Deloitte.

Deloitte Cayman Islands Technical Brief for Investment Funds

Accounting, Auditing and Regulatory

January 2026

In this issue

Introduction	2
US GAAP Update	3
Regulatory and Legal Update	6
Fund Liquidations	9
Contact Information	12

Introduction

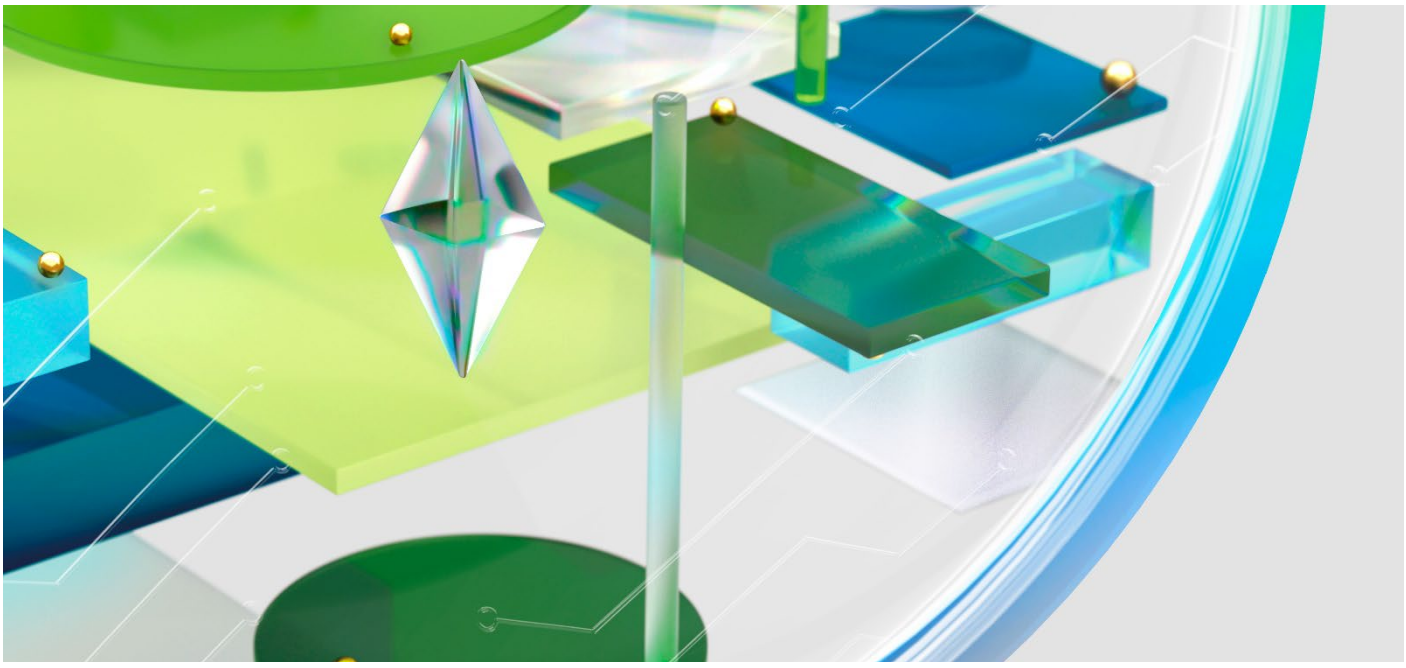
The Technical Brief for Investment Funds ("Tech Brief") is an annual newsletter developed by the Deloitte Cayman Islands Investment Funds Technical Team.

The Cayman Islands continues to be the leading jurisdiction for offshore investments funds, and it has experienced steady growth in the number of funds in recent years. At the beginning of September 2025, there were approximately 13,000 Mutual Funds (open-ended funds) registered in the Cayman Islands and approximately 17,000 registered Private Funds (closed-ended funds). Also, since 2020, when the Cayman Islands introduced a virtual asset service provider framework, there has been an increase in the number of registration and licensing applications for services in the digital assets industry of the Cayman Islands. Recent regulatory updates continue to align the Cayman Islands with international standards, a step expected to further bolster its digital assets industry.

From an accounting and financial reporting standpoint, over the past year, there have not been significant updates to United States or International Accounting Standards that will affect investment managers and/or investment funds. In this Tech Brief, we have summarized some upcoming accounting and financial reporting standards that investment funds and their managers may have to contend with. Some of this content has been covered in previous Tech Briefs.

On the regulatory front, we have included a summary of select regulatory matters and some updates to Cayman Islands regulations and acts discussed in previous Tech Briefs. Although there have been some new developments over the past year, these are not expected to significantly impact the investment funds industry.

