

The Rise of Digital Asset Funds and Tokenisation in the Cayman Islands and the British Virgin Islands

Digital Asset Funds, investment vehicles that obtain portfolio exposure to cryptocurrencies, stablecoins, non-fungible tokens (NFTs) and other blockchain-native assets, are no longer a niche strategy. In parallel, tokenised funds, where investor interests are represented as digital tokens on a blockchain, are reshaping how investor ownership is evidenced and recorded, enabling the use of innovative technologies to record transactions in and ownership of equity security instruments with immutable transparency. These developments have accelerated in the Cayman Islands and are increasingly mirrored in the British Virgin Islands ("BVI"), with both jurisdictions leveraging their common-law frameworks, sophisticated service ecosystems and regulatory agility to support institutional adoption.

Uptick in Digital Assets and Tokenised Funds

A recent proprietary survey conducted by the Maples Group across more than 200 hedge funds revealed that, while only a relatively small number of funds are dedicated exclusively to digital asset strategies, a meaningful and growing proportion of funds now include explicit mandates permitting investment in digital assets, underscoring mainstream adoption. The Cayman Islands has simultaneously seen blockchain infrastructure being used to augment, and in a few cases to replace, traditional book-entry records and registers, with a digital token held in a whitelisted investor wallet representing ownership of an

equity security interest and the on-chain transaction history used to assist in keeping statutory registers.

The BVI market is tracking similar demand from managers and allocators, with tokenisation used to streamline issuance and lifecycle events while preserving underlying legal rights. These cross-jurisdictional trends are converging on a practical model: maintenance of statutory registers in book-entry form verified by on-chain transactional records, while deploying a synchronised digital representation of an equity security interest to unlock automation, analytics and optionality around future liquidity solutions.

Benefits

- 1. Enhanced Secondary Liquidity**
Tokenised funds open up the possibility of trading fund interests between whitelisted investors on secondary markets, potentially providing investors with greater liquidity compared to traditional investment funds.
- 2. Upgradeability without Disruption**
Tokenised interests can be layered into existing structures without disturbing core governance or administrative processes, while preserving familiar interfaces for institutional investors and counterparties.
- 3. Operational Efficiency**
Instant settlement, automated compliance checks, reduction of administrator costs and

disintermediation are all potential longer-term advantages arising from the adoption of tokenised funds at scale.

4. Fractionalisation

Greater operational efficiencies can allow for smaller tickets that attract a broader investor base, an advantage for harder-to-access strategies such as niche real-world assets (RWA).

Challenges

1. KYC Compliance

Transfer of tokenised fund interests is permitted, subject to usual restrictions and controls for transactions in securities, between approved wallets that have satisfied know-your-customer ("KYC") checks. Wallet-level whitelisting, blockchain analytics screening and ongoing sanctions monitoring are mandatory requirements. Ensuring robust KYC compliance can be particularly challenging for funds seeking to provide or access liquidity on decentralised exchanges, where counterparties may be pseudonymous and traditional onboarding processes are difficult to enforce.

2. Risk Disclosures

Offering documents must articulate the risks introduced by the use of blockchain technologies and how these risks are to be mitigated. Token-specific risks also require disclosure, and offering documents must confirm parity of tokenised and traditional equity ownership rights, restrictions and reporting obligations.

Regulatory Landscape in 2026

1. The Cayman Islands

The recently introduced Virtual Asset (Service Providers) (Amendment) Act, 2026 provides clarity that the sale of 'virtual service tokens' or the tokenisation of equity or investment

interests by a regulated fund is not an 'issuance of virtual assets' for the legislation's purposes. This is a welcome clarification for the industry and positions the Cayman Islands at the forefront of regulatory financial innovation.

Similar clarifying amendments under The Mutual Funds (Amendment) Act, 2026 and the Private Funds (Amendment) Act, 2026 introduce new bespoke definitions of 'digital equity token' and 'digital investment token' for mutual funds and private funds respectively.

2. The British Virgin Islands

In the BVI, the primary issuance of tokens (including public token offerings), is not in itself, a regulated activity. Rather, regulation would depend on the characterisation of the token and the activities carried out in relation to it. Activities conducted in connection with such issuances, including exchange, transfer, custody or investment-related services, may fall within the scope of the Virtual Assets Service Providers ("VASP") Act, 2022 or the Securities and Investment Business Act, 2010 ("SIBA") and require regulatory approval.

The VASP Act was put in place to regulate virtual asset exchange, transfer and custody businesses in BVI. By contrast, tokens that constitute 'investments' fall to be analysed instead under SIBA, with tokenised fund interests typically structured to mirror equity recorded on the issuer's applicable statutory register. Tokenised structures using restricted or whitelisted, non-transferable rails may fall outside of VASP legislation, whereas token trading on a marketplace or third-party custody for investors can trigger a need for VASP authorisation.

Conclusion

The Cayman Islands has moved decisively from early experimentation to sophisticated deployment of tokenisation across fund products. The BVI is advancing along the same trajectory, guided by the same principles of legal continuity and investor protection.

Recent legislative fine-tuning in both jurisdictions signals a regulatory philosophy that is technology-agnostic yet investor-centric.

Combined with deep service-provider expertise and a proven common-law framework, both the Cayman Islands and the BVI are well positioned to remain highly attractive domicile choices for global managers seeking to capture the efficiencies and distribution advantages of digital assets.

As secondary token markets mature, and as institutional allocators grow more comfortable with on-chain record keeping, the next phases of innovation are likely to be pioneered in, and not merely serviced from, both jurisdictions.

Further Assistance

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April 2026
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