



Rule Segregation of Assets – Licensed Funds

Rule

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1. Statutory Authority

- 1.1. These Rules are issued pursuant to s. 34 of the Monetary Authority Law (2004 Revision) (“MAL”), which provides that the Authority may, after private sector consultation, issue or amend rules or statements of principle or guidance concerning the conduct of licensees and their officers and employees.
- 1.2. These Rules should also be read in conjunction with the Authority’s Rule on Contents of Offering Documents of Licensed Funds.

2. Objective

To set out the Authority’s rules on the Segregation of Assets – Licensed Funds pursuant to the MAL.

3. Scope

- 3.1. These Rules apply to all funds licensed under s. 4(1)(a) of the Mutual Funds Law (2007 Revision) (“MFL”) that are not subject to the Retail Mutual Funds (Japan) Regulations (2007 Revision) (the “Japanese Regulations”).
- 3.2. For all funds licensed before 28 April 2008 only, until 27 April 2009, if any these Rules conflict with the Fund’s offering document as filed and updated with the Authority, the offering document governs to the extent of the conflict.

4. Definitions

- 4.1. Fund means any mutual fund licensed under s. 4(1)(a) of the MFL that is not



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subject to the Japanese Regulations.

- 4.2. Portfolio means all financial assets and liabilities of a Fund and any part thereof, including “investor funds” and “investments” as those terms are used in the definition of “mutual fund” in s. 2 of the MFL.
- 4.3. Cash means any cash position held at a bank licensed under the Banks and Trust Companies Law (2007 Revision); or any other bank or category of bank approved by the Authority.
- 4.4. Operator(s) means the directors of a Fund that is a company, the general partner(s) of a Fund that is a partnership, the trustee of a Fund that is a unit trust, and the managing member(s) of Fund that is a LLC.
- 4.5. Recognised Overseas Regulatory Authority means a regulatory authority included in the list issued and gazetted by the Cayman Islands Monetary Authority as required by section 2 of the Securities and Investments Business Law.
- 4.6. Service Provider includes an administrator, auditor, custodian, investment advisor, investment manager, Operator, prime broker, promoter, or registrar, or any of their delegates, to a Fund.

5. Segregation of Assets

- 5.1. The Portfolio excluding Cash shall be segregated and accounted for separately from any assets of any Service Provider.
- 5.2. A Fund must ensure that any Service Provider that holds or manages the Portfolio complies with Rule 5.1.



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- 5.3. A Fund must ensure by contract that any Service Provider that holds or manages the Portfolio is regulated by the Cayman Islands Monetary Authority, or by a Recognised Overseas Regulatory Authority, or by another regulator approved by the Authority.
- 5.4. The overriding requirement of Rule 5.1 is that a Fund must ensure that none of its Service Providers use the Portfolio to finance their own or any other operations in any way.
- 5.5. For the purposes of Rule 5.4 the following shall not in itself, constitute the financing of the Service Providers own operations:
- 5.5.1 remitting to the relevant investors redemption or distribution proceeds being paid on behalf of the Fund;
 - 5.5.2 paying fees, charges and expenses that are payable by an investor in connection with the purchase, conversion, holding, transfer or redemption of equity interests of the Fund;
 - 5.5.3 acquiring or disposing of assets for investment purposes in accordance with the Fund's constitutive documents and offering document, or
 - 5.5.4 paying fees, charges, expenses and taxes that are properly payable by the Fund and as disclosed in and in accordance with the Fund's constitutive documents or the offering document or as otherwise disclosed to investors.
- 5.6. The Operators of a Fund must establish, implement, and maintain, (or oversee the establishment, implementation, and maintenance of) strategies, policies, controls, and procedures to ensure compliance with these Rules, consistent with the Fund's offering document and appropriate for the size, complexity, and nature of the Fund's activities and investors.

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6. Enforcement

Whenever there has been a breach of the Rule, the Authority's regulatory policies and procedures as contained in its Enforcement Manual will apply, in addition to any other powers provided in the MFL and the MAL.