Finally, as in previous Tech Briefs, we have included a brief overview of the voluntary liquidation process for Cayman Islands investment funds. Included in this overview is a discussion of specific circumstances where a registered liquidating Mutual Fund or Private Fund may be granted an exemption by the Cayman Islands Monetary Authority ("CIMA") from a final liquidation audit if a third-party liquidator has been appointed, and such liquidator undertakes certain prescribed procedures. We have also outlined some factors motivating managers and those charged with governance to explore voluntary liquidations. Further, the final liquidation audit exemption might be of interest to operators of funds that would not otherwise require a final liquidation audit for other purposes (such as satisfying the final liquidation audit requirements of the Securities and Exchange Commission Custody Rule).

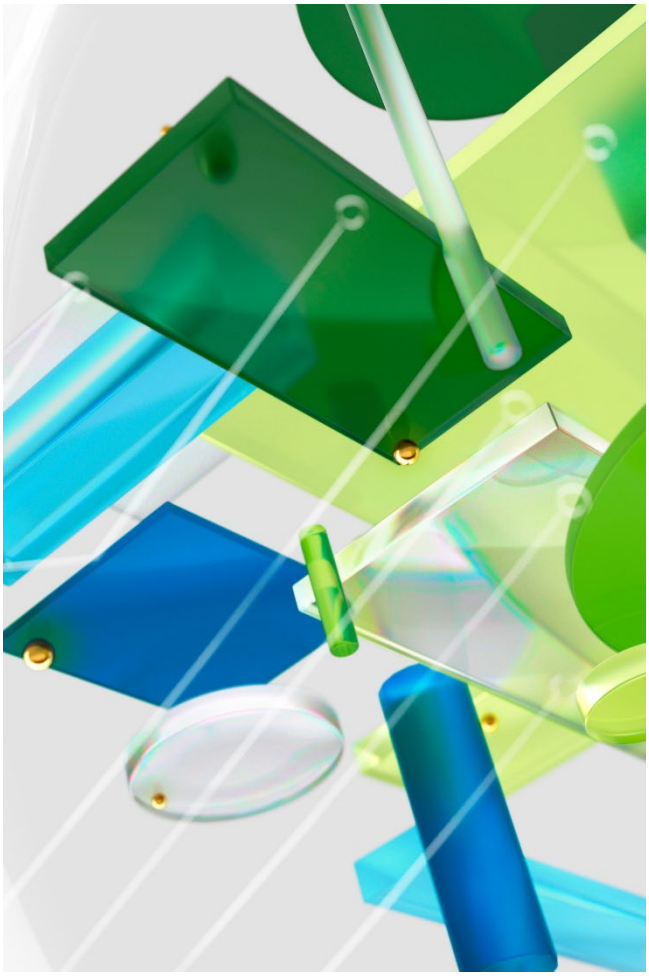


US GAAP Update

Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions (ASU 2022-03)

Introduction

ASU 2022-03, Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions, clarifies certain requirements of Topic 820, Fair Value Measurement, regarding measuring fair value of equity securities subject to contractual sale restrictions. Further, ASU 2022-03 requires new disclosures for such equity securities. The amendments affect all entities that hold equity securities measured at fair value per Topic 820 and that have contractual sale restrictions. As such, this ASU could potentially impact investment funds that invest in such securities.



Status

ASU 2022-03 was effective for public business entities with interim periods and fiscal years beginning after December 15, 2023. For other entities, the amendments were effective for interim periods and fiscal years beginning after December 15, 2024. As such, ASU 2022-03 is now mandatorily applicable for all entities. A reporting entity, other than investment companies per Topic 946, Financial Services – Investment Companies, will need to apply the requirements of ASU 2022-03 prospectively. Investment companies within the scope of Topic 946 will need to apply the requirements of ASU 2022-03 to equity securities for which the contractual sale restriction is executed or modified on or after the date of adoption. Any equity securities for which the contractual sale restriction was executed before the date of adoption will be accounted for using the accounting guidance in effect before such date. However, when the restriction is modified or expired, the guidance per ASU 2022-03 will be applied.

Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions (ASU 2022-03) (continued)

