higher of:</p> <p>a) the risk-based capital as determined pursuant to sections 8.2 and 8.3 below; or</p> <p>b) the amount equal to six months fixed overheads of the custodian or trading platform as determined pursuant to section 8.4 and 8.5 below; or</p>

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				c) such amount as determined by the Authority."
37.	<p><b>Paragraph 8.2.</b></p> <p>The risk-based capital should cover potential financial losses which are proportionate to the type and level of risks the licensed VASP is exposed to. Consideration should be given when identifying significant sources of risk which could impact the ability of the licensed VASP to meet its liabilities, including analysis and monitoring of the following risk areas which should assist in the calculation of risk-based capital:</p> <ul style="list-style-type: none"> <li>a) credit risk;</li> <li>b) market risk (including virtual assets and fiat funds);</li> <li>c) operational risk;</li> <li>d) liquidity risk;</li> <li>e) insurance risk;</li> <li>f) interest rate risk;</li> <li>g) concentration risk;</li> <li>h) IT and cybersecurity risk;</li> </ul>			<p>The Authority included additional language for clarity and better alignment with the Rule. It now reads as follows:</p> <p>"A custodian or trading platform should conduct periodic risk assessments and stress tests on their business strategy and operations and consider the impact on their regulatory capital."</p>

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	<p>i) settlement risk; and j) legal and compliance risk.</p>			
38.	<p><b>Paragraph 8.3.</b></p> <p>Licensed VASPs should hold sufficient capital to cover fixed overheads amounting to at least six months of the preceding year, or projected fixed overheads in the case of the licensed VASP not having completed a full year of business.</p>			<p>The Authority included additional language for clarity and better alignment with the Rule. It now reads as follows:</p> <p>“The risk-based capital should cover potential financial losses which are proportionate to the type and level of risks the custodian or trading platform is exposed to. Consideration should be given when identifying significant sources of risk which could impact the ability of the custodian or trading platform to meet its liabilities, including analysis and monitoring of the following risk areas which should assist in the calculation of the risk-based capital:”</p>
39.	<p><b>Paragraph 8.4.</b></p> <p>The working capital for fixed overheads should be reviewed annually and calculated by subtracting the following items from the total expenses after distributions of profits to shareholders:</p>			<p>The Authority included additional language for clarity and better alignment with the Rule. It now reads as follows:</p> <p>“A custodian or trading platform should hold sufficient working capital to cover fixed overheads amounting to at least six months of the preceding year or projected</p>



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	<p>a) employee bonuses and other types of remuneration which are subject to net profits of the services provided;</p> <p>b) any shares in profits; and</p> <p>c) variable expenses from non-ordinary activities.</p>			<p>fixed overheads in the case of the custodian or trading platform not having completed a full year of business."</p>
40.	<p><b>Paragraph 8.5</b></p> <p>Licensed VASPs may consider the use of virtual assets as part of its regulatory capital. Should this approach be taken, the Authority will require, as a minimum, for VASPs to hold additional capital and apply stress tests and risk assessments on the exposure of each virtual asset. Consideration should also be given to the security and storage controls in place to manage the virtual assets, and the ongoing monitoring of the regulatory capital position with the uses of suitable triggers and margin calls.</p>	<p>(1) Consider how capital being held in virtual assets would be valued here. Some VAs are very difficult to value. Should there be a requirement for the VA to be easily exchangeable to Fiat?</p> <p>(2) are we expecting VASPs to leverage their capital? Wouldn't it be best if a minimum capital requirement was left unencumbered?</p>	<p>The Authority has considered the comments and has determined that no change is required.</p> <p>For the avoidance of doubt:</p> <p>(1) Virtual assets should be valued on a case-by-case basis depending on the nature of the virtual asset. The virtual asset should be reasonably liquid. The possibility of being required to hold additional capital should encourage a custodian or trading platform to hold more liquid virtual assets as regulatory capital. Requiring virtual assets to be easily exchangeable to fiat may be too restrictive. For this reason, the Authority believes that it is more appropriate to keep the regulatory capital requirement broader, to allow for more flexibility, whilst striking a balance by requiring additional capital to be held in instances where virtual assets held are less liquid or high risk.</p> <p>(2) custodians or trading platforms should not leverage their capital, and the minimum</p>	<p>Previous paragraph 8.5 changed to 8.6</p> <p>Referring to the comment received, the Authority made no changes. However, the Authority included additional language for clarity. It now reads as follows:</p> <p>"A custodian or trading platform may consider the use of virtual assets as part of its regulatory capital. Should this approach be taken, the Authority will require, as a minimum, for custodian or trading platform to hold additional capital and apply stress tests and risk assessments on the exposure of each virtual asset. Consideration should also be given to the security and storage controls in place to manage the virtual assets, and the ongoing monitoring of the capital</p>

