



SUMMARY OF PRIVATE SECTOR CONSULTATION AND FEEDBACK STATEMENT
Statement of Guidance: Non-Fund Arrangements

	Section	Comments from Private Sector	Authority's Response	Consequent Amendments to the Proposed Measure
SECTION-SPECIFIC COMMENTS				
1.	<p>4.2. <i>The measure will be used to determine whether a fund or arrangement operating in or from the Cayman Islands falls within the scope of the PFL and is therefore required to be registered by the Authority; or whether that fund or arrangement is considered a non-fund arrangement as prescribed in the Schedule to the Law and is therefore out of scope of the Law.</i></p>	<p>Proposed Wording: 4.2.1 The measure will be used to provide guidance for determining whether a company, unit trust or partnership operating in or from the Cayman Islands and otherwise falling within the definition of a private fund under the PFL is required to be registered by the Authority as a private fund under the PFL; or whether that company, unit trust or partnership is a non-fund arrangement as prescribed in the Schedule to the Law and is therefore not required to be registered as a private fund by virtue of paragraph (b)(iii) of the definition of private fund in the Law.</p> <p>Comments: Note to 4.2.1: Because the definition of private fund under the PFL is drafted so as to include almost any entity that has more than one equity investor and that acquires any sort of (potentially productive) asset, it is important to acknowledge that the purpose of Schedule 1 is specifically to exclude from the requirement for registration all entities that would otherwise be private</p>	<p>The comments are noted and some of the proposed wording has been incorporated into the measure.</p>	<p>The updated section now reads: <i>"The measure will be used to determine whether an arrangement operating in or from the Cayman Islands falls within the scope of the PFL and is therefore required to be registered by the Authority; or whether that arrangement is considered a non-fund arrangement as prescribed in the Schedule to the Law and is therefore not required to be registered as a private fund under the Law."</i></p>

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		funds under the PFL but for their falling into one of the prescribed non-fund arrangements.		
		<p>Proposed Wording: 4.2.2 The purpose of Schedule 1 to the PFL is to exclude from its application entities to which the PFL is not intended to apply. This Guidance is not intended to be definitive or to limit or otherwise detract from the plain meaning of the text of the PFL.</p> <p>Comments: Note to 4.2.2: The breadth of the primary definition means that it is extremely difficult to define precisely the universe of arrangements that are not intended to be in scope. Neither do we consider it prudent to attempt to be definitive here.</p> <p>It would be helpful to clients who use the Islands to structure their transactions were the Guidance to recognise that there exists within each category scope for refinement of the meaning in a manner consistent with international and local market and regulatory practice. That is a principle that allows the Guidance to be developed in a manner that is consistent with the stated intention of the PFL, and with the approach adopted by the FCA and other regulators in comparable jurisdictions.</p>	The scope of application is already clearly articulated in 4.2. The additional wording proposed for a suggested 4.2.2 is not required as any measure issued by the Authority is aligned with the applicable law.	No amendments required.
2.	5. Definitions 5.1.1 "Arrangement" includes an agreement, contract, vehicle, venture, scheme, plan,	A private fund can only exist as a company, partnership or unit trust (as defined in the PFL). The defined term	The interpretation provided for the term arrangement seeks to ensure that any persons or entities are	No amendments required.

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	programme, organisation, office, or other form of collaborative effort between or among persons or entities.	"arrangement" is superfluous and may cause confusion.	captured, which includes, but is not limited to, a fund which may take the form of a company, partnership or unit trust.	
3.	5 Definitions 5.1.2 "Private Fund" has the same meaning as that prescribed in the Private Funds Law.	Proposed Wording: 5.1.2 (<i>now 5.1.6</i>) Words and phrases defined by the Private Funds Law have the same meaning in this Guidance. Comment: The changes are proposed so that the drafting conventions in relation to definitions are applied consistently.	The recommended amendment does not change the substance of the provision.	No amendment required.
4.	6.1.1 Pension fund has the same meaning as that prescribed in the National Pensions Law and includes the Public Service Pensions Fund as defined under the Public Service Pensions Law. 6.1.2 A scheme under which a right to benefits results from contributions made under a pension plan is not a private fund.	Proposed Wording: 6.1.1 The terms "pension fund" and "pension plan" have the same meaning as that prescribed in the National Pensions Law and includes the Public Service Pensions Fund as defined under the Public Service Pensions Law. 6.1.2 A scheme under which a right to benefits results from contributions made under an occupational or personal pension plan is not a private fund. Comment: The Authority may wish to include the definitions of "pension fund" and "pension plan" from the National Pensions Law are included within the Guidance for ease of reference.	The proposed edits were considered and updates made where appropriate. The references to definitions in the National Pensions Law are included instead of the inclusion of the definitions to ensure relevance in cases where definitions may change.	Section 6.1.2 was updated as follows: "A scheme under which a right to benefits results from contributions made under an occupation or personal pension plan is not a private fund."
5.	6.2.1 A securitisation vehicle is a non-fund arrangement, as long as its sole purpose is to carry on:	Proposed Wording: 6.2.1 A securitisation vehicle is a non-fund arrangement, as long as its sole purpose is to carry on:	The proposal to expand the definition to include " <i>or are connected with</i> " was not incorporated as it broadens the definition with the	No amendments required.

