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CHAMBERS GLOBAL PRACTICE GUIDES

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# Investment Funds 2026

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**Cayman Islands: Law and Practice**  
Jo Cunningham, Ian Kirwan and Katrina Watson  
Maples Group



# CAYMAN ISLANDS



## Law and Practice

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Maples Group advises global financial, institutional, business and private clients on the laws of the British Virgin Islands, the Cayman Islands, Ireland, Jersey and Luxembourg through its leading international law firm, Maples and Calder. With offices in key jurisdictions around the world, the Maples Group has

specific strengths in the areas of corporate commercial, finance, investment funds, litigation and trusts. Maintaining relationships with leading legal counsel, Maples Group leverages this local expertise to deliver an integrated service offering for global business initiatives.

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## 1. Market Overview

### 1.1 State of the Market

The Cayman Islands remains the leading fund domicile outside of the United States. It is a popular domicile for globally managed funds across a broad set of asset classes including credit, private equity, hedge, digital and hybrid funds owing to its tax neutral status, its flexible structuring options and its established and experienced financial services sector and professional service providers. Additionally, the Cayman Islands is recognised as an attractive jurisdiction for investment funds due to its robust legal and regulatory framework and its English-based legal system with established judiciary, and the absence of political or sovereign concerns.

The Cayman Islands is the jurisdiction of choice for US sponsors structuring funds for US tax-exempt investors and non-US investors, while the Cayman Islands unit trust remains the pre-eminent vehicle of choice for those sponsors looking to raise capital in Asia.

The majority of investment funds established in the Cayman Islands are private non-retail funds.

## 2. Alternative Investment Funds

### 2.1 Fund Formation

#### 2.1.1 Fund Structures

Entity options available for structuring investment funds include exempted limited partnerships, exempted companies, limited liability companies and unit

trusts. Closed-ended funds (such as private equity, credit and venture capital funds) are typically structured as exempted limited partnerships allowing for easy drawdown and waterfall mechanics, and open-ended funds (such as hedge funds) make use of both exempted company and exempted limited partnership vehicles in standalone and master-feeder structures. Cayman Islands unit trusts continue to be a popular choice of vehicle and are predominantly used as investment vehicles for investors in Asia, including China and Japan. While the limited liability company is less frequently used as the investment fund vehicle, it is an attractive and popular choice for general partner and downstream holding vehicles.

A key difference between an exempted limited partnership and an exempted company is that an exempted limited partnership acts as a pass-through vehicle. Notwithstanding registration, an exempted limited partnership is not a separate legal person distinct from its partners. An exempted limited partnership acts through its general partner, and all agreements and contracts are entered into by or on behalf of the general partner. Any right or property of the exempted limited partnership that is conveyed to, vested in or held either on behalf of the general partner or in the name of the exempted limited partnership is an asset of the exempted limited partnership deemed to be held upon trust in accordance with the terms of the relevant statutory regime.

## 2.1.2 Common Process for Setting Up Investment Funds

The formation and registration processes in the Cayman Islands are streamlined and efficient and can be completed on the same day. Exempted companies are formed upon the filing of a declaration and the memorandum and articles of association with the Registrar. Exempted limited partnerships and limited liability companies are formed upon the execution of the relevant operating agreement and the filing of a registration statement with the Registrar.

Subject to certain exceptions including for single investor funds, open-ended funds must register with the Cayman Islands Monetary Authority (CIMA) under the Mutual Funds Act (As Revised), and closed-ended funds must register with CIMA under the Private Funds Act (As Revised).

To register an open-ended fund, the requisite application form and offering memorandum must be submitted to CIMA prior to the fund launch and directors are required to be registered under the Director Registration and Licensing Act.

To register a closed-ended fund, the requisite application form and offering memorandum (or summary of terms) must be submitted to CIMA within 21 days of a fund accepting capital commitments or, if earlier, prior to the fund receiving any capital contributions for the purpose of investments.

All CIMA registration applications must include consent letters from the administrator (if any) and the auditor of the fund confirming their responsibility for these important roles.

## 2.1.3 Limited Liability

The Cayman Islands legal system is based on well-recognised legal concepts founded in English law, including limited liability and separate corporate personality, which underpin the corporate, partnership and trust vehicles used as collective investment schemes, all of which were tried and tested and found to be robust and effective during the 2008 global financial crisis.

