Time to step up to the microphone

The Vistra 2020 report highlights the need for offshore centres to become more vocal in defence of their own existence

Uncertainty is the new 'normal'

THE world has undergone major geopolitical, geostrategic and economic shifts in the last year or so.

In its comprehensive 2020 report, titled The Uncertainty Principle, corporate services provider Vistra said the combined impact of these changes, as well as an eroding sense of confidence in 'expert' political or financial prognostication, had all swept away the idea of 'normal', and especially of a reliable status quo.

'If anything, the only thing predictable about world events these days is the unpredictability of their outcomes,' it said.

The report followed a survey of 593 businesses across the globe. Nearly half of them were based in Europe, a third in Asia, 18% in the Americas, mostly in the US, and the rest in the Middle East and elsewhere.

They covered industry segments including law, corporate services providers, accountants, investment managers, regulatory agencies, supranational organisations and academia.

The ripple effect of uncertainty is being felt both onshore and offshore. This uncertainty concerns the state of the global economy, immigration, terrorism, Russia, the Chinese economy and the stability of the EU. The US election result and deep concerns for a long time about European elections pointed to large-scale uneases with the status quo, and reflect the concurrent prominence of populist, protectionist, anti-globalisation, and anti-offshore and anti-private equity attitudes taking shape in the West. Almost two-thirds of those surveyed agreed that globalisation is at least 'slightly under threat'.

'Such a shift in the public appetite for cross-border flows unsettles an industry predicated on the robustness of globalisation,' the report added.

'Our success depends on cross-border transactions and international supply chains, as well as free trade and investment.

'Anti-globalisation attitudes are nothing new but we must note the sheer speed and force of these attitudinal shifts, as well as the policies they help usher in.'

Julian Carey from Vistra in Guernsey.

GUERNSEY will have to join with other international finance centres in becoming more vocal about their attributes, according to the Vistra 2020 report.

Vistra said it had previously highlighted the need for offshore centres to be more proactive and to look to present an alternate view of offshore.

'Every year or two it seems some 'leak' emerges and shines a harsh spotlight on parts of the industry with which most of us do not engage,' it said.

'Repeat an aphorism often enough and it becomes part of the public lexicon. "Offshore is bad" for example, which gives government leaders more support to enact draconian regulations.

'That's why we predict that a polite defence will no longer be effective enough. Not any more. More leaks and hit pieces will come along and we must be ready.

'Explaining the merits of IFCs falls on deaf ears when the audience is adamantly anti-wealth. And such an audience is growing.'

Among its professionals surveyed for the report, one in London said: 'Rich people and their contribution to our economy is not valued. You know that you're a target. We need spokesmen to be out there and say "hold on a minute. This stinks of hypocrisy. Our standards are way better than those larger countries doing the complaining".'

A Cayman fund manager added: 'We've tried to deliver the message [about the merits of IFCs] to Washington, to London, to Brussels. And it's not enough. And now people don't want to rock the boat.'

Julian Carey from Vistra in Guernsey agreed that the island needed to stand up for itself but also to look to set itself apart from other IFCs at appropriate moments.

'We still have a great reputation, we're still seen as a really great jurisdiction with good regulation, and I think that the pressure on us at the moment is more due to global market influences rather than specifically anything wrong with us as a jurisdiction.

'As a funds jurisdiction Guernsey has to play with the global players, and rather than be a little island talking with the London-based managers, we must sell ourselves strongly in places like Singapore and Hong Kong.

'Our corporate governance standards are strong and Guernsey can stand out among the offshore jurisdictions. The Guernsey industry is stronger than I think a lot of people are portraying us to be – we have a strong presence internationally and in the City of London. When the global market starts to pick up, we will be well placed to capture a lot more business.'

The political side of funds

What fund managers surveyed by Vistra had to say about the UK and EU with regards to funds...

"[EU funds regulator] Esma held back at the last minute [over third-country passports]. You saw definitive evidence over the politicisation of the process – a foretaste of what's going to come for the UK

"I'm not optimistic that the UK will develop frictionless trading relationships with Europe or even equivalence, which was not designed to facilitate an exiting member to maintain full access to Europe

"Britain will likely have to pay a contribution, not too dissimilar from what they have paid before, and follow EU rules or come close to them without having any say over them. It's a very unattractive position for the UK

'Midshore' jurisdictions to overtake offshore?

