

VARA Releases Updated Custody Services Rulebook:

3 Major Changes Every Custodian Needs to Know

On May 19th, 2025, the Virtual Assets Regulatory Authority (VARA) unveiled the updated **Custody Services Rulebook**, marking a significant milestone in the evolution of virtual asset regulation. The latest revision primarily addresses two distinct areas: enhancements to the existing VA Storage and Custody Rules, alongside the introduction of an entirely new section dedicated to Collateral Wallet Services Rules.

Here are 3 key changes that any VASP offering custody services needs to know:

#1: No more independent legal entity requirement

Previously, Virtual Asset Service Providers (VASPs) engaged in Custody Services activities were obliged to adhere to mandatory legal separation requirements and had to operate as independent legal entities, fully segregated from any other Virtual Asset (VA) activities conducted by members of the same group.

Under the updated VARA framework, Custodians are now permitted to conduct VA Transfer and Settlement activities within the same legal entity, thus reflecting how custodians operate in practice. All other VARA-licensed activities (except VA Transfer and Settlement activities) must still be carried out through separate legal entities, highlighting the unique regulatory flexibility granted to this specific combination.

A practical example of this would be a scenario where an entity offering custody services also performs transfer and settlement functions as part of its operational workflow to support internal movement of client assets or net settlements between its exchange and custody units. In such a scenario, these specific functions do not require a separate legal entity. They can be offered within the same legal structure.

Regulatory Reminder

Whilst these activities can be combined into one entity, custodians still need to adhere to the VA Transfer and Settlement Service's strict regulatory requirements.

This exemption underscores VARA's nuanced approach to regulation, recognizing the distinct operational characteristics of VA Transfer and Settlement activities from those of a traditional custodian as well as appreciating the practical business models of such custodians.

#2: VASPs now allowed to accept instructions from authorized agent

In its latest update to the Custody Rulebook, VARA has introduced a critical clarification regarding how Custody Services must be executed. Specifically, Virtual Asset Service Providers licensed to offer custody are now explicitly permitted to act on instructions not only from clients directly, but also from legally authorized agents—provided that the client has given the VASP verified legal authority confirming the agent's right to act on their behalf.

This change has significant practical implications. For instance, in discretionary portfolio management setups, asset managers who are legally mandated to manage client funds can now directly instruct custodians on transfers, rebalancing, or reallocations, eliminating delays and inefficiencies. Additionally, in the context of collateralized wallets—such as those used in lending or margin arrangements—lenders or protocol operators can be authorized to instruct custodians to seize or release assets when predefined triggers are met (e.g., loan defaults), so long as the legal authorization has been properly documented and validated in advance.

Why This Matters

This enhancement reinforces both operational efficiency and legal clarity for custody arrangements in the virtual asset sector. It also aligns VARA's framework more closely with traditional financial industry practices, while maintaining safeguards around verified client consent and authority delegation.

#3: Introduction of a new custodial function: Collateral Wallet Services

A key development in VARA's updated Custody Services Rulebook is the formal recognition and regulation of Collateral Wallet Services (CWS) as an ancillary but separately authorized custodial activity. CWS refers to the provision of VA Wallets or accounts holding clients' Virtual Assets specifically for the purpose of facilitating net settlement between a VARA-licensed Custodian and a VARA-licensed Exchange. Importantly, this function cannot be performed without explicit permission documented in the VASP's license, even if the entity is already licensed to provide Custody Services.

Unlike traditional custody, where each transaction would trigger a movement of assets between parties, CWS allows for the aggregation of client trading activity and subsequent settlement on a net basis—reducing operational friction, enhancing liquidity management, and minimizing gas fees. For example, a client actively trading on a VARA-licensed exchange can maintain a collateral wallet managed by their custodian. Rather than transferring funds back and forth for every executed trade, only the net gain or loss would be settled after a given trading period. This framework is especially useful in the various third-party off-exchange custody solutions in the market as well as in margin trading and lending environments, where collateral is posted to cover open positions and custodians must act swiftly upon predefined triggers.

In practice, VARA's framework establishes the foundation for compliant derivatives trading by regulating how collateral is posted, held, and settled. With each CWS wallet linked to a single VARA-licensed exchange, the rulebook ensures controlled exposure and simplifies oversight. Use cases such as automated collateral release by lenders, based on pre-agreed and verified instructions, demonstrate how these mechanisms can support more sophisticated market structures while maintaining client protection.

Critical Custody Controls

To safeguard these operations, The rulebook imposes operational requirements such as issuing client receipts for all transactions, using wallets exclusively designated for CWS, and limiting wallet rights to a single exchange. VASPs must report monthly to VARA on asset balances and exchange integrations, and provide clients with standalone risk disclosures outlining key custody risks and rights of third parties like exchanges.

