

HFMWEEK

SPECIAL REPORT

BERMUDA 2015

INNOVATION

New vehicle creations supported and encouraged

MULTINATIONAL

Island businesses enjoy global partnerships

TRANSPARENCY

Regulator commits to global tax information exchanges



FEATURING Appleby // Bermuda Business Development Agency //
Deloitte // KPMG // Oyster Consulting // SS&C GlobeOp



One change can change everything

Change is happening in big ways and small. The hedge fund industry needs a global service provider—one with its finger on the pulse of the industry to anticipate challenges and recommend diverse solutions.

At Deloitte, we're right there with you. Our deep bench of professionals in the audit, tax, and advisory space provide knowledge, insight, and services tailored to the changes you face.

To learn more about our hedge fund services, please contact
James Dockeray-Tax Partner, Investment Management Services, Deloitte Ltd-Bermuda + 1 441 299 1399
Mark Baumgartner-Audit Partner, Investment Management Services, Deloitte Ltd-Bermuda + 1 441 299 1322

www.deloitte.com/im

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2015 DCB Holding Ltd. and its affiliates

Deloitte.

HFMWEEK

LONDON

Third Floor, Thavies Inn House,
3-4 Holborn Circus, London,
EC1N 2HA
T +44 (0) 20 7832 6500

NEW YORK

1441 Broadway, Suite 3024,
New York, NY 10018
T +1 (212) 268 4919

REPORT EDITOR

Drew Nicol
T: +44 (0) 20 7832 6659
d.nicol@pageantmedia.com

HFMWEEK HEAD OF CONTENT

Paul McMillan
T: +44 (0) 20 7832 6622
p.mcmillan@pageantmedia.com

HEAD OF PRODUCTION

Claudia Honerjäger
SUB-EDITORS
Luke Tuschcherer, Mary Cooch,
Alice Burton

GROUP COMMERCIAL MANAGER

Lucy Churchill
T: +44 (0) 20 7832 6615
l.churchill@hfmweek.com

SENIOR PUBLISHING ACCOUNT MANAGER

Tara Nolan
+44 (0) 20 7832 6612
t.nolan@hfmweek.com

PUBLISHING ACCOUNT MANAGERS

Amy Reed
T: +44 (0) 20 7832 6618
a.reed@hfmweek.com
Jack Duddy
T: +44 (0) 20 7832 6613
j.duddy@hfmweek.com
Alex Roper
T: +44 (0) 20 7832 6594
a.ropert@hfmweek.com

CONTENT SALES

Tel: +44 (0) 20 7832 6511
sales@hfmweek.com

CIRCULATION MANAGER

Fay Muddle
T: +44 (0) 20 7832 6524
f.muddle@pageantmedia.com

CEO Charlie Kerr



pageantmedia

HFMWeek is published weekly by Pageant Media Ltd ISSN 1748-5894 Printed by The Manson Group
© 2014 all rights reserved. No part of this publication may be reproduced or used without the prior permission from the publisher

B

if you like—for novel thinking and out-of-the-box alternatives to the standard issue. Long before we became a modern international finance centre, Bermudians invented a new breed of sloop, a better-tasting onion, and an alternative to the lowly pair of shorts that became a perennial star down fashion catwalks.

Innovation is the true currency of our jurisdiction. And that has never been more evident than in the asset management sphere, where a fresh approach is being driven by an agile collaboration of industry, government and regulator that is winning endorsements and attracting a wave of post-recession business. Notably, responsive legislative and regulatory developments implemented over the past two years have invigorated the fund environment and distinguished Bermuda as a leading financial centre.

Perhaps it comes down to the fact our domicile is showing unconventional resolve to get things done and delivering actual solutions to market needs. Our successful 2013 campaign to streamline the fund setup process via new classes and a more time-sensitive, less-expensive incorporation system have been a catalyst for an influx of companies. Likewise, this year's amendments to the Partnership Act are expected to further enhance the environment for private equity funds and whet investor appetites—not only in North America, but also in Europe, Asia and Latam.

Convergence capital—'collateralised or hedge fund re'—is another example of dynamic change in which Bermuda is blazing an unprecedented trail. Cat bonds, insurance-linked securities (ILS) and other alternative risk-transfer vehicles were conceived here and now

ermuda is often considered an industry incubator—a mid-Atlantic Petri dish,

have become so popular that it's difficult to call them 'alternative' anymore. The island currently attracts the lion's share of ILS—with \$16bn in listings on the Bermuda Stock Exchange (BSX) in Q1 2015, an estimated 60% of the world's total.

In today's shifting regulatory landscape, transparency and compliance are critical. 'Team Bermuda' is breaking the jurisdictional mould in this area too, through a thoughtful and united response to tackling complex issues around AIFMD, AML, Fatca and other regulatory initiatives, and demonstrating Bermuda's relevance in the global funds market. We at the BDA work closely with the Bermuda Monetary Authority (BMA), the Ministries of Finance and Economic Development, and industry focus groups to ensure Bermuda's stellar reputation is understood worldwide, differentiating ourselves among IFCs.

We have brought major industry events to the island for the first time. In 2015, the BDA was instrumental in attracting April's Regulatory Compliance Association (RCA) Symposium and June's Global Fund Forum, both of which bring hundreds of representatives to witness first-hand Bermuda's unique combination of lifestyle, infrastructure, sophistication and intellectual capital in action.

