



## Rule

### Calculation of Net Asset Values - Registered Private Funds

#### 1. Statutory Authority

- 1.1. These Rules are issued pursuant to section 34 of the Monetary Authority Law (2018 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, and any other persons to whom and to the extent that the regulatory laws may apply.
- 1.2. These Rules should also be read in conjunction with the Authority's Rules on Contents of Marketing Material of Registered Private Funds.

#### 2. Objective

- 2.1. To set out the Authority's rules on the Calculation of Net Asset Values for Registered Private 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 Private Funds registered under section 7 of the Private Funds Law, 2020 (the "PFL") other than Alternative Investment Vehicles.

#### 4. Definitions

- 4.1. **Fund** means any Private Fund registered under section 7 of the PFL that is not Alternative Investment Vehicle.
- 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 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 PFL and the Rules.
- 4.4. **Fair Value** means the price that would be received for the sale of an investment in an orderly transaction between market participants in the principal market or in its absence, the most advantageous market for the asset.
- 4.5. **Hard-to-Value Assets or Holdings** means investments 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, derivatives, private operating companies and special purpose vehicles.
- 4.6. **Pricing Models** include any pricing models or determination methods used to value investments.
- 4.7. **Section 16 Person** means a person appointed by a Fund under section 16 of the PFL to perform valuations of its assets.
- 4.8. All other capitalised terms used in the Rules shall have the meanings ascribed to them in the PFL.

## 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 shall be calculated in accordance with the International Financial Reporting Standards, or generally accepted accounting principles of the United States of America, Japan or Switzerland.
- 5.3. The methodology used to perform the NAV calculation must be consistent with the accounting principles or reporting standards used to prepare the Fund's audited financial statements.



- 5.4. The NAV Calculation Policy must:
  - 5.4.1 be written and disclosed in the Fund's constitutional documents or Marketing Materials or other form of Investor communication typically used by the Fund;
  - 5.4.2 describe the Fund's practical and workable pricing and valuation policies, practices, and procedures;
  - 5.4.3 require the calculation of the Fund's NAV regularly, at least annually;
  - 5.4.4 state when NAV will be calculated, how it will be used, and when and how it will be published;
  - 5.4.5 state the accounting principles or reporting standards that will be followed;
  - 5.4.6 define the role and responsibilities of the Section 16 Person in the valuation process;
  - 5.4.7 identify the price sources for each investment type and a practical escalation of resolution procedure for the management of exceptions; and
  - 5.4.8 incorporate internal controls that are appropriate to the size, complexity, and nature of the Fund's operations.
- 5.5. The NAV Calculation Policy must require the Fund to value the investments within its portfolio(s) using Fair Value.
- 5.6. In estimating the Fair Value for an investment, the Fund should apply a technique or techniques that is or are appropriate considering the nature, facts, and circumstances of the investment.
- 5.7. A Fund may use Pricing Models to determine a Fair Value for Hard-to-Value Assets.
  - 5.7.1 A Fund must justify and identify any weaknesses in Pricing Models, by back-testing in normal market conditions.
  - 5.7.2 Any Pricing Models must be capable of practical implementation by the Section 16 Person.
- 5.8. The Fund must require the Section 16 Person to apply the Fund's procedures for valuation of its assets consistently; unless there is satisfactory reason not to do so, in which case such deviations must be disclosed in the Fund's Marketing Materials and agreed by the



Operator(s) in advance of the determination or production of the NAV.

5.9. A Fund's constitutional documents or Marketing Materials or other form of Investor communication typically used by the Fund must explicitly describe the potential limitations and conflicts of the NAV Calculation Policy, and any material involvement by the Fund's Manager, advisor or Operator(s) 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 Operator(s) have ultimate responsibility for oversight of the entire net asset 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 regulatory policies and procedures as contained in its Enforcement Manual will apply, in addition to any other powers provided in the PFL and the MAL.