



Rule Calculation of Assets Values–Licensed Funds

Rule

Calculation of Asset Values – Licensed Funds

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 Cayman Islands Monetary Authority (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 Rules on Contents of Offering Documents of Licensed Funds.

2. Objective

- 2.1. To set out the Cayman Islands Monetary Authority’s rules on the Calculation of Asset Values for Licensed Funds (each subparagraph of paragraph 5 below referred to as a “Rule,” and collectively, the “Rules”), 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) (as amended) (the “MFL”) that are not subject to The Retail Mutual Funds (Japan) Regulations 2007 (as amended) (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



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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 subject to the Japanese Regulations.
- 4.2. NAV (Net Asset Value) means the value of a Fund's total assets (including accrued interest, dividends and other receivables), minus the value of the Fund's total liabilities (including as accrued expenses (including fees) and other payables).
- 4.3. NAV Calculation Policy means the pricing and valuation practices, policies, and procedures to calculate a Fund's NAV that are established and maintained in accordance with the requirements of the Rules.
- 4.4. Operator 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. Service Provider includes a Fund's administrator, auditor, custodian, investment manager / advisor, Operator, prime broker, promoter, or registrar, or any of their delegates with responsibility for the Fund's portfolio or operations.
- 4.6. Market Price means the most recent price at which significant securities transactions have been concluded on a public market within the prior 30 days, or the best price available from a market maker.



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- 4.7. Hard-to-Value Securities means assets for which there are no readily available market values to be transacted between knowledgeable and willing parties in an arm's length transaction, or with no registered turnover in the prior 30 days, and may include illiquid holdings, fixed-income securities, restricted securities, and derivatives.
- 4.8. Pricing Models include any pricing models or determination methods used to value Hard-to-Value Securities.

5. NAV Calculation Policy

- 5.1. A Fund must establish, implement, and maintain a NAV Calculation Policy that ensures a Fund's NAV is fair, reliable, of high quality, and verifiable.
- 5.2. The NAV Calculation Policy must:
- 5.2.1 be written and disclosed in the Fund's offering document;
 - 5.2.2 describe the Fund's practical and workable pricing and valuation policies, practices, and procedures;
 - 5.2.3 require the calculation of the Fund's NAV regularly, at least quarterly;
 - 5.2.4 state when NAV will be calculated, how it will be used, and when and how it will be published;
 - 5.2.5 state the accounting principles that will be followed;
 - 5.2.6 define the role and responsibilities of the Fund's Service Providers in the valuation process;
 - 5.2.7 identify the price sources for each instrument type and a practical escalation of resolution procedure for the management of exceptions; and
 - 5.2.8 incorporate internal controls that are appropriate to the size, complexity, and nature of the Fund's operations.



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- 5.3. Other than for Hard–To–Value Securities, the NAV Calculation Policy must require the Fund to value the securities within its portfolio(s) using Market Prices.
- 5.4. A Fund may use Pricing Models to determine a fair value for Hard–to–Value Securities.
- 5.4.1 A Fund must justify and identify any weaknesses in Pricing Models, by back–testing in normal market conditions if possible.
- 5.4.2 Any Pricing Models must be capable of practical implementation by the relevant Service Providers.
- 5.5. The Fund must require the Fund’s relevant Service Providers to apply the NAV Calculation Policy and any Pricing Models consistently, unless there is satisfactory reason not to do so, in which case such derivations must be disclosed in the Fund’s offering document and agreed by the Operators in advance of the determination or production of the NAV.
- 5.6. Subject to Rule 5.8, the NAV of a Fund must be calculated by a Service Provider that is independent of the Fund’s investment manager / advisor and Operators, competent, and able to adhere to the NAV Calculation Policy and any relevant Pricing Models.
- 5.7. Wherever prices are provided or sourced by the investment manager / advisor or Operators:
- 5.7.1 the manager / advisor must also provide any supporting information that is reasonably available; and
- 5.7.2 the Fund’s administrator must verify the prices and NAV to the extent possible.



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- 5.8. A Fund’s investment manager / advisor or Operators may calculate or assist in the calculation of the Fund’s NAV only if this fact is explicitly detailed in the Fund’s offering document, together with an explanation why another Service Provider could not calculate the Fund’s NAV.
- 5.9. In addition to any disclosure required by Rule 5.8, a Fund’s offering document must explicitly describe the potential limitations and conflicts of the NAV Calculation Policy, and any material involvement by the Fund’s investment manager / advisor in the pricing of the Fund’s portfolio, or otherwise in the calculation, determination or production of the NAV.
- 5.10. NAV reports must be addressed directly to the Fund’s investors.
- 5.11. The Fund’s Operators have ultimate responsibility for oversight of the entire valuation process, and must approve, and review at least annually, the NAV Calculation Policy and any Pricing Models.

6. Enforcement

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