Summary

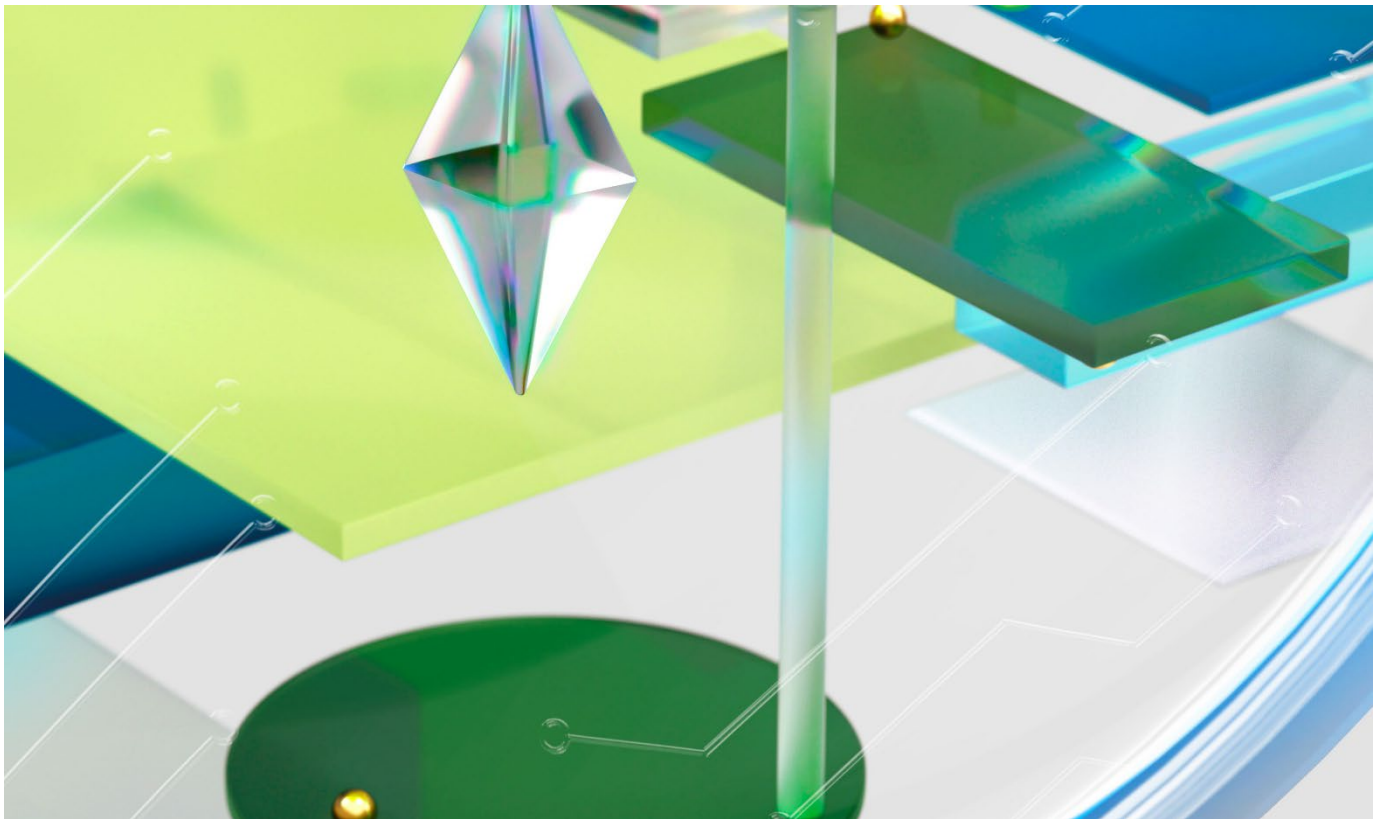
ASU 2022-03 clarifies scenarios when a contractual sale restriction is and is not considered as being part of the unit of account of an equity security and as such, when the restriction should or should not be considered in measuring the fair value of the related security. Under ASU 2022-03, a "contractual sale restriction prohibiting the sale of an equity security is a characteristic of the reporting entity holding the equity security" and is not included in the equity security's unit of account. A reporting entity would therefore not consider the contractual sale restriction in the determination of its fair value and would thus not consider the application of a discount related to the restriction.

A summary of the valuation provisions:

- A reporting entity should consider sale restrictions that are characteristics of the equity security itself. For example, a restriction resulting from a security that is not registered for sale with a national securities exchange or an over-the-counter market, when other securities from the same class of stock are registered for sale.
- A reporting entity should not consider sales restrictions that are characteristics of the holder of the security. For example, lock-up agreements, a market stand-off agreement, or a sale restriction provision within an agreement between shareholders or other parties.

As previously mentioned, ASU 2022-03 also introduces new disclosure requirements, which include, disclosing the fair value of equity securities in scope of ASU 2022-03, the nature and duration of any sale restrictions on equity securities and any circumstances that could result in a lapse of the restrictions.

It is important to note that ASU 2022-03 does not change how fair value is measured in accordance with Topic 820, but rather clarifies certain principles set out in Topic 820, in addition to requiring new disclosures.



Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets (ASU 2025-05)

Introduction

ASU 2025-05, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets, introduces a practical expedient and an accounting policy election that impacts the estimation of expected credit losses on current accounts receivable and current contract assets resulting from transactions accounted for under ASC 606, Revenue from Contracts. This ASU could apply to investment managers that estimate expected credit losses for such current assets. There is no expected impact for investment funds as assets are caried at fair value for such entities and as such, there would be no estimation of expected credit losses.