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	<p>a) securitisation or securitisations; or b) other activities which are appropriate to accomplish that purpose.</p>	<p>a) securitisation or securitisations; or b) other activities which are appropriate to accomplish, or are connected with, that purpose.</p> <p>Comment: Given the use of the phrase "sole purpose" in 6.2.1, the change suggested so as not to narrow the definition inadvertently.</p> <p>Alternatively, the term "principle purpose" may be appropriate.</p> <p>A securitisation special purpose vehicle may still be directly and properly related to a securitisation transaction (and correctly a non-fund arrangement) even if it is not necessarily the principal issuer in the securitisation structure and/or may carry on other activities connected broadly with the securitisation.</p>	<p>potential of capturing certain private funds which are within the scope of regulation by the Authority.</p>	
6.	<p>6.3.1 Any contract of insurance which is a contract of long-term insurance or a contract of general insurance, and includes:</p> <p>a) fidelity bonds, performance bonds, administration bonds, bail bonds, customs bonds or similar contracts of guarantee, where these are— i. effected or carried out by a person not carrying on a banking business;</p>	<p>Proposed Wording: 6.3.1 Any contract of insurance which is a contract of long-term insurance or a contract of general insurance, and includes:</p> <p>(a) fidelity bonds, performance bonds, administration bonds, bail bonds, customs bonds or similar contracts of guarantee, where these are— i. effected or carried out by a person not carrying on a banking business;</p>	<p>The inclusion of tontines in the measure does not serve to provide legal credence to the arrangement. Nevertheless, the Authority has accepted the recommended edits. Tontines are included in the definition of relevant financial business in the Proceeds of Crime Law (POCL) and the Anti-Money Laundering Regulations (AMLRs) by virtue of being</p>	<p>As proposed the word business was included in section c) ii.</p> <p>The term "tontines" was deleted from the measure.</p>

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	<p>ii. not effected merely incidentally to some other business carried on by the person effecting them; and</p> <p>iii. effected in return for the payment of one or more premiums;</p> <p>b) tontines;</p> <p>c) capital redemption contracts or pension fund management contracts, where these are effected or carried out by a person who—</p> <p>i. does not carry on a banking business; and</p> <p>ii. otherwise carries on a regulated involving effecting or carrying out a contract of insurance as a principal;</p> <p>d) contracts to pay annuities on human life;</p> <p>e) collective insurance contracts; and</p> <p>f) social insurance contracts. but does not include a funeral plan contract.</p>	<p>ii. not effected merely incidentally to some other business carried on by the person effecting them; and</p> <p>iii. effected in return for the payment of one or more premiums;</p> <p>(b) tontines;</p> <p>(c) capital redemption contracts or pension fund management contracts, where these are effected or carried out by a person who—</p> <p>i. does not carry on a banking business; and</p> <p>ii. otherwise carries on a regulated business involving effecting or carrying out a contract of insurance as a principal;</p> <p>(d) contracts to pay annuities on human life;</p> <p>(e) collective insurance contracts; and</p> <p>(f) social insurance contracts,</p> <p>(g) but does not include a funeral plan contract.</p> <p>Comment: With regards to contacts of insurance (para 6.3 on page 6 of attached) we propose the deletion of section 6.3.1 (b) – tontines.</p>	<p>included in Schedule 2 of the AMLRs in the definition of "classes of long-term business" and by way of falling within the term "insurance business" under the POCL.</p>	

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		<p>With regards to Capital Redemption Contacts (6.3.1 (c)), this is currently under consideration by the Financial Services Legislative Drafting – insurance subcommittee. Accordingly, would leave it in there.</p> <p>Tontines are illegal in the UK and it is therefore unlikely that CIMA would allow tontines under the Insurance Law.</p>		
7.	<p>6.4.1 A joint venture refers to an enterprise into which two or more persons ("the participators") enter for commercial purposes related to a business or businesses (other than the business of engaging in a regulated activity) carried on by them; where a participator is a member of a group, each other member of the group is also to be regarded as a participator in the enterprise.</p>	<p>Proposed Wording: 6.4.1 A joint venture includes an enterprise into which two or more persons ("the participators") enter for commercial purposes related to a business or businesses or other commercial activity carried on by them; where a participator is a member of a group, each other member of the group is also to be regarded as a participator in the enterprise.</p> <p>Comment: The changes proposed here:</p> <ul style="list-style-type: none"> • adopt an approach that is consistent with the approach adopted elsewhere in this Guidance by the use of the word "includes"; • includes the words "or other commercial activity" to the term business so as to be consistent with the remaining provisions of this Guidance and with the FAQs published by the Authority on 7 May 2020 (namely that a characteristic of a private fund or collective investment scheme is that 	<p>The comments were noted and due consideration given to proposed amendments. The Authority has made some amendments to the guidance based on this feedback to ensure clarity surrounding the entities which are intended to be excluded from the scope of regulation by CIMA.</p>	<p>Section 6.4.1 was revised and now reads as follows:</p> <p><i>"A joint venture refers to an arrangement into which two or more persons ("the participators") enter for commercial purposes related to a business or businesses (other than business regulated under the Law) carried on by the participators themselves and with capital invested from amongst themselves; where a participator is a member of a group, each other member of the group is also to be regarded as a participator in the arrangement."</i></p>