As a general rule, in the absence of a contractual arrangement to the contrary, the liability of a share-

holder of a Cayman Islands company that has been incorporated with limited liability and with share capital is limited to the amount from time to time unpaid in respect of the shares it holds. A Cayman Islands company has a legal personality separate from that of its shareholders, and it is separately liable for its own debts due to third parties.

As noted above, a Cayman Islands exempted limited partnership does not have legal personality separate from its partners. General partners have statutory unlimited liability for all the debts and obligations of such partnerships. Fund investors typically subscribe for limited partnership interests on terms that their liability is limited to their contributed capital and outstanding capital commitment (if any).

However, there are limited circumstances under Cayman Islands law whereby an investor who takes part in the conduct of the business of the partnership and holds itself out as a general partner to third parties may, like a general partner, assume unlimited liability for the debts and obligations of the partnership. Exempted limited partnerships are the most common type of Cayman Islands vehicle used in credit and private equity fundraising, and investors in such funds commonly seek Cayman Islands legal opinions in respect of the limited liability nature of their partnership interest, amongst other things.

## 2.1.4 Disclosure Requirements

Every open-ended fund registered with CIMA (unless that fund is a “master fund” as defined under the Mutual Funds Act or a “limited investor fund” – see **2.3.1 Regulatory Regime**) is required to issue an offering document that describes the equity interests in all material respects and contains such other information as is necessary to enable a prospective investor to make an informed decision as to whether or not to invest in the fund. In recognition that many closed-ended funds will not have a continued offering, closed-ended funds registered with CIMA may adopt a shorter-form summary of terms in support of their registration application.

CIMA has issued rules regarding the content of marketing materials for both open-ended and closed-ended registered funds.

In addition to the regulatory requirements regarding content, general legal principles and obligations apply in respect of the representations and statements made in the fund marketing materials, including the laws of misrepresentation.

## 2.2 Fund Investment

### 2.2.1 Types of Investors in Alternative Funds

Most investment funds established in the Cayman Islands are private non-retail funds managed by US sponsors and geared principally towards US tax-exempt investors and non-US investors. The availability of Cayman Islands corporate structures (particularly exempted limited partnerships) that emulate many of the features of their Delaware equivalents makes integrating Cayman Islands entities into US-managed fund structures highly efficient due, for example, to ease of adaptation of US-style governing and marketing documents, while providing flexibility of terms to suit non-US investors and US tax-exempt investors.

Cayman Islands vehicles, particularly unit trusts, are popular choices for funds targeting investment from Asia, including China and Japan.

### 2.2.2 Legal Structures Used by Fund Managers

Closed-ended funds (such as private equity, credit and venture capital funds) requiring efficient and well-defined drawdown and waterfall mechanics are most typically structured as exempted limited partnerships. Open-ended funds (such as hedge funds) are commonly structured as exempted companies or exempted limited partnerships depending on sponsor and investor preference, with a clear trend in the US market for the master fund to be structured as an exempted limited partnership.

For those sponsors raising capital in Asia, the Cayman Islands unit trust remains the investment vehicle of choice for both open-ended and closed-ended funds.

### 2.2.3 Restrictions on Investors

Most open-ended funds regulated by CIMA under the Mutual Funds Act are “registered mutual funds”, which is a sophisticated investor regime and generally requires an initial minimum investment amount of KYD80,000 or equivalent (approximately USD100,000) by each investor, unless the fund was registered with

CIMA prior to 14 November 2006, in which case, a lower, grandfathered minimum initial investment amount will apply.

No equivalent minimum investment amounts apply in respect of “licensed”, “administered” or “limited” investor funds, although different requirements do apply (see 2.3.1 Regulatory Regime). Similarly, there is no minimum investment amount for closed-ended funds registered with CIMA under the Private Funds Act.

## 2.3 Regulatory Environment

### 2.3.1 Regulatory Regime

Investment funds that fall within the definition of either a “mutual fund” under the Mutual Funds Act or a “private fund” under the Private Funds Act are required to be regulated by CIMA.

### Mutual Funds

A mutual fund is any company, unit trust or partnership (established or registered in the Cayman Islands) that issues equity interests that are redeemable at the option of the investor, the purpose or effect of which is the pooling of investor funds with the aim of spreading investment risks and enabling investors to receive profits or gains from investments. Mutual funds that issue debt are excluded from regulation, even if the bonds or notes are convertible or have warrants attached.

### Regulated mutual fund types

There are four types of regulated mutual funds.

