

GUERNSEY: SEIZING THE MOMENT

PETER NIVEN OF GUERNSEY FINANCE EXPLAINS WHY GUERNSEY'S STEADY FINANCIAL IMPROVEMENT, WEALTH OF EXPERTISE, ROBUST YET PRAGMATIC REGULATION AND FORWARD THINKING ARE ATTRACTING INVESTORS TO THE ISLAND



Peter Niven

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“**U**ncertainty is the only certainty there is, and knowing how to live with insecurity is the only security,” mused mathematics professor John Allen Paulos. These words carry particular resonance as the world continues to pick itself up off the floor of the global financial downturn. We have seen the start of renewed confidence in the markets but really this is just the start of a trip down what will be a very long road to recovery and at the moment the general economic conditions remain fragile and will be so for some months to come.

Guernsey cannot be completely immune from these worldwide issues, although the island has to a large extent remained resilient in the face of the pressures. Perhaps the most significant fallout for us though has been the increased international focus on so-called ‘tax havens’ or offshore centres. I am pleased to say that the island is consistently recognised as being within the very top tier of international finance centres.

There is still uncertainty over issues such as corporate tax rates and the EU's Directive on Alternative Investment Fund Managers (AIFM). What I can say, however, is that we are taking all steps possible to ensure the island continues to be a leading international funds centre. As such, I am extremely confident that Guernsey will build on its solid foundations to remain a leading domicile for the alternative investment community.

THE ALTERNATIVE DOMICILE

Guernsey has a strong heritage in providing clients from across the globe with an extensive range of financial products and services. For example, our funds industry stretches back half a century. During the past two decades, the sector has seen a gradual yet sustained shift where the balance of business has moved from being largely retail, equity-traded/cash-based schemes to predominantly institutional, niche funds. This included significant growth, particularly of esoteric asset classes, through the middle of the last decade. The experience means that the island has built a wealth of expertise and first-class infrastructure for the structuring, management, administration and custody of not just traditional funds but also alternatives, in particular private equity

– with the KKR effect – and hedge funds and funds of hedge funds (FoHFs).

Today, Guernsey has an investment funds industry with total business worth £197bn. The island has not been completely sheltered from the global financial crisis but our funds industry has continued to perform robustly. Our performance has outstripped some of our closest competitors and the fact that we have had three consecutive quarters of growth to the end of March this year points again to a slow climb out of the general trough of 2008/09. Guernsey practitioners are reporting a greater level of business than a year ago, with particular interest from promoters and sponsors in harnessing our experience and expertise in the alternative and niche asset classes. This is reflected in the fact that together, private equity, property and hedge funds/FoHFs now account, by value, for nearly 50% of the island's funds business.

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CENTRE OF EXCELLENCE

Leading investment managers of alternatives (such as EQT and Alchemy – private equity; Kenmore and F&C – property; and Man and Fauchier – hedge funds/FoHFs) have the operation of their funds facilitated in Guernsey. Our administrators do service non-Guernsey funds but a large proportion of their business relates to Guernsey open and closed-ended funds, which are now promoted and sponsored by leading institutions in 45 countries. These can be established through a range of flexible investment vehicles such as unit trusts, the Guernsey-pioneered protected cell companies (PCCs), incorporated cell companies (ICCs) and limited partnerships. There are a good number and broad range of administrators in the island, many of which have specific expertise and bespoke IT solutions for alternatives. Over the past couple of years Citco, Custom House and Alter Domus have been added to a list that already included globally recognised names such as HSBC, Northern Trust, RBC and State Street (and now also features JP Morgan), which can also act as custodians.

Guernsey's funds industry can draw on the services provided by the banking, wealth management and risk management sectors. In addition, it is supported by a comprehen-

sive network of investment, legal, tax, audit, accounting and actuarial advisers, including multi-jurisdictional law firms and the 'big four' accountancy firms where there is specialist expertise in alternatives.

Guernsey is home to the Channel Islands Stock Exchange (CISX), which has more than 3,500 securities listed and also provides access for listings on both London and European exchanges. The Guernsey Financial Services Commission (GFSC) has grown a reputation for its robust yet pragmatic approach to regulation; for example, all Guernsey schemes remain regulated but fast-track routes have been introduced that allow for the speedy launch of funds where appropriate. In addition, Guernsey's skilled workforce not only has access to in-house training but also the Guernsey Training Agency (GTA) University Centre, which works with the Institute of Directors (IoD) to ensure that the island has a pool of experienced and well qualified non-executive directors maintaining high standards of corporate governance.

Our pedigree is reflected by the fact that earlier this year BlueCrest Capital Management, one of Europe's largest hedge fund managers, followed in the wake of stockbroker Shore Capital by relocating its headquarters from London to Guernsey. Importantly, having a physical operation in Guernsey provides additional substance to management arrangements. Terra Firma has not only joined fellow private equity manager Permira by establishing in Guernsey but chairman Guy Hands has decided to buy a property and live on the island. This reflects the fact that not only is Guernsey an ideal location for conducting business or locating management companies but it is also attractive as a residence for the managers themselves. This is no doubt helped by the fact that Guernsey has a zero rate of corporate tax as standard, there is still no withholding tax on dividends paid, no capital gains tax, no inheritance tax and no value added or general sales tax, and personal income tax remains levied at a maximum of 20%, with a variety of capping options available depending on individual circumstances.

TOP TIER

During its 50 years as a finance centre and particularly during the last decade, Guernsey has faced scrutiny from the UK Government, the EU, the International Monetary Fund (IMF), the Financial Action Task Force (FATF), the Organisation for Economic Co-operation and Development (OECD) and G20. The island has always co-operated in these processes and on each occasion been placed within the premier division of international finance centres. This has continued to be the case during the past 18 months:

- Guernsey features alongside the UK and US on the



OECD white list that was published at the end of the London G20 summit in April 2009;

- The review of British Crown Dependencies and Offshore Territories by Michael Foot on behalf of HM Treasury placed Guernsey in the top division of international finance centres;
- Guernsey was ranked 22nd in the latest Global Financial Centres Index (GFC 7, March 2010) – within the very top echelon of the so-called offshore centres.

There is also every reason to believe that Guernsey has performed well under assessment by the IMF during the first half of this year. However, the island never rests on its laurels but is always looking to the future.

We are currently facing challenges in a variety of guises, not least in terms of our corporate tax rates. It is reassuring that Lyndon Trott, Guernsey's chief minister, has said: "The fund management industry's exempt company status is not under threat and indeed its scope could well be extended." Guernsey has also been extremely proactive voicing its position in both London and Brussels regarding AIFM and we are confident that the island will continue to have access to European markets. It is so that we can tackle such challenges most effectively that the island is stepping up its representation within the corridors of power in both the UK and the EU.

Guernsey will do all it can to continue to be a leading international funds centre. As such, I am extremely confident that the island will build on its illustrious heritage to remain a leading European centre for alternatives business well into the future. ■