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		<p>"the undertaking does not have a general commercial or industrial purpose");</p> <ul style="list-style-type: none"> remove the words "(other than the business of engaging in a regulated activity)" from the text. This language, taken from the FCA's Handbook, is not relevant in the context of defining non-fund arrangements here. It is entirely possible that a joint venture may be established to conduct a regulated activity such as investment management, and there is no reason to exclude such arrangements. 		
8.	<p>6.5 Proprietary Vehicles <i>A proprietary vehicle includes a fund sponsored and managed by a certain financial institution that invests for direct market gain rather than earning commission by trading on behalf of clients.</i></p>	<p>Concerned that, as drafted, this section could result in fund vehicles being inappropriately exempted from the scope of the PFL given the potentially broad interpretation of "invests for market gain rather than earning commission by trading on behalf of clients". The intention of this exemption is that fund vehicles solely invested in by proprietary investors (as defined in the PFL) be exempted.</p> <p>Suggest consideration be given to amending the definition of Proprietary Vehicles to be as follows: "A proprietary vehicle is a vehicle whose investors are solely comprised of proprietary investors, the promoter or operator as defined in the PFL".</p>	<p>The feedback was noted and accepted. Additional guidance was added to clarify the exemption and the interpretation of the term 'proprietary investor' which is defined in the Law.</p>	<p>The guidance was updated as follows:</p> <p>"A proprietary vehicle refers to any arrangement which is solely comprised of, and its investors limited only to, a promoter, operator and proprietary investors."</p> <p>Paragraph 6.5.2 was added to the SoG as follows:</p> <p><i>"For an investor to be considered a proprietary investor under this exemption, the capital invested in the arrangement must be entirely proprietary capital."</i></p>

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9.		<p>Proposed Wording: 6.5.1 A proprietary vehicle includes a company, partnership or unit trust sponsored and managed, directly or indirectly, by a financial institution or other entity, that invests for the benefit of such financial institution or other entity or for direct market gain rather than for the benefit of third party clients.</p> <p>Comment: It is suggested that word "fund" be replaced with "company, unit trust or partnership" which are the vehicles to which the PFL applies. The point of non-fund arrangements is that they are not "funds".</p>	<p>The feedback was noted and the defined term "arrangement" was included in the specific guidance to ensure clarity. Additional edits were included.</p>	
10.	<p>Officer, manager or employee incentive, participation or compensation schemes, and programmes or schemes to similar effect</p> <p>6.6.1 The exemption of such programmes and/or schemes excludes arrangements which are designed to enable profits from a company to be used to purchase shares or debentures which are held on behalf of employees, former employees or another member of the same group or their dependents. This covers most employee share option plans and other employee share incentivisation schemes.</p>	<p>Proposed Wording: 6.6.1 The exemption is intended to cover most employee share option plans and other employee share incentive, compensation and participation programmes and/or schemes. Such programmes and/or schemes include:</p> <p>(a) arrangements that are designed to enable profits of a company, unit trust or partnership to be used to purchase equity interests or other securities that are held by or on behalf of employees, former employees or another member of the same group or their dependents;</p> <p>(b) arrangements where employees are permitted to invest in equity interests or other securities of the</p>	<p>The Authority notes the proposed amendments and has updated the measure where assessed as appropriate. The guidance was updated to account for interests held in trust. Further details were added to the section to clarify the types of arrangements which constitute non-fund arrangements.</p>	<p>In addition to some clarifying edits to the text, the following statement was included in the guidance: "Trustees of an employee's family trust may also participate."</p>

