Client Memorandum

CAYMAN ISLANDS LICENSING AND REGISTRATION REGIME FOR SECURITIES INVESTMENT BUSINESS UNDER THE SECURITIES INVESTMENT BUSINESS ACT (REVISED).

January 2026

1. Introduction

1.1. The conduct of securities investment business is governed by the *Securities Investment Business Act (Revised)* ("**SIBA**"), associated regulations[1] and regulatory measures and falls within the remit of the Cayman Islands Monetary Authority ("**CIMA**"), the body responsible for financial services regulation, including the application of anti-money laundering/combatting of terrorist and proliferation financing ("**AML/CFT**") requirements to financial services providers.

1.2. Securities investment business includes dealing in securities; arranging deals in securities; managing securities; and advising on securities.[2] 'Securities' is broadly defined, and includes shares, instruments creating or acknowledging indebtedness, warrants, options, futures, contracts for differences and virtual assets which can be sold traded or exchanged for securities or represent a derivative of securities.[3] As explained below, the regime under SIBA provides for licensees (full or restricted) and registrants. Registration is available where the client base is sophisticated and/or high net worth, as defined in SIBA.[4]

1.3. The licensing, ongoing and conduct of business requirements and fees in respect of securities advisors, managers, brokers and arrangers are outlined below, as well as the registration provisions relating to advisors, managers, brokers and arrangers that are eligible for registration as a 'registered person'.[5]

1.4. No securities investment business can be undertaken unless an entity or person has a licence or registration to conduct securities investment business.

2. Securities Advisors, Managers, Brokers And Arrangers – Licensing[6]

Application Requirements

[1] *Securities Investment Business (Licence Applications and Fees) (Amendment) Regulations (Revised), Securities Investment Business (Financial Requirements and Standards) Regulations (Revised)* and *Securities Investment Business (Conduct of Business) Regulations (Revised)*

[2] Schedule 2, SIBA contains statutory description of arranging, managing and advising activity.

[3] Schedule 1, SIBA

[4] See further under '*Exemption from licensing requirement – registered persons*', below.

[5] Note that SIBA licenses/registers at the entity level, not natural persons. Entity licensees are expected to have personnel with the requisite qualifications, and this is reviewed by CIMA as part of the entity's licence application.

[6] This memorandum does not cover the opt-in regime introduced for managers of EU-connected investment funds, which came into force on 1 January 2019.

2.1 The application requirements for a licence are intended to supply CIMA with a basis for assessing:

(a) the applicant's ability to comply with the applicable regulatory regime (i.e. SIBA and AML/CFT requirements),

(b) whether the applicant has the appropriate personnel and facilities for the proper conduct of business, having regard to the nature and scale of the business,

(c) whether the applicant's management and senior staff are fit and proper persons, with reference to honesty, integrity, reputation, competence and capability, and

(d) whether there is any public interest reason why a licence ought not to be granted.

2.2 These heads of assessment are set in SIBA.[7] Where an applicant does not wish to provide services on an all-comers basis, CIMA may issue a restricted licence, which limits the provision of services to specified clients pre-identified by the applicant, up to a maximum of 20.[8]

2.3 The statutory application form accordingly requires detailed information and supporting documentation concerning the applicant's:

(a) identity, legal structure, regulatory history (if any), business objectives, internal staff structure, systems and controls (business and AML/CFT), service providers (lawyers, bankers, auditors),

(b) directors, managers, senior officers and persons with 10% or greater of issued share capital or total voting rights,[9]

(c) financial resources, audited financials or audited opening balance sheet (where applicant newly established and operations not yet commenced) and insurance,[10] and

(d) compliance personnel and anti-money laundering compliance officer, money laundering reporting officer ("**MLRO**") and deputy MLRO (together "**AML officers**").[11]

2.4 CIMA has also issued a regulatory policy on licensing of securities investment business which further articulates application requirements and regulatory expectations. As part of that policy, CIMA strongly encourages prospective applicants to meet with them to discuss the application requirements in advance of submission of an application. It typically takes in excess of 12 weeks for CIMA to process a properly completed application.

