Guide to relocation 2013

Small is beautiful in new alternative fund world

Regulatory innovations boost competitive edge

Start-up managers seek cost-effective domiciles
In this issue...

03 Adapting to a changing environment
By Simon Gray

05 Innovation drives Bahamas’ role in global wealth market
By Simon Gray

11 Approved manager regime opens up new opportunities for BVI
By Simon Gray

16 Changing global environment highlights Malta’s appeal
By Simon Gray

21 Business and lifestyle thrive in Ticino
By Simon Gray

Publisher
Special Reports Editor: Simon Gray, simon.gray@globalfundmedia.com
Editor: James Williams, james.williams@globalfundmedia.com
Sales Managers: Simon Broch, simon.broch@globalfundmedia.com; Malcolm Dunn, malcolm.dunn@globalfundmedia.com
Marketing Director: Oliver Bradley, oliver.bradley@globalfundmedia.com
Publisher & Editorial Director: Sunil Gopalan, sunil.gopalan@globalfundmedia.com
Graphic Design: Siobhan Brownlow, siobhan.brownlow@globalfundmedia.com
Photographs: Courtesy of Bahamas, BVI & Malta Tourist Boards
Published by: GFM Ltd, 1st Floor, Liberation Station, St Helier, Jersey JE2 3AS, Channel Islands
Tel: +44 (0)1534 719780
Website: www.globalfundmedia.com

©Copyright 2013 GFM Ltd. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the publisher.
Adapting to a changing environment

By Simon Gray

The past few years of economic and financial crisis have brought significant change to both the traditional and alternative fund sectors, and nowhere more than in the domiciles chosen by or for fund managers, service providers and investment vehicles. A number of established fund jurisdictions are coming under pressure, whether economic, regulatory or legal, just as other financial centres position themselves to take advantages of new opportunities.

The alternative fund industry in particular is in the process of rethinking various aspects of its structure as it seeks to adapt to a still troubled economic environment, hesitation and risk aversion on the part of traditional investors, what has often been described as a tsunami of new regulation, and most of all pressure on costs.

Different jurisdictions have responded in different ways to the continuing crisis. However, those that seem to be adapting best to the current environment have been characterised by their readiness to update their legislation, rulebooks and product ranges to accommodate the latest requirements of financial services players as well as embracing wholeheartedly the new international consensus on tax transparency and regulatory oversight.

In some areas of the global financial industry, size has been a beneficial quality in coming through the crisis, but certainly not in all. Flexibility, solid industry expertise and commitment from the political authorities may often be more useful characteristics at a time when the ability to respond rapidly to changing conditions is required. Larger jurisdictions, by contrast, may see competing claims on government priorities and legislative attention.

It should be no surprise that jurisdictions such as the Bahamas and the British Virgin Islands, which have decades of experience and success in the financial services industry, should continue to thrive in the current conditions. Both have turned innovation to their advantage in offering the fund industry products and opportunities unavailable elsewhere.

The recent introduction of the BVI approved manager regime, the extension of the Bahamas’ range of SMART Fund models and the launch of the Bahamas Executive Entity are all initiatives designed to capitalise on their respective jurisdictions’ existing strengths and the needs of the industry members that use them.

Malta has also been steadily building up its reputation as a fund domicile and servicing centre, taking on bigger and longer-established rivals to create pools of expertise in both UCITS and alternative fund business – as well as other areas of financial services business, including insurance.

Like Ireland a couple of decades ago, Malta has drawn on a combination of ingenuity, flexibility, a well-educated workforce, vigorous and enthusiastic marketing and, not least, a regulator renowned for openness and accessibility as well as robust enforcement of its standards. Today the Mediterranean island nation has emerged as a leading fund centre for the AIFMD era.

Meanwhile, Switzerland’s Italian-speaking canton of Ticino is carving out its own reputation for expertise in a country with a long-standing financial services vocation. Welcoming a broad range of hedge fund managers and service providers, and reaching out to markets across the border and well beyond, Lugano is emerging as a financial hub that encapsulates Switzerland’s excellence in investment and fund management in a global marketplace where ongoing change continues to open up new opportunities.
The **Advantages** of living in The Bahamas are as clear as the crystal waters that surround it.

The Bahamas is located in one of the most idyllic tropical settings in the world and offers many incentives to relocate permanently or to establish a second home. The most advantageous conditions have been created for wealthy individuals and their families to live and work in a tropical paradise where their assets are protected and their confidentiality is guaranteed.

Political and economic stability, advanced infrastructure and services, access from a strategic location and a welcoming cosmopolitan community are just a few of the advantages for those who choose to call The Bahamas their home.

To learn more please visit www.bfsb-bahamas.com, or bring your family to The Bahamas to see for yourself.

Go to [www.bfsb-bahamas.com](http://www.bfsb-bahamas.com) to see why our advantage is your business opportunity or call The Bahamas Financial Services Board for more information (242) 326.7100
Meanwhile, the Bahamas Executive Entities Act was adopted in 2011 to resolve complex governance issues in fiduciary and wealth management structures. The Bahamas Executive Entity is an incorporated power holder of perpetual duration, administered by its officers, which may own sufficient assets to fulfil its functions and conduct transactions independently. Unlike a company, it has neither share capital nor shareholders; unlike a foundation, it does not have beneficiaries.

At a time when the British dependencies that make up much of the offshore financial services market are finding themselves under pressure from London either to rethink their tax systems to handle sudden budget deficits or to enter into FATCA-style information exchange agreements with the

Innovation drives Bahamas’ role in global wealth market

By Simon Gray

Over the past decade The Bahamas has continued to refine itself as a financial services centre, carving out new niches in wealth management and highly specialised investment vehicles to distinguish itself from other jurisdictions in the region, and to meet the evolving requirements of a global market amid far-reaching changes in international regulatory standards and transparency requirements.