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	<p>6.6.2 The exclusion covers schemes in which an employee invests in securities of the employer or in a company in the employee's group (or derivatives in relation to them such as options).</p>	<p>employer or in a vehicle in the employee's group, and includes in each case derivatives such as options) and synthetic securities.</p> <p>Comment: Changes are proposed:</p> <ul style="list-style-type: none"> ▪ to expand the equity interests that may be subject to such an arrangement beyond a company issuing shares (including partnerships and LLCs issuing interests); • to tidy up the drafting. 		
	<p>6.6.3 Under this exemption, the term employee includes personnel who work in the business of the undertaking concerned, contributing their skills and time, including partners, directors and consultants.</p>	<p>6.6.2 Under this exemption, the term "employee" includes personnel who work in the business of the undertaking concerned, or of the business of the promoter, sponsor or manager of the undertaking concerned, contributing their skills and time, including officers, managers, partners, directors and consultants.</p> <p>Comment:</p> <ul style="list-style-type: none"> ▪ to make clear that the exemption applies equally to participation schemes where employees "buy in" to such plans (in the US, for example, there needs to be 	<p>We note that the definition as presented is sufficiently broad to include all arrangements which are deemed to be exempt from the registration requirement.</p>	<p>The section in respect of including the applicability of former employees within the exemption.</p>

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		consideration paid in certain circumstance for the plan equity to get favourable tax treatment); <ul style="list-style-type: none"> ▪ to tidy up the drafting. 		

	<p>6.6.4 Employee participation schemes generally allows participation by former employees and spouses/close relatives and this exclusion allows schemes that include such participants.</p>	<p>6.6.4 Employee incentive, compensation and participation programmes and/or schemes generally allows interests to be held, including through an entity or trust, by participation by former employees and spouses/close relatives/dependents and this exclusion allows schemes that include such participants.</p> <p>Comment:</p> <ul style="list-style-type: none"> to make clear that the exemption applies equally to participation schemes where employees "buy in" to such plans (in the US, for example, there needs to be consideration paid in certain circumstance for the plan equity to get favourable tax treatment); to tidy up the drafting. <p>The language here is consistent with the UK PERG 16 Guidance on the scope of AIFMD.</p>	<p>The Authority notes the proposed expansion of eligible participants which was addressed by making certain amendments to 6.6.1.</p>	<p>The paragraph was deleted to avoid confusion. Relevant text was included and updated in sections 6.6.1 and 6.6.3 to address the addition of dependents and former employees.</p>
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11.	6.7 Holding Vehicles	<p>Of the view that this section is likely to be the section that presents the greatest risk for unintended exemptions to arise. Accordingly, would recommend that extra attention be paid to drafting suggestions received, and would be pleased to discuss with CIMA any amendments under consideration in this regard.</p> <p>One such area for potential abuse, but also where certain exemptions might be appropriate, is with respect to what are commonly referred to as "aggregator" vehicles. Private funds often hold certain investments through an "aggregator" entity, rather than directly holding the investment. These aggregators may have one or more Cayman regulated entities as investors, and also have related onshore fund entities as investors. Depending on the facts and circumstances, the aggregator might (or might not) be viewed as a "disregarded" entity for tax and financial reporting purposes. Consider that the matter of "aggregators" should be subject to further discussion and deliberation and would look forward to participating in further discussion on this topic with CIMA.</p> <p>Setting the above aside, to reduce the risk of the Holding Vehicle exemption being inappropriately applied to, for example, investor facing vehicles and certain master funds, make the</p>	<p>The comments were noted and the relevant guidance updated to ensure clarity and address any ambiguities regarding the intent.</p>	<p>Some clarifying text included. See items 12 to 15 below for proposed amendments.</p>

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		following observations: (see 6.7.1 and 6.7.2)		
12.	6.7.1 Holding Vehicles A holding vehicle includes any vehicle that holds interests in one or more other vehicles, the commercial purpose of which is to carry out a business strategy or strategies through its subsidiaries, associated vehicles or participations in order to contribute to their long-term value, and which is either a vehicle-	Clarify that this section applies to single investor holding vehicles by amending the section as follows: "...associated vehicles or participations in order to contribute to their long-term value, and which is a vehicle wholly owned by a single investor that is either - "	The comment was noted and agreed with.	Section 6.7.1 was updated to reflect addition of the proposed wording: "...which is a vehicle wholly owned by a single investor that is either - ..."
13.	associated vehicles or participations in order to contribute to their long-term value, and which is either a vehicle- a) operating on its own account and whose interests are listed on a stock exchange specified by the Authority; or b) not established for the main purpose of generating returns for its investors by means of divestment of its subsidiaries or associated vehicle, as evidenced in its annual report or other official documents.	Proposed Wording: 6.7.1 A holding vehicle includes any vehicle that holds interests in one or more other vehicles or other assets, the commercial purpose of which is to carry out a business strategy or strategies through its subsidiaries, associated vehicles or other assets in order to contribute to their long-term value, and which includes a vehicle: a) operating on its own account; or b) not established for the main purpose of generating returns for its investors by means of divestment of its subsidiaries or associated vehicles, or other assets. Examples of such holding companies include: (i) wholly-owned equity holding companies owning one or more direct or indirect operating	The guidance in this section was amended to leave broad, the evidentiary requirement which could be included in any official documents. The recommended amendment to 6.7.7 part a) was agreed with and addressed.	Part b) was amended to read as follows: "not established for the main purpose of generating returns for its investors by means of divestment of its subsidiaries or associated vehicle, as evidenced <i>in official documentation.</i> " Part a) was amended to read: <i>"operating on its own account"</i>

