

The Cayman Islands has established a dominant position in the field of offshore investment funds, due to its combination of appropriate regulation, professional service provider expertise, high profile among investors and its tax neutral regime.

Overview of Regulation

Investment funds established in the Cayman Islands fall into two broad categories: closed ended funds and open ended funds. Investment funds may be formed as Cayman exempted companies, exempted limited partnerships or unit trusts and depending on their characteristics can be subject to regulation by the Cayman Islands Monetary Authority (CIMA).

Closed ended funds are not defined in the Cayman Islands legislation and are not subject to regulation, although they must have a registered address in the Cayman Islands provided by a regulated entity. If the advisor or manager is a Cayman entity, they will be subject to regulation or exemption under the Securities Investment Business Law (SIBL).

Open ended funds are referred to as 'mutual funds' under the Cayman Islands legislation.

Generally, mutual funds are subject to regulation under Mutual Funds Law (MFL) and Cayman entities acting as manager, advisor or administrator to a mutual fund are also subject to regulation under either the MFL or the SIBL, although advisors and managers commonly fall into an exemption from regulation.

Key Definitions

MUTUAL FUND is a company, unit trust or partnership that issues equity interests, the purpose or effect of which is the pooling of investor funds with the aim of spreading investment risks and enabling investors in the mutual fund to receive profits or gains from the acquisition, holding, management or disposal of investments

EQUITY INTEREST is a share, trust unit or partnership interest that carries an entitlement to participate in the profits or gains of the company, unit trust or partnership and is redeemable or re-purchasable at the option of the investor.

OFFERING DOCUMENT is the document or series of documents on the basis of which equity interests in the mutual fund are offered for sale or persons are invited to subscribe for or purchase equity interests. Section 4(6) of the MFL prescribes that the offering document of a regulated fund describe the equity interests in all material respects and contain such other information as is necessary to enable a prospective investor in the mutual fund to make an informed decision as to whether or not to subscribe for or purchase the equity interests.

Categories of Investment Funds

LICENSED FUND

- Falls under section 4(1)(a) of the MFL and are licensed under section 5.

- May be a retail fund offered generally to the public outside the Cayman Islands with its administrator and/or manager and other key functions outside the Cayman Islands.
- License approvals take 3-6 months from the application submission.

ADMINISTERED FUND

- Falls under section 4(1)(b) of the MFL.
- Must have a Cayman licensed mutual fund administrator providing the principal office for the fund.
- Regulatory supervision responsibility is largely delegated to the administrator.
- Must be registered with CIMA.
- Registration takes 7-12 days from the statutory documents submission.

REGISTERED FUND

- Falls under section 4(3) of the MFL.
- To qualify as the Registered Fund, the mutual fund has to have either:
 - a) a minimum aggregate equity investment of CI\$ 80,000 (US\$ 100,000) which is purchasable by a prospective investor; or
 - b) its equity interests listed on a stock exchange approved by CIMA.
- Registration takes approximately 5 days from the statutory documents submission.

EXEMPTED FUND

- Falls under section 4(4) of the MFL and thereby is exempt from the requirements of the MFL.
- Not more than 15 investors with majority capable to appoint or remove the executives (directors, trustees or general partner) of the fund.
- May be a mutual fund not established in the Cayman Islands, which make an invitation to the public to subscribe for equity interests in the Cayman by or through a licensed entity under SIBL for a regulated activity specified by CIMA for the purposes of the exemption and which interests are either listed on an approved stock exchange or are regulated by a non-Cayman regulator approved by CIMA for the purposes of the exemption.

Audit Requirements

All Cayman Islands regulated funds (that is all Licensed, Administered and Registered Funds) must submit annual accounts to CIMA which have been audited and which audit has been signed off by a Cayman Islands based auditor within 6 months of the end of the fund's financial year.