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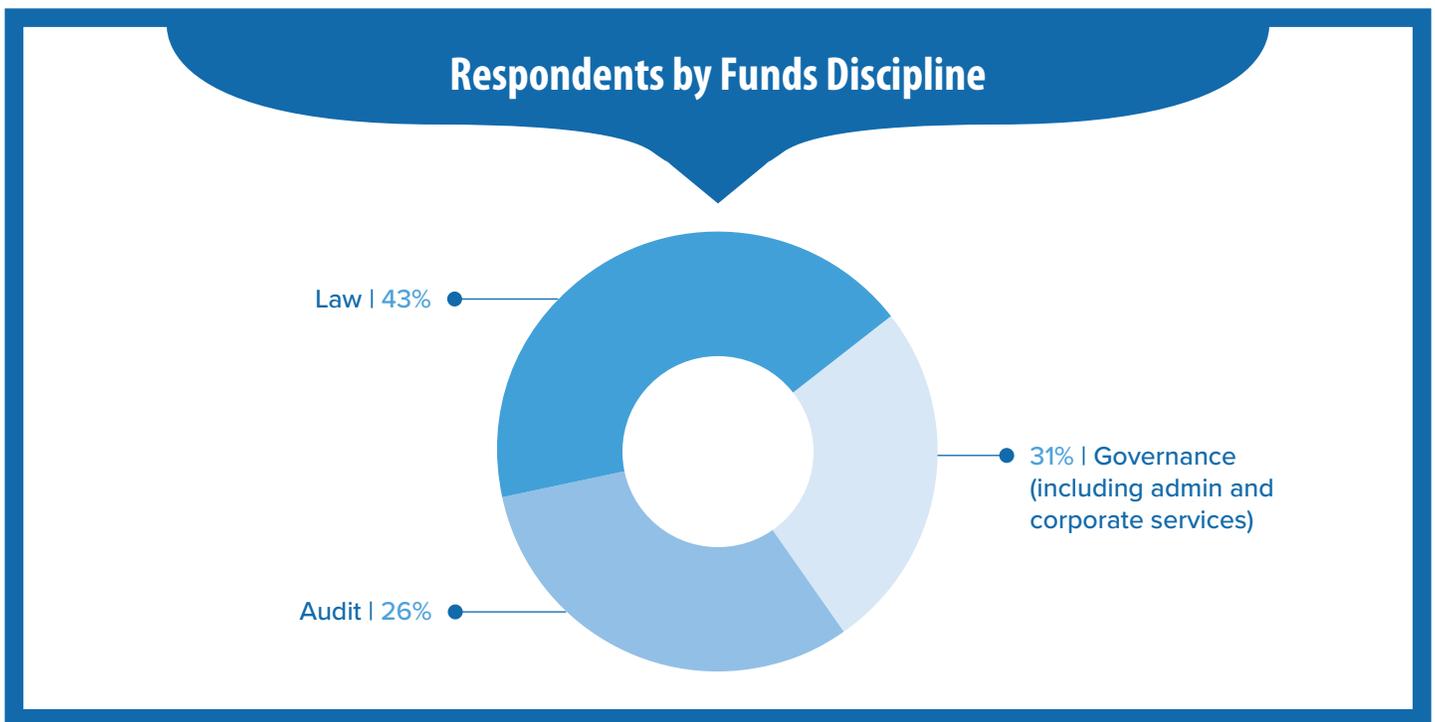
Knowledgeable.
Experienced.
Professional.

Impact of the Private Funds Law on the Future of the Cayman Islands Economy and Funds Industry

Introduction

Over the past two weeks, we surveyed a specific subset of Cayman's business leaders – Partners, Directors, and Counsel within audit, law and fund governance for their opinions and observations on the newly enacted Private Funds Law's impact on the future of the Cayman Islands economy and funds industry. Below are our findings.

Of the 35 respondents, the breakdown between audit, law, and governance (including administration and corporate services) is as follows:



It will be important to refer back to this graph as you will see the divisions between the disciplines are quite stark. Of the respondents:

- 15 lawyers (Partner and Counsel level) responded from eight firms
- 11 governance professionals responded from nine different firms
- Nine auditors (Partner and Director level) responded from six different firms

