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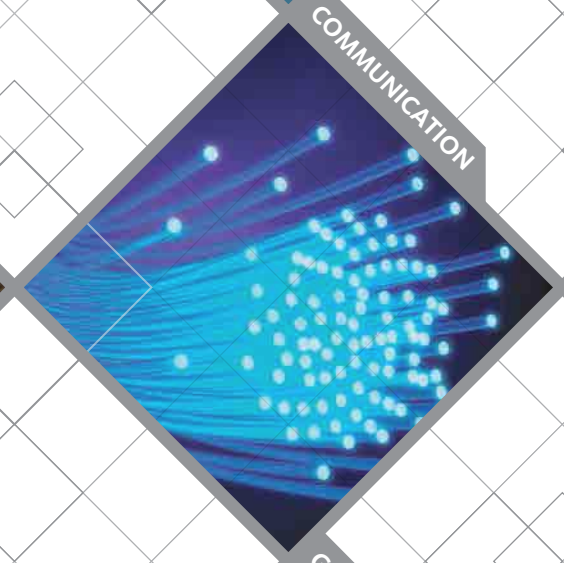
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Welcome to the 2015 Edition



It is my pleasure to introduce the seventh edition of Barbados International Finance & Business. During 2014, Barbados graduated to the second phase of the Global Forum on Transparency and Exchange of Information for Tax Purposes, and in October 2014 Barbados was appointed Vice Chair of the Steering Committee of the Organisation for Economic

Co-operation and Development (OECD). It has also seen the emergence of Base Erosion and Profit Shifting as an issue.

Barbados continues to market itself to the Latin American client, with Invest Barbados sponsoring several conferences and workshops to promote the domicile. Meanwhile, Barbados remains the domicile of choice for Canadian-parented companies and companies incorporated in its Double Taxation Agreement (DTA) network of countries, with particular focus on Latin America and Europe.

Barbados' DTA network continues to expand and, currently, Barbados has DTAs with 34 countries, with another 11 awaiting finalisation. The OECD's position on International Financial Centres (IFCs) has resulted in Barbados signing Tax Information

Barbados continues to market itself to the Latin American market, with Invest Barbados sponsoring several conferences and workshops to promote the domicile

Exchange Agreements and intensifying its efforts to negotiate DTAs with countries in Latin America. Barbados remains a cost-effective, well-regulated IFC, with world-class infrastructure and an intelligent workforce. Importantly too, Barbados is very much open for business.

We invite you to consider us as your domicile of choice, providing innovative solutions for international business expansion, and also invite you to send your comments and suggestions to bifb@investbarbados.org.

With very best wishes,
James Gardiner

JLT Towner




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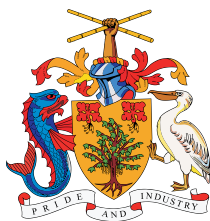
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MESSAGE FROM SENATOR THE HON. DARCY BOYCE MINISTER IN THE OFFICE OF THE PRIME MINISTER

Welcome to the seventh edition of the Barbados International Finance & Business magazine.

Seven years on from the 2007/2008 global financial crisis, the world economy still remains relatively fragile, though prospects for growth in 2015, according to the United Nations Conference on Trade and Development's World Investment Report and the International Monetary Fund's October 2014 World Economic Outlook, are positive.

The period following the crisis has been marked by increased competition among international financial centres (IFCs) and simultaneously, heightened scrutiny of IFCs by the G-20 and some international organisations. The Organisation for Economic Co-operation and Development's (OECD's) Base Erosion and Profit Shifting project, as well as its Multilateral Convention on Mutual Administrative Assistance in Tax Matters, have been introduced to redress 'unfair' tax practices and tax evasion. These projects are the new standard bearers to enhance transparency in the rapidly changing, interconnected, global environment.

We have also witnessed an increase, in some quarters, in the unfortunate labelling of IFCs as facilitators of tax evasion and money laundering. More recently, however, a growing body of empirical studies has emerged suggesting the opposite. Some studies document the vital contribution that IFCs make to the global financial system and their important role as conduits of much needed liquidity. Further, others have posited that a number of IFCs have better regulatory and compliance processes than some developed countries. The key watchwords for IFCs will therefore continue to be transparency, quality, innovation, regulation and reputation.

Barbados has always prided itself on implementing best practices, and its reputation continues to be anchored on the tenets of stability and consistency, even in the face of the rapidly changing regulatory environment. The maintenance and promotion of Barbados as a compliant, transparent and well-regulated jurisdiction is pivotal to our success.

That is part of the reason why we continue to seek opportunities to highlight the integrity and interests of

small IFCs like Barbados. During 2014, Barbados successfully hosted its inaugural conference on IFCs themed, *IFCs in a Borderless Digital Economy*. The forum acknowledged the contribution of IFCs to sustainable global development, and drew attention to the need for representation of the interests of small IFCs at forums that develop and implement international tax initiatives.

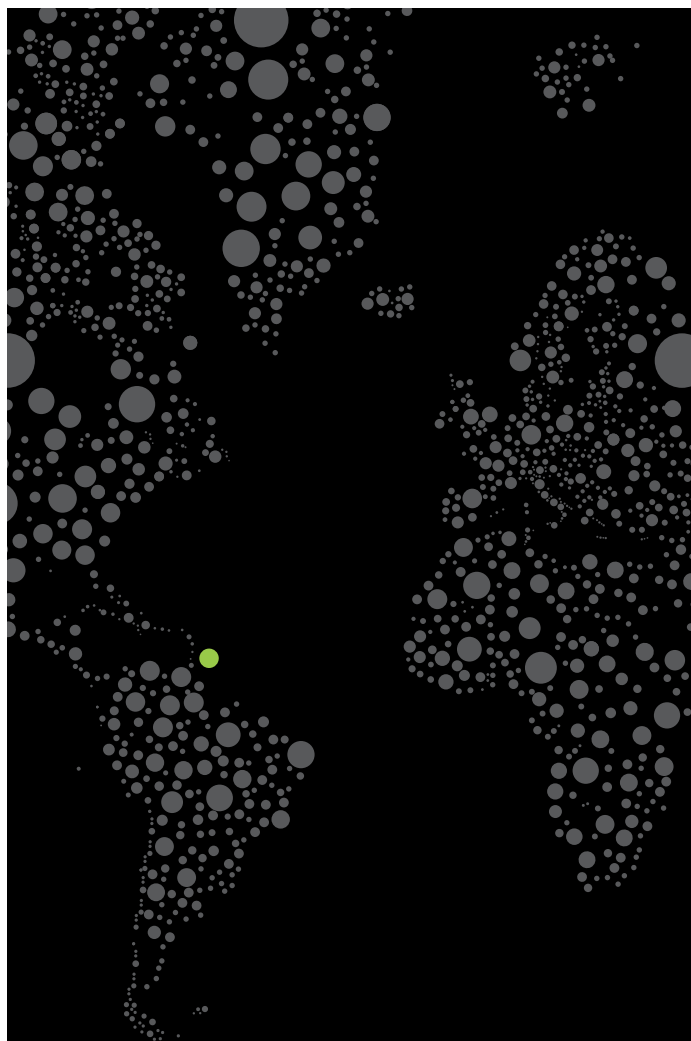
In October 2014, Barbados welcomed the opportunity to serve as a member and Vice Chair of the OECD's Global Forum Steering Committee. Involvement in this forum provides an opportunity to make a contribution to the strategic direction of the world's most influential body responsible for international tax transparency, and whose decisions affect not only Barbados, but the wider Caribbean Community, as well as IFCs generally.

Barbados intends to continue to enhance its appeal as a preferred IFC. In this regard, efforts to expand our network of double tax and bilateral investment agreements will be accelerated. We will also become signatories to the Multinational Convention on Exchange of Tax Information and, where necessary, conclude Tax Information Exchange Agreements with specific countries. Focus will be directed towards the conclusion of treaties with countries in Eastern Europe, Latin America, as well as in key African nations.

Our intention to become the pre-eminent international financial centre in the Western Hemisphere recognises that the establishment of an international trading floor in our stock exchange is necessary. We confidently expect to launch this initiative shortly. In like manner, the establishment of an alternative dispute resolution centre is being actively pursued.

Government is fully committed to introducing relevant innovative products, and to nurturing a responsive, efficient business environment. We look forward to attracting increased levels of foreign direct investment and to enhancing the competitive advantage of global investors.

Senator The Hon. Darcy Boyce
Minister in the Office of the Prime Minister



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Barbados - Your Gateway to International Business Expansion



It is my distinct pleasure to welcome you to the latest edition of Barbados International Finance & Business magazine. Permit me also to specially thank the contributors and sponsors of the magazine, and you, for reading the flagship publication of Barbados' international business sector.

Barbados continues to make significant strides and build on its success. In spite of increased competition and regulatory changes, uneven economic recovery across the globe, and the advance of an increasingly seamless and digital economy, a growing number of investors are choosing Barbados as their location of choice, particularly when they are seeking to enhance their competitiveness. For example, during the last five years, the number of international business companies registered grew from 2,859 to 4,016. The international business sector in Barbados remains a mainstay of the economy.

Barbados' continuing success is built on a solid foundation of decades of experience, excellent management and constant innovation. Recognition as a leading international financial centre is predicated on enviable accolades earned for stability, integrity, right-sized regulation and transparency, as well as on having a welcoming environment. These qualities have enabled our strategy of attracting businesses of substance in financial services, information and communications technology (ICT), manufacturing and, more recently, in the renewable energy and education sectors.

Excellent business facilitation will be pivotal to building and sustaining our strong brand. Cognizant of this, government has implemented a number of innovations to enhance our business environment.

A committee to review and establish new service delivery standards is now in place. Further, discussions are at an advanced stage with respect to facilitating online incorporations and licensing of entities. One of our key facilitators, the Immigration Department, continues to enhance access to its services online. Added to these, government introduced an indefinite licensing regime for international business companies and societies with restricted liability. These upgrades will improve the ease of doing business in Barbados.

To expand our product offering, new pieces of legislation to facilitate the registration of limited liability partnerships, incorporated cell companies, as well as corporate and trust services and providers, are close to completion.

Increasing the awareness of our brand is also central to the government's strategy. Efforts to expand our marketing reach are also progressing smoothly. Over the next five years, concentration will not only centre on the Canadian, US and UK markets, but will

... investors are choosing Barbados as their location of choice, particularly when they are seeking to enhance their competitiveness

extend to the larger economies in Latin America, Africa and the Middle East. In this regard, we are already seeing encouraging results, particularly in the formation of new Captives. We are also recording tangible results from the extractive and ICT industries, as well as from high net worth individuals who prefer the quality lifestyle in a tropical environment that Barbados offers. Globally, investor confidence is again climbing. This augurs well for Barbados as we pursue a post-2015 sustainable development thrust. The international business sector is well poised to continue its role as a mainstay of the national economy.

I am particularly excited about the future growth prospects for Barbados as an international business and financial centre. Barbados provides innovative solutions for success and will continue to upgrade its product mix to be on par with international best practice and emerging market demands.

If you haven't tried our jurisdiction before, I invite you to do so. Let Barbados be a part of your success!

Emeline Taitt
Chief Executive Officer
Invest Barbados

The G-8, G-20 and the OECD Agendas: Their Impact on Barbados

BY BEN ARRINDELL

Over the last 15 years, we have seen a number of initiatives by international organisations, such as the G-8, the G-20 and the Organisation for Economic Co-operation and Development (OECD), aimed at combating the use of international financial centres (IFCs) by taxpayers, principally multinationals, resident in high-tax countries.

The latest of such initiatives was launched by the OECD in 2013 in a paper titled “Action Plan on Base Erosion and Profit Shifting” (‘the BEPS Project’). This initiative was prompted by the perception among OECD member countries that, over time, weaknesses have developed in the existing domestic law and treaty rules governing the taxation of cross-border profits. It is perceived that such weaknesses create opportunities for multinationals to shift profits from high-tax to low-tax jurisdictions.

With the exception of the actions designed to address the tax challenges of the digital economy, the proposed initiatives, dealing with such issues as tax treaty abuse, the use of hybrid instruments, substance, transfer pricing and thin capitalisation, are not new.

Nevertheless, this recent development represents a more concerted effort by the OECD to coordinate the actions of its member countries in combating BEPS. However, in order to build a wide consensus for the BEPS Project, the OECD has invited G-20 countries that are not OECD members to participate as associates. Other non-member countries may be invited to participate as invitees on an ad hoc basis.

There is a concern that this latest initiative, together with the work of the Global Forum on Transparency and Exchange of Information, will have a significant negative impact on Barbados.

Given its history as an IFC with a network of double taxation agreements (DTAs), Barbados has never relied on the absence of information exchange agreements or mechanisms for its success. Consequently, to date, Barbados has not suffered greatly from the OECD’s work in this area. On the contrary, the focus on exchange of information has had the effect of enabling Barbados to expand its DTA network and to negotiate DTAs with a number of previously reluctant OECD countries, such as Mexico and Spain. Currently, Barbados has DTAs with 34 countries, with another 11 awaiting finalisation.

However, it is expected that the continued international focus on IFCs will make it more difficult in the future for Barbados to obtain DTAs with OECD countries. In recognition of this fact, the Barbados Government’s Strategic Plan for the International Business Sector 2014-2019 focuses on expanding its network of DTAs with countries in Africa, Asia and Latin America. Notably, these are also the countries that are continuing to experience economic growth and significant inward investment. In fact, the Barbados Government has identified Latin America as the area that presents the greatest opportunities for growth in the international financial services sector in the immediate future. Consequently,

the Government intends to intensify its efforts to negotiate DTAs with countries in Latin America. Currently, Barbados has DTAs with Cuba, Mexico, Panama and Venezuela and negotiations with Chile and Colombia are ongoing.