In particular, the development of the highly flexible series of Specific Mandate Alternative Regulatory Test (SMART) funds - there are now seven distinct risk-adjusted templates or models - has given The Bahamas a unique instrument adaptable to both the structuring needs of high net worth private investors and to the requirements of the alternative investment industry.
UK, The Bahamas prides itself on its ability to shape its own destiny as a sovereign entity – within the framework of evolving international standards.

"I’m very positive about The Bahamas’ competitive position because we’ve managed to hold onto our comparative advantage and our focus on the complex needs of high net worth individuals," says Aliya Allen, CEO and executive director of the Bahamas Financial Services Board (BFSB). "This is due in large part to the fact that we are an independent sovereign state, and that we have a range of professionals with huge expertise in the sector and an extremely progressive and innovative legislative framework."

Over the past few years The Bahamas has done a great deal to improve and enhance its legislative framework and to create the right tools for the industry, Allen maintains. "The SMART Fund regime has been the shining example of The Bahamas’ progressive outlook, and it reflects the adaptive and forward-thinking characteristics of this industry," she says. "In fact, it was the product of an industry think-tank that was then adopted by the regulator. In a challenging global regulatory environment, a SMART Fund makes it possible to design, with flexibility, a product that is fully and smartly regulated."

The latest version, formally the Super Qualified Investor Fund but popularly dubbed Model 007, was officially approved by the Securities Commission of the Bahamas on August 10, 2012. Such funds may be offered on a private placement basis to up to 50 'super qualified' investors who must make a minimum initial investment of USD500,000 – a figure that reflects legal requirements in target markets such as Brazil. Says Allen: "SMART Model 007 is much more institutionally-focused [than other models], although it can also be used for private structures with a small number of investors."

The innovative approach embodied in the SMART Fund concept is a strong asset for The Bahamas in competing for new business. "We recognise that a one-size-fits-all mentality doesn’t work," Allen says. "The approach needs to be flexible, but at the same time you must maintain your regulatory standards and the reputation of your jurisdiction. I believe we have been exceptionally adept in achieving that balance over the years.

"The Bahamas always has led the way among countries in this region on issues relating to due diligence and anti-money laundering, and we were an early mover on the implementation of transparency and exchange of information standards in the 2000s. We have affirmed our commitment to clean business in recognition that the whole world is moving in that direction. We have much more to offer than tax neutrality."

Allen stresses the sense of partnership between the BFSB, representing the private sector, and the government, along with the financial services industry regulators: "The Bahamas has long believed in a public-private partnership in financial services. Companies can be sure they are coming to a jurisdiction that values the fertile environment created by such collaboration, and that the regulators will always carry out their responsibilities in a way that enhances and protects business."

It’s a view endorsed by the Hon. Ryan Pinder, who became minister of financial services in the Bahamas government in May 2012, following the return to power of the Rt. Hon. Perry Christie. "The prime minister recognised that the financial services industry needed a particular policy focus and commitment, and he therefore re-established the Ministry of Financial Services," Pinder says.

According to the minister, the government’s strategy is to focus on promotion of the industry, interacting with the private sector to enhance the ease of doing business in the country and develop new products and promotional initiatives. He says: "We aim to raise the country’s profile further and enhance its reputation for nimbleness in responding to private sector initiatives."
Pinder says he and his colleagues at the ministry have “hit the ground running”, with the launch of the seventh SMART Fund model and an energetic approach to international business development, including promotional visits to Europe and Latin America in conjunction with the BFSB.

To some extent the government is building on efforts initiated during Christie’s previous term in office between 2002 and 2007, which prioritised the ongoing modernisation of the country’s financial services legislation to bring it into line with industry requirements and international standards.

Pinder is keen to see the financial industry extend into new sectors. “We are constantly trying to anticipate global changes such as the evolution of regulatory standards and set our own course rather than being reactive,” he says. “Our goal is to maintain a business-friendly environment that is attractive to young business owners and executives wherever they may be in the world, and who are looking for new jurisdictions in which they are comfortable locating their businesses.

“For example, we are seeing vigorous growth right now among investment managers and advisors. We can offer them one of the highest standards of living in the world, an extremely agreeable climate, political stability, democracy, a business-friendly environment, and a sophisticated financial services sector that includes talented and highly-skilled Bahamian professionals.”

The Bahamas is comfortable responding to new global standards for transparency and tax compliance, Pinder maintains: “We are committed to international best practices, and have been a front-runner since the early 2000s. We now have a network of almost 30 signed TIEAs.

“The country prides itself on being recognised as internationally compliant, while still acknowledging the confidentiality of our clients. Of course, there are more than just tax reasons for doing business in The Bahamas – not least our business-friendly environment. That’s why we say we are open for business, that’s why we include trade and industrial development in the same portfolio as financial services. We are working hand-in-hand to develop the two areas together.”

“We have professionals with huge expertise in the sector and an extremely progressive and innovative legislative framework.”

Aliya Allen, Bahamas Financial Services Board

Today The Bahamas is dealing with a fresh wave of global regulatory change, including the implementation of the European Union’s Alternative Investment Fund Managers Directive and the US Foreign Account Tax Compliance Act. But Pinder says: “I have been an international tax lawyer in the financial services arena for the past 12 years, advising professionals and financial institutions at home and abroad on international tax planning and commercial transactions. What is happening now is nothing new for the industry. There has been a constant stream of change for the past 10 or 15 years.”

