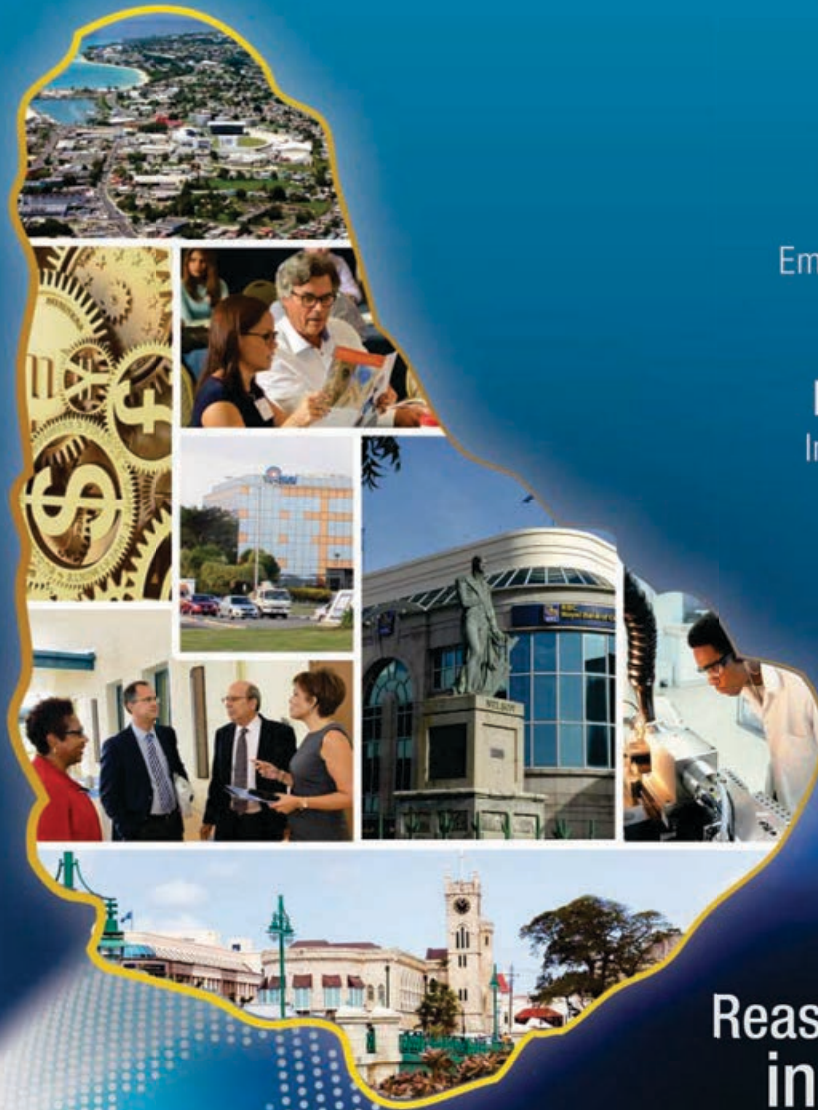


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Welcome to the 2016 Edition



Welcome to Barbados International Finance and Business 2016. As we complete our 8th year of publication, the magazine continues its mandate to promote Barbados as the domicile of choice for potential international investors.

As an international business centre, Barbados continues to maintain its competitive advantage as a well-regulated, low-cost jurisdiction. Our principal market remains Canada and in the provision of financial services; however we are seeing investors from a wider range of countries.

On 29 October 2015, Barbados welcomed more than 200 international delegates to participate in the Organisation for Economic Co-operation and Development's Global Forum 8th plenary meeting. The Global Forum is the world's largest network for international co-operation in the field of taxation and financial information exchange. During the Forum, Barbados signed a Multilateral Convention on Mutual Administrative Assistance in Tax Matters and the Multilateral Competent Authority Agreement. Barbados is also at an advanced stage in implementing the standard on Automatic Exchange of Information, with legislation recently passed to give effect to the

Barbados is very much open for international business and we eagerly invite prospective investors to consider choosing Barbados ...

Foreign Accounts Tax Compliance Act, paving the way for Barbados to automatically exchange tax information with the USA.

Barbados continues to negotiate, and has a growing number of double taxation agreements (DTAs) – those with Canada and the USA, in particular, being favourable for certain types of investors. Recently, Barbados signed a DTA with the Slovak Republic.

Barbados is very much open for international business and we eagerly invite prospective investors to consider choosing Barbados as their domicile of choice.

With very best wishes,
James Gardiner

Connecting Clients with the Caribbean

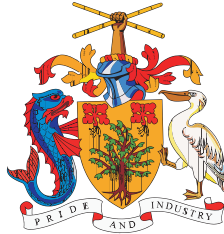
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MESSAGE FROM THE RT. HON. FREUNDEL J. STUART, Q.C., M.P., PRIME MINISTER OF BARBADOS

It gives me great pleasure to welcome you to this year's edition of our Barbados International Finance and Business magazine, for this is a special year, in which Barbados celebrates its 50th year of nationhood.

Throughout these fifty years, our leaders have pursued a deliberate and focused strategy for the diversification of our economy, away from a mono-crop economy and towards one in which the development of tourism and hospitality, light manufacturing industries and the international business and financial services sector has been carefully nurtured.

At Independence in 1966, the sugar industry accounted for almost 40% of domestic output, 66% of foreign exchange earnings and 33% of the employed workforce. Today the international business and financial services sector stands second only to tourism as a leading contributor of foreign exchange earnings. Importantly, too, the sector contributes approximately 54% of corporate tax revenues and provides direct employment for over 4,500 persons.

Our strategic thinking and action have formed the bedrock of a stable yet dynamic country that offers investors several advantages. These include a well-developed, cost-effective, pro-business environment, consisting of modern infrastructure, cutting-edge telecommunications, an ever-expanding network of tax and investment treaties, an educated workforce and an overall excellent quality of life. In many ways the international business and financial services sector has played a key role in transforming our social, economic and physical landscape, providing the opportunity for hundreds of persons to work in modern offices that are in many cases fully integrated into global value chains.

The passage of the International Business Companies Act in 1965 was our first effort at encouraging foreign investors to establish operations in Barbados. Since then we have diversified our product offering and have been steadily expanding the number of foreign entities that have chosen to improve their competitive advantage by establishing operations in Barbados. Activities include international trade, commerce, manufacturing, banking, insurance and wealth management. This diverse product mix bears testimony to the confidence which investors continue to place in our nation, our economy and our people.

Barbados' success has resulted largely from the value proposition that characterises the island as a unique domicile of choice for treaty-based businesses of substance, rather than as a high volume, no-tax domicile like many others. Transparency, disclosure and regulation are among the essential tenets of treaty-based business and these elements have become international standard bearers in the inter-connected, global economy. We are committed to sustaining this rich heritage.

Barbados has set itself several goals: to become a developed country; to become the most environmentally advanced green country in Latin America and the Caribbean; to become the International Financial and Wealth Management Centre of Choice in the Western Hemisphere, and also to be the entrepreneurial capital of the Caribbean. A vibrant and dynamic international business and financial services sector that generates knowledge-based jobs, high levels of professionalism and service excellence, the transfer of skills, and overall added value, will be key to the realisation of our vision.

We remain confident that our past experiences, achievements and our unique brand, have prepared us for the more complex, competitive and challenging circumstances that surround our achieving these goals. We are thankful for the investors and stakeholders who have partnered with us to this stage of our development. With these valued partners at our side, we have a bright future to transform into reality. We were happy to host the 8th Meeting of the Global Forum on Transparency and Exchange of Information for Tax Purposes in Barbados, from 29-30 October 2015, and to show the world the benefits of our jurisdiction.

The international business and financial services sector will undoubtedly see us through to another fifty successful years and beyond. Already, additional opportunities are beckoning, particularly in business process outsourcing, cultural industries, educational services, health tourism, mediation and arbitration, and also in renewable energy ... to name a few areas. We invite you to come to Barbados and to let your business be part of our exciting future together!


Freundel J. Stuart
Prime Minister



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A Bright Future for the International Business Sector



Barbados has distinguished itself as a premier international business domicile. The achievements of our International Business and Financial Services (IB&FS) sector over the last 50 years have been significant, characterised by growth, consolidation and resilience. Looking ahead, government and its strategic partners are focused on realising the

vision of our nation becoming the International Financial Wealth and Management Centre of Choice in the Western Hemisphere.

The foresight which led to the formation of the Barbados Development Board in 1956 and its subsequent investment promotion agencies has been pivotal to our nation's progress. Barbados commenced purposeful efforts to attract foreign direct investment and international businesses during the 1960's and opened investment promotion offices in New York and Toronto. Since then, the country has attracted a steady flow of investors from North America and the United Kingdom. Fuelled by the leadership and support of successive governments, the sector continues to thrive.

Today, Barbados is still a preferred choice of several global investors. The IB&FS sector is now more sophisticated, mature and service-oriented. There are over 4,000 international business entities, offering higher-end value-added products and services in the areas of niche manufacturing; software development; business process outsourcing; wealth management; international trade and commerce; international insurance and banking, among a range of other business activities.

More and more, investors are attracted to Barbados because of the country's proven record of being an efficiently regulated, modern, transparent, treaty-based, stable and cost-effective jurisdiction. Added to these, its responsiveness to attaining ever evolving international standards, sound legislative framework, world-class infrastructure, excellent educational system, intelligent workforce as well as its outstanding quality of life, all combine to provide a unique appeal.

Latin American investors have also been discovering the compelling Barbados business case. In fact, positive response from this region has provided additional impetus for Barbados' heightened engagement with the Americas. Both the private and public sectors have been seeking to strengthen Barbados' position as the gateway to the Americas with increasing focus on facilitating cross-border trade among multinationals and offering attractive wealth management options. The country's expanding network of double taxation agreements (36 presently in force) and nine investment treaties, offer an efficient platform from which Latin American investors can access external markets while other investors can engage in inbound investment opportunities in the Latin American region.

Recently, Invest Barbados together with stakeholders, participated in promotional activities in Colombia, Cuba and Brazil. Several encouraging outcomes emanated from these initiatives. The commencement of direct, weekly flights from Bogota to Bridgetown via Avianca Airlines facilitates easier market access for both investors and service providers. The response to promotional efforts in Canada and the United States of America continue to be encouraging. In addition to the Americas, plans are in train to nurture investor interest from countries in Africa, Asia, Europe and the Middle East.

In response to market dynamics and demand, a number of new products will be introduced in 2016. Barbados' product mix will therefore be expanded to include an International Securities Market, as well as Incorporated Cell Companies, Private Trust Companies and Foundations. These new products will enhance Barbados' position as a preferred domicile for international business.

Invest Barbados will continue to focus on attracting, winning and sustaining international business for Barbados ...

Invest Barbados will continue to focus on attracting, winning and sustaining international business for Barbados, particularly in the areas of niche manufacturing, ICT and financial services. We will work to effect continuous improvements in our business climate. The principles of pride and industry will continue to guide our approach. We envisage a bright and vibrant future for our international business and financial services sector.

We invite you to peruse this publication which highlights some of the investment opportunities and advantages that Barbados offers. If you are looking for a domicile that enhances your competitiveness, let's discuss how Barbados can give you that global advantage!

Sandra Payne
Chief Executive Officer (Ag)
Invest Barbados

Double Taxation Agreements and Bilateral Investment Treaties – the Barbados Advantage

BY GLORIA EDUARDO & RONAELE DATHORNE-BAYRD

Barbados concluded its first double taxation agreement (DTA) with the UK in 1970, and, over the last 45 years, has maintained the tradition of concluding comprehensive DTAs. Double taxation is widespread today because many jurisdictions, in addition to levying taxes on domestic assets and economic transactions, levy taxes on assets situated, and transactions carried out, in other countries, to the extent that they benefit resident taxpayers. Barbados, as a developing country, recognised that it had to be proactive and has successfully concluded comprehensive DTAs in order to position itself as an international financial and business centre of choice in the region. This has continued, even in the

... Barbados continues to position itself as the jurisdiction of choice for investment into Latin America ...

face of constant pressure, over the last few years, to conclude tax information exchange agreements (TIEAs). Comprehensive DTAs offer considerably more benefits to the country and to investors as a whole than TIEAs. One significant benefit of concluding a DTA is the removal of Barbados from the other country's "black list", as was recently the case with Spain.

