



RULE AND STATEMENT OF GUIDANCE

Tokenised Funds

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List of Acronyms

CIMA	Cayman Islands Monetary Authority
MAA	Monetary Authority Act
MFA	Mutual Funds Act
NAV	Net Asset Value
RSOG	Rule and Statement of Guidance
PFA	Private Funds Act
VASPA	Virtual Asset Service Providers Act

Rule and Statement of Guidance on Tokenised Funds

1. Introduction

- 1.1 This document establishes the Cayman Islands Monetary Authority's (the "Authority" or "CIMA") *Rule and Statement of Guidance on Tokenised Funds* ("The Rule and Statement of Guidance").
- 1.2 The Rule and Statement of Guidance ("RSOG") should be read in conjunction with the following:
 - (a) Mutual Funds Act (the "MFA");
 - (b) Private Funds Act (the "PFA");
 - (c) Virtual Asset Service Providers Act;
 - (d) Rule and Statement of Guidance on Internal Controls for Regulated Entities;
 - (e) Rule on Corporate Governance for Regulated Entities;
 - (f) Statement of Guidance on Nature, Accessibility and Retention of Records;
 - (g) Statement of Guidance on Outsourcing for Regulated Entities; and
 - (h) any other relevant Acts and regulatory measures issued by the Authority from time to time.
- 1.3 To highlight the Authority's Tokenised Fund rules within the compendium, a Rule is written in light blue and designated with the letter "R" in the right margin.

2. Statement of Objectives

- 2.1 This RSOG establishes minimum requirements and guidance for Tokenised Funds in the Cayman Islands. It sets out the Authority's expectations for the implementation, governance and operation of tokenisation arrangements by Tokenised Funds.
- 2.2 This RSOG establishes minimum regulatory requirements and guidance to support the effective implementation and oversight of tokenisation arrangements. The requirements and guidance set out in this RSOG are intended to enhance investor confidence and support the responsible adoption of tokenisation within the existing legislative and regulatory framework.

3. Statutory Authority

- 3.1 This RSOG is consistent with the Authority's statutory objectives as prescribed in Section 6(1)(b) of the Monetary Authority Act ("MAA"), which provides that the principal regulatory functions of the Authority are to:
 - "(i) to regulate and supervise financial services business carried on in or from within the Islands in accordance with this Law and the regulatory laws;*
 - (ii) to monitor compliance with the anti-money laundering regulations; and*
 - (iii) to perform any other regulatory or supervisory duties that may be imposed on the Authority by any other law;"*

3.2 Additionally, section 34(1) of the MAA provides that:

"After private sector consultation and consultation with the Minister charged with responsibility for Financial Services, the Authority may–

- (a) issue or amend rules or statements of principle or guidance concerning the conduct of Regulated Entities and their officers and employees, and any other persons to whom and to the extent that the regulatory acts may apply;*
- (c) issue or amend rules or statements of principle or guidance to reduce the risk of financial services business being used for money laundering or other criminal purposes."*

4. Scope of Application

- 4.1 This RSOG applies to Regulated Entities that have been authorised by the Authority to have any of their equity interests represented by digital equity tokens, pursuant to the MFA and the PFA, as applicable.
- 4.2 Such Regulated Entities remain subject to the same legislative, regulatory and supervisory requirements applicable to Funds that are not tokenised. Nothing in this RSOG should be read as creating a separate regulatory regime for Tokenised Funds.
- 4.3 References to any Act or Regulation should be read as references to those provisions as commenced, amended, modified, re-enacted or replaced from time to time. For avoidance of doubt, this document applies to the Acts or Regulations to the extent that such provisions in those Acts or Regulations are in force.