One of the most striking aspects of The Bahamas’ wealth management industry is the trend among wealthy clients to set up home in the jurisdiction. That began more than half a century ago with the development of Lyford Cay on New Providence Island, where one of the early residents was Sir John Templeton.

“We continue to see wealthy individuals relocating to The Bahamas by purchasing either developed or undeveloped real estate as a primary residence, often including a home office for the management of their own affairs,” says John Delaney, senior partner of Bahamas law firm Delaney Partners.

“In a few instances, these people are also relocating their business activities to The Bahamas – not necessarily in huge numbers, but it is happening.

“The Bahamas offers a first-rate financial and technological infrastructure, alongside highly appealing homes and communities in a very attractive environment. The financial services infrastructure includes a regulatory and legislative regime allowing people to carry on proprietary or other business as needed. We are very close to the US, which means the amenities of New York, Atlanta or Miami are just a short flight away. And we have a fiscal system that relies on
American clients. Like all SMART Funds, it is a licensed, regulated entity."

Several of the SMART Fund models, as the full name of the regime indicates, can be used to test investment strategies. Says Knowles-Pratt: "If it proves successful, you can convert it into a fund with no limitation on the number of investors or the amount of money required to be invested."

According to Oscar Johnson, managing partner of law firm Higgs & Johnson, the Executive Entities Act represents an important addition to the arsenal of the wealth management industry. "The act provides a mechanism by which persons can use an executive entity to carry out their business activities using a limited liability company or foundation," he says. "The structure is designed to encapsulate powers within existing wealth management and estate planning structures in the form of a legal entity. "It can act in various capacities, as a protector, as a governance structure or as an ordinary shareholder. Its benefits include limited liability and unlimited duration, as well as its ability to exist in a standalone capacity and to be tailored to perform specific functions. It is a very useful structure that can be used instead of a traditional trust or limited liability vehicle."

Johnson says Latin America in general, and Brazil in particular, represent increasingly important markets for The Bahamas, reflecting not only the region’s vibrant economic growth but recognition of the island nation’s readiness to comply with global standards. "The reviews carried out by international organisations as well as the feedback that we receive indicate that onshore jurisdictions are appreciative of our efforts," he says. "They know we provide compliant products and services, a robust and effective regulatory environment, and a level of transparency and co-operation that meets their requirements."

Christian Coquoz, senior vice-president at Lombard Odier Darier Hentsch Private Bank & Trust in Nassau, says changes in taxation around the world stemming in large part from the financial crisis have prompted a growing willingness on the part of individuals to consider relocation. "When people’s tax burdens increase significantly, they look for alternatives, and The Bahamas offers a different approach to taxation," he says.
“We are seeing more and more queries from people wishing to relocate in a completely transparent way, paying their exit tax if necessary in their country of domicile. They are looking to a country like The Bahamas where we have no income tax, inheritance tax or capital gains tax. Revenue is based on consumption and is primarily based on import duties, most notably on luxury goods.”

Coquoz adds: “What makes The Bahamas particularly interesting is its location in the western hemisphere, close to both North and South America, and a friendly environment for incomers to move to, with agreeable weather and an attractive physical environment. It’s a dream for so many people to live on an island in or around the Caribbean, especially with a first-world infrastructure to go with it.”

Ivan Hooper, chief executive officer at Winterbotham Trust, says wealthy individuals and business owners would not choose The Bahamas unless it had the legal and financial infrastructure they need. “Financial service providers can offer their client base a wide spectrum of tools such as SMART Funds, the Bahamas Executive Entity, foundations and trusts,” he says.

“Other jurisdictions may offer some of those, too, but the Bahamas government has been very proactive in addressing the needs of the marketplace and providing practitioners with the right tools, especially for succession planning and the transfer of wealth through the generations. That makes it attractive for service providers to move here too. We are keen to see more independent trust companies and fund administrators.”

Winterbotham Trust services the largest number of funds of any Bahamian administrator, mostly SMART Funds. “Since the legislation was put in place in 2003, we have marketed the concept strongly, particularly in Latin America and especially Brazil,” Hooper says. “We have also set up funds for family offices throughout Latin America, to consolidate investments for example. The reason they choose a SMART fund in particular is because it is licensed and regulated.”

Brian Jones, president of the Bahamas Investments and Securities Business Association, also sees Latin America, especially Brazil and Mexico, as the main focus for private label funds. He says: “In this low interest rate environment, clients are seeking geographical diversification, as well as higher yields, leading a lot of professional and high net worth investors including family offices to complement traditional asset classes with alternative investments.

“Accessing hedge or private equity funds may require specialised investment structures. The Bahamas has carved out a niche in private placement funds for small numbers of sophisticated investors. The suite of seven SMART Fund models provides a maximum of flexibility with regard to the structuring of alternative fund products or as vehicles for investors themselves.”

He believes that in a global environment where tax compliance is becoming the norm, the jurisdiction is poised to win business from jurisdictions that are reluctant to embrace today’s transparency standards. “The Bahamas is trying to establish a reputation for compliance and transparency, and we can attract firms that are happy to play by the rules.” Jones says.

“Reputation is everything today, so you may see some institutions leaving jurisdictions that have not committed to compliance for others that have already met the international standards or are on the path to do so. All the players in The Bahamas are committed to the model laid down by the jurisdiction to accept only transparent cross-border business.”