Status

The amendments in ASU 2025-05 are effective for interim periods and fiscal years beginning after December 15, 2025. Earlier adoption is permitted. The practical expedient is available to all entities, whereas the accounting policy election is available to entities, other than public business entities. This ASU is to be applied prospectively.

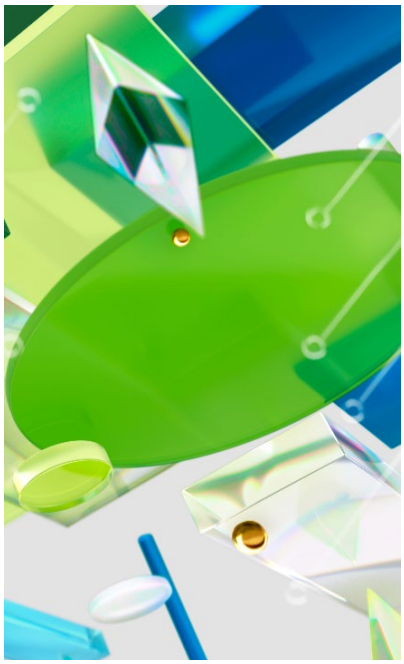
Summary

The practical expedient, introduced as part of ASU 2025-05, allows all entities to "assume that current conditions as of the balance sheet date do not change for the remaining life of the asset" when estimating expected credit losses for current accounts receivable and current contract assets accounted for under ASC 606. This differs from current guidance that requires management to consider historical information and forecasted changes to current conditions when estimating expected credit losses. When the practical expedient per ASU 2025-05 is elected for the above noted current assets, an entity, other than a public business entity, can "make an accounting election to consider collection activity after the balance sheet date when estimating expected credit losses". This is currently not permitted under Topic 326.

When applicable, ASU 2025-05 requires entities to disclose that the practical expedient has been applied. Further, in such an instance, an entity is also required to disclose that it has elected to apply the accounting policy election and the date through which cash collection activity, after the balance sheet date, has been considered.

Regulatory and Legal Update

Anti-Money Laundering



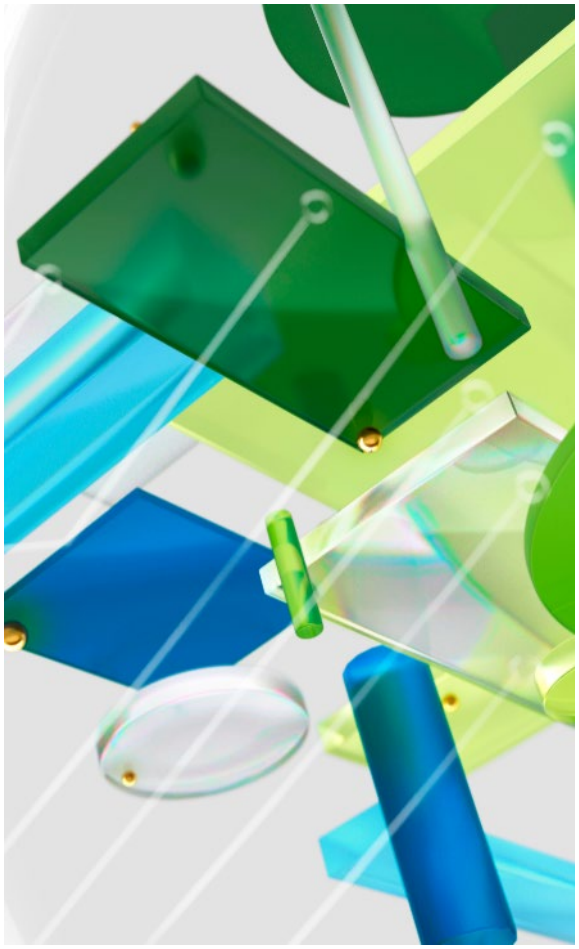
Since 2021, the Cayman Islands has taken steps towards improving its framework for anti-money laundering, counter-terrorist financing and counter-proliferation financing (collectively, "AML"), including by applying sanctions and taking administrative penalties and enforcement actions against obliged entities to ensure that AML breaches are remediated. In 2024, there were several amendments made to the AML regulations through the Anti-Money Laundering (Amendment) Regulations, 2024, as discussed in prior Tech Briefs. These strengthened the Cayman Islands' AML regulations, such as reducing the minimum for one-off transactions to CI $10,000 in instances where CI $15,000 was still included. Further, on August 12, 2025, the Cayman Islands created the Office for Strategic Action on Illicit Finance ("OSAIF"), which "consolidates the nation's strategic leadership, interagency coordination and operational delivery" in AML "and provides demonstrable effectiveness" per a Cayman Islands government news release. This further aligns the Cayman Islands with the Financial Action Task Force's ("FATF") AML standards. On August 21, 2025, the Cayman Islands also established the 2025-26 National Risk Assessment ("NRA"), which is led by the OSAIF. The NRA will analyze the Cayman Islands' AML framework. Its findings and recommendations will be shared once its assessment is complete, which is anticipated to be in 2026, and will be used by the Cayman Islands to prepare for the Caribbean FATF evaluation scheduled for 2027.