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			regulatory capital should be left unencumbered.	position with the use of suitable triggers and margin calls."
41.	<p><b>Paragraph 8.7.</b></p> <p>If a licensed VASP decides to use virtual assets as part of its regulatory capital, the Authority will consider the particulars of each circumstance (including security and storage controls) and work with the licensed VASP to ensure that it is in a position to be able to meet its prudential obligations on an on-going basis.</p>			<p>The Authority added a new paragraph, 8.7, for clarity and better alignment with the Rule. It now reads as follows:</p> <p>"If a custodian or trading platform decides to hold regulatory capital in a foreign currency, the custodian or trading platform should consider the need to have an adequate capital buffer to mitigate risks such as exchange rate fluctuations."</p>
42.	<p><b>Paragraph 8.8.</b></p> <p>If a licensed VASP decides to hold regulatory capital in a foreign currency, the VASP should consider the need to have an adequate capital buffer to mitigate risks such as exchange rate fluctuations.</p>			<p>The Authority added a new paragraph, 8.8, for clarity and better alignment with the Rule. It now reads as follows:</p> <p>"The custodian or trading platform should hold sufficient working capital to allow for the day-to-day operations of the business and to ensure that adequate regulatory capital is maintained."</p>
43.	<p><b>Paragraph 8.20. (Previously 8.18.)</b></p> <p>"Licensed VASPs should undertake an annual</p>			<p>The Authority included additional language for clarity on what is meant by independent review. It now reads as follows:</p>

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	assessment of the need to conduct an independent audit of their AML/CFT internal controls and procedures. The Authority may, at the licensed VASPs expense, request an auditor's report on the licensed VASPs AML/CFT procedures and their compliance with the Anti-Money Laundering Regulations."			"A custodian or trading platform should undertake an annual assessment of the need to conduct, through an independent third party, audit of their AML/CFT internal controls and procedures. The Authority may, at the custodian's or trading platform's expense, request a report by the independent third party on the audit of the custodian's or trading platform's AML/CFT procedures and their compliance with the Anti-Money Laundering Regulations."
44.	<b>Paragraph 8.21.</b>			The Authority added a new section 8.21. as a general guidance to cover all other audits. The new paragraph reads as follows:  "A custodian or trading platform should also undertake audits of their financial statements, technology and cybersecurity, among others, in accordance with applicable acts and regulatory measures issued by the Authority from time to time."
45.	<b>Paragraph 10.1</b>  Licensed VASPs should ensure the following is performed over any IT third party providers:	"IT third party providers" Does this term include third parties to whom functions have been outsourced? What is meant by IT providers?	The Authority has considered the comment and updated the SOG.  For the avoidance of doubt, the term "IT third party provider" is meant to include any third party which provides IT services, including third parties carrying out an IT related outsourced function.	Paragraph 10.1 has been amended and now reads as follows:  "A custodian or trading platform should ensure the following is performed over any IT third party service provider, including those carrying out any related outsourced functions"