“*We continue to see wealthy individuals relocating to The Bahamas by purchasing either developed or undeveloped real estate.*”

**John Delaney, Delaney Partners**

“*The SMART Fund regime allows promoters and clients to tailor a fund model and its reporting requirements to their needs.*”

**Samantha Knowles-Pratt, Delaney Partners**
The **British Virgin Islands**
is a highly attractive domicile for...

The BVI attracts the full range of investment fund promoters, from start-up hedge fund managers to large institutional sponsors of funds.

There are currently over 2500 active hedge funds registered in the BVI.

---

hedge funds
and
investment business

---

mid-market private equity
and venture capital firms.

Offering peace of mind.

---

**BRITISH VIRGIN ISLANDS**
International Finance Centre

Government of the British Virgin Islands
Tortola, BVI VG1110
T:+1 (284) 466-4335 | F:+1 (284) 468-1002
www.bviicot.gov.vg | info@bviicot.gov.vg
The British Virgin Islands may be most famous in the international financial services industry for its corporate business, but for more than a decade it has been the world’s second-ranking offshore fund domicile. Comprising law firms, accounting and audit practices, fund administrators, asset managers and banks, the sector has played its part in sparking a construction boom on reclaimed land around the picturesque bay setting of the BVI capital, Road Town.

Today the territory’s fund service providers are examining the opportunities arising in a global environment characterised by a drive toward greater regulation and transparency, just as many alternative fund managers, especially small and start-up businesses, are by necessity looking for the most cost-effective options for domiciling not only their funds but themselves.

The islands’ government, in close co-operation with the industry promotional body, the BVI International Financial Centre, the regulator, the BVI Financial Services Commission, and representatives of the private sector, has worked hard in recent years to ensure that the territory’s legal and regulatory framework serves the requirements of the industry as well as meeting international standards in areas such as transparency, oversight and tax compliance.

Approved manager regime opens up new opportunities for BVI

By Simon Gray
Three years ago the long-waited Securities and Investment Business Act updated the BVI’s regulatory framework, in most areas involving less substantial change than bringing into the statutory requirements practices that were already widely followed in the sector. SIBA did introduce a number of measures reflecting changing global attitudes, such as extending the requirement for an annual audit to all registered and recognised BVI funds.

However, the authorities have continued to examine ways of adapting the territory’s legislation to the needs of the international fund manager community. An important step is the launch of the approved manager regime, which is designed as an alternative to the exempt manager status available in other jurisdictions, with the notable difference that BVI approved managers are subject to regulation, albeit with a light-touch approach.

Following the publication of the Investment Business (Approved Manager) Regulations, 2012 in November and of the Approved Investment Managers Guidelines, the regime came into effect on December 10. “The approved manager regime seeks to strike the right balance between flexibility and effective regulation, taking into account the relative risk profile of the business carried on,” says Ross Munro, global head of investment funds at law firm Harney, Westwood & Riegels.

Munro also chairs the Securities, Investment Business and Mutual Funds Advisory Committee, which has worked closely with the regulator in developing the regime. “I believe it will prove an attractive option for fund managers seeking to commence business quickly and in a cost-effective manner,” he says.

Simon Schilder, a partner at Ogier who heads the investment funds practice, adds: “The regime represents an important new development for the BVI fund industry and is a welcome supplement to the products available to investment managers utilising the BVI for the structuring of their funds.

“It is designed to appeal to small and mid-sized investment managers that are eligible to take advantage of a fast-track licensing process and an ongoing regulatory burden commensurate with the lower systemic risk posed by themselves and the funds that they manage. We anticipate that the approved

“The approved manager regime seeks to strike the right balance between flexibility and effective regulation, taking into account the relative risk profile of the business.”

Ross Munro, Harney, Westwood & Riegels

investment manager regime will appeal in particular to operators of hedge and private equity funds.”

Munro says the aim is to attract managers that might otherwise be tempted by the exempt manager option. “But it is not an exemption,” he says. “One reason is the view that there should not be a wide exemption for certain kinds of investment manager even if they are targeting sophisticated investors. Also, to comply with the requirements of the EU’s AIFM Directive in particular, and no doubt other regulation in time, it must be possible to identify who is carrying on the business and bring them into the regulatory net.

“Up to now the regulatory requirements for obtaining and holding a licence were essentially the same for any type of investment business. However, managers up to a certain size are recognised as being relatively low-risk. There is a difference between managing a professional fund with a relatively low level of assets and offering foreign exchange broking services to the general public.

“Now there is a lighter touch regime for investment managers and advisors to funds and related vehicles that requires them only to make a few simple filings. Essentially it allows them to get up and running within seven days, compared with as long as several months in the past, and provides greater certainty than before about the licensing process.”

The development is particularly well tailored to the BVI’s existing client base because the territory has always appealed to small and start-up managers with relatively small volumes of assets under management, at least at the outset. Munro notes that a number of large global players with very
Niall Brooks, managing director of Castlegate Investment Services, says that while the new regime does not require a manager to set up an extensive operation in the BVI, there are a lot of reasons why they might consider it an appealing option to do so. “One of the attractions of the BVI is that you don’t need to have a large physical presence or a certain number of staff to set up an office here,” he says. “Moving to an island like Tortola offers a different kind of lifestyle from the big-city environment of places like New York, Chicago or London, where hedge fund managers have traditionally congregated. Many people relish the outdoor lifestyle as well as the attractiveness of the surroundings here, and that has no doubt played a role for some of the firms that have chosen to move here. “Certainly it is highly cost-effective to set up an office here, much more so than in substantial asset volumes also use the BVI, but he acknowledges: “Our sweet spot for new business has undoubtedly tended to be on the smaller side, because we are definitely cheaper and more flexible.”