Operators of investment funds should remind their service providers of the AML requirements of the regulations, as well as of potential sanctions for non-compliance. This continues to be an area of focus by the Cayman Islands and international regulators.

Transparency Act and Beneficial Ownership Regime

In an effort to further align itself with the FATF's standards concerning AML, the Beneficial Ownership Transparency Act, 2023 ("Transparency Act") and the Beneficial Ownership Transparency Regulations, 2024 ("Regulations") became effective on July 31, 2024 with enforcement of the new requirements beginning on January 1, 2025. The Transparency Act and the Regulations include some changes to the prior beneficial ownership rules of particular importance to investment managers and investment funds. Investment funds registered under the Mutual Funds Act or the Private Funds Act are included in the definition of a legal person and are now in scope. Such funds will need to identify a beneficial ownership principal point of contact to respond to beneficial ownership requests from relevant authorities, instead of filing a beneficial ownership register. This point of contact can be a fund administrator, or a regulated person located in the Cayman Islands. Another relevant change is that a beneficial owner must be identified using a 25% or more threshold of beneficial ownership, rather than the 10% under prior rules. The Beneficial Ownership Transparency (Amendment) Act, 2025 and the Beneficial Ownership Transparency (Amendment) Regulations, 2025 came into effect in February 2025 and clarify the meaning and details of beneficial owners. On February 28, 2025, the Beneficial Ownership Transparency (Legitimate Interest Access) Regulations, 2024 took effect. The latter allows eligible applicants (journalists or academic researchers, individuals involved in a business relationship with the entity and representatives of organizations focused on AML) to apply to access beneficial ownership information for an entity. This access would only be granted where it is demonstrated that the eligible applicants have a legitimate interest, which means that this access would be needed in the context of AML. The Beneficial Ownership Transparency (Access Restriction) Regulations, 2024 provides individual beneficial owners with an application to prevent their information from being disclosed in instances where such disclosure could put them or someone in their household at risk, as defined in the regulation. Entities are encouraged to stay up to date on the recent changes to the Transparency Act, Regulations and related amendments to ensure compliance with the new requirements.

Virtual Asset (Service Providers) Act ("VASP Act")



In May 2020, the Cayman Islands introduced a framework for regulating virtual assets service providers ("VASPs"). In May 2024, CIMA published the Virtual Asset (Service Providers) (Amendment) Act, 2024 ("VASP Amendment Act"), a regulatory policy detailing criteria to approve registration or licensing to VASPs. This regulatory policy applied to persons looking to register with CIMA to provide virtual asset services in or from the Cayman Islands and those seeking to obtain a license from CIMA to operate a trading platform or provide custodial services relating to virtual assets. Examples of factors relevant to approval, as defined in the regulatory policy, are fit and proper criteria, ownership and control, corporate governance, business plan, risk management, internal operational systems, and controls. Certain provisions of the VASP Amendment Act became effective on April 1, 2025, such as the licensing portion of the regulatory policy. VASPs already registered as of April 1, 2025 had until the end of June 2025 to submit their licensing application. Other requirements were also brought into force, such as a requirement for VASPs to have three directors, one of which is an independent director, an obligation to separate client assets from proprietary assets and a potential audit requirement applicable for certain registered VASPs depending on their complexity and size, at CIMA's discretion The above examples are not the full list of new amendments, which can be found in the VASP Amendment Act.

On September 10, 2025, rules were introduced regarding the cancellation of licenses, registrations or waivers of CIMA-regulated VASPs. One example of an introduced rule is for VASPs which have not started providing virtual asset service business within one year of their license start date. Such entities must inform CIMA, in writing, at least 15 days prior to the one-year mark, that it will not start operations by that date. Also, when VASPs decide to cease operations, they must inform CIMA, in writing, within 15 days of their decision to cease operations.

New applicants and existing registrants are encouraged to discuss with legal counsel on their compliance with the requirements of the VASP Act and related amendments and rules. Cayman entities operating in breach of the VASP Act will be subject to significant fines from CIMA and can have their registration and/or license cancelled. Similarly, on September 18, 2025, CIMA issued an information circular indicating that CIMA may conduct AML on-site and off-site inspections. CIMA has performed such supervision of VASPs since 2023 to ensure compliance with AML obligations.

