

Guidance: Virtual Assets and the Regulatory Perimeter

1. Introduction

This guidance was developed by the Isle of Man Financial Services Authority ('IOMFSA') in partnership with Digital Isle of Man, an Executive Agency within Isle of Man Government's Department for Enterprise. The guidance is aimed at those who are considering carrying on business activities in relation to virtual assets (e.g. selling, issuing, managing or administering virtual assets), and illustrates which virtual asset-related activities may be subject to financial services regulation.

The IOMFSA cannot give legal advice. Legal advice should be taken on your individual circumstances. Where an activity in relation to a virtual asset may be subject to regulation, independent legal advice should be sought to determine the full implications of the proposed activity. It is important to note that if the virtual asset does have regulatory implications in one area, it may also do so in others.

[Section 6](#) of this document (Frequently Asked Questions) also contains answers to some common questions.

2. General Position

The IOMFSA's approach to regulation is technology neutral: it looks to the substance of the activity being undertaken rather than the form. As such, the Isle of Man's existing regulatory framework captures certain activities relating to virtual assets.

In the Isle of Man —

- (1) persons carrying on regulated activities under the [Financial Services Act 2008](#) ('FSA08'); and
- (2) persons that fall within the definition of 'designated business' and are required to register under the [Designated Businesses \(Registration and Oversight\) Act 2015](#) ('DBROA15'),

must comply with Anti-Money Laundering and Countering the Financing of Terrorism ('AML/CFT') provisions.

Details regarding the AML/CFT requirements can be found on the [AML/CFT Legislation and Guidance](#) webpage.

This guidance, together with [Appendix 1](#) and [Appendix 2](#), provides an overview of the types of virtual assets that could be subject to regulation under the FSA08 and which types of virtual assets tend to be unregulated.

Where a business activity in relation to virtual assets falls outside the regulatory perimeter under the FSA08, the person carrying on the activity would usually be subject to registration and oversight under the DBROA15 (see [section 5](#)).

3. Security Tokens

If a virtual asset provides rights and obligations similar to an ‘investment’ as defined in the [Regulated Activities Order 2011](#) (Schedule 2, Part 1) then activities carried on in relation to the virtual asset could fall within the regulatory perimeter and require a Class 2 (Investment Business) licence under the FSA08 (subject to any exclusions or exemptions).

Investments include, but are not limited to:

- Shares
- Debentures
- Units in Collective Investment Schemes
- Derivatives.

[Appendix 1 \(An Illustrative Guide\)](#) and [Appendix 2 \(E-Money Implications\)](#) may help determine the nature of the virtual asset in question for some common types.

When investments are issued in the form of a virtual asset, the regulated activities involving them are regulated to the same extent that they would be if the investments were issued by other means (such as traditional share certificates etc.).

Rights to equity, shares in company profits, rights to an income or rights to convert a virtual asset so that it has any of these rights probably mean the virtual asset is an investment such as a security, a unit in a collective investment scheme or a derivative.

The mere act of issuance by a company of its own securities, such as shares or debentures, is not a regulated activity in itself. However, activities such as arranging deals in those securities (or any other investments) or advising on them are regulated. Therefore, a financial services licence may be required if no exclusion or exemption applies. Please see the IOMFSA’s [Financial Services Licencing Policy](#), [Regulated Activities Order 2011](#) and [Financial Services \(Exemptions\) Regulations 2011](#) for further details.

Providing services to a Collective Investment Scheme (‘CIS’) is regulated activity. If a virtual asset functions as a unit in a CIS, the CIS itself is likely to be subject to regulation under the [Collective Investment Schemes Act 2008](#). A financial services licence may also be required for those providing services to the CIS (if no exemption or exclusion applies). Further guidance on what may constitute a CIS is included as one of the Frequently Asked Questions in [section 6.1](#).