- The “registered mutual fund” – Representing approximately 93% (as at Q3 2025) of all mutual funds registered with CIMA, this type of fund is not subject to the same requirements as a licensed or administered fund (see below). The registration requirements are well established, and the review process is efficient – providing certainty around the launch timetable. However, each fund must have either (i) a minimum initial investment amount of at least KYD80,000 or equivalent (approximately USD100,000) per investor, thus limiting access only to sophisticated investors, or (ii) its equity interests listed on a recognised stock exchange, such that

it is subject to additional regulation by the stock exchange.

- The “licensed mutual fund” – Typically reserved to those funds wishing to admit retail investors, a fund may obtain a licence from CIMA if CIMA considers that each promoter is of sound reputation, that the administration of the fund will be undertaken by persons who have sufficient expertise and are fit and proper to be directors (or, as the case may be, managers or officers in their respective positions), and that the business of the fund will be carried out in a proper way. The licensing process can take a few months, and a fund must not commence operations until the licence has been granted.
- The “administered mutual fund” – As an alternative to the licensed funds, these funds may also admit smaller investors with no applicable minimum initial investment amount, but they are required to designate a principal office in the Cayman Islands at the office of a licensed mutual fund administrator (MFA). Instead of CIMA doing so, it is the MFA that is required to be satisfied that the promoter is of sound reputation, that the administration of the fund will be undertaken by persons who have sufficient expertise to administer the fund and are of sound reputation, and that the business of the mutual fund and the offer of equity interests will be carried out in a proper way.
- The “limited investor fund” – This type of fund is reserved for those structures where there are 15 or fewer investors, a majority of whom must be capable of appointing and removing the operator(s). Unlike a registered mutual fund, a limited investor fund is not subject to any minimum initial investment amount. However, prior to the admission of a sixteenth investor, a limited investor fund will be required to re-register with CIMA under one of the other heads of regulation described above.

### Master funds

A “master fund” is defined under the Mutual Funds Act as a company, partnership or unit trust (established or registered in the Cayman Islands) that issues equity interests that are redeemable at the option of the holder to one or more investors, one of which must be another fund regulated by CIMA that conducts more than 51% of its investing in the “master fund” directly or indirectly (a “regulated feeder fund”). The

“master fund” must hold investments or conduct trading activities for the principal purpose of implementing the overall investment strategy of the regulated feeder fund. Each fund that falls within the definition of a “master fund” is required to register as a “master fund” under the registered mutual fund category and is subject to the same minimum initial investment amount as a registered mutual fund.

### Filing requirements

All mutual funds regulated by CIMA (other than “master funds”) are required to file offering documents or a summary of terms upon registration, and they must notify CIMA within 21 days of any material changes to service providers or the terms of the offering. In addition, all CIMA-regulated mutual funds must file audited accounts and a fund annual return within six months of their financial year-end.

### Private Funds

A private fund is any company, unit trust or partnership (wherever established) that offers or issues or has issued investment interests, the purpose or effect of which is the pooling of investor funds with the aim of enabling investors to receive profits or gains from such entity’s acquisition, holding, management or disposal of investments, where:

- the holders of investment interests do not have day-to-day control over the acquisition, holding, management or disposal of the investments; and
- the investments are managed as a whole by or on behalf of the operator of the private fund, directly or indirectly, but this does not include certain licensed or registered persons or any non-fund arrangements.

Like mutual funds, all CIMA-regulated private funds must notify CIMA of any material changes within 21 days and file audited accounts and a fund annual return within six months of their financial year-end.

### Global Fund Regulation Concerns: International Co-Operation, Fund Manager Domicile Requirements and AML Arrangements

CIMA has wide-ranging powers in respect of Cayman Islands entities that are regulated as mutual funds or private funds in the jurisdiction. CIMA has worked

alongside overseas regulators in regulatory investigations involving investment funds, including the US Securities and Exchange Commission and the UK's Financial Conduct Authority.

There is no requirement for the investment manager or manager of a fund to be domiciled in the Cayman Islands or for a non-Cayman Islands manager or investment manager to be regulated in the Cayman Islands. Indeed, most Cayman Islands funds appoint managers and sponsors domiciled outside of the Cayman Islands, with most of those fund managers domiciled in North America.

