



**ISLE OF MAN
FINANCIAL SERVICES AUTHORITY**

Lught-Reill Shirveishyn Argidoil Ellan Vannin

Guidance: Cryptoasset / Token Activity and Regulation

Introduction

This guidance was developed by the Isle of Man Financial Services Authority ('the 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 selling, issuing, managing or administering cryptoassets / tokens (in this guidance 'tokens'), and illustrates which token-related activities, undertaken using Distributed Ledger Technology ('DLT'), may have regulatory implications.

Where a token may have regulatory implications, independent legal advice should be sought to determine the full implications of the proposed activity. It is important to note that if the token does have regulatory implications in one area, it may also do so in others.

The IOMFSA has published a list of frequently asked questions which can be found on its website and are linked [here](#).

The IOMFSA cannot give legal advice. Legal advice should be taken on your individual circumstances.

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 tokens.

In the Isle of Man, any person carrying on regulated activity, or any business which requires registration under the [Designated Business \(Registration and Oversight\) Act 2015](#) ('DB Act') must comply with the [Anti-Money Laundering and Countering the Financing of Terrorism Code 2019](#).

[Chart 1](#) provides an illustrative guide as to which features of tokens could have regulatory implications and which types of tokens tend to be unregulated.

Security Tokens

Security tokens are tokens that provide rights and obligations akin to ‘investments’ as defined in the [Regulated Activities Order 2011](#) [Schedule 2, Part 1]. This includes, but is not limited to:

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

While exhaustive guidance is beyond the scope of this note, [Chart 1](#) and [Chart 2](#) may assist in determining the nature of the token in question for many common token types.

When investments are issued in token form, 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 token so that it has any of these rights probably mean the token is an investment such as a security, a unit in a collective investment scheme or a derivative.

The pure 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 exemption or exclusion applicable to those activities 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 token functions as a unit in a CIS, the CIS itself is likely to be subject to regulation, plus a financial services licence may be required for those providing services to the CIS (if they do not benefit from an exemption or exclusion). Further guidance on what may constitute a CIS is included as one of the Frequently Asked Questions [here](#).

Electronic Money (E-Money) Tokens

For a token to amount to Electronic Money (or E-Money) it must meet the following characteristics¹. It must:

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

If the token does not meet all of these characteristics (and is not a security token), then it is likely that the token is unregulated.

Any issuer of E-Money – whether issuing in token form or otherwise – requires a financial services licence if not otherwise exempted or excluded. Further guidance on Money Transmission Services, including issuing E-Money, can be found on the IOMFSA’s website [here](#).

See [Chart 2](#), which considers the various elements of the definition.

Unregulated Token Activities - AML/CFT Requirements

Entities issuing unregulated tokens, that fall outside the regulatory perimeter for financial services, are nevertheless within the scope of anti-money laundering and countering the financing of terrorism (‘AML/CFT’) requirements.

A business engaged in activity within the definition of “convertible virtual currency activity” is required to register as a Designated Business with the IOMFSA under the DB Act, and be overseen in relation to its AML/CFT compliance.

The definition of “convertible virtual currency activity”, can be found in Schedule 4 to the [Proceeds of Crime Act 2008](#) and is defined as:

“issuing, transmitting, transferring, providing safe custody or storage of, administering, managing, lending, buying, selling, exchanging or otherwise trading or intermediating convertible virtual currencies, including cryptocurrencies, virtual

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.

assets or similar concepts where the concept is accepted by persons as a means of payment of goods or services, a unit of account, a store of value or a commodity;”

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