Updates to International Tax Reporting Frameworks: Common Reporting Standards ("CRS"), Country-by-Country Reporting and Crypto-Asset Reporting Framework ("CARF")

On March 31, 2025, the Cayman Islands Department for International Tax Cooperation ("DITC") provided an updated list of participating and reportable jurisdictions for CRS regulations. The new participating jurisdictions are Armenia, Georgia, Kazakhstan, Moldova and Ukraine. The new reportable jurisdictions are Armenia, Senegal, Uganda, Saint Kitts and Nevis, Rwanda and Morocco. Since 2021, Cayman Islands reporting financial institutions have been required to file a CRS Compliance Form.

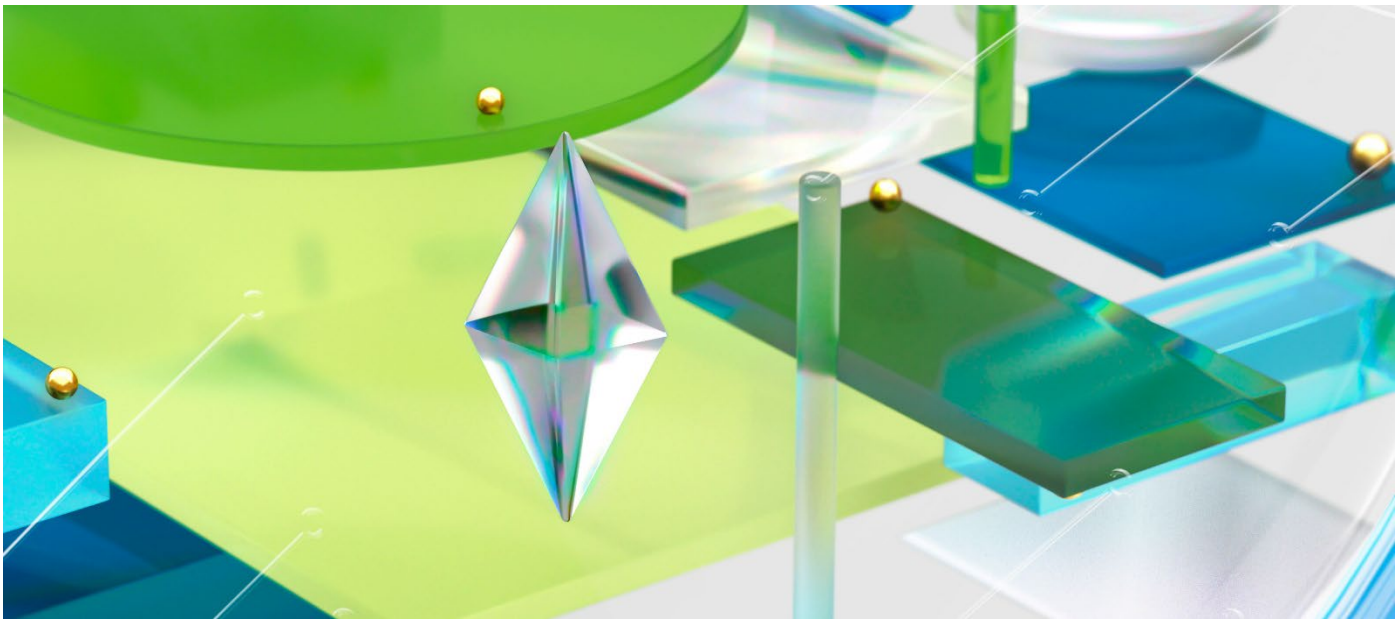
On August 29, 2025, the country-by-country reporting became available on the DITC portal. Multinational enterprise groups ("MNEs") with Cayman Islands constituent entities were required to re-register on the portal by November 30, 2025. When applicable, and if not already completed, MNEs are encouraged to re-register promptly.

On November 27, 2025, CRS amendments were announced to include financial assets, such as crypto-assets, as one example, within the scope of CRS, effective January 1, 2026. Other amendments were announced and include bringing forward the deadline to submit CRS Compliance Forms to June 30. The full list of amendments can be found in the Tax Information Authority (International Tax Compliance) (Common Reporting Standard) (Amendment) Regulations, 2025. Financial institutions are encouraged to familiarize themselves with the updated list of participating and reportable jurisdictions and CRS amendments to ensure compliance with CRS obligations.

Effective January 1, 2026, new CARF regulations, as stipulated in the Tax Information Authority (International Tax Compliance) (Crypto-Asset Reporting Framework) Regulations, 2025, will require crypto-asset service providers to gather and report data on customers. This information can be exchanged with relevant tax authorities.

