

GUIDELINES ON DEFI ACTIVITIES AND REGULATORY EXPECTATIONS

(January 2026)

SUPERVISION DEPARTMENT

1. Application of Guidelines

Applies to licensees offering DeFi access via platforms, interfaces, aggregation services, bridging, staking, or other facilitation, including where the VASP provides custody or controls key components.

2. Purpose

To provide guidance on how VFSC assesses DeFi activities for licensing and supervision, and to set minimum expectations where a VASP provides access, control, custody, or facilitation related to DeFi.

3. Legal Basis

These Guidelines are issued under section 59 of the Virtual Asset Service Providers Act No. 3 of 2025 (the Act), and support VFSC's licensing, supervision and enforcement functions.

4. Core Regulatory Expectations

- Must assess and document the VASP's role and control (front-end operation, custody, admin keys, fee capture, governance influence) to determine regulatory responsibilities.
- Must provide clear disclosures of DeFi risks (smart contract risk, oracle risk, liquidity risk, governance risk, and protocol failure).
- Must implement risk-based controls for high-risk DeFi interactions (mixers, privacy tools, high-risk pools), including wallet screening and transaction monitoring.
- Must implement operational controls for protocol selection, due diligence, and monitoring of protocol changes or exploits.
- Must implement customer suitability and product governance where DeFi products are complex or high-risk.

5. Reporting, Notifications and Records

- Must report DeFi-related incidents (protocol exploits impacting customers, loss events) and significant exposure concentrations.
- Must include DeFi activity metrics and risk exposures in quarterly reporting where material.

6. Supervisory Approach and Enforcement

- VFSC may restrict DeFi offerings, require additional controls, or take action where DeFi is used to evade AML or consumer protection obligations.

7. Benchmarking Consistency (non-exhaustive)

- BMA Bermuda: Digital Asset Business Operational Cyber Risk Management Code of Practice (cyber and operational resilience baseline).
- FSC Mauritius: AML/CFT Guidance Notes for VASPs and IITOs (risk-based AML/CFT and supervisory expectations under VAITOS).
- CIMA Cayman Islands: Rule and Statement of Guidance - Market Conduct for VASPs (conduct, custody, disclosures, incident reporting).
- FSRA Saint Lucia: Virtual Asset Business Regulations (licensing, operational capability, cyber and AML/CFT expectations).
- MFSA Malta: VFA Rulebook Chapters (governance, systems audits, custody/ITA certification, and conduct obligations).

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Branán Karae
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