



Cayman Islands

FUND LEGISLATION

Mutual Funds Law (as amended) and the Mutual Funds (Amendment) Law, 2011 (together, the "MFL") and the Securities Investment Business Law (2011 Revision, the "SIBL").

NUMBER OF FUNDS

As at 31 March 2012

Registered.....	8,615
Master Funds	837
Administered.....	419
Licensed.....	119

Only open ended funds are required to be registered or recognised under the MFL. No statistics are available for other types of funds.

There is currently no distinction in the licensing process between directly invested hedge funds and funds of hedge funds and so no official figures exist for the break down.

DOMICILED AND ADMINISTERED FUND ASSETS TOTAL

No figures currently available.

DOMICILED AND ADMINISTERED FUND ASSETS BY CATEGORY

No figures currently available.

REGULATOR

Cayman Islands Monetary Authority ("CIMA"), Investments and Securities Division. Contact Details:

E-mail: ContactInvestments@cimoney.com.ky

Phone: +1-345-244-1581

Fax: +1-345-949-2532

SERVICE PROVIDERS

Law Firms: please see www.judicial.ky/home/judicial-administration/law-firms-judicial-admin for up to date information on law firms operating in Cayman.

Administrators:.....127 as at 31 March 2012
 Issued SIBL Licences (required for broker/dealers, securities (investment) managers, securities (investment) advisors, securities arrangers and market makers unless classified as an excluded person under the SIBL).....31 as at 31 March 2012, broken down as follows (noting that an entity may have been issued a SIBL license with respect to one or more regulated activities):

Broker/dealers:.....	16
Securities (investment) managers.....	19
Securities (investment) advisors.....	19
Securities arrangers.....	10
Market makers	3

Entities registered as excluded persons under the SIBL1,860 as at 31 March 2012
 Trust Companies.....148 as at 31 March 2012
 Companies Management Licensees (may include custodians).....191 as at 31 March 2012
 Bank & Trust License Holders (may include custodians).....233 as at 31 March 2012

LOCAL STOCK EXCHANGE

The Cayman Islands Stock Exchange (the "CSX").

LOCAL FUND INDUSTRY BODY

AIMA Cayman

PROMOTION AGENCY FOR FUNDS/FINANCIAL SECTOR

- Cayman Islands Government
- CIMA
- AIMA Cayman

DOUBLE TAXATION TREATIES

Not applicable.

TAX INFORMATION EXCHANGE AGREEMENTS

Mexico; Canada; Germany; Portugal; Aruba; Australia; Netherlands Antillies; France; New Zealand; Netherlands; Ireland; Denmark; Faroes; Finland; Greenland; Iceland; Norway; Sweden; and United States.

TYPES OF ALTERNATIVE FUND VEHICLE

Invariably either exempted companies, exempted limited partnerships or exempted unit trusts which may be structured as single investor, stand-alone, master-feeder, umbrella, open-ended or closed-ended funds with free range on strategy and no statutory or regulatory investment restrictions.

AVAILABLE TYPES OF CORPORATE VEHICLE

- An exempted company, including: segregated portfolio companies ("SPCs"); and limited duration companies, all of which may be limited by shares or guarantee or both.
- An ordinary non-resident company which may be limited by shares or guarantee or both.
- An ordinary company which may be limited by shares or guarantee or both.

TYPES OF REGULATORY FUND CATEGORY

- Licensed Fund (s4(1)(a) MFL);
- Administered Fund (s4(1)(b) MFL);
- Registered Fund (s4(3)(a)(i) MFL);
- Master Fund (s4(3)(a)(iii) MFL)¹; and
- Exempt Fund (s4(4) MFL)².

AUDIT REQUIREMENT

Local audit required for all licensed funds, administered funds and registered funds, licensed administrators and licensed managers.

