# INTERNATIONAL FINANCIAL CENTRES



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ETHICS

# Balancing privacy and transparency

Government pressure for greater financial transparency must also strike a delicate balance with the need for privacy

**BURHAN WAZIR**

As the UK's overseas territories prepare to make public the owners of all their registered companies by the end of 2020, business experts are debating how to balance calls for transparency with the kind of privacy often prized in finance.

In what is seen as a major victory for financial transparency campaigners, the UK government earlier this year was forced to agree to sanctions and anti-money laundering legislation when Conservative and Labour MPs combined to back the registration of beneficial ownership.

The new legislation builds on a pledge in 2013 by then-prime minister David Cameron and is designed to stem the global passage of so-called "dirty money" in the wake of the Panama Papers scandal, which exposed a rogue offshore finance industry.

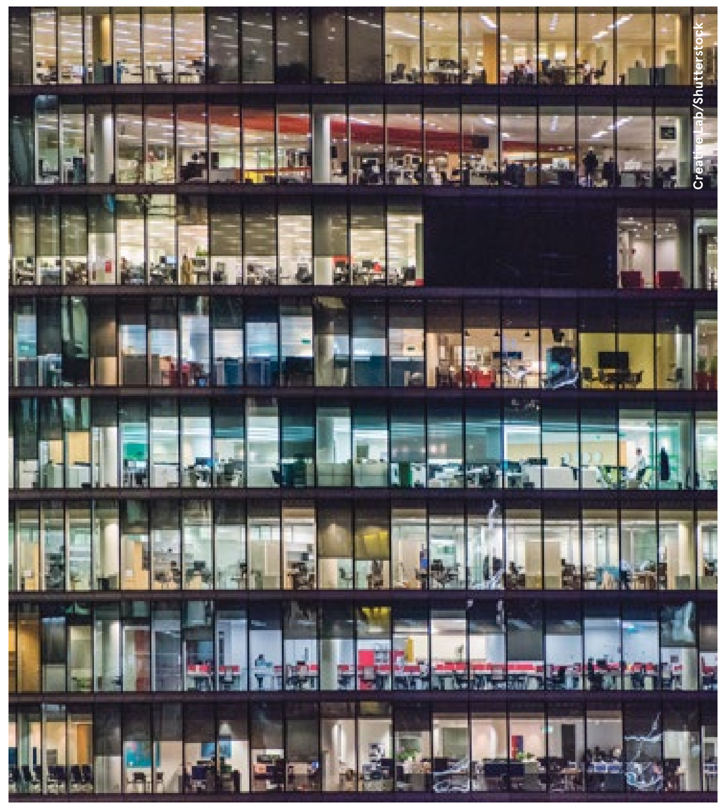
British Overseas Territories (BOTs), 14 areas including financial centres the British Virgin Islands, Anguilla, Bermuda, Montserrat and the Cayman Islands, are to set up public ownership registers by the end of 2020. Any failure to introduce the required registers will risk having them imposed by the UK government.

The Sanctions and Anti-Money Laundering Bill does not apply to the crown dependencies of Jersey, Guernsey and the Isle of Man, where the UK parliament does not have legal powers to impose its will.

The new legislation is seen as part of a drive to collect billions in taxes from UK contractors that use offshore tax-avoidance schemes. HM Revenue & Customs estimates that around 50,000 people are engaged in foreign-based tax-avoidance schemes.

BOTs have largely resisted the new legislation in favour of a data exchange network called the common reporting standard, which was launched last year with more than 100 countries participating in information-sharing. The network uses over 3,200 treaties between more than 100 countries to swap ownership information with tax authorities.

The new act threatens to strain the relationship between London and BOTs that warn of consequences to business and employment in financial centres such as Bermuda, and Turks and Caicos Islands. The BOTs, which have a combined population of 350,000, say an end to tax secrecy could undermine their attraction to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financial services companies that depend on investors seeking privacy.

Cayman Islands premier Alden McLaughlin warned the territory was weighing up a legal challenge and described the decision as "reminiscent of the worst injustices of a bygone era of colonial despotism".

According to Lorna Smith, interim executive director of BVI Finance, the British Virgin Islands currently generates around £3 billion a year in tax revenue for the UK and supports 150,000 jobs. "Our view is that a public register of beneficial ownership is not a silver bullet for improving transparency," says Ms Smith. "It is not about who can see the information; it's about the information being verified, accurate and therefore useful to law enforcement agencies. A verified register is a far more robust and effective approach to ensure transparency than an unverified public register."

Judith Tyson, research fellow at the Overseas Development Institute in London, says: "One of the issues at stake is how to balance transparency and privacy. Those in favour of the new legislation would argue that if companies haven't done anything wrong, or have nothing to hide, they shouldn't be worried about the scrutiny of public registers.

"But this needs to be balanced against the right to privacy and the need to ensure that investments, especially to the poorer countries where the protection offered to investors from offshore financial centres is key, is not reduced."

BOTs argue they have already introduced private central registers of ownership, which are accessible to UK law enforcement and tax authorities. They claim the move to make them publicly available by December 2020 will force investors to move their money to more secretive territories. One offshore centre told MPs that any move to introduce public registers could cost £72 million in lost revenue a year.

Legislators from the BOTs also claim the UK parliament's action infringes their constitutional right to oversee their own domestic legislation. In May, in the British Virgin Islands, more than 1,000 people marched in protest against any enforced changes in current transparency legislation.

Campaigners say full financial transparency improves human rights and better safeguards democratic ideals. "Financial transparency laws are good news for the protection of human rights and democracy across the globe, and bad news for tax dodgers, money launderers and kleptocrats," says Markus Meinzer, director at the Tax Justice Network. "The risks for dirty business ending up in bright daylight are increasing, and that means greater accountability and greater deterrence."

Ms Tyson adds that another solution would be for countries to legislate as a bloc to tackle criminality in finance. "It would be more advantageous for countries to work together to enforce universal standards. This would lead to a more synchronised approach, although its implementation would require funding from all the stakeholders especially for poorer countries. The benefit would see more taxes collected in both developed and developing nations."

Finance specialists say the drive for transparency marks an attempt to distinguish between legal business centres and illegal tax havens. "The danger is that certain investors will be deterred by the invasion of their privacy," says Simon Airey, corporate crime and investigations partner at international law firm Paul Hastings. "There are many perfectly legitimate reasons why companies and individuals prefer to keep their affairs confidential. The problem is that there are others who want to do so for the wrong reasons."

"This is obviously a controversial issue and certain territories consider the imposition of the new laws to be an affront, but they will ride the storm and continue to flourish. It is the recidivist tax havens that will wither and die." ◆

**89%**
of UK citizens agree that tax avoidance by large companies is morally wrong, even if it is legal

**85%**
believe it is too easy for large companies in the UK to avoid paying tax

**84%**
think the government should ensure so-called tax havens linked to the UK are more transparent

ComRes 2017

OFFSHORE MYTHS

# Debunking myths of ‘secretive tax havens’

Richard Whitcombe/Shutterstock

Stories of laundering cash through illegal tax havens hit the headlines, but they have nothing to do with recognised international financial centres

CLARE GASCOIGNE

**Heigh-ho, heigh-ho, it’s offshore we go...**

Hold on, where are you going with that battered suitcase stuffed with used fivers?

**Offshore! It’s a well-known fact that anyone can open a bank account, no questions asked.**

That’s a myth as outdated as your suitcase. Opening an offshore bank account is pretty similar to opening one in your home country these days; there could even be extra requirements to discourage money laundering or tax fraud. Have you got evidence of where that money came from – a property sales contract, a letter from your insurance company, a wage slip showing the size of your bonus?

