



Swiss External Asset Managers: Why to Consider a Cayman Fund?

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1. What are the Cayman Islands regulatory requirements for investment funds?
2. What service providers are required for an investment fund in the Cayman Islands?

- **Cayman Islands offer flexible regulation based on circumstances and investor market;**
- **Cayman funds can utilize Swiss banks as custodians;**
- **Cayman Islands is a tax neutral jurisdiction: no direct tax at the fund and investor level;**
- **Cayman Islands offer political and economic stability, reputable service providers, adherence to AML standards set by FATF;**
- **Cayman regulator is accessible, flexible, innovative and efficient.**

Answers to the 5 most frequently asked questions

1. What are the Cayman Islands regulatory requirements for investment funds?

Cayman Islands is one of the world's leading offshore jurisdictions and is particularly renowned for the establishment of investment funds, home of 70% of world's offshore investment funds. The Cayman Islands Monetary Authority ("CIMA") supervises and regulates investment funds. Investment funds established in the Cayman Islands fall into two categories: open-ended funds and closed-ended funds.

There are four types of regulated funds: Licensed fund, administered funds (both are retail investor funds), registered mutual funds and limited investor mutual funds.

Registered mutual funds is the most common category. Approximately 69% of mutual funds registered with CIMA are registered funds. Registered mutual funds are exempt from the licensing if (a) a minimum initial subscription amount is not less than USD 100,000 or (b) its equity interests are listed on a stock exchange recognized by CIMA. Master funds are sub-category of registered funds. Approximately 27% of Cayman mutual funds registered with CIMA are master funds.

Limited investor mutual funds are funds with a maximum of 15 investors. They are exempt from the licensing requirement and have to be registered with CIMA. A majority of such investors have to be capable to appoint or remove the operator of the fund. There is no minimum subscription amount. A limited investor fund is not prescribed to have or file an offering document.

Closed-ended investment funds (i.e. private funds) are regulated and supervised by CIMA. The investors do not have control over the investment activities and the investments are managed by the operator. The investment interests are not redeemable at the option of the investor.

The three vehicles are commonly used for the operation of mutual and private funds:

- **exempted company:** the most popular form of an open-ended fund. It can be registered as an exempted segregated portfolio company. It needs one shareholder and has no minimum capital requirements;
- **unit trust and**
- **exempted limited partnership:** the most popular form of a closed-ended funds, such as private equity or real estate funds. It has at least one general partner which is based in Cayman.

2. What service providers are required for an investment fund in the Cayman Islands?

There are no provisions in the Cayman Islands regulations calling for local administrator, custodian, manager or directors as the legislation recognizes that most service providers are already licensed in their home jurisdictions. There is no requirement that an investment manager is appointed or the appointed investment manager is based in the Cayman Islands. In case of a Cayman based investment manager, it has to be fully licensed or must register as a registered person. Swiss banks can be utilized as custodians.

In case of a private fund, a custodian is required to be appointed, unless it is neither practical nor proportionate to do so (having in mind the nature of the fund and type of assets it holds).

Both mutual and private funds are obligated to appoint an auditor. Each investment fund has to file



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audited accounts within six months of its financial year end. In addition they have to file a fund annual return with CIMA together with its audited accounts.

Mutual funds have an obligation to have at least two directors. This requirement does not apply to private funds. Directors of mutual funds must register with or obtain a license from CIMA.

3. What is the tax regime in the Cayman Islands?

The Cayman Islands has no direct taxes of any kind. There are no corporate, capital gains, income, profits or withholding tax. Investment funds, both mutual funds and private funds, in general do not have to comply with the economic substance requirements. Investment managers must satisfy the economic substance test.

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3. What is the tax regime in the Cayman Islands?
4. How can Cayman Funds be marketed in EU and Switzerland?
5. How are Crypto funds in Cayman Islands structured?

4. How can Cayman Investment Funds be marketed in EU and Switzerland?

If a foreign fund is offered to qualified investors (professional and institutional investors) in Switzerland, such fund does not have to be approved by FINMA. In addition, when offering a Cayman fund in Switzerland to qualified investors, except for high-net-worth-individuals, there is no requirement to appoint a Swiss representative or a Swiss paying agent. Such offers do not trigger any publishing requirements for prospectuses. However, a Swiss representative and a Swiss paying agent are required when a foreign fund is offered to high-net-worth individuals who wish to be considered qualified investors (opt out).

Offering of foreign funds may qualify as a financial service, therefore, client advisors of a financial service provider may have to register with a Swiss register of advisers.

If such foreign fund is distributed in the EU by a non-EU investment manager, AIFMD rules apply and a "EU passport" is required, which entails establishing presence in the EU.

5. How are Crypto funds in the Cayman Islands structured?

The most common structures for Cryptocurrency in the Cayman Islands are open-ended exempted company and closed-ended exempted limited partnership depending on an investment strategy. The first structure is more common for managers who focus on trading in Cryptocurrencies. These strategies are more liquid in nature and investors are able to redeem their investment at their own initiative. This structure is similar to a traditional hedge fund. Such fund has to be registered, have at least two directors who are also CIMA registered.

Closed-end exempted limited partnership structure is common for managers who focus on illiquid strategies, such as a long term investment in Blockchain startups or projects. These type of funds are similar to private equity or venture capitalist fund.

Managers with an experience in the digital asset space prefer to self custody rather than appoint a third party custodian.