

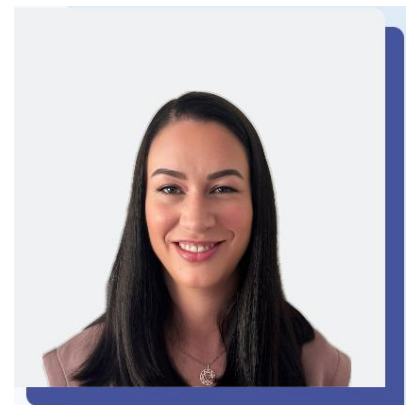


Legal Insights

Cayman Islands – The latest position regarding tokenized funds

The Cayman Islands' Mutual Funds (Amendment) Act, 2026 and the Cayman Islands' Private Funds (Amendment) Act, 2026 both came into force as of March 24, 2026. The Mutual Funds (Amendment) Act, 2026 established a comprehensive regulatory framework for "tokenised mutual funds", defining them as funds with equity interests represented by digital equity tokens. It mandates enhanced record-keeping, operator approval for transfers, and specific risk disclosures. The Private Funds (Amendment) Act, 2026 amends the Private Funds Act to define "digital investment tokens", and mandates strict record-keeping, operator-approved transfers, and risk disclosures for funds where interests are represented by digital tokens.

The key takeaway from the changes introduced is that tokenised funds are to be regulated within the existing Cayman Islands Monetary Authority (CIMA) funds regulatory framework, rather than as separate virtual asset entities.



What are the key changes introduced by both Acts?

1. **Additional definitions** - The definition of "debt" and "equity interests" have been expanded to include LLC interests. New definitions have been included respectively for "*digital equity token*" in respect of a tokenised mutual fund and "*digital investment token*" in respect of a tokenised private fund. In each respective case, meaning for "*digital equity token*" - a digital representation of the whole of an equity interest held by an investor, and meaning for "*digital investment token*" - a digital representation of the whole of an investment interest held by an investor. A new definition has also been included for "*tokenised mutual fund*" and "*tokenised private fund*", being respectively a fund that has any of its equity interests/ investment interests represented by digital equity tokens/ digital investment tokens.
2. **No custodian required** – There is no requirement for a custodian to be appointed to hold the digital equity tokens or digital investment tokens in secure custody. However, disclosure as to who holds the underlying assets of the fund is material information for the fund's offering document (particularly where such assets are not held by an independent custodian which is subject to regulatory standards for maintaining custody).
3. **No requirement for a CIMA licensed Administrator/ principal office** – There is no requirement for a tokenised fund to have a CIMA licensed administrator who also acts as the principal office. However, where a tokenised mutual fund does appoint a CIMA licensed administrator, they will need to comply with additional obligations. For example, a CIMA licensed administrator must be satisfied that all

records relating to the ownership of tokens are securely maintained by the tokenised fund and readily available and that the tokenised fund has complied with the applicable statute.

4. **Maintenance of records** – If a Cayman Islands licensed mutual fund administrator is appointed, it must ensure secure maintenance of records related to token issuance, creation, sale, transfer, and ownership.
5. **Transfer Restrictions** - Tokens are only transferable with the approval of the operator of the tokenised fund and in accordance with the terms of the offering document.
6. **Risk Disclosures** - Offering documents for tokenized funds must explicitly disclose risks related to digital tokens including cybersecurity risks, custody risks, and transferability risks, together with how such risks are addressed or mitigated for investors.
7. **Annual confirmation** - An annual confirmation will be required by CIMA from the operators of the tokenised fund that all records relating to the issuance, creation, sale, transfer and ownership of an equity interest/ investment interest that is represented by a digital equity token/ digital investment token have been properly kept and maintained in compliance with the requirements set out in the legislation.
8. **CIMA supervisory powers** - CIMA is granted supervisory powers over tokenised funds to ensure compliance with statute and the protection of investors interests, including inspections of the underlying technology and token transactions.

The Virtual Asset (Service Providers) (Amendment) Act, 2026 which is also now in force clarifies that tokenised funds registered with CIMA are not subject to the VASP Act unless they engage in separate virtual asset services.

These changes clearly demonstrate that the Cayman Islands remains committed to fostering innovation, helping the jurisdiction stay at the leading edge, where traditional fund structures meet blockchain technology.

This publication is not intended to be a substitute for specific legal advice or a legal opinion. For specific legal advice on the subject matter of this Briefing, please contact your usual Loeb Smith attorney or Liz Kenny.

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