**Oh you don’t think this is dirty money, do you? I’m shocked you could think it of me. This is my Aunt Alice’s life savings from her business. She was just eccentric and kept it under the bed**.

So a letter from the executors should do it, though you may have to get it certified to ensure it’s authentic. Just remember there’s been a lot of work in the past couple of decades cleaning up the shady side of low tax jurisdiction; you won’t be popular calling these sophisticated, compliant financial centres “offshore tax havens”.

**Well for goodness sake, what should I be calling them?**

International financial centres, or IFCs, is what they are, just like London and New York, but smaller in terms of acreage. I expect you know the International Monetary Fund’s definition of an international financial centre?

**I expect I do...**

Let me refresh your memory: “A country or jurisdiction that provides financial services to non-residents on a scale that is incommensurate with the size and the financing of its domestic economy.”

**You can always rely on the IMF to come up with something snappy.**

Actually, it’s quite hard to define “offshore”, particularly in a global economy. It all depends what you want to do; there are those who would call the American state of Delaware a tax haven, because it has very favourable corporate law.

**Oh, I know this one. What did Delaware? A New Jersey! No but seriously, I’m not sure I want to live there.**

You don’t always have to live in an IFC; once you’ve got residency in Panama, the technical requirement is to spend one day a year there to maintain it. Your Aunt Alice must have been quite the entrepreneur to end up so wealthy.

**She was – you have no idea. That’s why I need to go to a tax haven – sorry, to an IFC; she left me such a lot of money that I have to go offshore – sorry, to an IFC – or the taxman will take it all.**

Oh dear, I hope you’re not falling for another myth. These jurisdictions aren’t tax free, you know; Singapore’s personal income tax rates go up to 22 per cent, depending on the source of your income and residency. And tax transparency is the reality these days; the Organisation for Economic Co-operation and Development’s model tax convention was updated only last year.

**Model tax convention... is that when Kate Moss meets Cara Delevingne to chat about personal allowances?**

We’re starting from quite a low base here, aren’t we? More than 100 countries are implementing the OECD’s measures to tackle exploitation of gaps and mismatches in tax rules that artificially shift profits to low or no-tax locations. In fact, IFCs play a key role in preventing double or even triple taxation.

**Good heavens, if I have to pay tax on this lot of loot I’ll be too poor for offshore to be any use to me.**

Well, that’s not true either. This is less about evading tax – because that’s illegal, so I feel sure that’s not what you want to do – than planning it. IFCs aren’t just for the rich, though admittedly probably not for the poor either. But if you have a changing tax position and want to defer tax, or if you are moving countries and your residency status is changing, an IFC could be a good bet.

**Of course I have a changing tax position – I’ve just inherited a lot of money. Well, at least I’ll get a decent tan out of it. Line up the pina coladas, I’m on my way to sunny...**

> “More than 100 countries are implementing the OECD’s measures to tackle exploitation of gaps and mismatches in tax rules that artificially shift profits to low or no-tax locations

Grand Cayman; reputations of many legitimate financial centres have been damaged by a small number of illegal systems

Ireland?

**What? Why would I go there? Nasty damp place, bad for my rheumatism. I’m going offshore!**

Ireland counts as a modern corporate haven; it’s just not (always) sunny. Lots of these jurisdictions aren’t sunny; some aren’t even islands.

**Now you’re just being silly.**

The Netherlands? Switzerland? Pretty landlocked if you ask me. Even bits of Hong Kong count as peninsula, not island. So where do you think you are heading for?

**I’m not telling you that – I’d have to kill you.**

Sorry, that’s another myth. Yes, discretion is important in the world of IFCs; some of the wealthiest people use these jurisdictions to safeguard their privacy from the prying eyes of the media, the ex or even kidnappers and terrorists. But confidentiality isn’t the same as secrecy you know. In the *2018 Financial Secrecy Index,* run by the Tax Justice Network, the US comes second and Germany seventh. But no one has yet come up with a definition of when confidentiality becomes secrecy.

**I think it’s confidentiality when I’m talking to my banker and secrecy when I’m talking to the taxman. But I don’t know what to do now.**

I rather think that’s the whole point. ◆

Commercial feature

**£1**

**in every £20 of foreign investment in the UK comes via Jersey**

**£5BN**

**in tax revenues contributed by Jersey to the British exchequer**

**£14BN**

**added by Jersey to the UK economy and almost 250,000 jobs supported**

*Jersey's Value to Britain*, Jersey Finance 2016

**£25BN**

**of inward investment into the UK from global investors is channelled through the Guernsey funds industry**

*International Capital Flows*, KPMG 2015

**40%**

**of the UK's largest companies utilise a Guernsey-domiciled captive insurance company in their risk management processes**

Guernsey Finance 2018

# Let's put the record straight

Careful re-evaluation of public perception is needed to recognise the valuable role played by international financial centres, says **Craig Brown**, managing director of First Names Group in the Isle of Man

As somebody who works in the finance sector in the Isle of Man, I am often asked, and indeed often ask myself, whether international financial centres (IFCs) have a place in the modern world or whether they are relics of a bygone era.

Despite the persistently negative public perception and, admittedly, poor representation in certain quarters, I believe firmly that, far from having exceeded their sell-by date, IFCs have a vital role to play in the modern global economy.

The popular misconception of an IFC, perpetuated by events such as the Panama Papers and by the film industry's standard plot device of criminals needing only to use an "offshore" account to defeat the long arm of the law, is of an idyllic, sun-drenched island populated by beneficiaries of ill-gotten and undeclared wealth.

The truth couldn't be further removed from this fiction. Well-regulated and respected IFCs such as the crown dependencies of Jersey, Guernsey and the Isle of Man have thriving, diverse local economies, and criminals generally stay well away knowing the intense scrutiny applied to business activities in these jurisdictions.

Key to an accurate picture of IFCs in today's financial environment is an understanding of the increasingly globalised nature of financial transactions. Capital is no longer limited by national boundaries. However, crossing national boundaries, with their differing legal and taxation systems, can be a minefield even to sophisticated businesses. Not only can there be conflicting rules and regulations in various countries, but transactions can inadvertently suffer double or triple taxation when transaction flows are taxed instead of taxation being applied equitably in the country of economic activity.

Perhaps the first role of an IFC is as an international financial intermediator. These centres of excellence have many decades of experience facilitating inbound and outbound investment. For example, given its proximity to the North West of England, the Isle of Man has proved to be a reliable conduit for international clients investing in the many regeneration developments in Merseyside and Manchester. Investors might otherwise have been slow to put money into the UK in general and the North West in particular. A recent study by the Institute of Economic Affairs recognises that far from diminishing the onshore economies, IFCs work with and enhance the economies of their neighbours.

One element critical to this intermediary role is legislative stability and in this regard the crown dependencies have a particular edge. Their legal systems are closely aligned with English law, their regulatory frameworks are robust, and on top of this their legislative frameworks operate to longer timescales and are far less subject to the shorter-term fluctuations that can result from changes in government within the two-party political systems of their close neighbours. This stability enables investors to feel confident about the longer term and making decisions with a longer time horizon.

A good example of the impact of this stability can be seen in the current uncertainty surrounding Britain's exit from the European Union. Our experience has been that many international investors, who might have been concerned about direct investments into UK property, have been willing to continue to hold UK property investments through vehicles in the crown dependencies as part of an international portfolio, in spite of the spectre of a no-deal Brexit.