... the focus on exchange of information has had the effect of enabling Barbados to expand its DTA network ...

In relation to the BEPS project, perhaps the area that potentially will have the most impact, from a Barbados point of view, is the proposed focus on treaty shopping and substance. However, Barbados has a tradition of attracting businesses of substance and, therefore, has the necessary infrastructure, including flexible immigration laws, to enable investors wishing to establish operations in Barbados to structure their businesses in a way that meets the substance test.

With its emphasis on businesses of substance and focus on new markets, particularly in Latin America, Barbados is in a good position to continue to thrive as an IFC, despite the challenges highlighted above. 🌟



Barbados - the Gateway to Latin America

BY DUSTIN DELANY

Barbados' ties to Latin America (LatAm) date back to the fourth century, when archaeologists believe the Amerindians made their way to the island from Venezuela and established themselves as Barbados' first indigenous people. Barbados has since evolved and, from the standpoint of business, has established itself as the international business nerve centre for the region and the gateway to Latin America. The island has been a participant in the international business and financial services sector for almost half of a century, designed as a low-tax jurisdiction with a network of double taxation and investment protection treaties, complemented by a wide range of products, services, incentives, and concessions.

Venezuela was the first LatAm nation to engage with Barbados on tax treaty matters. The countries entered into both a double taxation agreement (DTA) and a bilateral investment treaty in the late 1990s. This was followed by Cuba. With the emergence of strong Latin American economic growth, Barbados has been intent on solidifying its position as the gateway to and from this important region of the Americas. In recent years, Barbados has concluded DTAs with Mexico and Panama. Other LatAm agreements are at various stages of negotiation, including those with Brazil, Chile, Colombia and Costa Rica. The Barbados Government recently announced the prospect of entering into negotiations with Guatemala, and it is felt that this trend will continue as Barbados continues its quest for hemispheric integration, building upon its role in the globalisation of the world's economy.

It is important to note that Barbados has maintained its reputation as a well-regulated international business and financial services centre. It was the only English-speaking Caribbean country placed on the original Organisation for Economic Co-operation and Development's "White List" in 2009. This history has played an integral role in allowing Barbados' LatAm treaty objectives to come to fruition, as it has permitted (or will permit) the removal of Barbados' tax haven status in these jurisdictions. A case in point was Mexico several years ago, and in anticipation of the Barbados-Colombia agreement being concluded, Colombia placed Barbados on a limited carve-out list of tax havens in October 2013. A year later, Colombia removed Barbados from the black list altogether.

LatAm related DTAs:

- | | | |
|---------------|----------|---------------|
| • Brazil* | • Chile* | • Colombia* |
| • Costa Rica* | • Cuba | • Guatemala + |
| • Mexico | • Panama | • Venezuela |

*negotiations pending + under consideration

It is anticipated this trend will continue with the likes of Brazil and other treaty partners, who deem jurisdictions offering tax rates below a certain threshold as tax havens.

The notion of a global network plays well into Barbados' strategy. Supplementary to its LatAm movement is Barbados' tax treaty with Spain, signed in 2010. Complementing this, are treaties with China, Qatar and Singapore, as well as Canada, the United Kingdom and the United States. The ability to tap into other treaty networks, like that of Panama, considerably increases Barbados' flexibility and solidifies its position as the gateway to Latin America. 🌟

CASE STUDY



Leveraging the Canada-Barbados Partnership

Gildan Activewear is a Canadian company with its corporate headquarters located in Montreal, Quebec, Canada. Leveraging the long-standing partnership that exists between Canada and Barbados, Gildan began operating in Barbados in 1999.

Gildan is a leading supplier of quality branded basic family apparel, including T-shirts, fleece, sport shirts, underwear, socks, hosiery and shapewear. The company sells its products under a diversified portfolio of company-owned brands, including the Gildan®, Gold Toe® and Anvil® brands and brand extensions, as well as the recently acquired Secret®, Silks® and Therapy Plus™ brands. The company also has licenses for the Under Armour®, Mossy Oak®, and New Balance® brands. Gildan has over 41,000 employees worldwide and its products are sold in over 40 different countries around the world.

From our Barbados office, we manage Sales, Marketing, Operations and Sales Support functions for the corporation, including Customer Service, Credit Collection, Production Planning, Sales Forecasting, Inventory Management and Distribution of our products around the world. Additionally, there are other administrative functions that support the business, such as Human Resources, Information Technology, Legal and General Accounting.

In Barbados, Gildan has found a very stable system of Government and a highly educated, ethical and committed workforce. In addition, the country provides reliable connectivity and infrastructure to support the global business.

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The OECD's Tax Avoidance Focus

BY WAYNE LOVELL

Globalisation has brought many benefits, including cross-border trade, efficiency, and the free movement of goods and services. Some argue that it has also encouraged multinational corporations (MNCs) and high net worth individuals to arrange their affairs so that taxable profits are reported in low-tax or zero-tax jurisdictions that have engineered their tax systems to facilitate avoidance of higher taxation. The resultant perceived erosion of domestic tax bases arising from this argument has generated an increasing focus on “unfair” tax avoidance.

Across the globe, tougher legislation and regulation, as well as more cooperation between tax authorities, are the new norm. The Organisation for Economic Co-operation and Development's (OECD's) Base Erosion and Profit Shifting (BEPS) project and the move to Automatic Exchange of Information (AEOI) are key drivers of these changes.

MNCs Not Paying Enough Taxes?

The underlying perception behind this OECD-led new focus is that MNCs are not paying their fair share of taxes. This perception is rooted in the belief that the only reason MNCs establish structures in low-tax jurisdictions is to achieve an artificially low effective rate of tax in respect of their worldwide operations. However, this ignores the fact that there are a number of non-tax reasons for MNCs to utilise an international financial centre, such as Barbados, through which to hold their foreign investments.

For example, a number of MNCs have established their holding companies in Barbados to hold their investments in Venezuela. The main reason for this is to take advantage of the protection afforded by the bilateral investment treaty (BIT) between Barbados and Venezuela. The fact that Barbados has a double taxation treaty with Venezuela, which provides reduced withholding tax on dividends paid to the holding company and no tax in Barbados on such dividends because of the participation exemption, is an additional bonus.

In recognition of the importance of BITs to foreign investors investing in certain countries, Barbados has, to date, BITs in force with eight countries besides Venezuela, including China and Cuba.

In addition, studies have shown that, far from encouraging “unfair” taxation, the use of IFCs such as Barbados by MNCs can, in some cases, ultimately result in increased employment benefits in their home countries. Canada has often been cited as a good example of this.

How Does BEPS and AEOI Affect Barbados?

One of the objectives of the OECD's BEPS project is to ensure that transfer pricing outcomes are in line with value creation, and that MNCs provide relevant governments with details of all operations, revenues and taxes paid, according to a common reporting standard.

It is interesting to note that the Barbados Income Tax Act contains certain anti-avoidance provisions which would cover transfer pricing irregularities and deem transactions between related parties to have taken place at a price equal to fair market value. These provisions are consistent with the objectives of the BEPS project in relation to transfer pricing.

AEOI seeks to promote exchange of information (EOI) on account holders with multiple residences. Barbados completed protocols to a number of its existing double taxation treaties to bring the EOI article up to the standard established by the OECD. The Barbados Government has also indicated its intention to sign on to the Multilateral Convention on Mutual Administrative Assistance in Tax Matters and has also signed a Foreign Account Tax Compliance Act IGA Model 1 Agreement with the USA.

These initiatives demonstrate Barbados' commitment to be fully compliant with the new international standards in relation to tax matters.

Barbados' commitment is to facilitate international business and help MNCs compete better internationally ...

Another consequence of the international initiatives outlined above, is that MNCs which utilise IFCs to structure their cross-border operations will need to ensure they have the requisite substance in the relevant jurisdiction to support the profits reported as being earned in that jurisdiction. Barbados, because of the quality of its labour force and access to higher education, has the appropriate infrastructure to enable MNCs to put in place the substance required to justify the profits reported as having been earned by their operations established in the jurisdiction.

Conclusion

Barbados' commitment is to facilitate international business and help MNCs compete better internationally, while at the same time ensuring that its laws are fully compliant with the new international standards designed to combat tax evasion and money laundering. *

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Canadian Financial Institution Regulation - Ensuring Barbados' International Business Companies Fit

BY ALISON MANZER

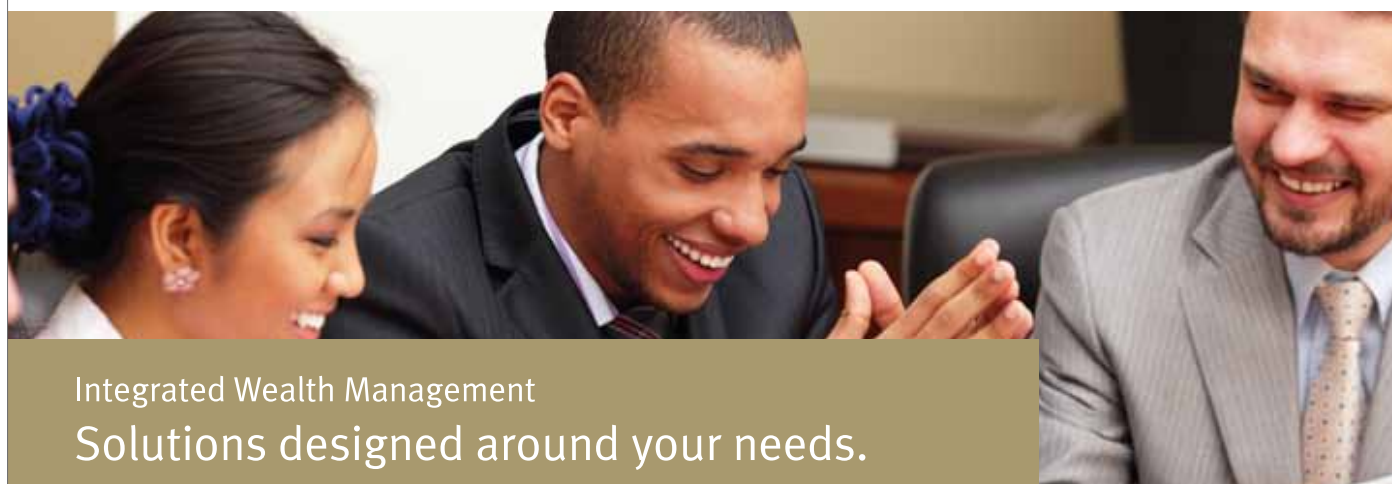
Financial institutions in Canada operate under the regulation and supervision of the Office of the Superintendent of Financial Institutions (OSFI).

On 28 January 2013, the OSFI issued the final version of its revised guideline on corporate governance. This revised guideline sets out OSFI's expectations for corporate governance for all federally regulated financial institutions and applies to all such institutions. A key feature is that financial institutions are required to develop and implement a board-approved risk appetite framework that is enterprise-wide and tailored to all of its domestic and international business activities and operations. This requires a risk management system that links information on different risk types for all jurisdictions, to provide a holistic perspective on risk exposures.

If a business unit, in this case the Barbados international business company (IBC), is of a nature which allows the financial institution to regulate compliance with its enterprise risk management policy on a consistent basis, this will provide significant benefit to the Canadian institution and enhance the likelihood of choosing

... financial institutions are required to develop and implement a board-approved risk appetite framework that is enterprise-wide and tailored to all of its domestic and international business activities and operations

Barbados. A stable and consistent environment for the operation of business units, particularly those operating in foreign jurisdictions, will be a significant aid to implementation and oversight of enterprise risk management policies and practices. Jurisdictions



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which can deliver this consistency will be a superior choice for business units and business activity.

Enterprise risk management requires enterprise-wide assessment and controls. Controls will generally need to operate, particularly for larger financial institutions, using automated, technology-based delivery of information on a two-way basis, relating to the ongoing assessment of risk and compliance with the enterprise risk management policies. Barbados must deliver the ability to track and log issues, as well as prepare and undertake remediation plans for effective enterprise risk management.

A key factor to enterprise risk management is ensuring appropriate levels of compliance training are available throughout the organisation. Barbados has the ability to provide this compliance and translate the requirements into consistency and regulatory approaches - valuable attributes for those jurisdictions looking to attract Canadian financial institutions to open business operations. The continued enhancement of both IBC legislation and financial institution regulation in Barbados will establish the island as a key and effective choice of jurisdiction for offshore operations by Canadian financial institutions. The ability to consistently integrate Barbados into enterprise-wide policies, practices and procedures as a consequence of the ready recognition of those requirements in Barbados and the similarity of the Barbados legal and business environment, aids in choosing it for offshore activity.

Barbados' active involvement in meeting international standards for regulation of its financial services sector will also enhance

enterprise-wide policies and oversight as the similarity of regulation, reporting and accounting in Barbados will fit readily with the enterprise-wide requirements for Canadian financial institutions.

The ability to have suitable ownership structured within the corporate group, allowing ownership to provide direction and guidance through a board of directors under the control of the Canadian financial institution, also greatly assists in integrating the Barbados IBC into the Canadian financial institution's enterprise. The maintenance of the permitted ownership and direction of the corporation is a key factor in allowing Canadian financial institutions to readily choose Barbados as a jurisdiction in which they can operate business units and meet their risk management compliance requirements. ❁



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Latin America - Opportunities for Barbados

BY LIZA HARRIDYAL-SODHA

Invest Barbados' Latin American (LatAm) conference, hosted in Barbados during October 2014, was the flagship event for International Business Week (IBW). The mantra of the IBW conference was that private wealth in Latin America continues to grow, with significant rises seen in 2013/2014, despite volatility and currency devaluation in certain LatAm countries. The LatAm conference welcomed professionals from several LatAm countries, including Brazil, Colombia, Costa Rica, Mexico and Panama, to capitalise on a tremendous opportunity for open dialogue with their Barbados counterparts and learn more about the benefits of using Barbados in meeting their clients' wealth management and international business needs.

