



Cayman Islands Fund Services

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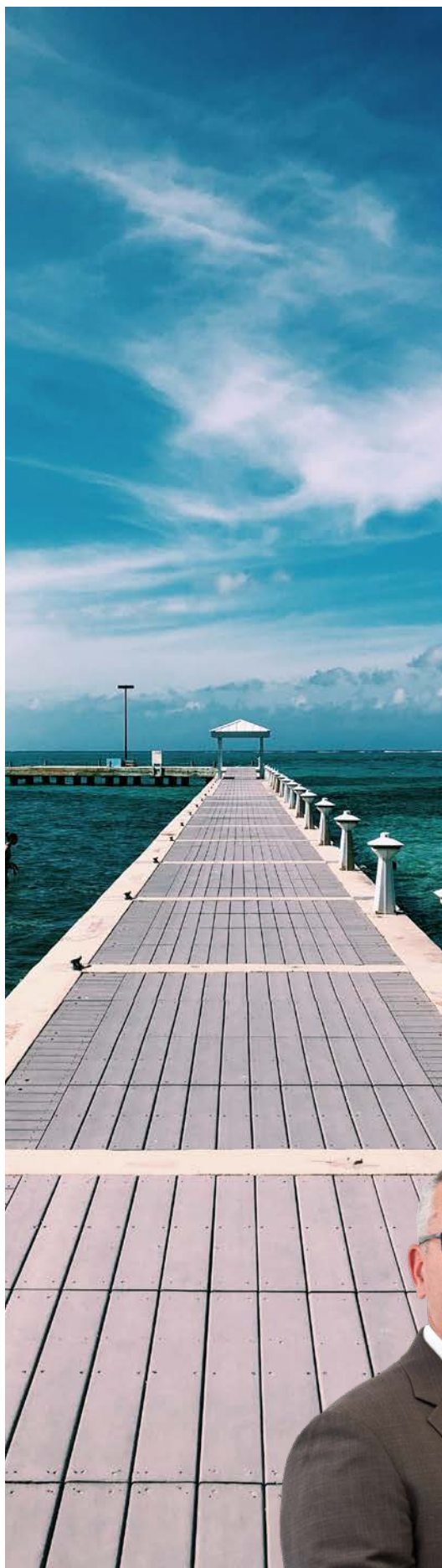
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Foreword

By Jude Scott, CEO, Cayman Finance

As the unprecedented year that has been 2020 draws to a close, we can look to the year ahead with some optimism. That's in part due to the resilience of the Cayman Islands financial services industry, which continues to meet evolving global best practices.

Our jurisdiction has been recognised by the European Union as a cooperative jurisdiction on all criteria for tax transparency and fair taxation. This should provide some comfort to investors who are increasingly engaged in a flight to quality, relocating their resources based on extensive assessments of which financial centres offer the best combination of the following qualifications: efficiency and neutrality; a global network and diverse industry; an experienced legal infrastructure and neutral tax environment; high regulatory standards and respect for appropriate privacy; world class professionals and credibility; and stability.

Very few IFCs meet these qualifications of providing benefits globally without causing harm to other countries, and none do it as well as the Cayman Islands. It provides a tax neutral hub that efficiently supports global economic growth and recovery. Through its pivotal role in international investing and financing, supported by its robust and well-regulated financial services industry, the Cayman Islands can help investors around the world as they prepare for the evolving changes in global trade and the global economy.

We do this by enabling:

- Foreign Direct Investment (essential to save or grow businesses and jobs);
- Inward infrastructure investing and financing;
- Liquidity for their economies;
- Job growth;
- Increased tax base;
- Global diversified investments for pensioners;
- Free flow of global trade, capital, investing, financing, and services.

A quick look at the numbers shows confirms that the global financial services industry considers investing in Cayman-domiciled funds to be a best practice. At the end of the third quarter of 2020, there were over 24,000 investment funds registered with the Cayman Islands Monetary Authority. In fact, 70 percent of non-US domiciled alternative investment funds managed by US Securities and Exchange Commission-registered advisors are domiciled in the Cayman Islands. A recent study performed by Capital Economics estimates that foreign investment mediated through the Cayman Islands was around USD4.5 trillion and supports in the region of 5 million jobs globally.

With so much instability around the world, the Cayman Islands financial services industry offers investors exceptional stability – and will continue to do so throughout 2021 and beyond. ■

The world's leading domicile

By Jude Scott

In August 1864, 900 miles almost due North of the Cayman Islands, US Navy Rear Admiral David Farragut faced a pivotal moment. Leading a squadron charged with attacking Confederate forces in Mobile Bay, Alabama, Farragut's flotilla encountered tethered mines known then as "torpedoes" which ultimately threatened his mission and his men. Acting decisively to navigate around the threat and pursue his objective, Farragut uttered the phrase that has now passed into military lore: "Damn the torpedoes! Full steam ahead!"