4. Electronic Money (E-Money) Tokens

If a virtual asset meets the definition of ‘electronic money’ (or ‘e-money’) as defined in the [Regulated Activities Order 2011](#) (Schedule 2, Part 1), then activities carried on in relation to

the virtual asset could fall within the regulatory perimeter and require a Class 8 (Money Transmission Services) licence under the FSA08 (subject to any exclusions or exemptions).

For a virtual asset to amount to e-money it must meet the following characteristics¹:

- (a) hold electronically-stored fiat monetary value (such as Pounds, Dollars or Euros);
- (b) be represented by a 'claim on the electronic money issuer' (which means that the person or business issuing the virtual asset is obliged to convert it back into fiat money);
- (c) be issued on receipt of funds (meaning that the virtual asset must be paid for);
- (d) be used for the intended purpose of making payments (not merely held then converted back to fiat money); and
- (e) be accepted as a means of payment by a person **other** than the person or business issuing or selling the virtual asset.

If the virtual asset does not meet all of these characteristics (and it is not a security token as outlined in [section 3](#)), then it is likely that the activities in relation to the virtual asset would not be subject to financial services regulation. However, it would nevertheless be subject to registration and oversight under the DBROA15 (see [section 5](#)).

[Appendix 2 \(E-Money Implications\)](#) also considers the various elements of the definition of e-money.

Any issuer of e-money – whether issuing in the form of virtual assets or otherwise – requires a Class 8 (Money Transmission Services) licence under the FSA08 unless an exclusion or exemption applies. Further guidance on Money Transmission Services, including issuing e-money, can be found on the IOMFSA's website [here](#).

5. Other Token Activities – AML/CFT Requirements

Persons issuing unregulated virtual assets that fall outside the regulatory perimeter for financial services (or carrying on other business activities in relation to unregulated virtual assets), are nevertheless usually within the scope of the AML/CFT regime.

A business that falls within the definition of a 'virtual asset service provider' or 'VASP' is required to register as a Designated Business with the IOMFSA under the DBROA15, and be overseen in relation to its compliance with AML/CFT requirements.

The definition of 'virtual asset service provider' / 'VASP', can be found in Schedule 4 to the [Proceeds of Crime Act 2008](#) and is defined as:

any natural or legal person who by way of business conducts one or more of the following activities or operations for or on behalf of another natural or legal person –

¹ These characteristics have been described by the IOMFSA based on the legislation in order to assist understanding. The original legislation (the [Regulated Activities Order 2011](#)) should always be consulted for legal purposes. Professional advice should be sought on individual circumstances.

- (a) exchange between virtual assets and fiat currencies;*
- (b) exchange between one or more forms of virtual assets;*
- (c) transfer of virtual assets;*
- (d) safekeeping and/or administration of virtual assets or instruments enabling control over virtual assets; and*
- (e) participation in and provision of financial services related to an issuer's offer and/or sale of a virtual asset.*

More about registration as a Designated Business, and the AML/CFT compliance oversight that applies, can be found on the IOMFSA's website [here](#).

6. Frequently Asked Questions

These frequently asked questions are based on common enquiries received by the IOMFSA in respect of whether potential activities in relation to virtual assets may be subject to financial services regulation.

6.1 What is a collective investment scheme?

A Collective Investment Scheme ('CIS') is often also referred to as a fund. It is a product that invests in assets of any type (they are often investments like equities, but could be anything else, such as property, or even wine, cars, etc). The assets are owned by the CIS, and they are managed for the CIS by a fund manager. Investors' contributions (including money) are pooled together with that of other investors, and their investment is split into 'units'.

Virtual assets can be used to reflect the 'units' held by an investor.

The legal definition of a CIS can be found in section 1 of the [Collective Investment Schemes Act 2008](#), which supplemented by the [Collective Investment Schemes \(Definition\) Order 2017](#). **Readers should ensure they read the legislation and take appropriate legal advice. The legislation** can be partially summarised as follows:

CISs comprise arrangements with respect to property of any description, including money, where those arrangements:

- (1) have the purpose or effect of enabling participants to participate in or receive profits or income arising from the acquisition, holding, management, or disposal of that property;
- (2) have either or both of the following characteristics:
 - (a) participant contributions and the profits/income are pooled together; and / or
 - (b) the property is managed as a whole by or on behalf of the CIS;
- (3) do not provide participants with day-to-day control over the management of the property (regardless of whether they have the right to be consulted or to give directions).

