Cayman Monetary Regulatory Authority International

At the forefront of financial regulation, the Cayman Monetary Regulatory Authority International (CMRAI) is dedicated to upholding the highest standards of financial oversight and compliance. Our mission is to safeguard the stability and integrity of the global financial system by ensuring that financial services operate within a framework of transparency, accountability, and excellence.

As a trusted partner to financial institutions worldwide, CMRAI provides rigorous supervision, innovative solutions, and strategic guidance to foster a secure and thriving financial environment. With decades of experience and a commitment to global standards, we stand as a pillar of trust and security in an ever-evolving financial landscape.

With a legacy of excellence in financial oversight, the Cayman Monetary Regulatory Authority International (CMRAI) is a beacon of trust in the international financial community. Our role extends beyond regulation; we are innovators, collaborators, and protectors of the global financial ecosystem. By fostering compliance, promoting best practices, and embracing technological advancements, CMRAI ensures that financial services remain resilient and adaptable in a dynamic global market.

Our comprehensive approach to regulation encompasses a deep understanding of financial risks and a proactive stance on emerging challenges. We are committed to empowering financial institutions with the tools and guidance necessary to navigate complex regulatory landscapes, thereby contributing to global economic stability and growth.

 Statement of Guidance Succession Planning 1. Statement of Objectives 1.1 The purpose of this Statement of Guidance (the Guidance) is to provide guidance to Licensees on the Cayman Islands Monetary Authority s (the Authority) expectations in relation to succession planning. 1.2 The governance structure of a Licensee, and the size and composition of the Board of Directors or Governing Body should be adequate for the legal and operational structure of the Licensee and commensurate with the size, nature and complexity of its business. It is a requirement under the regulatory laws that a Licensee shall at no time have fewer than two directors. The Authority also expects the management and direction of a Licensee to be conducted in a fit and proper manner and for shareholders, directors, senior management, or other persons in controlled functions to be fit and proper. 1.3 It is therefore important that Licensees have a plan in place that they can implement in case of incapacitation or as a result of events that will cause absence of shareholders, directors, and other persons in controlled functions for a significant period of time or permanently. Such events include serious illness, family emergencies, bankruptcy, criminal convictions, and death. 1.4 This Guidance is not intended to be prescriptive or exhaustive; rather this Guidance sets out the Authority s minimum expectations of succession planning arrangements. 2. Statutory Authority 2.1 Section 34 of the Monetary Authority Law provides that the Authority may issue rules, statements of principles or guidance: (1) After private sector consultation and consultation with the Minister charged with responsibility for Financial Services, the Authority may (a) issue or amend rules or statements of principle or guidance concerning the conduct of licensees and their officers and employees, and any other persons to whom and to the extent that the regulatory laws may apply; ... 2.2 This document establishes the Statement of Guidance on Succession Planning and should be read in conjunction with regulatory guidance on corporate governance, risk management, and business continuity. The document should also be read in conjunction with the licensing policy for the relevant sector, where applicable. 3. Scope of Application 3.1 This Guidance applies to the following Licensees: a) Banks and trust companies licensed under the Banks and Trust Companies Law; b) Company managers and corporate services providers licensed under the Companies Management Law; c) Insurance companies, insurance brokers, insurance agents, and insurance managers licensed under the Insurance Law; d) Mutual fund administrators licensed under the Mutual Funds Law; e) Securities investment businesses licensed under the Securities Investment Business Law; f) Money services businesses licensed under the Money Services Law. 3.2 This Guidance does not amend any existing law. Where the Guidance is incompatible with existing law, the law takes precedence and prevails. 4. Definitions 4.1 For the purpose of this Guidance, the following definitions are provided: a) Controlled Functions: authorized functions serving a control or checks and balances function from a governance standpoint and which carry out specific activities including risk management, compliance, internal audit, and such similar functions. b) Director: a natural person who fulfils the functions of a director, by whatever name called. c) Shareholder: the natural person or persons who ultimately owns the Licensee. d) Succession Planning: a strategy put in place for ensuring the continuation of a business after the ownership and management will no longer be involved as a result of incapacity or as a result of an event resulting in long term or permanent absence. 5. Introduction 5.1 Clear leadership and sound management play an essential role in the success of a business. A succession plan will help Licensees ensure effective continuity of key governance, managerial, leadership and technical roles by being prepared for unplanned, temporary or permanent leadership or management change. Succession planning can bring order in times of turmoil and uncertainty and help ensure a Licensee continues to carry out its activities, fulfill its regulatory obligations and serve its clients during a leadership change.

5.2 Succession planning involves the evaluation of employees skills, abilities and the overall value of their involvement in the success of the business and the identification of persons who can either automatically replace them or who can be trained to do so. From a regulatory standpoint, succession planning should not only encompass the seamless transfer or replacement of key leadership, but also ownership, which takes on an even greater significance when a Licensee is owned by sole or dual shareholders.