LatAm professionals are more frequently seen to be utilising Barbados' trust structures, and of particular attraction is the asset protection which has been enshrined in our legislation

Many LatAm economies continue to flourish and, in particular, both Brazil and Mexico, important markets for Barbados, saw growth in private wealth. Statistics also indicate that offshore wealth is growing significantly, originating mainly from Argentina and Venezuela.

What is it that attracts these wealthy LatAm high net worth individuals to Barbados? We can turn to our double taxation treaty network, used as a gateway for LatAm clients to access our treaty partners. It is noteworthy that, recently, Barbados initiated a Tax Information Exchange Agreement with Colombia and was consequently removed from its blacklist. Barbados is in an enviable position, since its LatAm neighbours cannot boast of an expansive treaty network and the benefits which LatAm clients stand to gain through proper structuring vehicles.

LatAm professionals are more frequently seen to be utilising Barbados' trust structures, and of particular attraction is the asset protection which has been enshrined in our legislation. Settlers of trusts now have the ability to reserve certain powers, which was traditionally only given to trustees, and this gives LatAm clients greater control over their assets and, undeniably, the reassurance and comfort which ensues. While this legislative change has widened the reach for Barbados, we continue to perfect our Private Trust Companies and Foundations legislation. Our LatAm visitors were

also reacquainted with Barbados' traditional planning vehicles, including Domestic Companies (with a focus on the tax credit available where income is generated from outside of Barbados), International Business Companies, Societies with Restricted Liability, Captive Insurance Companies, International Banks, and External Companies. They learned about Barbados' strong regulatory regime which is supervised by the Central Bank and the Financial Services Commission. Additionally, they were provided with details on the wealth management options available, as well as the stability and capability of our banking system.



LatAm clients remain interested in building their real estate holding portfolios outside of their jurisdiction, and Barbados is currently vigorously pursuing the development of a real estate investment trust vehicle. LatAm professionals have generally used Barbados for captive insurance companies, and the statistics indicate that this trend has continued, particularly for those originating from Mexico. Indeed, our LatAm counterparts (among others) have strongly recommended that we enhance our product offering by implementing Incorporated Cell Company (ICC) legislation. This is currently under urgent consideration. The structural framework of an ICC is similar to the Segregated Cell Company (SCC), with a single core and any number of cells. However, the critical distinction is that an incorporated cell of an ICC, unlike a segregated cell of a SCC, is a separate legal entity with all the legal attributes of a corporation.

Marketing to, and transacting business with, LatAm professionals is no longer a case of venturing into the unknown. Our LatAm colleagues continue to tell us, unequivocally, what Barbados needs to do to attract and maintain LatAm business, and to openly discuss the advantages of living and working in Barbados. They need a well-regulated jurisdiction, diversity in product offerings, ease of doing business, and they want to deal with educated professionals. Barbados has all of these attributes and more. 🌟

Base Erosion and Profit Shifting - the Impact on International Financial Centres

BY IKINS CLARKE

Governments in the G-20 countries have stepped up their efforts to halt the flight of investment and capital to countries with attractive low or zero-tax regimes. International financial centres (IFCs), such as Barbados, that depend on the economic activity from foreign direct investment, are caught up in the dynamics of proving that it is legitimate when multinational corporations choose them as headquarters.

The G-20 countries have introduced legislation designed to prevent multinationals from shifting profits offshore and to ensure that their high net worth individuals pay more taxes at home. The United States was first, with its Foreign Account Tax Compliance Act (FATCA) legislation, closely followed by the United Kingdom and others with similar legislation aimed at recouping more taxes for their treasuries.

The Organisation for Economic Co-operation and Development (OECD), which is often seen as an advocate for the G-20 countries, has been busy setting guidelines on how to combat base erosion and profit shifting (BEPS), with the aim of curbing multinational tax avoidance and offshore tax evasion in developing countries. BEPS is defined by the OECD as the use of tax planning strategies to exploit gaps and mismatches in tax systems, to make profits 'disappear' or to shift profits to locations where there is little or no real activity, but the taxes are low, resulting in little or no corporate tax being paid. The OECD considers that national tax laws have not kept pace with global corporations, fluid capital and the digital economy, and that this gap can be exploited by companies which avoid taxation in their home countries by pushing activities abroad to IFCs.

The OECD has identified the following action plans with a view to changing how tax authorities design and interpret tax laws and treaties:

- Address the tax challenges of the digital economy
- Neutralise the effects of "hybrid mismatch" arrangements
- Strengthen "controlled foreign corporation" rules
- Limit interest deductions and other financial payments
- Counter "harmful tax practices"
- Prevent treaty abuse
- Prevent the artificial avoidance of "permanent establishment" (PE) status
- Address harmful transfer pricing practices relating to intangibles
- Enforce disclosure of aggressive tax planning arrangements.

The BEPS Impact

BEPS will create additional tax obligations especially for countries where tax systems are not robust. Taxpayers can expect reduced interest payment deductions, critical transfer pricing adjustments, the creation of new permanent establishment status and increased scrutiny under anti-avoidance rules. It will be necessary to adapt. This may take the form of corporate reorganisation, revising

financing arrangements, updating transfer pricing documentation or even changing IT systems. It will be essential to keep abreast with the ongoing developments.

Internationally, tax authorities are analysing data to highlight the key drivers of base erosion. The Australian Taxation Office is auditing a number of companies to ensure that there is no misuse of tax rules. France and Mexico have targeted the double non-taxation of interest and mismatching of hybrid instruments. Companies deducting interest expense can only do so where it can be shown that the company earning the interest income will pay tax on that income. The focus is to prevent companies using debt to finance production of exempt or deferred income. The Canadian tax authorities have reduced their thin capitalisation ratio and restricted foreign-owned companies from obtaining debt which is used to finance subsidiaries in other jurisdictions.

Tax revenues from multinationals contribute significantly to the gross domestic product of IFCs and these revenues form the basis for long term development. How IFCs respond to the BEPS project will be determined by how nimble they are in dealing with the following:

Ineffective tax audit capacity – IFCs are often unable to monitor cross-border tax planning structures to determine consistency with global tax rules;

Limited tax legislation – In most IFCs there is a lack of legislation that deals with certain risks associated with profit shifting, such as transfer pricing and thin capitalisation rules;

Access to information – Not all IFCs have adequate information systems to facilitate the gathering and retention of information to keep pace with the changes in global taxation and information exchange;

Technical know-how – The interpretation and implementation of international tax rules and solving tax disputes demand specific skills. However, the competencies of staff in many of the tax authorities of IFCs may not be up to the required level;

Political will – Governments in IFCs will be faced with the dichotomy of attracting foreign direct investment while facilitating legislative changes to deal with BEPS. Where resources are deployed will depend on political will and awareness.

Summary

The key message is that BEPS will force IFCs to implement systems that lend to substance. No longer will merely incorporating a company and having board meetings be acceptable to establish substance. Multinational companies need to demonstrate that they have sufficient economic substance in the form of maintenance and management activities over assets owned or attributed to companies in IFCs. 🌟

Transparency in a Changing International Landscape

BY SIR TREVOR CARMICHAEL, Q.C.

Traditionally, as a low-tax jurisdiction, Barbados has never acknowledged itself to be part of the “uncooperative tax havens”, as listed by the Organisation of Economic Co-operation and Development over the past 10 years in its primary and revised lists. For, despite random listing and delisting, the jurisdiction has always been one of transparency and generally low taxation within its international business sector. It has relied on a policy of propelling growth through the rapid extension of its double tax treaty network. Indeed, the presence of such a network has allowed for international tax structuring, with results, in some cases, of tax deferral and low tax payments; but it has clearly discouraged tax evasion. Furthermore, its treaties contain the standard exchange of information provisions; and while such exchanges may never be fishing expeditions, as long-established in law, they do provide for the routine exchanges. Moreover, from as early as 1986, the jurisdiction had additionally signed a Tax Information Exchange Agreement with the USA as part of the Caribbean Basin Initiative.

Since 1998, the international financial services landscape has been painted with a plethora of reports and recommendations from international and regional groups which seek to ensure global transparency. The international regulatory ethos has, however, undergone steady changes, and particularly since the 2008 financial crisis and accompanying recession. This new age of disclosure and transparency has been significantly fuelled at the national level by the recent policies instituted by the USA and spurred on by its protocols: the 2011 Overseas Voluntary Disclosure Initiative (OVDI), and the 2009, 2013 and 2014 Overseas Voluntary Disclosure Programmes (OVDPs), the latter of which has no set deadline for compliance, since “the terms of the programme may change at any time”. They are mirrored by the Foreign Account Tax Compliance Act, which institutionally buttresses the OVDI and OVDP protocols. These three protocols have coalesced in such a manner as to encourage similar legislation in virtually all jurisdictions which have a trade, economic or political relationship with the USA. In essence, the global exchange of information has taken on a different legal and practical character from the protocols hitherto accepted in international tax practice.

Within this current milieu, the Barbados response must yet again be one of reviewing its own internal processes, bearing in mind that investors will continue to look at substance and not form. Furthermore, the dynamic nature of the new transparency, globalisation, free trade agreements, the fast-moving information industry and all of the other global developments, require Barbados to retool its ongoing international strategies. In this regard, the recent efforts to be host to a regional centre for dispute resolution, is an important strategic objective in a growing services area. Barbados must also rethink its role as a potential regional centre for philanthropy and continue on an ongoing basis to buttress and improve its own non-profit and charity legislation.

Epilogue

In the final analysis, the new transparency is still integrally linked to the old trust which underpins all relationships; the transparency which increases sales and creates investor comfort. It is the trust of which Leonard Bernstein speaks when referring to Beethoven’s Fifth Symphony in *The Joy of Music*:

“The key to the mystery of a great artist: that for reasons unknown to him or to anyone else, he will give away his energies and his life just to make sure that one note follows another inevitably ... the composer, by doing this, leaves us at the finish with the feeling that something is right in the world, that something checks throughout, something that follows its own laws consistently, something we can trust, that will never let us down.” ✿

CASE STUDY



A Bright Future in Barbados

Aon Insurance Managers (Barbados) Ltd. (AIM(B)) was one of the first management companies to be established in Barbados after the Exempt Insurance Act was passed in 1983.

Now, over 30 years later, we are still one of the leading Captive Managers and very happy to be here. Initially formed in Barbados in 1984, AIM(B) is a wholly-owned subsidiary of Aon PLC (Aon).

AIM(B)’s Barbados office has 11 employees. It is one of 33 similar operations, in 33 jurisdictions around the world, which form the Aon subgroup - Aon Captive Insurance Managers.

Our firm manages a diversified portfolio of captives covering all aspects of property, marine, liability and other specialty risks for multinational single parents, associations and privately held companies of Canadian, US and Latin American origin. The provisions laid out in Barbados’ captive insurance legislation help our clients to carry out these operations efficiently and cost-effectively.

AIM(B) predicts a bright future in Barbados. The location has obviously worked for us and our clients, and we look forward to continuing our relationship with a jurisdiction that for several decades has proven to be a leading domicile for captives.

Why Barbados - Its Five Key Strengths

BY CONNIE SMITH

At last count, there were approximately 100 countries around the world operating as international business and financial services centres, Barbados being one.

On the surface, these centres share the same basic value proposition – a low-tax jurisdiction that companies based in other countries can use to increase their competitiveness. But below the surface there are varying degrees of integrity in how these jurisdictions are run. To reduce risk, investors need to choose wisely and separate the wheat from the chaff.

All jurisdictions have their laundry list of features and benefits, but there are five benefits that investors should consider to be paramount, and Barbados provides all of them.

Certainty

For more than 40 years, Barbados has provided a level of certainty of which few jurisdictions can boast. A former British colony, its laws are deeply rooted in English jurisprudence. Its Companies Act is closely modelled on that of Canada.

To dispel any claim of financial secrecy and tax evasion, the island has maintained transparency through the use of double taxation agreements (DTAs). It has painstakingly constructed a network of such treaties with 34 countries, and another 11 are in the pipeline for finalisation. In Barbados, the rules of the game are well established and the boundaries clearly marked.

Political stability

Political stability surely comes next, and Barbados has an enviable reputation internationally in this regard. Indeed, the “Barbados model” has been long admired by the rest of the Caribbean. Independent since 1966, but nevertheless proud of tradition, the island has the third oldest parliament in the Western Hemisphere, dating back to 1639. Political rhetoric aside, its elections are fair and peaceful. Anything less would be unthinkable to Barbadians.

Opportunity

The best jurisdictions help to open up business opportunities for investors; they act as portals to new markets. There is no jurisdiction in the Caribbean region that can play this role better than Barbados. Its network of DTAs spans the Americas. It reaches across the Atlantic to several countries in Europe and Africa, and even beyond to the Middle East and Asia. Through this network, investors in these regions can efficiently and cost-effectively tap into many new markets and grow their businesses.

Responsiveness

Well run jurisdictions are responsive – they adapt to rather than resist inevitable change. Barbados has repeatedly displayed these qualities. It has continually updated its legislation to match

demands. It has listened and responded rationally when lawmakers in the USA and Canada, along with other countries within the Organisation for Economic Co-operation and Development, claimed that international financial centres help companies and wealthy individuals keep their earnings out of the taxman’s reach.

Barbados has also acknowledged the reality of the US Foreign Account Tax Compliance Act, which stipulates that the island’s financial institutions must report the assets of US citizens. The Barbados and US governments have already signed a Model 1 Inter-governmental Agreement to this effect.

... there are five benefits that investors should consider to be paramount, and Barbados provides all of them

Quality of life

Many investors want a jurisdiction where they can set up an international entity and live there comfortably as well. Barbados offers these business owners – and their employees – a quality of life that no other jurisdictions in the region can match.