Far from hiding taxable income from the international tax system, IFCs allow investors to operate globally through a single operating vehicle, while still paying the appropriate local taxation due in the countries in which they undertake economic activity. The crown dependencies have spent many years building robust tax exchange agreements and local legislation intended to facilitate tax transparency and ensure compliance with international tax laws. This is evidenced by all three crown dependencies being recognised as having significantly greater tax transparency than many onshore jurisdictions, including the UK and United States.

Though governments across the world are increasingly enacting legislation to remove privacy to clamp down on criminal activity, well-regulated IFCs in fact serve to strengthen the fight against money laundering and terrorist financing. Unlike many larger countries, IFCs stand or fall by their reputation, meaning only the highest standards will suffice. Uncompromisingly in-depth knowledge of the client is the way forward and it is this rigour that sets the crown dependencies apart from many other jurisdictions, both off and onshore.

For anyone in doubt, I would challenge you to compare the ease with which a bank account can be opened for a business in the UK, as opposed to the crown dependencies. Then ask yourself whether a money launderer is more likely to subject himself to the arduous requirements in an IFC or choose the path of least resistance in their home country where a bank account can be opened in a matter of days or even hours.

> **Well-regulated IFCs serve to strengthen the fight against money laundering and terrorist financing**

Legitimate clients on the other hand, not only continue to use the crown dependencies, but have actually increased activity levels in recent years. Beyond the reasons outlined, I believe this is due to the well-honed expertise built up within the islands over many years. Jersey, Guernsey and the Isle of Man all serve as centres of corporate and wealth-structuring excellence that crucially work to support, rather than compete with, the specialisms of onshore service providers.

There is still work continuing on the global stage to ensure all IFCs uphold the robust policies that will make the world a safer place, but until there is a level playing field among all IFCs, it is important not to tar everyone with the same brush. Equally, for the good of the global economy, it's vital that we see increased co-operation between offshore and onshore jurisdictions to harness the wealth of experience and knowledge housed within the IFCs.

The way forward? Open, transparent dialogue between governments and international bodies, careful re-evaluation of public perception and, above all, putting an end to the political rhetoric that is so harmful to the stated aim of regulating international financial transactions.

**Craig Brown**
**Managing director, Isle of Man**
**First Names Group**

**For more information please visit www.firstnames.com**

FIRST / NAMES GROUP

BREXIT IMPACT

# Luxembourg and Dublin lie in wait...


With the UK's exit from the European Union still unsettled, the impact on alternative investment funds is uncertain, amid the continuing rise of Luxembourg and Dublin

IAN FRASER

Brexit has been fraught for the alternative investment funds sector, which has assets under management of €5.9 trillion across Europe.

The sector, embracing hedge funds, funds of hedge funds, venture capital, private equity and real estate funds, has suffered a string of setbacks as possible deals that would have given UK firms continued access to the European market have turned to dust.

This included the failure of the UK government to go ahead with ambitious plans for the European Union and UK to "mutually recognise" each other's regulatory frameworks post- Brexit, which would have enabled UK firms to continue to operate much as they do at present.

Theresa May's government instead opted for an arguably less satisfactory approach under which EU regulators declare financial rules "equivalent" on an ad-hoc basis.

"The alternative funds and wider asset-management sectors have been operating for at least a year on the assumption that they are going to end up with no access to the European single market post-Brexit," says Sean Tuffy, head of market and regulatory intelligence for Citi's Dublin-based custody and fund services business. "The real concern now is it's going to be a more chaotic break than was previously thought and without any smooth transition period."

Adam Jacobs-Dean, head of markets regulation at the London-based Alternative Investment Management Association, says banks and insurers are more at risk from a "no deal" Brexit than his members, which include hedge funds and other non-traditional fund managers with more than $2 trillion of assets.

> **London-based alternative investment funds almost universally favour either Dublin or Luxembourg for their EU bases**

"We're starting from a base of less overall integration in terms of cross-border provisions in the legislation and a lot of our members already have European structures," he says.

"If they're managing UCITS [undertakings for collective investment in transferable securities] products, our member firms typically already have them domiciled in Luxembourg or Ireland, not in the UK. That generally means they already have management entities there as well. That gives them a base on which to build, in terms of potentially moving staff or functions."

There's little sign yet of London-based alternative fund managers making a mass exodus, or even moving significant numbers of staff, to either Dublin or Luxembourg. Mr Jacobs-Dean says most are currently focused on contingency planning and expanding the scope of their regulatory permissions in the relevant EU jurisdiction. This often includes converting their EU arms into "super mancos", management companies that are dually authorised under AIFMD (EU Alternative Investment Fund Managers' Directive) and UCITS.

What is really keeping hedge fund managers awake at night is that "delegation" may be about to breathe its last breath. Fears for its future intensified last year after Paris-based regulator the European Securities and Markets Authority declared that asset managers would need to prove they had more than just a "letter box" where their funds are domiciled before being allowed to delegate fund management to non-EU jurisdictions.

"The major risk is that the UK gets to the point of exiting the EU and there are no co-operation agreements in place with the countries that matter the most to us – Ireland and Luxembourg," says Mr Jacobs-Dean.

However, he says the industry consensus is that "co-operation agreements" will be extended post-Brexit, though the process may be slowed, as it is going to be handled centrally by the European Commission in Brussels, not bilaterally between individual member states and non-EU countries like the UK.

Both the European Fund and Asset Management Association and the UK's Financial Conduct Authority (FCA) insist that existing delegation rules must remain intact. In April, FCA chief executive Andrew Bailey said: "The truth is that delegation is a well-established global norm [that is] not dependent on EU membership. There is no reason to disrupt a system that clearly works effectively."

And in March European Securities and Markets Authority chairman Steven Maijoor denied rumours that delegation was for the chop, though he conceded the UK's desire to quit the single market had "triggered concerns about the risk of regulatory arbitrage between the EU 27 member states seeking to attract business".

There's little sign of London-based alternative fund managers making a mass exodus just yet

London-based alternative investment funds almost universally favour either Dublin or Luxembourg for their EU bases. Between them, these two centres play host to some 55 per cent of EU UCITS funds under management. Overall, Ireland now hosts €1.83 trillion, compared with Luxembourg's €3.49 trillion of UCITS assets under management.

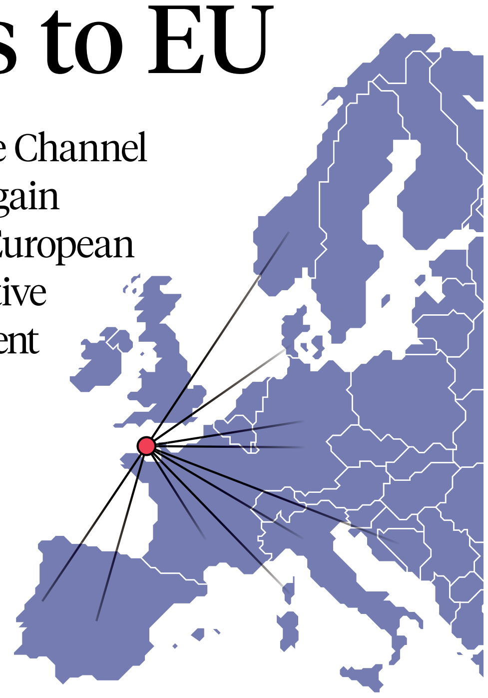
Thanks to their established ecosystems, both centres are well placed to enable any fund management group to "Brexit proof" its business. "When you establish a fund, you need lawyers, auditors, tax advisers, custodians, administrators and all that infrastructure is already in place in both centres," says Citi's Dublin-based Mr Tuffy.

