

GUERNSEY - STABLE, INNOVATING, LEADING AND EVOLVING

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Guernsey has always been an innovator in financial services and that trend continues today. In addition to being a global leader in this regard, recent political instability and global uncertainty have also highlighted the island's stability and certainty have helped it stand out as a leading international finance centre (IFC).

Important landmarks and new products and legislation have all served to enhance this view. From protected cell companies (PCCs) to Blockchain, or base erosion and profit shifting (BEPS) to the Common Reporting Standard (CRS), Guernsey is at the forefront of developments.

Innovation

This year, 2017, marks the 20th anniversary of the Protected Cell Companies Ordinance, the first legislation of its kind and developed in Guernsey. Originally established for use in the island's captive insurance sector, it has since gone on to be used as an alternative application for the structuring of many types of products in funds and private wealth.

The structure's key feature is the legal ringfencing of designated assets and liabilities available within the PCC, so that each cell acts as a separate entity while sharing administrative efficiencies with the core.

Other jurisdictions have changed the name in an attempt to differentiate but effectively all cell company legislation globally has been based on that originally formulated in Guernsey, providing a strong example of innovation and leadership in the financial world. The island has also introduced the incorporated cell company, taking the PCC concept one step further by having cells that are individual legal entities in their own right.

However, the island has not stopped there and is continuing along this innovative path.

Private Investment Fund

At the end 2016, Guernsey launched the smart and simple Private Investment Fund (PIF) regime, which provides fund managers with greater flexibility and simplicity. It recognises that certain investment funds are characterised by a relationship between management and investors that is closer than that of a typical agent. The PIF dispenses with the formal requirement for information particulars such as prospectus in recognition of that relationship, significantly reducing the cost and processing time of launching a fund.

It should contain no more than 50 legal or natural persons holding an economic interest in the fund. However, no attempt has been made to limit the number of investors to whom the PIF might be marketed – a feature not available under comparable regimes. It took just four months for the first two PIFs to be launched and, to date, there have been seven in the eight months since its development and release to the global investment community.

The PIF built on the mid-2016 launch of the Manager Led Product (MLP). Another fund-focused innovation, the MLP aims to ensure a proportionate risk-based level of product regulation for any alternative investment fund manager (AIFM) that establishes itself in Guernsey and seeks to market into Europe under the national private placement regimes. The main attraction is that the MLP will allow one AIFM to absorb all the incidence of conduct and capital adequacy rules, permitting many fund structures to exist under its banner.

Blockchain

Guernsey is very supportive toward the use of new technology and was home to the first commercial deployment of 'blockchain' technology in the administration of investment funds earlier this year when Northern Trust, in collaboration with IBM and other key stakeholders, built a security-rich blockchain based on the open source Hyperledger Fabric.

The distributed ledger solution is now being used for the management and administration of a private equity fund

by Geneva-based asset manager, Unigestion, who opted for a Guernsey-based fund because the use of blockchain was adopted early by local authorities.

The blockchain network provides real-time insight and transparency to all parties, including the fund managers and investors as well as allowing regulatory access when required. Its introduction in Guernsey underlines the fact that the island continually monitors new technologies and supports businesses in developing ground-breaking ideas in order to provide a supportive environment where products can flourish and be first to market.

Utilisation of technologies like blockchain ensure Guernsey's funds sector remains on an upward trend. Indeed, the first quarter of this year marked seven successive quarters of growth for the funds sector – the longest continued period of increased value in nearly six years. The net asset value of funds under management and administration grew by £10.6 billion (4.1 per cent) over the quarter and now stands at £266.5 billion.

The private equity space is also on an upward trajectory. In December 2016, it was announced that the total value of private equity business in Guernsey had surpassed £100 billion for the first time. In doing so, it showed that Guernsey's first-class infrastructure, stability, regulation and tax transparency continues to make the island an attractive destination for private equity funds. Substantial launches by big ticket private equity promoters including Permira, Apax Partners, Cinven, Macquarie, Partners Group and Inflexion all contributed to the record-breaking high – which after the first quarter of this year has now risen again to £113.4 billion

Growth is also being seen in other areas of the island's finance industry. For example, aircraft registration is a blossoming area for Guernsey. 2-Reg, the Guernsey aircraft registry, now boasts 225 aircraft on its books. Its accelerated growth over the last year is due to the adoption of new regulations that allow it to also issue registration and certificates for commercial air transport.

That led to the issuing of an air operating certificate to its first Boeing business jet in April. 2-DEER, the world's most expensive business jet, was registered with the Guernsey-based aircraft management subsidiary of Hongkong Jet. HNA Group, the parent company, is a Fortune 500 member headquartered in China with upwards of US\$30 billion in revenues, and is very well known in the region.

Stability and reputation

At a time of much political instability and uncertainty around the globe, Guernsey continues to be a stable centre in which people are comfortable doing business.

Guernsey's position in relation to Brexit is just one example of the certainty that is offered. At the recent Guernsey Funds Forum in London, Guernsey Chief Minister, Gavin St Pier, told the audience that the island is the ideal model of a stable jurisdiction in turbulent times, and its value to the City of London could not be underestimated.

Guernsey is not part of the European Union and thus unaffected by Brexit. The fundamental principles of its established relationships will not change. The island's financial sector has done the hard yards in negotiating the enduring relationships into the EU and has established access to Member States as it is already treated as a non-EU third country.

"If you were going to design, from scratch, the model of a stable jurisdiction in turbulent times, you would almost certainly design Guernsey," Deputy St Pier said. "Where London and the UK is about to tread, we have been walking for many years. Guernsey is the gateway for investment into the EU.

"Guernsey's finance sector sees itself very much as the City's 'offshore'. We are not the competition – we are teammates in what is likely to be a marathon."

Leading the way

This philosophy around teamwork and partnership is also why Guernsey remains at the forefront of international standards and an early adopter of global legislation initiatives.

Guernsey was among the first wave of countries to adopt the CRS on automatic exchange of information and is among the first 50 countries and jurisdictions to begin reporting this year.

Given the island's long-standing experience in meeting global international standards, its finance sector has already successfully navigated some of the uncertainties and questions now being confronted by other countries, including China and Hong Kong, who have committed to start their own CRS reporting in 2018. Guernsey, as an early adopter has been able to share its CRS expertise and guidance with audiences at its own events in China and Hong Kong in recent months, which have attracted more than 250 practitioners from the region's banking, trust and securities industries.

Guernsey has also shown itself to be a BEPS-compliant jurisdiction by reaffirming its commitment to international tax co-operation by joining 66 other countries in an Organisation for Economic Cooperation and Development

(OECD) tax treaty in June. The OECD Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting was developed through negotiation with more than 100 countries and jurisdictions, including Guernsey, to help governments close gaps in international tax rules in line with the OECD's BEPS project. Guernsey was one of just four smaller jurisdictions invited to participate – testament to the island's expertise and the high regard in which it is held.

Conclusion

It is clear from recent developments, both domestically and around the globe, that it is an exciting time for Guernsey to be offering its financial services to the world. We can offer the assurances clients are searching for and the promise that they will be getting quality, stability and much more in the way of innovation.

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WE ARE GUERNSEY is the brand under which Guernsey Finance promotes the island's financial services sector internationally. Guernsey Finance - the promotional agency for the island's finance industry internationally - is a joint industry and Government initiative responsible for the promotion of Guernsey. Under the leadership of Chief Executive Dominic Wheatley, the agency ensures that the core values and competencies of the island's finance sector are accepted and respected by the global community and that financial business development flows are enhanced.

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