The Cayman Islands continues to adopt and embrace international best practice approaches for anti-money laundering (AML) and combatting terrorist and proliferation financing. The AML regime covers a wide range of investment entities, including all types of investment funds (whether regulated or not) in the Cayman Islands. Under the regime, there is a requirement to conduct appropriate know your customer (KYC) checks and customer due diligence (CDD) on investors of record, as well as their beneficial owners, and to refresh such information periodically in accordance with an established risk-based process. Among other things, there is also a requirement to conduct risk-based checks in connection with the fund's investment activities. To assist with the proper implementation of AML processes and procedures and to help ensure compliance, all investment entities are required to appoint experienced risk and compliance professionals with specific knowledge of the Cayman Islands AML regime to the roles of anti-money laundering compliance officer (AMLCO), money laundering reporting officer (MLRO) and deputy MLRO. The AMLCO, in particular, will assist the investment entity in ensuring compliance with relevant requirements and, where the investment entity looks to rely upon a third party for carrying out AML/KYC checks on investors, the AMLCO will likely take a lead role in assessing the suitability of that third party. The AML regime requires the operators of investment entities, together with their AMLCO, to carry out a risk-based due diligence exercise when assessing the suitability of a service provider or a transaction counterparty.

The increased compliance burden globally has led to an increase in outsourced administration and compliance services among closed-ended investment entities. Outsourced service providers are increasingly acting as a "one-stop shop" for compliance solutions, where expertise and scalable data can help manage compliance risk and drive efficiency.

### 2.3.2 Requirements for Non-Local Service Providers

There is generally no requirement for non-local service providers to be regulated in the Cayman Islands. However, all directors of companies regulated by CIMA as mutual funds under the Mutual Funds Act must be registered with, or licensed by, CIMA pursuant to the Directors Registration and Licensing Act.

### 2.3.3 Local Regulatory Requirements for Non-Local Managers

There is generally no restriction on a fund manager from another jurisdiction managing a fund established as a Cayman Islands vehicle. However, if an overseas manager establishes a Cayman entity to act as the investment manager for a fund or other entity, such Cayman entity may be subject to licensing or registration with CIMA under the Cayman Islands Securities Investment Business Act (As Revised). A Cayman Islands entity acting as a discretionary manager of an investment fund may also be subject to local substance requirements under the Cayman Islands International Tax Co-operation (Economic Substance) Act (As Revised), and specialist advice should be sought with respect to these obligations.

### 2.3.4 Regulatory Approval Process

Licensed mutual funds must apply to CIMA for a licence to operate. The licensing application process is an engaged process, and it can take a few months before approvals are granted. Licences are typically granted subject to certain ongoing conditions, and a fund must not commence operations until the licence has been granted.

Administered mutual funds, registered mutual funds and limited investor funds must make an electronic filing with CIMA in the prescribed form and submit an offering document (or summary of terms), service

provider consent letters and an application fee before the launch date.

Similarly, private funds must also make an electronic filing with CIMA in the prescribed form and submit an offering document (or summary of terms), service provider consent letters and an application fee within 21 days of accepting capital commitments or, if earlier, prior to the fund receiving any capital contributions for the purpose of investments.

Provided that the application materials submitted are in good order, and subject to any queries or requests that CIMA may present during the review process, the CIMA registration process for non-licensed mutual funds and private funds is well-defined and efficient and does not typically present any uncertainty in timeline to launch.

### 2.3.5 Rules Concerning Pre-Marketing of Alternative Funds

See 2.3.6 Rules Concerning Marketing of Alternative Funds.

### 2.3.6 Rules Concerning Marketing of Alternative Funds

The marketing of investment funds in the Cayman Islands does not require specific regulatory approval.

### 2.3.7 Marketing of Alternative Funds

Irrespective of the vehicle type chosen to structure the investment fund, there are limitations on the ability to offer interests to the public in the Cayman Islands. An exempted company that is not listed on the Cayman Islands Stock Exchange is prohibited from making any invitation to the public in the Cayman Islands to subscribe for any of its securities. Exempted limited partnerships and limited liability companies are prohibited from undertaking business with the public in the Cayman Islands other than so far as may be necessary for the carrying on of their business exterior to the Cayman Islands. Finally, if a trust is registered as an “exempted trust”, investors must not – and must not be likely to – include any person who is resident or domiciled in the Cayman Islands (other than exempted and ordinary non-resident Cayman Islands companies or the object of a charitable trust or power).

The “public in the Cayman Islands” does not include any of the following.