Capital Requirements

[7] s. 6(5), (6). CIMA will not grant a licence unless satisfied on these heads.
[8] s. 6(10) and reg.5, *Securities Investment Business* (*Licence Applications and Fees) Regulations*.
[9] A licensee that is a company or a corporate general partner of a limited partnership is required to have no fewer than two directors or managers, as the case may be. All the individuals enumerated in b) are required to submit a personal questionnaire.
[10] Coverages required are professional indemnity, professional liability on senior officers and corporate secretaries and business interruption, in amounts appropriate to the size, complexity and nature of the applicant's business, per reg 4, *Securities Investment Business (Conduct of Business) Regulations*.
[11] Licensees are required to have a Money Laundering Reporting Officer and deputy and an Anti-Money Laundering Compliance Officer.

2.5 A licensee is at all times to maintain financial resources in excess of its 'financial resources requirement', per the statutory calculation basis in reg. 9 and Schedule 1 of the *Securities Investment Business (Financial Requirements and Standards) Regulations.* The 'base requirement' in Schedule 1 is to be **the greater** of a quarter of 'relevant annual expenditure' and, in the case of securities brokers and managers, US$122,000 and in the case of securities advisors and arrangers, US$18,300.

Physical Presence Requirements

2.6 Under CIMA's licensing policy, a licensee is generally expected to have a physical presence in the Cayman Islands for its business operations. CIMA may allow licensees to outsource certain material functions outside of the Islands, but reserves the right to require some or all activities/functions to be conducted within the Islands.

2.7 Such a place of business is exempted under SIBA from the burden of additional licensing under the *Local Companies (Control) Act* and the *Trade and Business Licensing Act.*[12] However, pursuant to the *Immigration Act*, any non-local staff would require work permits.

Fees

2.8 An application fee is payable with additional fees payable on the first grant and an annual renewal fee, depending on the type of activity and whether licensing or registration is sought.

Annual Returns and Notifications

2.9 All licensees under SIBA are required to submit the following returns to CIMA:

(a) audited accounts annually, within six months of the licensee's financial year end,[13]

(b) a certificate of compliance, to be submitted with the audited accounts, certifying that the licensee has complied with the provisions of the Act and regulations,[14]

(c) auditor's opinion on the internal controls of the licensee, at the same time as the audited accounts,[15]

(d) a financial return, comprising a quarterly financial resources statement, to be filed within 15 business days of the end of the quarter [16]

(e) annual reconciliation between balance sheet figures on the audited accounts and quarterly reporting statement prepared at the same date, and an explanation of any differences, and at the same time as the audited accounts,[17] and

(f) current details of insurance coverage, annually, prior to licence renewal.[18]

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[12] s.6(13), SIBA
[13] s.13, SIBA
[14] s.13, SIBA
[15] Reg.8(1)(a), *Securities Investment Business (Financial Requirements and Standards) Regulations*
[16] Reg. 8(1)(b) and Schedules 1 and 2, *Securities Investment Business (Financial Requirements and Standards) Regulations*), and associated guidance. The financial return is filed electronically.
[17] Reg.8(1)(c), *Securities Investment Business (Financial Requirements and Standards) Regulations*)
[18] Reg 4(2), *Securities Investment Business (Conduct of Business) Regulations*

2.10 In addition, licensees are required to:

(a) notify CIMA of any changes in the information provided in the licence application, within seven days of such changes occurring,[19]

(b) notify CIMA of the occurrence or expected occurrence of any specified adverse events, including credit events, insolvency, regulatory or legal actions against the licensee, material breakdown of administrative or control procedures, breaches of financial requirements and failure of an intermediary holding client money, immediately in writing,[20]

(c) notify CIMA of the acquisition of 10% or more of the voting shares of another company,[21]

(d) obtain CIMA's prior written consent before seeking to reduce or change the nature of its issued capital or the rights and obligations of shareholders,[22]

(e) obtain CIMA's prior written consent regarding any agreement to sell or merge the licensee, in whole or in part.[23]

2.11 All changes in ownership of the licensee require prior approval of CIMA, though *ex post* notification is permitted where the licensee's shares are publicly traded on a recognised exchange.[24]

2.12 All licensees are subject to onsite inspection by CIMA, both in relation to compliance with SIBA and with AML/CFT requirements.[25]

Conduct of Business Requirements

2.13 In addition to the requirements under the *Securities Investment Business (Financial Requirements and Standards) Regulations,* the *Securities Investment Business (Conduct of Business) Regulations* prescribe requirements that licensees are to observe relating to employee own-account dealings; recordkeeping in relation to matters such as marketing materials, transactions and clients; advertising standards; standards for dealing with clients; and standards for the handling of client assets and money. As envisioned by the *Regulations*, CIMA has issued a number of Statements of Guidance in relation to aspects of business conduct, to which licensees would need to have regard (see at 'regulatory measures' hyperlink in the Introduction).

