

EXCHANGE Traded Funds



Guide to listing on the
Cayman Islands Stock Exchange

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Introduction

The Cayman Islands is recognised worldwide as a leading centre for investment funds and structured finance and is the world's primary hedge fund domicile.

Since its launch in 1997 the Cayman Islands Stock Exchange (“CSX”) has established itself as a venue of choice for fund and other specialist listings. Its success is based on a clear and effective regulated environment built on years of innovation and expertise in professional markets. The CSX combines a flexible and efficient approach with a pragmatic set of listing rules geared towards risk disclosure rather than prohibition.

The CSX has developed dedicated listing rules for exchange traded funds (“ETFs”). The rules are an extension of the general requirements for investment funds and facilitate listings of passively or actively managed exchange traded products linked to specific equity or debt securities, indices, currencies and commodities such as oil, gold and silver. The emphasis is on ensuring adequate access to information on the underlying assets and disclosure of key factors such as index composition, liquidity management, leverage and counterparty risk.

In 2013 the CSX launched a new equity market ‘XCAY’ which operates on Deutsche Boerse’s XETRA® trading platform with connectivity to up to 400 banks and brokers worldwide and settlement by Clearstream Luxembourg. All CSX listings and trading information can be accessed from the CSX’s dedicated pages on Bloomberg and on our website. Listed ETFs with at least one market maker will be eligible for trading on XCAY.

Whether you are looking for a primary or secondary cross listing, the CSX offers a cost-efficient way to increase your ETF’s visibility, profile and access to global markets.

This guide sets out the basic requirements for listing ETFs. To find out more, visit www.csx.ky or call us on +1 345 945 6060.



CSX Xetra trading platform

Offering simple and flexible access to banks and brokers worldwide

What CSX has to offer

A CSX listing offers a wider potential investor base, increased visibility, marketability and liquidity with the following enhanced benefits:

Trading facilities

In 2013 the CSX launched a new equity market on the XETRA trading platform, Deutsche Boerse's international cash market platform for trading equities, exchange traded funds and other instruments. Based on the industry-driven and international messaging standard FIX protocol (Financial Information eXchange protocol), the XETRA FIX Gateway offers simple and flexible access to all XETRA markets and up to 400 banks and brokers based around the world.

The CSX is accessible through the FIX Gateway under the market information code 'XCAY'. Any CSX listed securities, including ETFs, are tradable on XCAY. Trading on XCAY is Monday to Friday continuous with main trading between 12pm to 5.30pm (GMT), pre- and post-trading sessions and opening and closing auctions.

CSX trades can be settled on Clearstream Luxembourg or any equivalent alternative.

Competitive costs

There are no trading fees – the CSX operates a listing fee based model.

ETF listing fees are:

Market Value	Application Fee	Annual Fee
Up to US \$10m	US \$2,500 US	\$5,000
Up to US \$100m	US \$2,500	US \$7,500
Over US \$100m	US \$2,500	US \$10,000

For secondary cross listings a flat application and annual fee of US \$2,000 is payable.

Annual broker membership and market maker fees are:

- Full member (primary regulation in the Cayman Islands): US\$10,000
- Remote member (primary regulation in an overseas jurisdiction): US\$1,500

There is no separate application fee for broker membership or to become a market maker.

No financial transaction tax or exchange controls

No direct or indirect financial transaction tax or exchange controls are imposed in the Cayman Islands.

Visibility

All trade prices, current and historic NAVs and regulatory news announcements for listed funds are published on the CSX website, which can also provide links to a fund's own website or to other websites providing analytical information about the fund. The CSX has dedicated pages on Bloomberg Professional which makes news, real-time prices, company profiles and other information on CSX-listed securities available on over 300,000 terminals worldwide. To access this information on Bloomberg type CSX <GO>.

Flexibility

CSX rules are based on IOSCO disclosure principles but unlike many European exchanges the CSX is not bound by the EU Prospectus Directive and so can be more flexible in its approach.

The CSX does not impose any investment restrictions on the investment policy of an ETF, nor does it insist on a prescribed degree of investment diversification or prohibit newly incorporated funds from changing their investment policies for a specific period of time.

The CSX does not impose restrictions on an ETF's redemption provisions provided that they are clearly disclosed in the listing document and shareholders are treated fairly and equally.

The CSX understands that an ETF's operations may be based anywhere in the world and so, provided the fund operates within its local laws of incorporation, does not impose a requirement for its directors to be domiciled or resident in the Cayman Islands.

Broadly, accounts prepared in accordance with UK or US GAAP or International Accounting Standards will comply with CSX financial information requirements.

Fast response

The CSX offers a fast and streamlined listing process. Secondary cross listings can be completed in one week, with a primary listing taking approximately 3 weeks.

International recognition

The CSX is recognised by the UK tax authority HM Revenue & Customs as a "recognised stock exchange" under Section 1005 of the Income Tax Act 2007. This recognition makes CSX listed securities eligible for investment by certain UK pension schemes and generally enhances Cayman's position as a jurisdiction with the regulatory and legislative framework necessary for the conduct of international finance and securities transactions.

