

# Cayman Islands: Regulatory clarification for Tokenised Funds

**Briefing Summary:** The Cayman Islands has updated its investment funds regulatory framework to clarify the treatment of tokenised fund structures and introduce a dedicated regime for their oversight by CIMA. The amendments remove uncertainty around the application of virtual asset legislation and introduce new registration, disclosure, transfer control and record keeping obligations for these funds. These developments reinforce the Cayman Islands' position as a leading jurisdiction for innovative and compliant fund structures.

**Service Area:** Investment Funds, Regulatory

**Sector:** Blockchain, Digital Assets and Tokenisation

**Location:** Cayman Islands

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The Cayman Islands has amended its regulatory framework for both open and closed-ended investment funds to clarify the status of funds issuing digital representations of investment interests ("**Fund Tokens**") to their investors ("**Tokenised Funds**").

The changes will apply to all Tokenised Funds regulated by the Cayman Islands Monetary Authority ("**CIMA**") and have been implemented through amendments to the Mutual Funds Act (as revised) ("**MF Act**"), the Private Funds Act (as revised) ("**PF Act**") and the Virtual Asset (Service Providers) Act (as revised) ("**VASP Act**").

The key effects of the amendments are:

- Clarification that issuances of Fund Tokens by Tokenised Funds regulated under the MF Act and the PF Act are not "virtual asset issuances" under the VASP Act, so CIMA's approval under the VASP Act is not required.
- A new regime for funds to register with CIMA as Tokenised Funds in connection with their licensing or registration under the MF Act or the PF Act.
- Fund Tokens must only be transferable with the consent of the Tokenised Fund's operator (i.e. its directors, general partner or trustee, as applicable).
- Tokenised Funds must make specific risk disclosures to investors in their offering materials in respect of their Fund Tokens and set out how such risks will be addressed or mitigated.

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- A Tokenised Fund's operator (i.e. its directors, general partner or trustee, as applicable) must obtain and securely maintain, all records relating to the issuance, creation, sale, transfer and ownership of its Fund Tokens (which must be made available to CIMA upon request) and must confirm annually to CIMA that such records are being properly maintained.
- CIMA has power to impose restrictions on the characteristics of a Tokenised Fund's Fund Tokens and to inspect the underlying technology and transactions in the Fund Tokens.

The legislative developments represent welcome clarification that the VASP Act is not intended to apply to the issuance of Fund Tokens and demonstrates the commitment of the Cayman Islands to maintaining its status as the leading offshore jurisdiction for alternative investment fund structures.

To discuss further, please reach out to a member of the Carey Olsen team.

## FAQs

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What changes has the Cayman Islands made to its regulatory framework for tokenised investment funds?

The Cayman Islands has amended the Mutual Funds Act, Private Funds Act and Virtual Asset (Service Providers) Act to clarify how tokenised fund structures are regulated. The updates introduce a new registration regime, enhanced disclosures and stronger oversight mechanisms for funds issuing digital investment interests.

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Do tokenised investment funds need approval under the Cayman Islands VASP Act?

No. The amendments confirm that the issuance of digital investment interests by regulated funds does **not** constitute a "virtual asset issuance" under the VASP Act, meaning separate approval under that legislation is not required.

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What new obligations apply to operators of tokenised funds in the Cayman Islands?

Operators must now maintain detailed records relating to the creation, sale, transfer and ownership of digital investment interests, make these available to CIMA on request and confirm annually that records are being properly maintained.

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Are there new disclosure requirements for tokenised funds?

Yes. Tokenised funds must include specific risk disclosures in their offering materials, outlining the technological, operational and regulatory risks associated with digitalised investment interests and describing how these risks will be mitigated.

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How do these regulatory updates impact the Cayman Islands' position as a fund jurisdiction?

The changes provide clarity and legal certainty for tokenised fund structures, reinforcing the Cayman Islands' position as a leading offshore jurisdiction for innovative and alternative investment fund solutions.

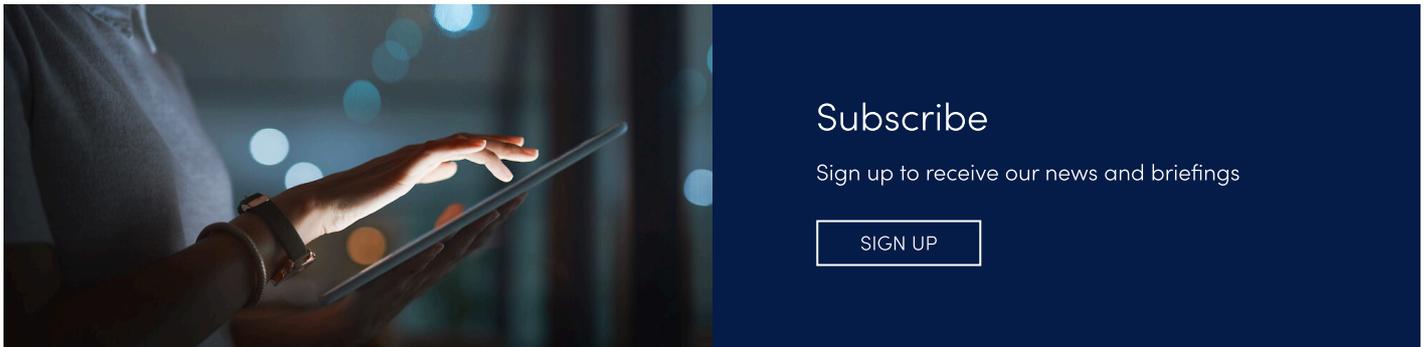
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