

Tokenised Funds: The Cayman Islands Cements Position at the Forefront of Financial Innovation

On 4 February 2026, the Cayman Islands Government took a decisive step forward in its commitment to financial services innovation by publishing three legislative bills that establish a comprehensive statutory framework for the tokenisation of interests in regulated investment funds.

The Mutual Funds (Amendment) Bill, 2026, the Private Funds (Amendment) Bill, 2026, and the Virtual Asset (Service Providers) (Amendment) Bill, 2026, collectively represent a landmark moment for the jurisdiction's investment funds industry and signal the Cayman Islands' determination to remain at the vanguard of global financial services regulation.

The Maples Group participated in the industry consultation process and governmental working groups that shaped this legislation. In this article, we provide our perspective on these reforms and their significance for managers, investors, and service providers operating within the Cayman Islands funds ecosystem.

The Case for Legislative Clarity

Tokenisation, the digital representation of an investor's equity or investment interest in a fund using blockchain or distributed ledger technology, has been a growing feature of the Cayman Islands funds landscape in recent years. Tokenised fund structures offer meaningful potential efficiencies in areas including recordkeeping, transfer controls, settlement processes, and investor onboarding, while the underlying legal ownership and investor rights remain unchanged.

However, the absence of express statutory provisions governing tokenised funds created uncertainty for the industry, particularly regarding whether the issuance of digital fund tokens representing an ownership interest could fall within the scope of the Virtual Asset (Service Providers) Act. This ambiguity presented a material challenge for promoters, managers, and their advisers seeking to structure tokenised fund products with confidence.

Following extensive consultation with industry stakeholders and the Cayman Islands Monetary Authority ("CIMA"), the Ministry of Financial Services and Commerce concluded that tokenised funds are most appropriately regulated within the Cayman Islands existing funds framework.

The amendments now before Parliament give effect to this policy position, ensuring that tokenised mutual funds and tokenised private funds remain subject to the Mutual Funds Act and Private Funds Act respectively, thereby preserving the robust investor protection and anti-money laundering oversight for which the jurisdiction is recognised.

The Amendments: What They Introduce

New Definitions and Scope: At the heart of these reforms is the introduction of clear statutory definitions. The Private Funds (Amendment) Bill, 2026 inserts definitions for "digital investment token" and "tokenised private fund" into the Private Funds Act.

A "digital investment token" is defined as a digital representation of the whole of an investment interest held by an investor in a private fund, while a "tokenised private fund" means a private fund that has any of its investment interests represented by digital investment tokens.

Parallel amendments to the Mutual Funds Act introduce corresponding definitions for "digital equity token" and "tokenised mutual fund", ensuring consistency across both the open-ended and closed-ended regulated fund regimes.

Registration Requirements: The bills establish specific registration requirements for tokenised funds. A tokenised private fund that applies for registration must obtain and securely maintain all records relating to the creation, issuance, sale, transfer, and ownership of investment interests represented by digital investment tokens, including any additional information required by CIMA. These records must be made available to CIMA within such period as may be specified. Licensed mutual fund administrators are required to be satisfied that tokenised mutual funds are compliant with the same obligations.

Operational Requirements for Tokenised Funds

The amendments also set out specific operational requirements for tokenised funds.

Annual Confirmation: The operator of a tokenised fund must confirm annually to CIMA that all records relating to the issuance, creation, sale, transfer, and ownership of

investment interest or equity interest represented by a digital token have been properly kept and maintained in compliance with the statutory requirements.

Transfer Restrictions: An investment or equity interest represented by a digital token is only transferable with the approval of the operator of the tokenised private fund in accordance with the offering document. This provision ensures that managers retain appropriate control over investor eligibility and transfer processes and aligns with the existing requirements for investment funds to maintain statutory registers of their investors, addressing a critical compliance consideration in tokenised structures.

Enhanced Risk Disclosure: Tokenised funds must disclose in the offering document any risks specific to the digital tokens, including considerations regarding cybersecurity, transferability, and any other potential risks identified by CIMA. The offering document must also set out how these identified risks are addressed or mitigated for investors.

Regulatory Flexibility: CIMA is empowered to impose specific restrictions on the characteristics of digital investment tokens that represent investment interests and tokenised funds must ensure compliance with any such requirements.

Supervisory Powers

CIMA shall exercise supervisory powers over tokenised funds to ensure compliance with the legislation and the protection of investor interests. Notably, this includes the authority to carry out inspections of the underlying technology and digital token transactions. This represents a significant and proportionate expansion of CIMA's supervisory toolkit, reflecting the unique technological characteristics of tokenised fund structures.

The VASP Act Clarification

The Virtual Asset (Service Providers) (Amendment) Bill, 2026 provides the complementary clarification that the industry has sought. The amendments make clear that the issuance, creation, sale, transfer, or other disposition of tokenised equity or investment interests by regulated mutual funds and private

investment funds does not constitute the issuance of virtual assets under the VASP Act.

Specifically, the definition of "issuance of virtual assets" or "virtual asset issuance" is amended to expressly exclude the issuance of a digital equity token by a tokenised mutual fund in accordance with the Mutual Funds Act or a digital investment token by a tokenised private fund in accordance with the Private Funds Act. This removes any lingering doubt regarding the regulatory perimeter and confirms that fund tokenisation activities remain within the funds regulatory framework rather than triggering duplicative VASP registration requirements.

