



Cayman Islands – Some Questions Answered

There is a great deal of misinformation circulating about the Cayman Islands at present. Sophisticated users of the jurisdiction understand it as an appropriately regulated, tax-neutral centre, enabling efficient deployment of international capital. However, politicians will point the finger at anyone but themselves to blame for economic woes and opportunists look to attack its position as the world's leading centre for hedge funds and other private funds. In order to ensure that funds and their advisors are making choices predicated on facts, we thought it may be helpful to clarify a few things which may have become blurred:

Q. Did the Cayman Islands require a bail-out from the UK government?

A. The Cayman Islands remains financially independent, and still has no income tax, capital gains tax, inheritance tax or sales tax. It has not received any form of financial support from the United Kingdom or anywhere else, and does not require any such help. It has a Triple-A credit rating.

Q. Where are the Cayman Islands in terms of the OECD and tax transparency?

A. The Cayman Islands is on the White List for OECD tax transparency purposes. It is in the same position as the United States and the United Kingdom, amongst others.

Q. Which banks failed or required government intervention during recent events?

A. The Cayman Islands did not have a single banking failure at any point during the recent financial turmoil despite being the fifth largest banking centre in the world. No government intervention of any sort was required.

Q. Has there been a property collapse in the Cayman Islands?

A. No. Prices have remained stable in the Cayman Islands over recent years.

Q. Have there been any other fiscal issues in the Cayman Islands?

A. No. The currency is pegged to the US Dollar and is stable. There is a newly-elected pro-business government. The Islands remain a stable British Dependency.

Q. Are the Cayman Islands an unregulated jurisdiction?

A. The Cayman Islands has a great deal of regulation imposed on its funds, very similar to that in many other major funds jurisdictions, including those inside the EU. For example:

- Every fund is required to register in the Cayman Islands and file its offering document, including full details of its directors, with the Cayman Islands Monetary Authority (which is a full member of IOSCO);
- Full details of the investment strategy and restrictions, and any other matter affecting an investor's decision whether to invest must be set out in the offering document, and the fund must abide by them;
- Every fund is required to have an annual audit by a firm approved by the Monetary Authority;
- The Monetary Authority must be notified promptly of any changes;
- All the Cayman Islands administrators and providers of Directors are regulated by the Monetary Authority;
- The Monetary Authority has extensive powers to intervene should it believe a fund to be in difficulty or being run inappropriately; and
- Administrators of Cayman Islands funds can be located anywhere allowing funds to take advantage of industry-leading companies.

Q. Are there more highly regulated fund types in the Cayman Islands?

A. Yes. Most funds are set up as Section 4(3) funds. This is regarded generally as an appropriate vehicle for funds offered to sophisticated investors. However there are alternatives:

- A Licensed Mutual Fund, where the Monetary Authority is satisfied as to the reputation of the promoter, the expertise of the administrator, the directors being fit and proper persons and the fact that the business of the fund will be operated in a proper way; and
- A Regulated Fund where a licensed mutual fund administrator is providing the fund's principal office in the Cayman Islands.

These alternative types of funds are not subject to the minimum interest per investor requirement of US\$100,000.

Q. Will the EU Alternative Investment Fund Managers Directive affect the Cayman Islands funds adversely?

A. While it is impossible to tell until the final version is passed, it is now regarded as unlikely that the Cayman Islands funds will be much affected. They are very likely to be able to continue with the current private placement regime within the EU for three years after the Directive comes into force. By the time that three years has expired, there may be a requirement for equivalent regulation, which the Cayman Islands is highly likely to comply with.

Q. Have US managers stopped using the Cayman Islands?

A. On the contrary, we have seen very little change in the structures used by US managers and are told by US law firms that, as far as they are concerned, nothing has changed in this regard. Generally, more than 100 funds per month have been established in the Cayman Islands in each of the last two years.

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