FINANCIAL STATEMENT REQUIREMENTS

All licensed funds, administered funds and registered funds must submit a fund annual return and audited financial statements to CIMA within 6 months of each financial year end. CIMA have no restrictions on the type of accounting standards chosen by funds provided they are in accordance with those specified in the offering documents of the fund and that CIMA is aware at all times of the accounting standards in use. However, CIMA has published guidelines on the authorisation of auditors which require Partners signing off on audit engagements, or any member of the firm with authority to sign off the audit, to possess an internationally recognised accounting qualification. For the purposes of this policy, the following are considered internationally recognised accounting bodies: The Institute of Chartered Accountants in England and Wales, The Institute of Chartered Accountants in Ireland, The Institute of Chartered Accountants of Scotland, The Canadian Institute of Chartered Accountants, The Association of Chartered Certified Accountants, The American Institute of Certified Public Accountants, or any other Professional Body or Institute approved by CIMA. In practice therefore, financial statements are generally prepared in accordance with IFRS, US, UK or Canadian GAAP.

COST OF REGULATORY FEES

Licensed Fund.....	US\$3,660 per annum ³
Administered Fund.....	US\$3,660 per annum ⁴
Registered Fund.....	US\$3,660 per annum ⁵
Master Fund.....	US\$3,000 per annum ⁶

OVERALL COST OF REGULATED FUND ESTABLISHMENT⁷

Exempted Company (not established as an SPC).....	US\$6,912 ⁸
Exempted Company Master Fund.....	US\$6,252 ⁹
Exempted Company (established as an SPC)...	US\$7,826 ¹⁰
Exempted Limited Partnership.....	US\$7,332 ¹¹
Exempted Limited Partnership Master Fund.....	US\$6,672 ¹²
Unit Trust.....	US\$5,490 ¹³

REGULATORY APPROVAL TIME

Licensed Fund.....	4 – 6 weeks
Administered Fund.....	5 days
Registered Fund.....	5 days
Master Fund.....	5 days

OVERALL ESTABLISHMENT TIME

Licensed Fund..... typically at least two months
Administered Fund..... typically at least two weeks
Registered Fund..... typically at least two weeks
Master Fund..... typically at least two weeks running concurrently with the establishment of the feeder fund(s)

1. A Master fund is required to be registered with CIMA if it has one or more CIMA regulated feeder funds (being a CIMA regulated mutual fund that conducts more than 51% of its investing through another mutual fund).
2. An Exempted Fund is a category of fund provided for in the MFL which is not required to register with CIMA and as such is unregulated.
3. For Cayman SPCs there is an additional regulatory fee of US\$305 per segregated portfolio ("SP") up to a maximum of US\$7622 (25 SPs).
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7. Government disbursement costs only. Legal fees, legal disbursements and registered office fees will be a matter of negotiation with the service provider(s) concerned.
8. Includes a government tax undertaking costing US\$1830 and assumes a share capital of US\$50,000 with an express incorporation costing an additional US\$500.
9. Includes a government tax undertaking costing US\$1830 and assumes a share capital of US\$50,000 with an express incorporation costing an additional US\$500.
10. Includes a government tax undertaking costing US\$1830 and assumes a share capital of US\$50,000 with an express incorporation costing an additional US\$500 and one initial segregated portfolio.
11. Includes a government tax undertaking costing US\$1830 and assumes an express registration costing an additional US\$500.
12. Includes a government tax undertaking costing US\$1830 and assumes an express registration costing an additional US\$500.
13. Includes a government tax undertaking costing US\$1830.

The Cayman Islands

By Marco Martins and Patrick Colegrave, Harneys

The Cayman Islands is the leading jurisdiction for the formation of alternative investment funds, having approximately 9,990 registered, administered and licensed funds under the Mutual Funds Law (as amended) of the Cayman Islands (the "MFL") as at 31 March 2012.

