



Rule Calculation of Assets Values–Regulated Mutual Funds

Rule

Calculation of Asset Values – Regulated Mutual Funds

1. Statutory Authority

- 1.1. These Rules are issued pursuant to s. 34 of the Monetary Authority Law (2020 Revision) (“MAL”), which provides that the Cayman Islands Monetary Authority (the “Authority”) may, after private sector consultation, issue or amend rules or statements of principle or guidance concerning the conduct of licensees and their officers and employees, and any other persons to whom and to the extent that the regulatory laws may apply.
- 1.2. These Rules should also be read in conjunction with the Authority’s Rules on Contents of Offering Documents of Regulated Mutual Funds.

2. Objective

- 2.1. To set out the Authority’s rules on the Calculation of Asset Values for Regulated Mutual Funds (each subparagraph of paragraph 5 below referred to as a “Rule,” and collectively, the “Rules”), pursuant to the MAL.

3. Scope

- 3.1. These Rules apply to all funds licensed or registered under s. 4 of the Mutual Funds Law (2020 Revision) (the “MFL”).

4. Definitions



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- 4.1. Regulated Mutual Fund (hereafter referred to as 'Fund') means any mutual fund licensed or registered under s. 4 of the MFL.
- 4.2. NAV (Net Asset Value) means the value of a Fund's total assets (including accrued interest, dividends and other receivables), minus the value of the Fund's total liabilities (including accrued expenses (including fees) and other payables).
- 4.3. NAV Calculation Policy means the pricing and valuation practices, policies, and procedures to calculate a Fund's NAV that are established and maintained in accordance with the requirements of the Rules.
- 4.4. Operator means the directors of a Fund that is a company, the general partner(s) of a Fund that is a partnership, the trustee of a Fund that is a unit trust, and the managing member(s) of a Fund that is an LLC.
- 4.5. Service Provider includes a Fund's administrator, auditor, custodian, investment manager / advisor, Operator, prime broker, promoter, or registrar, or any of their delegates with responsibility for the Fund's portfolio or operations.
- 4.6. Market Price means the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal or most advantageous market at the NAV calculation date that is directly observable and in a market accessible by the fund.
- 4.7. Hard-to-Value Securities means assets or liability for which there is no Market Price which is required to be measured at fair value pursuant to 5.2.



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- 4.8. Pricing Models include any pricing models or determination methods used to value Hard-to-Value Securities.
- 4.9. Fair Value means the price that would be received for the sale of an investment in an orderly transaction between market participants in the principal market or in its absence, the most advantageous market for the asset.
- 4.10. All other capitalised terms used in the Rules shall have the meanings ascribed to them in the MFL.

5. NAV Calculation Policy

- 5.1. A Fund must establish, implement, and maintain a NAV Calculation Policy that ensures a Fund's NAV is fair, complete, neutral and free from material error and is verifiable.
 - 5.2. The NAV Calculation Policy shall be based on the International Financial Reporting Standards, or generally accepted accounting principles of the United States of America, Japan, Switzerland or Non-High Risk Jurisdiction.
 - 5.3. The methodology used to perform the NAV calculation must be consistent with the accounting principles or reporting standards used to prepare the Fund's audited financial statements.
 - 5.4. The NAV Calculation Policy must:
 - 5.4.1 be written and disclosed in the Fund's offering document;
 - 5.4.2 describe the Fund's practical and workable pricing and valuation policies, practices, and procedures;
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- 5.4.3 require the calculation of the Fund's NAV regularly, at least quarterly;
 - 5.4.4 state when NAV will be calculated, how it will be used, and when and how it will be published;
 - 5.4.5 state the accounting principles or reporting standards that will be followed;
 - 5.4.6 define the role and responsibilities of the Fund's Service Providers in the valuation process;
 - 5.4.7 identify the price sources for each instrument type and a practical escalation of resolution procedure for the management of exceptions; and
 - 5.4.8 incorporate internal controls that are appropriate to the size, complexity, and nature of the Fund's operations.
- 5.5. Subject to the requirements of accounting principles set out in 5.2, the NAV Calculation Policy must require that the Fund values the securities within its portfolio(s) by giving priority to unadjusted Market Prices, and for Hard-To-Value securities, priority be given to valuation inputs that are directly observable (i.e. those derived from market data, including publicly available information about events and transactions or reflective of assumptions that market participants would use) with the lowest priority being given to inputs that are unobservable (i.e. where market data is not available regarding the assumptions that market participants would use)
- 5.6. A Fund may use Pricing Models to determine a Fair Value for Hard-to-Value Securities.
- 5.6.1 A Fund must, to the extent appropriate to address the risk of material error, calibrate Pricing Models, by verifying the inputs used in the Pricing Model and testing whether the Pricing Model reflects current market conditions, for example, by applying the model and inputs to a
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similar instrument for which pricing information is available or other appropriate means.