Robert Briant, partner and head of the BVI office of Conyers Dill & Pearman, notes that the threshold for licensing under the light-touch regime is USD400m in assets under management for hedge fund firms and USD1bn in commitments for private equity houses. He says: “It’s a risk-based approach to licensing that is consistent with IOSCO standards – which exempt manager regimes elsewhere are certainly not. We believe this will be a very competitive product, but one that will bolster the reputation of the BVI for upholding international standards.”

Calum McKenzie, corporate director at Folio Group, which includes the islands’ leading fund administration business, adds: “Licence-holders will be real investment managers with genuine substance, giving them a regulatory seal of approval to back up their skills and track record. There is a big difference between a BVI approved manager with transparency and substance and a Delaware LLC where there is no indication who’s actually behind it.”

He adds that improved air connections to long-distance destinations are set to boost interest in the BVI as a relocation destination: “The building of a new longer runway at the airport will make it possible for airlines to fly direct from New York, Miami or Atlanta, less

“We believe this product will be very competitive while bolstering the BVI’s reputation for upholding international standards.”

Robert Briant, Conyers Dill & Pearman
any European jurisdiction you might name. Depending on its size and risk profile, a
management company can apply for various regulatory exemptions that will bring its costs
down, for instance regarding the requirement
for an on-island compliance officer, for an
audit, or for professional indemnity cover.
And with the approved manager regime, the
BVI becomes a one-stop shop for investment
manager and fund.”

Munro points out that the territory benefits
from a reputation for a robust legal system
(it is home to the Commercial Division of the
Eastern Caribbean Supreme Court), as well
modest costs and good service providers.
“For start-up managers, particularly from
Asia, the previous regime requiring a full
license was a disadvantage for structures
involving an offshore fund manager, but we
have taken steps to address that,” he says.

“SIBA introduced a relatively stringent
licensing regime for all types of investment
business. That regime has attracted a lot
of foreign exchange brokers, and other
intermediary-type business that benefits
from having an investment business licence.
However, it was harder to convince the
manager of a professional fund that it
was worth spending several months and
USD50,000 trying to get a license when
exempt status was available for USD5,000
and a simple filing elsewhere.”

Briant notes that for now, new fund activity
remains relatively subdued in the BVI, as it
is in other offshore and onshore alternative
fund domiciles. While established managers
continue to launch new vehicles, start-up
businesses are finding it hard to gather
sufficient capital to reach critical mass.
“We are ticking along fine – we may not be
burning down any bridges, but that reflects
the state of the global economy more than
anything,” he says. “In that environment we
are well placed to meet the industry’s needs.”

Brooks points out that while SIBA did
not involve major changes in the way the
fund industry operates, it did underline
the commitment of the jurisdiction to high
standards of investor protection. “It has
been helpful in bringing the comfort level
and standards to the optimum international
mark,” he says.

“It makes sense that a private fund with
perhaps hundreds of millions of dollars in
assets should have high levels of corporate
governance including a properly-constituted
board of directors and audited accounts. The
BVI has simply insisted on the standards that
investors expect anyway.”

Adds Schilder: “The BVI remains extremely
competitive as a fund domicile for investment
managers. With the SIBA and now the
approved managers provision, the jurisdiction
can boast a modern, user-friendly regulatory
regime for funds and investment managers
that appeals to both large and institutional as
well as small and mid-sized managers.”

BVI practitioners view the European
Union’s AIFM Directive, whose
implementation is now just a matter of
months away, as an opportunity rather
than a threat. Says Brooks: “Given the cost
of becoming established in Europe, a lot
of managers may well decide to remain
offshore and reach their clients through
national private placement regimes.
“Realistically, an offshore jurisdiction does
not need regulatory co-operation agreements
with all 27 EU member states – the majority
of investors are in six or seven at most. In
that situation, the BVI may well appear a
highly affordable centre from which to offer
alternative investment funds in Europe.”

Schilder believes the BVI will be well
positioned to take advantage of the future
marketing passport for non-EU managers
and funds due in 2015 or thereafter. “Ongoing
initiatives to prepare the territory for AIFMD
compliance are advanced,” he says. “The
fact that it already has 13 tax information
exchange agreements with EU member
states, including the UK, France and
Germany, already puts the BVI on the right
track to ensure its funds can benefit from the
passporting regime.”

Simon Schilder, Ogier
Unlock new ideas
your business deserves

Unlock new ideas
your business deserves

...we’re open for business.

more information on:
www.financemalta.org

FinanceMalta - Garrison Chapel, Castille Place, Valletta VLT1063 - Malta | info@financemalta.org | tel. +356 2122 4525 | fax. +356 2144 9212

FinanceMalta is the public-private initiative set up to promote Malta’s International Financial Centre
One of the most striking developments in the European fund industry over the past five years has been the emergence of Malta as a credible and respected fund domicile and servicing centre. While the industry as a whole has been afflicted by liquidity issues, economic and market turbulence and investor skittishness, keeping both fund numbers and asset growth constrained, the Mediterranean island has steadily expanded its business volume along with its range of providers and skills.

Members of Malta’s fund industry attribute its rapid development to a combination of factors - a low cost base compared with rival jurisdictions, an open-door attitude (plus tax incentives) encouraging firms to bring in highly-qualified expatriates to complement a well-educated and skilled local workforce, a regulatory approach that combines rigorous oversight with flexibility in legislative drafting and innovation in product design, and an entrepreneurial attitude that has helped Malta to seize opportunities even in a seemingly unfavourable economic environment.