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			There is also the "Guidance: Outsourcing Regulated Entities" (which applies to custodian or trading platform ) and the "Rule – Cybersecurity for Regulated Entities" (applicable to custodians or trading platforms ) which address matters regarding IT and cybersecurity and explains what is expected from firms when third parties provide such services or carry out related outsourced functions.	
46.	<b>Paragraph 10.1 h)</b>	Delete	The Authority has considered the comment and updated the SOG.	Paragraph 10.1 h) has been removed.
47.	<b>Paragraph 10.8</b>	<p>(1) The terms "SOC1", "SOC2" should be defined in the regulations/law/guidance .</p> <p>(2) SOC1 and SOC2 reports have different purpose and do not necessarily address the same areas that the Authority is intending to address e.g., organizational measures or customer reporting? The Authority should be explicit in this area.</p> <p>(3) Will the Authority accept controls reports prepared under International Standards as equivalent to SOC reports e.g., ISAE 3402 – Assurance reports on controls at a service organization?</p>	<p>(1) The Authority has considered your suggestion and has updated the SOG to include a definition of the terms "SOC 1" and "SOC2".</p> <p>(2) The Authority has considered your comment and has updated the SOG to clarify that SOC1 audits would be more appropriate when testing the internal controls relating to financial data whilst SOC2 audits would be more appropriate when testing the internal IT controls relating to client data. These audit reports should be produced separately to address these separate subject matters.</p> <p>(3) There is no prescriptive requirement set out in the guidance. As such, if reports are prepared under International Standards and the quality and sufficiency of those reports are equivalent to SOC reports, the Authority will accept such reports. The SOG has been amended to clarify this.</p> <p>(4) The Authority does not intend to require custodians or trading platforms to prepare</p>	<p>The SOG has been amended as follows: Paragraph 10.7 has been amended to read as follows:</p> <p>"A custodian or trading platform should arrange for tests of internal controls to be performed once every 12 months from the date on which the custodian or trading platform has been authorised by the Authority."</p> <p>A new paragraph 10.8 has been included which reads as follows: "Tests of internal controls by an independent third party may take the form of external tests which may include, but are not limited to:</p> <ul style="list-style-type: none"> <li>a) SOC1 audit reports when testing the internal controls relating to financial data;</li> <li>b) SOC2 audit reports when testing the internal IT controls;</li> </ul>

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		(4) Does the Authority intend that the reports related to the testing of control, whether internal or external, will be at a point in time or throughout the period? The Authority should be explicit in this area.	reports relating to the testing of controls at a particular point in time. Instead, such reports should be prepared once every 12 months starting from the date the custodian or trading platform is licensed. The SOG has been amended to clarify this.	<ul style="list-style-type: none"> <li>c) Penetration testing, vulnerability assessments and other cybersecurity related testing;</li> <li>d) any other controls or audit reports prepared under International Standards which are equivalent to SOC1 or SOC2 reports; or</li> <li>e) any other controls or audit reports which the Authority may deem appropriate."</li> </ul>
48.	<p><b>Paragraph 10.1.</b></p> <p>Licensed VASPs should ensure the following is performed over any IT third party service provider, including those carrying out any related outsourced functions:</p>			<p>The Authority has included the language "material outsourcing" as a broader term, as some third-party providers are not necessarily only IT third parties. It now reads as follows:</p> <p>"A custodian or trading platforms should ensure the following is performed over any material outsourcing including IT third-party service provider, including those carrying out any related outsourced functions: ..."</p>
49.	<p><b>Paragraph 11</b></p> <p>Virtual Asset Custody Service</p>	Consider adding guidance around section 10(3)(c) of the VASP Act. Does this section touch on the requirement outlined in 10(3)(c) of the VASP Act?	The Authority has considered the comments and a new paragraph 11.1 added.	<p>The SOG has been amended to include a new paragraph 11.1 which reads as follows:</p> <p>"When ensuring that virtual assets and fiat funds belonging to clients are protected from third party creditors, custodians or trading platforms should:</p>

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				<ul style="list-style-type: none"> <li>a) implement an appropriate contractual relationship with its customers that is adequately reflective of its arrangements;</li> <li>b) not stake client's virtual assets unless the client has provided consent in writing; and</li> <li>c) ensure that, if the client has consented to their virtual assets being staked, appropriate safeguards are put in place to protect the client's virtual assets."</li> </ul>
50.	<p><b>Paragraph 11.2.</b></p> <p>"Licensed VASPs that provide virtual asset custody services should implement appropriate policies and procedures to ensure the safekeeping and control of client assets, as well as the means of access to such virtual assets. These policies and procedures should mitigate the risk of loss of client's virtual assets, or the rights related to those virtual assets through fraud, cyber threats, or negligence. Policies and procedures to ensure safekeeping should include the following:...</p>	<p>If a custodian engages a third-party custodian for safekeeping of assets, are they really a VA custodian? Under what circumstances is such a VASP considered a custodian?</p>	<p>The Authority has considered your comment.</p> <p>This paragraph would primarily apply to virtual asset trading platforms. However, a custodian may wish to outsource part of the custody service and carry out the service itself (e.g., outsourcing custody of high-net-worth clients' assets only). Regardless, it would remain ultimately responsible for the outsourced custodian services offered to its clients and would therefore still be a licensed virtual asset custodian.</p>	<p>The Authority made further updates by including additional language for clarity as there needs to be controls implemented, thereby adding the word "controls". Also, adding the language "and other transactions" so as not to limit to transfers, custodians or trading platforms do other things beyond just a transfer e.g. staking, rewards etc.</p> <p>It now reads as follows:</p> <p>"A custodian or trading platform that provides virtual asset custody services should implement appropriate policies and procedures to ensure the safekeeping and control of client assets, as well as the means of access to such virtual assets. These</p>