Meanwhile, experts doubt whether the possibility of a hard border across Ireland will undermine the status of Dublin as Europe's number-two funds hub. Mr Tuffy says: "That isn't something that's weighing heavily on anyone's mind."

Mr Jacobs-Dean concludes: "The key things for us are ensuring that we have co-operation agreements in place between the UK and the most important European jurisdictions ahead of the UK's departure from the EU. That matters more to us than anything else, including the transitional and implementation period." ◆

# Channelling funds to EU

Hopes that the Channel Islands could gain access to the European Union alternative funds investment market seemed to have faded



**IAN FRASER**

The Channel Islands of Jersey and Guernsey were quick to recognise that the alternative investment fund managers directive (AIFMD), introduced in the European Union in 2013, might be good for business. It would give them an opportunity to bolster their attractiveness as a base for alternative investment funds.

Eyeing quick access to the third-country passport system, which was one of AIFMD's provisions, both jurisdictions, which are outside the EU, despite their close links with the UK, worked hard to create regulatory frameworks that matched what was required by AIFMD.

If the islands, known in France as Les Îles Anglo-Normandes, could gain acceptance for the passport, alternative investment funds would flock to their shores, as they would provide a convenient, low tax base from which funds could seamlessly market themselves across all EU states.

Initially things seemed to going swimmingly for the two Channel Islands. Paris-based regulator, the European Securities and Markets Authority (ESMA), declared in 2015 that both had in principle qualified for the passport regime. ESMA reconfirmed this the following year, when it also recommended Canada, Japan and Switzerland as eligible nations.

But industry sources say the European Commission, which has the final say on such decisions, having more or less turned against extending the AIFMD passport to any non-EU countries, is withholding approval. Observers suggest this could be down to protectionism, a desire for regulatory cohesion, a mistrust of non-EU regulators or a desire for greater reciprocity from prospective partner nations. The EC may also believe that the still relatively immature AIFMD regime needs refinement before it can be rolled out beyond the EU's borders.

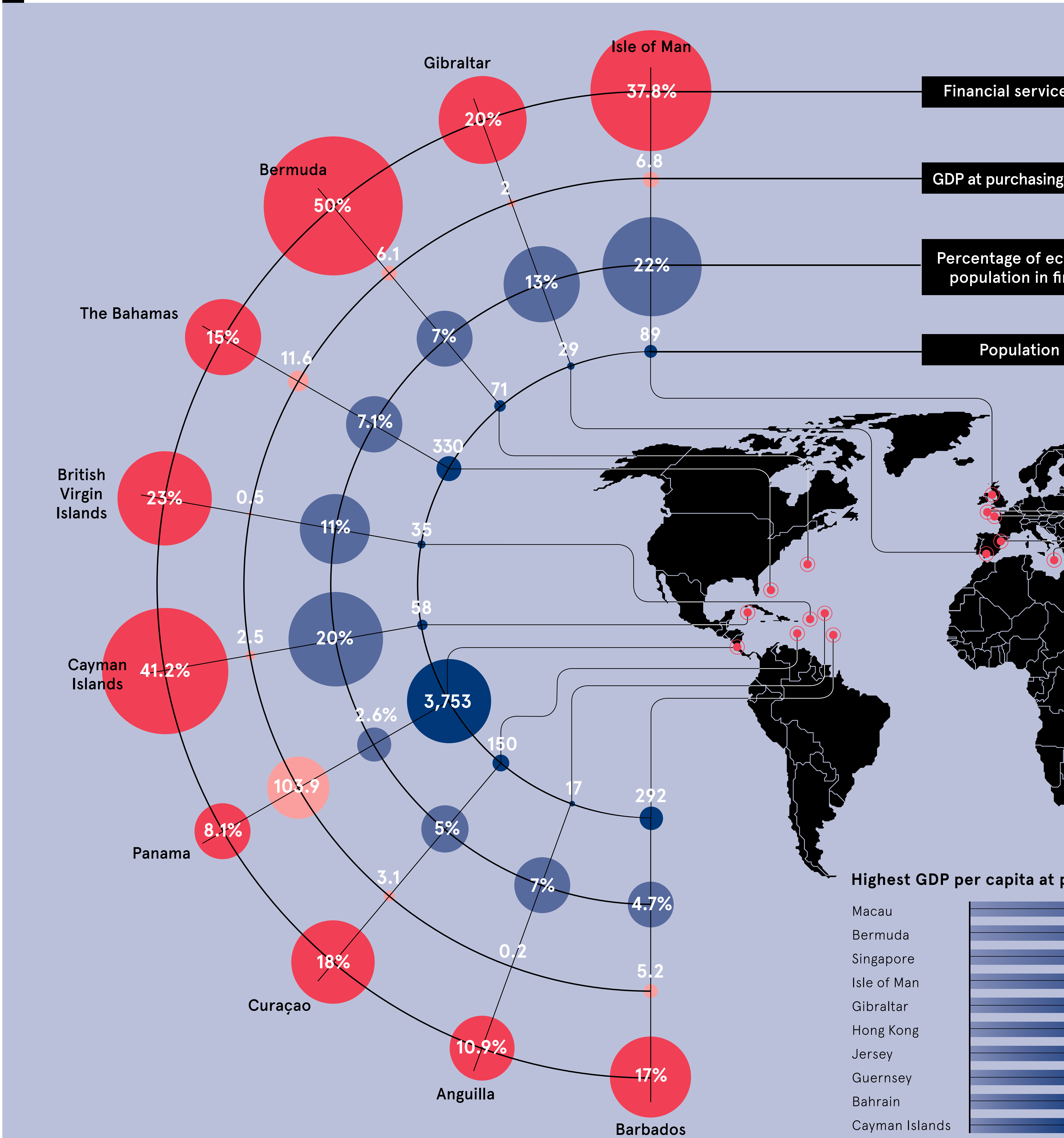
Sean Tuffy, head of market and regulatory intelligence for Citi's Custody and Fund Services, says: "Until we know what Brexit means, and even beyond that, we're unlikely to see any movement. Most of the industry has given up waiting, just accepting that, if they want to access the passport, they're going to have to consider alternatives like setting up European fund structures." He says this has probably come as a blow to AIFMD passport wannabes like the Channel Islands.

It's not all doom and gloom in St Helier on Jersey and St Peter Port on Guernsey, however. Professional advisers say the pre-existing national private placement regime (NPPR) continues to serve funds based there extremely well.