Amendments to CIMA'S Audit Filing Extension Process

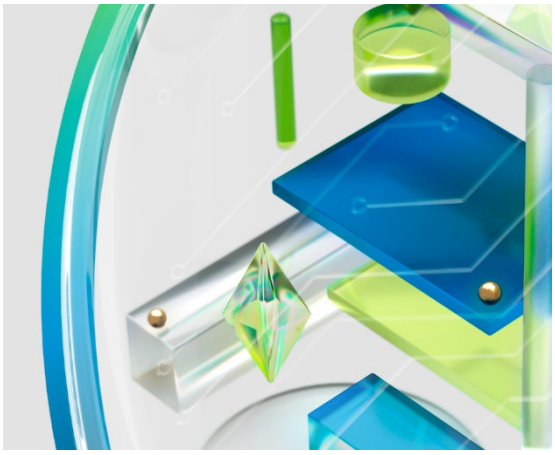
Effective May 6, 2025, updates to CIMA's audit filing extension process have been introduced, which could be relevant to regulated mutual funds and private funds. Up to three extensions can now be submitted at one time, whereas only one extension application could be submitted previously. The period covered by the extension is up to three months after the audit filing deadline. Further, regulated private funds can use the Regulatory Enhanced Electronic Forms Submission (REEFS) to apply for an audit filing extension request. Prior to May 6, 2025, only regulated mutual funds could do so through REEFS. As a reminder, to submit an audit filing extension, the fund must be in good standing with CIMA, the extension must be filed ahead of the audit filing deadline and the fund must submit the REEFS form along with required documents and application fee.



Fund Liquidations

Overview of the voluntary liquidation process

Included below is an overview of the statutory and best practice liquidation procedures as it relates to Cayman Islands investment funds registered as exempted companies or exempted limited partnerships under the Mutual Funds Act and the Private Funds Act.



Funds that have reached their end of life can benefit from commencing a voluntary liquidation as there is potential for cost savings as a result of reduced or eliminated service provider fees. For example, CIMA does not require audited financial statements from a registered fund from the date of commencement of the winding up where third-party liquidator(s) have been appointed. In addition, it may be possible for a fund to obtain an audit exemption for the stub period covering the date of the last audit to the date of the commencement of the voluntary liquidation. Further information on the CIMA audit exemption is included on page 10.

Pre-appointment and commencement of the voluntary liquidation

Exempted Company

- Directors resolve to cease operations and recommend that the fund be placed into voluntary liquidation.
- Shareholder(s) resolutions[1] are passed by the voting shareholder(s) to place the fund into voluntary liquidation and to appoint the liquidators.
- The fund's solvency is reviewed, and all directors are required to sign a Declaration of Solvency[1].
- The liquidators submit their Consents to Act, the Notice of Voluntary Winding Up, the shareholder(s) resolutions, and the Declaration of Solvency to the Cayman Islands Registrar, at which time their appointment is deemed to take effect.

Exempted Limited Partnership

- Voluntary winding up occurs in accordance with the provisions of the exempted limited partnership agreement (the "LPA"):
  - At the time or upon occurrence of any event specified in the LPA; or
  - If not specified in the LPA, upon the passing of a resolution of the general partner(s) and a two-thirds majority of limited partners.
- The liquidators submit the Notice of Voluntary Winding Up and resolution (as applicable) to the Cayman Islands Registrar, at which time their appointment is deemed to take effect.

Immediate actions following the commencement of the voluntary liquidation

- Upon appointment, the liquidators assume control of the fund and the powers of the directors/general partner automatically cease, except to the extent that the liquidators sanction their continuance.
- The liquidators will publish the Notice of Voluntary Winding Up in the Cayman Islands Gazette.
- CIMA does not require audited financial statements from a registered fund for periods subsequent to the date of commencement of the voluntary liquidation where third-party liquidators[2] have been appointed.

[1] Samples of all documents and guidance through this process can be provided if Deloitte is serving as liquidator.
[2] Per CIMA's Regulatory Policy, a "third party liquidator" means individuals, serving as liquidators in a voluntary liquidation of a fund, who are not the operators or currently engaged service providers (excluding an auditor of the fund).

Ongoing matters

- The liquidators will review relationships with service providers and determine the most appropriate approach to their continuance and/or termination, reviewing costs and continuance of services needed during the liquidation.
- If necessary, the liquidators will manage the wind down of the remaining asset portfolio and take steps to realize any assets to generate maximum value and in accordance with stakeholder preferences.
- Distributions to investors will be instructed as appropriate during the period of the liquidation.
- If the liquidation period extends beyond one year, the liquidators will prepare an annual report and accounts and hold an annual meeting for the voting shareholder(s) (this is a statutory requirement for an exempted company only).
- The liquidators will ensure the fund complies with and meets its regulatory obligations.