- A sophisticated person – being a person:
  - (a) regulated by the Cayman Islands Monetary Authority;
  - (b) regulated by a recognised overseas (ie, non-Cayman Islands) regulatory authority;
  - (c) any of whose securities are listed on a recognised securities exchange; or
  - (d) who (i) by virtue of knowledge and experience in financial and business matters is reasonably to be regarded as capable of evaluating the merits of a proposed transaction and (ii) participates in a transaction with a value of at least KYD80,000 (or its equivalent in another currency), in the case of each single transaction.
- A high net worth person – being (i) an individual whose net worth is at least KYD800,000 or its equivalent in another currency or (ii) any person that has total assets of not less than KYD4 million or its equivalent in another currency.
- Any exempted or ordinary non-resident company registered under the Cayman Islands Companies Act.
- A foreign company registered pursuant to Part IX of the Companies Act.
- A foreign limited partnership registered under Section 42 of the Cayman Islands Exempted Limited Partnership Act.
- Any company acting as general partner of a partnership registered under the Exempted Limited Partnership Act.
- Any director or officer of the same acting in such capacity, or the trustee of any trust registered or capable of registration as an exempted trust under the Cayman Islands Trusts Act acting in such capacity.

### 2.3.8 Marketing Authorisation/Notification Process

See 2.3.6 Rules Concerning Marketing of Alternative Funds.

### 2.3.9 Post-Marketing Ongoing Requirements

See 2.3.6 Rules Concerning Marketing of Alternative Funds.

## 2.3.10 Investor Protection Rules

There are no investor protection rules that restrict the ownership of fund interests to certain classes of investors, except that a registered mutual fund, which is geared toward more sophisticated investors, must have a minimum initial investment amount of KYD80,000 (or its equivalent in another currency). Where a mutual fund wishes to admit investors with a minimum initial investment amount of less than KYD80,000, it will (unless it qualifies as a limited investor fund) be subject to increased regulation by CIMA and required to obtain a licence or have a “principal office” provided by a CIMA-licensed mutual fund administrator.

## 2.3.11 Approach of the Regulator

CIMA is a well-respected and dynamic regulator that consistently evolves its practice and approach to reflect the changing regulatory environment. CIMA has well-established consultation processes that are mandated by statute and allow for co-ordinated feedback from industry.

CIMA has always adopted a collaborative and engaged approach to enforcement, providing an opportunity to remedy breaches and requiring changes to process to reduce the chance of future errors, rather than penalising regulatory oversights as an initial step. However, with the continued global focus on active enforcement and the imposition of sanctions and penalties for regulatory breaches, there is a keen focus on CIMA's powers in relation to offences for non-compliance set out in the Mutual Funds Act and the Private Funds Act, as well as its newer powers to impose administrative fines for regulatory breaches without recourse to the judicial system. Breaches of prescribed provisions are categorised as being “minor”, “serious” or “very serious”. There is a sliding scale of fines, as follows:

- a fixed fine of KYD5,000 for minor breaches;
- up to KYD50,000 for individuals or KYD100,000 for entities for serious breaches; and
- up to KYD100,000 for individuals or KYD1 million for entities for very serious breaches.

Upon determination of a breach, CIMA will provide a breach notice to the relevant party with a 30-day opportunity to reply to the notice and, in the case of

a minor breach, to rectify the breach to CIMA's satisfaction. Where a minor breach goes unresolved or is not resolved to CIMA's satisfaction, CIMA is required to impose an administrative fine. For serious or very serious breaches, CIMA has discretion whether to impose a fine, and in what amount, up to the cap for the relevant category of breach.

The potential for administrative fines even for minor breaches reinforces the need for all operators of regulated investment funds to understand their obligations under the Mutual Funds and Private Funds Acts and to ensure that they maintain appropriate systems and controls to meet these obligations, as failure to do so could potentially result in the imposition of significant fines.

## 2.4 Operational Requirements

The Cayman Islands investment funds regime is a disclosure-based one and legislation imposes no restrictions on the types of activity that may be undertaken by a Cayman Islands investment fund or the types of investments it may make. However, there are certain operational requirements imposed on mutual funds and private funds regulated by CIMA.

### Corporate Governance

All funds regulated by CIMA must adopt a written corporate governance framework which details how the operator, that is to say the board of directors, the general partner or the trustee, oversee the fund's operations and activities and ensure adequate and effective internal controls, including with respect to outsourced functions such as investment management, administration, anti-money laundering and valuation.