Speaking of events, we're preparing to host a behemoth: the 35th America's Cup in June 2017, whose run-up World Series kicks off in October 2015. It's the first time the 163-year-old regatta has been held, by choice over necessity, outside the United States—a distinction we are proud of. Its compelling combo of cutting-edge technology, high sporting drama, and high-net-worth audiences promises yet another winning innovation for the island, one that will draw the world's spotlight and, once again, serve to set us apart.



Ross D. Webber

Chief executive officer, Bermuda Business Development Agency

04

ROUNDTABLE

BERMUDA ROUNDTABLE DISCUSSION

08

LAW

TAX POLICY AND TRANSPARENCY

11

FINANCIAL SERVICES

TRANSPARENCY IS THE NEW AIM

14

LAW

THE ROLE OF ILS IN PORTFOLIO DIVERSIFICATION

16

ASSET MANAGEMENT

INSTITUTIONAL REPORTING SOLUTIONS IN BERMUDA



SEAN MORAN, OF THE BDA, SITS DOWN WITH OYSTER'S MANAGING DIRECTOR ALISON MORRISON, BDA LEADER NEIL GLASS AND APPLEBY PARTNER SARAH DEMERLING TO DISCUSS BERMUDA'S DEVELOPMENT AS A LEADING FINANCIAL DOMICILE AND THE CHALLENGES IT WILL FACE IN THE NEAR FUTURE



Alison Morrison

Alison Morrison, managing director at Oyster Consulting, has extensive experience in AML regulations, risk management, policy development, corporate governance, training, and operational compliance with multi-national firms. Prior to founding Oyster Consulting (Bermuda) Ltd. she acted as senior vice-president of risk & compliance at Citi Hedge Fund Services, Ltd.

Sean Moran (SM): Bermuda has a reputation as a leading jurisdiction in the asset management sector. What is being done to maintain this profile?

Alison Morrison (AM): Ongoing collaboration between the asset management sector and the Bermuda Development Agency (BDA), combined with support from our government and our regulator, the Bermuda Monetary Authority, is key to our success. Attending conferences and events overseas allows us to maintain our profile and discuss our reputation as a first-class jurisdiction of choice. The rising number of conferences hosted on the island is also increasing our exposure. The Regulatory Compliance Association and Transcontinental Trusts both hosted successful events here in April and will be returning next year.

Neil Glass (NG): Since the BDA was formed in 2013, its asset management group, which is made up of over 120 professionals who work in the industry, has been very active in ensuring that we anticipate and respond to clients'

ever-changing needs. For example, in 2013, we brought 12 industry leaders from the US to the island for a 'think tank'. Based on the feedback received, changes were made to our Investment Funds Act. As the proposed legislation was drafted, we encouraged further input from our associates in America. They are still providing ideas on suggested enhancements. Industry-driven changes to Bermuda's partnership laws are working their way through our parliament. As Jack Rigney, a New York-based partner at Seward & Kissel and one of our think tank contributors, stated: "My personal advice to clients now is Bermuda may in fact be the best jurisdiction for offshore funds when you consider cost benefits, the practical regulations, as well as access to officials."

“
COLLABORATION IS KEY TO
BERMUDA'S SUCCESS, BOTH
INTERNALLY AND WITH
EXTERNAL STAKEHOLDERS
”

Sarah Demerling (SD): For a number of years Bermuda was too modest in promoting its abilities on the asset management sector. Those days are behind us. Bermuda is very proud of its reputation, its robust-yet-sensible legislation, its regulators, the products it has to offer and the exciting new developments that are in the works, and the depth of

knowledge that is available on the island from service providers. Bermuda continues to be a leader with funds that invest in insurance-linked securities and this highlights the opportunities for those looking to access capital, given the synergies in Bermuda with the insurance industry.

Collaboration is key to Bermuda's success, both internally and with external stakeholders, and the asset management sector is focused on ensuring Bermuda is the best jurisdiction not only to set up an offshore fund but also to establish a physical presence for a manager to manage the assets. Speed to market, quality service and efficiency are paramount.

SM: What innovations are being looked at to enhance Bermuda's offering to the asset management space?

AM: We are constantly looking for ways to improve and enhance our product offerings within the asset management space. This could mean the introduction of new legislation to ensure greater flexibility and speed to market, or examining our work permit policy to encourage growth and new business to the island. Collaboration and communication are keys to ensuring that we hear what our stakeholders need and that we deliver cost-effective solutions. A highly educated workforce is important and with this in mind the Regulatory Compliance Association, in conjunction with government and Bermuda College, have introduced a new advanced workforce training program.

NG: Following on the work we continue to do with US industry leaders, this year we started a similar outreach in the UK, so we can better understand what their clients' needs are, which will culminate in another think tank session in Bermuda this fall. If your clients have a problem, we want to be on the top of your speed dial as the jurisdiction that will work with you to find an innovative solution. One thing we have found resonates with US and UK decision makers is that we do road shows as 'Bermuda Inc.', where the team is made up of senior members of competing law, audit and fund administration firms, with senior members of government and the regulator. When issues are raised, attendees know we can go back and effect changes quickly.