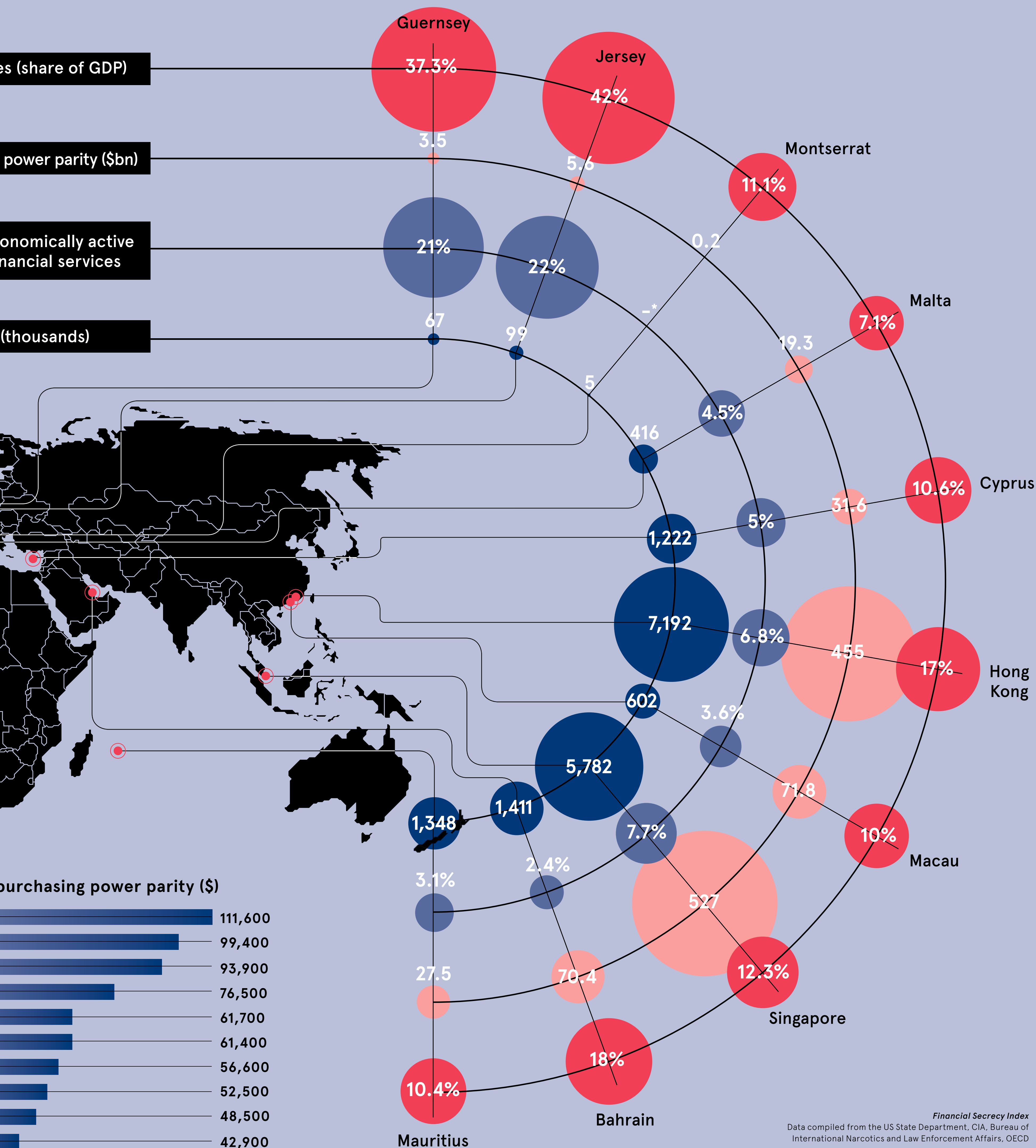
Speaking at the Guernsey Funds Forum in May, funds lawyer Leith Moghli, a partner at London-based law firm Reed Smith, said the AIFMD passport had, in any case, turned out to be a bit of a damp squib and was not widely used. "National private placement works better than the passport regime – it's cautious and flexible," he noted.

Adam Jacobs-Dean, head of markets regulation at the Alternative Investment Management Association, agrees, saying that NPPR remains the "tried-and-tested route" for non-EU-based alternative investment funds seeking to market themselves across Europe. "Most of our member firms are familiar with the NPPRs that exist in member states and are keen to see those stay in place. While it doesn't work in every member state, it does in the key ones," he says.

The challenge for the funds industry, however, is that jurisdictions including France and Germany had started to limit NPPR access to their markets even before the UK's June 2016 Brexit referendum. "There's now a worry that it's going to become increasingly difficult to sell into Europe under the NPPR," says Mr Duffy. So this could be yet another European door slamming in the fund industry's face. ◆




# IFC **JURISDICTIONS**




*Financial Secrecy Index*
Data compiled from the US State Department, CIA, Bureau of International Narcotics and Law Enforcement Affairs, OECD

The unique characteristics of international financial centres mean their economies have a heavy reliance on financial services, both for the sector's contribution to local GDP and employment. This infographic explores the relationship between each jurisdiction's population size and financial industry, charting the wealthiest in terms of GDP per capita

IMPACT INVESTING


# Helping investors do the right thing

Viewed as a commercially viable vehicle for generating profit as well as social good, impact investing is now being facilitated by international financial centres

RICHARD DIGARD

Impact investing faces a global challenge as it evolves to tackle some of the world's most pressing problems – how to turn billions of dollars into the trillions required to mitigate social or environmental issues.

World leaders adopted 17 United Nations sustainable development goals (SDGs) in 2015, which set ambitious objectives for all countries, rich and poor, on global issues, including poverty reduction, climate action, and affordable and clean energy.

The amount required to finance this is staggering. Although donor and philanthropic funds currently account for billions of dollars in support, the cost of solving the most critical global problems is an order of magnitude more.

The UN estimates that, based on current fund flows from the global north to the south, there is an estimated $2.5-trillion annual funding gap to achieve the SDGs in developing countries. Take into consideration all global markets and the cost could reach $90 trillion by 2030, it says.

Donor and philanthropic funds are unlikely to fill this shortfall, which is why growing emphasis is being placed on the role of private capital in financing the SDGs via impact investments as around 80 per cent of the money needed is expected to come from private investors.

In turn, international financial centres, which already handle around $1.4 trillion of investment flow, based on Investment Consulting Associates' estimates, are repositioning themselves to serve the SDG agenda.

Given they are already go-to specialist conduits for global, cross-border investment, including to emerging markets, there is a significant opportunity for IFCs to expand their role as facilitators of SDG financing.

A good example is London establishing itself as a world leader in green finance. The 78 green bonds now listed on the London Stock Exchange have raised more than $24 billion of a global market totalling $155 billion.

The need for sustainable investment led UK economic secretary John Glen to declare at the second Green Finance Summit in London this July: "My vision for the next 12 months and beyond is an explosion of the momentum to the point where 'green finance' becomes simply 'finance'."

And the momentum is there. Some 86 per cent of millennials are interested in such investment, according to a Morgan Stanley survey.

In addition, June 2018 regulations from the UK government mean pension trustees will be required to produce a policy which includes an assessment of the sustainability of their investment decisions. Norway's sovereign wealth fund, and Dutch and Danish pension funds are increasingly aligning their investment policies with those of the UN's SDGs.

Guernsey-based Innovest Advisory works at the nexus between innovative finance and societal impact, and specialises in advising on how capital can address the world's most pressing challenges, such as climate change, food security and financial inclusion.

Managing director Justin Sykes says: "Impact investing challenges the view that social and environmental issues should be addressed only by philanthropic donations, and that market investments should focus exclusively on achieving financial returns."

An example he quotes is Greenlight Planet, formed in 2008 to design, manufacture and sell affordable solar home systems to help alleviate energy poverty for some of the estimated two billion people with scarce access to basic and reliable electricity in developing markets.

> IFCs can facilitate these structures in a transparent, efficient and accountable manner

To date, the business has helped more than six million off-grid households across 65 countries, leading to additional productivity for small businesses and study hours for students.

Mr Sykes is emphatic about the role of international financial centres in mainstreaming impact and green investment: "They have an essential role to play in turning the existing billions of dollars of investment into the trillions that are needed," he says.