The [Collective Investment Schemes \(Definition\) Order 2017](#) sets out, amongst other things, when arrangements of particular types are not CISs. The IOMFSA considers the substance of arrangements (not their description) in determining whether they are a CIS.

While the specific circumstances will determine whether or not arrangements constitute a CIS, it is unlikely that a company directly issuing its own equity or debt to raise funds for itself to develop or deliver a product or service would constitute a CIS.

6.2 Does a licence issued by the IOMFSA enable my business to do business in other jurisdictions?

A licence to conduct regulated activity in or from the Isle of Man does not provide the licensed entity with any rights to operate in other jurisdictions. An Isle of Man entity is not, of course, limited to only doing business with Isle of Man persons, but if it wishes to operate further afield it needs to ensure that it meets the regulatory requirements (including obtaining licences, if necessary) in any jurisdictions in which it wants to undertake business.

6.3 Can my business run an exchange for virtual assets (such as Bitcoin or Ether) from the Isle of Man?

Yes, provided the exchange would not be handling tokenised securities (as outlined earlier in this guidance), it would not require a licence from the IOMFSA. However, the exchange would need to be registered with the IOMFSA under the [Designated Businesses \(Registration and Oversight\) Act 2015](#) and comply with AML/CFT provisions. Details regarding the AML/CFT requirements can be found on the [AML/CFT Legislation and Guidance](#) webpage.

If the exchange would be handling tokenised securities: see [section 6.4](#).

6.4 Can my business run a virtual asset exchange providing a primary and/or secondary market for tokenised securities from the Isle of Man?

In general, no, this is not possible. Such an exchange could only be operated under an Isle of Man crowdfunding platform. Those operating crowdfunding platforms on the Island are required to hold a Class 6 (Crowdfunding Platform) licence under the FSA08.

Because such virtual assets (i.e. tokenised securities) are investments, strong regulation is in place in order to protect consumers. Crowdfunding platforms have important requirements including limits on the amounts that certain categories of investors are able to invest via the platform, and restrictions preventing the platform from facilitating real-time, continuous or automated trading. More information on the licensing of Class 6 (Crowdfunding Platform) operators can be found [here](#). In particular, we recommend reviewing the standard licence conditions for a crowdfunding platform operator, which can be found [here](#).

The Isle of Man does not currently have the legislative framework or regulatory systems in place to enable it to licence or supervise a securities exchange in compliance with the IOSCO (International Organization of Securities Commissions) Principles.

6.5 If my business develops software that allows others to issue or exchange virtual assets does that require a financial services licence or registration as a Designated Business?

No. Developing software and licensing it to other entities is not a financial services regulated activity. Neither would it require registration as a Designated Business.

6.6 Would my business need to register as a Designated Business if we're simply making or receiving payments for goods or services in virtual assets, such as Bitcoin or Ether?

Retailers accepting virtual assets as payment for other types of goods or services do not generally fall within the definition of 'virtual asset service provider' or 'VASP' as defined by Schedule 4 to the [Proceeds of Crime Act 2008](#). Therefore, merely making or receiving payments for goods or services in virtual assets would not require a business to obtain a financial services licence, nor to register as a Designated Business.