The country’s membership of the EU and of the eurozone has placed it at the heart of a vast and sophisticated market in financial services, yet it has been spared the financial turbulence of its southern European neighbours. Despite its mid-Mediterranean geographical location it enjoys plentiful and rapid air connections to other European centres. Its IT and telecommunications infrastructure has developed rapidly in recent years, and the Maltese people themselves...
have an outward-looking perspective characterised by their ease with languages.

The island’s development as a financial services hub has started to become a self-sustaining process, with the broad network of law firms and fund administrators increasingly attracting fund business, asset management activities and complementary service providers. A good example is EXANTE, a brokerage with offices in St. Julians that sees growing opportunities in the burgeoning fund management sector.

“We chose Malta as the most suitable headquarters domicile for our business after a selection process that took us about a year,” says managing partner Gatis Eglitis. “We evaluated more than 20 financial centres including London, Luxembourg, Zürich and Cyprus, but only Malta ticked all our check boxes. Today, now that we are fully operational, we are glad that this was our choice.”

Eglitis says the firm’s location in Malta enhances its competitiveness in various ways, including convenient transport connections to most destinations where customers are located. At the same time, labour costs, living expenses and operational overheads are favourable compared with other European countries.

The banking sector is solid and considered one of the safest within the euro zone, the regulatory environment meets all EU standards, and the country enjoys political consensus on the importance of providing an attractive environment for financial services. In addition, he says, Malta offers the continent’s most competitive effective tax rate and most convenient financial business passport policy.

“Malta’s benefits have attracted many other players, creating a rapidly growing financial centre and offering an unprecedented opportunity to a brokerage firm like ours,” Eglitis says. “More than 120 investment firms, 120 trusts and 70 fund managers have joined the financial community in just the past five years, and 24 per cent year-on-year growth in the number of established funds, which currently number more than 440, tells its own story.”

He hopes that EXANTE’s presence provides a further argument in Malta’s favour for offshore funds and managers considering relocation. “We fill a gap in the country’s investment community by offering a cutting-edge electronic platform for trading financial instruments,” Eglitis says. “As an agency prime broker, we provide full global market coverage to enable futures, stocks, options, currencies, metals, fixed income and funds to be traded on a single account.”

The firm’s co-location infrastructure enables Malta-based funds to access global markets with state-of-the-art direct market access technology. Membership of the EXANTE Financial Marketplace allows clients to benefit from the firm’s Infrastructure Sharing Programme and to list on exchanges, accessing a global institutional liquidity pool. Eglitis says: “As a one-stop shop prime broker, EXANTE is contributing significantly to Malta’s financial services infrastructure and making the domicile more attractive. We are pleased to see this trend and be a part of it.”

“The influx of managers started in earnest three or four years ago, according to Dr Andre Zerafa, a partner with law firm Ganado & Associates. “There has been a significant influx of fund managers, some of them redomiciling from the Cayman Islands or other offshore centres, as well as firms starting afresh with a Maltese operation,” he says. “The busiest year for setting up fund management companies was 2010, and while 2011 saw a slowdown, numbers picked up strongly again in 2012.”

An important driver over the past couple of years was the 15 per cent tax rate has not only encouraged expats to move to Malta but had a positive effect on local employment.”

Andre Zerafa, Ganado & Associates
of years has been uncertainty on the part of groups carrying out fund management from non-EU jurisdictions about the future impact of the union’s Alternative Investment Fund Managers Directive, Zerafa says. But just as important are tax rules introduced in 2011 benefitting expatriates with in-demand skills that move to Malta for up to five years.

“The government has established a lower tax rate of 15 per cent for expatriates working in the financial sector, subject to a number of conditions,” he says. “It basically covers income arising in Malta for expatriates occupying a position of seniority within a fund management or other financial services firm. That has not only encouraged expats to move to Malta with their families but has a positive effect on local employment in the sector, because typically the incomers will spend a couple of years or so building and training a team of local employees.”

Chris Bond, head of global banking and markets at HSBC Bank Malta, says the range of specialist financial services providers establishing operations on the island extends well beyond the fund industry. He points to the fact that Malta is developing a strong reputation as a hub for insurance, with global corporates not only domiciling their captive insurance companies in the jurisdiction but putting people on the ground.

“Malta’s protected cell company legislation offers a capital-efficient way of running an insurance business, especially in its early stages,” Bond says. “Insurance managers follow the insurance companies, and we now have several of the global leaders in the sector including Aon, Willis and Marsh. That creates substance and critical mass on the island, making it even more attractive for new business.”

He notes that other sub-sectors of the financial services industry are developing in Malta, including treasury centres and corporate pension schemes, and the banking sector has been boosted in recent years by the launch of several new institutions.

“More and more companies are being incentivised to put substance on the ground in Malta,” Bond says. “In addition to being encouraged by the government and the Malta Financial Services Authority, the 15 per cent tax rate available to highly-qualified expatriates for a five-year period helps us to raise the bar in terms of specialist skills.”

Bond sees the substance built up in Malta’s financial industry as a critical factor distinguishing it from the offshore jurisdictions that have traditionally served the alternative fund industry. “This is not just a brass nameplate domicile but one that is attracting both service providers and fund managers themselves,” he says. “As a banker, it is much easier to develop a relationship with people on the ground than with a legal entity managed by people on the other side of the world. This enables us to act as a trusted advisor and offer a full range of personal and corporate banking facilities.

“The presence in Malta of expatriate experts also underpins local recruitment and better training of local staff, which answers any questions about the breadth and depth of the skill set and the size of the local talent pool. As part of a global group, it is easy for HSBC Bank Malta to bring in talent from centres such as New York and London to fill key roles and help the development of our local resources.”