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		<p>subsidiaries for investment or business operations; and</p> <p>(ii) wholly-owned asset holding companies set up to hold one or more real estate, aircraft or other assets.</p> <p>Comment: It is recognised that the text of 6.7.1 is taken from the AIFMD. The following amendments to that text are suggested here:</p> <ul style="list-style-type: none"> • it is not relevant to meaning of "holding vehicle" here whether the securities are admitted to listing - that is addressed by the exclusion at part 6.22 below; • a holding vehicle may hold specific assets other than shares in a subsidiary. <p>"As evidenced in its annual report or other official documents" is deleted because (a) most Cayman Islands vehicles will not have an annual report at all, so this language is largely irrelevant for our jurisdiction; and (b) meaning of "official document" is unclear and may be unduly limiting. Ultimately the vehicle's activities are a question of fact and might not be contained in (for example) its memorandum and articles of association or other constitutional documents. For nearly all Cayman Islands holding vehicles, these will be plain vanilla and</p>		

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		generic in nature and very likely will not specify the activities it conducts.		
14.	6.7.2 Holding Vehicles	Deletion of this section	The Authority agrees with the proposal to delete the original text in this section. Notwithstanding, it was important to add additional text to clarify the guidance.	The original section 6.7.2 was deleted and the following text added: <i>"Generally, an arrangement will be considered a non-fund arrangement if:</i> <i>a) it carries out a commercial business strategy through its participations by contributing to their long-term value; and</i> <i>b) it does not generate its returns for its investors by means of divestment of its participations."</i>
15.	A holding vehicle is a purely financial concern which uses its capital solely to acquire interests (normally controlling interests) in a number of operating vehicles. Although the purpose of a holding vehicle is mainly to gain control and not to operate, it will typically have representation on the boards of directors of the operating firms. Holding vehicles provide a means by which corporate control can become highly concentrated through pyramiding. A holding vehicle may gain control over an operating vehicle which itself has several subsidiaries. A holding vehicle may include a holding company, partnership or other legal entity which is not a private fund.	Delete section Should the Authority not agree with the deletion of 6.7.2, we would propose amendments to the original wording – should this be the case we would be grateful if the Authority could let us know.		
16.	6.8.1 The management of a portfolio of investments or other property on an individual client by client basis does not amount to a private fund.	Proposed Wording: 6.8.1 The management of a portfolio of investments or other property on an individual client by client basis does not amount to a private fund. Insert:	The measure has been updated to clarify that one of the main conditions for establishing a non-fund arrangement is the absence of pooling. The recommended insertion at 6.8.2 was accepted.	Section 6.8.1 has been updated as follows: <i>"The management of a portfolio of investments or other property on an individual client-by-client basis is a non-fund arrangement as long as,</i>

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		<p>6.8.2 Where a client is a member of a group, each member of the group is to be regarded collectively as a single client.</p> <p>Comment: The additional language is intended to distinguish this arrangement from a single investor structure. In the latter, as there is no pooling, such arrangements would not be private funds in any event and so it is not necessary to consider whether they are non-fund arrangements.</p> <p>The proposed language is taken from the definition of "joint venture" above.</p>		<p>at a minimum there is no pooling¹ of capital, risk and return."</p> <p>Section 6.8.2 was included and reads:</p> <p>"Where a client is a member of a group, each member of the group is to be regarded collectively as a single client."</p>
17.	<p>Pure Deposit-Based Schemes</p> <p>6.9.1 An arrangement is a non-fund arrangement and therefore does not amount to a private fund if it is a pure deposit-based scheme, in the sense that the whole amount of each participant's contribution is a deposit which is accepted by an authorised person to accept deposits.</p>	<p>Proposed Wording: 6.9.1 A pure deposit-based scheme includes one where each participant's contribution is a deposit which is accepted by a person authorised to accept deposits.</p> <p>Comment: The language has been updated for consistency of drafting.</p>	The recommended edit is noted and considered in the revision.	<p>Section 6.9.1 amended to read:</p> <p><i>"A pure deposit scheme is one where the whole amount of each participant's contribution is a deposit which is accepted by a person authorised to accept deposits."</i></p>
18.	<p>Arrangements not Operated by way of Business</p> <p>6.10.1 Whether the arrangements in question are operated by way of business will</p>	<p>Proposed Wording: 6.10.1 Whether the arrangements in question are operated by way of business will depend on the facts in each case, the</p>	<p>The recommended amendment to section 6.10.2 is agreed with.</p> <p>The addition in the proposed new section 6.10.3 was not</p>	<p>Section 6.10.2 has been expanded to include an exemption for family holding vehicles.</p>

¹ Pooling for these purposes does not require that the underlying property is pooled.