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	<p>c) providing regular and timely information to the client detailing the client's position in relation to all virtual assets and fiat funds in their name. This should include the client's balance and value in each as well as all transfers made during that period;..."</p>			<p>policies and procedures should mitigate the risk of loss of client's virtual assets, or the rights related to those virtual assets through fraud, cyber threats, or negligence. Policies, procedures and <b>controls</b> to ensure safekeeping should include the following:...</p> <p>c) providing regular and timely information to the client detailing the client's position in relation to all virtual assets and fiat funds in their name. This should include the client's balance and value in each as well as <b>all transfers and other transactions</b> made during that period;..."</p>
51.	<p><b>Paragraph 11.4.</b></p> <p>"Licensed VASPs that provide virtual asset custody services should have an appropriate framework in place when it comes to determining the use of online and offline wallets, including the mechanisms and parameters used for transfer between such wallets. The framework should:...</p> <p>c) test, record, and conduct audits on the storage and transfer</p>			<p>The Authority included additional language as audits should be done by an independent third party. Point c) of this section now reads as follows:</p> <p>"A custodian or trading platform that provides virtual asset custody services should have an appropriate framework in place when it comes to determining the use of online and offline wallets, including the mechanisms and parameters used for transfer between such wallets. The framework should: ...</p> <p>c) test, record, and conduct audits on</p>

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	between offline and online wallets."			the storage and transfer between offline and online wallets, by an independent third party."
52.	<p><b>Paragraph 11.6.</b></p> <p>"Licensed VASPs that provide virtual asset custody services should have documented policies and procedures in place around:..."</p>			<p>Previous paragraph 11.6 changed to 11.7</p> <p>The Authority included additional language for clarity as there needs to be controls implemented, thereby adding the word "controls". The section now reads as follows:</p> <p>"The custodian or trading platform that provides virtual asset custody services should have documented policies, procedures and controls in place around: ..."</p>
53.	<p><b>Paragraph 12.19 (originally 12.18)</b></p> <p>Virtual asset trading platforms should consider the following when reviewing a listing proposal or delisting request:</p> <p>a) Risks relating to the listing of the virtual asset, which may include technical, operational, legal,</p>	<p>Consider whether guidance should be given regarding prohibited virtual assets such as privacy coins, and certain VA services like tumblers/etc.</p>	<p>The Authority has considered the suggestion and has determined that no change is required.</p> <p>Rule 12.14 states that "Virtual asset trading platforms must not admit to the platform virtual assets with inbuilt anonymisation features unless they are able to easily identify the holders and transaction history of such assets".</p> <p>This prohibits the use of certain virtual assets without being prescriptive and therefore allowing flexibility in a market space which is extremely innovative and ever changing. There could be a virtual asset which has a feature of</p>	<p>No changes made.</p>



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	<p>regulatory, AML/CFT and reputational risks;</p> <p>b) Other legal and regulatory obligations;</p> <p>c) Details provided on the virtual asset in the form of a whitepaper or equivalent, the issuer's track record, and strategy;</p> <p>d) Background information on the issuer of the virtual asset and the outcome of due diligence conducted;</p> <p>e) Technical aspects of the virtual asset, including the course code, code audits, and safe storage and any relevant network security aspects; and</p> <p>f) Information on the expected or current demand for the virtual asset, including details on the marketing strategy once listed.</p>		<p>anonymity, but the anonymity feature may not be activated or used for a particular client. Prescribing certain types of virtual assets which may be prohibited in the guidance would be too restrictive. However, there is published Guidance which elaborates on the types of virtual assets which could raise AML/CFT risks and which should therefore be considered before being listed. The guidance available is as follows:</p> <p>(1) Guidance Notes on the Prevention and Detection of Money Laundering, Terrorist Financing and Proliferation Financing in the Cayman Islands – 5 June 2020;</p> <p>(2) Guidance Notes (Amendment) (No. 1), February 2021 – Virtual Asset Service Provider;</p> <p>(3) Guidance Notes (Amendment)(No.5): Virtual Asset Service Providers, February 2020.</p>	