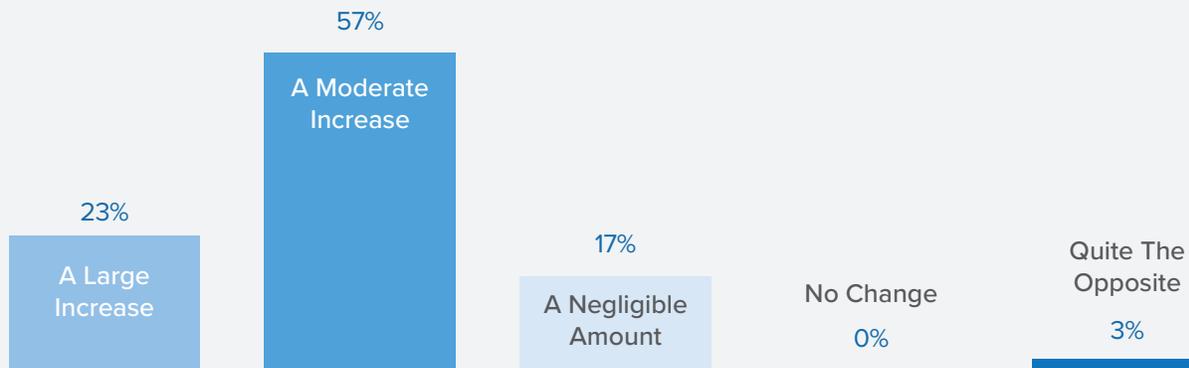
Note: Two of the Big 4 firms elected not to respond.

Our first question was simply, 'Will the introduction of the Private Funds Law affect your firm with regard to expected revenue/hours?' Results indicated that a full 80% of respondents had determined that they would be seeing a moderate to large increase in expected workload and billings. Interestingly, we had an administrator and an independent director comment that they'd both seen PE funds add Cayman Directors and administrators as service providers, seemingly in an effort to remain on the right side of the governance equation.

80%

of respondents had determined that they would be seeing a moderate to large increase in expected workload and billings.

Will the introduction of the Private Funds Law affect your firm with regard to increased revenue/hours?



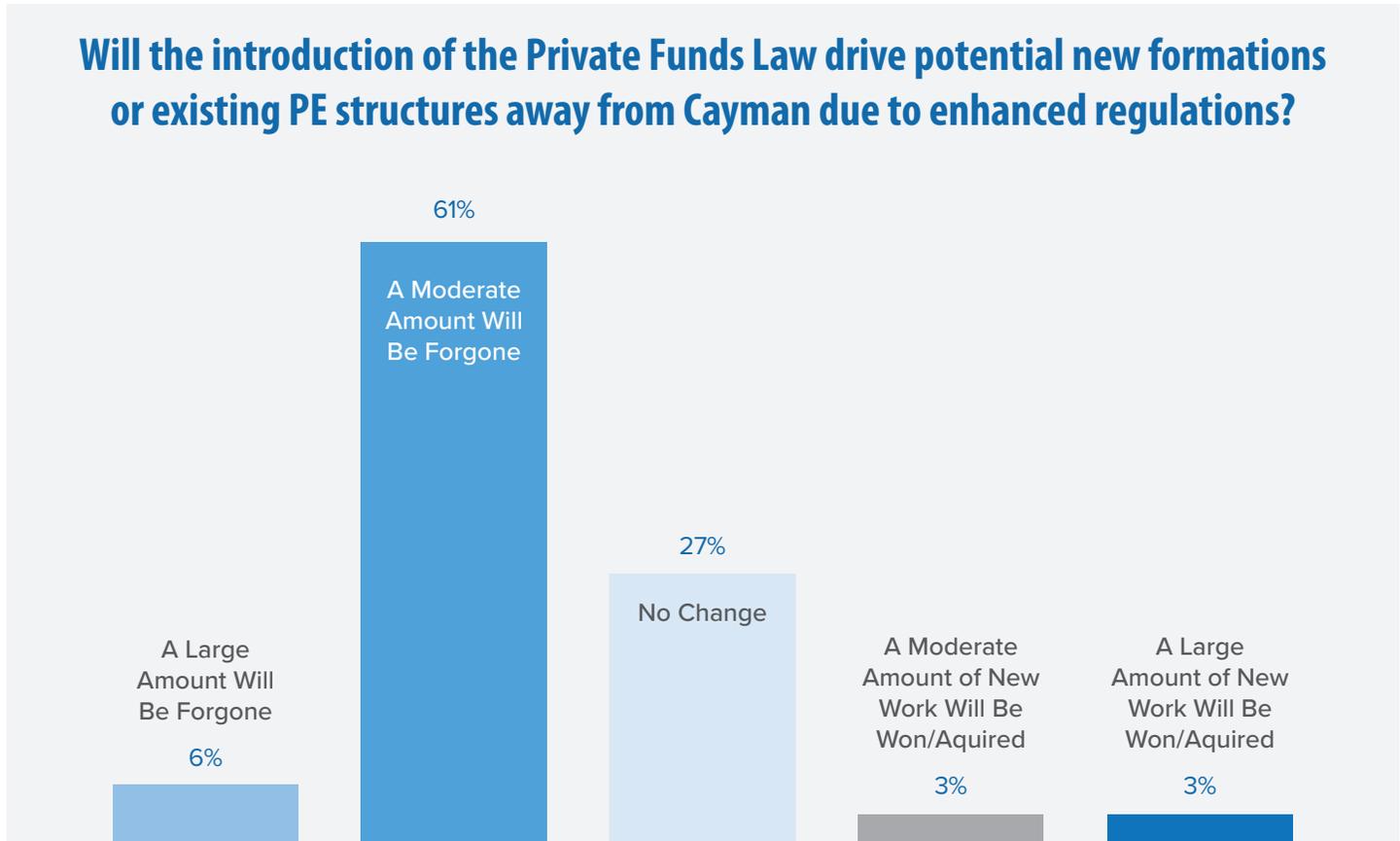
One lawyer did comment that the law should lead to more net work long-term so long as PE houses don't become too annoyed with Cayman as a jurisdiction and elect to deregister only to crop up in another jurisdiction (e.g., BVI).