CIMA's guidance expressly recognises that each fund's operations will differ, and requires that the framework and controls properly reflect the fund's size, complexity and structure, as well as the nature of its business and risk profile (by reference to, for example, assets under management, number of investors, complexity of the structure, nature of investment strategy or nature of the operations).

CIMA expressly contemplates that a fund may rely on the arrangements in place with its investment manager and other service providers operating in accordance

with their own policies and processes to ensure compliance with its regulatory obligations, provided that the operator has appropriately reviewed and assessed those providers and their processes, and adequately oversees the providers' continued performance. Consistent with that obligation, there is a requirement for the operator to hold at least one meeting annually to, among other things, confirm the continued adequacy of the corporate governance framework and to review and monitor the fund's activities and strategy, any conflicts of interest, financial statements, and the activities and functions of its service providers.

## Mutual Funds

A regulated mutual fund must also comply with the Net Asset Value (NAV) Calculation Rules and the Segregation Rules. The NAV Calculation Rules require a mutual fund to establish, implement and maintain pricing and valuation practices, policies and procedures (a NAV Calculation Policy) that ensure the fund's NAV is fair, complete, neutral, free from material error and verifiable.

The NAV of a mutual fund must be calculated by a service provider that is independent of the fund's investment manager/adviser and operators, and who is competent, has the capability to value the Portfolio of the fund and is able to adhere to the NAV Calculation Policy. A mutual fund's investment manager/adviser or operators may calculate or assist in the calculation of the fund's NAV but only if this fact is explicitly detailed in the fund's offering document, together with an explanation as to why another service provider could not calculate the fund's NAV.

The Segregation Rules require a regulated mutual fund to appoint a service provider with regard to ensuring the safekeeping of the fund's portfolio. A mutual fund's portfolio must be segregated and accounted for separately from the assets of any service provider. A mutual fund must ensure that none of its service providers uses the portfolio to finance their own or any other operations in any way.

The operators of a mutual fund must establish, implement and maintain (or oversee the establishment, implementation and maintenance of) strategies, policies, controls and procedures to ensure compliance

with the Segregation Rules, consistent with the fund's offering document and appropriate for the size, complexity and nature of the fund's activities and investors.

## Private Funds

The Private Funds Act contains certain operational requirements specific to a registered private fund, including provisions relating to the valuation of assets, the safekeeping of fund assets, cash monitoring and the identification of securities.

A private fund is required to establish, implement and maintain appropriate and consistent pricing and valuation practices, policies and procedures in order to properly value such private fund's assets and to ensure that valuations are conducted in accordance with the Private Funds Act.

A private fund is required to appoint a custodian, unless it has notified CIMA and it is neither practical nor proportionate to do so, having regard to the nature of the private fund and the type of assets it holds. If no custodian is appointed, a private fund must appoint an administrator or another independent third party or (subject to disclosing and managing any conflicts) the operator or investment manager/adviser to verify that the private fund holds title to its assets, and to maintain a record of those assets.

A private fund is required to monitor the cash flows, to ensure that all cash has been booked in cash accounts opened in the name, or for the account, of the private fund and to ensure that all payments made by investors in respect of investment interests have been received.

A private fund that regularly trades securities, or holds them on a consistent basis, is required to maintain a record of the identification codes of the securities in question.

## 2.5 Fund Finance

The Cayman Islands is a leading fund finance jurisdiction where both Cayman Islands and non-Cayman Islands security packages are respected and recognised. Financing counterparties recognise the Cayman Islands as a "creditor-friendly" jurisdiction and

are very familiar with, and comfortable lending to, all forms of Cayman Islands fund vehicles. Subscription line facilities secured on investors' capital commitments, NAV-based facilities with downstream collateral (eg, over the equity interest in holding vehicles), and leveraged finance facilities secured by the relevant target group's assets are very common and well-established products in the Cayman Islands market.

There are no restrictions, issues or requirements imposed by Cayman Islands legislation, and Cayman Islands vehicles are able to access the full range of debt finance options seen in the market. Restrictions or requirements in relation to borrowing may, however, be contained in the constitutional and organisational documents of the Cayman Islands vehicle(s). These are discussed and negotiated by the sponsor and investors at launch, or with the finance provider at the outset of a new borrowing transaction, in the usual way.