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	<p>depend on the facts in each case, the activity in question and the property or investment(s) concerned.</p> <p>6.10.2 This exemption may include arrangements such as family trusts and a syndicate of private individuals involved in an investment club.</p>	<p>activity in question and the property or investment(s) concerned.</p> <p>6.10.2 This exemption may include arrangements such as family trusts, family holding vehicles and a syndicate of private individuals involved in an investment club.</p> <p>Insert: 6.10.3 Where on the other hand an entity is operated by way of business, but has a general commercial or industrial purpose, it is unlikely to be a private fund in the first place.</p> <p>Comment: Exclusion of family investment vehicles would be consistent with PERG 16 Guidance. This could be tied into a concept of equity interests being held by or on behalf of family members (defined by reference to single family office head/SIBL Schedule).</p>	<p>included in the revision as it was not considered a necessary amendment.</p>	
19.	<p><i>Debt Issues and Debt Issuing Vehicles</i></p> <p>6.11.1 Vehicles that only issue debt or prescribed alternative financial instruments are generally not deemed to be issuing investment interests and therefore do not fall within scope of the PFL.</p> <p>6.11.2 The arrangements for an issue of debt securities by an ordinary commercial or financial</p>	<p>Proposed Wording: 6.11.1 Vehicles that principally issue debt securities or alternative financial instruments are generally not deemed to be issuing investment interests and therefore do not fall within scope of the PFL.</p> <p>6.11.2 The arrangements for an issue of debt securities by an ordinary commercial or financial company will generally not be considered a private</p>	<p>The recommended amendments have the potential to expand the exemptions applicable to debt issuing vehicles beyond the scope of that contemplated in the Law.</p>	<p>No amendments required based on feedback received. Notwithstanding, the Authority has updated some of the wording to reduce any ambiguities which may arise.</p>

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	company will generally not be considered a private fund or turn the issuer into one.	<p>fund nor cause the issuer to become liable to registration as a private fund.</p> <p>Comment: "Principally" added because all debt issuing vehicles will also have some form of equity capital. For example, every company must have a share capital.</p> <p>Therefore, a corporate debt issuing vehicle which is not a fund will still "issue" shares, in addition to its issue of debt securities. Technically, this definition as drafted would seem to exclude such companies (in fact, any undertaking with equity in issue) rendering it not capable of application in practice.</p>		
20.	<p>Common Accounts</p> <p>6.12.1 An arrangement is a non-fund arrangement and therefore does not amount to a private fund if:</p> <p>a) they are arrangements under which the rights or interests of participants are rights to or interests in money held in a common account; and</p> <p>b) that money is held in the account on the understanding that an amount representing the contribution of each participant is to be applied:</p> <p>i. in making payments to him/her;</p> <p>ii. in satisfaction of sums owed by him/her; or</p>	<p>Proposed Wording:</p> <p>6.12.1 An arrangement is a non-fund arrangement and therefore does not amount to a private fund if:</p> <p>a) it is an arrangement under which the rights or interests of participants are rights to or interests in money held in a common account; and</p> <p>b) that money is held in the account on the understanding that an amount representing the contribution of any participant is to be applied:</p> <p>i. in making payments to that participant;</p> <p>ii. in satisfaction of sums owed by that participant; or</p> <p>iii. in the acquisition of property for that participant or the provision of services to that participant.</p>	<p>The Authority is in agreement with the edits and the measure has been updated to reflect the changes.</p>	<p>All mentions of the term "<i>him/her</i>" have been replaced with "<i>that participant</i>".</p>

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	iii. in the acquisition of property for him/her or the provision of services to him/her.	Comment: The grammar and the pronouns have been updated.		
21.	<i>Timeshare and long-term holiday product schemes</i> 6.14.1 An arrangement is a non-fund arrangement and therefore, does not amount to a private fund if the rights of the investors are rights under a timeshare contract or a long-term holiday product contract.	Proposed Wording: 6.14.1 An arrangement is a non-fund arrangement if the rights of the investors are rights under a timeshare contract or a long-term holiday product contract. Comment: The language has been updated for consistency of drafting.		
22.	<i>Schemes involving the issue of certificates representing investments</i> 6.15.1 The exclusion relates to a certificate or other instrument which confers contractual or property rights (other than rights consisting of options): a) in respect of any share, debenture, alternative debenture, government and public security or warrant held by a person other than the person on whom the rights are conferred by the certificate or instrument; and	Proposed Wording: 6.15.1 An arrangement pursuant to which an entity issues certificates or other instruments which confer contractual or property rights (other than rights consisting of options): a) in respect of any share, debenture, alternative debenture, government and public security or warrant held by a person other than the person on whom the rights are conferred by the certificate or instrument; and b) the transfer of which may be effected without requiring the consent of that person, other than any certificate or other instrument which confers rights in	Recommended edits noted and partially incorporated.	Section 6.15.1 has been updated to include clarifying language as proposed.