Another lawyer was a bit less rosy, commenting that they expected to be working on regulatory compliance in the coming years mainly, namely deregistering existing funds or registering unlisted vehicles and then terminating them to move jurisdictions.

One governance professional had a more balanced view that while the audit firms will see increased business, the law firms will ballast funds choosing other jurisdictions with increased work on new registrations. They did, however, note concern over investors in funds during liquidation would be harmed by the new requirement, which they had hoped would be scoped out.

Getting to the heart of the matter, our next question was, *'Will the introduction of the Private Funds Law drive potential new formations or existing PE structures away from Cayman due to enhanced regulations?'*

61% said a moderate amount would be lost, while 27% said there would be no change. As that comprises the vast majority of responses, it's telling to parse the data to understand the reasoning behind the responses.



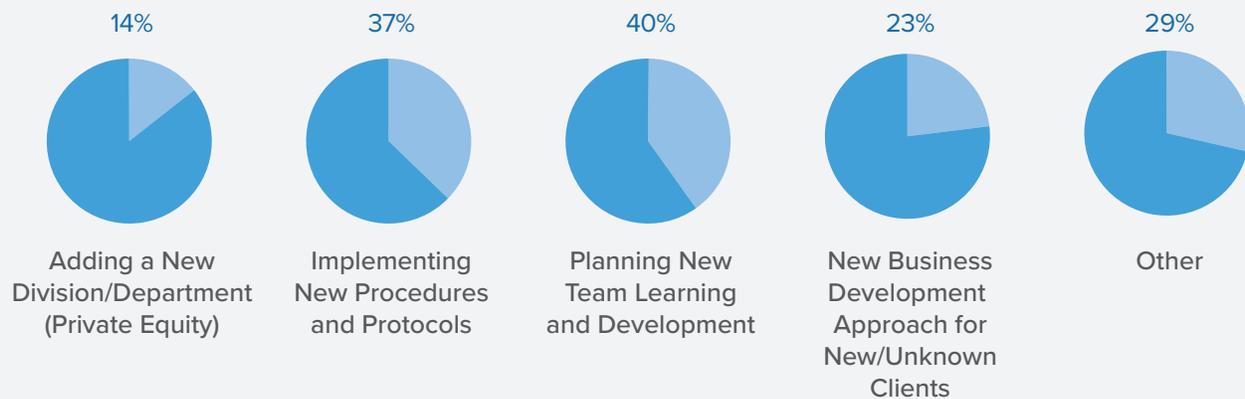
One of our responses from the audit world here was perhaps the most even-keeled, noting “small funds may not want to bear significant, to them, increases in operational costs. Large PEG groups will be less affected, but may rationalize how many entities are carried within a structure”.

Several other commenters held similar notions about smaller entities being put off, but consistently noted that competing jurisdictions such as BVI would need to follow suit if they hadn't already. One lawyer took occasion to note that Luxembourg and Hong Kong now appear as more attractive jurisdictions, but it will be difficult to tell at this stage if geography and familiarity will play a role in the domiciling decision-making.

The New Look of Cayman's Professional Services Firms

Moving toward being more forward-looking, we next asked, 'Have you implemented specific changes to accommodate for the Private Funds Law?' This question yielded the greatest diversity of response as well as the most detailed commentary.