SD: The first wave of changes have already been made to Bermuda's funds legislation (Investment Funds Act) to make it cutting-edge – self-certification filing with the BMA (no approval required) and same-day launch for Class A exempt funds open to qualified (usually institutional) investors where the manager is registered with the SEC or FCA. Changes to partnership legislation are imminent to allow partnerships to convert to companies and vice versa. Finally, plans are in the works to overhaul the funds legislation to make it even more agile.

SM: Many offshore domiciles are battling the misconception of being labelled 'tax havens'. What would you say to dispel that myth for Bermuda specifically?

AM: This is an ongoing issue that unfortunately we continue to deal with, despite the efforts of our government and all industry sectors to dispel this myth. We are totally



Neil Glass currently serves as an independent director of numerous hedge funds. He also holds the role of leader of the Bermuda Business Development Agency Asset Management Group where he interfaces with senior members of the regulator, government and fund industry as they work together to renew Bermuda's asset management industry



Sarah Demerling is a partner in Appleby's corporate practice group and a member of the funds and investment services team. She has extensive experience in advising hedge fund managers and fund of funds managers over structuring, formation and day-to-day operations of investment vehicles, including mutual funds, hedge funds, unit trusts, partnerships, private equity and master/feeder structures

transparent when it comes to tax issues and this is evident by the number of Tax Information Exchange Agreements (TIEAs) that have been signed. This commitment to upholding international tax standards is further evidenced by our inclusion in the Organisation for Economic Co-operation and Development's (OECD) white list. Our inclusion on the white list confirms our position of transparency and co-operation.

NG: Bermuda has always jealously guarded her reputation. When my wife and I moved here in 1990, we needed letters of reference from our Canadian bank, plus letters from our Bermuda employers, before we could open a Bermuda bank account and transfer less than \$10,000

“
WE ARE TOTALLY TRANSPARENT
WHEN IT COMES TO TAX ISSUES
AND THIS IS EVIDENT BY THE
NUMBER OF TAX INFORMATION
EXCHANGE AGREEMENTS
THAT HAVE BEEN SIGNED
”

here. Also, as Bermuda never allowed 'nameplate' banks, some of the issues affecting other jurisdictions were never a problem here, which is likely why Bermuda was the first offshore jurisdiction to be placed on the OECD/G20 White List. Our most recent OECD rating was the same rating received by the US and the UK.

SD: The government and the Bermuda Business Development Agency (BDA) are doing a great job of consistently reinforcing the facts, rather than allowing misconceptions to spread further. Bermuda was the first offshore jurisdiction elevated to the OECD's white list for jurisdictions that have substantially implemented internationally agreed tax standards. It is recognised as a leader on global transparency issues. Bermuda has 39 TIEAs with other states and four OECD-compliant Double Taxation Agreements (DTAs). It also does not have bank secrecy laws.

SM: In any jurisdiction good communication between the public and private sector is key to regulatory success. What is the relationship like in Bermuda?

AM: Bermuda has a history of the private sector working closely with the government to promote and develop our insurance and tourism industries. For the financial services sector, the work of the BDA to bring everyone to the table has been invaluable to achieving that success. Representatives from the Bermuda Monetary Authority,



along with representatives from the government and business leaders all working together allows for quick and effective responses to regulatory issues and the promotion of Bermuda as a first-class international jurisdiction in which to conduct business.

NG: In 2013, the Bermuda Government announced that growing Bermuda's asset management industry was a priority, which is evidenced by the fact that the BDA's board of directors includes a senior member from the Ministry of Economic Development's Business Development Unit. Also, at the Bermuda Monetary Authority's request, our asset management group meets with them monthly so that we can share concerns and discuss the impacts of ever-increasing global regulations.

SD: Collaboration is key to Bermuda's success. A prime example is the BDA – an independent public/private organisation funded by both the Bermuda Government and private sector whose goal is to implement marketing and business development strategies to stimulate growth in the Bermuda economy. There is a constant dialogue with the government as to any proposed legislative changes. Clients are often surprised to learn the BDA meets with the BMA on a regular basis to discuss issues in the asset management industry and takes on board recommendations to make changes where appropriate.

SM: Between AIFMD or Fatca, which is posing the bigger challenge for the asset management industry in Bermuda and what is being done to tackle these regulatory hurdles?

AM: The collaboration between the government and the private sector was very much in evidence as part of Bermuda's Fatca journey, with a Fatca committee bringing industry stakeholders and the government representatives together. This combined effort allowed for an efficient and effective process to be introduced which included all the financial institutions impacted by the Foreign Account Tax Compliance Act. In addition to the Intergovernmental Agreement entered into with the US Treasury to adopt US

“
BERMUDA HAS A HISTORY
OF THE PRIVATE SECTOR
WORKING CLOSELY WITH
THE GOVERNMENT TO
PROMOTE AND DEVELOP OUR
INSURANCE AND TOURISM
INDUSTRIES.
”

Fatca, Bermuda has actively been working with the OECD to introduce the common reporting standard (CRS). The CRS is intended to be the global standard for a co-ordinated approach for automatic exchange of information. Bermuda is part of the Early Adopters Group so all financial institutions will need to turn their time and attention to this next regulatory requirement.

With AIFMD looming, Bermuda needs to choose the right path to ensure the best results for the island to be a jurisdiction of choice for asset managers. Collaboration between key stakeholders and the Bermuda regulator is critical. In addition, the Bermuda Monetary Authority Policy Team continues to work closely with the European Securities & Markets Authority (ESMA) in order to provide direction and advice to the asset management sector.