At the latest count, there are 36 DTAs in force (counting the CARICOM DTA as 10) and six awaiting ratification, the DTA with the Slovak Republic being the latest to be signed in October 2015. DTAs generally provide important benefits to an investor, including:

- reduced withholding tax rates
- protection from being deemed permanent establishments in high tax countries
- protection from double taxation
- exemption from capital gains
- a mutual agreement procedure for resolution of disputes.

CASE STUDY



Caribbean LED Lighting Inc.
look on the BRIGHTER side

Making Things Happen – Manufacturing in Barbados!

Caribbean LED Lighting Inc's owner Jim Reid believes his manufacturing company is making an important contribution to a green culture, protecting the environment and saving money for clients and governments.

He explains, "We chose the Caribbean because our research showed the region had the highest electricity costs in the world with the exception of Denmark. That meant there was a real need for the latest energy efficient technology and there was huge

potential. The existing market also depended heavily on imported products and we knew we could achieve better results from manufacturing our products locally.

We visited several other Caribbean locations, but the main reasons we settled on Barbados were the stable political climate, the good infrastructure and the availability of talented labour. Also, it's a great place to live and do business!

Within four and a half years, we have established an impressive factory

base which produces a variety of high quality LED products. We are currently exporting to 16 countries, including 14 countries of CARICOM and South America. We started with two employees, presently have 45 and continue to recruit. Our employees have been sent to various parts of the world to be professionally trained and as technology and business opportunities develop, we will continue this strategy to ensure they are experts in their field. Investment in training is essential to our success and enables us to adapt quickly to business opportunities."

In addition to the network of DTAs, another critical weapon in the island's arsenal as an international financial and business centre, is the network of nine bilateral investment treaties (BITs) currently in force. BITs were originally designed to offer investors protection against government expropriation of their assets, particularly in developing countries, and still play an important role in this regard. Along with the expansion in global trade over the last 30 years or so, BITs have become increasingly popular.



BITs are of particular significance to investors, providing them with many non-tax benefits, such as:

- most favoured nation treatment
- compensation for losses owing to war, revolution, state of national emergency, revolt, riot, etc.
- unrestricted transfer of investments and returns
- subrogation
- dispute settlement by international arbitration.

As Barbados continues to position itself as the jurisdiction of choice for investment into Latin America, it is significant to note that we have both DTAs and BITs with Cuba and Venezuela. In fact, although Cuba has approximately 40 BITs in force, it has only 10 DTAs, one of which is with Barbados, thus placing Barbados in a unique position for potential investors in this hemisphere, particularly as the USA further relaxes sanctions and lifts trade restrictions and embargoes with Cuba. Foreign direct investment (FDI) is expected to move into that country, bringing with it capital, technology, skills, employment and access to the emerging market. When this FDI starts to flow into Cuba, a market that is largely untested from a legal and regulatory perspective, investors will be comforted by the fact that their investment, if channelled through Barbados, will be protected by both a DTA and a BIT.

While our network of DTAs has been expanding in recent years, our BITs have not kept pace, with only three being signed in the 2000s. As the Barbados Government continues to focus on making Barbados the jurisdiction of choice for international businesses, it can be expected that greater efforts will be made to negotiate new BITs, in conjunction with DTAs, in order to maintain and enhance Barbados' competitive advantage as an international and financial services centre. 🌟

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Opportunities to Issue Securities under the Private Placement Regime in Barbados

BY MARY MAHABIR

The Barbados Financial Services Commission (FSC) recently introduced a private placement regime, which was a very welcome measure designed to position Barbados in line with other jurisdictions, and make it easier to effect new issues of securities. Previously, under the Securities Act, an offer to the public was given a very narrow interpretation, so that any offer of securities to even a very limited number of people triggered a registration requirement for the issuer and the securities. This tended to make it unattractive to do business in Barbados and restricted the opportunities available.

As a result of the Private Placement Industry Circular issued by the FSC in January 2015, securities offered through a private placement will no longer be categorised as an offer to the public and will not require registration as a reporting issuer or registration of the securities. Thus, the ongoing filings and disclosure requirements that apply to public companies will no longer be required for private placements. All that will be necessary now is the filing of a post-distribution report.

The factors to be considered in determining if an offer is a private placement include whether:

- a) It is a limited offering to 35 persons or less
- b) The offer is to employees, shareholders, senior officers or other connected persons
- c) The offer is to fewer than 50 sophisticated purchasers
- d) It qualifies for exemption from prospectus filing requirements
- e) The issuer is regulated or listed on an international stock exchange and the offer is limited
- f) The offerees have access to the information that would otherwise be disclosed.

This important change to the regulation of securities should facilitate more trading of shares to the public, while still preserving an appropriate degree of regulatory control and protection of the public interest. 🌟

CASE STUDY

From Script to Screen

Many years ago, Barbados formed the vision to become a leading centre for international business, where foreign and local expertise could combine to produce unique, high quality products for global consumption. It is no surprise therefore, that Barbados' young and vibrant film industry is now a contributor to the realisation of that vision. The scope of the International Business Companies Act is testimony to the fact that these new businesses, which answer the call for diversification, were anticipated even back then.

There are two sides to this nascent film industry. Firstly, Barbados' natural beauty has always, in itself, been an attraction for the wandering filmmaker. In 1953, Barbados was host to the brilliantly told movie, *Island in the Sun*, featuring famous and glamorous stars like Joan Fontaine,

Harry Belafonte, Joan Collins and Dorothy Dandridge. Over the years, Barbados has continued to attract the producers of numerous other movies, television shows and commercials.



On the other side is the Barbadian filmmaker, who tells Barbadian stories with universal themes that resonate with moviegoers everywhere. Since the mid-2000s, a stream of local work has been produced, including documentaries,

shorts and full-length feature films. Local filmmakers are already winning awards at regional and international film festivals.

The requirements for growth relevant to international financial and other services are similar in many ways. There must be a strong private sector group and this exists through the seven year old Barbados Film and Video Association. Training is being undertaken at both the production and technical level. Identification of suitable markets for investment and distribution is still a work in progress. The new Cultural Industries Act has created part of the new incentive framework required.

Filmmakers are risk takers and have committed themselves to creating a viable industry, which, when embraced by the international business sector, will add great value to the economic development of Barbados.

The Future of Double Taxation and Tax Information Exchange Agreements – a Barbados Perspective

BY BEN ARRINDELL

The proliferation of Tax Information Exchange Agreements (TIEAs) over the last decade, as well as the coming into force of the Organisation for Economic Co-operation and Development's (OECD's) Multilateral Convention on Mutual Administrative Assistance in Tax Matters (the Convention), both of which have resulted from the work of the OECD Global Forum on Transparency and Exchange of Information, have raised the question as to whether there is a future for Double Taxation Agreements (DTAs).

This question is of particular relevance to Barbados, whose strategy for its future growth as an international financial centre is largely based on the expansion of its network of DTAs.

DTAs still important

There is no doubt that the attention given in recent years to exchange of information, and the role of TIEAs in this regard, has tended to overshadow the importance of DTAs. So why are DTAs still important? There are a number of key reasons why countries enter into DTAs, including:

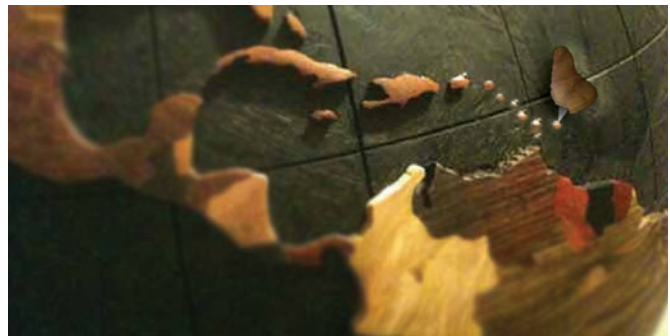
- A desire to promote/attract foreign direct investment (FDI)
- Legal certainty and predictability to investors, in relation to the taxation of their investment returns
- Elimination of double taxation
- To combat tax evasion.

In addition, recent developments in international trade, particularly in the area of e-commerce, have highlighted gaps in the tax systems of countries, which cannot be resolved by means of changes to domestic legislation alone without creating incidences of double taxation. Therefore, it is submitted that DTAs have a significant role to play in creating the type of level playing field that is required in order to sustain the continued growth of e-commerce worldwide.

DTAs are also of particular importance to countries in emerging markets ...

DTAs are also of particular importance to countries in emerging markets, such as Africa and Latin America, which are seeking to attract FDI. Such countries generally levy high rates of withholding tax on payments of dividends, interest, etc., paid to non-resident investors under their domestic legislation, which will often be regarded as a disincentive by

foreign investors. DTAs play a significant role in reducing such taxes. All of this is, of course, good news for Barbados, and for other international financial centres that have a comprehensive system of taxation, and whose growth strategy is based on a wide DTA network. It is such countries that will be in a position to persuade other countries to enter into DTAs with them.



It is not mere coincidence that the Barbados Government has stated that its strategy for growing its treaty network, including DTAs and bilateral investment treaties, is through the establishment of agreements with developing countries in Africa, Asia and Latin America.

The continuing relevance of TIEAs

The most likely outcome of the work of the Global Forum is the gradual demise of the TIEA as the instrument governing exchange of information. The reason for this can be found in the advent of the Convention which, to date, has been signed by over 70 countries, and has already entered into force in over 30 of those countries. The Barbados Government signed on to the Convention in October 2015.

Once a country has ratified the Convention, it will be obligated to exchange information on tax matters (spontaneously and/or upon request) with all of the other countries in which the Convention is in force. This will reduce significantly the need for countries to enter into separate TIEAs.

Conclusion

In conclusion, recent international developments are likely to slow down the proliferation of TIEAs. On the other hand, there is likely to be a renewed focus on the negotiation of DTAs by countries, particularly those in emerging markets, seeking to attract much needed FDI. This development is likely to assist Barbados in its efforts to expand its DTA network. In fact, Barbados has been successful in concluding DTAs with a number of developing countries, including Botswana, Cuba and Qatar, and has signed treaties with Ghana, Italy, Portugal, Rwanda, Slovak Republic and the United Arab Emirates that are awaiting ratification. 🌟

Residence for High Net Worth Individuals ...

What Barbados Offers

BY LIZA HARRIDYAL-SODHA

With increasing globalisation comes the need for ease of movement in relation to work, education, residence, retirement or recreation. High net worth individuals (HNWIs) are generally more inclined to change their jurisdiction of residence for reasons of asset protection, succession planning, safety and security, greater business opportunities, or simply to enjoy nature's bounty, all of which are possible in Barbados. Indeed, residence in Barbados is particularly attractive due to the island's cosmopolitan feel and good safety record.

The laws of Barbados allow for various types of residency, which include immigrant status, permanent residency, citizenship, being a CARICOM skilled national and holding a work permit (WP). More recently, the Government introduced the Special Entry and Reside Permit (SERP), specifically geared towards HNWIs.

In the international business community, the most popular avenue available for foreign, specially qualified individuals wishing to work and reside in Barbados, is to apply to the Immigration Department for a long term WP. Generally, the company which seeks to employ the individual will make the application, but owners of companies can also apply for WPs to work in their company. Long term WPs are granted anywhere from one to five years. The spouse and dependants of the WP holder can be granted permission to accompany him/her and to reside in Barbados.