The next target for the authorities is to boost the number of custodian banks offering services to Maltese-domiciled funds. Although HSBC is itself a leading global custodian, Bond says the bank is extremely keen to see other international players set up custody operations in Malta, which will make the jurisdiction more attractive when the AIFM Directive takes effect in July this year.

Alternative funds run by managers authorised under the directive must normally use a depositary – a bank in the case of assets that can be kept in custody - in the fund’s domicile jurisdiction, although Malta can if it chooses obtain a derogation from this rule until 2017. However, there is confidence that more global custodian will soon set up operations on the island.
which will also increase its appeal for the establishment and servicing of UCITS funds.

Already the range of options for managers has been boosted by the presence of Mediterranean Bank, which was established in 2005 and acquired by UK private equity firm Anacap Financial Partners four years later. Today the bank’s balance sheet has grown to USD1.5bn and it has positioned itself to serve managers of small and start-up funds that are seeking custody services tailored to their particular requirements.

“We’re active in capital markets and support both retail and institutional clients looking to access these markets,” says head of credit and investments Ximo Vincent. “We can leverage the infrastructure we have set up to benefit ourselves to offer it to smaller funds.” Addressing the segregation of assets issues raised by the Lehman Brothers and MF Global bankruptcies, the firm offers non-commingled segregated accounts with Clearstream to clients with, in some cases, as little as EUR2m in assets under management.

Mediterranean Bank sees a gap in the market for provision of execution and other prime brokerage services in Malta as its fund management sector continues to grow. The AIFM Directive is bringing extensive change to the alternative fund industry, Vincent notes, placing new burdens on custodians and consigning to history much of the traditional prime brokerage model based on rehypothecation of clients assets.

“All these additional regulatory burdens will add costs to the service providers, so there is a need to re-think business models,” he says. “That is our advantage in approaching this with a fresh perspective and no legacy issues.”

Another recent arrival in Malta is Castlegate Fund Services, which set up an operation in the island in 2011 after an existing client of its British Virgin Islands office decided to restructure its offshore fund as a UCITS. According to general manager Roger Buckley, the firm provides administration services both to offshore-domiciled funds and Malta-based UCITS and Professional Investor Funds.

He notes that an important source of growth in Malta has been the revamp of Switzerland’s Collective Investment Schemes Act, which imposes an extensive compliance burden on managers of non-Swiss funds that up to now have not been regulated. A significant number of Swiss managers have already begun moving operations to Malta or are considering doing so.

In addition, the AIFMD rules on marketing of alternative funds offer an incentive for managers based outside Europe to consider a domicile within the EU in order to:

“Malta is very well placed to attract fund management firms, including the regulatory side and structuring options.”

Laragh Cassar, Camilleri Preziosi
he says: “The number of managers deciding to relocate is growing thanks to an attractive fiscal regime and wide network of double tax treaties, timely licensing by the regulator, and its pragmatic approach, not to mention our warm, sunny climate and English-speaking workforce.”

Adam de Domenico, founder and managing director of Zodiac Advisory Services, says the firm has a pipeline of managers looking to set up operations in Malta. In the past demand has come largely from the UK, he says, but legislative changes in other jurisdictions are prompting a significant increase in interest from managers there. “For example, Swiss managers that now face a lot of regulation without enjoying the passport benefits of the AIFMD are looking toward Malta,” he says.

ZAS provides services to asset managers including regulatory compliance, accounting, non-executive directorships, investment committee membership and risk oversight. De Domenico notes that incoming firms enjoy a six-month window to organise their operations, something not available in other jurisdictions.

However, he says the MFSA monitors closely aspects such as the credibility of outsourcing providers and is rigorous in expecting firms to deliver on promises made during the approval process, such as an undertaking to base one or more portfolio managers in Malta within a certain timeframe.

Another priority for new firms, he says, is ensuring that they adhere to capital requirements on an ongoing basis. Managers need minimum capital of EUR125,000 plus 2 basis points on assets under management above EUR250m. “We can advise managers or help them to discuss such issues with the MFSA before they get into difficulties, which is always better,” de Domenico says. “The regulator is accessible, but has rules and sticks by them.”

Joseph Ghio, Fenech & Fenech Advocates

“Swiss managers that now face increased regulation without the passport benefits of the AIFMD are looking toward Malta.”

Adam de Domenico, Zodiac Advisory Services
Switzerland’s southernmost canton of Ticino has been a centre for international financial services for nearly two centuries, since the establishment of Lugano’s first bank in 1833. Closer to Milan than to Zurich, the Italian-speaking region is ideally placed geographically and culturally as a gateway to business from southern Europe.

Today Ticino and in particular Lugano is becoming a major centre for hedge fund managers drawn not just by the physical beauty of the region’s mountains and lakes and its impressive quality of life but key business advantages: a first-rate communications infrastructure, a flexible but solid and legal regulatory framework, a comprehensive array of skilled and experienced service providers, and a favourable tax regime.

Over the past decade and a half, a number of leading hedge fund managers have moved all or part of their operations to Ticino, including most recently Abraxas Capital Advisers, Insch Capital Management and Cramer Asset Management. The region currently boasts up to 40 hedge fund firms with more than CHF10bn in assets under management, around half in single-manager funds, and combined annual turnover exceeding CHF200m.

“Ticino’s economic development philosophy is based on creating conditions for businesses and their owners to thrive,” says Franco Citterio, director of the Ticino Banking Association and president of Ticino For Finance. “A cornerstone is a well-calibrated taxation system designed to promote, encourage and support hedge fund firms and managers and other financial services providers, and which compares favourably with other leading financial centres in Switzerland and beyond.”