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	b) the transfer of which may be effected without requiring the consent of that person; but excluding any certificate or other instrument which confers rights in respect of two or more investments issued by different persons or in respect of two or more different government and public securities issued by the same person.	respect of two or more investments issued by different persons or in respect of two or more different government and public securities issued by the same person, is a non-fund arrangement. Comment: The language has been updated for consistency of drafting.		
23.	Clearing Services 6.16.1 An arrangement is a non-fund arrangement and therefore does not amount to a private fund if their purpose is the provision of clearing services and they are operated by an authorised person, a recognised clearing house or a recognised investment exchange.	Proposed wording: 6.16.1 An arrangement is a non-fund arrangement if its purpose is the provision of clearing services and it is operated by an authorised person, a recognised clearing house or a recognised investment exchange. Comment: The language has been updated for consistency of drafting.	Recommended edits noted and agreed with. Additional text added to provide clarity to the guidance.	Section 6.16.1 has been updated to include clarifying language as proposed. Section 16.16.1 added as follows: <i>"Under this exemption, the arrangement provides a service to members of the clearing system in its role as central counterparty and not investing in the securities bought and sold for their benefit."</i>
24.	Settlement Services 6.17.1 An arrangement is a non-fund arrangement and therefore does not amount to a private fund if their purpose is the provision of settlement services and they are operated by an authorised person or a recognised central securities depository.	Proposed wording: 6.17.1 An arrangement is a non-fund arrangement if its purpose is the provision of settlement services and it is operated by an authorised person or a recognised central securities depository. Comment: The language has been updated for consistency of drafting.	The proposed edits were reviewed and accepted.	Section 6.17.1 now reads: <i>"An arrangement is a non-fund arrangement if its purpose is the provision of settlement services and it is operated by an authorised person or a recognised central securities depository."</i>
25.	Individual Pension Accounts 6.19.1 An individual pension account does not constitute a private fund.	Proposed wording: 6.19.1 An individual pension account is a non-fund arrangement. Comment:	Section 6.19.1 was deleted as it did not add to the guidance.	Section 6.19.1 was deleted.

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		The language has been updated for consistency of drafting.		
26.	<p>Structured Finance Vehicles</p> <p>6.20.1 Structured finance vehicles include entities that pool income producing assets and issue securities backed by those assets.</p>	<p>Proposed wording: 6.20.1 Structured finance vehicles include entities or other vehicles that pool or hold (whether directly or Indirectly) income producing assets and issue securities backed by those assets.</p> <p>Comment: "Or other vehicles" included because structured finance vehicles are not always "entities". For example, we do see exempted limited partnerships used as CLO issuers and other types of structured finance debt issuer.</p> <p>"Or hold (whether directly or indirectly)" included as structured finance deals may feature a number of vehicles, all of which should properly be considered a structured finance vehicle and none of which are a fund, which may hold the underlying assets directly or indirectly.</p> <p>For example, in an aircraft asset backed securitisation, the underlying aircraft/leases which are the income producing assets are almost never held directly by the issuer of the debt securities backed by those assets. They may be held by one or more subsidiaries</p>	<p>The recommended amendments were considered and a minor edit was made to clarify the guidance. Notwithstanding, the Authority considers the current guidance sufficiently clear.</p>	<p>Section 6.20.1 now reads:</p> <p><i>"Structured finance vehicles include arrangements that pool income producing assets and issue securities backed by those assets."</i></p>

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		of the issuer, as part of the overall securitisation structure.		
27.	<p>6.21 Preferred Equity Financing Vehicles</p> <p>Preferred equity financing vehicles include single purpose entity, which is not an operating entity, which issues preferred stock to investors giving those investors a preference over common shareholders.</p>	<p>A fund entity often issues ordinary voting shares to management with solely rights to the nominal or par value, whilst issuing non-voting preferred shares to investors with rights to the investment returns of the fund.</p> <p>Concerned that such, or similar, capital structures could be used (or created) to avoid the scope of the PFL. Recommend that conditions be added to this section to further describe the nature of the risk and returns that are attributed to the preferred equity to prevent abuse.</p>	The Authority has added further guidance to clarify the exemptions as it relates to this type of non-fund arrangement.	Section 6.21.2 was added to the SoG and it reads: <i>"The purpose of such an arrangement is the provision of financing to an operating entity. Any amounts attributed to common equity are inconsequential to the entity and the preferred entity instrument is typically structured to earn a fixed or market interest rate based return and/or upside economic returns though the issue of options or warrants in the operating entity that is the subject of the preferred equity financing vehicle."</i>
28.		<p>Proposed Wording: 6.21.1 Preferred equity financing vehicles include a vehicle, which issues preferred stock, shares or other equity instruments to investors giving those investors a preference over ordinary or common shareholders or other ordinary or common equity holders.</p> <p>Comment: The proposed changes are intended to:</p> <ul style="list-style-type: none"> • make clear that a preferred equity financing vehicle need not be a company issuing shares – other forms of vehicle such as LLCs or partnerships may also be used; • acknowledge that the vehicle may itself be the operating entity; 	The guidance in this section was updated to ensure clarity and to reduce ambiguities surrounding the intent.	The guidance was updated to read as follows: <i>"A preferred equity financing vehicle is a single purpose arrangement, which is not an operating entity, which issues preferred stock, preferred shares or other preferred equity instruments to investors giving those investors a preference over ordinary or common shareholders or other ordinary or common equity holders."</i>

