

# FOCUS ON: Jersey

Nigel Strachan introduces *Asia FM's* Jersey roundtable with a look at the flourishing jurisdiction



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**D**espite the global funds industry having experienced something of a slowdown in recent years, Jersey is emerging in extremely healthy shape as it gears up for a period of renewed growth.

This year marks the 50th anniversary of Jersey's international financial services industry and the indications are that the next 50 years are to be every bit as successful as the first – particularly for its funds sector.

The most recent statistics, for the first quarter of 2011, showed strong growth for Jersey's funds sector in particular, with increases in new fund launches and the value of funds under administration providing positive news. In fact, the value of funds being administered in Jersey is now at its highest since 2009 – increasing by 5.4% on the previous quarter to £194.6bn.

The 'specialist' funds sector continues to perform extremely strongly, with the value of private equity assets being administered and managed continuing to grow in particular. The alternative asset class, including real estate, hedge and private equity funds, now represents 58% of the total net asset value of funds under administration. Growth in the unregulated product – for the most sophisticated investors – remains impressive too, with the total number of unregulated funds increasing to 125 during the first

quarter of 2011. That's equivalent to year-on-year growth of around 100%.

Meanwhile, a growing number of fund managers are also looking to relocate to Jersey, as a result of its proximity to London and continental Europe and its attractive business and lifestyle environments.

## Professional approach

This long-term success of Jersey's funds industry is in part due to having developed an expert, highly experienced and well-trained workforce and a highly diversified finance sector. There is a wide range of service providers of real substance in Jersey, including major banks, law and accountancy firms and independent fund service firms, all making for an impressive supporting infrastructure.

In addition, a positive relationship between the industry, the Jersey Financial Services Commission (the regulator), Jersey Finance and the Government has helped create an attractive, well regulated environment for funds business. Jersey has for the past four years been the top offshore jurisdiction to in the Global Financial Centres Index and received the highest scoring in any IMF report done to date.

As far as the EU AIFM Directive is concerned, the agreed text is positive for Jersey and has been welcomed by existing clients. Jersey is very well placed indeed for managers raising money both in and outside the EU,

having announced earlier this year that it would create an element of flexibility by including a regime that would be fully AIFM Directive compliant and retain complementary regimes for asset managers that don't want to access EU institutional capital under an AIFM Directive passport. In this way, those managers who wish to remain outside of the EU can still use Jersey but avoid the cost of full AIFM Directive compliance.

Aided by Jersey Finance having a representative office in Hong Kong and regular visits to Greater China by industry professionals and government officials, the relationship between Jersey and Asian nations goes from strength to strength. Business flows are increasing, with Jersey vehicles being increasingly used to list on European exchanges and by Chinese investors wishing to access Western markets – areas that Jersey will look to grow further over the coming years.

Although market conditions globally remain volatile, the indications are positive for Jersey's funds industry this year. Based on current trends, we would anticipate a general steady growth rate of around 5% and expect private equity, hedge and real estate fund administration business to continue to perform strongly as confidence remains high in Jersey as a leading, sophisticated, international funds centre.

Asia FM talks to industry specialists about the fund management space in Jersey and what the jurisdiction has to offer investors



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**Asia FM (AFM): When fund managers are choosing a domicile what should they look for and what are Jersey's key differentiators?**

**Zhaoan Li (ZL):** Political and economic stability remain important, along with a solid reputation for robust regulation and a legal system that evolves to meet international demands. There is also an increasing requirement to work with jurisdictions which have international endorsement for their willingness to co-operate in the exchange of information.

Jersey meets all such criteria. It has been operating effectively as an international finance centre for 50 years. Its legal framework, tax system and infrastructure provide tax certainty for all fund structures and pooling for multinational funds in a tax neutral environment. It is the highest ranked offshore jurisdiction on the independent GFCI Index, achieved the highest rating in the world for its regulatory capabilities from the IMF and was named 'Best International Finance Centre' at the International Fund & Product Awards 2011.

**Ben Robins (BR):** There are three things; an appropriate level of regulation for their funds, good service providers (whether lawyers, administrators, or custodians) offering real substance and the stability of the jurisdiction in the current political and economic climate. Those are the three

factors which Jersey offers in spades, perhaps better than competitor jurisdictions in terms of the range of regulation and quality of service providers who've been doing complex funds work for two or three decades.