Unlike some of its Caribbean neighbours, Barbados does not currently offer an economic citizenship programme. Such regimes provide that investment in a certain value of infrastructure, philanthropy or real estate could lead to citizenship, provided certain conditions are fulfilled. Instead, for HNWIs wishing to reside in Barbados, there is the SERP, which grants the right to reside, but not work. In practice, SERP holders are typically granted a long term WP upon submission of the relevant application and payment of the applicable WP fee, if they wish to work in Barbados.

The criteria for eligibility for SERPs require that the applicant must have a net worth in excess of US\$5M and an investment in Barbados valued at US\$2M or greater. Investment may include rental real estate, property development projects, manufacturing, tourism, bank deposits, mutual funds or bonds or any financial instrument. The SERP can be issued for an indefinite period to qualified applicants who are 60 years of age, while for those under 60, but over 50 years, a ten year SERP is possible, renewable as indefinite upon attaining 60 years. Those under 50 years will receive a variable term until the SERP holder attains 60 years, renewable as indefinite thereafter. Another category allows for a HNWI to make an investment of US\$2M to be eligible for a SERP.

The categories available are:

Category		Length of stay
i	Over 60 years*	Indefinite
ii	50 to 60 years*	Term to 60
iii	Under 50 to 60 years*	Term to 60
iv	US\$2M investment	5 years
v	Special skills	5 years

*Applies to HNWIs with a global net worth of a minimum of US\$5M and an investment of US\$2M in Barbados

A spouse will be required to pay the application fee along with the fee for the SERP. On the other hand, dependants (children) will be required to pay the application fee and will be granted a term to stay in Barbados to run concurrent with the SERP holder. The SERP regime provides flexibility and convenience for foreign nationals wishing to reside in Barbados. The programme is evolving and will be refined over time.

In considering the requirements for residency status in Barbados, it should be noted that a person need not be domiciled in Barbados to be considered a resident of Barbados. Where an individual is resident but not domiciled in Barbados, that individual is taxed in Barbados only on amounts remitted to Barbados, and is eligible to utilise the Foreign Currency Earnings Credit in the Income Tax Act, which generally reduces the effective tax rate to about 2.4%. Where an individual is resident and domiciled in Barbados, they are taxed on their worldwide income, whether or not remitted to Barbados. It is also important to note that Barbados does not have inheritance, wealth or capital gains taxes, and certain other exemptions are also found in its double taxation treaty network. 🌟

Transfer Pricing in Barbados Today and in the Future

BY DALE HILL

Transfer pricing involves the price that one member of a multinational firm charges another for goods, services or intangible property. Within a related party setting, profits attributable to related entities depend on the functions, assets and risks assumed by all parties involved. The more a member of a multinational firm performs functions, pledges assets or assumes risks, the more likely it is that member will earn greater profits.

Barbados is an attractive domicile for companies that employ sophisticated global business models

Finding the appropriate price for one member of a multinational firm to charge another, while seemingly easy in theory, is rather difficult in practice. Transfer pricing practitioners understand the complexities of international taxation and face the difficulty of locating comparables to determine the correct intercompany price.

The combination of these difficulties and the ability of Canadian multinational corporations to transfer profits to low-tax foreign jurisdictions, such as Barbados, by shifting functions, assets and risks offshore, make transfer pricing one of the more contentious issues facing Canada's tax authority.

Relative to other low-tax jurisdictions, Barbados has substantive public institutions, an established court system, a well-developed labour force, as well as an excellent educational system and a stable political environment. The island has improved critical infrastructure, such as transportation, which makes locating a business to the island more attractive. Barbados also has a good record of defending intellectual property rights. As a result, the migration of intellectual property to Barbados, from both an operational and tax standpoint, is often a sound decision.


Barbados is an attractive domicile for companies that employ sophisticated global business models. Multinational corporations using Barbados as part of their overall tax planning strategy find that the island can provide the human capital needed to perform substantive functions. Furthermore, Barbados' business-friendly environment and the presence of international tax treaties and dispute resolution avenues allow multinational corporations to operate efficiently.

Looking ahead: BEPS, the OECD and Transfer Pricing in Barbados

The combined efforts of the G-20 and the Organisation for Economic Co-operation and Development (OECD) on base erosion and profit shifting (BEPS) have attracted considerable attention in the international business and tax community. In July 2013, the OECD released its "BEPS Action Plan". This is an ambitious, 15-part, multilateral plan that addresses a number of concerns relating to international corporate tax planning, and the final recommendations are expected to be released close to the end of 2015. The BEPS Action Plan was triggered, in part, by articles in the international press that focused on what were argued as being the inappropriately low global effective tax rates of a number of high profile multinational enterprises.

... the migration of intellectual property to Barbados, from both an operational and tax standpoint, is often a sound decision

The concerns raised by the BEPS initiative are likely to assist Barbados in the long run. BEPS will have the greatest impact in Barbados on the area of intellectual property, as set out in BEPS Action Plan 8. While final guidance on Action Plan 8 is still pending, the Canada Revenue Agency has commented that more emphasis will be placed on "people" functions, relating to value creation and the profits attributable to intellectual property. Historically, migrating intangibles to countries like Barbados required that such transfers be done at "arm's length". Little attention was paid to who actually developed or maintained the intellectual property on a go-forward basis, as long as the Barbados entity paid a fair market value for the development activity. The new rules under the BEPS regime will likely alter this practice considerably. Multinational companies operating in Barbados will need to shift more "people" functions to Barbados, which will likely lead to an increase in economic activity in Barbados. Unlike other low-tax jurisdictions that lack critical infrastructure and human capital, Barbados is uniquely positioned to facilitate the increased economic activity.

With the introduction of BEPS, Barbados will need to enhance its dispute resolution and strengthen its competent authority to ensure that taxpayers who use Barbados will not be subject to double taxation. While it will bring considerable change to the transfer pricing area, BEPS will also bring new opportunities to Barbados. 



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Domestic Tax Laws Can Work Well for Foreign Investors

DOMINIQUE PEPIN

Most investors seeking to use Barbados as an international financial and business centre typically believe they must set up an International Business Company (IBC) to do so. Depending on the nature of their business, however, a Regular Barbados Company (RBC) may be a better choice.

The island's domestic tax laws offer several benefits – and a good deal of flexibility – to investors, including multinationals. To begin with, the RBC enjoys access to all of the double taxation agreements that make the island such an attractive jurisdiction, which is not always the case with an IBC.

Another major benefit that Barbados' domestic tax laws offer to investors using the RBC is the opportunity to do business locally as well as internationally. An IBC, on the other hand, cannot trade locally – all of its clients must be outside Barbados. In essence, an investor whose company offers a product or service the local market needs has the best of both worlds with the RBC.

Of course, the revenue earned locally will be taxed at the local corporate rate of 25%, but if the international side of the business is the real revenue generator, the effective tax rate can drop significantly, thanks to the Foreign Currency Earnings Credit (FCEC).

In essence, an investor whose company offers a product or service the local market needs has the best of both worlds with the RBC

Through its domestic tax regime, Barbados offers the FCEC as an incentive to all RBCs to bring in foreign currency – the more they bring in, the bigger the tax saving. The FCEC applies to companies in a wide range of industries including construction, education, investment management, e-commerce, shipping, oil and gas, mining, licensing of intellectual property and several others. Furthermore, it also applies to personal wealth, i.e., to foreign currency that individuals bring into Barbados.

The tax credit ranges from 35% to 93%, and applies to the foreign portion of the taxable profits. If that portion accounts for 81% or more, the FCEC will be at the 93% maximum.

For example, annual taxable profits of \$1,000,000 earned by the RBC would result in a tax bill of \$250,000 under the local regime. But if 85% of those profits (\$850,000) were attributable to foreign earnings, then \$150,000 would be taxed at the domestic rate of 25%, which amounts to \$37,500.

The maximum FCEC of 93% is then applied to the tax of \$212,500 that would normally be payable on the remaining \$850,000 and, as a result, a credit of \$197,625 is allowed, which leaves \$14,875 to be paid on the foreign income. This amount, \$14,875, when added to \$37,500 brings the total tax payable to \$52,375. In this example, the effective tax rate achieved is 5.24%.

Dividends also get favourable treatment under the domestic tax regime. For example, dividends paid to the RBC, whether from another RBC or a foreign company, are not generally subject to tax. Also, if the RBC pays dividends out of its foreign income to a non-resident, these dividends are not subject to withholding tax.

In addition, Barbados does not impose tax on capital gains. For example, the gain on the sale of shares or a subsidiary, or other assets such as intellectual property, would not form part of the RBC's taxable profits.

In summary, Barbados' domestic tax regime does not tax capital gains and offers a favourable tax treatment of dividends. In addition, the RBC enjoys the benefits of being able to do business locally, which an IBC cannot do, and unlike an IBC it enjoys unlimited access to Barbados' network of tax treaties. For some investors wanting to set up in Barbados, this can mean the best of both worlds. ✨

CASE STUDY



Award Winning Architect Chooses Barbados

Argo Development Studio was founded by its Managing Director, David Campion. David has lectured and tutored at the School of Architecture, Dublin Institute of Technology, Ireland and has over 20 years of industry experience in the design, development and delivery of projects, across a number of sectors in the Caribbean, Europe and the USA. The delivery of many award winning 'design build' projects inspired David to create his own studio that focuses on achieving greater efficiencies in the design and development process.

"The decision to launch Argo Development Studio in Barbados was an easy one. Barbados' business environment offers a diverse range of opportunities and support to both foreign and local investors prepared to invest in long-term objectives. Since our launch, Argo has grown from a single office in Barbados to having offices in Ireland, Trinidad and Tobago, Haiti, St. Vincent, and Hong Kong. In addition, Argo's Barbados team was a part of the winning team of an international property award for the Marriott Port-au-Prince Hotel, Haiti.

Another attraction to Barbados is the Barbadian people. Barbadians are known for their politeness and civility. They are also warm, charming, sophisticated, and Argo has assembled a truly talented workforce. The island is truly a reflection of its people."

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The Changing Environment of Cross-Jurisdictional Business

BY IKINS CLARKE

Keeping pace with change can be difficult sometimes, whether it is the latest trends in fashion or mobile phone applications, and we can now add doing business internationally to that list. While improvements in world travel, telecommunications and infrastructure have made doing business practically seamless across jurisdictions, G-20 governments, struggling to balance their budgets, have led the charge to frustrate the process through the implementation of various rules, regulations and protocols.

... planning for cross-border transactions has become a delicate operation, with substance and transparency becoming key words

In the last decade, there have been several restrictions on business activities and increased compliance measures designed to monitor and control foreign investments, prevent money laundering and keep corporate profits at home and subject to domestic taxation. The G-20 countries, either unilaterally or through their own member organisations, like the Financial Action Task Force and the Organisation for Economic Co-operation and Development (OECD), have imposed a number of stringent requirements ranging from Basel III on financial regulations, Solvency II on insurance, the Foreign Account Tax Compliance Act, the Base Erosion and Profit Shifting initiative, and the soon to be implemented Common Reporting Standards. These requirements and their heavy compliance costs have overwhelmed regulators and service providers across all jurisdictions. Moreover, many of these directives challenge the validity of previously signed double taxation treaties between international jurisdictions and G-20 countries, creating both diplomatic and legal issues.

Thus, planning for cross-border transactions has become a delicate operation, with substance and transparency becoming key words. Governments are eager to exchange tax information and challenge the implementation of tax minimisation strategies. In October 2014, 54 countries signed a multilateral competent authority agreement to exchange information automatically and this initiative is likely, eventually, to evolve into an interconnected tax world with instant exchange of information.