The MFL requires all investment funds falling within its definition of a "mutual fund" to be registered, administered or licensed with CIMA, unless such mutual fund is an "excluded fund", being a mutual fund that is not a master fund domiciled in the Cayman Islands and having 15 or less investors, the majority in number whom can appoint and remove the fund directors, general partner(s) and trustee(s). The MFL restricts the definition of "mutual fund" to open-ended funds that entitle investors to redeem or repurchase their equity interests at their option. Accordingly, only such funds are regulated under the MFL. Closed ended funds are not subject to specific regulation although Cayman Islands established or registered managers and other Cayman Islands established or registered functionaries of closed ended funds may in many circumstances require a license issued by CIMA under the relevant Cayman Islands legislation. For the purposes of this article, mutual funds will refer generically to investment funds when used in the context of the MFL and unless the context otherwise requires.

The Securities Investment Business Law (as amended) of the Cayman Islands (the "SIBL") requires any person, as defined in the SIBL, carrying on or purporting to carry on "investment business" to hold a licence granted under the SIBL, unless such person is exempt from holding such a licence. The activities constituting investment business include dealing in securities, arranging deals in securities, managing securities and advising on securities, encompassing broker / dealers, investment managers, investment advisors, securities arrangers and market makers. SIBL provides an exemption from licensing where the foregoing qualify as "excluded persons" under the fourth schedule of the SIBL. In addition to SIBL, certain fund service providers may be required to hold a licence under the Companies Management Law (as amended) and the Banks and Trust Companies Law (as amended) of the Cayman Islands. Unless acting with, and in accordance with, the authorisation of CIMA, mutual fund administrators established or registered in the Cayman Islands are required to be licensed under the MFL. It is important to note, however, that non-Cayman Islands functionaries

of a Cayman Islands domiciled investment fund carrying on business from outside the Cayman Islands will not generally be required to hold any of the abovementioned licences. In addition, barring certain audit and registered office / resident agent requirements, a Cayman Islands domiciled fund is not required to have any service providers resident in the Cayman Islands.

Fund vehicles

Sponsors and fund managers considering setting up investment funds in the Cayman Islands may choose from the following range of possible vehicles:

- Exempted company (includes a segregated portfolio company and a limited duration company);
- Ordinary non-resident company;
- Exempted limited partnership; and
- Exempted unit trust.

In practice, Cayman Islands investment funds are typically established as exempted companies limited by shares under the Companies Law (as amended) of the Cayman Islands, exempted limited partnerships under the Exempted Limited Partnership Law (as amended) of the Cayman Islands or as exempted unit trusts registered as such under the Trusts Law (as amended) of the Cayman Islands.

Categories of fund

Mutual funds fall into 5 categories under the MFL (note the MFL does not cover closed-ended investment funds i.e. investment funds where investors have no voluntary redemption rights):

- Licensed Mutual Funds - regulated by CIMA, no minimum investment requirement. Mutual funds holding a Mutual Funds Licence under Section 4(1) of the MFL. All mutual funds are required to be licensed unless registered with CIMA in accordance with Section 4(3) of the MFL or exempted under Section 4(4) of the MFL or a licensed mutual fund administrator is providing principal office services to the mutual fund in the Cayman Islands in accordance with section 4(1)(b) of the MFL (such mutual fund being an "Administered Mutual Fund");
- Administered Mutual Funds - regulated by CIMA, no minimum investment requirement. Mutual funds, the principal office of which is provided by a CIMA-licensed mutual fund administrator in the Cayman Islands;

- Registered Mutual Funds – regulated by CIMA, if listed on a CIMA-recognised stock exchange no minimum investment requirement. Mutual funds registered under Section 4(3)(i) or (ii) of the MFL, being mutual funds in which the minimum aggregate interest purchasable by a prospective investor is US\$100,000 (or its equivalent in any other currency, such amount referring to the initial investment made by a prospective investor) or the equity interests are listed on a CIMA-recognised stock exchange;
- Registered Master Funds – regulated by CIMA, the minimum investment requirement is the same as a Registered Mutual fund. Mutual funds registered in accordance with Section 4(3)(iii) of the MFL, being mutual funds incorporated or established in the Cayman Islands that hold investments and conduct trading activities and have one or more feeder funds regulated by CIMA; and
- Exempted Mutual Funds – not regulated by CIMA. Mutual funds that are exempt from licensing or registration under Section 4(4) of the MFL, being mutual funds that are not master funds and which have 15 or less investors, the majority in number of which can remove the directors, general partner(s) or trustee(s) of such mutual funds.