**Nigel Weston (NW):** The jurisdiction chosen should have a combination of benefits which will appeal both to the managers and to their investors. As well as being recognised, politically stable and tax neutral, it must provide a well-balanced regulatory

services necessary for a successful and well run fund.

**AFM: Have there been any recent developments in Jersey which boost its appeal to investors and managers alike?**

**ZL:** The introduction of Incorporated Limited Partnerships (ILP) and a new dedicated and distinct law for the constitution of Separate Limited Partnerships (SLP) offer wide appeal to the funds community. The first of the Crown Dependencies to provide these

“JERSEY’S LEGAL FRAMEWORK, TAX SYSTEM AND INFRASTRUCTURE PROVIDE TAX CERTAINTY FOR ALL FUND STRUCTURES” -*Zhaoan Li*

environment which is sufficiently robust to protect the interests of investors, whilst being responsive enough to provide the commercial environment needed by managers to establish and promote their funds. Speed and certainty are key, when it comes to the establishment of new funds and a commercially aware regulator is fundamental to their ongoing management. In addition, the jurisdiction should offer a range of highly experienced professionals and service providers, who are able to provide all

features, Jersey is committed to bringing forward new enhancements to its legislature which offer more choice to international investors. The new SLP will appeal, for example, to funds clients and those wishing to set up carried interest vehicles and the new ILP will find use in structured finance.

New regulations were also implemented which simplified the process for mergers between Jersey companies and foreign ones.

Approval for Jersey companies to be listed on the Hong Kong stock ex-

change has also widened Jersey's appeal. Three influential deals have since been listed and worldwide there are now more than 90 Jersey holding companies listed on leading stock exchanges with a combined market capitalisation of over £103bn. Some 25% of the 60 Chinese companies listed on AIM in London are incorporated in Jersey.

**BR:** Jersey has introduced an unregulated funds regime which has done very well alongside our regulated products, demonstrating that there are sophisticated investors and managers happy operating in that environment. Jersey has also recently introduced incorporated and separate limited partnerships with separate legal personality, which gives us an unusually broad

which have characteristics aimed at enabling the effective structuring of funds and other investment vehicles.

**AFM: How is the domicile reacting to European regulatory changes such as the AIFM Directive?**

**ZL:** The AIFM Directive as adopted by the EU is a positive outcome for Jersey. It confirmed that the private placement regime would remain in place for at least five years and it outlined the timetable for the phased introduction of a passport for non-EU alternative investment funds and managers from 2015 to 2018 and the compliance requirements for jurisdictions outside the EU.

Jersey plans to deliver a range of flexible options, including introducing

we will be able to accommodate AIFM Directive requirements while offering competitive products for marketing outside the EU.

**JH:** Throughout the AIFM Directive process, Jersey has maintained a close and open dialogue with Europe. As a result, Jersey considers it will benefit from the Directive once in its final form. For the time being, little will change other than that we hear more managers are being encouraged to establish funds in jurisdictions such as Jersey, rather than onshore in Europe. As regards to the future, Jersey as a jurisdiction is working hard to ensure that it will become and remain AIFM Directive compliant.

**AFM: What can service providers in Jersey do to help a fund manager cope with regulatory changes?**

**ZL:** One of Jersey's great strengths is the quality of its workforce. Its closely aligned network of law firms, accountancy practices and corporate services providers ensure that the appropriate corporate oversight is provided to any fund manager choosing Jersey to place its business. Firms in Jersey place great emphasis on ensuring they have highly qualified staff across a number of financial disciplines, who can advise on the most appropriate structures and highlight any regulatory changes that may need to be considered.

“JERSEY IS EMBRACING THE AIFM DIRECTIVE, WITH INDUSTRY GROUPS ALREADY PREPARING OUR RESPONSE” - *Ben Robins*

range of fund vehicles. As regards to regulatory and product flexibility, we're probably ahead of the pack.

**Jonathan Heaney (JH):** Industry, government and the regulator in Jersey work closely together to ensure Jersey is constantly developing its legislation and regulatory policy. As a result, the jurisdiction offers the full range of vehicles and regimes required by today's (and tomorrow's) funds industry. With its range of regulatory regimes extending from highly regulated retail schemes through professional investor 'expert funds' and 'listed funds', to unregulated funds (which is the island's most recent and increasingly popular regime). We hope there is an appropriate regime for all requirements. As regards to fund vehicles, in addition to the usual structures, the island offers PCCs, ICCs, LPs, and most recently Incorporated Limited Partnerships and Separate Limited Partnerships, all of

a fully AIFM Directive compliant regime and retaining existing complementary regimes for asset managers who don't want to access EU institutional capital under an AIFM Directive passport.