Yet, if anything, these changes have led to a renaissance of sorts in international financial centres (IFCs), with the development of products outside of the normal incorporation of an international company. Wealth protection and succession planning are becoming an important part of the landscape, and the planning tools have evolved to include investment funds, trusts, foundations, protected



cell companies and philanthropic charities. These tools provide the flexibility for sophisticated planning for multiple generations, across jurisdictions. The actual planning vehicle used by the prudent tax planner would depend on nationality, residency, local laws and, indeed, the degree of wealth of the individual.

The profile of jurisdictions involved in the facilitation of cross-jurisdictional business is now high on the agenda of the OECD. These jurisdictions are being forced to embrace the demands and costs of the ever-changing compliance rules, yet some of them have seen robust growth – the British Virgin Islands, Cayman Islands and the Seychelles, to name a few. This resilience seems to suggest that, in most cases, IFCs are seen as better regulated than most ‘onshore’ jurisdictions, and there is a strong belief that, as long as wealth protection drives offshore investment, then cross-jurisdictional business will continue to provide the interface for worldwide tax systems and, hence, global trade.

The cliché “the more things change, the more they remain the same” is now very relevant to IFCs, most of which have built their industry on three essential pillars:

- Strong legislation
- Efficient judicial systems
- Specialised knowledge and expertise.

Additional changes in this business environment are inevitable, but one can expect that amidst the changes, those jurisdictions, entities and service providers, who are plying their trade across borders, will strike the right balance between risk and reward, to ensure that substance, quality and profitability are not compromised. 🌟

Ten Reasons to Choose Barbados

BY ANDREW ALLEYNE

Barbados is an attractive destination for international businesses of substance and high net worth individuals. The island ranks among the top 10 captive insurance domiciles in the world, and is the second largest recipient of Canadian direct investment after the United States, with four of the largest Canadian banks maintaining a significant presence here. Barbados continues to refine and improve its product offerings, build out its network of trade and treaty partnerships, and meet international transparency standards set by multilateral bodies, such as the Organisation for Economic Co-operation and Development (OECD).

Barbados offers several advantages. The top ten reasons why investors should choose Barbados are:



1. Barbados has a geographically diversified network of double taxation agreements (DTAs), bilateral investment treaties (BITS) and tax information exchange agreements (TIEAs), making it unique in this hemisphere. There are 36 DTAs in force, including the Caribbean Community (CARICOM) multilateral DTA, and key trading partners in the United Kingdom, Europe, North and South Americas, Asia, Africa and the Middle East. Added to that, are nine BITS and five TIEAs in force in the same regions. These agreements all conform to the format required by the OECD;
2. Its geographic proximity and tax agreements with Cuba, Mexico, Panama and Venezuela, make Barbados a natural gateway into Latin America for investors outside of this hemisphere, who want to engage with the Latin American markets without exposing themselves directly to potential political, financial and other risks that could result from direct investment into some of the less stable countries;
3. The recent implementation of Special Entry and Reside Permits makes Barbados even more attractive to individuals with a minimum net worth of US\$5M, and who are willing to invest US\$2M in property in Barbados;
4. Barbados has a strong regulatory framework comprising the Central Bank of Barbados, the Financial Services Commission and the Ministry of International Business. These entities offer right-sized regulation that complies with international best practice, and is well-suited for a small, open economy. Local authorities are very responsive to international obligations, making it easier to conduct international business from this jurisdiction. Barbados has signed an intergovernmental agreement with the United States under the Foreign Account Tax Compliance Act, and with that signing, it has three instruments in place that meet transparency standards and facilitate exchange of information with the United States;
5. As a tax treaty jurisdiction, Barbados is committed to transparency, exchange of information and avoidance of tax evasion. Unfair attacks by some of the more mature international business and financial centres, labelling Barbados as a tax haven, have been swiftly answered by government, and proven to be categorically false. Barbados has been supported in its defense by regional authorities and, most recently, by the OECD. At the October 2015 meeting of the Global Forum held in Barbados, government signed the Multilateral Convention for Mutual Administrative Assistance in Tax Matters;
6. Barbados has a legal framework grounded in English Common Law and its corporate laws are modelled after the Canadian system. Its suite of legal products has recently been refreshed with an eye to attracting new investments, including the enactment of the Private Trust Companies, the Foundations, and the Corporate and Trust Service Providers Acts;
7. Home to the Westminster system of parliament since 1639, Barbados has a solid reputation for political stability and has been consistently ranked by the German-based Transparency International as the least corrupt country in the Caribbean and Latin America. Barbados also enjoys an enviable record of social stability and security relative to many of its neighbours in the hemisphere;
8. Barbados has excellent human capital in the form of a well-educated, highly skilled workforce, equipped with the knowledge and acumen to support a variety of international business clientele. It offers the right conditions for international companies to grow through local employment, thus saving high costs associated with relocating international professionals;
9. Ease of access for clients, shareholders and directors abroad, through its robust telecommunications infrastructure and continuously growing international flight agreements, which facilitate connection with any of the major international business and financial services centres across the globe;
10. Finally, its centuries-old history as a trade and tourism hub has married a cosmopolitan atmosphere with an island charm that makes the quality of life in Barbados among the best in the world! 🌺

A New Take on ‘Substance’

BY FRANÇOISE HENDY-YARDE

‘Substance’ is a characteristic that has become consistently linked to the Barbados international business brand. It is a well-known attribute of a mature economic sector capable of providing downstream and upstream benefits, particularly in small state economies.

‘Substance’ is manifested in several ways, but principally in employment opportunities, quality of work life, salary scale and, oftentimes, the ability to move from one geographical location to another because the entity of ‘substance’ has offices or operations across the globe.

‘Substance’, as an index of a mature, reputable and responsible international business and financial services centre, is one that successive governments of Barbados have insisted on because of the propensity of capital flight, which is often endemic, especially with small open economies. Substantive activities are highly prized by governments because they present tangible expressions of why a particular path of economic activity and its associated incentives have been granted to a national, regional or international entity.

Increasingly, ‘substance’ has also become a defence against accusations of activities by commercial players or individuals operating in an international business and financial services centre, which are alleged to be harmful to the overly transparent conduct of international financial affairs. To claim ‘substance’, as an answer to the mischaracterisation of a country’s export of financial and other business services, is not one that can be made without concrete evidence of such a claim. Fortunately, ‘substance’ is something that admits a number of illustrations.

Among the various examples of ‘substance’ upon which successive Barbados governments have relied, has been the use of small state diplomacy in relation to bilateral treaty-making in the area of international tax and investment. Indeed, even when the negotiation of tax treaties was placed on the back-burner by the Organisation for Economic Co-operation and Development’s (OECD’s) Global Forum on Transparency and Tax Information Exchange, in favour of boilerplate agreements which offered no more than a mechanism to exchange confidential taxpayer information, this diplomatic approach meant that while others were contributing to the more than 800 special purpose agreements, which largely failed to promote ‘substance’, Barbados’ treaty agenda continued apace.

Barbados is set to add 10 new tax treaties to its existing network, namely treaties with Ghana, Italy, Portugal, Rwanda, the Slovak Republic and United Arab Emirates that are awaiting ratification, and new agreements with Belgium, Cyprus, Malaysia, and Vietnam that are awaiting signature.

Barbados already has treaties in force with Austria, Bahrain, Botswana, Canada, the Caribbean Community (CARICOM), China, Cuba, Czech Republic, Finland, Iceland, Luxembourg, Malta, Mauritius, Republic of Mexico, the Netherlands, Norway, Panama, Qatar, San Marino, Republic of Seychelles, Singapore, Spain, Sweden,

Switzerland, the UK, the USA and Venezuela. The CARICOM treaty covers 10 countries – Antigua and Barbuda, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, as well as Trinidad and Tobago.



Barbados' Minister of International Business, the Hon. Donville Inniss, exchanges the signed DTA with Representatives of the Slovak Republic

Over the next six months, as Barbados advances its ‘Africa Engagement Strategy’, negotiations for new treaties with Cameroon, Kenya, Morocco and Tanzania are expected to commence.

Tax treaty ‘substance’ is manifest because it pre-supposes taxable economic activity by companies across a range of activities, including goods, services and intellectual property and a range of professional activities. Moreover, it covers activities by entertainers, athletes, students, teachers, professors, business trainees and apprentices. This diversity of subjects of tax treaties underscores the depth of ‘substance’ that gives rise to an agreement to negotiate a tax treaty in the first place. It also points to the expectation that economic activity will be created or enhanced by the very existence of these products of diplomacy.

Given the global agenda geared towards dealing with the issues surrounding base erosion and profit shifting, commonly referred to as BEPS, and driven by the OECD, it is interesting to note that a direct correlation between ‘substance’ and the existence of tax treaties has been made. Whilst this alone will not insulate a treaty-based jurisdiction from the rigors of new global disciplines that are certain to be a by-product of the OECD work programme, which has been endorsed by the G-20, ‘substance’ certainly provides validation of Barbados’ approach to the provision of legitimate, responsible and sustainable international business and finance services. 🌟

Opportunities for Combined Barbados-Panama Solutions

BY MARIA ROBINSON

There is no good reason why international financial centres (IFCs) shouldn't explore each other's strengths, and this is particularly true if other close ties already exist between them.

Take Barbados and Panama, for example - two countries linked by history, blood and more recently, competing interests. Between 1905 and 1914, approximately 45,000 Barbadians went to Panama to work on its famous canal. Other Caribbean people went too, but Barbadians are the ones most credited with helping to build the "Eighth wonder of the world".

Today, both countries are strong IFCs, as well as the preferred domiciles of many multinational corporations. Barbados and Panama both facilitate international business with favourable domestic tax regimes and established diplomatic relations, evidenced by double taxation agreements (DTAs) and bilateral investment treaties with an enviable list of trade partners. Each nation, blessed by geography, is an attractive gateway into Latin American markets for investors in Europe, North America, and even within Latin America and the Caribbean.

As they are competing IFCs, however, opportunities for combined Barbados-Panama solutions are often overlooked.

Investing through Barbados

For example, Barbados can be of particular help to Panamanian companies doing business with Canadian enterprises or individuals. This is so because Barbados has a DTA with Canada, while Panama does not.

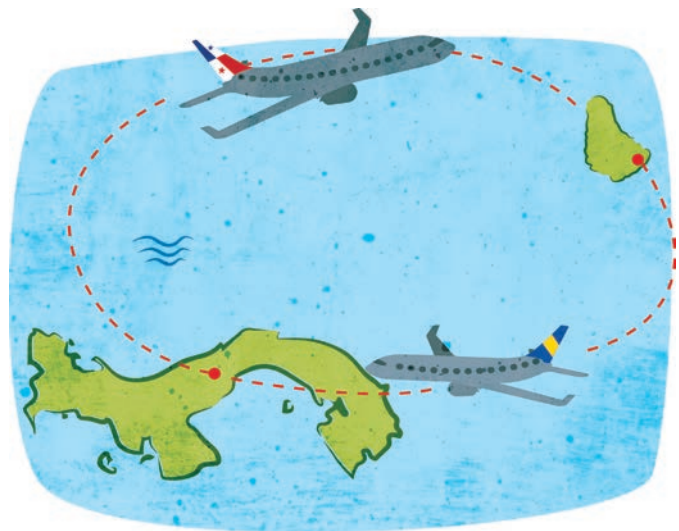
Here is how it works. A Panamanian company may own intellectual property that it wishes to license to one or more Canadian companies. Since Panama has no DTA with Canada, the Panamanian company will suffer withholding tax in Canada at the full domestic rate of 25% on any royalties it collects from the Canadian company. This withholding tax can be reduced if the Panamanian multinational incorporates a Regular Barbados Company (RBC) and transfers or leases intellectual property to that RBC. The RBC then licenses this intellectual property to the Canadian company.