“Ticino’s development philosophy is based on creating conditions for businesses and their owners to thrive.”

Franco Citterio, Ticino For Finance

Competitive tax regime

According to a survey by research and consultancy firm BAK Basel Economics comparing the burden of tax on profitable investment projects across financial centres worldwide, the effective average tax rate in Ticino was 18.2% in 2011, compared with 21.4% in Geneva and 26.3% in London.

In addition, business owners can open a dialogue with the canton’s tax authorities and reach individual agreements on deductions and other aspects of the system, ensuring highly competitive tax treatment.

Ticino is also geared up to provide speedy and efficient legal, regulatory and administrative processes, Citterio says, responding promptly to businesses’ queries and requests and simplifying otherwise complex procedures – an important factor in attracting to the region hedge fund management firms whose business is often extremely time-sensitive.

He notes that it’s easy and convenient to establish a new company in Ticino; the Trade Registry can ensure a legal entity is up and running within a week. “Business owners can negotiate directly with the local authorities, and the cantonal government is ready to devise ad hoc solutions to resolve any critical issues or obstacles,” Citterio says. “Finding a suitable location is extremely straightforward, and there are no administrative restrictions on
hedge funds’ access to the financial marketplace."

Most hedge fund managers setting up a firm in Switzerland establish a joint stock corporation requiring a minimum share capital of CHF100,000, rising to a fully paid in CHF200,000 for firms subject to authorisation from the industry regulator, the Financial Market Supervisory Authority (FINMA).

Firms located in Ticino benefit from Switzerland’s measured approach to alternative investment manager regulation, overseen by FINMA, which supervises financial markets, maintains relationships with foreign regulators and oversees international aspects of the Swiss regulatory framework. Its administrative procedures are designed to be simple, flexible and rapid.

**Access to Europe’s single market**
The dust is now settling on amendments to Switzerland’s Collective Investment Schemes Act, which has brought the country’s legislation governing alternative investment firms, other asset managers and funds into line with the latest international standards, as well as ensuring that Swiss can meet the rules governing access to the European Union’s single market for alternative funds after 2015.

While at one point the Swiss fund industry feared that the proposed CISA changes might make its products and services less competitive, the authorities have listened to feedback from the sector in finalising the legislation. There is now broad understanding that in a global environment demanding tighter regulation and increased transparency, bringing Swiss regulation into line with the rest of Europe will make the country’s hedge fund firms and their funds more attractive to investors.

The relocation of Insch Capital from Zug to Lugano in June 2012, enabling the firm to bring its business together in a single location, is an indication that the new rules hold no fear for hedge fund managers that see the changes as an opportunity to develop and expand their business.

Insch’s Christopher Cruden argues that bringing hedge fund managers under the supervision of FINMA and the associated legal changes represent a positive development for the industry. They will allow it, he says, to benefit from well-documented and respected standards and requirements that will help to build investor trust, not to mention the strong reputation for effectiveness and understanding of the industry enjoyed by the regulator.

Another recent newcomer is Abraxas, which was first established in London in 2002 and six years later created a Ticino-based subsidiary that advises the parent company. According to directors Fabio Frontini and Stefano Ruggiero, the key attractions included competitive taxation and the ability to set up the business in less than two months. Cost savings in areas such as property rental are also an advantage, they say, while streamlined administrative procedures leave the firm’s principals free to concentrate on their core asset management business.

**State-of-the-art infrastructure**
The physical and communications infrastructure and service resources offered by Ticino are also an important draw to hedge fund managers considering relocation. The state-of-the-art technical facilities in Lugano and Ticino as a whole includes a growing network of fibre optic cable, and other projects are underway to meet the industry’s evolving IT needs.

The availability of skilled service providers is also crucial to the development of the hedge fund management industry. The region, which is home to a broadly-based corporate sector including insurance companies and subsidiaries of multinationals, enjoys access to specialised firms, both local and global, including business lawyers, fiduciary firms and accounting and audit practices.

Work is constantly in progress to improve and extend Ticino’s travel and communications resources, especially its critical links to northern Switzerland. For example, a lengthening of the Lugano-Agno airport runway will make it possible to expand services to London and other world financial capitals; a new railway link opening in 2013 between Lugano and Malpensa will make it possible to reach Milan’s airport in less than an hour; and from 2017 Alptransit, the world’s longest tunnel, will cut the journey from downtown Lugano to Zurich in an hour and a half.

Human resources are a key factor in Lugano’s growth as a financial centre, and the region, which draws on a pool of nearly two million people, has proved a magnet for ambitious young people from other parts of Switzerland as well as abroad. The three major sectors of the economy currently employ 180,000 people; 30 per cent of Ticino’s workforce has a university degree and 60 per cent have completed post-secondary education.

Other, less tangible factors also play a role in attracting hedge fund managers and their firms to Ticino. The canton exemplifies the high standard of living and quality of life for which Switzerland is renowned worldwide, and its geographical location brings a distinctive touch of Italian flair and style to its cultural life. Says Citterio: “More than just a business location, it is an environment well suited to those who enjoy socialising and building personal relationships outside working hours.”

Today, he says, there’s no question that Ticino offers an attractive environment for hedge fund managers looking to launch a new business or relocate an existing one. “Our favourable tax system, business-friendly administration and well-designed legal framework, as well as start-of-the-art infrastructure and broad talent pool, have all helped make Lugano the country’s third largest financial centre,” Citterio argues. And its growth, in the hedge fund sector and beyond, continues apace.