The gap between what's currently being invested and what's required can only be bridged through private capital, and that requires specific investment vehicles, he adds.

"IFCs can facilitate these structures in a transparent, efficient and accountable manner, and they are all well placed globally to do so."

The financial ecosystem of skills available in centres means there is access to high-quality legal, accounting, valuation, registrar, company secretarial and audit services for the structuring, launch and administration of funds.

The crown dependency of Guernsey, for example, has just launched the world's first regulated green fund and was identified by the think tank Z/Yen as an "emerging global contender" in green finance.

That launch "...puts us at the forefront of green finance development and particularly the emerging area of green funds. Guernsey's reputation in the sector and the breadth of our funds offering positions us perfectly," says Andy Sloan, director of strategy for Guernsey Finance.

Under the rules, 75 per cent of the value of a fund's assets must meet internationally recognised green criteria developed by a joint finance group of multilateral development banks. Permitted investment areas include renewable energy, efficient energy generation, energy efficiency, agriculture, waste and waste water, and transport.

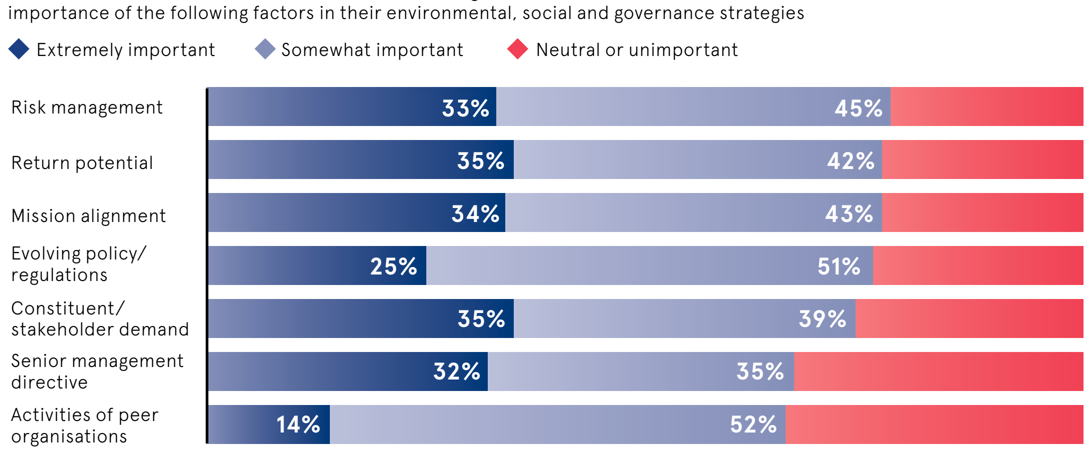
Guernsey's green fund initiative aligns with international trends and common principles for climate mitigation finance tracking, agreed by the world's largest development finance institutions and which overlap with SDGs. It also resolves verification and certification problems, which were considered by many as a major barrier to the growth of the green finance market.

"There's been a very good response to the product, which was launched in response to industry demand," says Dr Sloan. "We have a pipeline of potential new funds looking to obtain Guernsey Green Fund status and I'm confident we'll have several formed by the end of the year."

Other IFCs have also begun to position themselves in this green market and further fund specialisation is expected to meet the rapidly rising need for impact investing. ◆

## Drivers of sustainable investing

Global financial institutions, investment funds and large asset owners were asked about the importance of the following factors in their environmental, social and governance strategies




Morgan Stanley 2018

SMALLER BUSINESSES

# These centres are not just for business giants

Smaller UK businesses don't need to stay close to home when seeking investment – there's a world of funding out there, just waiting for entrepreneurs to go looking for it

CHARLES ORTON-JONES

One of the oldest gags in finance is the quip by bank robber Willie Sutton. The judge asked this persistent offender why he robbed banks. Sutton replied: "Because that's where the money is."

Only today banks aren't necessarily where the money is. Not for small and medium-sized enterprises (SMEs), anyway. Lending has been on a downward slide since the 2008 financial crash and in the last six years the number of loans to SMEs has fallen by half, dipping a further 5 per cent in the first half of this year.

If enterprises want funding they'll need to look elsewhere. And a good bet is to travel to where the money really is: in an international financial centre (IFC).

Switzerland, for example, is renowned for private banking and asset management, but it is also a hot bed of finance for smaller companies. It's home to a long list of specialist investment houses, such as Creathor Ventures, which invests up to £10 million in life sciences and IT companies, 3wVentures, a seed investor in internet startups, and the Swiss Founder's Fund based in St Gallen that has taken stakes in companies such as Guestready, which prepares homes for Airbnb guests, and Foodpanda, a similar service to Deliveroo.

It may seem a little eccentric to go so far for funding, but in 2016 Switzerland raised three times the funding for fintechs than Spain and four times that of Italy. There's a small catch: it helps to register as a company in Switzerland to land a deal. But this could be a small hurdle for accessing a nation which the *Global Entrepreneurship Index* ranks as the second best economic system in the world.

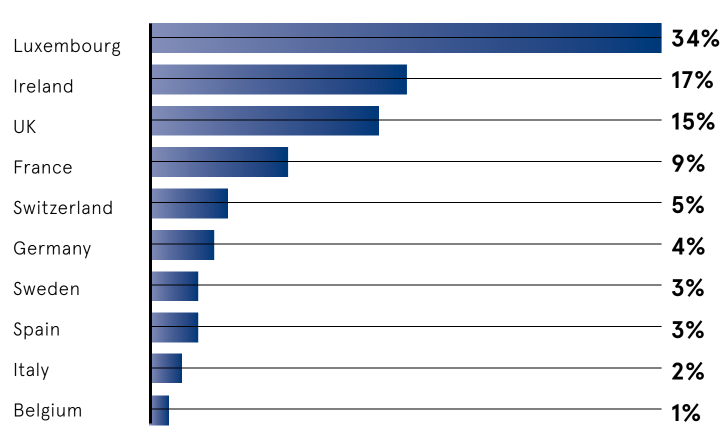
> "IFCs known for being home to multi-billion euro and dollar funds are positioning themselves as SME friendly in the capital market segment

The United Arab Emirates is a gold mine, or should we say oil mine, for venture capital. But until recently the market was untapped. "Around ten years ago, UK SMEs would have struggled to access funding in Middle Eastern countries, UAE included," says Mihir Kapadia, founder and chief executive of Sun Global Investments, which has strong investment presence in Dubai. "However, in recent years there have been improvements to the financial inclusion of SMEs across the region and beyond."

At the forefront of the new ethos is a plan by the UAE's Securities and Commodities Authority for a new funding platform for SMEs, supported by a revitalised regulatory framework. Mr Kapadia says: "There are currently around 5,000 UK-based SMEs operating in the UAE within the media and ICT sectors. Opportunities for investment in UK SMEs from Middle Eastern finance centres have surpassed oil investment and people are recognising this."

## Ten largest investment fund domiciles by market share

At end-March 2018




Thomson Reuters Lipper


Geography Photos/ UIG via Getty Images
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ClaudineVM/Getty Images

International Financial Services Centre, Dublin

Case study

**Could Dublin offer you the venture capital you need?**

As rent in the UK's tech hothouse cities goes through the roof, startups are routinely looking at other European cities to move to. Berlin and Lisbon top the list, but there is a strong case for looking the other side of the Irish Sea for a new base and new sources of funding.