The CSX is a member of the Inter Market Surveillance Group, a surveillance focused group of over 30 major exchanges from around the world, and an affiliate member of IOSCO and the World Federation of Exchanges.

The listing process

Step 1: Appoint a listing agent and a market maker

An ETF must appoint at least one market maker to ensure that the traded price of its securities does not significantly vary from its net asset value. Applicants should contact the CSX Markets Department at the outset to discuss suitable market makers. For primary ETF listings a CSX registered listing agent must be appointed. The listing agent is responsible for dealing with the CSX on all matters relating to the application and for ensuring the ETF's suitability for listing. Details of listing agents are available from the CSX website. Listing agents are not required for secondary cross listings.

- Appoint listing agent and market maker
- Satisfy CSX conditions for listing
- Prepare draft listing documents
- Approval
- Listing and trading
- Continuing obligations

Step 2: Satisfy CSX conditions for listing

The ETF must ensure that it can satisfy all conditions for listing. Applicants or (for primary listings) their listing agents are encouraged to discuss any issues with the CSX before making any application.

Step 3: Prepare draft listing documents

An ETF must submit a listing document for review and comment by the CSX. Usually this document will be the prospectus used to promote the ETF. The CSX rules require specific disclosures to be included in the document, which must also demonstrate compliance with the CSX's conditions for listing. The key disclosures are summarised below.

Step 4: Approval

Once the CSX is satisfied with an application, the supporting documentation and initial listing fee must be filed so that the ETF can be admitted to listing and trading. If the application is being made in conjunction with the launch of an ETF, the listing approval will be granted subject to the successful launch and the closing of the initial offering.

Step 5: Listing and trading

Once the ETF's securities have been issued and the listing procedures are complete, the ETF will be admitted to listing and trading. Trading information on the ETF will be available to authorised dealers on the XETRA platform through the XCAY portal. The ETF will be allocated a Bloomberg equity ticker and details of the ETF, including price information, will be captured on the CSX's dedicated pages on Bloomberg. Similar details will also be added to the CSX's website, together with any marketing materials submitted to the CSX by the ETF.

Step 6: Continuing obligations

Once listed, an ETF must continue to comply with its on-going obligations to ensure an orderly and fair market, as specified in the listing rules and summarised below.

Conditions for listing

All ETFs seeking primary or secondary cross listings must

- include the identifier “ETF” in their name
- be domiciled in an approved jurisdiction and (for secondary cross listings) admitted to listing on the main board of another recognised stock exchange which will act as the primary regulator
- have at least one unit or share class which will be traded throughout the day on the CSX
- have a sufficiently liquid traded market with at least 25% of its listed securities in public hands
- calculate net asset value on a daily basis and in accordance with the ETF’s accounting standards
- have at all times at least one market maker to ensure that traded prices of its units or shares do not significantly vary from the published net asset value

The ETF must demonstrate that

- investors will be able to obtain the information necessary to form a reasonable opinion as to the value of the underlying index or assets
- information on the composition of an underlying index will be freely available although precise details of composition may be limited to the extent that confidentiality restrictions are imposed by the owner or publisher of the index provided investors will not be prejudiced

Applicants should consult the CSX

- to establish the suitability of the underlying index or assets and should be able to provide evidence of permission from the owner or publisher for the use of an index

The directors of the ETF must

- collectively, have adequate experience and expertise in the management of ETFs
- individually, take responsibility for the content of the listing document



Advantages to listing on the CSX include a streamlined process with dedicated listing rules for ETFs

The investment manager

- must demonstrate appropriate expertise and experience in the management of ETFs and have adequate experience of the particular types of investment envisaged by the ETF's investment policy and objectives. Where the investment manager is not known to the CSX, the CSX will rely on the details of the investment manager's track record, taking account of the amount and duration of funds under management.

The ETF must appoint

- a suitable custodian which must be a separate legal entity from, but may be an associate of the fund, its directors, the investment manager or administrator



- an independent auditor
- a registrar and transfer agent in a financial centre acceptable to the CSX

All service providers and directors

- must disclose any conflicts of interest that may arise in the operation of the fund and provide a clear statement of any cross-class liabilities

The securities of all ETFs must

- be capable of being traded on an equal basis
 - be freely transferable except to the extent that any restrictions on transfer are approved by the CSX
 - have an ISIN
- be eligible for deposit in an acceptable electronic clearing and settlement system including Clearstream, Euroclear, The Depository Trust Company or any acceptable alternative system agreed in advance with the Exchange

A closed-ended ETF must

- include in its constitution the requirement for prior shareholder approval of material changes to the constitution or class rights; the creation of additional classes of security; material changes to investment policies, objectives, investment or borrowing restrictions; extension or termination of the fund and any intention to compulsorily redeem all securities.