The vast majority of mutual funds regulated by CIMA are registered mutual funds or registered master funds. Requirements for registration include filing an offering document along with the prescribed registration form, incorporation / registration certificate, auditor and administrator consent letters and prescribed fee with CIMA. Mutual funds must be registered with CIMA before they commence business. Provided all requirements for registration are met, the registration of a mutual fund is dated the date that the application for registration is submitted to CIMA.

Functionaries / Service providers

There are no pre-approval procedures required for the appointment of functionaries to regulated mutual funds, provided such functionaries are properly registered or licensed in the Cayman Islands, where required. A regulated mutual fund must have a registered office in the Cayman Islands.

The MFL requires that a person causing the preparation or distribution of the offering document of a licensed mutual fund (the “Promoter”) is of sound reputation. In addition, administration of a licensed mutual fund must be undertaken by persons with sufficient experience in fund administration with directors, managers or officers, as the case may be, who are fit and proper to be in their respective positions. CIMA also requires disclosure of the licensed mutual fund’s investment advisor / manager, auditor, administrator,

custodian and any sub-custodian, prime broker, legal advisers and any other persons having significant involvement in the affairs of the licensed mutual fund in the offering document of the licensed mutual fund.

An administered mutual fund is required to have a CIMA licensed administrator authorised to provide principal office services to the administered mutual fund within the Cayman Islands. The administrator must satisfy itself as to the sound reputation of the Promoter, as to the sound reputation and expertise of the person undertaking the administration of the administered mutual fund and that the business of the administered mutual fund and any offering of equity interests will be carried out in a proper way.

If established as an exempted limited partnership, at least one general partner must be resident in the Cayman Islands (either physically or by virtue of incorporation or registration). Local audit sign-off of annual financial statements is required for all regulated mutual funds.

As a matter of policy, CIMA requires that regulated mutual funds established as corporates have at least two directors, neither of which need to be resident in the Cayman Islands nor independent. Note however that given market practice it is typical to find independent directors sitting on the boards of such mutual funds and there is a well established and experienced independent director services industry in the Cayman Islands. Corporate directors are permissible, provided that they themselves have a board made up of at least two individual directors.

Regulated mutual funds are required to have an administrator but such administrator does not need to be resident in the Cayman Islands nor independent of the fund or other service providers, although market practice is trending towards independence of the administrator. For purposes of compliance with anti-money laundering Regulations (as defined below), if the AML obligations of a mutual fund are to be outsourced to an administrator, as they typically are, such administrator must be located in one of the listed Schedule 3 Jurisdictions.

There are no statutory or regulatory requirements for regulated funds to have a prime broker or custodian, however this may be implied in the case of licensed mutual funds by virtue of the disclosure requirements for the offering document and in the case of other regulated mutual funds, lack of a prime broker or custodian may well raise queries from CIMA.

Aside from any requirement for the provision of principal office services, the need for a registered office, a resident general partner (if applicable) and local audit sign-off on annual financial statements, there is no requirement for regulated mutual funds to have local service providers.

No restrictions on strategy, leverage or valuation

There are no restrictions on the strategy a fund may pursue, provided it is not otherwise in breach of the laws of the Cayman Islands. There are no limits on the leverage taken by funds or any required investment restrictions. There are currently no rules imposed on funds as to how they value their assets.

Financial statements audit and annual return

All regulated mutual funds are required to prepare annual financial statements, such financial statements to be subject to local audit sign-off by an auditor approved by CIMA. Audited financial statements must be filed with CIMA within 6 months of the financial year end of a regulated mutual fund (unless an extension is granted by CIMA) and are filed electronically, accompanied by an annual return.