NG: For both AIFMD and Fatca, the Asset Management Group has created sub-committees that come up with industry positions, which are then communicated to government and the Bermuda regulator. Building on the anticipation of obtaining equivalence under Europe's Solvency II Directive prior to the implementation date of 1 January 2016, the Bermuda Monetary Authority has been working with our AIFMD sub-committee to develop a roadway to third-country equivalency. If Esma decides to allow third-country equivalency under the AIFMD Directive, Bermuda wants to be in the first wave of accepted jurisdictions.

On Fatca, the industry told the government we would prefer to go the Model II route, whereby FSIs can pass shareholder information directly to the IRS and the UK authorities. Not only does this limit the sensitive information to as few parties as possible (as the Bermuda Government does not need to act as an information-gathering intermediary), it also means that Bermuda did not have to build an expensive infrastructure to gather and protect this information, which avoids the need to pass this cost on to customers.

SD: Fatca has become the new normal. Most funds have found that the registration process was not as daunting as they had at first feared.

With regards to AIFMD, Bermuda is positioning itself to embrace AIFMD and to deliver the best outcome to ensure that Bermuda managers/funds can continue to market and manage assets across Europe when third-party passporting is hopefully instituted by Esma (the European regulator for the purposes of AIFMD). It is expected that Esma will decide whether or not to extend the provisions to third-country managers (i.e. managers/funds in Bermuda) in the coming months.

Bermuda has signed co-operation agreements with European regulators, one of the pre-conditions to be able to market in Europe at the moment. The BMA has been working closely with the industry on how best to approach the AIFMD regime in Bermuda and is in constant contact with Esma. It is important to note that AIFMD would be an opt-in regime so any managers that do not have contact with Europe would not be impacted by any new legislation and would be subject to any enhanced regulation. ■



BDA

BERMUDA
BUSINESS
DEVELOPMENT
AGENCY

BERMUDA
BUSINESS
CONCIERGE
SERVICE

Our BDA Business Concierge Team can be your strategic partner, whether you're a start-up or a multi-national. Considering the Island as your base for business? Need an introduction, or some trouble-shooting? We welcome and support companies that invest in Bermuda. **Contact us today.**

Connecting Business



Maxwell Roberts Building, 6th Floor
1 Church Street
Hamilton HM 11
Bermuda

+ 1 441 292 0632
info@bda.bm
www.bda.bm



TAX POLICY AND TRANSPARENCY

DELOITTE'S JAMES DOCKERAY EXPLAINS HOW BERMUDA'S TAX FRAMEWORK IS BOTH BUSINESS FRIENDLY
AND INTERNATIONALLY RESPECTED



James Dockeray

is the leader of the combined Bermuda and BVI tax practice of Deloitte Ltd. and has gained valuable experience serving the financial services industry in Canada, Bermuda, BVI and the United States over the past 19 years.

Bermuda has long been considered a business friendly jurisdiction with wonderful weather, beautiful beaches and a laid back pace of life that enhances its attraction to holiday makers and international business representatives alike. Bermuda has long been the world's leading captive insurance domicile and along with the US and London a top three (re)insurance centre. Asset management's focus in this space has helped propel Bermuda to a leading position in the insurance-linked security and alternative risk transfer space. As a complement to these areas of strength, Bermuda has started to focus on developing its position as funds jurisdiction of choice.

While the focus in developing this position is leveraging Bermuda's excellent reputational and regulatory environment, economically speaking, a large part of Bermuda's appeal is the island's tax regime, which does not impose a corporate income tax. Asset managers can domicile in Ber-

muda and benefit immediately from the local tax structure without having to qualify as they might in economic development zones such as in the US Virgin Islands and Puerto Rico. Taxation can come in many forms – direct and indirect tax, stamp duty, taxes on property, excise tax, fees etc. With no revenue from corporate income tax or sales tax, Bermuda generates its tax revenue predominantly from payroll tax on compensation and custom and duty taxes on imported goods. User fees can be described as high and stamp duty is applied on local real estate transactions.

While remaining economically tied to the US and UK for many years, Bermuda (and other lower tax jurisdictions) continues to come under scrutiny from interested parties in the US and UK for not imposing a corporate income tax. It is not uncommon for politicians to highlight domestic entities that are engaging in business activities in lower tax jurisdictions; describing such activities as abusive to avoid paying tax or even unpatriotic.

The reality is that countries around the globe, including Bermuda, have now enacted laws to combat potential tax abusive behaviour. The US enacted the Foreign Account Tax Compliance Act (Fatca) in 2010, requiring foreign financial institutions (FFIs) to disclose to the US government information about US (or suspected US person's) financial accounts. Essentially requiring FFI's, including those in Bermuda, to act as gatekeepers and withholding agents on its behalf. The Fatca framework is the forerunner of a global model which will aid the US and other countries to enact and enforce a Common Reporting Standard (CRS). Bermuda was also an initial signer of the Fatca agreement with the US, as a Module 2 reporting nation. As such, Bermuda FIs will do their part and report information about US or suspected US persons directly to the US IRS.

BERMUDA'S TAX TRANSPARENCY

As far back as 1939, Bermuda established a legislative framework that required the provision of information on the proposed ultimate beneficial owner of any business wishing to incorporate in Bermuda. In 1986, the Bermuda Government took steps to further establish its financial transparency in international tax matters by establishing its first TIEA with the US.