AML/CFT Requirements

2.14 The conduct of securities investment business falls within the definition of 'relevant financial business' under the *Proceeds of Crime Act* and therefore SIBA licensees are required to have comprehensive risk-based AML/CFT systems, procedures and controls

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[19] s. 7(4), SIBA
[20] Reg.9, *Securities Investment Business (Conduct of Business) Regulations*
[21] Reg. 10(b), *Securities Investment Business (Financial Requirements and Standards) Regulations*
[22] Reg. 10(a), *Securities Investment Business (Financial Requirements and Standards) Regulations*
[23] Reg. 10(c), *Securities Investment Business (Financial Requirements and Standards) Regulations*
[24] s.8, SIBA
[25] s.16(c), SIBA

in place in compliance with the *Anti-Money Laundering Regulations,* including in relation to customer due diligence and suspicious activity reporting, and must appoint AML officers. In addition to the legislation cited, licensees should comply with *CIMA's Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands.*

2.15 In addition to CIMA requirements, certain persons authorised under SIBA are subject to the following regimes, administered by the Cayman Islands Tax Information Authority ("**TIA**"), as outlined under A and B below:

Tax Information Reporting

2.16 Cayman Islands-based financial institutions are subject to the *Tax Information Authority (International Tax Compliance) (United States of America) Regulations* which implement the US FATCA regime in the Cayman Islands and the *Tax Information Authority (International Tax Compliance) (Common Reporting Standard) Regulations* which implement the OECD common reporting standard for automatic exchange of tax information ("**CRS**") and covers 100-plus reportable jurisdictions.[26] Accordingly, an entity that is a financial institution ("**FI**") as defined is required to (i) establish procedures for the identification of reportable persons, (ii) register with TIA and, pursuant to FATCA, the US Internal Revenue Service and obtain a GIIN number; and (iii) make an annual report on accounts held by reportable persons to TIA. An FI that is in general compliance with the FATCA *Regulations* will not be subject to US FATCA withholding tax on US-source income. A manager licensed or registered under SIBA would be classified as an FI; however, the annual financial account reporting requirement would only apply where it holds client assets. A broker with custody of client assets would also be classified as an FI.[27]

Economic Substance

2.17 The Cayman Islands introduced economic substance requirements to implement the OECD BEPS 5 rules on 1 January 2019, under the *International Tax Co-operation (Economic Substance) Act* ("**ES Act**"). Under the ES Act, only a 'relevant entity' doing a 'relevant activity' is required to satisfy the economic substance test ("**ES test**"). Fund management business is one of the 9 categories of 'relevant activity' within scope of the ES test, and a manager licensed or registered under SIBA that conducts such business and is is a 'relevant entity' will need to have: (i) appropriate direction and management in the Cayman Islands, (ii) adequate operating expenditure incurred in the Cayman Islands, (iii) an adequate place of business in the Cayman Islands and (iv) adequate and appropriate personnel in the Cayman Islands.

2.18 The Guidance issued by TIA provides that what is 'adequate' or 'appropriate' will be judged on facts and circumstances specific to the business being undertaken and not the subject of prescribed amounts. Generally speaking, it is likely that a fund manager that is a licensee would inherently meet the substance requirements by virtue of meeting the physical presence/place of business requirements for licensing under SIBA.

[26] The OECD CRS regime is similar, but not identical to, US FATCA.

[27] An arranger or advisor under SIBA is not *prima facie* an FI, but could potentially find itself in the FI category if it holds client assets

2.19 Cayman Islands entities within scope of the ES test have certain annual compliance reporting obligations to TIA, as specified in the ES Act. For ES Act purposes, all Cayman Islands entities are required to make an annual classification/notification filing, via their registered office provider, indicating whether or not a 'relevant activity' is being undertaken and if so, whether or not the entity is a 'relevant entity'.

3. Exemption From Licensing Requirement – Registered Persons

3.1 SIBA provides for specified persons to conduct securities investment business under a registration as opposed to a licence.[28] The categories of person that may seek registration are:[29]

(a) a company within a group of companies carrying on securities investment business exclusively for one or more companies within the same group.