CIMA have no restrictions on the type of accounting standards chosen by funds provided they are in accordance with those specified in the offering documents of the fund and that CIMA is aware at all times of the accounting standards in use. However, CIMA has published guidelines on the authorisation of auditors which require Partners signing off on audit engagements, or any member of the firm with authority to sign off the audit, to possess an internationally recognised accounting qualification. For the purposes of this policy, the following are considered internationally recognised accounting bodies: The Institute of Chartered Accountants in England and Wales, The Institute of Chartered Accountants in Ireland, The Institute of Chartered Accountants of Scotland, The Canadian Institute of Chartered Accountants, The Association of Chartered Certified Accountants, The American Institute of Certified Public Accountants, or any other Professional Body or Institute approved by CIMA. In practice therefore, financial statements are generally prepared in accordance with IFRS, US, UK or Canadian GAAP or such other financial standards as may be approved by CIMA on a case by case basis.

The annual return contains basic prudential and governance information and summary financial information. The annual return does not require any information on the identity of investors or the specific investments within a regulated mutual fund's portfolio. Such information is confidential to CIMA and may only be publically disclosed on an aggregated basis. Filing is typically done by the auditor.

Fund documentation

All regulated mutual funds are required to have an offering document. Aside from licensed mutual funds, there are no stipulated contents for offering documents except that such offering documents must 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.

If established as an exempted company, exempted limited partnership or exempted unit trust, no offering may be made to the public in the Cayman Islands unless the securities of such entity are listed on the Cayman Stock Exchange. The prevailing view is that an exempted company, exempted limited partnership or exempted unit trust may invest in another exempted company, exempted limited partnership or exempted unit trust provided that such entity mainly conducts its business in the Cayman Islands, does not have its central management and control in the Cayman Islands and is not owned by Cayman Islands' residents.

Directors / Registered office

As mentioned previously, CIMA requires that every regulated mutual fund established as a corporate have at least two directors. Corporate directors are permitted, provided that they themselves have at least two individual directors. There are no requirements for local directors. Every entity domiciled in the Cayman Islands or a foreign company registered in the Cayman Islands must have a registered office or resident agent in the Cayman Islands.

Ongoing requirements

Regulated mutual funds are subject to a reasonable number of requirements to notify CIMA after the occurrence of certain events such as appointment and resignation of directors and functionaries and changes to the offering document and to file either a revised offering document or a supplement thereto and, where appropriate, an amended and restated regulatory filing form with CIMA.

Manager's and administrator's licenses

Investment managers are required to hold a licence granted under the SIBL, unless such persons are exempt from holding such a licence. Investment managers managing investment funds open to investment by high net worth or sophisticated persons only or to other investment funds which themselves are open to investment by high net worth or sophisticated persons only are exempt from having to hold a license granted under the SIBL, but do have to make an annual filing with CIMA along with a prescribed annual fee.

Unless acting with, and in accordance with, the authorisation of CIMA, mutual fund administrators established or registered in the Cayman Islands are required to be licensed under the MFL.

AML

All Cayman Islands investment funds, managers and administrators must comply with the anti-money laundering regulations of the Cayman Islands as set out in the Proceeds of Crime Law (as amended) of the Cayman Islands and the Money Laundering Regulations (as amended) of the Cayman Islands (together the "Regulations").

In the context of investment funds, compliance with the Regulations is the ultimate responsibility of the investment fund and the investment fund's directors (or the general partner if the investment fund is an exempted limited partnership or the trustee if the investment fund is a trust). This includes designating an employee at managerial level to be a compliance officer, having in place procedures for identifying and reporting suspicious activity and identifying an appropriate person to receive internal suspicion reports. However, investment funds

commonly outsource their anti-money laundering obligations under the Regulations to their administrators who are then required to comply with the anti-money laundering rules of their home jurisdictions.

Tax

There are no taxes in the nature of income tax, corporation tax, capital gains tax nor inheritance tax payable in the Cayman Islands.

Exempted companies, exempted unit trusts and exempted limited partnerships may apply for an undertaking from the Governor of the Cayman Islands that they will be exempt from local tax (should any be introduced) for up to 20 years (in the case of exempted companies) and for up to 50 years (in the case of exempted unit trusts and exempted limited partnerships). ■