Cayman Islands vehicles may be subject to, and may grant a wide range of, security packages that will vary depending on the deal type, other jurisdictions involved, and normal deal considerations and requirements. Cayman Islands vehicles are able to enter into both Cayman Islands and non-Cayman Islands security packages and documentation. All such arrangements will typically be recognised by the Cayman Islands courts, provided they are valid and enforceable under the laws of the relevant non-Cayman Islands legal system(s). As noted above, subscription line facilities secured on investors' capital commitments are particularly prevalent, and the use of NAV-based facilities is also growing in line with broader trends in the fund finance market. The Cayman Islands is also well-suited to deploying bankruptcy-remote structures, and there are well-established methods for implementing such structures across a range of commonly used Cayman Islands entities.

There are no significant issues in relation to fund finance transactions from a Cayman Islands legal perspective. As with any jurisdiction or deal, transaction participants should pay close attention to constitutional and organisational documents at the outset to ensure they are in a suitable form for the type of

borrowing transaction and security package contemplated.

## 2.6 Tax Regime

The Cayman Islands tax system is predominantly based on indirect taxes, with government revenues being derived from the imposition of fees on the financial services industry, customs duties, work permit fees and tourist accommodation charges. Under existing legislation, the government of the Cayman Islands does not impose any form of direct tax on profits, income, gains or appreciations, nor by way of withholding in whole or in part on the payment of dividends or other distributions of income or capital by investment funds established in the Cayman Islands.

The Cayman Islands is not party to any double tax treaties with any country that are applicable to any payments made to or by investment funds established in the Cayman Islands.

The Cayman Islands has for decades had cross-border co-operation agreements with foreign tax authorities and law enforcement agencies. These days, a number of those arrangements are embodied within the OECD Standard for Automatic Exchange of Financial Account Information – Common Reporting Standard (CRS) and the US Foreign Account Tax Compliance Act (FATCA). The Cayman Islands is a signatory to the Multilateral Competent Authority Agreement to implement CRS, pursuant to which it automatically exchanges information with more than 100 revenue authorities across the world annually. The Cayman Islands is party to a Model 1B (ie, non-reciprocal) inter-governmental agreement with the USA (the "Cayman/US IGA"), which governs the exchange of information with the United States in relation to US FATCA.

Cayman Islands regulations are in force to give effect to the Cayman/US IGA and CRS (collectively, the "AEOI Regulations") and all Cayman Islands financial institutions, including investment funds, are required to comply with the registration, due diligence and reporting requirements of the AEOI Regulations. A Cayman Islands financial institution shall be treated as complying with, and not subject to withholding under US FATCA, so long as it complies with its obligations

under the Cayman/US IGA and those contained in the AEOI Regulations.

While the Cayman Islands adds no additional direct tax layer to the structuring of global financial transactions, investee entities as well as investors remain subject to their home jurisdictions' relevant taxes and are responsible for complying with such obligations, and investors should anticipate that the Cayman Islands will routinely and automatically exchange tax information with revenue authorities across the globe.

## 3. Retail Funds

### 3.1 Fund Formation

#### 3.1.1 Fund Structures

The majority of investment funds established in the Cayman Islands are private non-retail funds. Indeed, an exempted company that is not listed on the Cayman Islands Stock Exchange is prohibited from making any invitation to the public in the Cayman Islands to subscribe for any of its securities. Exempted limited partnerships and limited liability companies are prohibited from undertaking business with the public in the Cayman Islands other than so far as may be necessary for the carrying on of their business exterior to the Cayman Islands. Finally, if a trust is registered as an "exempted trust", investors must not – and must not be likely to – include any person who is resident or domiciled in the Cayman Islands (other than exempted and ordinary non-resident Cayman Islands companies or the object of a charitable trust or power).

See **2.3.7 Marketing of Alternative Funds** for a detailed breakdown of persons who are not the "public in the Cayman Islands".

Investors in an exempted trust registered under Part VI of the Trusts Act must not and must not be likely to include any person who is resident or domiciled in the Cayman Islands (other than exempted and ordinary non-resident Cayman Islands companies or the object of a charitable trust or power).

Subject to the above restrictions, certain categories of regulated open-ended mutual funds may be established without a statutory minimum investment

requirement and therefore could be established as retail funds, although they are not common in the Cayman Islands.

A mutual fund is any company, unit trust or partnership (established or registered in the Cayman Islands) that issues equity interests that are redeemable at the option of the investor, the purpose or effect of which is the pooling of investor funds with the aim of spreading investment risks and enabling investors to receive profits or gains from investments. Mutual funds that issue debt are excluded from regulation, even if the bonds or notes are convertible or have warrants attached.