THE end of offshore could be in sight, according to a number of significant players in the international finance world.

They told the Vistra 2020 report that rising concerns across the finance industry made them believe that offshore could be 'over' in a matter of a few years.

The numbers predicting 'the end of offshore' by 2020 nearly quadrupled to 18%.

But others see this as scaremongering and continue to believe that there is opportunity offshore. More than half of respondents said that demand for IFC services would 'either increase or simply shift in jurisdictional preferences'.

The overall picture is as uncertain as the state of the global picture.

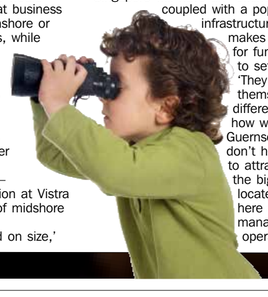
A fifth of respondents said that they thought demand for international corporate services would increase, though the same percentage thought the opposite would happen. Some 40% thought that business would move from offshore to onshore or so-called 'midshore' jurisdictions, while 15% felt that while demand would not increase, businesses might switch between offshore jurisdictions. The rest – just 6% – thought that there would be no change in the sector.

One expert polled said: 'There's an increasing demand for top-tier offshore and onshore.'

Julian Carey, associate director – client services, fund administration at Vistra in Guernsey, said that the rise of midshore was a concern.

'Midshore is primarily predicated on size,' he said. 'Places like Hong Kong and Singapore will have an "offshore mentality" coupled with a population and infrastructure base that makes it attractive for fund managers to set up there.

'They market themselves in a different way to how we can. In Guernsey we just don't have the scale to attract some of the big players to locate themselves here as a fund management operation.'



Brexit, Beps and EU access making life difficult for global funds industry

THE global funds industry is being buffeted by political and regulatory uncertainty.

The alternative investment funds sector faces problems with Beps – from the perspective of enabling smooth transactions across Europe and from a tax perspective.

Alternative investment funds are domiciled and marketed worldwide, but Brexit particularly is creating uncertainty for the sector in Europe, where there is a growing appreciation of the complexity of obtaining access to the EU single market through passporting or equivalence regimes.

The report highlights concerns about access to the EU, particularly for British funds.

'British entities need to be able to raise funds from European investors, negotiate and complete new deals, and service their existing portfolios and invest money back into Europe. A loss of access, either at the point of exit or over the long term, would substantially impact businesses in the UK and Europe.'

The report highlighted how lack of access to Europe would hamper the UK funds industry. In 2015 a quarter of funds raised by the UK private equity and venture capital industry came from the rest of the EU.

It is unclear what options might be on the table for the UK and Guernsey in terms of access to Europe.

Since the implementation of the Alternative Investment Fund Managers Directive in 2013, EU fund domiciles have promoted the perceived advantages of establishing fund managers in the EU and being able to market across Europe with an EU 'passport'.

Guernsey was set to receive a passport from the EU funds regulator Esma before the Brexit referendum vote, following which the matter was dropped.

The Vistra report raises the question of how effective passporting has been in practice and also mentioned how important the passport really is to a manager looking to raise funds globally, or from Guernsey's perspective, solely in Britain.

Guernsey has been supportive of gaining European access when required through the National Private Placement Regime.

Many EU countries can be 'navigated efficiently by well-prepared managers', the Vistra report stated.

'Surely a well-functioning European NPPR will help maintain global capital flows and can co-exist alongside passporting?' it said.

Patricia White, managing director at Vistra in Guernsey, said that AIFMD had created uncertainty and the island had missed out on some business as London lawyers tended to avoid the island until uncertainty was resolved.

However the NPPR had been effective for clients seeking access to European markets. The island's dual regime – where Guernsey offers a regime that is fully AIFMD compliant, while maintaining existing regulations for those not requiring AIFMD funds – had worked well.

'We don't tend to have billion-dollar funds, most of our funds are raising money in the UK, and so the regulations actually have suited our client base very well,' she said.

Although the award of a passport would enhance the island's credibility as a third country funds jurisdiction, passporting would undoubtedly increase costs for a fund.

'The passport would be nice to have but is by no means essential,' said Ms White, 'and there has been no negative impact on the existing client base.'

Patricia White, managing director of Vistra in Guernsey.