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Legal Insights

Cayman Islands: The need to focus on Corporate Governance

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Corporate governance in the Cayman Islands primarily follows international standards and best practices, influenced by various factors including legal frameworks, regulatory bodies like the Cayman Islands Monetary Authority (“CIMA”), and market expectations. We set out below some of the key principles that regulated entities in the Cayman Islands are generally expected to adhere to:

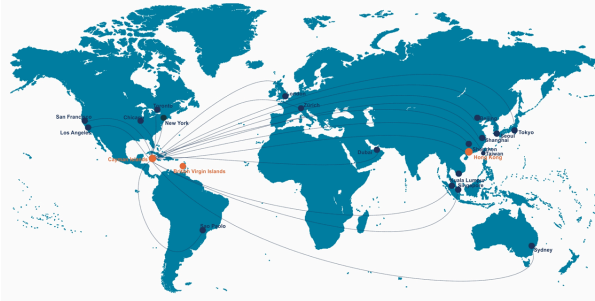
1. **Transparency:** Entities which are regulated by CIMA should provide accurate and timely information to stakeholders, including shareholders (or interestholders in a limited partnership) and regulators. This includes financial reporting, compliance filings, and any material changes that could affect shareholders/interestholders.
2. **Accountability:** The board of directors of a Cayman Islands company (“Board”) may delegate some of its responsibility to others (e.g. the Board of Directors of a Fund delegating management of its assets to a Fund Manager) but is nonetheless required to exercise supervisory oversight and control over those delegated functions and moreover the Board should be accountable for its actions and decisions. This includes setting clear roles and responsibilities, establishing performance metrics, and ensuring that there are mechanisms in place to evaluate the performance of the Board and management.
3. **Fairness:** Depending on the subject matter of the rights and entitlements in question, shareholders (particularly those in the same class) should be treated fairly and/or equitably, with their rights respected and any conflicts of interest managed appropriately.
4. **Board Effectiveness:** The Board should be composed of qualified individuals with the appropriate diverse skills, experience, and independence to make informed decisions. Regular assessments of Board performance and training opportunities are encouraged to enhance effectiveness.
5. **Risk Management:** Effective risk management frameworks should be in place to identify, assess, and mitigate the internal and external risks that the company faces. This includes financial, operational, legal, and reputational risks.
6. **Regulatory Compliance:** Companies must comply with the legal and regulatory frameworks applicable in the Cayman Islands, including the Companies Act, the Beneficial Ownership Transparency Act, the Securities Investment Business Act, the Mutual Funds Act, the Private Funds Act, and relevant guidelines issued by regulatory bodies such as CIMA.
7. **Ethical Standards:** Companies should promote and adhere to high ethical standards and conduct business with integrity. This involves establishing codes of conduct, policies to deal with conflict of interest appropriately, anti-corruption policies, and procedures for reporting unethical behaviour.

By following these principles consistently, Cayman Islands regulated entities can effectively enhance their corporate governance practices, comply with Cayman Islands legal requirements and thereby avoid fines and penalties, align with best practices globally, and foster trust among their stakeholders.

This publication is not intended to be a substitute for specific legal advice or a legal opinion. For specific advice on Corporate Governance, please contact your usual Loeb Smith attorney or any of the following:

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