Final matters and closure of the voluntary liquidation

- At the conclusion of the liquidation, the liquidators will prepare a final report and accounts and convene the final meeting of the fund (this is a statutory requirement for an exempted company only).
- The liquidators will submit the necessary documentation to CIMA to cancel the fund's registration.
- A Final Return (for an exempted company) or Notice of Dissolution (for an exempted limited partnership) is filed with the Cayman Islands Registrar and, for an exempted company, is deemed to be dissolved three months after the date on which the Final Return is registered.

Factors motivating managers and those charged with governance to explore voluntary liquidations:

Illiquid Assets: Extended timeline to realize illiquid assets for adequate value after the investment vehicle has ceased trading.

Reallocation of Resources: Handing over distressed funds to a reputable third-party liquidator can allow a manager to close its operations or reallocate resources in a more efficient matter.

Operational and Cost Efficiencies: Management may wish to simplify their operations or reduce expenses, through consolidation of service providers and elimination of audit requirements.

Contingent or Uncertain Liabilities: A fund may be subject to contingent or uncertain liabilities preventing it from paying final distributions and proceeding with its dissolution.

Pursuit of Legal Claims: Ongoing legal claims may prevent the fund from winding down its operations requiring ongoing management.

Preservation of Investor Confidence: Management can retain investor confidence by considering and putting into place a strategic plan to wind down the operations of a fund in an efficient manner and to maximize returns to investors.

CIMA audit exemption

The Mutual Funds Act and the Private Funds Act require that CIMA registered Mutual Funds or Private Funds have their financial statements audited annually. In certain circumstances, a Mutual Fund or Private Fund that has reached the end of its life may benefit from seeking an exemption from the requirement to have its final financial statements audited.

This exemption may be granted by CIMA under specific circumstances[3]. One of these circumstances includes where a fund is being voluntarily liquidated and a third-party liquidator[4] has been appointed to undertake a review of the unaudited period preceding the commencement of the voluntary liquidation. A review by a third-party liquidator in lieu of a final audit can result in costs savings for a fund and facilitate the cancellation of its registration with CIMA.

Examples of when to consider an audit exemption

- The costs of an audit outweigh the benefit to investors.
- The investment manager and/or fund administrator has been terminated or has resigned and there is no party responsible for managing the fund or preparing accounting records.
- The fund is winding down and had limited financial activity since the date of its last audit period.

Liquidators' review

- The liquidators must be appointed under terms that require a review of the period since the last financial year end for which an audit has been filed to commencement of the voluntary liquidation.
- The review will cover the following:
  - Review of subscriptions and redemptions;
  - Reconciliations to bank accounts/statements;
  - Agreement of shareholder registers with net asset value statements;
  - Recalculation of performance and management fees;
  - Review of creditors and accruals;
  - Review for solvency; and
  - Report on matters relating to compliance with laws and regulations.
- The liquidators will submit a report summarizing the results of their review and the recommendation to CIMA to provide an exemption (assuming this is the liquidators' conclusion).
- If approved by CIMA the fund does not need to conduct an audit for the relevant period and CIMA will proceed to cancel the fund's registration.

For further information regarding fund liquidations, contact:

Grant Hiley
Partner, Strategy, Risk & Transactions
Tel: +1 (345) 743 6265
Email: granthiley@deloitte.com

Michael Green
Partner, Strategy, Risk & Transactions
Tel: +1 (345) 743 6279
Email: michaeligreen@deloitte.com

[3] Refer to CIMA's Regulatory Policy - Exemption from Audit Requirement for Mutual Funds or Private Funds.
[4] Per CIMA's Regulatory Policy, a "third-party liquidator" means individuals, serving as liquidators in a voluntary liquidation of a fund, who are not the operators or currently engaged service providers (excluding an auditor of the fund).

Contact Information

Deloitte in the Cayman Islands—Investment Funds Technical Team

Dale Babiuk
Partner
Tel: +1 (345) 743 6225
Email: dbabiuk@deloitte.com

Lawrence Usher
Partner
Tel: +1 (345) 743 6352
Email: lusher@deloitte.com

Laurie Mernett
Partner
Tel: +1 (345) 743 6261
Email: lamernett@deloitte.com

Justine Freese
Senior Manager
Tel: +1 (345) 743 6274
Email: jufreese@deloitte.com

Daniel Florek
Partner
Tel: +1 (345) 743 6226
Email: dflorek@deloitte.com

Lauren Law
Senior Manager
Tel: +1 (345) 743 6340
Email: lalaw@deloitte.com

John Jabs
Partner
Tel: +1 (345) 743 6369
Email: jojabs@deloitte.com

Thomas Stavert
Manager
Tel: +1 (345) 743 6235
Email: tstavert@deloitte.com

Deloitte.