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		<ul style="list-style-type: none"> include the language used elsewhere in this Guidance to acknowledge that the vehicle engages in a broader business or commercial enterprise that may not be limited to a single purpose. 		
29.	<p>A fund of whose investment interests are listed on a stock exchange (including an over-the-counter-market) specified by the Authority by notice in the Gazette.</p> <p>6.22.1 A fund of whose investment interests are listed on a stock exchange (including an over-the-counter market) specified by the Authority by notice in the Gazette.</p>	<p>Proposed Wording: 6.22.1 This category of non-fund arrangements includes any vehicle, some or all of whose investment interests are listed on a stock exchange (including an over-the-counter market) specified by the Authority by notice in the Gazette.</p>	The Authority believes that the stated non-fund arrangement at 6.22 is self-explanatory and therefore no further guidance is required.	Section 6.22.1 was deleted to reduce ambiguity.
30.	<p>Occupational and Personal Pension Scheme</p> <p>6.23.1 The exclusion of personal pension schemes from the scope of the Law does not extend to personal pension unit trusts which are constituted as feeder funds or comprises feeder funds.</p>	<p>Proposed Wording: 6.23.1 The exclusion of personal pension schemes from the scope of the Law does not extend to personal pension unit trusts which are constituted as feeder funds or comprises feeder funds.</p> <p>6.23.2 For the purposes of this exclusion, a "feeder fund" is a private fund that:</p> <p>(a) invests at least 85 % of its assets in investment interests issued by another private fund (the "master fund");</p> <p>(b) invests at least 85 % of its assets in more than one master fund where</p>	The Authority notes that the proposed Private Funds (Annual Returns) Regulations which are currently in draft form, are expected to include a definition for the term "feeder fund".	No amendments to the section required.

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		<p>those master funds have identical investment strategies; or</p> <p>(c) has otherwise an exposure of at least 85 % of its assets to such a master fund.</p> <p>Comment: There is no definition of "feeder fund" in the PFL or in this Guidance. The definition proposed here is taken from Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers.</p>		
31.	<p>Sovereign Wealth Funds</p> <p>6.24.1 A sovereign wealth fund means a government investment fund (or pools of money) funded by foreign currency reserves but managed separately from official currency reserves which governments use to invest, typically in foreign companies.</p>	<p>Proposed Wording: 6.24.1 A sovereign wealth fund means an issuer of investment interests in respect of which a state exercises or controls, directly or indirectly 30% or more of the votes able to be cast on all or substantially all matters at general meetings of that issuer.</p> <p>Comment: The definitions here are taken from the Handbook published by the UK FCA and more accurately describe what the financial services industry understands a sovereign wealth fund to be.</p> <p>If the Authority would prefer to make clear that the funds are derived from the reserves of a State, then it is suggested that we include "reserves of money generated by the State" without being</p>	<p>The Authority has updated the definition for purposes of clarity to ensure that the main characteristics of a sovereign wealth fund are included in the guidance.</p>	<p>Section 6.24.1 has been updated to clarify the guidance on sovereign wealth funds as follows:</p> <p><i>"Sovereign wealth funds (SWF) refer to special purpose investment funds that are created and owned by the state/general government. SWFs are funded by state/government reserves but managed separately from official reserves and typically invested in a diversified portfolio of financial assets."</i></p>

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		limited to foreign currency reserves and without the requirement for foreign investment.		
32.	<p>Single Family Offices</p> <p>6.25.1 A single family office has the same meaning as that prescribed in the Securities Investment Business Law.</p>	<p>Proposed Wording: 6.25.1 A single family office has the same meaning as that prescribed in the Securities Investment Business Law other than the requirement to conduct securities investment business.</p> <p>Comment: The definition in the Securities Investment Business Law includes the underlined text below, which is narrower than the intended meaning under the PFL.</p> <p>"single family office" means a legal entity or legal arrangement formed in the Islands by a single family <u>to conduct securities investment business</u> for or on behalf of that single family where:"</p> <p>We assume that it is just an oversight that the cross reference by necessity includes the requirement to conduct securities investment business.</p>	<p>The feedback is noted and given the potential for the term "single family office" to be removed from the Securities Investment Business Law (SIBL), the Authority has removed the reference to the SIBL and included specific guidance.</p>	<p>The following guidance was included to replace the reference to the SIBL:</p> <p><i>"A single family office means a legal entity or legal arrangement formed in the Cayman Islands by a single family (to manage the wealth) for or on behalf of that single family."</i></p>