- 5.6.2 In applying a Pricing Model a fund shall take into account all information which is reasonably available at the NAV calculation date that would be considered by a market participant in the application of its Pricing Model but need not undertake exhaustive efforts to obtain that information.
- 5.7. The Fund must require the Fund's relevant Service Providers that are charged with calculating the NAV, to apply the NAV Calculation Policy and any Pricing Models consistently; unless there is satisfactory reason not to do so, deviations, must be disclosed in the Fund's Marketing Material. Where they have an effect on the reported NAV, they must be immediately disclosed to the Fund's investors and agreed by the Operator(s) in advance of the determination or production of the NAV.
- 5.8. Subject to Rule 5.9, the NAV of a Fund must be calculated by a Service Provider that is independent of the Fund's investment manager / advisor and Operators, who is competent, has the capability to value the portfolio of the Fund and able to adhere to the NAV Calculation Policy.
- 5.9. Wherever prices are provided or sourced by the investment manager / advisor or Operators:
- 5.9.1 the manager / advisor or Operator must also provide any supporting information that is used to determine the prices; and
- 5.9.2 the Service Provider charged under 5.8 to calculate the NAV, must take steps that are reasonable and proportionate to the risk of material error or bias to verify the facts on which the prices are determined and the appropriateness of the provided price to the extent reasonably
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possible.

- 5.10.A Fund's investment manager / advisor or Operators may calculate or assist in the calculation of the Fund's NAV only if this fact is explicitly detailed in the Fund's offering document, together with an explanation why another Service Provider could not calculate the Fund's NAV. This requirement shall not preclude the involvement of the Operators in the NAV calculation where the involvement is necessary to comply with the requirement of 5.13, the fiduciary obligations or any legal or regulatory obligation, their responsibility for the Fund's audited Financial Statements, or a failure to comply with the NAV calculation Policy by the service provider charges with the NAV Calculation. It should also not preclude the involvement whatsoever where such involvement is determined to be in the best interests of the investors and to comply with this Rule.
- 5.11.Where the NAV of a Fund is not calculated by a Service Provider that is independent of the Fund's investment manager / advisor and Operators in accordance with Rule 5.8, the Authority may require the Fund to have its valuations verified by an auditor or independent third party
- 5.12.In addition to any disclosure required by Rule 5.10, a Fund's offering document must explicitly describe the inherent limitations of the NAV Calculation Policy, any material involvement by the Fund's investment manager / advisor in the pricing of the Fund's portfolio, or otherwise in the calculation, determination or production of the NAV and any conflicts of interest caused by such involvement. A Fund's offering documents must explicitly disclose any conflicts of interest caused by such involvement by the Fund's investment manager / advisor in the determination of the NAV, taking into consideration the pricing of hard
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to value securities.

5.13. The NAV of the Fund shall be communicated directly to the Fund's investors (as recorded on the official register of the entity) including each particular investor's share of the balance or NAV per unit, by the Service Provider Charged with the NAV Calculation.

5.14. The Fund's Operators have ultimate responsibility for oversight of the entire valuation process, and must approve and review at least annually, the NAV Calculation Policy and any Pricing Models.

6. Enforcement

6.1. Whenever there has been a breach of the Rules, the Authority's regulatory policies and procedures as contained in its Enforcement Manual will apply, in addition to any other powers provided in the MFL and the MAL.