Leaders in every walk of life will meet challenges that could distract their focus, diminish their capabilities or derail pursuit of their goals. Successful leaders are the ones who can traverse those obstacles, regain their course and press forward with as much energy as possible. The Cayman Islands has confronted recent challenges to its position as the world's leading investment fund jurisdiction but thanks to our system's strong fundamentals and transparent engagement in standard-setting our financial services industry is pushing ahead with offering unparalleled value for our clients.

The most significant recent test for the Cayman Islands was the Economic and Financial Affairs Council of the European Union's (ECOFIN) establishment of a list of non-cooperative jurisdictions for tax purposes – a tax blacklist. First established in 2017, the tax blacklist was intended to include those jurisdictions outside the EU that failed to meet EU criteria for tax good governance, such as transparency and fair taxation. As the domicile of choice for more than 70% of the world's international investment funds, it was no surprise that the EU would choose to evaluate Cayman against that criteria.

The Cayman Islands was among the nearly 100 jurisdictions assessed by ECOFIN's Code of Conduct Group

(COCG) and initially was considered cooperative on transparency and fair taxation. Throughout the EU's process, the Cayman Islands Government – with complete support from the Cayman Islands financial services industry – fully and transparently engaged with the COCG and ECOFIN. Cayman did not become the world's leading investment funds jurisdiction by accident: we have painstakingly built a sound, flexible and fair legal and regulatory regime and are committed to working with bodies like the EU to show how it conforms to high standards for tax good governance. Thanks to that engagement, and some [initial legislative actions](#), ECOFIN chose not to add Cayman to the blacklist in 2018 but did flag a concern about enhanced economic substance rules for Cayman's funds industry.

Cayman's engagement with the EU to address concerns about economic substance expanded throughout 2019, during which time the Cayman Islands Government passed [an additional series of legislative measures](#) to enhance its economic substance regime. The EU required additional changes to be complete by late January 2020, and while those changes were passed by the Legislative Assembly on time the enactment of the legislation took effect shortly after the EU deadline and was a factor in ECOFIN adding Cayman to its blacklist.

While being blacklisted was a set back for Cayman, it strengthened our resolve to address EU concerns while also defending the fundamentals of our legal and regulatory system. Additional legislative changes by Cayman's Legislative Assembly, combined with focused engagement by the Cayman Islands Government in coordination with our financial services industry ultimately achieved the objective: in October, ECOFIN announced that it considered Cayman to be a





cooperative jurisdiction on all criteria for tax transparency and fair taxation.

The EU's confirmation that the Cayman Islands is not a tax haven and is cooperative on principles of good tax governance is a very welcomed development. The EU more closely scrutinised Cayman's legal and regulatory framework than perhaps any other entity had before and was not incentivised to conclude that Cayman was cooperative. Yet in doing so, it has sent a powerful signal that Cayman's reputation within the global financial services industry as a fundamentally sound system that meets or exceeds global standards is well-founded.

The EU's assessment is consistent with comparable assessments by other international standard-setting bodies. The OECD also evaluates jurisdictions for their adherence to the international standards on transparency and exchange of information – a true global

standard. For its most recent evaluation of the Cayman Islands against that standard, the OECD gave our jurisdiction the second highest possible rating, which is the same rating given to G20 countries like Germany, the UK, Australia and Canada.

The various ratings and evaluations can seem like esoteric exercises that are somewhat removed from the work done in the global financial services industry every day. Practitioners in the global investment funds industry have made their own assessments and express their conclusions by where they place their investments, which has overwhelmingly been directed at Cayman-domiciled funds. But conclusions like those drawn by the EU and OECD are important because they strengthen global confidence in the stability and durability of Cayman's legal and regulatory regime and offer large institutional investors like pension funds a "seal of approval" for their Cayman-domiciled investments.

Invigorated by results of the EU's assessment, the Cayman Islands financial services industry is moving forward with doing what we do better than anyone else: bringing innovation to the market and providing our clients and their investors with unparalleled value. Cayman already offers investors a variety of efficient and effective funds vehicles and we have added to that in recent years with the development of the Cayman Islands, LLC and will consider new improvements in years to come.

At the same time, as a tax neutral hub efficiently supporting global economic growth and recovery, Cayman continues to provide institutional investors with access to a world's worth of investment opportunities from a single jurisdiction. That access is supported by a pure tax neutral regime that offers investors a transparent means to eliminate the risk of double taxation on their global investments with lower administrative compliance costs than double tax treaty regimes.

Leaders will always face challenges as they pursue excellence. The Cayman Islands remains focused on being the world's leading jurisdiction for investment funds, which will always invite scrutiny from international bodies. But what keeps us on top with investors is also what helps us pass analysis by standard-setters: a culture of compliance and a sound legal and regulatory framework that pairs best practices with the best standards. ■

Jude Scott
CEO, Cayman Finance



Jude is an internationally respected speaker on financial services and has been featured in international media on a number of occasions. He has extensive experience within the Cayman Islands financial services industry, having served on various Cayman Islands Government and private sector committees. He has served as the CEO of Cayman Finance since 2014.