The United Nations Development Index rates Barbados ahead of many much larger Latin American and Asian countries, and considers it one of the most developed small island developing states in the world. Its education system, which includes a University of the West Indies campus, has produced a highly educated workforce and an ample supply of lawyers, accountants and other professionals needed to service international businesses.

Barbados can also boast a high standard of medical and social services, excellent infrastructure, as well as top quality properties and real estate developments. As one of the best known tourism destinations in the Caribbean, it can also boast of lifestyle amenities and services that are world-class.

Conclusion

Barbados offers certainty, political stability, opportunity, responsiveness and an enviable quality of life. Clearly, the choice facing investors is not so daunting after all. 🌟

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Barbados: Vital to Canada's Future Global Strategy

BY DR. WALID HEJAZI

In 2013, the stock of Canadian investment into or through Barbados was CAD\$62 billion, making it the third largest destination for Canadian outward foreign direct investment, following only the USA and the UK. The rapid growth in this figure has occurred despite increased scrutiny by Canadian and supranational authorities, such as the Organisation for Economic Co-operation and Development and the G-20. Furthermore, the rapid growth in the Canada-Barbados relationship is in sharp contrast to other offshore financial centres, particularly since the onset of the global financial crisis.

The use of Barbados by Canadian companies has created 26,000 to 31,000 permanent additional Canadian jobs, which are associated with additional personal and corporate tax revenues for Canada

Why has Barbados emerged as the premier offshore jurisdiction for Canadian corporations?

Barbados and Canada enjoy a tax treaty which allows a preferred treatment for "Exempt Surplus", but there are other reasons as well, including the following:

- an extensive array of 34 double taxation agreements in force, allowing Canadian companies to set up in Barbados and to 'hub' their international strategies
- nine Bilateral Investment Treaties further enhance its attractiveness as a conduit
- a Commonwealth country with a parliamentary democracy similar to Canada's own
- a strong legal system and rule of law, based on English Common Law
- a safe and high-quality environment with a low crime rate, making it very attractive for expats and their families as a place to work and live
- one of the most highly educated countries in the world and the best educated within the Caribbean.

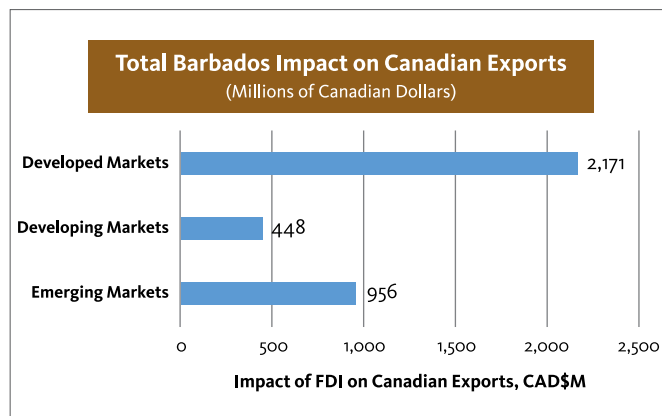
Collectively, these are critical in explaining the importance of Barbados as a conduit for international expansion and trade for Canadian companies.

What are the effects of this increased use of Barbados by Canadian companies on Canada?

It is well established that when Canadian companies invest internationally, this serves as a beachhead of sorts for Canadian exports. The Canadian subsidiary overseas imports technology, intermediate inputs, and human capital from Canada. Furthermore, the presence of Canadian companies abroad enhances network and information flows, which serve to lower the costs of doing business internationally. That is, Canadian business activity abroad serves to complement Canadian exports to those third markets.

There are many theoretical reasons to expect that the complementary effects would be higher when Barbados is used as a conduit. Canadian companies experience a significant reduction in the cost of capital associated with the tax treaty. Also, access to the attractive local environment enhances the efficiency, transparency and effectiveness of the move into international markets. These benefits offset the additional costs of moving into international markets, particularly those which are less familiar and more risky than Canada's traditional trading partners.

When Barbados is used as a conduit jurisdiction, the *additional* impact on Canadian exports is estimated to be CAD\$2.171 billion to developed countries, CAD\$448 million to developing countries, and CAD\$956 million to emerging markets. These additional Canadian exports result in the creation of between 26,000 and 31,000 additional full-time Canadian jobs.



Implications for Policymakers

The key message is simply this: because a tax advantage flows to corporations, using Barbados as a conduit jurisdiction does not mean these activities are bad for the Canadian economy. The key benefits to Canada and Canadian companies must be taken into account in any public discussion of the merits of the use of conduits – having access to Barbados as a conduit to the global economy is fundamental and vital to Canada's global business strategy.

The results of my research indicate that the Canadian government should encourage a deepening of the Canada-Barbados relationship, so as to further enhance the competitiveness of the Canadian economy. 🌟



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The Foreign Account Tax Compliance Act and its Implications for Barbados

BY BRUCE ZAGARIS

Background

On 1 July 2014, the Foreign Account Tax Compliance Act (FATCA) was implemented and covered Foreign Financial Institutions (FFIs), primarily banking and financial institutions.

Final Regulations


The FATCA regulations extend the advantages for financial institutions operating in jurisdictions with inter-governmental agreements (IGAs).


The final regulations keep 31 December 2015 as the transition period for the requirement that all members of an expanded affiliated group be a participating or deemed-compliant FFI. The transition period addresses circumstances in which an entity within an expanded affiliated group encounters restrictions under local law. During the transition period, a branch or affiliate of an FFI, in a jurisdiction that prohibits the reporting or withholding required by FATCA, does not prevent the other FFIs within the same group from concluding an FFI agreement. At the end of the transition period,

the Treasury/IRS expects that the restrictive jurisdiction will have signed an IGA, or will have otherwise modified its domestic law, or that the FFI group will have changed its business in that country.

The goal of the CRS is to provide one standard that jurisdictions wanting to engage in automatic exchange can use ...

The decision not to liberalise the affiliated group requirements or extend the transition period beyond 2015, imposes pressure on multinational financial institutions to operate only in jurisdictions with FATCA IGAs.



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The final regulations keep the 10% threshold for purposes of classifying an individual as a substantial US owner. The 10% threshold provides an advantage to an FFI operating in a jurisdiction with an IGA, since FFIs in jurisdictions with an IGA can rely on anti-money laundering and know-your-customer rules, which usually have a 25% threshold.

Barbados' IGA with the USA makes the domicile attractive to financial institutions which want a jurisdiction to which the more flexible rules apply.

New Reporting Standard

On 13 February 2014, the Organisation for Economic Co-operation and Development unveiled the Common Reporting Standard (CRS) for automatic exchange of tax information. It calls on jurisdictions to obtain information from their financial institutions and exchange that information automatically with other jurisdictions on an annual basis, and emulates the FATCA IGAs.

The goal of the CRS is to provide one standard that jurisdictions wanting to engage in automatic exchange can use in order to avoid a proliferation of different standards, which would increase costs for both governments and financial institutions.

The G-20 has asked the Global Forum to establish a mechanism to monitor and review the implementation of the new global standard on automatic exchange of information (AEI), setting the stage for potential countermeasures if countries do not meet the new global standard.

Implications for Barbados

The Barbados-USA IGA benefits Barbados: it eliminates USA withholding on payments to FFIs established in the FATCA partner; it identifies specific categories of FFIs established in the FATCA partner that are treated, consistent with IRS guidelines, as deemed compliant or presenting a low risk of tax evasion; it relieves FFIs established in Barbados from terminating the account of a recalcitrant account holder; it relieves FFIs from imposing pass-through payment withholding on payments to recalcitrant account holders; and it imposes pass-through payment withholding on payments to other FFIs organised in the FATCA treaty partner, or in another jurisdiction with which the USA has a FATCA implementation agreement.

These commitments provide significant clarity for the financial services community that deals with US clients, taxpayers, and assets or any transaction cleared in the USA. The breadth of FATCA and potential costs, burdens and complications make clarity and certainty important from an economics perspective.

A burden imposed on Barbados is that it requires Barbados to receive the FATCA reports and forward them to the USA. Hence, Barbados has had, and will continue to bear additional financial and human resource costs in implementing the FATCA IGA. However, Barbados will have a head start on the inevitable costs of preparing for the global AEI. 🌸

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Choosing a Domicile - an Emerging Country Perspective

BY DOMINIQUE PEPIN & MARIA ROBINSON

Like saplings pushing their way up from the forest floor, emerging countries around the world are eagerly seeking a space in the global economy. If they can claim their share of sunlight, their economies will grow quickly and their societies will benefit. However, such growth requires a favourable environment that offers affordable access to international markets.

To this end, business leaders in these emerging countries are

... emerging countries are scanning the globe in search of the right international business and financial services centre and, increasingly, their gaze is settling on Barbados

scanning the globe in search of the right international business and financial services centre and, increasingly, their gaze is settling on Barbados.

Not surprisingly, given their geographical proximity, it is the emerging countries of Latin America that are examining the island most closely as a regional hub for both inbound and outbound investment.

Over the past 40 years, the island has built a well deserved reputation as a highly attractive jurisdiction for carrying on international business. Indeed, in structuring their international transactions and investments, multinational corporations have long made use of the tax advantages and other benefits created by the suite of corporate entities that Barbados offers. These entities include International Business Companies, International Societies with Restricted Liability, International Financial Services Companies, Exempt Insurance Companies and Qualifying Insurance Companies.

Another attractive feature of the island jurisdiction is Barbados' network of double taxation treaties (DTAs) with other countries,

CASE STUDY



Barbados: a Compelling Choice

Clarity Life is an international life insurance company based in Barbados. It provides insurance solutions for high net worth individuals worldwide.

We decided to incorporate in Barbados and establish our headquarters here, having reviewed several jurisdictions. Some of the factors that particularly impressed us about Barbados, and which led to our decision include:

- its ease of access for our shareholders and clients located, for example, in Europe, the Middle East and the USA
- access to the South American market
- its many bilateral investment protection agreements
- the availability of professionals who speak not only English, but also French or Spanish.

But what sets Barbados apart from other jurisdictions is the outstanding professional standard of its service providers, including actuaries, bankers, accountants, lawyers, compliance managers and administrative personnel. They are well educated, knowledgeable, capable of thinking 'outside the box' and are friendly and responsive.

Generally, the same applies to the government's business facilitating agencies. Employees are professional and eager to facilitate business on the island without compromising international standards of business practice.

Finally, who can beat the average Bajan's friendly disposition? Barbados also has many beautiful beaches, hotels and resorts, plus first class local and international cuisine. Needless to say, Board meetings in Barbados are a real pleasure!

which currently totals 34 treaties, with several more treaties pending. This DTA network, which includes treaties with countries such as Cuba, Mexico, Panama and Venezuela, makes Barbados particularly attractive to those jurisdictions without similar treaties between themselves, as they can conduct business with each other while making use of the island's treaties.

As emerging countries look for the right international business jurisdiction, there are critical factors other than tax incentives on their check list, and Barbados possesses many of the requisite criteria. Among the major benefits and assurances offered by the island are its:

- long-standing tradition of a stable political climate, including democratic elections and government
- sound and respected legal framework based on British common law
- commitment to international business and ease of doing business
- highly developed infrastructure and information technology capability, and
- educated workforce.

For example, Barbados, as a jurisdiction, can play a significant role in structuring investment into the oil and gas sector in Mexico, which is currently undergoing reform, thereby potentially reducing the tax profile of such investment by a significant margin. Similarly, a Barbados entity may also be easily used to hold investments in Central America.

Making the island an attractive partner in this development has been a long term goal for the Government, which has been working hand-in-hand with the professional services firms on the island in order to enhance the country's reputation. For instance, new legislation has been introduced to specifically cater to the Latin American market - the Foundations and Private Trust Companies Acts and the expansion of the Qualifying Professional Services listing for obtaining the foreign currency earnings credit - are recent examples.

There has been a growing presence on the island of Spanish-speaking nationals, businesses and service providers, as more and more entities headquartered in Latin America recognise Barbados as the international business and financial services centre of choice for their investment needs.

Before too long, "Buenos Dias" may be a familiar greeting in Barbados. 🌺

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The Barbados Stock Exchange - Opportunity Knocks

BY MARLON YARDE

The International Securities Market (ISM) is on the cusp of being launched in the Barbados capital market, as its Rules are in the final stages of being approved by the Financial Services Commission (FSC) of Barbados. Once the Rules are approved, the ISM will be launched. The ISM is, perhaps, the missing pillar in Barbados' International Business and Financial Services (IBFS) sector. Other pillars include:

- reliable information technology and travel networks
- a sound legal system with no restrictions on foreign ownership
- favourable taxation
- an expanding network of double taxation agreements
- a highly educated and skilled workforce
- a well-regulated financial services sector, represented by international banks and insurance companies, trusts and mutual funds.

Barbados' financial services sector is supported by brokers, lawyers, accountants and service companies. With the launch of the ISM, the IBFS sector will be complete and strengthen the nation's status as an internationally competitive and attractive jurisdiction.

In developing the ISM's Rules, the Barbados Stock Exchange Inc. (BSE) benefited from studying the requirements of international participants, whilst at the same time keeping an eye on international "agenda setters", such as the G-20 and the Financial Stability Board, and "sectoral standard setters", such as the International Organisation for Securities Commissions' (IOSCO) best practices and standards. The FSC is an "ordinary member" of IOSCO.