5. Definitions

5.1 The following definitions are provided for the purpose of this RSOG:

- 5.1.1. **"Digital Equity Token"** has the same meaning as defined in the MFA.
- 5.1.2. **"Equity interest"** has the same meaning as defined in the MFA.
- 5.1.3. **"Governing Body"** of a Regulated Entity is the Board of Directors where the entity is a corporation, the General Partner where the entity is a partnership, the manager where the entity is a Limited Liability Company, and the Board of Trustees where the entity is a trust business, or any equivalent governing structure as appropriate, taking into account the nature, size, and legal form of the Regulated Entity.
- 5.1.4. **"Net Asset Value or NAV"** means the value of a Fund's assets less its liabilities, calculated in accordance with the Fund's valuation methodology and applicable legal and regulatory requirements.
- 5.1.5. **"Offering document"** has the same meaning as defined in the MFA and the PFA.
- 5.1.6. **"Operator"** has the same meaning as defined in the MFA and the PFA

- 5.1.7. **"Regulated Entity"** for the purpose of this RSOG means any legal person or arrangement that has been granted a licence or registration to have any of its equity interests represented by digital equity tokens in accordance with the MFA and the PFA.
- 5.1.8. **"Senior Management"** includes the most senior staff of the regulated entity, including heads of divisions, and any person who fulfils the functions of a senior manager, by whatever name called. Such functions include actively participating in the daily planning, supervision, administration and execution of a Regulated Entity's objectives and strategy.
- 5.1.9. **"Tokenised Fund"** means a tokenised mutual fund as defined in the MFA or a tokenised private fund as defined in the PFA.

6. Nature and Legal Effect of Digital Equity Tokens

- 6.1 A Digital Equity Token issued by a Tokenised Fund must represent a direct and legally enforceable equity/investment interest in the Tokenised Fund and confer rights identical to those attached to the corresponding equivalent non-tokenised share, unit or partnership interest. R
- 6.2 Tokenisation should be treated solely as a mechanism for representing equity interests in a Tokenised Fund through distributed ledger technology or similar technology (hereafter referred to simply as distributed ledger). Accordingly, a Digital Equity Token should serve only as a digital representation of those equity interests and should not create a separate investment instrument.
- 6.3 In addition, the rights and obligations attached to a Digital Equity Token should remain consistent with those attached to the equivalent non-tokenised equity interest. Such rights and obligations may include, but are not limited to:
- (a) participation in profits or gains;
 - (b) voting;
 - (c) redemption or repurchase, where applicable;
 - (d) distributions; and
 - (e) any other rights attaching to the equity interest under the Fund's constitutional documents.
- 6.4 A Digital Equity Token must not: R
- (a) embed leverage within the Tokenised interest; or
 - (b) confer rights, benefits or obligations that are inconsistent with those attached to the equivalent non-tokenised share, unit or partnership interest.
- 6.5 For the purposes of Rule 6.4(a) above, embedded leverage includes arrangements whereby a Digital Equity Token incorporates mechanisms that amplify gains or losses beyond those associated with the equivalent non-tokenised equity/investment interest.
- 6.6 A Digital Equity Token must not be structured, issued or managed in a manner that: R

- (a) results in partial or incomplete representation of the equity interest, thereby altering the rights attached to that equity interest; or
 - (b) combines or merges equity/investment interests from two or more Funds/Sub-funds into a single Digital Equity Token.
- 6.7 Tokenised Funds are expected to establish and maintain arrangements that enable a Digital Equity Token to be linked to, and verified against, the equity interest it represents.
- 6.8 Tokenised Funds must ensure that the issuance and use of Digital Equity Tokens do not create uncertainty regarding the rights and interests of investors. R
- 6.9 Tokenised Funds are expected to clearly identify and document the rights associated with Digital Equity Tokens and how such rights may be exercised.