That cooperative trend continues as Bermuda is often an early adopter in the global effort to combat tax evasion and currently has 80 treaty partners including 41 bilateral Tax Information Exchange Agreements (TIEAs) and is among 76 co-signatories to the OECD Multilateral Convention on Mutual Assistance in Tax Matters. In 2010, the OECD included Bermuda on its white list of countries that are fully cooperative on tax policies and international tax matters.

As a competitor in the global economy, Bermuda continues to look at ways to differentiate itself from the competition. In early 2013, Bermuda spearheaded a think-tank with US attorneys to identify legislative changes to make Bermuda a more competitive and attractive fund domicile. Later that year those changes were passed into law by the Bermuda Parliament, making it easier and more cost efficient to incorporate funds on the island. This responsiveness is one reason why Bermuda remains a popular choice for funds.

TAX COMPETITION

It has been debated, at least informally, for some time whether Bermuda should consider implementing a corporate income tax. To be clear, there has been no indication the Bermuda Government is currently considering this – in fact, it has provided assurances to the contrary. But for argument sake, other than the obvious plus of generating tax revenue to offset a budget deficit, another benefit would include the eventual development of a tax treaty network. On the flip side this would also provide a cost disincentive to setting up business in Bermuda. There can be a healthy debate on the most efficient form of taxation but it is widely considered that a corporate income tax is a wholly inefficient form of taxation to implement and administer with some studies suggesting as much as 60% of



“
BERMUDA WILL
CONTINUE TO PLAY AN
IMPORTANT ROLE IN
ENFORCING GLOBAL TAX
TRANSPARENCY WHILE
OFFERING A FAVOURABLE
TAX AND REGULATORY
ENVIRONMENT
”

revenue generated from corporate income tax is allocated to simply administering compliance.

There is an overriding theme of global corporate tax competition that is apparent in how governments implement domestic tax policies considering companies with a global foot print have the flexibility to arrange their corporate structure to yield the highest returns with the most efficient tax consequences. In response, many nations are now reducing their corporate tax rates in an effort to retain their own tax base, while enticing foreign companies to migrate to their shores. For example, the UK and Canada have notably reduced their corporate tax rates from 28% to 20% and 28% to 15% respectively. .

Recently, in a high profile case, US-based Burger King announced its acquisition of a Canadian company, Tim Hortons, in a 'corporate tax inversion' deal. As a result, the combined entity is now a Canadian corporation able to leverage the much lower Canadian corporate tax rates resulting in potential tax savings in the hundreds of millions. This is just one example of many recent deals that emphasises the tax competitiveness in the global economy and the challenges that governments' face in promoting their jurisdictions as an attractive place to conduct business. Bermuda will continue to have a role to play in that debate.

As well as on a global level, since not every state in the US imposes a corporate income tax it is not unprecedented for companies to re-domicile from one state to another within the US, at least partly for tax reasons. One high profile example was Boeing relocating its headquarters from Seattle, Washington to Chicago in 2001, the CEO stated the move was for strategic reasons. It likely helped that the company received up to \$41m in tax and other incentives from the State of Illinois. Similar inter-country competition can exist in other countries such as Switzerland.

It can be expected that tax policy will continue to be formed around some level of tax reform while focusing efforts on making each local jurisdiction a more attractive place to do business. It should also be expected that Bermuda will continue to play an important role in enforcing global tax transparency while offering a favourable tax and regulatory environment. ■

PROVIDING COMPREHENSIVE
CONSULTING TO THE FINANCIAL
SERVICES INDUSTRY.



OYSTER

CONSULTING (BERMUDA) LTD

ALISON MORRISON
MANAGING DIRECTOR

441.505.5036

ALISON.MORRISON@OYSTER.BM
OYSTER.BM

TRANSPARENCY IS THE NEW AIM

CRAIG BRIDGEWATER OF KPMG IN BERMUDA TALKS TO *HFMWEEK* ABOUT FATCA AND THE OECD'S COMMON REPORTING STANDARD FOR AUTOMATIC EXCHANGE OF INFORMATION



Craig Bridgewater

is head of investments & banking at KPMG in Bermuda. He has significant experience in US GAAP and IFRS for alternative investment funds. Bridgewater has also provided audit and advisory services to various local operating companies.



Transparency has become the new rule of engagement when it comes to global commerce in the financial services sector. The concept of opaqueness, which was the mantra for many financial centres for several decades, is not going to be an acceptable way of doing business now and in the future. If an IFC is going to participate in the financial services industry it is going to have to participate in the new world order ... the Automatic Exchange of Information (AEOI). This has become enshrined in the United States' and United Kingdom's Foreign Account Tax Compliance Act (Fatca) and the new common reporting standard (CRS).

US Fatca and the 'son of Fatca' introduced by the UK have resulted in most international financial centres entering into inter-governmental agreements (IGAs) with both the US and the UK, to exchange tax-related information on account holders within their jurisdiction. These developments have led to many other countries, facilitated by the Organisation for Economic Co-operation and Development (OECD), wishing to participate in government to government exchange of information.

On 13 February 2014, the OECD released a framework document for the automatic exchange of information, generally referred to as the common reporting standard.

The CRS is intended to become the new global standard for the automatic exchange of tax-related financial information (covering bank accounts and other financial assets held

outside the person or entity's country or countries of tax residence).