The ISM is a dedicated market for the listing and trading of securities of issuers incorporated in Barbados that would otherwise be listed and traded on other exchanges around the world. It will operate as a separate market of the BSE, a self-regulatory organisation, with its own trading rules for both participants and listed companies. The ISM will attract member participants from the local brokerage community as well as existing and new international offshore banks, international business entities and international securities dealers. The establishment of the ISM will also:

- Add credence to an already well established IBFS sector and support Government's thrust towards promoting Barbados as a premier location to do business

- Create a one-stop-shop for new and/or prospective International Business Companies (IBCs) interested in incorporating in Barbados, as well as raising capital for operations or expansion
- Allow existing IBCs to utilise a facility to raise capital in a jurisdiction with which they are already familiar
- Give non-traditional IBCs that often have non-traditional sources of finance in the form of venture capitalists and angel investors a viable exit strategy, as well as expose these individuals and organisations to Barbados' growing entrepreneurial sector, which could also benefit from these sources of finance.

The ISM is, perhaps, the missing pillar in Barbados' International Business and Financial Services (IBFS) sector

Barbados has a responsive and sound regulatory framework encompassing transparency, efficiency, fairness and equality. It is built on firm legal principles, including the "rule of law". The BSE believes the ISM will significantly enhance Barbados' position as a premier location for facilitating international business. ✿



The three categories of Members or Participants in the ISM are:

- Trading Participants
- Clearing Participants
- Listing Sponsors.

The ISM will, in the initial stages of operation, list and trade the following securities:

- Equities
- Bonds and other fixed interest securities
- Mutual Funds.

The Barbados "Africa Project": An Update

BY FRANÇOISE HENDY

Barbados' "Africa Project" began almost 14 years ago, when deliberate political and diplomatic efforts were made to conclude economic instruments with strategic African states.

The dividends were both tangible and swift. Moreover, in addition to tax treaties with Botswana, Ghana, Mauritius, Rwanda and the Seychelles, bilateral investment agreements were also concluded with Ghana and Mauritius.

More recently the "Africa Project" has given rise to a number of new tax treaties with countries in the Middle East/North Africa region, including Bahrain, Qatar and the United Arab Emirates. In addition, Saudi Arabia has also agreed to negotiate a tax treaty, with dates for the formal round of talks to be confirmed on both sides.

As an unexpected, but welcome bonus of Barbados' stepped-up diplomatic activity to interest more African states in tax treaty negotiations, not only has the country been able to engage several non-traditional partners in the Gulf region, but Barbados' tax treaty 'footprint' was made larger in Europe through new agreements with Belgium, the Czech Republic, Iceland, Italy, Portugal, San Marino, the Slovak Republic and Spain.

In equal measure, spin-offs of the "Africa Project" have also seen our network of tax treaties expand to Malaysia and Singapore, while a new treaty with Vietnam is awaiting signature.

Closer to home, Barbados added tax treaties with Mexico and Panama to its long-standing treaties with Cuba and Venezuela. Together – particularly the agreement with Mexico – these treaties have opened a new two-way investment portal between Latin America and Barbados.

Added to this is the fact that, when tested, our bilateral investment treaties with Cuba and Venezuela have withstood scrutiny, and have provided the investment protection which serves to mitigate the political risks associated with foreign direct investment.

While the "Africa Project" has yielded results in geographical areas outside of the Continent, recently there has been a surge in tax treaty 'traffic' directly with Africa.

This 'windfall' for Barbados has come as a direct result of the G-20 mandate that information exchanges of confidential taxpayer information should no longer be premised on bilateral exchanges "on request", as provided for in tax treaties and tax information exchange agreements, but on automatic exchanges, the legal basis of which is to be found in the Organisation for Economic Co-operation and Development's (OECD's) Multilateral Convention on Mutual Administrative Assistance in Tax Matters.

This sanction-based imperative for all countries to start automatic exchanges by 2018 has led to a significant uptake of new members of the OECD Global Forum. The new African members of what is now the largest international tax organisation in the world include Burkina Faso, Cameroon, Gabon, Kenya, Nigeria, Rwanda and Senegal.

Pursuant to the execution of its "Africa Project", not only has Barbados engaged each of these new members about concluding a tax treaty, but in each case the response has been positive with work underway to confirm dates for the start of formal tax treaty negotiations.

It is expected that Africa's combined gross domestic product will top US\$3 trillion by 2018, compared to just over US\$2 trillion currently. 🌟

CASE STUDY



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We have a team of 19 employees who are dedicated to delivering personalised, high quality services to our clients from around the world.

Since commencing operations in 1987, we have viewed Barbados as the premier jurisdiction in the Caribbean from which to offer our services. Our belief in quality over quantity, and a focus on transparent structuring and tax planning, is aligned with the standards for which Barbados is known.

Barbados continues to be an attractive jurisdiction for Canadian corporations requiring a stable and tax-neutral jurisdiction in which to establish subsidiaries for their international operations. The Blue Financial Group enjoys working with these corporate clients and, as a result, we continue to be based in Barbados.

Barbados is also receiving increased interest from Latin American investors. The country's growing list of double taxation treaties positions Barbados as a lower cost and transparent alternative to some European domiciles which many wealthy Latin American families historically use. These facts, coupled with our presence in Latin America, make Barbados an ideal jurisdiction from which to offer our services.

Steady Growth makes Barbados a Captive Jurisdiction of Choice

BY RICARDO KNIGHT & KIRK CYRUS

According to the Financial Services Commission, as of 31 December 2014, there were 189 active Exempt Insurance Companies and 42 active Qualifying Insurance Companies in Barbados. Of the total number, approximately 55% originated from Canada, with another 26% from the USA.

It is instructive that while Barbados' Double Taxation Agreement (DTA) with Canada has been in existence since the 1980s, Canada has only been a party to Tax Information Exchange Agreements (TIEAs) with Bermuda and other jurisdictions since mid-2011. The informed view is that TIEAs, in their current form, are not as effective as DTAs as far as facilitating cross-border trade and investment, since they offer investors no protection from double taxation.

The Barbados investment model has been carefully crafted and the jurisdiction continues to expand its network of DTAs, most notably in the Americas. Its tax treaty partners include Canada, China, Mexico, the UK and the USA, while negotiations are currently underway with Brazil and Colombia. This model has encouraged Canadian corporations with global operations to use Barbados for their captive insurance companies, so they can take a tax deduction for their insurance premium in Canada and still accrue tax-free income from the insurance business in Barbados under the right circumstances.

The Barbados investment model has been carefully crafted and the jurisdiction continues to expand its network of DTAs, most notably in the Americas

The continued growth of Barbados as an international financial centre (IFC) will largely depend on its ability to facilitate hemispheric integration with Latin American nations. Apart from Cuba, Mexico, Panama and Venezuela – all DTA partners already – Barbados also has diplomatic relationships with other key hemispheric countries, including Brazil, Chile, Colombia, Costa Rica and Uruguay.

There is no doubt that IFCs like Barbados can enable corporations based in the Americas to increase their competitiveness in international commerce and finance by locating aspects of their business there. This structure facilitates access to the global marketplace, while allowing for more competitively priced goods and

services. In support of this, Barbados offers financial, accounting, legal, trading information, administrative and other services that are deeply entrenched, of international class and competitively priced when compared to other IFCs. This is further enhanced by institutional strength, social services and technological readiness.



Enlightened legislation is anticipated in the Barbados insurance landscape, with the enactment of Incorporated Cell Company (ICC) legislation in the coming months. During 2013, there was a net growth globally of close to 250 captives, with almost two-thirds coming from the USA, where more than 30 states passed captive legislation with the widespread use of incorporated cell captives. Although Barbados is not expected to compete directly with these US states in a meaningful way, there is broad base appeal within Latin America as professionals there continue to increase the recognition and use of Barbados as a captive insurance jurisdiction. The proposed legislation allows for the incorporated cell of an ICC to be a separate legal entity that could enter into contractual arrangements with third parties in its own name, making the structure appealing to the many privately held conglomerates in Latin America.

The path towards growth is not without challenges. The current environment is one of arduous regulation in relation to international commerce and finance, with fervent competition amongst developed countries for a share of tax on the profits of international companies. It is widely accepted by the Organisation for Economic Co-operation and Development and others that Barbados continues to comply with the requirements for the exchange of information on request. Barbados will continue to reinforce the message that it is not a tax haven, but a jurisdiction with low taxation that is prepared to take responsibility for tax information exchange. 🌸

The Role of the Financial Services Commission in a Changing Regulatory Environment

BY RANDY GRAHAM

The main objective of the Financial Services Commission (FSC) in Barbados is to promote stability in the financial system. This is a task in which the FSC takes great pride, and all available resources are aligned to ensure that it is addressed with alacrity by its highly competent staff. In order to promote financial stability, the FSC has sought to create a regulatory framework that is robust and meets best practice standards, whilst always considering the markets in which entities operate. In its role, the FSC is also acutely aware of the need to balance quality regulation with business facilitation, in order to create an environment in which measured growth is possible.

In order to promote financial stability, the FSC has sought to create a regulatory framework that is robust and meets best practice standards ...

In reviewing the regulatory framework which the FSC has designed, it is worthy of note that the framework consists of right-sized legislation, statutory filing requirements, onsite examination, cross-border supervision, and entity level assessments that look at the static position of entities as well as forecasted positions based on the established trends. This framework is buttressed by an internal operational mechanism for ongoing review and improvement of the regulatory system.

Furthermore, the regulatory system encourages substance in the business activity conducted by regulated entities. International insurance companies and captive insurers registered in Barbados can attest to this fact, both from the legislative framework and from the operational practices of the FSC. Companies are required to:

- submit business plans detailing the proposed insurance activity when seeking licences
- submit periodic statutory returns to the Regulator, which are, in some cases, assessed by an actuary
- have a principal representative in the jurisdiction who is responsible for the company's affairs


- have copies of financial records available for review by the Regulator.

Board meetings are held in the domicile, and oftentimes the Regulator entertains meetings with directors on matters related to the company. These actions, and more, are part of a pragmatic regulatory environment that lends substance to the activities of the entities registered in Barbados.

The strong regulatory environment in Barbados is, therefore, a positive for the country, since it promotes financial stability. It is also beneficial for companies which set up captives in Barbados, for a myriad of reasons, including the fact that they are seeking:

- speciality line cover, which is difficult to obtain in the commercial market
- an alternative to the commercial market, because of low probability of risk occurrence
- access to the reinsurance market, and
- to enter into other insurance markets.

The highly trained staff and strong regulatory framework at the FSC are recognised globally. Registered companies can confidently display the Barbados licence when seeking to conduct global business, because the Barbados licence is widely recognised and respected.

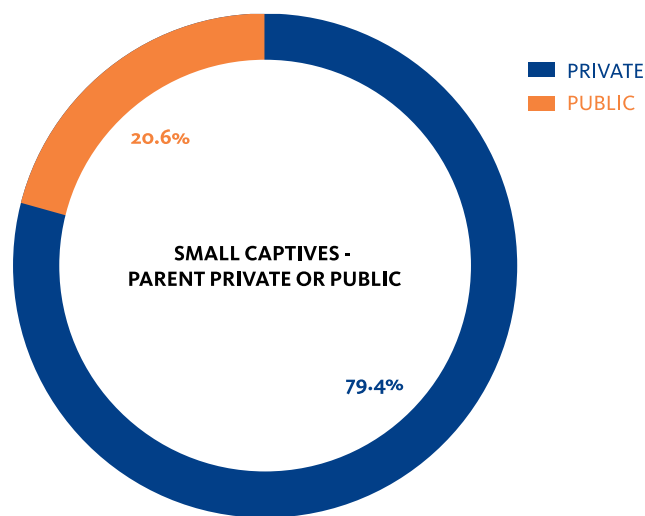
Having regulated captive insurance companies for over 30 years, Barbados has used the knowledge gained to ensure that the registered captives are appropriately regulated, but not onerously so, such that facilitation is possible while promoting financial stability. Therefore, in the face of growing global queries on the role of international financial centres, we stand resolute to any and all assessments. The retention rate of our captive insurance sector remains very high, due mainly to the fact that the captives are conducting substantive insurance activity and the regulatory framework pushes companies to ensure they are appropriately structured as a going concern. As a regulator, the FSC commits to ensuring that the regulatory framework remains a robust one, and it is clear that existing and future captive insurers in Barbados will continue to benefit from the FSC's unwavering commitment to being the best in the world at what we do. Captives registered in Barbados are in a well regulated and stable financial environment, ready to do business. 

The Popularity of Small Captives is on the Rise

BY TREVOR MAPPLEBECK & NICHOLAS CRICHLAW

The term “small Captive”, commonly referred to as an “831(b)” in the USA, reflecting the section of the IRS tax code, refers to a Captive insurance company typically created by midsize companies writing less than US\$1.2 million in annual premium. This type of Captive represents the most common new Captive formation in Canada and the USA over the past five years. Similar to traditional Captives, the small Captive landscape is led by parent companies from many different industries, including manufacturing, real estate, transportation, agriculture, media and technology, and professional services companies.

The days of Captives only being an effective risk management and finance tool for large public companies are no longer. For companies of any size with a commitment to risk management, a Captive can be a key complement to the risk transfer/insurance programme. Of all Captives within Marsh’s 2014 Captive Benchmarking analysis, 52% are owned by private companies. However, of the small Captives, approximately 80% are owned by private companies (see diagram below), which supports the idea that these small Captives are owned by small and midsize companies.



Source: Marsh's Benchmarking Survey Analysis 2014

Captives offer many advantages

Captives offer both large and small companies a number of financial, insurance and risk management advantages, including:

- Helping organisations reduce insurance costs, improve cash flow, match revenue and expense (especially for longer tail liabilities), and generate tax efficiencies
- Allowing organisations to secure coverage for risks typically not insurable, reduce the need for commercial insurance, improve a company's negotiating position with insurers, and create flexibility in insurance programme design and coverage
- Providing organisations with the ability to access international reinsurance markets. These markets may provide greater access to capacity, better pricing, and broader terms and conditions than

might be available in the domestic insurance market. Captives are also able to earn ceding commissions from reinsurers, which can act as an income source

- Providing additional risk management benefits through the design of cost allocation systems, the accumulation of loss data, the design of more effective claims handling and loss control programmes, and the development of uniform expectations and standards for risk management across divisions or subsidiaries
- Generating revenue - as an insurance entity, a Captive can be used to offer insurance products to a customer base. Two key benefits of this strategy include creating a possible underwriting profit from the sale of insurance, as well as offering a value-added product to customers. An example of this is offering an extended warranty on a product for a premium.