7. Governance, Accountability and Operator Responsibility

- 7.1 The Operators of a Tokenised Fund remain responsible for the Fund's tokenisation arrangements and compliance with all applicable legislative and regulatory requirements, including where tokenisation functions are outsourced to a third party. R
- 7.2 The Authority expects the Operators of a Tokenised Fund to remain accountable for:
 - (a) the issuance, transfer, redemption and cancellation of Digital Equity Tokens;
 - (b) the accuracy and integrity of the register of investors; and
 - (c) compliance with all applicable statutory and regulatory obligations.
- 7.3 Tokenised Funds are expected to implement tokenisation arrangements in a manner that does not affect, circumvent, modify or create uncertainty regarding the application of the MFA and the PFA, as applicable.
- 7.4 The outsourcing of tokenisation functions, including registry maintenance, does not transfer regulatory responsibility from the Operator nor must it impair the Authority's ability to exercise its supervisory powers or obtain access to relevant information.
- 7.5 A Tokenised Fund must establish and maintain governance arrangements appropriate to the nature, scale and complexity of its tokenisation activities. R
- 7.6 Governance arrangements relating to tokenisation should be documented, periodically reviewed, and should include, but not be limited to:
 - (a) clear escalation, reporting and decision-making protocols; and
 - (b) effective oversight of tokenisation arrangements by the Governing Body.
- 7.7 The Authority expects that at least one Operator of a Tokenised Fund has appropriate knowledge and experience relating to tokenised products, distributed ledger or virtual asset markets, commensurate with the size, complexity, structure, nature of the business and risk profile of the Tokenised Fund.

8. Fund Administration, Record-Keeping and Investor Register

- 8.1 A Tokenised Fund must maintain a single authoritative register of investors that accurately records the legal ownership of equity interests in the Fund represented by Digital Equity Tokens. The register may be maintained using a distributed ledger, provided that it complies with applicable legal and regulatory requirements and enables the Fund to always identify the legal owners of its equity interests. R
- 8.2 Where the Digital Equity Tokens are recorded on a distributed ledger that does not itself constitute the Fund's authoritative register of investors, the Fund must ensure that the token ownership records are accurately reconciled with, and reflect, the legal ownership recorded in the authoritative register. R
- 8.3 In relation to Rule 8.2, in the event of any discrepancy between the authoritative register and the record on the distributed ledger, the authoritative register shall prevail in determining legal ownership. R
- 8.4 Tokenised Funds are expected to establish, implement and maintain processes and controls to:
- (a) identify the legal owners of issued equity interests and, where required under applicable law, the beneficial owners of such interests;
 - (b) reconcile Digital Equity Tokens issued and outstanding with the corresponding issued equity interests; and
 - (c) provide records and information requested by the Authority within prescribed timelines.
- 8.5 Where a distributed ledger is utilised to maintain ownership records, a Tokenised Fund must ensure that such records are complete, accurate, auditable and independently verifiable. R

9. Transferability, Redemption and Liquidity Management

- 9.1 A Tokenised Fund must ensure that the transfer of Digital Equity Tokens remains consistent with the Fund's constitutional documents, offering documents and applicable regulatory requirements. R
- 9.2 A Tokenised Fund is expected to ensure that transfers of Digital Equity Tokens occur only where such transfers are:
- (a) undertaken with the approval of the Operator and in accordance with the Fund's offering document;
 - (b) subject to applicable AML/CFT and sanctions screening; and
 - (c) consistent with any applicable regulatory approvals, permissions or restrictions.
- 9.3 A Tokenised Fund must not use tokenisation arrangements to create liquidity or transferability that is inconsistent with the Fund's disclosed redemption terms, liquidity management arrangements or applicable regulatory requirements. R
- 9.4 Tokenised Funds are expected to ensure that tokenisation arrangements do not:

- (a) create alternative liquidity that is inconsistent with the Fund's disclosed redemption arrangements;
- (b) circumvent redemption gates;
- (c) circumvent suspension powers; or
- (d) undermine any other liquidity management tools available to the Fund.