Since the RBC can take advantage of the benefits of the Barbados/Canada DTA, any royalties paid to it by the Canadian company will face a withholding tax of only 10% instead of 25%. In addition, the RBC will be entitled to a Foreign Currency Earnings Credit, which reduces its effective tax rate. Further, any dividends the RBC pays to the Panamanian multinational will be exempt from withholding tax in Barbados.

Investing in Barbados

Under Barbados domestic law, non-resident investors will generally pay withholding tax at the rate of 15% on returns on their investment. This is true whether those returns are remitted from Barbados in the form of dividends or interest. Special incentive entities operating within the offshore sector, such as the international business company, are generally exempt from withholding tax. However,

... Barbados can be of particular help to Panamanian companies doing business with Canadian enterprises or individuals



these vehicles may not be used when seeking to do business within Barbados.

In such cases, a multinational group with a finance company in Panama (FinCo) can finance a regular Barbados operating company (OpCo) with debt. Under the Barbados-Panama treaty, the FinCo would only pay withholding tax at the rate of 5% on a remittance of interest from the OpCo. This is a particularly helpful provision, even for regional investors, because this withholding tax rate is even lower than the rate available under the CARICOM treaty.

This 5% rate available under the treaty would also apply to dividends paid from a Barbados OpCo to a Panamanian Holding Company.

Conclusion

It is true that Barbados and Panama compete as IFCs within the Americas. However, this does not mean that opportunities for collaboration between Barbados and Panama cannot exist. Rather, as we have seen, their individual strengths as independent financial centres actually increase the possibility for partnering well into the future. ✿

The Changing Tide of Cuba-USA Relations and Resulting Opportunities for Barbados

BY DUSTIN DELANY

The intermittent crossing of paths between Barbados and Cuba over the last century has given rise, historically, to opportunity. Barbados' ties to Cuba arose following the completion of the Panama Canal in the early 20th century, when many Barbadians arrived in the eastern provinces of Cuba to take part in the evolution of Cuba's sugar sector, which was fueled by the influx of US capital. Remnants of this Barbadian presence remain today in the dissipating small pockets of English speaking rural communities like Baragua, where the US-operated Baragua Sugar Company once stood.

The landscape of Cuba was drastically changed in 1959, as La Revolución precipitated Fidel Castro's rise to power, followed by the USA's embargo on Cuba. Though this may have limited Cuba's ability to participate in the international marketplace, especially with the USA, over the course of the following half century Cuba continued to press on in exemplary fashion in such areas as healthcare, education and sports, providing much needed support to Barbados and the wider region.



Barbados was one of the first Caribbean Community (CARICOM) countries to form relations with Cuba in 1972. As the conclusion of the millennium approached, the synergy between the two Caribbean countries grew as a result of several agreements coming to fruition, namely the bilateral investment treaty (BIT) in 1996, the double taxation agreement (DTA) in 1999, and the CARICOM-Cuba Trade and Economic Co-operation Agreement (ECTA) in 2000. All this resulted in Barbados being uniquely positioned as a regional pipeline for investment into Cuba. It is one of only a few countries with both a BIT and DTA supplemented by the ECTA, and with solid diplomatic relations.

This framework of treaties positions Barbados as the preferred conduit for foreign investment into Cuba

The BIT recognises the full array of special purpose vehicles provided for under Barbados law and caters for a wide range of investments. It also provides for 'most favoured nation' treatment and standard dispute resolution provisions for investor-host state disputes, as well as between treaty countries. The former allows for the referral of disputes to international arbitration, including the Court of Arbitration for the International Chamber of Commerce. Concerns regarding the handling of foreign investment in Cuba were addressed in April 2014, when Cuba's Foreign Investment Law went into effect. This law is aimed at improving the legal, fiscal and regulatory framework.

Barbados is one of Cuba's 10 tax treaty partners and the only one in the hemisphere outside of Venezuela. Some of these treaties are limited to income only. The scope of the Cuba-Barbados DTA includes both personal income tax and tax on profits in Cuba. This DTA provides the opportunity to minimise tax exposure in Cuba with respect to certain returns on investment. For example, a Barbados international business company disposing of shares in a domestic Cuban company would be liable for capital gains tax only in Barbados, and Barbados does not tax capital gains.

The objective of the ECTA is to strengthen commercial and economic relations between the signatory jurisdictions. Needless to say, the ECTA is not only a facilitator of Cuba-Barbados trade and investment as a whole, but also serves as a mechanism to further solidify diplomatic ties between the two nations that correlates with enhanced appreciation for, and compliance with the BIT, DTA and ECTA.

This framework of treaties positions Barbados as the preferred conduit for foreign investment into Cuba. As the easing of US restrictions on Cuba continues to progress, so does interest in inward investment into Cuba. The telecommunications, building and construction, financial services and tourism sectors are at the forefront of this trend as the USA has already liberalised regulations

concerning these activities. Though US investment is triggering this movement, existing players from Canada, Europe and Latin America will increase efforts, prompting further economic revival. Much like Barbados' participation in Cuba's robust sugar industry a century ago, Barbados is poised to play a pivotal role in the development of the Cuban economy. 🌟

CASE STUDY

Corporate Social Responsibility in Barbados – How it Makes a Difference

The concept of corporate social responsibility (CSR) has been around for almost a century; the official term appearing internationally around the 1960s, changing over time and later linked to what some call the 'triple bottom line' - people, planet, profit.

Barbados has been familiar with the concept since the 1920s. CSR has been practised by some of the oldest local companies, and today among the most prominent players in the corporate world. Whether by way of monetary donations or voluntary social and professional advisory services, CSR is not merely a concept for these companies; it is an integral part of their ethos. This concept also took form in the numerous non-profit companies and charitable organisations set up under local legislative provisions. Non-profit companies have been a part of Barbados' corporate landscape from as far back as the 1940s, and charitable organisations could obtain official registered charitable status circa 1980, under the Charities Act.

Companies can benefit from practising CSR in many ways, notably an increase in employee morale and productivity, and allowable tax deductions. Contributions made to registered charities have reciprocal benefits gained through the provisions of the Income Tax Act, where donations by way of money or transfer of property are allowable deductions from the annual income and corporation tax returns of the reported donors. Such deductions are calculated in tiers based on the amount of the contribution. CSR has an immense positive impact on society and the environment, enhancing Barbados' social and corporate growth, as well as its development as a nation.

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Trust – The Key to Barbados' Success as a Financial Centre

BY SIR TREVOR CARMICHAEL, Q.C.

Jerry Rubin, in S.B. Flexner's *Listening to America*, cynically asserts not to trust anyone over 30. Barbados' international business and financial services sector acknowledges a legislative start of 1965 with the passage of the International Business Companies Act; and secondly, acknowledges a wide usage and recognition from the decades following 1980 with the passage of banking, captive insurance and other financial incentive legislation. These two periods – albeit one continuous period – have, to the benefit of Barbados, significantly facilitated the movement of internationally mobile capital. While this success may be measurable in terms of the standard economic and financial indicators, emphasis must also be placed, notwithstanding Rubin's comment, on the ongoing cumulative benefits which ensue from jurisdictional trust and transparency, and which are engendered by a judicious mix of public private partnerships.

From the start, Barbados' homogeneity and relative social cohesion have allowed for intra-jurisdictional trust as regards policies and activities which have been geared towards improving its international business and financial services sector. Very early in the decade of the 1980s, successful efforts were made by a group of professionals in the sector, along with co-operation from the Canadian High Commission to Barbados, in the formation of the Canada-Barbados

... Barbados' homogeneity and relative social cohesion have allowed for intra-jurisdictional trust as regards policies and activities which have been geared towards improving its international business and financial services sector

Business Association (CBBA). It functioned along the lines of a flexible, yet firm organisation structure, and its major raison d'être was an annual promotion to a major Canadian city. The advantages of the CBBA were many, but a few stand out. In the first place, it cemented Barbados' relations with Canada at the important level of Ottawa policy making, through the presence and involvement of the Canadian High Commission. Secondly, it gave Barbados an additional advantage over Bermuda, which at that time was engaged in intensified lobbying efforts geared towards attracting more Canadian investment and investors to whom the relatively short airline connection from Toronto remained poised as a constant reminder. CBBA served its time and purpose, and it was the institutional and spiritual base on which the Barbados International Business Association was formed.

Additionally, the early marketing role of the Central Bank of Barbados, particularly as regards the captive insurance sector, was invaluable. The essential feature of this partnership was that a Central Bank regulatory agency had taken on active marketing of the allied international insurance industry, through its rigorous and robust annual participation and leadership at the annual United States Risk and Insurance Managers conferences and the equivalent Canadian Risk and Insurance Managers conferences. It was a master stroke, because once again the jurisdiction's private sector was able to engender global trust through its visible and clearly viable co-operation with a regulatory agency allied to, but not regulating, the promoted project.

Institutionally, today, the Joint Policy Working Group (JPWG) is comprised of a variety of sector professionals. They are appointed by the Minister of International Business, who they advise on all aspects of the sector, including new and updated legislation, as well as appropriate policy on critical matters of relevance. The evolved JPWG has a long history, and it illustrates the trust which exists within the jurisdiction between government and its private sector professionals, which gives rise to a high level of comfort to those within and outside of the jurisdiction who remain satisfied that there is a conduit for their voices to be heard. The JPWG, together with the other private-public actors, are today all combined in message and meaning through Invest Barbados, the jurisdiction's official marketing and facilitation arm.

Epilogue

William Pitt's memorable words in 1766 may better encapsulate the trust which has been engendered by the Barbados International Business and Financial Services Sector, rather than the earlier cynicism of Jerry Rubin. Pitt poetically exhorts us: *"I cannot give them my confidence, pardon me, gentlemen, confidence is a plant of slow growth in an aged bosom: youth is the season of credulity"*. In other words, the sector in Barbados is fully grown and engenders confidence and trust. 🌸

CASE STUDY

The Rise of the Independent Asset Manager

For many years, Barbados has been the jurisdiction of choice for Canadian multinational companies. Canadian-owned banks, licensed under Barbados' International Financial Services Act (IFSA), numbered as many as 30 at the peak. However, for the 2015 taxation year, Canada changed the rules and the banking option became less viable. A number of banks closed their doors.

But closure has not meant that all of those businesses have completely gone away. Instead, a number of former bank employees have negotiated to manage some, or all, of the banks' businesses as independent asset managers. So the loss of some banks has translated into the gain of a number of independent investment advisers, owned and operated by the portfolio managers themselves.

These entities manage a variety of portfolios, across asset classes and in different currencies. What makes the process viable is the simplicity of the IBC legislation combined with a relatively straightforward licensing regime operated by the Barbados Financial Services Commission. The process is simpler and less capital intensive than operating a bank under the IFSA.

In addition, there is a ready pool of investment professionals available in Barbados. The local Chartered Financial Analyst chapter has some 50 members who are charter holders and who constitute a vibrant community of investment professionals. These add to the landscape that Barbados is already known for – its cadre of professionals in the accounting and legal fields.

Barbados may not come immediately to mind as an investment management centre, but the benefits of operating such a business from here, combined with a spectacular lifestyle and global connectivity, should entice any investment manager who already has a book of business and is looking for a more favourable taxation regime from which to operate.

Why Form a Captive Insurance Company in Barbados?

BY GREGORY SMITH

Acknowledging the existence of a highly competitive captive insurance domicile market worldwide, the question is appropriately asked, “Why form a captive insurance company in Barbados?”

Apart from Barbados’ reputation as one of the premier holiday destinations in the world and its recognition as being among the top developing nations worldwide, the island has developed and enjoys a reputation as one of the world’s leading captive domiciles. This development is not by chance – successive governments have created a legislative framework and business infrastructure geared towards encouraging foreign investment, which has contributed to the island having this well-deserved reputation.

Certain key aspects of the business infrastructure can be highlighted in explaining why Barbados works for captive insurance companies.