Options available for Barbados-based Captives

While the majority of Captives are structured as single parent Captives (only writing the risk of the company and its subsidiaries and affiliates), options are available through group Captives and Protected Cell or Segregated Cell Captives (SCCs).

All Captives, regardless of their size, need an appropriate level of capital and surplus. The minimum capital in Barbados is US\$125,000 for a Single Parent Captive. By comparison, to rent a Cell from a SCC requires a minimum capital commitment of only US\$12,500. However, additional risk-based capital is required depending on a Captive's business plan. The average capital base for Marsh-managed small Captives is US\$5.4 million, which demonstrates that these Captives have a strong surplus position to pay claims and are taking the notion of being an insurance company seriously.

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. Beyond insurance, Captives also can serve as viable alternatives to other financial instruments, including letters of credit or other guarantees.

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

FATCA Impact for Barbados - Key Points

BY GLENN A SMITH

Barbados boasts a healthy domestic and international financial services sector. If you are looking to establish a regular or international business company, an international bank or insurance company, Barbados has an expanding network of double taxation agreements and bilateral investment treaties which facilitate business. A strong legislative framework supported by two key regulators, the Central Bank of Barbados and the Financial Services Commission, provides supervision and ensures stability of the financial system.

In 2010, the US Congress enacted the Foreign Account Tax Compliance Act (FATCA) to target non-compliance by US taxpayers holding foreign accounts. FATCA came into force on 1 July 2014 and requires all non-US financial institutions in every country of the world to report data about financial accounts held by US persons, on an annual basis, to the US Internal Revenue Service (IRS).

Take note – this is game changing! This mammoth information dragnet is the first foray of its kind in requiring the exchange of information between countries to ensure tax obligations are being met. This is the first venture, because the Organisation for Economic Co-operation and Development is working on an initiative with G-20 nations and numerous other countries for a broader scale automatic exchange of information to be a new global standard between nations, and not only flowing unilaterally to the US IRS.

Barbados takes international standards very seriously and is committed to a sound and reputable financial sector. Accordingly, Barbados signed an inter-governmental agreement (IGA) with the IRS in order to facilitate FATCA compliance of the affected entities in its jurisdiction. An IGA may be reciprocal or non-reciprocal, and Barbados selected a reciprocal agreement, which means that Barbadians who hold financial accounts in the USA may have certain prescribed information reported to the Barbados Revenue Authority.

Foreign Financial Institutions (FFIs), including depository and custodial institutions, investment entities and certain insurance companies with cash value products, or their holding company, as well as various other non-financial foreign entities (NFFE), must register with the IRS using an online registration portal. Registrants, in turn, will receive a Global Intermediary Identification Number (GIIN), which is to be provided to withholding agents.

Why comply with FATCA? It has big teeth! In order to avoid the threat of 30% withholding tax on certain US-source payments, a GIIN must be provided to withholding agents.

How do you know if you are a FFI or an NFFE, and whether or not you should register with the IRS? A legal entity analysis must be done to determine your classification and whether or not you are part of an Expanded Affiliate Group, as there may be a need to register as a branch or member if you are part of a larger corporate group structure.

Barbados offers a wide variety of competent professionals including tax advisers, lawyers and regulatory consultants to help navigate FATCA obligations and ensure that you set up a structure most suitable to your strategic and financial goals.

Why comply with FATCA? It has big teeth! In order to avoid the threat of 30% withholding tax on certain US-source payments, a GIIN must be provided to withholding agents

If you are setting up a business in Barbados that will have FATCA obligations, then you have the advantage of designing your account opening procedures and data capture requirements in such a manner as to satisfy both FATCA and Know-Your-Customer obligations for anti-money laundering purposes, in one fell swoop. 🌟

The following US indicia may be used to screen accounts to uncover if you are dealing with a US person; however, further evaluation may be needed and some exceptions apply:

- US place of birth
- US citizenship/US passport
- US green card holder
- US lawful permanent resident
- A US incorporated entity
- A non-US incorporated entity with shareholding of 10% or more by a US person
- US home or mailing address
- Only address on file is a US "in care of" or "hold mail" address
- US telephone number
- Power of Attorney to person with US address
- Standing instructions to transfer funds to or receive from US account.

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Fixed Income Strategy: Keep Your Eyes on the “Curve”

BY JEROME DWIGHT

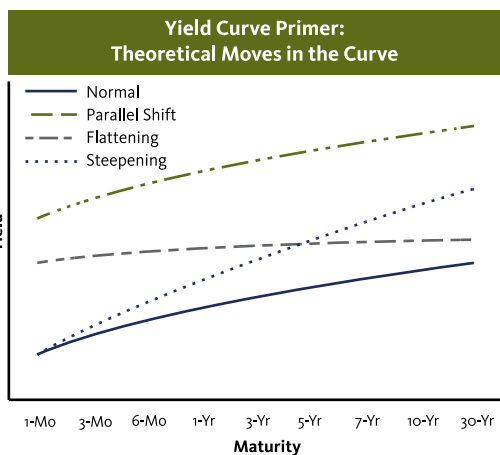
Many Captive board meeting conversations in recent times have concerned the outlook for fixed income portfolios and, specifically, what higher interest rates imply for returns on various government and corporate bonds. While, typically, the focus has been on central bank interest rate changes, looking at the overall shape of the yield curve may provide more insight for helping Captive investors formulate their investment strategies.

It's different this time

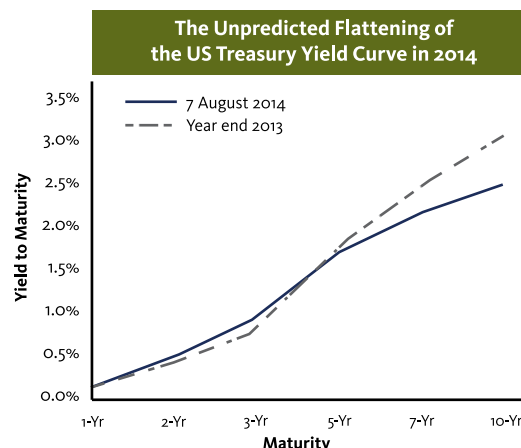
The US business cycle is now relatively advanced and bond yield curves have flattened this year. The short-to-medium end of the curve (two to five years) rose as the market started to believe that the Fed would increase rates during 2015. However, longer-dated yields (10-30 years) were driven lower as economic growth and inflation expectations were brought down. In prior cycles, flattening came from rising short-term rates, while 10 and 30 year yields remained relatively stable.

Where do we go from here?

With yields at historical lows across the curve, it is tempting for Captive investors to remain in cash until bond markets normalise. However, the dangers in this strategy are twofold. First, normalisation might take much longer than anticipated, with investors earning nothing while waiting for a reversal. Second, there is a risk that short-term rates will rise faster than long-term yields, driving the yield curve even flatter. It is likely that the yield curve will initially steepen, as gross domestic product growth resumes and long-term rates start to climb. Only once the long-term growth path is secured can the Fed be expected to tighten monetary policy, driving short-term rates up. In effect, the yield curve should steepen and move up.



Source - RBC Wealth Management



Source - RBC Wealth Management, Bloomberg

Portfolio implications

- interest rate exposure a primary risk

For Captive investors with significant exposure to US fixed income, interest rate exposure is a primary risk. The impact of rising interest rates will put pressure on the bond valuations with even small moves in rates.

Effect of Interest Rate Rise on Fixed Income Portfolio					
Index	Duration	Coupon	Price Change From Increase in Interest Rates		
			0.25%	0.50%	0.75%
Broad Bond Market	5.13	2.14%	-1.3%	-2.6%	-3.9%
US Treasuries (1-Yr to 10-Yr)	3.9	1.31%	-1.0%	-1.9%	-2.9%
UK Gilts (1-Yr to 10-Yr)	4.2	1.75%	-1.1%	-2.1%	-3.2%
US Investment Grade	5.1	2.46%	-1.3%	-2.6%	-3.8%
Europe Investment Grade	6.0	1.17%	-1.5%	-3.0%	-4.5%

Source - RBC Wealth Management, Bloomberg

Generating positive returns from fixed income will likely be more challenging and alternative approaches to fixed income management will need to be utilised. Against this backdrop of uncertainty, it is sensible to deploy a dynamic and flexible fixed income strategy that exploits a variety of sources of return.

1. Interest Rate Hedging Strategies

Techniques may be adopted to eliminate or mitigate portfolio interest rate risk through the use of interest rate futures. This can be done in conjunction with a credit and/or currency hedging overlay to maintain an attractive yield.

2. Laddered Bond Strategies

Investors may adopt a laddered bond strategy, where maturities for bonds are spread out over a pre-determined time frame and securities are held to maturity. This provides the investor with liquidity, capital loss mitigation and the ability to benefit from rising yields at the long end of the ladder.

3. Global Fixed Income/Emerging Markets Bonds

Diversification and yield enhancement benefits may be available through expanding the fixed income universe into global and emerging market debt.

4. Corporate Debt

Post-financial crisis, Captive investors have increasingly been attracted to US corporate bonds as a way of enhancing yield. If an anticipated increase in rates is accompanied by continued economic growth, the corporate sector will benefit, allowing for higher coupons and better valuations.

5. Unconstrained Strategies

Unconstrained bond strategies are attractive because they are not tied to any single fixed income sector. While trying to “time the market” is not desirable, this strategy offers greater flexibility for skilled managers to add value through active sector allocation across the fixed income spectrum.

6. Structured Products

Structured products can be used to implement a particular view on the market. For example, a Curve Steepener Note could be used to implement a view of a steepening yield curve, with periodic coupons paid subject to the differential between two ends of the yield curve. Additionally, Floating Rate Notes, which are near-zero duration instruments, offer investors increasingly higher coupons as rates rise, while reducing the overall portfolio duration.

Looking Ahead

Many Captive investors have placed a good deal of reliance on traditional fixed income strategies which utilise credit quality and duration as the main drivers. While this approach has served them well for many years, in a more challenging environment the solution is more likely to be found in a more diversified strategy, utilising the skills of a professional investment manager who has access to a wide menu of alternative solutions, as outlined in this article. By crafting an investment strategy that carefully combines traditional Captive investing with the above solutions, it should be possible to successfully navigate the choppy waters that we see in store for the bond market. ✿



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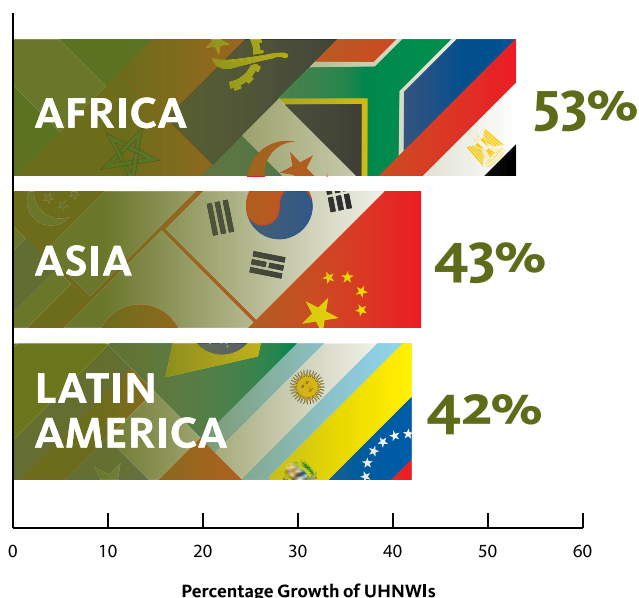
Current Market Trends in International Wealth Planning

BY MARCIA CYRUS

Wealth planning is often described as a combination of investment management and tax and estate planning for high net worth individuals (HNWIs) with investible financial assets of US\$1M or more. More recently, the terms ultra high net worth individuals (US\$30M or more) and centimillionaires (US\$100M or more) have been added to the lexicon of wealth management, acknowledging the growth of the super-wealthy globally. Citigroup estimates that over the last five years, centimillionaires have grown by 29% with net asset values of US\$39,900 billion.

Just as the growth of assets has accelerated, the face of the wealthy is also changing rapidly. Wealth Insight, a leading researcher in the field, is forecasting that Africa will experience the highest growth in the number of ultra high net worth individuals (UHNWIs) over the next ten years, growing 53%, with Asia and Latin America taking up the next two places with 43% and 42% respectively. In the centimillionaires category, Asia is expected to lead the way in the next decade with 52% growth, followed closely by Africa with 51%. Similar patterns are also projected in the growth of billionaires in those geographical locations.

While the geographical factors play themselves out, wealth managers are consolidating their operations, and, ironically, in some cases, narrowing their geographical focus. Morgan Stanley sold its European, Middle Eastern and African wealth management business to Credit Suisse, while Barclays reduced its reach from 200 countries to 130. Despite additional reporting and compliance requirements that have been imposed globally, the offshore



market continues to experience double-digit growth, reinforcing the message that there continue to be legitimate, compelling reasons (personal security or otherwise) why the world's HNWIs and UHNWIs prefer to have a portion of their wealth managed

More recently, the terms ultra high net worth individuals (US\$30M or more) and centimillionaires (US\$100M or more) have been added to the lexicon of wealth management, acknowledging the growth of the super-wealthy globally

outside their countries of origin. The other trend being observed is that as the transfer of wealth moves down or across generations, the next generation of wealth has more complex and different needs than their predecessors. The younger generation/new wealthy are much more tech-savvy than previous generations, and this means that financial planners must evolve with their needs by providing interactive platforms and video conferencing to maintain vital access to their clientele. The 2014 Capgemini report found that 57% of wealthy persons consider their relationship to be digital, and two-thirds would consider leaving a firm for lack of digital integration. Strong digital capability, coupled with personal interaction, is the combination needed to target and keep HNWIs.