**BR:** Jersey is embracing the AIFM Directive, with industry groups already

preparing our response. We have identified how Jersey's directive-compliant regime, which would be passportable, can develop from existing regulatory architecture, as well as tailoring existing Jersey models to capitalise on the alternative national private placement marketing route. This two-strand approach means that

**BR:** As regards to the AIFM Directive, Jersey already has a good stock of financial institutions carrying out depositary functions. Jersey also has a broad range of expert fund administrators who are running a ruler over the directive and new US regulation to work out what additional support services they will need to offer. The future looks

“AS LONG AS THE ISLAND STAYS AHEAD OF THE GAME, WE EXPECT TO SEE GROWTH ARISING FROM THE UK, US AND EUROPE” - *Jonathan Heaney*

bright for fund administrators because the list of services they need to provide is only going to get longer.

**NW:** Once a fund is established, the majority of ongoing regulatory obligations fall on the Jersey service providers themselves, rather than the managers. As a result the most important role the Jersey service providers can play is by staying up to date with developments themselves and keeping their clients informed.

**AFM: What impact is Eurozone debt having on Jersey? Is there any light at the end of the tunnel?**

**ZL:** The Eurozone debt problem has no significant downside affect on Jersey's key business sectors of banking, funds and wealth management. Often when there are financial difficulties in the markets, Jersey's established role as a banking centre can help facilitate capital flows. For example, during the recent financial crisis Jersey was responsible for upstreaming billions of capital to the UK banking system.

**BR:** In term of business levels, we have seen little direct impact, but of course, Jersey can't be immune from any negative impact the Eurozone debt crisis may have on the wider world economy. Jersey's reputation as a safe haven jurisdiction could actually set it in very good store. It is out of the Eurozone so the risk of direct monetary and fiscal upheaval is restricted. Jersey offers appropriately regulated, tax neutral platforms, from which clients can run international financial transactions, so it will be well placed to offer solutions if the crisis gives rise to uncertainty and restructuring.

**NW:** As a buoyant international finance centre in its own right, Jersey has weathered the storm well and we have seen little impact other than a slowing of business and the effect of global markets on the value of assets under management and bank deposits.

**AFM: What are the medium- and long-term prospects for Jersey?**



“AS A BUOYANT INTERNATIONAL FINANCE CENTRE, JERSEY HAS WEATHERED THE STORM WELL” *-Nigel Weston*

**Where do you see the domicile's growth coming from?**

**ZL:** As a compliant, well-regulated, long-established jurisdiction with deep pools of expertise in financial services, we are confident in the future.

While we continue to work closely with our traditional markets in the UK and Europe, we envisage that growth will also arise from new markets including Greater China. Jersey's finance industry is building a stronger foothold in the region and Jersey Finance has a representative office in Hong Kong. Some 18% of bank deposits in Jersey now originate from either the GCC countries or China and that figure is rising. The value of international funds business in Jersey is also increasing and is currently the highest it has been since 2009, and there were no fewer than 40 new regulated funds established in the first quarter of 2011 by managers in leading jurisdictions, another positive indicator.

**BR:** Jersey Finance now has representatives in Mumbai, Abu Dhabi and Hong Kong. Economic growth rates in

our mature European markets are low. We recognise the need to capitalise on new global growth opportunities. So in the medium- and long-term it is about maintaining the good flow of work that we already have in this region whilst capitalising on new opportunities in the emerging markets, partnering with our European clients and intermediaries as they do the same thing.

**JH:** Walkers is a firmly established player in Jersey and we continue to target aggressive growth, in line with our expectations for the jurisdiction as a whole. We see Jersey's unique combination of benefits as being increasingly attractive to a growing global funds industry. As long as the island stays ahead of the game as mentioned earlier, we expect to see growth arising from the UK, US and Europe as the global economy recovers. More importantly however we are already seeing growth from the emerging markets in the Far East, where we have offices in Hong Kong and Singapore, and from India, Latin America and Africa.