International reputation

Barbados has an excellent international reputation and was included in the Organisation for Economic Co-operation and Development’s “white list” from the beginning. Furthermore, Barbados has an extensive tax treaty network, providing great opportunities for investors to optimise their tax planning.

Underlying legislation for international companies

In choosing Barbados, there is a relatively simple underlying structure available, with entities being able to choose between registering as Exempt Insurance Companies (EICs) or Qualifying Insurance Companies (QICs).

Normal domestic companies operating on the island are subject to corporation tax and have some exposure to withholding taxes. The EICs who register under the Exempt Insurance Act are exempted from such taxes, whereas the QICs, who register under the Insurance Act, are subject to the full domestic tax regime, but benefit from a tax credit for business originating outside the island. This tax credit results in corporation tax liability of approximately 1.75% for general insurance business and 0.35% on investment income for life business.

Infrastructure, professional services and workforce

The island boasts a well-developed infrastructure, including a robust banking system, modern telecommunications network, an international airport and access to world-class accommodation. There is a relatively large and highly literate population, resulting in the ability to provide an excellent range of professional services using highly trained professionals. The majority of the workforce is local, thus obviating the need for a significant “rotating” expatriate employee base. There is a well-established legal profession, with a number of firms specialising in corporate and international business-related law.

Barbados provides a sound and efficient regulatory environment ...

The major international accounting firms are represented in Barbados, existing alongside a number of local firms all offering assurance, tax, advisory and corporate services.

There are also several captive insurance management companies, comprised of those aligned with international insurance brokerage operations, along with several independent management companies.

Incorporation and regulatory environment

There is a relatively simple licencing and incorporation process, which generally takes between four to six weeks, dependent upon the timing and completeness of the required due diligence information and payment of initial capital. Barbados provides a sound and efficient regulatory environment, with all non-bank financial institutions regulated by the Financial Services Commission.

Costs

Initial set-up and ongoing operational costs are very competitive. A relatively low minimum capital of US\$125,000 is required and a simple ongoing solvency structure.

Geography, climate and accessibility

The island is the most easterly of the Caribbean island chain. Barbados has a tropical climate with cooler temperatures during December through March, whereas the period July through November is generally more humid and wet. Barbados is easily accessible, with frequently scheduled flights to and from most international destinations.

Why form a captive in Barbados?

In summary, Barbados has established itself as one of the leading international business domiciles, with its international insurance industry at the forefront of this development. It remains one of the largest global captive insurance domiciles. With its well-regulated business environment, excellent infrastructure, modern legislation and expanding treaty network, Barbados continues to attract significant international insurance business. Simply stated, it makes eminent business sense to form your captive insurance company in Barbados. 🌟

CASE STUDY

Chinese Medicine and Acupuncture in Barbados

As the sole practitioner and operator of Bai Feng Huang TCM Clinic, established in 2003, Renata Roett offers health care in the form of Chinese medicine. Diagnosis is done using traditional Chinese medical theories and acupuncture is used as one of the main treatment options, with Chinese herbal prescriptions being the other. Other oriental therapies of Moxibustion, Tui Na massage, Gua Sha and Ba Guan cupping are also used in Chinese medicine treatments at the clinic.

Renata based her practice in Barbados, where she was born and raised, as Chinese medicine was not widely

available in Barbados at the time. Presently there is still a need for more qualified and certified practitioners.

Over the past 12 years of operation, there has been increasing interest in the use of Chinese medicine and acupuncture for health care, from both locals and visitors. Barbados is a stable and well known destination for vacationers and for many, it is an increased attraction to have the same health care options when visiting, as are available in their home country. Also, visitors can plan their vacation knowing they are able to maintain their treatment sessions.

In addition, medical clinics in the medical tourism industry, which offer

highly specialised services to local and international patients, have been incorporating acupuncture in their treatments. This has provided a great opportunity for Bai Feng Huang TCM Clinic.

The increasing awareness of Chinese medicine and acupuncture and its vast benefits, both locally and globally, is what consistently sustains the Clinic, along with the high standard of quality care and services provided. Renata continues to explore ways to expand her business operations in Barbados.



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Strategic Captive Management Using Analytics

BY JASON KEYFITZ

Whether establishing a new captive or reviewing the effectiveness of your existing captive, quantitative analytics provides support in achieving organisational goals and in operating more like a commercial insurance company. In some cases, the analytics discussed below may be services provided today by your captive's actuary. In other cases, your actuary or risk advisor may be able to provide these additional services.

*Renegotiating collateral can
be an important and challenging
part of a captive's renewal
strategy ...*

Valuation of unpaid claims liabilities (reserves) is the most well established example of analytics supporting the management of insurance companies and captives. If your captive writes long-tailed risks like automobile liability, general liability or US Workers' Compensation, you have probably already engaged a qualified actuary to value the unpaid claims liabilities. The actuary uses your company's own loss development experience, supplemented with industry average factors, to provide a central estimate of unpaid claims liabilities. Many actuaries will also provide a likely range around the central estimate, recognising that there is uncertainty in the reserving analysis and underlying claims process.

Appropriate estimates of incurred, but not reported, claims allow the captive to budget for those claims in advance of their reporting, thereby adding stability to the captive's financial results.

Loss forecasting – a valuable tool

Captive advisors often use market benchmarking when setting premiums to ensure that the premiums charged are in a range that could be achieved in the commercial market. However, supplementing this approach with an analytical/actuarial method for premium development adds a tremendous amount of value in helping to understand the risk and the potential cost. A simulation analysis of

future claims will provide an estimate of the average projected losses, as well as the losses that might occur in various adverse scenarios - for example, a one-in-10-year scenario. The analysis can be used to:

- Set the premium
- Determine whether the policy is within the captive's risk appetite
- Help affiliate companies (the insured) determine whether the captive will more efficiently fund the risk compared to insuring in commercial markets.

Further, rather than rejecting a risk that is underpriced in the market, this analysis may also be used to guide the underwriter at the fronting insurer on the price needed by the captive based on the underlying risk.

Clear capital guidelines are critical

The other side of the same simulation analysis can be used to set clear guidelines for the amount of capital to be held in the captive, based on the risk underwritten. Setting clear guidelines for target capital empowers the captive's Board to authorise dividends to the parent company when surplus capital is available.

Many captives are structured so as to reinsure a portion of their premium from a well-rated, locally-licensed fronting insurer. In order to protect the fronting insurer from the counterparty credit risk associated with reinsuring the captive, the front will require some form of collateral to be posted, usually a letter of credit. Renegotiating collateral can be an important and challenging part of a captive's renewal strategy, as large amounts of collateral can add significant capital and liquidity strain to the captive. By understanding the fronting insurer's approach to collateral calculations and reproducing your own version of those calculations, you become a more informed party to those renewal negotiations.

These analyses can be tailored to fit captives of a wide range of size and complexity. Talk to your risk advisor or actuary about how you can improve the efficiency of your captive through analytics.

Barbados as a captive domicile

Corporations now recognise that captives can be employed to insure far more than traditional property and casualty exposures. There are few limitations in terms of the risks that a captive can finance, provided the risks are evaluated, priced and capitalised properly. Captives are now insuring environmental liability, product recall, weather risk, intellectual property infringement risks, volumetric risks, cost overruns and other business risks.

Barbados has much to offer companies seeking to set up a captive. An excellent education system produces a skilled professional workforce, complemented by a robust regulatory landscape in place, strong infrastructure, and a long-standing history of working with Canadian-owned captives, international business centres and other structures. It is expected that the number of captives operating in Barbados will continue to grow as more corporations seek to take greater direct control of their risk financing strategies. 



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Barbados' Financial Services Commission – a Credit to the Sector

BY RANDY GRAHAM

Financial crises occur around the world for many different reasons and are often driven by instability in one of the many financial sectors. When such a crisis occurs, one constant aspect is that it has always brought a regulatory response aimed at determining the cause and mitigating the probability of recurrence. This concept held true in the Wall Street crash of the 1920s; the banking run in the 1930s; the hyper-inflation crisis in Latin America; the dot-com bubble crisis; the derivative market crisis and the recent global economic crisis fuelled by contagion.

In similar fashion, the Financial Services Commission (FSC) in Barbados was established as a response to turbulent economic times. It was recognised that as a developing global financial centre, Barbados needed to ensure it had a robust regulator in the non-bank financial sector to help build and maintain stability in the financial system. Deliberations on this matter began as early as 2004, and in 2011 a final decision was taken to combine the functions of three regulatory bodies to create a new Commission, with its main objectives being to:

The FSC is fast becoming a thought leader in the area of financial regulation ...

- Maintain financial stability
- Nurture/build a sound business environment that is conducive to growth.

Five years on, the FSC continues to develop as a robust financial regulator. It has been able to attract a staff complement of highly skilled professionals, many versed in the theories and practices of risk management, economics and risk mitigation. They remain insistent



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on quality output and have helped to establish a growing, high-performance culture within the organisation. The FSC has also been able to build a risk-based regulatory system utilising its resources in the most efficient manner, to manage and mitigate excessive risk-taking in the non-bank financial system.

Along with a strategic plan detailing its road map for organisational growth, the FSC has identified core corporate principles designed to help establish it as a high quality regulatory body that is constantly focused on becoming the best in the world at what it does. This is achieved, to an even greater degree, with the organisation building its own regulatory practices on international best practices established by such bodies as:

- IAIS (International Association of Insurance Supervisors)
- IOSCO (International Organisation of Security Commissions)
- IOPS (International Organisation of Pension Supervisors)
- ICURN (International Credit Union Regulators Network).


It has also integrated into its operations the recommended practices of the Organisation for Economic Co-operation and Development on exchange of information, and the Financial Action Task Force's recommendations on anti-money laundering practices.

The FSC is fast becoming a thought leader in the area of financial regulation and currently sits on boards of directors and sub-committees of various Caribbean and international regulatory organisations. Of particular note, is the fact that it is now an active member of the Group of International Insurance Centre Supervisors, and as such, seeks to influence the policies set for regulating captive insurance business globally.

In addition to building a robust regulatory framework, the FSC recognises:

- it is beneficial to work with key stakeholders to understand their various operations
- transparency and dialogue are critical to creating an environment conducive to growth.

In addition to building a robust regulatory framework, this island's sole regulator of the non-bank financial sector recognises the benefits of working with key stakeholders to understand their various operations. It has therefore embraced transparency and dialogue with the regulated entities and their representative groups, as a demonstration of the fact that this approach is central to creating an environment conducive to well-managed growth in these sectors.

The FSC is excited about its achievements thus far. It is even more excited about the future of financial regulation in Barbados and the part the organisation will play in this development. It is keen to ensure that it continues to nurture an environment conducive to positive growth, both in Barbados' domestic financial sector and in the international business and financial services sector. 



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Building Wealth – the Benefits of Global Diversification in Investment Portfolios

BY KEVIN ARMSTRONG & ELLIOTT BARROW

After several years of consistent and positive performance in global equity markets, 2015 has been characterised, to date, by a return to volatility. This upheaval in global stocks has caused some angst, on the part of investors, over the potential for continued collapse, and with safer assets having outperformed riskier assets, we see some investors questioning the benefits of global diversification within investment portfolios. We believe that there are many reasons to continue diversifying investment portfolios around the world, both from a strategic long term perspective and in terms of the current market opportunities.

It's a matter of perspective

Given Barbados' extensive international business links with Canada, we often find ourselves discussing global diversification from a Canadian perspective. This is a useful context to consider, because like many countries outside of the USA, Canadian-focused investors face an issue of economic concentration within their domestic market that limits the opportunity set of investments, and can increase portfolio risk. With its vast resources, the Canadian economy is heavily tilted toward energy and materials companies, with these two groups representing more than a quarter of stocks based on market capitalisation. As a developed economy that has successfully leveraged these natural resources to become a world leader in financial services, that sector has grown even larger to represent 36% of stocks. In 2015, as commodity prices plummeted and parts of the Canadian economy teetered toward recession, the stock market significantly underperformed global peers. There were few places to hide in the Canadian market, considering there are only about 250 stocks in the S&P/TSX benchmark index, with the top 10 companies representing over 36% of the market. This limitation contrasts starkly with the approximately 2,500 stocks in the MSCI All Country World Index, with its more balanced sector allocation – 'financials' comprise only 22% of global stocks, whilst energy and materials companies represent less than 12% of global equities.