The Irish economy is in stellar condition, forecast to grow 5.7 per cent this year, among the fastest in Europe. Dublin is an international financial centre of global renown, and small companies will find a thriving scene for private equity, venture capital and even bank debt.

For venture capital, the Irish government is an enthusiastic co-investor as part of its Enterprise Ireland initiative, with €700 million currently being allocated. Seed investing is strong too, doubling to €131 million on the past year. Software, fintech and medical firms will find a particularly warm reception. Overall, Irish technology firms raised just shy of €1 billion in 2017.

The angel investing scene is bustling. The leading umbrella agency is the Halo Business Angel Network, whose members invested €12.8 million in 2017 in 45 companies.

Finance, a close-knit community of entrepreneurs, strength of the talent pool, lifestyle and continued European Union single market membership will make Dublin a powerhouse in the startup world.

Luxembourg is an IFC offering a potent mix of rich angel investors, private equity houses and now a new form of funding: low-cost capital markets designed specifically for the lower end of the market.

Nicolas Mackel, chief executive of Luxembourg for Finance, says his nation may be small, but it is an elite performer worthy of investigation by small UK companies. "Luxembourg is the largest domicile in Europe for investment funds and these also serve as a major source of funding for SMEs by investing in companies' equity or debt, notably through private equity funds as the world's top 13 largest private equity firms do business out of Luxembourg," he says.

This leadership is demonstrated by the development of new internet-based capital markets. Mr Mackel says: "CrossLend and eppf are good examples. CrossLend takes single loans and splits them up for the wider market, sharing the risk but enabling finance to be provided to a small business. eppf provides smaller borrowers with a technical and legal platform for issuing bonds – an opportunity not normally afforded to them."

It's counter-intuitive, for sure. IFCs known for being home to multi-billion euro and dollar funds are positioning themselves as SME friendly in the capital market segment. The example par excellence is Guernsey.

The ancient isle is home to The International Stock Exchange (TISE). It has 2,200 listings, predominantly investment vehicles, but the new focus is on attracting small UK companies that are priced out of the main market and AIM sub-market of the London Stock Exchange.

"Many companies feel that venture capital is not for them," says Fiona Le Poidevin, chief executive of TISE, from her headquarters in Guernsey's capital St Peter Port. "They don't want a private equity manager sweeping in and changing everything. So as they grow they look to a stock market listing. Anecdotally, we hear that AIM is very expensive and can be out of reach for SMEs. So we are here to provide an alternative."


TISE
02

01
Guernsey is attracting smaller UK companies in need of capital that are priced out of AIM and the main market

02
Fiona Le Poidevin, chief executive of The International Stock Exchange

Listing on TISE can be half, or even a third, of the cost. There's no need to change location. UK companies can stay on the mainland when listing. And the law will be pretty familiar too, although with the odd tweak. "We are part of the British family," says Ms Le Poidevin. "As a Crown dependency we are not part of the EU, nor bound by EU regulation. This allows us to provide proportionate regulation. We are the same time zone as Britain and use pound sterling. I think given Brexit we are able to provide some certainty and stability while the UK is going through a period of significant change."

> **Many companies feel that venture capital is not for them**

TISE also has a presence on the Isle of Man and Jersey. "The Isle of Man has an affinity with the North of England and North West. We see a lot of potential helping ambitious companies from those regions raising funds via a listing on TISE," Ms Le Poidevin says.

There's a full support network of advisers and investors to make listing easy for nervous first-timers. "There are investor networks here in Guernsey. Quite often companies will have secured investors before they list," she says.

Companies going down this route will be in good company. Netflix has a €1.3-billion high-yield bond listed on TISE. And the leadership is reassuring. Its chairman is Jon Moulton, founder and managing partner of private equity firm Better Capital, and perhaps the UK's most successful investor of the past few decades. ◆

TALENT POOL

# Landing the high-flyers in far-off places

Recruiting and retaining key workers in developed financial centres may present a challenge, but there are strategics which can help

NICK MARTINDALE

Working in developed financial centres can bring significant talent management challenges for financial services firms and associated supporting industries. For many years, the solution has been to relocate people from the UK or other parts of the world, offering attractive packages to persuade them to move.

But relocating staff is not an easy option, as competition for such talent is fierce, especially at a senior level, says Tim Muzio, lead consultant in the financial services practice at Odgers Interim. "The roles themselves are a main driver and businesses need to look at their unique selling points when it comes to attracting people to relocate," he says. "This might be the level of responsibility they're going to be given or the opportunity to step into a more senior role."

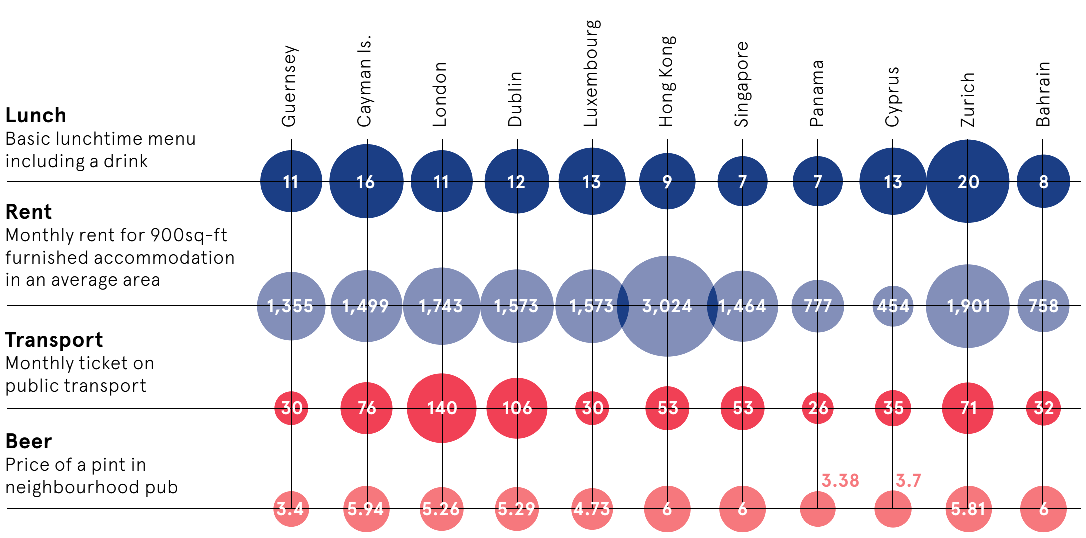
There are also significant variations around employment rules with which human resources departments need to get to grips. "One might assume that international financial centres like Switzerland and Luxembourg are very similar in their approaches to employment, but there are more than a few significant differences," says Rick Hammell, chief executive of Elements Global Services. "For example, Luxembourg enforces a maximum 40-hour working week, while employees in Switzerland can work up to 50 hours."

Brexit may also have an impact on particular locations. "Luxembourg, like the UK, is a member of the European Economic Area, so a British citizen will be able to live and work in any other EEA country without the need for a work permit," Hesham Shoeb, associate at law firm Barlow Robbins, points out. "But this position may change after the UK leaves the European Union."

Beyond the job itself, there are a number of other factors to consider. Islands such as Jersey and Guernsey are not always ideal locations for families due to the difficulties in reaching other places, says Joanne Danehl, global director, intercultural, language and partner support services at Crown World Mobility. While the Cayman Islands have a high cost of living and no social healthcare system, alongside its attractive tax environment.

"From a talent management perspective, it becomes all the more important to provide intercultural training to help employees and families integrate," says Ms Danehl. "Basically, when the bubble inevitably bursts and real life sets in, how will the assignees cope?"