The CRS is intended to be a common global standard on tax information collection and reporting across jurisdictions, to maximise efficiency and reduce costs of

“

MOST ENTITIES WILL, IN THE NEAR FUTURE, BE FOCUSED ON COMPLIANCE WITH US FATCA AND THE CRS, MEANING AT LEAST TWO PARALLEL REGIMES FOR EACH JURISDICTION TO ADHERE TO

”

compliance for financial institutions. To date, over 51 jurisdictions, including Bermuda, have signed a multilateral competent authority agreement to automatically exchange information as 'early adopters' under the CRS, with the first



exchange of information by September 2017. Unfortunately, the US has not committed to adopting the CRS, so US Fatca is currently here to stay. We understand the CRS will replace the son of Fatca introduced by the UK. So most entities will, in the near future, be focused on compliance with US Fatca and the CRS, meaning at least two parallel regimes for each jurisdiction to adhere to.

The development of the CRS is something businesses in international financial centres need to be following, as it has far-reaching impacts on both the financial and non-financial institutions.

As with Fatca, the scope of the CRS is broad, to reduce the risk of circumvention.

Thus, it will apply not just to banks, but also funds, investment managers, corporate administrators, trusts, trustees, investment firms and certain insurance companies.

Fatca and the CRS affect most areas of a financial institution's business. Therefore, it is more important than ever

“
THE TRANSPARENCY TREND IS
LIKELY IRREVERSIBLE AND WILL
BE REQUIRED TO COMPETE FOR
LEGITIMATE INTERNATIONAL
COMMERCE
”

to plan for the impact of these regulatory requirements and design an efficient response.

BERMUDA'S RESPONSE

As noted above, Bermuda is a signatory to a multilateral competent authority agreement, therefore making it an early adopter of the common reporting standard.

Bermuda has also signed Model 2 IGA's with the US and the UK. This requires financial institutions to report the necessary information about US and UK persons directly to the respective tax authorities. As a result, FFI's do not need to report the information to the local Bermuda government who in turn provide that same information to the US and UK.

The Model 2 agreement does also provide a process whereby the US or UK can request further information, however this request must be made through the Bermuda Government.

Bermuda sees its model 2 IGA as having several advantages including:

- Certainty and speed of clarification: the Bermuda Government was not required to introduce extensive legislation or guidance notes as FFI's are required to comply with the Fatca guidance issued by the US government;
- Lower cost of compliance and operation in the jurisdiction: the Bermuda Government was not required to build the infrastructure needed to collect and pass on Fatca-related reporting to the US or UK. In many cases, the cost of such infrastructure may be passed on to those doing business in the jurisdiction. The Model 2 IGA avoids this;
- Control over the flow of information: given that FFI's are reporting directly to the relevant tax authority, the FFI has control over the flow of its information and the related timing. There is no intermediary.

The transparency trend is likely irreversible and will be required to compete for legitimate international commerce. Bermuda is committed to transparency, compliance with the highest standards of international regulation, and cooperation, thereby being a facilitator of the conduct of business across the globe. The work that has been done in the areas of Fatca and the common reporting standard attest to this commitment. ■

The Bermuda Ministry of Finance has developed an FAQ document related to the IGAs between Bermuda and the United States of America and the United Kingdom. This can be found at <http://bda.bm/wp-content/uploads/2015/02/Bermuda-IGA2-FAQ.pdf>



WHY DO THE WORLD'S LEADING FUNDS BUILD THEIR FUTURE WITH SS&C?

SS&C GlobeOp® is among the largest and fastest growing fund administrators in the world. We offer the deep expertise, independence, transparency, and comprehensive, world-class technology you won't find at any other fund administrator.

We own and maintain the best technology in the industry. That's why we can deliver the speed and agility to service any new market, asset class, or regulation in your future.

We are the future. We are SS&C.

THE ROLE OF ILS IN PORTFOLIO DIVERSIFICATION

APPLEBY'S SARAH DEMERLING AND SALLY PENROSE OUTLINE THE WORKINGS OF THE ILS SPACE AND HOW IT CAN PLAY A PART IN DIVERSIFYING PORTFOLIOS



Sarah Demerling

A partner in Appleby's corporate practice group and a member of the funds and investment services team, she has experience in advising hedge fund managers and fund of funds managers in connection with structuring, formation and operations of investment vehicles.



Sally Penrose

An associate and member of the corporate practice group, she has wide corporate experience acting for corporates and management teams on multi-jurisdictional mergers and acquisitions, as well as acting for private equity houses on new investments and portfolio management.

Insurance-linked securities (ILS) are financial instruments issued by insurers and reinsurers to manage their exposure to low-frequency but high-severity losses. The ILS industry is continuing to evolve. This niche market has grown considerably since its origins back in 1997 as a response to the large losses insurers suffered by natural catastrophes (notably Hurricane Andrew in 1992) and is proving to be an increasingly attractive alternative asset class for sophisticated institutional investors, particularly pension funds.

Although some investors were arguably more cautious following the 2008 financial crisis, they seem to be getting more comfortable with the associated risk/reward profile that ILS products can offer. In fact, some commentators expect that the amount of capital seeking direct access to insurance and reinsurance risks from third-party investors and institutions will more than double to \$150bn by 2020. The total global ILS sector is worth approximately \$64bn and as at the end of 2014 Bermuda represented 57% of that global market.