Contents of the listing document

The general requirement is that an ETF must include in its listing document all information necessary for an investor to make an informed investment decision. In particular the listing document must disclose details of the following:

- general information on the ETF
- the securities for which application is being made
- redemption and valuation provisions
- the ETF's investment policy
- the ETF's directors and service providers
- risk factors and conflicts of interest
- fees and expenses
- the ETF's assets and financial position including audited financial statements where available

The ETF must make certain documents available for public inspection including its constitutional documents, key service provider agreements and any financial statements. Closed-ended ETFs must disclose details of any substantial shareholders.

An ETF must include the following specific information in the listing document:

- details of whether the ETF will use physical or synthetic replication of the underlying index or asset
- where the ETF's investment policy anticipates the significant use of derivatives a summary of the types of instruments, the terms and conditions of any swap or derivatives contract entered into and details of counterparties
- if the ETF is actively managed, details of how it will meet its stated investment policy including where applicable its intention to outperform an underlying index or asset
- an explanation (using charts showing historical performance where available) of how the performance of the ETF may vary under different market conditions from the underlying index or assets over time and details of any contributing factors
- where the ETF targets leveraged performance against the price of the underlying assets a description of the leverage policy and the techniques to be used and a clear warning to the effect that the securities are likely to be subject to significant price volatility and therefore only suitable for investors who are sufficiently experienced in investment matters to be able to evaluate the risks and can bear the complete loss of their investment

- where applicable, an explanation of how the ETF's indicative net asset value is calculated
- details of the level of collateralisation (as a percentage of net asset value) against counterparty risk and the frequency of valuation of such collateral
- where the right to redeem the securities is limited a clear warning to that effect and that investors must therefore investigate and satisfy themselves with such arrangements for transfer of the securities that there are
- details of any other material terms and conditions, for example modifications which would apply in the event of market disruption or force majeure
- risk factors including those associated with tracking error, short selling (both by the ETF in the pursuit of its investment strategy and by third parties of the ETF's securities), and exposure to counterparties
- where the performance of the ETF is linked to an index, and for each index comprising ten per cent. or more of a basket:
 - a description of the index
 - the name of the sponsor responsible for calculating and disseminating information with respect to the index
 - a description of the method of calculation of the value of the index
 - the frequency with which the index is calculated and published and the method of publication
 - a summary of the provisions which apply in the event of the modification or discontinuance of the index
- where the performance of an ETF is linked to a basket of securities or indices
 - a description of the composition of the basket
 - for each security comprising ten per cent. or more of the basket:
 - the name of the issuer of the securities
 - its registered office
 - its country of incorporation
 - the nature of its business
 - a description of the securities, and the rights attached thereto
 - where the securities are debt securities any relevant credit rating
 - the name of any stock exchange or other market on which such securities are listed and/or traded or a place where financial and other information on the issuer of the securities and such securities is publicly available

- the method of calculation of the value of the basket
- the circumstances in which the composition of the basket may change and details of the provisions relating to such an adjustment
- where the terms of the issue of the securities of the ETF contemplate the physical delivery of the underlying assets:
 - details satisfactory to the Exchange of the underlying assets, and the rights attaching thereto, including details of arrangements for transfer of such assets and any restrictions on their free transferability
 - conditions of and procedures for delivery of the underlying assets and the circumstances in which they may be amended



- the name of the issuer of the underlying assets
- its registered office
- its country of incorporation
- the nature of its business
- the name of any stock exchange or other market on which the relevant assets are listed and/or traded
- the place where financial and other information on the issuer and the relevant assets is publicly available
- where the issuer of the assets and/or the issuer's short term or long term credit has been rated by any of the major public rating agencies, the ratings and the name of the rating agency responsible for such rating
- the name of the registrar and/or paying agent for the relevant assets
- details of any taxes on the payment of principal and interest on the relevant assets at source

The listing document must include a key information summary of not more than 2,000 words covering the matters referred to above as well as investment objectives and policy, general risk factors, fees payable and contact details.

Continuing obligations

Net asset value calculations

The net asset value of the securities of an ETF must be calculated and uploaded to the CSX on a daily basis via a web portal. Such calculation may be on an indicative basis provided it is marked as such.

Portfolio composition

An ETF which is actively managed must notify the CSX without delay whenever its portfolio composition differs significantly from its published reference portfolio or index.

Collateral levels

An ETF must notify the CSX without delay if its level of collateralisation against counterparty risk falls materially below the level published in its listing document.

Interim and annual accounts

- An ETF must include in its annual and interim financial statements an analysis in chart form of the tracking error over the relevant period. Where the tracking error is materially in excess of the anticipated tracking error there must be an explanation.
- Audited annual reports and accounts must be sent to shareholders and the CSX within six months of the period to which they relate.
- The annual report and accounts and any interim financial accounts published by the fund must be made available on request either in the Cayman Islands or at a place otherwise acceptable to the CSX.

General obligation of disclosure

A listed ETF must notify the CSX immediately of any price sensitive information, material new developments or operational changes and any material change in performance or financial position for dissemination by the CSX.

Equality of treatment

The issuer must ensure equal treatment of all holders of the same class of listed shares.



Contact us

To obtain more information or copies of other CSX publications, including the Listing Rules, please contact the CSX at:

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The listing rules and details on listed companies are also available on the CSX's website at www.csx.ky



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