Cost of living by financial centre (£)




Expatistan 2018

Technology firm Luxoft moved its headquarters to Switzerland five years ago and has since relocated employees from 15 different countries, mainly in the EU, to its base in Zug. "Relocated employees can easily rent or buy real estate in Switzerland," says Dmitry Kushnir, head of global delivery locations. "The only limitation for buying is a need to get permission to buy a house or apartment. The high price for renting or buying is also occasionally a challenge, but is usually reflected in higher wages."

In some locations, such as Switzerland and Luxembourg, bringing in staff based in nearby France or Germany may be an option. "There are large numbers of 'frontaliers' who travel to work from France and Germany, where it is cheaper to live," says Michelle Reilly, chief executive of 6CATS International. "Both Switzerland and Luxembourg use multiple languages and, while this is arguably a candidate attraction tool due to the ease of living in the region if they speak one of the local languages, it can also create a lack of identity."

There are other options for businesses beyond relocating employees, though. Partnering with local universities or colleges to hire graduates and training them up can help develop staff at a junior level, says Mr Muzio, and this can be complemented by attracting recent retirees to help transfer knowledge to younger workers. "This is a cost-effective method of imparting skills and knowledge to your workforce, and also means the returnees have the opportunity to re-engage with their old employer," he says.

> **Relocating staff is not an easy option, as competition for such talent is fierce, especially at a senior level**

Some technology firms are even looking to develop school-leavers and apprentices; a model financial services firms could look to replicate, says Ben Kimpton, managing consultant at TritonExec. "Those organisations from different sectors that decide not to react or invest in tomorrow's talent requirements run the risk of stagnating due to employing a legacy workforce," he warns.

Making better use of existing talent is another option, says David Cartwright, founder of the OBD Academy, by investing in training and development, and drawing on often-overlooked groups. "The focus and energy expended on recruiting new people is akin to the excitement of 'cradling in' new customers at a time when your existing customer base lies underdeveloped," he says.

"How diverse is the investment in learning and development in targeting and retaining older employees, people in more specialised disciplines or mothers returning to work after maternity leave? Are people being supported with the most appropriate development opportunity for them and the business?"

Technology is also helping financial services to overcome the challenge of attracting young talent in particular to developed financial centres, says Marcus Downing, senior client partner at Korn Ferry. "Adopting a more flexible approach to working saves organisations the cost of relocating and is important in displaying the kind of dynamism that attracts younger employees," he says. "Larger organisations cannot transform overnight, so we're seeing a trend towards digital hubs, whereby they ring-fence a part of the business to act as a testbed and propagator of the agile methodologies so important for attracting young talent."

Making use of consultants can also help plug talent gaps, at least on a short-term or project basis. "For financial services firms in island jurisdictions or locations such as Liechtenstein with a lot of red tape, it can be a flexible way to quickly access expert skills for one-off pieces of work," says Murray Priestman, founder and principal of Priestman Associates. "Many clients, particularly in financial services, make the mistake of employing permanent staff with expensive niche skills that they use infrequently. With the growing gig economy, it is often far more efficient to bring in ad-hoc consultancy resource for work when needed." ◆

Commercial feature

# Leaving a lasting legacy

Millions of high-net-worth individuals could be putting their family's inheritance at risk by failing to engage in effective wealth management strategies

The vast majority of people work hard for most of their adult lives in the hope of building up sufficient income for themselves and their families. Yet many, including some of the very wealthiest in society, are failing to ensure the proceeds of that work are passed on effectively to the next generation.

In the UK, some 55 per cent of high-net-worth individuals have a will, according to research by RBC Wealth Management, but only 24 per cent have a full wealth management strategy in place. Worryingly, 30 per cent admit to having done nothing to prepare for the transfer of their wealth to the next generation.

Given the sums of money involved, which could extend into millions in some cases, this is extremely concerning, says Alan Binnington, a director of the Fiduciary Specialist Team at RBC Wealth Management. "It's surprising that people who are in that high-net-worth category and have access to advisers haven't got around to dealing with one of the most important issues that families face," he says.

There are a number of reasons why this may be the case. There can be misconceptions over the amount of wealth required to justify such planning, says Mr Binnington. "You don't need to be fabulously wealthy to have a justification for putting a plan in place that will help with that transfer," he says.

There can also be a reluctance in families to discuss inheritance with younger generations. "I've found in some instances that older members of the family are reticent to talk about their own death," says Julie Kleis, fellow director of the RBC Wealth Management Fiduciary Specialist Team. "There may be other family members who are much more willing to talk about it, but find it hard to start the conversation." Advisers can help to bring the matter up, she adds, but ultimately families have to be prepared to confront the situation, and have an open and honest dialogue.

As people become more mobile and go abroad for personal or professional reasons, or have family members based in other countries, the wealth management process can become more tricky, as different countries will have different legal and tax systems.

Equally, another complicating factor is "blended" families. "Where there are children from previous relationships, people are keen to make sure all family members are treated equally and that can be quite difficult to manage," says Ms Kleis. Often such families tend to be less prepared, despite having the greatest need for planning, she adds.

None of these issues are insurmountable, but do underline the need for effective planning. The most obvious solution for some families would be a discretionary trust, says Mr Binnington, where assets are placed into the hands of the trustees who manage them on behalf of the beneficiaries. "The major benefit of this is that it avoids all the problems you get in obtaining probate on the death of the wealth creator," he says. "Trusts have always been seen as a very useful vehicle because the trust doesn't die."

In the case of business owners, often much of the wealth is tied up in a family business, which can also require specific solutions. One option is to set up a family charter, which can identify the family's philosophy and attempt to create a system that is fair for all members of the family. "Some members of the family may want to work in the family business; others may have no interest or may not have the necessary ability," says Mr Binnington. Here, different classes of shares can be awarded to different family members, separating ownership from control and enabling those who work in the business to benefit from bonuses in addition to dividends.

Other measures can also be put in place, says Ms Kleis, including allocating some family members an amount of money to start up their own business or even to help them pursue philanthropic aims through charitable initiatives. "That's something that often appeals to millennials, who don't tend to measure success in terms of financial wealth, but the contribution to the wider community," she says. "That shift from one generation to another means we need to come up with structures that satisfy those objectives."

Basing arrangements through a provider in an international financial centre can help smooth some of the potential difficulties, says Mr Binnington. "They tend to be stable jurisdictions and are experienced in dealing with complicated family wealth planning," he says. "They are also well located in terms of access to international markets, which is how they developed in the first place."

Inevitably, everyone's situation is different, but the important message is that this is not something that can be ignored. "Preparing to transfer wealth is an emotionally fraught subject but people need to start thinking about what they would want to happen and then take appropriate advice," says Kleis. "As someone prepares to put a wealth transfer plan in place, they can take solace in that there are lots of people who can help them. But ultimately they are the ones who have to make the decisions so they have to start the conversation with their families or beneficiaries. While it may be off-putting, preparing to transfer wealth needs to be a very important part of people's lives, perhaps equally as important as earning it."

> "Preparing to transfer wealth is an emotionally fraught subject, but people need to start thinking about what they would want to happen and then take appropriate advice

**55%**

**of high-net-worth individuals have a will, but only 24 per cent have a full wealth management strategy**

**30%**

**have done nothing to prepare for the transfer of their wealth to the next generation**

RBC Wealth Transfer Report 2017. Lasting Legacy: Insights into giving and inheriting across generations.

**Julie Kleis**
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The best returns are more than financial.