

# A Guide to new legislation on Foundation Companies in the Cayman Islands

Insights - 19/10/2017

The Cayman Islands Foundation Companies Law, 2017 (**Foundation Law**) has now come into force. This memorandum summarises the main legal requirements and principles applicable to Foundation Companies.

## Introduction

By enacting the Foundation Law, the Cayman Islands has introduced a novel form of vehicle into its legal system. A Foundation Company has features and flexibility that have been designed to allow a company, retaining separate legal personality and limited liability, to function like a civil law foundation or common law trust.

When looking at other jurisdictions, the approach taken by the Foundation Law is unique and it is hoped that the creative solution will appeal to many clients. It is expected that its uses may include as a holding vehicle for shares in a private trust company, as a protector or enforcer of a trust, as a special purpose vehicle in finance or commercial transactions, including in cryptocurrency and other technology offerings, as well as a traditional succession planning vehicle.

For private clients, Foundation Companies may be an attractive alternative to trusts, particularly for those clients in civil law jurisdictions where there are concerns about the tax treatment of trusts. A Foundation Company offers many of the features of a trust that make trusts ideal succession planning and asset protection vehicles. Clients from common law jurisdictions may also be attracted to a Foundation Company to hold higher-risk assets such as shares in family businesses.

It is possible to use Foundation Companies to act as "ownerless" vehicles which will make them, simple solutions in the context of private trust companies, management shares of investment funds or in wider commercial transactions.

## Corporate status

As a company incorporated under the Companies Law (Revised), a Foundation Company will be governed by that law except where it is inconsistent with the Foundation Law. It will therefore be a body corporate with a legal personality distinct from its members, directors and other connected persons.

## **Incorporation**

Any new or existing company incorporated under the Companies Law (Revised) may apply to the Registrar of Companies (**Registrar**) to be declared to be a Foundation Company provided that the conditions for a Foundation Company have been met. If satisfied that all of the conditions have been met, the Registrar will issue a certificate of incorporation (or in the case of an existing company, a new certificate of incorporation) with a declaration that the company is a Foundation Company.

The conditions are that the Foundation Company:

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- states that it is a Foundation Company;
- describes its objects (which may include beneficiaries);
- provides, directly or by reference to its articles, for the disposal of surplus assets on winding up; and
- prohibits dividends or other distributions to members;
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## **Constitution**

A Foundation Company's constitution may grant any person the right to become a member. It can cease to have members if (i) its memorandum permits, and (ii) it continues to have a supervisor, being a person, other than a member, who has a right to attend and vote at general meetings (**Supervisor**). Ceasing to have members in these circumstances will not affect the Foundation Company's existence. Once it has no members, the Foundation Company will not be able to admit new members or issue shares unless its constitution permits it.

A Foundation Company's management will be carried out by its directors. In addition, however, its constitution may give rights, powers and other duties to members, directors, supervisors, founders

or others. The rights, powers or duties may, amongst other things, relate to:

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The operation and management of the Foundation Company is flexible and allows for any powers to be given for the benefit of (i) the Foundation Company, (ii) power holder, or (iii) for any other purpose.

Unless varied by the constitution:

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### **Secretary**

A Foundation Company must have a Secretary, licensed or permitted by the Companies Management Law (Revised) to provide company management services in the Cayman Islands. The Foundation Company's registered office must be at its Secretary's registered office and the Secretary must maintain a full and proper record of its activities.

## **Assets and investments**

There is no minimum capital requirement for a Foundation Company. Any person, including the Foundation Company's founder (being the person named as the founder in the constitutional documents), can transfer assets to it, although the Secretary must give notice that there appear to be no objections under regulatory laws to the Foundation Company accepting it.

Unless the constitution provides otherwise, there are no restrictions on what the Foundation Company can invest in.

The "firewall" feature of the Trusts Law (Revised) is extended to Foundation Companies; this gives protection against claims in foreign courts to the transfer of assets to the Foundation Company.