ILS products (often seen in the form of catastrophe bonds – cat bonds), industry loss warranties and sidecars (which are financial structures established to allow investors to take on the risk and benefit from the return of specific books of insurance or reinsurance business) cover natural catastrophes such as hurricanes and earthquakes, life insurance (including mortality and longevity) and man-made events such as fire and terrorism.

ILS returns are thus 'event linked' rather than correlated with risks associated with the wider financial markets as you would find in traditional investment classes. Value is linked to the occurrence or non-occurrence of specific non-financial risks (e.g. Florida hurricanes). If there is no trigger event (no natural disaster) before the maturity of the security, investors receive their principal investment in addition to any interest earned on the investment during the lifetime of the contract.

The ILS market has been very attractive for both insurers and investors.

Insurers can offload risk and raise capital while life insurers can release the value in their policies by packaging

them up and issuing them as asset-backed notes. The growing popularity of ILS as an asset class for investors largely stems from the prospect of returns not correlated with equity markets and the fact that investment in ILS provides diversification in an investment portfolio.

ILS fund structures are proving to be particularly attractive to pension funds because they offer the ability to improve a portfolio's investment performance through uncorrelated investments.

As pension funds and other new institutional investors become more familiar with the ILS market and associated risks they have been increasingly allocating a larger percentage of their investment mandates into this area. In addition to diversification in a fund's investment strategy, other benefits include: comparatively short investment periods (for example cat bonds are typically twelve months to five years); favourable risk-reward ratios (given the potential returns for investors through investment income on the investment in the ILS structure, against low probability trigger events); and (usually) low credit risk of the (re) insurer counterparties.

BERMUDA'S ILS OFFERING

Any fund managers thinking about investing in or establishing their own dedicated ILS fund structures should consider Bermuda, a jurisdiction widely acclaimed as the centre of catastrophe reinsurance expertise.

What has made Bermuda so successful in creating, listing and servicing ILS structures? In part this is explained by the excellent regulatory environment, overseen by the Bermuda Monetary Authority (BMA).

The BMA, Bermuda's integrated financial services regulator, is responsible for the island's risk-based regulatory framework which it frequently reviews to ensure it provides a robust regulatory regime that is also user-friendly and commercial.

Bermuda's anti-money laundering/anti-terrorist financing legislation and tax information exchange agreements have further cemented its status as a premier offshore financial centre which is recognised by OECD on its white list of co-operative and compliant jurisdictions.

This regulatory framework offers institutional investors

“
GROWTH AND INNOVATION
IN THE ILS SPACE IN
BERMUDA IS DRIVEN BY
THE EXPERIENCED AND
KNOWLEDGEABLE SERVICE
PROVIDERS BASED
ON THE ISLAND
”



“
IT IS ANTICIPATED THERE WILL
BE A SHIFT TOWARDS NATURAL
CATASTROPHE RISKS IN CHINA,
WHERE THEY EXPERIENCE
EARTHQUAKES AND TYPHOONS
”

BERMUDA'S FUND SUPPORT SYSTEM

Speed to market is one of Bermuda's biggest strengths and the BSX (the world's largest offshore fully electronic securities market) responded to the needs of issuers of ILS (and their investors) by creating a streamlined and efficient process to list ILS. The BSX is very responsive and listing applications are typically turned around in seven days.

Growth and innovation in the ILS space in Bermuda is driven by the experienced and knowledgeable service providers based on the island. Being the location of one of the world's largest reinsurance markets, the island has spent three decades building expertise in both the insurance and investment fund industry. Specialist ILS service providers range from administrative services to legal, accounting and other financial services. Bermuda is home to some of the largest dedicated ILS investment managers, including CATCo Investment Management and Nephila Capital.

The ILS market was very strong in 2014, with the BMA reporting 36 ILS issuances in that year alone with nine cat bond issuances totaling \$2.2bn. The total outstanding volume of ILS cat bonds also rose 20% year on year. Based upon the first-quarter reports (which saw \$2.062bn of new risk capital issued during Q1 2015 surpassing the previous busiest first-quarter in 2014, by almost \$500m) 2015 will be another excellent year for the ILS market.

If investor appetite for ILS continues, there will be more opportunities for investors and we anticipate further diversification of ILS products. Industry commentators such as Clear Path Analysis report that diversification in the ILS market will be seen both in terms of classes of risk and their geographical location. It is anticipated there will be a shift away from predominantly US-based risks into new regions (for example, natural catastrophe risks in China, where they regularly experience earthquakes and typhoons). Additional diversification may also stem from new risks (for example, European flood) and models are being developed to quantify such risks. These additional perils and classes of risk will further aid diversification for ILS funds and investors and help ILS capital to broaden its reach.

With its reputation as a market leader in the space, Bermuda will continue to innovate and lead the market in structuring and servicing ILS products. ■

Appleby is one of the world's largest providers of offshore legal, fiduciary and administration services. Appleby's Bermuda office has an experienced and dedicated ILS team drawing on the expertise of its fund and insurance practice groups

a very high level of comfort. Bermuda has further bolstered its position as market leader in the ILS sector by creating bespoke products to be utilised in ILS structures.

In particular, it introduced a legislative framework specifically for special purpose insurers (SPIs) (being newly formed collateralised reinsurance vehicles) which allows the creation of cost-efficient and more lightly-regulated corporate vehicles to be utilised in ILS structures. Applications submitted to the BMA on a Monday are processed by the Friday of the same week.