5.3 The Authority expects Licensees to formulate a succession plan they can implement in the situations described in the previous paragraphs. While it is good practice for all Licensees to have a succession plan, a succession plan is particularly critical for those Licensees that have two or fewer shareholders and/or the statutory minimum of two directors.

5.4 Planning of ownership succession will likely not apply to Licensees whose shares are listed on a stock exchange. Succession planning for other roles however such as directors or key management positions, is still applicable for those Licensees.

5.5 Succession planning can be comprised of various arrangements, depending on the circumstances of each Licensee. Each Licensee should conduct its own analysis in order to determine the best strategy for its business. Common arrangements include: a) Will/testament; b) Insurance arrangements such as key person insurance, business life insurance or any similar insurance arrangements for business protection purposes; c) Shareholder Agreement with buy-sell clause; d) Retirement planning; e) Training of employees who are identified as successors; f) Employee awareness training in contingency plans; and g) Power of attorney.

6. General Considerations

6.1 It is the responsibility of the Licensee to assess the proposals in the succession plan and ensure that regulatory or other laws will not be breached if the relevant circumstances materialize. As such, Licensees should consider the balance between meeting regulatory requirements such as the minimum number of directors while maintaining an appropriate number of directors.

6.2 The Licensee should ensure that persons proposed in the succession plan possess the necessary competence, skills and knowledge to fulfil their proposed role(s) or are trained to become competent to fulfil the role. It is the responsibility of the Licensee to ensure that persons proposed in the succession plan who require approval from the Authority are fit and proper persons. Persons who are not fit and proper will not be approved by the Authority, which could delay the implementation of the succession plan.

6.3 It is expected that the elements of succession planning, where considered in any relevant constitutional or company documents such as in the articles of association, be so stipulated in a general succession plan document. The general succession plan may be a part of another relevant policy or procedure adopted by the Licensee, such as the business continuity plan, but should nonetheless cover all the elements outlined in this SOG. The succession plan must be documented in English or be able to be translated to English within a reasonable timeframe.

6.4 The Licensee should assess the succession arrangements identified and set out in the succession plan against the succession laws of the Cayman Islands.

6.5 Licensees should adhere to the Authority s recordkeeping requirements and the succession plan should be readily available for access by the Authority.

6.6 Each Licensee

should review its succession plan occasionally or as circumstances may dictate in order to determine whether and what changes are necessary to reflect changes in the business; regulatory law amendments; change in personal circumstances of shareholders, directors, senior management, or other persons in controlled functions; and any other relevant reasons. The succession plan should therefore be updated as necessary. 7. Elements of Succession Planning 7.1 The succession plan should consider both temporary and permanent absences. Where the Licensee is owned by a sole shareholder, the Licensee should identify a person or persons to whom there can be a seamless and immediate transfer of ownership in case of shareholder incapacity or as a result of an event resulting in absence. The succession plan should not put the Licensee in contravention of applicable laws by the automatic transfer, disposal, or dealing of shares. As per the regulatory laws, new shareholders will require approval by the Authority. 7.2 The Authority expects that the Licensee will, upon applying for a license, meet the regulatory requirements on the minimum number of directors. However, the Licensee should consider the risk to the business should one of the two directors become incapacitated or suffer an event which results in absence for a significant period of time or permanently, putting the Licensee in breach of the regulatory requirement for the minimum number of directors. Therefore the Licensee should consider increasing the complement of directors to above the minimum required in an effort to mitigate breach of the minimum director requirement through sudden incapacitation of any director or identify another fit and proper individual who could seamlessly be appointed as director. 7.3 The succession plan should identify persons in controlled functions holding roles the Licensee considers critical to its business operations and describe how those functions would continue in the case of incapacitation or if there is an event resulting in long term or permanent absence. 7.4 The individual/s identified should receive the appropriate training and knowledge to be able to carry out the functions of the role. 7.5 A Licensee should ensure that the succession plan does not hinder the continuation of the Licensee s business and that clients will not be negatively impacted as a result of the implementation of the terms of the succession plan. 7.6 Where appropriate, the Licensee should consider the provision of arrangements such as key person insurance , business life insurance or any similar insurance arrangement for business protection purposes by whatever name called, in an effort to indemnify losses to the Licensee as a result of incapacity or an event resulting in long term or permanent absence of the shareholders, directors, senior management, or other persons in controlled functions. 7.7 The Licensee should incorporate a communications plan which details: 7.7.1 The means of informing shareholders, senior managers, directors, employees service providers, and other persons in controlled functions of the transfer of the roles and responsibilities, or the transfer of ownership, be it short term or long term, to the identified persons; and 7.7.2 The method of informing the Authority and seeking the necessary approvals. 8. Relations with the Authority 8.1 A Licensee should immediately contact the Authority in the event of one of the two shareholders, a sole shareholder, or a director (where the Licensee meets the statutory minimum of two directors) becoming incapacitated or suffering an event which is expected to result in absence for a significant period of time. 8.2 The Authority may request a copy of the succession plan as part of the licensing process or at any time during the business of the Licensee. 8.3 The Authority may require the Licensee to demonstrate the adequacy of the succession plan.