## **Direction from the Grand Court and dispute resolution**

The ability for trustees to apply to the Grand Court for opinions, advice or directions has been a hugely helpful feature of Cayman Islands trusts law. This function of the Grand Court has been extended to Foundation Companies.

A Foundation Company's constitution may require the resolution of issues in respect of the Foundation Company with or among its directors, Interested Persons or beneficiaries by arbitration or other lawful method. Any resolution to an issue in the manner prescribed by the constitution cannot be set aside unless a party has committed fraud or conducted itself in bad faith.

In addition, as a Foundation Company will be incorporated as a company under the Companies Law, Foundation Companies will benefit from the substantial Cayman Islands case law applicable to Cayman Islands companies.

## **Tax treatment**

A Foundation Company whose objects are to be carried out mainly outside the Cayman Islands may be incorporated as an exempted company. Exempted companies are not subject to any income, withholding or capital gains taxes in the Cayman Islands. Shareholders will not be subject to any income, withholding or capital gains taxes in the Cayman Islands with respect to their shares and dividends received on those shares, nor will they be subject to any estate or inheritance taxes in the Cayman Islands. There are no exchange controls in the Cayman Islands.

An exempted company is further entitled to apply under the Tax Concessions Law (Revised) for an undertaking that no law enacted in the Cayman Islands after the date of the undertaking imposing any tax to be levied on profits, income, gains or appreciations shall apply to the company or its operations, and that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable on or in respect of the shares, debentures or other obligations of the company or by way of withholding in whole or in part on any

dividend payment or other distribution of income or capital by the company to its members or to a payment of principal or interest or other sums due under a debenture or other obligation of the company.

The undertaking may be for a period not exceeding 30 years from the date of approval of the application. In practice, the undertaking is normally given for 20 years.

## **Statutory Registers**

In addition to the usual registers of members, directors, and mortgages and charges, a Foundation Company must also maintain a Register of Supervisors.

## **Conclusion**

The combination of traditional and innovative features of a Foundation Company means that the Cayman Islands has introduced a flexible vehicle that is a valuable addition to all sectors of the financial services industry.

If you require further information, please speak to your usual Ogier contact or a member of our team listed here.

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## **Meet the Author**



Anthony Partridge

Partner

Cayman Islands

E: [anthony.partridge@ogier.com](mailto:anthony.partridge@ogier.com)

T: +1 345 815 1810

## Key Contacts



Joanne Huckle

Partner

Cayman Islands

E: [joanne.huckle@ogier.com](mailto:joanne.huckle@ogier.com)

T: +1 345 815 1895



Bradley Kruger

Partner

Cayman Islands

E: [bradley.kruger@ogier.com](mailto:bradley.kruger@ogier.com)

T: [+1 345 815 1877](tel:+13458151877)



Rachael Reynolds KC

Global Senior Partner

Cayman Islands

E: [rachael.reynolds@ogier.com](mailto:rachael.reynolds@ogier.com)

T: [+1 345 815 1865](tel:+13458151865)



Nick Rogers

Partner

Cayman Islands

E: [nick.rogers@ogier.com](mailto:nick.rogers@ogier.com)

T: [+1 345 815 1844](tel:+13458151844)



Justin Savage

Partner

Cayman Islands

E: [justin.savage@ogier.com](mailto:justin.savage@ogier.com)

T: [+1 345 815 1816](tel:+13458151816)



Giorgio Subiotto

Partner

Cayman Islands

E: [giorgio.subiotto@ogier.com](mailto:giorgio.subiotto@ogier.com)

T: [+1 345 815 1872](tel:+13458151872)



Kate Hodson □□.□□

Partner and Head of ESG (Legal) □□□

Hong Kong

E: [kate.hodson@ogier.com](mailto:kate.hodson@ogier.com)

T: [+852 3656 6049](tel:+85236566049)





Nicholas Plowman □□□

Partner □□□

Hong Kong

E: [nicholas.plowman@ogier.com](mailto:nicholas.plowman@ogier.com)

T: +852 3656 6014

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