Importantly, the bill also ensures definitional consistency by providing that "digital equity token", "digital investment token", "tokenised mutual fund", and "tokenised private fund" have the same meanings in the VASP Act as in the respective fund legislation.

Regulatory Certainty: A Competitive Imperative

The Premier and Minister for Financial Services and Commerce, the Hon. André Ebanks, rightly observed that these legislative reforms demonstrate the Cayman Islands' commitment to remaining at the forefront of global financial innovation while maintaining the strong regulatory standards for which the jurisdiction is recognised. By providing clear statutory frameworks for tokenised funds, the amendments ensure that technological advancement can occur within a predictable, transparent, and internationally credible regime.

This regulatory clarity is more than a matter of legal housekeeping; it is a competitive imperative. The jurisdiction now offers a clear regulatory pathway for tokenised funds, one that separates tokenised fund interests from VASP regulation while providing enhanced supervisory oversight tailored to the specific risks of digital asset structures. This approach strengthens investor confidence, supports the resilience of the financial services sector, and enhances the Cayman Islands' competitiveness in an evolving global marketplace.

Opportunities for the Industry

The benefits of tokenised fund structures are increasingly well documented. Tokenisation opens the possibility of enhanced liquidity,

enabling fund interests to be traded directly between approved investors, potentially providing greater liquidity compared to traditional fund structures. Tokenised interests can also be layered into existing fund architectures without disturbing core governance or administrative processes, preserving familiar interfaces for institutional investors while unlocking automation, analytics, and optionality around future liquidity solutions.

Operational efficiencies represent another compelling value proposition. Instant settlement, automated compliance checks, reduction of administrator costs, and disintermediation are all potential longer-term advantages arising from tokenised funds being adopted at scale. For managers these operational efficiencies may open the door to smaller investment tickets that can attract a significantly broader investor base that is currently underserved, benefiting the alternative investments industry as a whole.

The regulatory clarity now provided by these amendments removes any perceived barriers to institutional adoption. The Maples Group has acted for many of the world's largest institutional managers advising on the establishment of tokenised funds on a public blockchain. The pattern being established by leading institutional managers globally; traditional manager and fund administrator, combined with a tokenisation platform agent, qualified investor onboarding and controlled subscription, transfer and redemption processes, is one that the Cayman Islands can now facilitate with clear statutory backing.

Practical Considerations

Managers considering tokenised fund structures should approach the opportunity with appropriate rigour. As made clear by the amendments, all tokenised funds remain fully subject to the existing legal framework for establishing and operating a regulated investment fund in the Cayman Islands.

Tokenised funds present several additional key areas requiring careful attention.

- (1) A tokenised fund's constitutional, offering and subscription documents must align and expressly provide for the use of distributed ledger technology. This includes addressing

the practical requirements for subscription, ownership and transfer of digital tokens. The offering materials should make clear that a digital token represents a security interest in the tokenised fund, subject to all the traditional rights, obligations and restrictions on ownership and transfer applicable to interests in a regulated investment fund. There should be no difference in rights between investors holding the same class of interest, whether that interest is represented in digital token form or evidenced solely by traditional book or ledger entry.

- (2) The official statutory register of members or limited partners will continue to constitute *prima facie* evidence of legal title to a tokenised fund's interests, whether represented by digital tokens or recorded in book entry form. The fund's offering documents should clearly address how and where that statutory register is to be kept and maintained, who will have access to it, and what investor information will be made publicly available—while still complying with investors' personal data privacy rights.
- (3) A tokenised fund's constitutional and offering documents should provide for the use and governance of smart contracts and other automated processes running on blockchain technology. These processes should be reviewed and approved by the fund's service providers. Matters for consideration include automated controls on investor eligibility; approval or whitelisting of investor wallets; permissions for transfer or secondary sale of digital tokens; loss of private keys; redemption mechanics and burning of digital tokens; liquidity mechanics to support 24/7 subscription and redemption terms; allocation of on-chain transaction (gas) fees; business continuity plans for blockchain disruptions such as network halts or hard forks; associated insurance requirements; data protection considerations; and general regulatory

compliance with anti-money laundering and sanctions screening obligations.

- (4) The service provider framework requires careful consideration. While use of blockchain technology by investment funds remains in a nascent phase, engaging leading industry service providers with expertise in this area is crucial to building a reputable tokenised fund. Clear service terms and responsibilities must be documented between the fund and its service providers, setting out roles and responsibilities in areas including reconciliation of digital asset transactions, compliance with record-keeping obligations, governance and use of smart contract functionality, on-chain data privacy and cybersecurity controls, on-chain audit functionality and blockchain analysis, and use of private wallets.

Conclusion

The publication of the Mutual Funds (Amendment) Bill, 2026, the Private Funds (Amendment) Bill, 2026, and the Virtual Asset (Service Providers) (Amendment) Bill, 2026 marks a significant milestone for the Cayman Islands investment funds industry.

These amendments are designed to future-proof the jurisdiction's investment funds regime by accommodating technological developments in a proportionately controlled and supervised manner, strengthening resilience, innovation capacity, and the Cayman Islands position as a leading international financial centre.

For managers, investors, and service providers, this is a significant positive step forward, promising a regulatory framework that provides the certainty and confidence that institutional participants demand. We expect the Bills to be passed into law shortly.

About the Author

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regulation. Patrick regularly advises clients on regulatory aspects of complex transactions, registration and licence applications, and change in control approvals with CIMA. He is recognised by Chambers Global and is an active participant in industry working groups and governmental consultations on draft legislation.

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