

## Planning for liquidity – using Cayman Islands private wealth structures for pre-IPO and exit events

Service area / [Trusts and Private Wealth](#)

Legal jurisdiction / [Cayman Islands](#)

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The recent boom of activity in global capital markets and in particular the rise in the use of special purpose acquisition companies (SPACs) in connection with initial public offerings (IPOs) has led to an increase in thorough pre-planning for those expecting a healthy exit or liquidity event in the near future. In this context, Cayman Islands (Cayman) trusts and private wealth (TPW) structures, which are already widely used in cross-border wealth structuring, are now an increasingly popular choice for those looking ahead to protect these significant investment gains in a tax efficient asset protection vehicle.

### Common scenarios

Anticipating impressive returns on their investments ahead of a business merger, acquisition, IPO, or other exit, many founders, tech companies, and those in the venture capital (VC) and crypto space are prioritising the establishment of new structures in order to ensure that hard-earned wealth is sufficiently protected for the future. Reflecting this, Cayman TPW structures are now being used in a variety of innovative ways. Examples include the establishment of:

- Discretionary trusts or STAR trusts to hold shares in private companies planning to go public in the US and Asia
- Cayman STAR trusts to hold shares in offshore companies in connection with what are known as “de-SPAC” transactions following a listing and ahead of a merger
- Discretionary trusts and new holding companies to “warehouse” shares, ahead of business sales or private capital raises

- Trusts or companies to hold carried interest in connection with late stage VC exits
- Trusts to hold digital assets and crypto for long term asset protection and security
- Foundation companies to facilitate private token sales in the crypto space
- Trusts or holding companies to receive assets decanted from US trusts following renunciation of US citizenship and relocation to Cayman

In addition to the formation of new structures ahead of liquidity events, private clients are also seeking assistance with complex restructuring exercises as and when their needs change (either in the course of the exit process or afterwards). By way of example, founders may find that an existing TPW structure established to facilitate an IPO may become unsuitable on account of the proposed listing jurisdiction being changed (for example, from the US to Asia). Or, subsequent to the IPO, founders may wish to transform their structures from pure asset protection structures into structures that more clearly prescribe the succession of their wealth to the next generation.

### Potential benefits

Typically, in the context of a pre-IPO/liquidity event structuring exercise, a settlor will establish a trust over their ownership or equity in a business or company such that, in the event of a sale of their interest, the proceeds will be received directly by

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the trustees of the trust in a tax efficient manner. On receipt of those funds into the trust, the trustee will manage the trust assets pursuant to the terms of the trust deed and with the best interests of the beneficiaries of the trust (who will likely include the settlor and his or her family members) front of mind.

Aside from any tax advantages that might arise from the use of a Cayman TPW structure, the benefits to a settlor and his or her family of using these structures to hold their wealth include some or all of the following:

- Robust asset protection
- Promotion of succession planning for future generations of the family
- Avoidance of the need to apply for a grant of probate on the settlor's death, as the assets would no longer form part of the settlor's estate once transferred to the Cayman TPW structure
- Provision for the settlor's assets to pass in line with their wishes, rather than pursuant to any forced heirship regimes that might exist in the settlor's home country
- Minimisation of jurisdictional risk which might be present if the settlor or the company are located in an area suffering from legal or political instability or uncertainty
- Preservation of privacy and confidentiality given that trusts are generally established by a private document which does not need to be registered with any public body in Cayman

In addition, where a licensed professional Cayman fiduciary services provider is engaged to administer the structure, a settlor will have peace of mind that the assets will be managed and administered by experienced professionals with close regard to the settlor's wishes.

For further details of Cayman trusts and their uses and benefits generally, please see our guide [here](#).

## Early planning

For those contemplating an exit or liquidity event, it is critical that tax and legal advice is obtained from both home and target jurisdictions in early course, to ensure that any window of opportunity to undertake effective pre-planning is not missed. Experienced service providers in Cayman, including Carey Olsen, regularly work closely with founders and their onshore tax and other advisors, and can slot in seamlessly at any stage of the process to ensure that the Cayman TPW structures being used offer the maximum benefits possible to all involved.



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