Have you implemented specific changes to accommodate for the Private Funds Law?

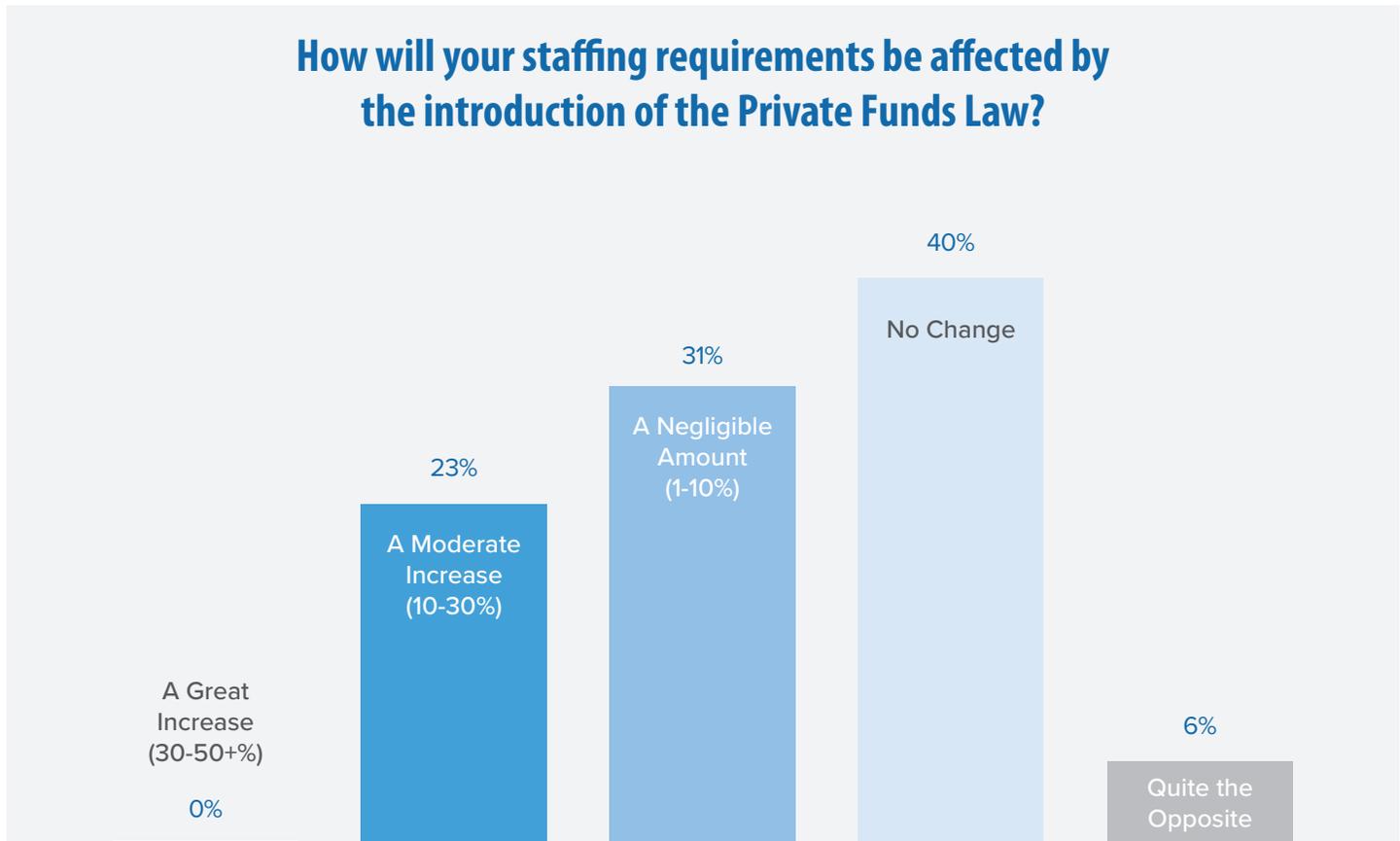


Of those 10 'other' responses

- Five were to note they expected no change;
- Two noted a need for additional hiring and recruiting as skillsets are already in place, but growth in the existing service line is expected;
- One governance professional noted they'd be looking to shift resources to other jurisdictions where clients may seek to move.

Overall, the responses to this question seemed to indicate more of a dynamic business response to address the regulatory shift, with one lawyer tellingly commenting "hopefully the regulations and laws don't change further as we need some stability."