See **2.3.1 Regulatory Regime** for a detailed discussion of the four types of regulated mutual funds in the Cayman Islands.

#### 3.1.2 Common Process for Setting Up Investment Funds

See **3.1.1 Fund Structures**.

#### 3.1.3 Limited Liability

See **3.1.1 Fund Structures**.

#### 3.1.4 Disclosure Requirements

See **3.1.1 Fund Structures**.

### 3.2 Fund Investment

#### 3.2.1 Types of Investors in Retail Funds

See **3.1.1 Fund Structures**.

#### 3.2.2 Legal Structures Used by Fund Managers

See **3.1.1 Fund Structures**.

#### 3.2.3 Restrictions on Investors

See **3.1.1 Fund Structures**.

### 3.3 Regulatory Environment

#### 3.3.1 Regulatory Regime

See **3.1.1 Fund Structures**.

#### 3.3.2 Requirements for Non-Local Service Providers

See **3.1.1 Fund Structures**.

### 3.3.3 Local Regulatory Requirements for Non-Local Managers

See 3.1.1 Fund Structures.

### 3.3.4 Regulatory Approval Process

See 3.1.1 Fund Structures.

### 3.3.5 Rules Concerning Pre-Marketing of Retail Funds

See 3.1.1 Fund Structures.

### 3.3.6 Rules Concerning Marketing of Retail Funds

See 3.1.1 Fund Structures.

### 3.3.7 Marketing of Retail Funds

See 3.1.1 Fund Structures.

### 3.3.8 Marketing Authorisation/Notification Process

See 3.1.1 Fund Structures.

### 3.3.9 Post-Marketing Ongoing Requirements

See 3.1.1 Fund Structures.

### 3.3.10 Investor Protection Rules

See 3.1.1 Fund Structures.

### 3.3.11 Approach of the Regulator

See 3.1.1 Fund Structures.

## 3.4 Operational Requirements

See 3.1.1 Fund Structures.

## 3.5 Fund Finance

See 3.1.1 Fund Structures.

## 3.6 Tax Regime

See 3.1.1 Fund Structures.

## 4. Legal, Regulatory or Tax Changes

### 4.1 Recent Developments and Proposals for Reform

#### BOTA

Reforms were made to the Cayman Islands beneficial ownership regime (BOR), with the enactment of the Beneficial Ownership Transparency Act (As Revised) (BOTA), which came into force on 31 July 2024.

Under the BOTA regime, exempted limited partnerships, companies, LLCs and LLPs are all required to maintain a beneficial ownership register. Non-Cayman Islands entities (including those registered as foreign persons in the Cayman Islands, typically to act as the general partner of an exempted limited partnership) and certain other categories of legal persons (eg, certain charities and not-for-profits) are carved out of BOTA.

For those investment funds registered with CIMA, an “alternate route to compliance” is available by which the fund must supply the contact details of an appropriately licensed or registered service provider within the Cayman Islands that will provide beneficial ownership information to the competent authority on request within 24 hours (or any other time the competent authority may reasonably request). While the “alternate route to compliance” removes the requirement on these funds to formally maintain and continually refresh a beneficial ownership register, the data must still be tracked and monitored to ensure timely compliance with any request that may be made by the authorities.

In an investment fund structure, only the registered fund can take advantage of the alternative route to compliance, so other vehicles such as trading subsidiaries, blocker entities and general partner entities remain in-scope of the obligation to establish and maintain a beneficial ownership register. However, entities that are owned or controlled by another Cayman Islands vehicle are required only to report that Cayman Islands entity as a “reportable legal entity” without the need to report up the chain, on the basis that the parent or controlling entity will be required to comply with its own obligations under the regime. This streamlined approach to reporting may be beneficial for trading subsidiaries or blocker entities beneath the investment fund.

### Potential Future Developments

The government continues to evaluate and respond to the changing requirements of the international regulatory and compliance landscape, as well as the business and commercial needs of those who choose the Cayman Islands for the establishment of their investment funds.

Clarificatory changes to the existing virtual assets regulatory framework were passed recently to help pave the way for tokenisation in investment funds, and further facilitative legislative reform is anticipated in line with recent private-public consultation in the financial services sector.

Regulatory consultation is also ongoing with respect to legislative changes intended to further enhance the functionality and adaptability of exempted limited partnerships and other Cayman Islands entities commonly used in investment fund structures.

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