

Cayman Islands foundation companies: The ideal vehicle for DAOs and crypto trading

UPDATE

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Cayman Islands foundation companies are a vehicle of choice for decentralised autonomous organizations (DAOs) and to facilitate crypto trading on international exchanges. We explore certain legal and structural considerations and how we can help with establishing these crypto projects in the Cayman Islands.

Introduction

The Cayman Islands offer a compelling legal and regulatory environment for DAOs and crypto trading through the use of foundation companies. These entities provide a flexible, cost-effective, and efficient legal wrapper, making them a popular choice for crypto entrepreneurs. As it is vital to implement the correct legal structuring from commencement of operations, more detail is provided on the relevant considerations below. By understanding and leveraging the advantages of Cayman Islands foundation companies, project founders can navigate the complexities of the regulatory landscape and achieve their strategic objectives effectively.

Advantages of foundation companies

Due to its compelling characteristics, the Cayman Islands foundation company has become a familiar vehicle within the industry for both operators and investors. The advantages of Cayman Islands foundation companies are a result of two key factors; their inherent flexibility and the business-friendly environment offered by the Cayman Islands.

Flexibility

Cayman Islands foundation companies have a great degree of adaptability in their governance structure, operating similarly to a trust but with separate legal personality and the protection of limited liability.

A foundation company may be tailored to a specific project in many ways, including the following:

- by-laws can be adopted for additional flexibility and privacy for sensitive projects;
- experienced independent directors can be easily appointed;
- supervisory committees may (but do not need to) be established;
- beneficiaries may (but do not need to) be appointed; and
- perhaps most importantly, foundation companies do not need to have shareholders.

See our [Cayman Islands: Foundation companies](#) guide for more information.

Speed, expense, legal framework, and local expertise:

Compared to other jurisdictions, Cayman Islands entities (including foundation companies) may be established quickly and cost-effectively. A Cayman Islands foundation company can be incorporated by the Registrar of Companies within 24 hours, and a structure may be ready for launch within 1-2 months, depending on the complexity of the project.

The Cayman Islands regulatory and judicial frameworks are advantageous, and local service providers offer a high degree of expertise, ensuring a smooth experience and ease of compliance with applicable laws. The absence of income, corporate or capital gains tax in the Cayman Islands provides tax efficiencies versus other jurisdictions.

DAOs and crypto trading

The above factors have made foundation companies a vehicle of choice to wrap DAOs and to facilitate crypto trading on international exchanges. Having separate legal personality (which a DAO does not), enables the foundation company to carry out necessary legal actions, including to hold assets, open bank or exchange accounts and contract with third parties. The fact that a foundation company may be ownerless also aligns with the decentralized ethos of DAOs.

The absence of shareholders and the appointment of non-United States persons as controllers simplifies the registration of foundation companies and their subsidiaries with international crypto exchanges. These vehicles can be established as standalone traders or as entities affiliated with standard fund structures. Mourant works closely with several fiduciary service providers who assist with satisfying the often-stringent onboarding requirements of these crypto exchanges.

In each of the above roles, or separately therefrom, a foundation company or its subsidiaries may be used to facilitate venture capital involvement and fundraising including DeFi, smart contracts, token issuances, marketing and development.

Structuring considerations

The Virtual Assets (Service Providers) Act (as amended) and the associated Virtual Asset (Service Providers) Regulations (together, the **VASP Act**) can require the regulation of virtual asset services providers by the Cayman Islands Monetary Authority and must be considered when establishing a crypto project in the Cayman Islands. In particular, the VASP Act regulates the issuance of virtual assets (which may include tokens) *to the public*. For further information in this regard, please see our guide on the [Cayman Islands VASP regime](#).

In light of the VASP Act, various structuring options are available. One popular approach is to use subsidiaries in the British Virgin Islands to handle specific activities, such as the issuance of tokens. This structure facilitates compliance with local and international regulations while leveraging the benefits of Cayman Islands foundation companies. Mourant's Cayman Islands and British Virgin Islands offices work closely together to deliver tailored solutions for our clients.

Other Cayman Islands regulatory considerations may arise under:

- the Securities Investment Business Act (as amended), which can be applicable where the relevant virtual assets constitute "securities";
- the anti-money laundering regime, which is most commonly applicable where the entity is providing investment-related services to third parties; and
- the economic substance regime, which can be applicable where, amongst other things, there is lending activity (including DeFi).¹

How Mourant can help

Mourant provides legal counsel to some of the largest virtual assets businesses in the world, including both regulated and unregulated vehicles. We have multi-jurisdictional experience and can assist with:

- establishing bespoke structures, including navigating applicable regulatory regimes to provide optimal solutions;
- the drafting of a foundation company's constitutional documents to link the wishes of a DAO's community to the activities performed by the foundation company; and
- introductions to knowledgeable and experienced Cayman Islands service providers, including independent directors, to provide the best working partnerships during the life of the project.

¹ See our guides on [Registered Persons under the Securities Investment Business Act](#), [An introduction to the Cayman AML/CFT regime](#) and [Economic substance in the Cayman Islands](#) for more information.

Next steps

We would be delighted to assist with your project. For further information, please reach out to one of the contacts named below.

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