(b) a person[30] carrying on securities investment business exclusively for one or more of the following classes of person –

(i) a sophisticated person;[31]
(ii) a high net worth person;[32] or
(iii) a company, partnership or trust of which the shareholders, unit holders or limited partners are one or more persons falling within (i) or (ii).

(c) a person to whom b) above applies but who is regulated in respect of securities investment business by a recognised overseas regulatory authority in the country or territory (other than the Islands) in which the securities investment business is being conducted.

3.2 Registrants are only subject to the *Securities Investment Business (Registration and Deregistration Regulations* and not the SIBA regulations to which licensees are subject (see footnote 1). Therefore, for instance, registrants do not have to file audited financials with CIMA and are not subject to capital or professional indemnity insurance requirements. However, CIMA has supervisory/enforcement powers equivalent to those over licensees.[33]

Registration Application and Fees

[28] s.5(1) and Schedule 4, SIBA
[29] s.5(4), SIBA.
[30] Such person must have a registered office in the Islands provided by a person licensed to provide such registered office services.
[31] Defined as a person i) who is regulated, either by CIMA or a recognised overseas regulatory authority; ii) any of whose securities is listed on a recognised securities exchange; or iii) who by virtue of knowledge and experience in financial and business matters is reasonably to be regarded as capable of evaluating the merits of the proposed transaction and participates in a transaction with a value or in monetary amounts of at least US$97,500 in the case of each single transaction.
[32] Defined as an individual whose net worth is at least US$975,500 or any person with total assets of US$4.9 million or more.
[33] ss. 16 and 17, SIBA.

3.3 The application for registration is via a CIMA REEFS filing which requires details about the category of registered person it is sought to be registered under; the nature of the registrant's client base; and the registrant's shareholders, directors and AML officers; and CIMA may in addition seek such supplementary information as it considers appropriate. The registration fee is US$7,318 (initial and annual) and it typically takes CIMA 10-12 weeks to process registrations.

3.4 A registrant is generally required to have two directors or managing members as the case may be, each of whom is required to be registered with CIMA under the *Directors Registration and Licensing Act*. This involves a short electronic filing of some basic information and payment of a fee of US$854, initially and then annually thereafter.[34]

Continuing Obligations

3.5 A registered person is under the following continuing obligations:

(a) *annual declaration and fee* – a registrant must file with CIMA annually, by the 15th January of each year following registration, a declaration confirming certain basic details together with the annual registration fee of US$7,318;[35]

(b) *prudential information survey* – a registrant must file responses to a *prudential information survey* with CIMA annually, by the 31st March of each year following registration,

(c) *AML survey* – a registrant must file responses to an *AML survey* with CIMA annually, by the 15th September of each year following registration,

(d) *material change notification* – a registrant is required to notify CIMA within 21 days after any material change in the information filed by the registered person in its application for registration or its annual declaration, which material change expressly includes changes in ownership and changes in directors;[36]

(e) *segregation of client assets* – registrants must ensure that any client funds and property held are segregated from the registrant's own funds and property;[37]

(f) *senior officer removal* – a registrant is required to remove or replace a director/managing member immediately on conviction in any country on any offence involving dishonesty;[38] and

(g) *de-registration* – a registrant that has ceased carrying on securities investment business must file for de-registration within 21 days after the date of cessation, in accordance with the procedure set out in the *Securities Investment Business (Registration and Deregistration Regulations.*[39]

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[34] s.15(4), SIBA.
[35] s.5(4E), SIBA
[36] ss.5(4C), 8(1A) and 15(5), SIBA There are REEFS filings for these matters.
[37] s.10, SIBA.
[38] s.15(3), SIBA
[39] s.5(4B), SIBA

AML/CFT Requirements

3.6 The conduct of securities investment business whether by a licensee or a registrant is relevant financial business for the purposes of the *Proceeds of Crime Act,* and consequently registrants must comply with the *Anti-Money Laundering Regulations* in the same way as SIBA licensees must (see above).

Tax Information Reporting; Economic Substance

3.7 The rules are the same as those in respect of licensees; see above.

Physical Presence Requirements

3.8 There are no physical presence requirements under SIBA for registrants. Registrants that nevertheless elect to have a physical presence in Cayman would be covered by both the SIBA exemption in relation to the *Local Companies (Control) Act* and the *Trade and Business Licensing Act* and by the requirement to obtain work permits for non-local staff. However, as noted above, registrants that conduct fund management business will be subject to the requirements of the ES Act (see 'Economic Substance').