The benefits of diversification

Harry Markowitz was a pioneer in modern portfolio theory and among the first to demonstrate, statistically, how diversification can benefit investment portfolios. A foundation of his model was the notion that combining securities which are not perfectly correlated – those

that do not move exactly together – can actually reduce the level of risk in a portfolio. Below is a table showing the correlations of selected major markets for the 15-year period ending 30 September 2015, which shows low correlations, particularly for farther flung markets. By expanding out of a single domestic market to these lower correlated markets, one would expect an improvement in the risk profile of a portfolio.

Current Opportunities


Though global growth forecasts have been nudged lower, expectations remain for a continued modest recovery in 2016 that is likely to be in line with 2015 on an aggregate basis. Certain areas are showing

improvement, including the Eurozone, where Purchasing Manager Indexes have improved to pre-European debt crisis levels, low energy prices are benefiting businesses and consumers alike, and a lower Euro has boosted the region's international competitiveness. The Japanese market, which tended toward resilience in 2015, is expected to continue to outperform in 2016 as "Abenomics", decent earnings growth, and shareholder-friendly policies remain supportive. An investment strategy that is limited to domestic Canadian stocks, with that country's more troubled economic backdrop, or US stocks which have outperformed significantly and show comparably less attractive valuations, would forego these potentially better opportunities in non-North American markets. 🌱

Correlations of select major markets for the 15-year period ending September 2015

	S&P 500	S&P 500	S&P 500	S&P/TSX	Euro Stoxx 50	FTSE 100	Nikkei	S&P/ASX
 U.S.	S&P 500	1						
 Canada	S&P/TSX	0.804	1					
 Eurozone	Euro Stoxx 50	0.859	0.698	1				
 U.K.	FTSE 100	0.863	0.755	0.879	1			
 Japan	Nikkei	0.620	0.568	0.613	0.595	1		
 Australia	S&P/ASX	0.752	0.701	0.725	0.765	0.513	1	

Source: Bloomberg



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Reserved Powers Trusts and Private Trust Companies in Barbados

BY ROLAND JONES

Barbados, with its expansive treaty network, is no stranger to alternative planning structures. Whilst many of us in the industry are familiar with traditional structures, such as discretionary trusts with appointed beneficiaries, our expertise and skill sets also extend to non-traditional structures, including purpose and unit trusts, international and domestic companies, captive insurance companies, and private placement life insurance. However, with the Trustee (Amendment) Act, 2012, and the Private Trust Companies Act, 2012, both enacted in 2015, we have opened a much-awaited stream of opportunities through the Reserved Powers Trust (RPT) and the Private Trust Company (PTC).

Reserved Powers Trusts

The Trustee (Amendment) Act, 2012, introduces into law RPTs, in which the settlor of the Trust can reserve certain powers which may give him or her some comfort around the management and control of the trust assets.

Key features and advantages of RPTs for the settlor include:

- The ability to retain a level of control that allows him or her to provide direction in investment and administration decisions



- The elimination of his or her real concerns over transferring full control to institutional trustees
- Continued ongoing involvement, allowing him or her to provide direction in the event of a change of personal or family circumstances.

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... banks and other major financial institutions are moving away from the complexity and risk associated with modern trusts

Private Trust Companies

PTCs have become very popular over the years. Key features/benefits include:

- **More easily understood** – the corporate structure is much more readily understood by non-trust professionals and can be easily integrated into a family office structure;
- **Potentially lower fees** – although, in practice, a professional trustee is engaged for the actual trust administration duties, the incorporation of the PTC to act as trustees tends to limit the liability of the professional trustee, which can often mean a cost saving to the family. Also, the PTC, as a company, will enjoy the full advantage of limited liability. Typically, the assets of the PTC itself are usually limited to its paid-up capital and whatever additional capital that may be employed to cover its operational expenses;
- **Diversity of the trust portfolio** – the PTC, acting as trustee, usually has an intimate knowledge of the interests and goals of the family, which may include standard portfolio assets, as well as alternatives such as real estate, business, etc. The professional trustee will be somewhat reluctant to include these types of assets in the trust portfolio, as persons invested in the performance of the trust fund, whilst protected by the limited liability of a company, will be more inclined to diversify the trust assets in a non-standard way;
- **Succession planning** – for large families, particularly those spanning generations, succession is a major challenge. Who takes over the family business? Who remains responsible for the many assets controlled globally? Through PTCs, younger generations can be engaged in the management with other family members, through training programmes or involvement in the decision-making process;
- **Continuity of trusteeship** – having a PTC as trustee of a family trust avoids the need for future changes of trusteeship. For example, should there be a need to change service providers, rather than changing the trustee (which can include many different documents, including retirement and appointment deeds, and certain indemnities which must be agreed upon by all parties), the only documents coming into play would be the management agreement between the PTC and the licensed administrator.

Market Opportunities

Current market trends suggest that there is much opportunity for these alternatives. First, there is a clear shift in the professional trustee space, where banks and other major financial institutions are moving away from the complexity and risk associated with modern trusts. As a result, smaller, more specialised firms are filling this gap. Whilst these boutique firms can fill the gap, there is some discomfort that they do not necessarily have the same ‘deep pockets’ as the large financial institutions and often do not share the same global footprint. Using a PTC or RPT structure can mitigate this perceived risk for the client. 🌟

CASE STUDY



The Benefits of the Family Office

Wealthy families who have built fortunes through successful family-owned businesses face a particular problem: how to protect their fortunes for future generations.

To resolve this problem, they are turning increasingly to “family offices”. A professional family office offers services such as asset management, monitoring and consolidated performance reporting, as well as risk management, tax planning and even advising on acts of philanthropy.

Some families may choose to have an exclusive family office and are prepared to pay the set up costs for the privilege. Others are happy to share the office with other similar families, keeping costs down and making it a more valuable proposition.

Either way, the families enjoy similar benefits. To begin with, there is a close alignment between the family office and the client’s long-term objectives, leading to a deeper understanding and better investment outcomes. Also, family offices operate on a fee-only basis, which means that advice is not only prudent but neutral. Additionally, it should not be forgotten that the family is “family”, and that means complete confidentiality, as well as a high degree of support and assistance with administration.

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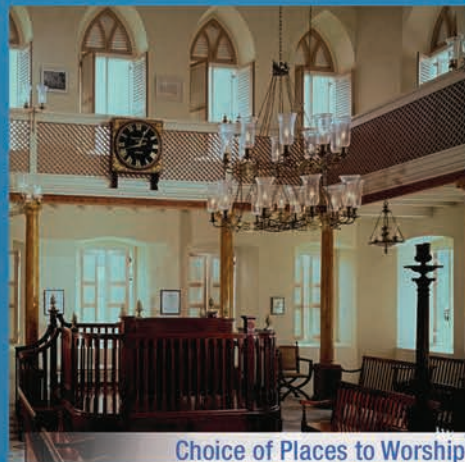
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the list goes on ...

International Banking – Full Transparency Required

BY CHRISTIAN PAUL

We are all familiar with the age-old adage, "The only thing constant in life is change". Nothing can be closer to the truth when describing the evolution of international banking.

As various jurisdictions compete in the international financial services arena, promoting cutting-edge legislation, competitive pricing and products and services, supported by strong infrastructure (whether human capital, technology, social services, schools, housing, healthcare, etc.), the new defining element, in offering a world class jurisdiction, will be the degree of transparency and the extent and quality of regulation in the international banking sector.



In today's world, international financial service providers, when offering an array of products and services to various client segments, must now incorporate the need for full knowledge and disclosure of ultimate beneficial owners, which goes beyond local regulatory requirements and extends to the requirements of international regulators and other stakeholders (in particular US correspondent banks), who are charged with protecting the global financial and monetary systems.

Transparency and 'know your customer' requirements have evolved from a mere documentation requirement at the beginning of a relationship, to a constant and ongoing range of requirements, with all stakeholders – whether client service provider, bank, regulator (local and foreign) and associated suppliers – having full knowledge of each other's business activities. The introduction of the Foreign Account Tax Compliance Act (FATCA) by the USA, has added considerably to the assessment, monitoring, documentation and, consequently,

... international financial service providers ... must now incorporate the need for full knowledge and disclosure of ultimate beneficial owners ...

attendant costs that all banks and financial institutions globally are now obligated to undertake. Non-compliance with FATCA brings high penalties and could also result in the loss of correspondent bank relationships. As a result, some international banks have revisited their risk appetites for new client acceptance, in striking a sensible balance between account maintenance costs and relationship value.

However, Barbados is in an enviable position in the field of international financial services, in that it has a range of international banks that complement the services offered as a jurisdiction, supported by a network of double taxation agreements (DTAs). The DTAs further enhance the new order of full transparency, providing Barbados with a solid foundation for continuing on the path of transforming itself into one of the leading international financial services jurisdictions in the world.

It is also important to note the excellent network of corresponding banking relationships maintained by the international banks, allowing Barbados to be promoted as a jurisdiction that is regulated to the highest global standards.

The importance of the bank/client relationship in these evolving circumstances is paramount. A strong relationship, built on a current and full knowledge of the customer's business, plays an integral role in banks being able to successfully represent the business activities originating in the jurisdictions with which they do business, and which flow through the global monetary system. Such a relationship allows the bank to make well-informed interpretations of the relevant regulatory legislation and requirements, and affords a greater degree of flexibility, which results in more efficient business facilitation for the customers.

By its strict adherence to regulations, both domestically and internationally, and by leveraging the legislative framework, with amendments being made as circumstances dictate, Barbados will continue to keep pace with what, undoubtedly, will be an ever-changing landscape, and remain competitive and successful as an international financial services jurisdiction. 🌟

Adding Value to Captives whilst Retaining Liquidity in a Low Interest Rate Environment

BY GORDON ANDERSON & RYLE WEEKES

Captive insurance companies typically look for safety and liquidity for their investment portfolio. However, with interest rates globally at their lowest levels in almost 50 years, captives are increasingly looking for alternatives which will generate higher returns.

Captives setting up in Barbados only require US\$125,000 in initial capital, which is usually retained in a bank account or similar “cash equivalent” investment. As premiums start to come into the captive and need to be invested, high quality, very liquid fixed income investments are the asset class of choice. Initially, the captive often starts with only the highest rated fixed income investments. However, once the captive starts to build assets in excess of its reserve requirements, it will typically diversify across investment grade fixed income investments and add equities as well to enhance returns. In our 15 years of experience working with hundreds of captives, the most common asset mix for more mature captives is 75% high quality investment grade fixed income and 25% equities.

... you should seek out a firm with “manager research” capabilities and an extensive process of selecting “best in class” global managers

The first challenge is finding a fixed income manager that has outperformed versus the appropriate investment grade benchmark. Fixed income assets should be de-nominated in the base currency of the captive (i.e., US or Canadian dollar), otherwise the captive is taking currency risk, which significantly increases the risk of the portfolio. If the parent company is Canadian but the risks insured by the captive are international risks, the base currency would be US dollars and all fixed income assets should be US dollars. In this example, the best solution would be selecting a top quartile US fixed income manager that actively manages the portfolio across all “investment grade” fixed income securities. Fixed income indexes are less attractive than equity indexes, as companies and countries with the highest debt levels that are, arguably, the most risky, will have the highest allocation in the index.