Perspectives:

The updated rulebook is likely to have a meaningful impact on how VASPs operate, particularly those involved in multi-functional service delivery. The conditional exemption for VA Transfer and Settlement Services from legal entity separation requirements reflects a pragmatic shift that will likely reduce operational burdens for certain VASPs, encouraging efficiency while maintaining oversight.

Meanwhile, the formalization of CWS introduces new compliance obligations, financial considerations, and operational boundaries that VASPs must navigate carefully.

Entities seeking to expand into this area will need to evaluate their licensing structure, internal processes, and client-facing agreements to ensure compliance.

VASPs are required to comply with the new regulatory requirements by 19 June 2025.

To access the rulebook click [HERE](#).

Let us help you stay ahead of regulatory changes.

The ACX Compliance team is ready to support your transition—reach out to us for tailored regulatory guidance, detailed impact assessments, and hands-on implementation support to ensure full alignment with the latest VARA rulebook updates.

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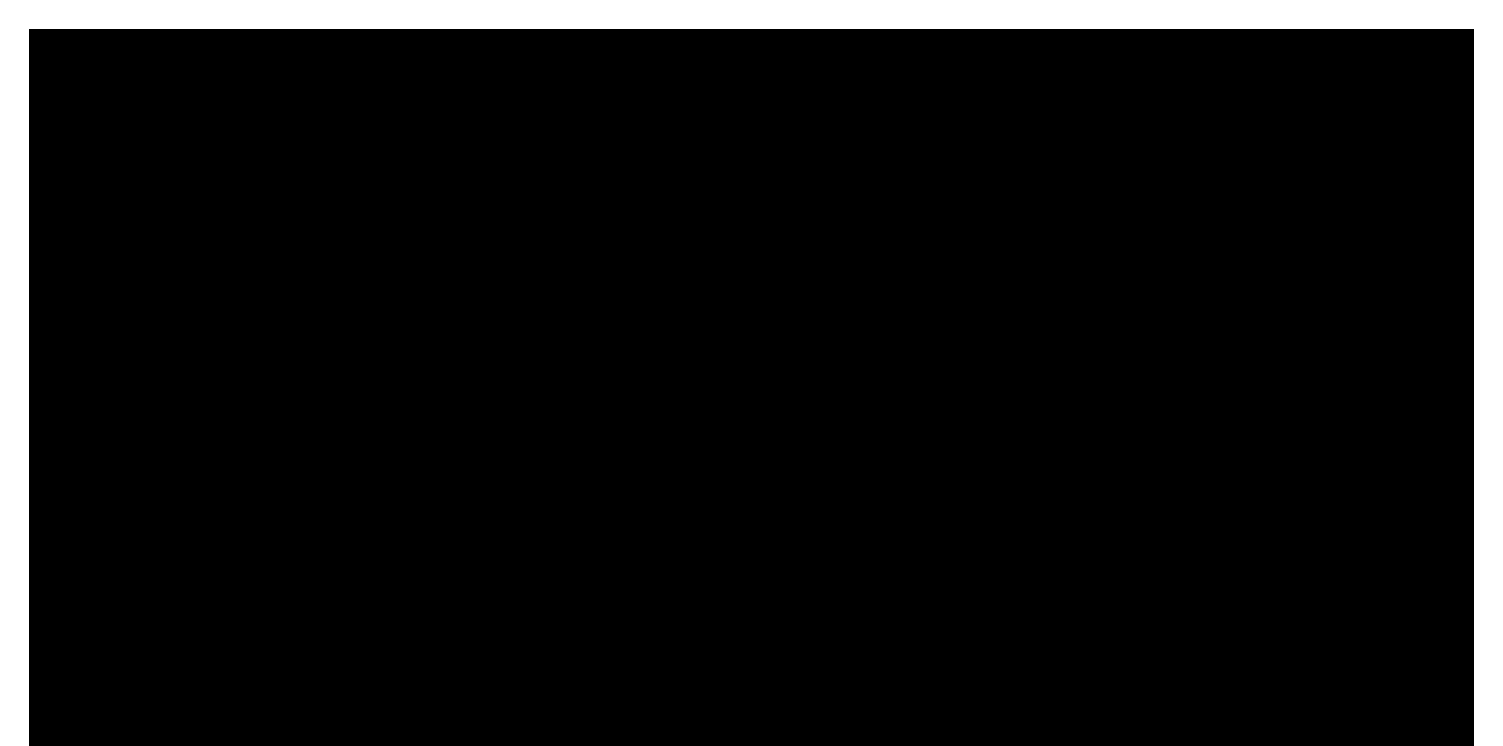
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