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Cayman Islands: Consultation Paper released on proposed next steps for regulating Tokenised Funds

The Ministry of Financial Services & Commerce released a Consultation Paper on 26 August 2025 of amendments to introduce tokenized funds in the Cayman Islands, along with amendment bills ("**Amendment Bills**") to each of the Mutual Funds Act, Private Funds Act, and the Virtual Asset (Service Providers) Act ("**VASP Act**") (together, the "**Acts**").

The Consultation Paper and proposed legislative changes set out in the Amendment Bills follow a much welcome amendment to the VASP Act passed in May 2025, which paved the way for tokenized funds in the Cayman Islands, by materially revising the definition of "issuance of virtual assets" to exclude both (i) the issuance of equity interests under the Mutual Funds Act, and (ii) investment interests under the Private Funds Act, from the requirement to register under the VASP Act. Please see our [Legal Insight from 24 July 2025](#) for further detail.

Now, the Amendment Bills are designed to provide further regulatory certainty to (i) adapt the Acts so that they explicitly cover tokenized funds and address the additional specific considerations that apply to a tokenized fund e.g. custody arrangements, and (ii) ensure that the Cayman Islands Monetary Authority ("**CIMA**") has sufficient powers to effectively supervise tokenized funds.

Key changes

The ten (10) key takeaways of the Amendment Bills are as follows.

1. They introduce new defined terms into each of the Acts to clearly distinguish tokenized funds.
2. They clarify that digital equity or investment tokens must convey the same rights and privileges as traditional non-tokenized equity or investment interests.
3. The operators of a tokenized fund must ensure that (i) adequate records relating to the creation, sale, transfer and ownership of digital equity tokens/ digital investment tokens are maintained and available for inspection by CIMA within 24 hours of any such request (ii) the tokenized fund must have staff who possess the necessary skills, knowledge and experience, and (iii) the tokenized fund must maintain adequate capital and cybersecurity measures.
4. Requirement to appoint an Administrator/ additional obligations of the Administrator:
 - (a) [Private Fund](#) - Whereas there is currently no statutory requirement in the Private Funds Act for a non-tokenized private fund to appoint a third party Administrator, the Amendment Bill to the

Private Funds Act requires a tokenized private fund to appoint an Administrator who is licensed by CIMA and acts as the principal office of the tokenized private fund.

- (b) **Mutual Fund** – While there is currently no specific requirement in the Mutual Funds Act which mandates that the Administrator appointed by a regulated non-tokenized mutual fund must be a CIMA licensed fund Administrator (i.e. a foreign Administrator can be appointed), the Amendment Bill to the Mutual Funds Act requires the Administrator appointed by a tokenized mutual fund to be a CIMA licensed Administrator, which shall also act as the principal office to the tokenized mutual fund.

The Amendment Bill to the Mutual Funds Act also increases the obligations that apply to a CIMA licensed fund Administrator. For example, the proposed amendment to section 16(d) of the Mutual Funds Act set out in the applicable Amendment Bill states that a CIMA licensed mutual fund Administrator shall not provide mutual fund administration to a tokenized mutual fund, unless (i) the issuance, redemption and transfer of digital equity tokens comply with the terms of the offering document, (ii) all records relating to the creation, sale, transfer and ownership of digital equity tokens are securely maintained and available to CIMA within 24 hours of request, (iii) the tokenized mutual fund is staffed with staff who possess the necessary skills, knowledge and experience and has appropriate facilities, books, records and accounting systems, capital and cybersecurity measures, and (iv) the tokenized mutual fund has complied with every other requirement under the Mutual Funds Act (as amended).

5. Any risks specific to the digital equity tokens/ digital investment tokens, including considerations regarding cybersecurity, the liquidity of the digital equity tokens/ digital investment tokens to be issued by a tokenized fund should be disclosed in the offering document, along with details of any measures to mitigate such risks.
6. They add a requirement for a tokenized fund to notify CIMA if it is not able to meet its obligations to tokenholders.
7. The operator of a tokenized fund must ensure that digital equity tokens/ digital investment tokens are held in secure custody and in a manner to protect the interests of the tokenholders.
8. The audit of a tokenized fund by an independent auditor shall include (i) an analysis of the digital equity token's/ digital investment token's design, creation, supply and distribution, as well as the processes and controls which govern the digital investment tokens, (ii) an information technology security audit, and (iii) any features of programmable contracts or self-executing contracts.
9. The independent auditor is also required to confirm as part of the audit of a tokenized fund that (i) no fraudulent transactions have been identified during the audit, (ii) all digital equity tokens/ digital investment tokens created and issued are backed effectively by underlying assets, and (iii) to include a statement of compliance of the tokenized fund with all applicable custody, cybersecurity and risk management measures issued by CIMA.
10. They grant CIMA supervisory powers including the power to carry out inspections of the underlying technology, digital equity tokens/ digital investment tokens and underlying asset valuations.

Conclusion and next steps

The Consultation Paper and Amendment Bills provide much needed legal clarity and modernization of the existing Cayman Islands legal and regulatory framework to effectively “catch-up” with the evolving technology developments in the financial and digital assets industry.

The Consultation Paper (including Amendment Bills) are subject to any comments or feedback from industry stakeholders by 12 September 2025 and given the subject matter of the Amendment Bills, it is

likely that further regulatory measures will be issued by CIMA in relation to tokenized funds to provide further guidance.

Further Assistance

This publication is not intended to be a substitute for specific legal advice or a legal opinion. For specific advice on the matters covered in this Legal Briefing, please contact your usual Loeb Smith attorney or any of the following:

E: gary.smith@loebsmith.com

E: robert.farrell@loebsmith.com

E: elizabeth.kenny@loebsmith.com

E: vanisha.harjani@loebsmith.com

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