The second challenge is determining the best equity solution, and indexes are a good option in this case. However, there are better options available than traditional market cap-weighted indexes. One good solution is fundamental indexes that, historically, have outperformed

traditional indexes by 1%-3% per annum over the long term. If you are considering active equity managers, you should seek out a firm with “manager research” capabilities and an extensive process of selecting “best in class” global managers.

Most equity managers, especially large institutions, are “closet indexers”, as they are overly diversified and so have up to 90% of the index, but still charge an active management fee. The only way to consistently outperform a benchmark is with a concentrated portfolio that does not look like the index. It is a challenge to find active managers that consistently outperform benchmarks. Additionally, active managers will capture most of the downside of the market. For example, when global equity markets were down close to 50% in the 2000-2002 and 2008-2009 global corrections, the best performing managers were still down over 40% as their mandates are to be fully invested in equities.



A good alternative is a “long-short” manager that does not have to be 100% invested in equities at all times. In fact, such a manager could move to 100% cash and can buy protection on downward movement in equities or the overall market. From 2000-2003, when the market was down approximately 46%, an index of “long-short” managers was down only 8% – an outperformance of 38%. Even with the global credit crises in 2008/2009, when markets were again down almost 54%, the index of “long-short” managers was down 31% – an outperformance of 23% over the period. The key, again, is to have a “manager research” process to select the best “long-short” managers, selecting managers with strong performance and good liquidity.

An alternative to fixed income is possibly “low volatility” managers that have risk equivalent to traditional fixed income but better performance with a similar risk profile. The manager research process is also key in this alternative.

A portfolio with all four asset classes (fixed income, equities, long-short, and low volatility) is likely to offer better risk-adjusted returns than a traditional bond-equity portfolio going forward. 🌟

Managing Wealth in Barbados

BY PAUL JENKINS

Managing wealth effectively requires a disciplined and structured approach. Individuals and entities with a global perspective recognise that Barbados is a reputable jurisdiction, with a nexus of global tax treaties and a strong presence of Canadian banking partners.

For the international corporation considering a domicile for their self-insurance entity, or the ultra-high or high net worth (HNW) family looking for a suitable jurisdiction, Barbados offers an attractive, safe and reputable environment.

Over the past several years, wealth management strategies have evolved in Barbados and the following are three such strategies that Private Wealth Management offices currently employ with HNW families and corporations:

- Maintain a global investment outlook
- Employ an institutional framework in establishment and service expectations
- Risk definition and analysis.



Global Outlook

Having a global investment outlook infers that portfolios consider opportunities beyond the traditional North American options. Multinational banks now offer research, strategy and execution in securities on a worldwide basis. This is not meant to suggest riskier investment options, but rather, contemplation can result in diversification options that would include safe securities in, for example, Africa, Asia and Europe.

Institutional Framework

Barbados is the chosen host to many international corporations that have a self-insurance or 'captive' strategy and structure. As a result, Wealth Managers in Barbados are experienced in servicing both individual and institutional clients.

Barbados has been, and will continue to be, an attractive host nation for reputable HNW families and institutions wishing to establish global and secure investment portfolios

Institutions are disciplined in terms of the creation of their Investment Guidelines/Investment Policy Statement, mandatory quarterly portfolio presentations and monthly market calls. Institutions also have strict governance and an internal regulatory framework established, prior to funds being invested. Much time, thought and pre-planning are committed to the creation of the asset allocation rules that govern the overall portfolio. This asset allocation is the cornerstone of the Investment Policy Statement and offers guidance as to how much of the portfolio is allowed to be committed to equities, fixed income and cash/cash equivalents. Discipline and adherence to an institutional framework force the portfolio to have a structure that is better positioned to weather difficult market conditions, and so participate in positive upswings. Wealth Managers in Barbados advise and encourage families and individuals to adopt similar institutional characteristics, to better structure their portfolios.

Risk Definition and Analysis

As standard practice in the Barbados jurisdiction, Wealth Managers typically require that, prior to selecting securities, companies and families take part in several discussions to help define their objectives and identify realistic perceptions and tolerance to financial risks. The financial risks discussed are those associated with investing in certain asset classes (e.g., stocks, bonds, real estate, commodities, etc.). One's appetite for risk, in a true and honest form, assists in the establishment of the rules (Investment Guideline/Policy) of the portfolio and asset allocation. Defining risk, however, is not an easy or quick exercise and requires careful thought.

Many different risk scenarios are discussed, and past investment experiences are examined and analysed. Many executives and families react differently to risk, depending on whether the market is in an upswing or down trough. Thus, the challenging task of discussing risk is essential to building expectations that are realistic, documented and appropriate.

Barbados has been, and will continue to be, an attractive host nation for reputable HNW families and institutions wishing to establish global and secure investment portfolios. Barbados' environment of strong regulation, professional excellence and low tax sets the stage for those desirous of executing well-thought-out wealth management strategies with success. 🌟



Withholding Tax Card

A significant part of Barbados' international business is facilitated through its expansive treaty network, which highlights the country's commitment to preventing fiscal evasion and avoiding double taxation. The following table details the withholding tax rates applicable to payments of dividends, interest, royalties and management fees from Barbados as at November 30, 2015.

	DIVIDENDS %	INTEREST %	ROYALTIES %	MANAGEMENT FEES %	ENTRY INTO FORCE
Non-treaty countries	15/0 (1)	15	15	15	
Austria	15/5 (2)	0 (3)	0 (3)	-	April 1, 2007
Bahrain	0	0	0	-	July 16, 2013
Botswana*	12/5 (4)	10	10	-	August 12, 2005 (5)
Canada	15	15 (6)	10 (7)	5	December 22, 1980 (8)
CARICOM	0	15	15	15	July 7, 1995
China P.R.C.	10/5 (9)	10	10	-	October 27, 2000 (10)
Cuba	15/5 (11)	10	5	-	March 16, 2000
Czech Republic	15/5 (11)	5	5/10 (12)	-	June 6, 2012
Finland	15/5 (2)	5	5	5	August 20, 1992 (13)
Ghana*	7.5/5 (14)	7.5/5 (15)	7.5	-	-
Italy*	5/15 (2)	5	5	-	-
Iceland	15/5 (2)	10	5	-	February 24, 2012
Luxembourg	15/0 (16)	0 (3)	0 (3)	-	August 8, 2011
Malta	15/5 (17)	5	5	-	June 19, 2002 (18)
Mauritius	5	5	5	-	January 28, 2005
Mexico	10/5 (19)	10	10	-	January 16, 2009
Netherlands	15/0 (20)	5	5	-	July 12, 2007 (21)
Norway	15/5 (2)	5	5	5	July 3, 1991 (22)
Panama	5 (23)	7.5/5 (15)	7.5	-	February 18, 2011
Portugal*	15/5 (9)	10	5	-	-
Qatar	0 (3)	0 (3)	5	-	June 5, 2013
Rwanda*	7.5	10	10	15	-
San Marino	5/0 (24)	5	0 (3)	-	August 6, 2013
Seychelles	5	5	5	-	April 21, 2008
Singapore	0 (3)	12	8	-	April 25, 2014
Slovakia*					
Spain	5/0 (25)	0 (3)	0 (3)	-	October 14, 2011
Sweden	15/5 (1)	5	5	5	December 1, 1991 (26)
Switzerland	0 (27)	0 (27)	0 (27)	-	August 26, 1963
United Arab Emirates*	0 (3)	0 (3)	0 (3)	-	
United Kingdom	15/0 (28)	0 (3)	0 (3)	-	December 19, 2012 (29)
United States	15/5 (30)	5	5	-	February 28, 1986 (31)
Venezuela	10/5 (32)	15/5 (33)	10	-	January 1, 2001
IBCs, ISRLs, QICs & EICs	(34)	(34)	(34)		

*Treaty not yet in force; protocol or treaty awaiting ratification

Notes

- The rate is 0% if dividends are paid out of income earned from sources outside of Barbados.
- The rate is 15% for portfolio dividends; 5% for holdings of at least 10%.
- Taxable only in the state in which the beneficial owner is resident.
- The rate is 12% for portfolio dividends; 5% for holdings of at least 25%.
- Protocol in force September 4, 2014.
- The rate applies provided that the interest is subject to tax in the other territory.
- The rate applies provided that the royalties are subject to tax in the other territory.
- Protocol in force December 17, 2013.
- The rate is 10% for portfolio dividends; 5% for holdings of at least 25%.
- Protocol in force June 9, 2010.
- The rate is 15% for portfolio dividends; 5% for holdings of at least 25%.
- 5% of the gross royalties on any literary, artistic or scientific work including films or television broadcasting, and 10% on any patent, trademark, commercial or scientific equipment among others.
- Protocol in force June 1, 2012.
- The rate is 7.5% for portfolio dividends; 5% for holdings of at least 10%.
- The rate is 7.5% generally; 5% if beneficial owner is a bank.
- The rate is 15% for portfolio dividends; 0% for holdings of at least 10%, held for at least 12 uninterrupted months prior to dividend distribution.
- The rate is 15% for portfolio dividends; 5% for holdings of at least 5%.
- Protocol in force April 30, 2014.
- The rate is 10% for portfolio dividends; 5% for holdings of at least 10%.
- The rate is 15% for portfolio dividends; 0% for holdings of at least 10%.
- Protocol in force December 23, 2010.
- Protocol in force June 1, 2012.
- The rate is 75% of the statutory nominal rate at the time of distribution; 5% for companies with holdings of at least 25%.
- The rate is 5% for portfolio dividends; 0% if the beneficial owner is a company which holds directly at least 10% of the capital of the company paying the dividends for an uninterrupted period of at least 12 months prior to the decision to distribute the dividends.
- The rate is 5% for portfolio dividends; 0% for holdings of at least 25%.
- Protocol in force December 12, 2012.
- Agreement extended to Barbados by virtue of the agreement between Switzerland and the UK, on payments to non-residents from Barbados.
- Dividends are only taxable in the state in which the beneficial owner is resident. The rate of 15% applies to dividends paid out of income from immovable property by an investment vehicle which distributes most of this income annually and whose income is exempt from tax, other than where the beneficial owner is a pension scheme.
- Treaty in force December 19, 2012, replacing a treaty that had been in force from November 1970.
- The rate is 15% for portfolio dividends, 5% for holdings of at least 10%. Dividends paid by a regulated investment company will bear withholding tax at a rate of 15%, regardless of the percentage of shares held by the recipient. Dividends paid by a real estate investment trust ("REIT") will qualify for the 5% withholding rate only if the beneficial owner is an individual holding less than 10% of the shares in the REIT, otherwise, a 30% withholding tax rate will apply.
- General effective date January 1, 1984. First protocol in force December 29, 1993. Second protocol in force December 20, 2004.
- The rate is 10% for portfolio dividends, 5% for holdings of at least 5%.
- The rate 15% generally; 5% if the recipient is a bank.
- International business companies, international societies with restricted liability, exempt insurance companies and qualifying insurance companies are exempt from withholding taxes on payments to non-resident persons or international business entities. Specific legislation applies.

For further information on any of our services, or to join our email list, please contact either of the following:

Gloria Eduardo, (Tax) (246) 626 6753 | Ronalee Dathorne-Bayrd, (Corporate Services) (246) 626 6652

Welcome to Barbados



Join the discerning group already enjoying significant benefits in a stable environment.

For decades, Barbados and Barbadians have been making the kind of decisions that have produced an island worthy of investments like yours.

Competitive Advantages:

- Extensive Double Tax Treaty Network
- Bilateral Investment Protection Treaties
- Commitment to Substance
- Well Educated Workforce
- Prudent Regulatory Framework
- High International Rankings
- Quality Professional Services
- Low Corporate Tax Regime

Financial Products:

- International Business Companies
- Societies with Restricted Liability
- International Insurance
- International Banks & Trusts
- Segregated Cell Companies
- Mutual Funds
- Ships' Registration