To gain a sense of the relative potential swelling or shrinking of Cayman’s professional services population, we asked, ‘How will your staffing requirements be affected by the introduction of the Private Funds Law?’ Interestingly, the results here didn’t necessarily align with some of the predictions of shifting jurisdictional tastes:

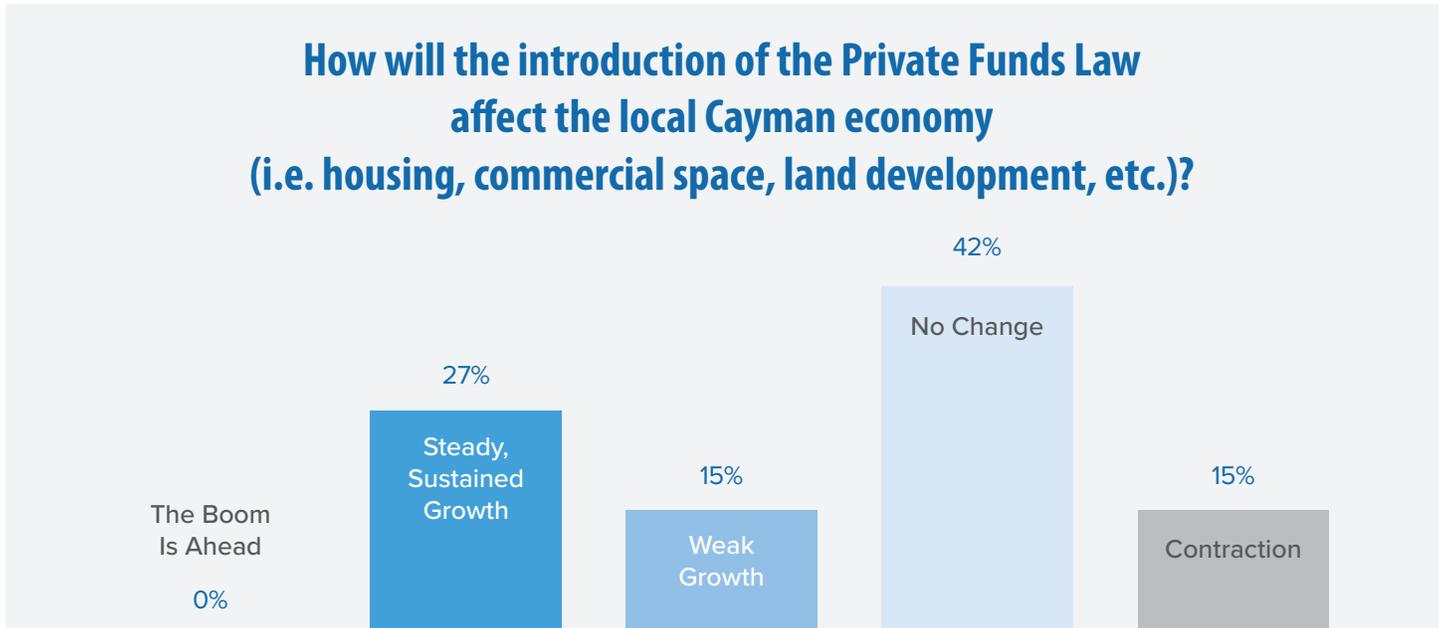


There was reasonably limited commentary as a response to this question, but two of the audit firms responded that existing staff could handle the signing needs at the Director level, but they would need to greatly increase Manager level staffing, potentially even doubling at that level.

Anecdotally, we can say we’ve seen some of the smaller firms looking to add signers but much more limited movement at the top levels with the Big 4 firms. One lawyer did note a need to add a moderate level at the more junior/3 PQE level.

Economic Predictions

Lastly, we sought a bit of prognostication by asking, ‘How will the introduction of the Private Funds Law affect the local Cayman economy (i.e., housing, commercial space, land development, etc.)?’ 42% of our respondents felt no particular change was ahead, while another 42% sensed weak to sustained growth:



The general sentiment here seemed to be, at least from a financial services perspective, that even if the jurisdiction were to suffer in the long-term due to increased regulation, at least in the short-term, there would be additional spending on local goods, services, and housing due to the net gain via the audit requirement.

There appear to be some strongly diverging opinions when it comes to the intent, reasonableness, and probable efficacy of the PFL. One area no party seems to deny was that increased regulation for private funds was on the horizon in some fashion or another. Should the aim of maintaining a strong global reputation for the domiciling of funds under a sound legal framework, airtight regulation, and access to world class professionals be bolstered, all parties should agree on the back end that Cayman has properly addressed European concerns around transparency. It is our belief that Cayman’s well-rounded regulatory regime will continue to lead the global stage by offering sophisticated investors best-in-class financial products and services.



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