10. Net Asset Value ("NAV") Integrity, and Mispricing Risk

- 10.1 A Tokenised Fund must ensure that tokenisation arrangements do not affect the Fund's valuation methodology, NAV calculation processes or pricing controls. R
- 10.2 A Tokenised Fund must establish and maintain controls to ensure that the issuance and transfer of Digital Equity Tokens remain aligned with equivalent non-tokenised equity interests. R
- 10.3 Tokenised Funds are expected to maintain controls capable of:
 - (a) independently verifying token supply against issued equity interests;
 - (b) preventing over-issuance of Digital Equity Tokens; and
 - (c) identifying and correcting discrepancies on a timely basis.
- 10.4 Tokenised interests and non-tokenised interests in the same Fund are expected to be subject to consistent standards of governance, investor protection, transparency, valuation, administration and regulatory oversight.

11. Disclosure and Offering Document Standards

- 11.1 A Tokenised Fund must ensure that investors are provided with clear, accurate and sufficient disclosure regarding the tokenisation of equity/ownership interests. R
- 11.2 The Authority expects offering documents to include, where applicable:
 - (a) a description of the tokenisation arrangements and how Digital Equity Tokens represent equity interests in the Fund;
 - (b) any risks specific to the Digital Equity Tokens identified by the Tokenised Fund, including:
 - i. considerations relating to cybersecurity;
 - ii. the transferability of the Digital Equity Tokens; and
 - iii. any other potential risks identified by the Authority.
 - (c) any transfer restrictions applicable to Digital Equity Tokens;
 - (d) any redemption restrictions applicable to Digital Equity Tokens; and
 - (e) how the risks identified in paragraph (b) are addressed or mitigated for investors.
- 11.3 Tokenised Funds must present disclosures relating to tokenisation in a manner that enables investors to understand the nature of the Digital Equity Tokens and the risks attached to them. R

12. Ongoing Reporting and Supervisory Engagement

- 12.1 A Tokenised Fund must provide the Authority with information relating to its tokenisation arrangements upon request and within the time frame specified R

by the Authority.

- 12.2 Where required under the applicable legislation, Tokenised Funds must comply with any periodic reporting requirements specified by the Authority.
- 12.3 Tokenised Funds are expected to engage proactively with the Authority where material operational weaknesses or circumstances arise that could reasonably be expected to adversely affect investors or the integrity of the Fund's tokenisation arrangement.
- 12.4 Such circumstances may include, but are not limited to:
 - (a) failures or disruptions affecting the distributed ledger technology supporting the Digital Equity Tokens;
 - (b) an inability to process the issuance, transfer or redemption of Digital Equity Tokens in accordance with the Fund's offering document; or
 - (c) any other event that may materially affect the operation or integrity of the Tokenised Fund's tokenisation arrangements.

13. Supervisory Intervention and Remedial Measures

- 13.1 Where a Tokenised Fund fails to comply with applicable legislative or regulatory requirements, or where the Authority considers that the tokenisation arrangements present risks to investors, market integrity or the effective supervision of the Fund, the Authority may impose restrictions on the characteristics of the Digital Equity Tokens and exercise any other supervisory or enforcement powers available to it under the applicable legislation.
- 13.2 Depending on the nature and severity of the matter, the Authority may, among other things:
 - (a) impose Fund-specific conditions or restrictions;
 - (b) restrict the further issuance of Digital Equity Tokens;
 - (c) require the provision of additional information or records; and
 - (d) require remediation or restructuring of tokenisation arrangements.
- 13.3 Persistent or material deficiencies may result in the Authority taking supervisory or enforcement action, including the suspension or cancellation of a licence or registration, where permitted under the applicable legislation.

14. Enforcement

- 14.1 Where the Authority determines that there has been a breach of the Rules included in this document, the Authority's policies and procedures, as contained in its Enforcement Manual will apply, in addition to any other powers provided in the relevant Acts and the MAA.

15. Effective Date

- 15.1 This RSOG will come into effect upon publication in the Cayman Islands Gazette.



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