The global nature of the client is not only confined to residency, but also to the transferability of assets held. Clients are demanding, therefore, that their wealth management planner has the ability to manage across jurisdictions and can provide tax-efficient advice to maximise their planning options. This type of client is also looking for dedicated relationship management that can introduce them to experts to address all their needs for wealth structuring and preservation, investment management, planning and core banking – an integrated private wealth offering.

As the wealth management world experiences growth and the geographical landscape changes, planning, and the tools to effect the plan, have to evolve to remain relevant in the information age. Inundated with data, HNWIs need to swim confidently through these waves of information, and the wealth manager must be the captain steering his large cargo safely to shore. 🌟

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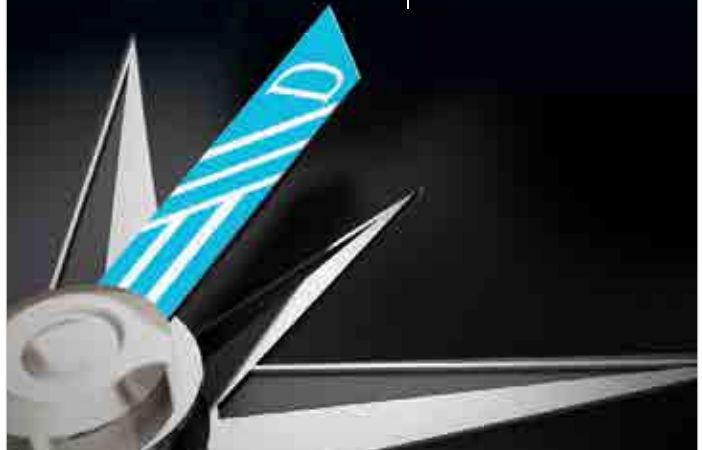
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Private Trust Companies

BY ROLAND JONES

The Private Trust Companies Act, 2012-22 (the Act) has been enacted into law in Barbados and was proclaimed on 16 May 2014. The Act provides an innovative product to enhance the international structure offering for companies and ultra high net worth individuals and families.

A Private Trust Company (PTC), essentially, is a company which is incorporated for the main purpose of acting as a trustee of a specific trust or a number of related trusts

A Private Trust Company (PTC), essentially, is a company which is incorporated for the main purpose of acting as a trustee of a specific trust or a number of related trusts. To give some perspective, this can be compared to a professional trust company which is in the business of acting as trustee and providing trust administration services to the public at large for a fee. PTCs have been quite popular in various jurisdictions for about 20 years, with the main benefits including:

- Allowing wealthy individuals and/or families to establish trusts and maintain a substantial degree of control over the trustees. This control is achieved by the individuals or family members being directors on the board of the PTC
- A corporate structure tends to be more readily understandable by non-professionals, particularly those from non-trust jurisdictions, and can be easily integrated into a family office or commercial structure
- PTC structures can enhance confidentiality, which is of particular interest to clients from jurisdictions where concerns over financial privacy are driven by issues of personal safety
- PTC structures offer some protection to trustees in circumstances where the underlying assets of a trust comprise speculative investments, or investments which involve a degree of risk (e.g. private shares of an operational company owned by the family) which might, in some circumstances, be regarded as unacceptable to a risk-averse professional trustee.

In order to qualify as a PTC under the Act, certain conditions must be met. These include:

- The entity must be a Barbados company which was first incorporated under the Companies Act, Cap. 308 of the Laws of Barbados
- The articles of incorporation must state that it is a PTC and the name of the company must end with the words “Private Trust Company”, or the abbreviation “PTC”
- The company must not solicit trust business from members of the public
- No business other than that of being the trustee, protector or administrator of the trust (or managing or administering trusts) must be carried on by the company
- All of the company’s trust business must be ‘related trust business’
- The company must appoint at least one ‘Special Director’ who is a resident of Barbados and has at least five years’ experience in a discipline related to the administration of trusts. This discipline may include law, finance, accounting, investment management, or trust and estate planning
- The company is required to have a Registered Agent in Barbados at whose office the registered office of the company shall be located.

The Registered Agent’s Obligations

The Registered Agent of the PTC must be satisfied that the conditions of the Act are met, and is required to do this both at the outset and on a continuing basis thereafter. The Registered Agent is also obliged to take all reasonable steps to ensure that up-to-date copies of documents, such as the trust deed and any document varying its terms (in relation to each PTC for which it acts as Registered Agent), are kept at its office in Barbados.

The Registered Agent is required to file an annual declaration of compliance which includes a statement to the effect that the PTC satisfies the requirements of the Money Laundering and Financing of Terrorism (Prevention and Control) Act 2011-23 of the Laws of Barbados and that it operates only as a PTC.

If the trust is managed by a trustee licensed under the International Financial Services Act, Cap. 325, and its activities are restricted to engaging exclusively to trading (i.e. buying, selling, holding or managing) securities, it is exempted from tax under the laws of Barbados. 🌟

Add Value to Captives through Asset Allocation

BY GORDON ANDERSON & RYLE WEEKES

Investment research has shown that a significant portion of a portfolio's performance can be attributed to the asset classes and styles employed, and the weighting of each asset class and style. This is often called the strategic asset allocation. Tactical asset allocation, whereby the investment manager adjusts the asset allocation based on their capital market forecast, is also important in protecting capital and generating returns in excess of benchmark.

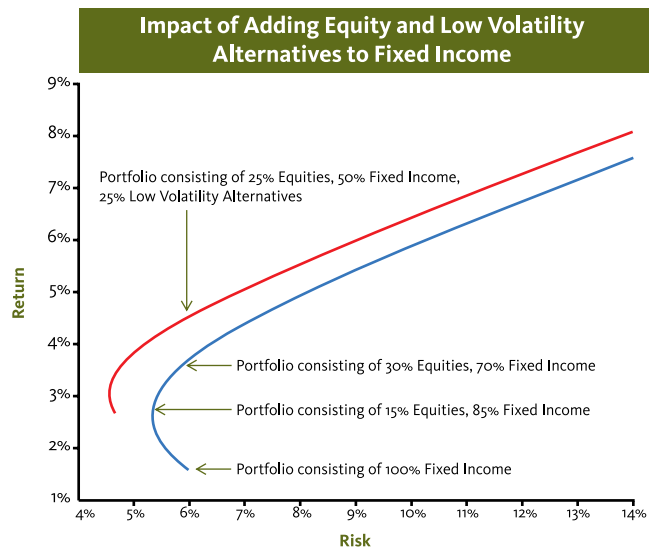
Keep in mind, however, that no asset allocation technique can prevent a portfolio from losing value in severe market downturns, such as that of 2007-8, but it can protect the portfolio in most market environments, because when certain asset classes are falling, others are usually rising.

Captives are typically looking for an investment strategy that provides a high degree of safety and liquidity, as well as some growth. In addition, Captives are restricted from investing in certain types of securities by regulations. These two factors create challenges in designing a suitable investment portfolio for Captive accounts.

Captives are typically looking for an investment strategy that provides a high degree of safety and liquidity, as well as some growth

When the Captive is first incorporated and initial capital is injected, the investment mandate is often 100% money market type investments. As premiums start to flow into the Captive, fixed income is typically added and as surplus builds in excess of reserve requirements, equities are often added. In our experience of working with hundreds of captive insurance companies, a typical asset allocation for established Captives is 80% fixed income and 20% equities. This is what is called the strategic asset allocation and is documented in the Investment Policy Statement. Fixed income investments are chosen in the same currency as the Captive portfolio so as not to introduce currency risk. However, some allocation to global equities is often prudent to increase the risk adjusted return of the portfolio.

Modern portfolio theory has a very important concept that applies well to Captives called the "efficient frontier". Referring to the following graph, it is interesting to note that a portfolio with approximately 15% equities actually has lower risk as measured by standard deviation, a mathematical measure of volatility/risk,



than a 100% fixed income portfolio. In addition, a portfolio of approximately 30% equities and 70% fixed income has the same risk as a 100% fixed income portfolio. In other words, adding up to 30% equities increases the expected return without increasing the risk of the overall portfolio. Adding some alternative investments typically further enhances the risk adjusted return.

With the continuing extended period of record low interest rates, Captives have been looking to other asset classes to improve returns without taking on more risk. Options include adding arbitrage strategies to complement the fixed income allocation and long-short strategies to complement the equity allocation. The key is to select strategies that are liquid and find managers that have excellent track records. Alternative investment managers, typically, must have significant latitude in the strategies they employ. Therefore, it may not be feasible to impose too many guidelines and restrictions on such managers.

Finally, there is a long-standing debate on whether to use active management or passive investment strategies, especially for the equity allocation. A good 'rule of thumb' is to use a combination with index strategies most effective for efficient markets, such as US large capitalisation equities. 'Smart beta' equity strategies, such as fundamental indexing, have gained a lot of traction with institutional investors as they keep the benefits of passive indexes but have a history of outperforming them. The key with active investing is to construct a portfolio with "best in class" external managers. 🌟

International Mutual Funds: a Barbados Perspective

BY ROGER CAVE

Barbados may not be top-of-mind yet when considering choices for domiciling a mutual fund, but that could be changing very soon.

Barbados certainly works now for the more practical matters of managing and administering mutual funds. The infrastructure and services one would expect are close at hand. For example:



- There is a growing community of investment professionals. The Chartered Financial Analyst (CFA) Society Barbados supports CFA charter holders and candidates in their continuing education; CFA exams are administered in Barbados every June
- Accounting staff and administrators are available and well trained; compensation levels are reasonable by global standards
- High speed internet connections are a given, and investment data services, like Bloomberg, are well supported on the ground
- Barbados is recognised by other key jurisdictions for fund domiciles, such as the Cayman Islands, as an approved venue for the provision of fund administration and management services
- Regulatory oversight is appropriate and manageable
- The 'Big Four' global accounting firms are here to audit funds to the standards expected by investors anywhere in the world
- The major Canadian banks have branches and/or operations in

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... we have found that Barbados - our home - is a viable and attractive place from which to manage and administer mutual funds ...

As any fund manager will tell you, the investment business is about people, and it has been our experience that people enjoy living and working in Barbados because of its quality of life. This is an important distinction, and for some specially qualified non-nationals, there is also quantitative help, with personal tax exemptions providing financial advantages for professionals working in Barbados. Furthermore, from a corporate tax perspective, double taxation agreements (DTAs) make it possible for global investment managers to operate from Barbados as international business companies in an extremely tax efficient manner.

Popular mutual fund domiciles like the Cayman Islands, for all their ease of access and enabling legislation, typically cause funds domiciled there to incur withholding taxes on dividends of up to 30%. Barbados-domiciled funds, however, can benefit from the significant network of DTAs that have been put in place for international business over the years and can benefit from withholding tax rates that are up to 50% lower.

From our perspective at Fortress Fund Managers, we have found that Barbados – our home – is a viable and attractive place from which to manage and administer mutual funds, which we have done for the last 17 years. Our current range of 12 mutual funds includes those domiciled in a number of jurisdictions, including the British Virgin Islands, Cayman Islands, and Barbados itself. Our funds serve individual and institutional investors in Barbados and the Caribbean primarily, but are open equally to investors worldwide.

Nothing is perfect, of course. There is one way in which Barbados is still a “diamond in the rough” where mutual funds are concerned. Although the mutual fund legislation for funds domiciled in Barbados is not yet up to “global” standards, significant modernisation of the legislation is due to be enacted in the coming months. This upgrade could mean that fund managers can soon look to Barbados not just as an attractive and tax-efficient place from which to manage and administer their funds, but as an advantageous jurisdiction in which to domicile them as well. 🌟

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International Estate and Succession Planning for the Family Office

BY DARREN STARK

There is a trend, internationally, towards the establishment of Single-Family Office (SFO) and Multi-Family Office (MFO) structures. As the names would imply, a SFO is a bespoke structure for one family or extended family, whereas a MFO can and often does have multiple, unrelated families or “clients”.

In general terms, historically, there has been a bias towards the investment management of family assets driving the rationale for creating a family office structure. The investment management of family assets is clearly very important, as the assets in question are tangible and the performance of the services of asset managers can be measured. That is undeniable, but many legal practitioners believe this is to the detriment of the very reason to create a family

Often, there are fairly straightforward mechanisms available to hold foreign property and/or investments in foreign companies, which will reduce or eliminate the need for foreign wills, probate and ongoing estate administration time and costs

office – wealth transfer planning. As a result, going forward, high net worth (HNW) families may need more than investment management services to interest them in a family office relationship. This is especially true today, as most HNW families are relatively sophisticated investors in their own right, often having both discretionary and advisory investment experience.

The “new trend” for family offices is the outsourcing of the investment management to the most cost-effective, yet efficient and competent, investment professionals globally. Different firms have referred to this in various ways, but essentially “Open Architecture” seems to be an industry-accepted term for this concept. What planners establishing the SFO and MFO need to focus on is the bespoke generational transfer of wealth in an estate and succession context.

Most ultra high net worth (UHNW) families have numerous family or private company investments. These often result in concerns for planners advising the families, including but not limited to:

- Multi-jurisdictional tax, probate and estate considerations
- A lack of an independent Board of Directors, with a resultant potential for substandard governance
- The absence of any valuations of private or family investments, or else outdated valuations
- Poor consolidated reporting to reflect the true wealth of the private (and sometimes even public) investments.

Often, there are fairly straightforward mechanisms available to hold foreign property and/or investments in foreign companies, which will reduce or eliminate the need for foreign wills, probate and ongoing estate administration time and costs.