7. Questions

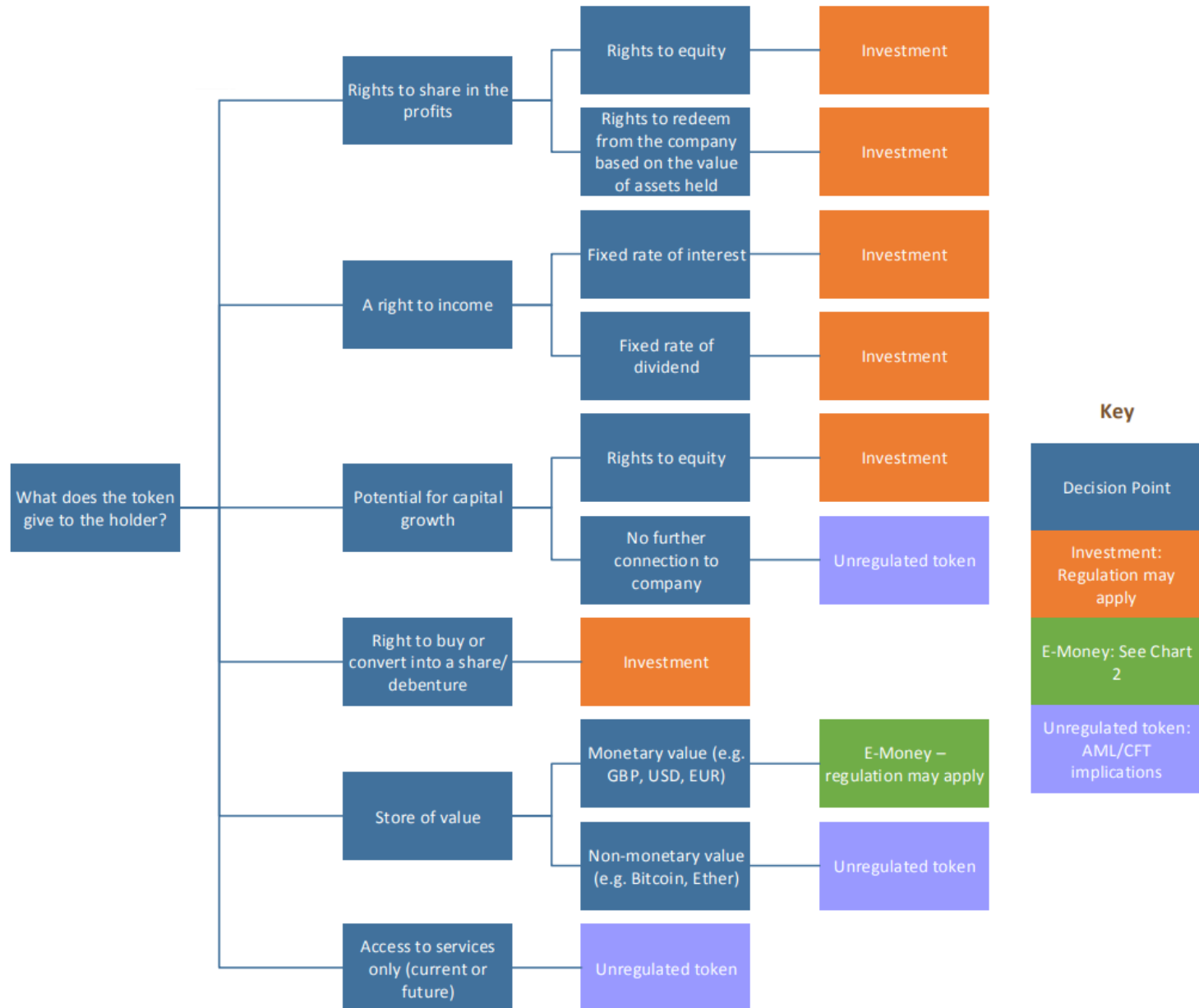
If you have any questions about this guidance, please contact the following:

Division	Area	Contact
Policy & Risk Division	Enquiries	policy@iomfsa.im
Portfolio Supervision Division	Authorisations	authorisations@iomfsa.im

8. Version History

Version	Date	Comment
1.0	18/09/2020	Initial publication of Guidance.
2.0	19/03/2025	Guidance reviewed and updated to reflect changes to the Isle of Man's AML/CFT legislation to align with Financial Action Task Force terminology, e.g. by replacing references to 'convertible virtual currency activity' with 'virtual asset service provider'.

Appendix 1: An Illustrative Guide



Appendix 2: E-money Implications

