



Charles Adams Ritchie & Duckworth

ATTORNEYS AT LAW

## **INVESTMENT FUNDS – LISTING ON THE CAYMAN ISLANDS STOCK EXCHANGE**

### **INTRODUCTION**

The Cayman Islands Stock Exchange (the “CSX”) commenced operations in July 1997 and currently lists more than 1,000 issues with aggregate capitalisation in excess of US\$80bn, including investment funds, specialist debt and derivative warrants. Investment funds represent some 85% of all listings and this memorandum highlights the principal features that have attracted so many fund operators to the CSX.

### **UK RECOGNITION**

In July 1999 the CSX was granted approved organisation status by the London Stock Exchange and on 4th March 2004 the UK Inland Revenue designated the CSX a “recognised stock exchange”. This designation by the UK Inland Revenue is an important development for investment funds. Under UK regulations relating to personal pension schemes, shares in companies listed on the CSX are now permitted investments for self invested personal pension schemes. The UK Inland Revenue has also confirmed that all occupational pension schemes are now entitled to invest in shares listed on a recognised stock exchange. Consequently, a listing on the CSX not only enhances the marketability of an investment fund but also gives it access to a wider investor base.

### **WHY LIST?**

The reasons for listing the securities (shares or, in the case of a trust, units) of an investment fund include:

- Increasing the potential investor base – legal or regulatory constraints may mean that certain investors are either restricted or prohibited from investing in unlisted securities or securities which are not listed on a recognised stock exchange. Listing on the CSX increases the potential investor base of a fund by enabling it to market to such investors.
- Publicly available information for investors – all net asset values and announcements made by listed funds are publicly available on the CSX website.
- Investors may mark their fund investment to market – many fund investors require a publicly quoted stock exchange price for their investments.
- Increasing the prestige and profile of a fund – a listing on a well regulated and recognised stock exchange provides a valuable marketing tool for fund promoters.

### **CSX STRENGTHS**

A CSX listing offers investment funds of all descriptions an effective platform for attracting investment whilst adding credibility and prestige to their securities. The CSX Listing Rules have been developed with emphasis on full and proper disclosure to potential investors as a fundamental



starting point for regulation and have been specifically designed to be clear and easy to understand. The CSX has experience in listing many types of investment vehicles including hedge funds, feeder funds, umbrella funds and funds specialising in particular products including property, venture capital and emerging markets. The CSX listing team has extensive knowledge of the investment funds sector and provides a flexible and efficient service at costs which are competitive with, or more attractive than, those of other listing centres.

**COMPARISON WITH THE IRISH STOCK EXCHANGE**

The Irish Stock Exchange (the “ISE”) has been listing investment funds since 1989 and, until relatively recently, has been the exchange of choice for the listing of offshore funds. The designation of CSX as a recognised stock exchange has greatly raised its profile and reputation such that it is now a serious competitor to the ISE. Although the CSX and ISE have much in common there are some important differences in their respective Listing Rules and fund operators should give careful consideration to which exchange suits the particular needs of their product. The more important of such differences are highlighted below:

	CSX	ISE
Subscribers	<ul style="list-style-type: none"> <li>No restriction</li> </ul>	<ul style="list-style-type: none"> <li>Sophisticated investors meaning any investor who subscribes at least US\$100,000 to any one fund or sub-fund or US\$300,000 to any umbrella fund</li> </ul>
Investment Restrictions	<ul style="list-style-type: none"> <li>No restriction but investment objectives and policies must be disclosed in listing document</li> </ul>	<ul style="list-style-type: none"> <li>Not more than 20% of gross assets may be lent to or invested in any one issuer</li> <li>Not more than 40% of gross assets may be invested in another fund</li> <li>Not more than 10% of gross assets may be invested in physical commodities or real estate</li> <li>Not more than 20% of gross assets of a fund of funds may be invested in another fund of funds</li> <li>May not materially change principal investment objectives and policies specified in listing document, for a minimum period of three years from date of listing</li> </ul>



	CSX	ISE
Investment Manager	<ul style="list-style-type: none"> <li>• Must have adequate experience and expertise</li> <li>• Indication of value of assets under discretionary management must be disclosed in listing document</li> </ul>	<ul style="list-style-type: none"> <li>• Should have at least US\$100 million under discretionary management</li> <li>• Regulated in EU or other prescribed jurisdiction</li> </ul>
Hedge Funds	<ul style="list-style-type: none"> <li>• No specific conditions or restrictions</li> </ul>	<ul style="list-style-type: none"> <li>• Prime broker (or its parent) must have minimum credit rating by Moodys or Standard and Poors of “A” for long term debt and “P-2” or “A-1” for short term debt</li> <li>• Prime broker must have financial resources in excess of US\$200 million and must be regulated by recognised authority</li> </ul>
Redemptions	<ul style="list-style-type: none"> <li>• No limit to lock-in period provided terms are disclosed in listing document</li> </ul>	<ul style="list-style-type: none"> <li>• Listing document may provide for lock-in period not exceeding six months</li> </ul>

## LISTING AGENTS

All investment funds seeking a listing on the CSX are required to appoint a Listing Agent such as CARD who will be responsible for:

- ensuring the fund and its directors are properly guided and advised on the application of the Listing Rules;
- completing and checking all forms and documents for compliance with the Listing Rules;
- responding to and making all communications with the CSX;
- seeking the CSX’s approval of listing documents; and
- acting as a contact point with the CSX on behalf of the fund

**This article is intended to provide a limited overview of the subject matter and is not a substitute for proper legal advice in relation to a particular transaction or proposal.**