In addition, investment management discussions, when coupled with estate and succession planning, can dovetail nicely into coordinating other aspects of UHNW family planning. This may require, in some scenarios, the inclusion of:

International estate planning allows a family to coordinate international issues:

- Real property in multiple countries
- Beneficiaries with different countries of residence and citizenship
- Different tax regimes
- Potentially competing probate jurisdictions and costs.

- Currency diversification and family needs away from the main or traditional currency of use
- Asset partitioning, to segregate assets from potential claims, and potential different family member personal situations, including combined families from previous marriages
- Leverage, for investment, asset protection or other reasons
- Insurance, including life, for provision of tax obligations, ensuring corporate or real properties do not need to be sold to cover estate obligations, providing liquidity to the estate, etc.

- Development or creation of an “estate binder” that simply collects and collates into one central location (typically then held with a solicitor, or perhaps a safe deposit box), a listing of all firms and contact personnel dealt with for investment management, insurance and other matters, allowing the estate administrators to quickly assess and contact the relevant parties.

This is not to say there should be less of a focus on investment management. Rather, as investment management by itself becomes more of a commodity, professionals advising family offices will also need to address the increasingly complex wealth transfer needs of the UHNW family. 🌟

CASE STUDY



Right Environment for International Captive Insurance Manager

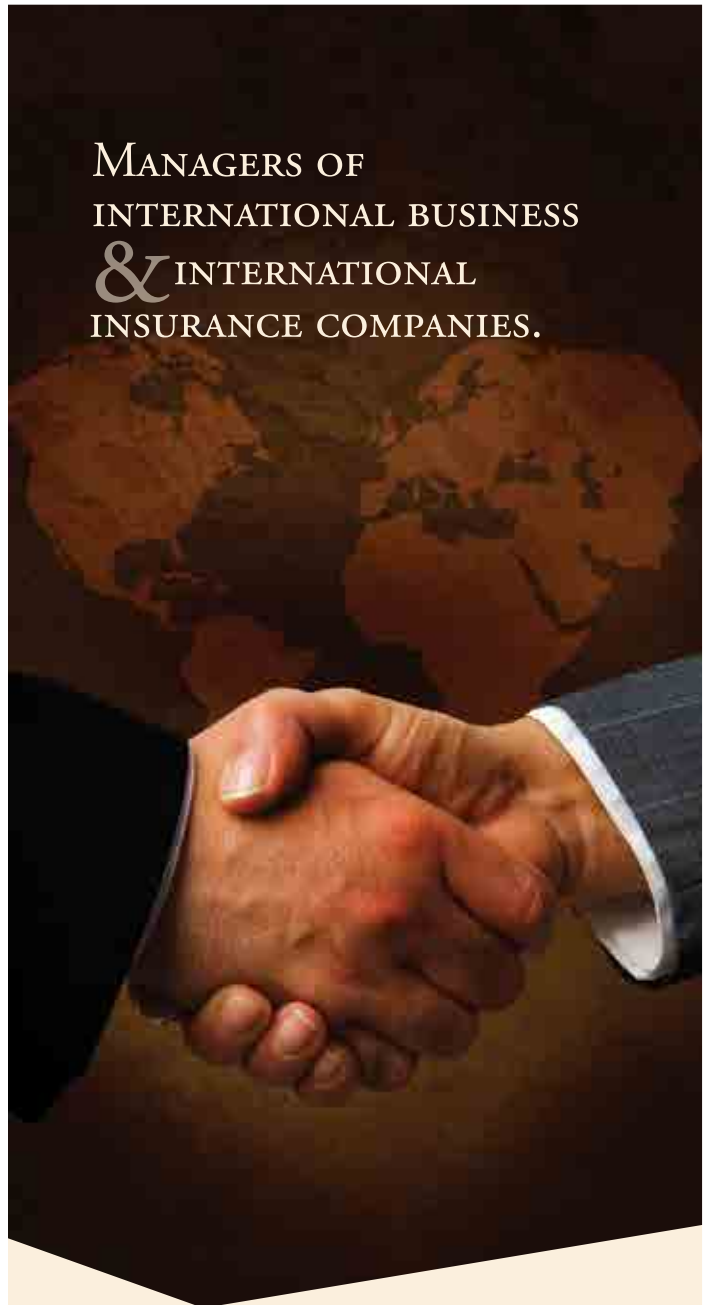
USA Risk Group (Barbados) Ltd. was formed in Barbados and licensed under the Exempt Insurance Act as a Management Company on 7 November 1986, under the name “Mims International (Barbados) Ltd.” and was issued with Licence No. 1.

On 28 February 2008, the company changed its name to USA Risk Group (Barbados) Ltd., after a majority stake was purchased by USA Risk Group. In April 2012, the company formed USA Risk International Ltd., enabling us to provide additional services to our clients, and this was recognition of the confidence the group had in Barbados.

The USA Risk Group had established operations in other offshore domiciles and saw Barbados as a strong domicile that would complement and enhance its offshore presence. The reasons for being in Barbados include its highly educated and stable workforce, a mature offshore industry, a regulatory environment that is conducive to doing business, and an extensive network of double taxation treaties. The ability to hire local staff is a great benefit to USA Risk clients, as the continuity of service is much stronger than other jurisdictions which are often reliant on work permit holding, and thus transient employees.

The Company provides management services to Insurance Companies licensed under the Exempt Insurance Act and the Insurance Act of Barbados. From the inception, we have had strong insurance expertise leading the operations, with the President of the Barbados operation coming from an insurance background. With USA Risk Group operating in 17 domiciles, we also draw on a wealth of experience in the industry from within the group to provide innovative solutions for clients.

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The Beauty of Barbados as an International Financial Centre for Private Wealth Strategies

BY PAUL JENKINS

Many professional advisors offer investment strategies that include characteristics aimed at reducing risk, increasing predictable income, and generating stronger returns. Great effort and time is expended in crafting and refining tactical asset allocation, floating-rate note bond ladders and hedged positions - addressing increased US or Canadian currency or commodity exposure. Of equal importance are the structure(s) and/or domicile(s) of choice for an individual and/or corporation, both of which can support or undermine these strategies. Structure, proper advice and planning are essential to the success of the overall financial plan, as well as to the effectiveness of financial strategies employed within the portfolio.

Captive insurance companies, family offices and private/public corporations must now employ risk management assessment(s) prior to committing resources to the establishment of portfolios in financial centres around the world. Barbados has an attractive offering by way of its network of double taxation agreements (DTAs), excellence in regulation and qualified, competent service providers. Careful analysis and consideration reveal how the structure of Barbados' intelligent tax environment can offer value to shareholders, beneficiaries and families.

In the past, and in the current form, the existence of this nexus of taxation treaties positioned Barbados with a distinct advantage over other popular offshore jurisdictions. Companies and private individuals still tend to prefer to operate in a low-tax jurisdiction (with a DTA) as opposed to a zero tax jurisdiction - whose reputation could be questioned due to its policies on privacy and zero tax rate. In a growing world of global compliance and fiscal monitoring, information sharing, structure and transparency can prevent unnecessary dissonance and/or restructuring associated with improper planning.

The Organisation for Economic Co-operation and Development (OECD), along with the Finance Ministers of many of the G-20 nations, have led a 20 year 'harmonised' effort to thwart tax avoidance and bring into disrepute nations and individuals who do not follow "information sharing" and globally accepted compliance procedures and practices. Barbados has been able to manoeuvre through a myriad of regulatory changes and demands by offering regulation and best practices that are above and beyond the requirements of the OECD and other similar international groups. This attention to ever-changing global regulation and excellence in international relations has resulted in Barbados becoming an excellent choice as a location for portfolio and wealth management.

The dynamic nature of the markets is one that is continuously evolving. Over the last 12 months, investors should have seen portfolio managers address risk with a great array of proactive strategies. The threat of rising interest rates, slowing Asian growth expectations,

geo-political tensions (Afghanistan, Israel, Palestine and Ukraine) may have altered the strategies and outlook which professionals have on the financial markets, together with additional concerns regarding new threats of terrorism (ISIS) and a global healthcare epidemic (Ebola).



Although risk can never be fully diversified out of the financial markets, the above-mentioned concerns can be addressed with proper financial planning and strategies. Dynamic/tactical asset allocation, floating rate debentures, 'rolling stop loss' implementation and hedged commodity positions via derivatives can intelligently reduce risk in an entity's planning and revision of investment policies. Still, without a sound structure and/or an appropriate choice of International Financial Centre, efforts of planning, albeit with correct financial strategies, can be undermined.

Barbados can offer the 'win-win' scenario for corporations and private investors. By choosing an internationally sound financial jurisdiction with service partners that offer forward thinking and savvy financial strategies, portfolios can benefit with structure and strategy. This is yet another dimension of the beauty of Barbados. 🌟

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 15 November, 2014.

	DIVIDENDS	INTEREST	ROYALTIES	MANAGEMENT	ENTRY INTO
	%	%	%	FEES %	FORCE
Non-treaty countries	15/0 (1)	15	15	15	
Austria	15/5 (2)	0 (3)	0 (3)	–	01 Apr 2007
Bahrain	0	0	0	–	16 Jul 2013
Botswana*	12/5 (4)	10	10	–	12 Aug 2005
Canada	15	15 (5)	10 (6)	5	22 Dec 1980 (7)
CARICOM	0	15	15	15	07 Jul 1995
China P.R.C.	10/5 (8)	10	10	–	27 Oct 2000 (9)
Cuba	15/5 (10)	10	5	–	16 Mar 2000
Czech Republic	15/5 (10)	5	5/10 (11)	–	06 Jun 2012
Finland	15/5 (2)	5	5	5	20 Aug 1992 (12)
Ghana*	7.5/5 (13)	7.5/5 (14)	7.5	–	
Iceland	15/5 (2)	10	5	–	24 Feb 2012
Luxembourg	15/0 (15)	0 (3)	0 (3)	–	08 Aug 2011
Malta	15/5 (16)	5	5	–	19 Jun 2002 (17)
Mauritius	5	5	5	–	28 Jan 2005
Mexico	10/5 (18)	10	10	–	16 Jan 2009
Netherlands	15/0 (19)	5	5	–	12 Jul 2007 (20)
Norway	15/5 (2)	5	5	5	03 Jul 1991 (21)
Panama	5 (22)	7.5/5 (14)	7.5	–	18 Feb 2011
Portugal*	15/5 (8)	10	5	–	
Qatar*	0 (3)	0 (3)	5	–	
San Marino*	5/0 (23)	5	0 (3)	–	
Seychelles	5	5	5	–	21 Apr 2008
Singapore	0 (3)	12	8	–	25 Apr 2014
Spain	5/0 (24)	0 (3)	0 (3)	–	14 Oct 2011
Sweden	15/5 (1)	5	5	5	01 Dec 1991(25)
Switzerland	0 (26)	0 (26)	0 (26)	–	26 Aug 1963
United Arab Emirates	–	–	–	–	–
United Kingdom	15/0 (27)	0 (3)	0 (3)	–	19 Dec 2012 (28)
United States	15/5 (29)	5	5	–	28 Feb 1986 (30)
Venezuela	10/5 (31)	15/5 (32)	10	–	01 Jan 2001
IBCs, ISRLs, QICs & EICs:	(33)	(33)	(33)		

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

- 1 The rate is 0% if dividends are paid out of income earned from sources outside of Barbados.
- 2 The rate is 15% for portfolio dividends and 5% for holdings of at least 10%.
- 3 Interest and royalties are only taxable in the state in which the beneficial owner is resident.
- 4 The rate is 12% for portfolio dividends and 5% for holdings of at least 25%.
- 5 The rate applies provided that the interest is subject to tax in the other territory.
- 6 The rate applies provided that the royalties are subject to tax in the other territory.
- 7 Protocol in force 17 Dec 2013.
- 8 The rate is 10% for portfolio dividends and 5% for holdings of at least 25%.
- 9 Protocol in force 09 Jun 2010.
- 10 The rate is 15% for portfolio dividends and 5% for holdings of at least 25%.
- 11 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.
- 12 Protocol in force 01 Jun 2012.
- 13 The rate is 7.5% for portfolio dividends and 5% for holdings of at least 10%.
- 14 The rate is 7.5% generally; 5% if beneficial owner is a bank.
- 15 The rate is 15% for portfolio dividends and 0% for holdings of at least 10%, held for at least 12 uninterrupted months prior to dividend distribution.
- 16 The rate is 15% for portfolio dividends and 5% for holdings of at least 5%.
- 17 Protocol in force 30 Apr 2014.
- 18 The rate is 10% for portfolio dividends and 5% for holdings of at least 10%.
- 19 The rate is 15% for portfolio dividends and 0% for holdings of at least 10%.
- 20 Protocol in force 23 Dec 2010.
- 21 Protocol in force 01 Jun 2012.
- 22 The rate is 75% of the statutory nominal rate at the time of distribution; 5% for companies with holdings of at least 25%.
- 23 The rate is 5% for portfolio dividends and 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.
- 24 The rate is 5% for portfolio dividends and 0% for holdings of at least 25%.
- 25 Protocol in force 12 Dec 2012.
- 26 Agreement extended to Barbados by virtue of the agreement between Switzerland and the UK, on payments to non residents from Barbados.
- 27 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.
- 28 Treaty in force 19 Dec 2012, replacing a treaty that had been in force from Nov 1970.
- 29 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.
- 30 General effective date 01 Jan 1984. First protocol in force 29 Dec 1993. Second protocol in force 20 Dec 2004.
- 31 The rate is 10% for portfolio dividends, 5% for holdings of at least 5%.
- 32 The rate 15% generally; 5% if the recipient is a bank.
- 33 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 details, regarding any of our services, or to join our email list, please contact any of the following engagement leaders:

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