Another innovative legal structure which Bermuda offers (and which is utilised in ILS fund structures) is the segregated accounts company, which allows accounts to enjoy a statutory division of liability, effectively ring-fencing each segregated account from the general liabilities of the company and from each segregated account.

Coupled with recently modernised fund legislation which enables funds to register and launch faster (in some cases same-day), more efficiently and more cost effectively, the legal framework in Bermuda allows for greater flexibility in structuring transactions as well as making it faster and easier to bring ILS structures to market.

INSTITUTIONAL REPORTING SOLUTIONS IN BERMUDA

JOHN WHILEY, VICE-PRESIDENT AT SS&C GLOBEOP, DISCUSSES THE EXPANDING ILS MARKET AND BERMUDA'S STATUS AS A PREMIER DOMICILE



John Whiley is a vice-president and head of ILS administration services for SS&C GlobeOp. He has over 20 years of experience in investment administration services, technology and operations for financial services, working with hedge funds, private equity, fund of funds, partnerships, master/feeder structures, reinsurance entities and segregated account vehicles.

GLOBAL REGULATORY CHALLENGES

Global hedge fund managers face significant and complex regulatory requirements across multiple jurisdictions from multiple regulators. Designed to protect investors and at the same time establish financial stability, these regulatory filings may include the Foreign Account Tax Compliance Act, AIFMD Annex IV, Form PF and CPO-PQR, in addition to an offshore fund's annual jurisdictional regulatory filings. Data collected through these filings are being used to assess individual manager's soundness, monitoring systemic risk and compliance responsibilities.

Alternative investment structures need specialist administrators who understand the strategies, structures and investments involved. With the continuing increase in global regulatory reporting requirements, fund managers also need responsive institutional service providers, with sound administrative and accounting procedures, robust reporting systems and adequate internal controls. These will enable them to provide on-time, accurate reporting and appropriate technical resources in order to meet these regulatory demands for specialised asset classes. Bermuda is no exception.

BERMUDA

Bermuda is home to several of the world's largest reinsurers and also boasts a long history of servicing investment funds which invest in a broad range of alternative investments. As a result, it is ideally suited as a jurisdiction to establish and service an investment fund devoted to investing in the insurance-linked securities (ILS) market. The acquisition of Prime Management in October 2013 established SS&C GlobeOp as a leading service provider in the rapidly growing ILS market.

THE ILS OPTION

The ILS market is growing in prominence as a reinsurance alternative, as well as an asset class. With tepid global growth, volatile markets and historically low interest rates, private equity and hedge fund investors were among the early movers into the ILS market. More recently, pension funds and other institutional investors, including high-net-worth investors, have been desperately searching for ILS opportunities as a way to generate meaningful diversified returns. ILS investors' participation in the reinsurance asset class is currently approximately \$75bn.

Insurance-linked securities are securities or contracts which provide a rate of return that depends upon the non-occurrence of defined catastrophic events, such as hurricanes or earthquakes. Typical ILS securities include catastrophe bonds (or cat bonds), or a portfolio of collateralised reinsur-

ance contracts. The ILS market is attractive from several angles: it provides (re)insurers with an additional risk-transfer mechanism, investment managers with an additional service offering to grow assets, and investors with a compelling alternative investment proposition which is uncorrelated to the markets, interest rates or the global economy.

Despite its attractiveness, the ILS asset class comes with its own set of challenges. Matching fund liquidity to the investment cycle of the underlying ILS portfolio can be challenging, particularly if a catastrophic event occurs which

“
INSURANCE-LINKED SECURITIES
PROVIDE A RATE OF
RETURN THAT DEPENDS UPON
THE NON-OCCURRENCE OF
DEFINED CATASTROPHIC EVENTS,
SUCH AS HURRICANES OR
EARTHQUAKES
”

results in the impairment of an asset within the portfolio. Traditional fund mechanisms for restricting liquidity, such as lock-up periods and gates, generally do not work well in the ILS fund context.

This has given rise to innovative solutions such as 'slow pay' redemption provisions, which are better suited to the asset class and provide investors with greater certainty. Side pockets can be used to segregate impaired assets from the main portfolio, to ensure that new investors do not participate in any previously impaired assets; however, the use of side pockets is not without its own issues, predominantly the impact they have upon performance fees. To strike the appropriate balance between the interests of investors and those of managers, several alternatives for calculating performance fees have been devised. Analysing each of these options and choosing the most appropriate method for the particular type of fund is an important element of fund structuring and much appreciated by investors.



The key to successfully navigating these challenges is to engage experienced institutional service providers, well versed in the specific nuances of the asset class and able to add real value when structuring the fund vehicle. Fund managers who want to make a good first impression with investors need to give thoughtful consideration to the various alternatives in the fund design/set-up and be able to articulate why a particular option represents the best alternative for investors.

ABOUT SS&C

SS&C GlobeOp has a dedicated ILS service team in Bermuda. It is made up of professionals exclusively focused on the evolving requirements of the industry, with the requisite expertise and training to service the most sophisticated portfolios of ILS. Outside Bermuda, SS&C GlobeOp operates from over 65 service locations and can use its international experience and considerable knowledge base to provide transparent reporting solutions. In an increasingly complex global economy, SS&C's software outsourcing services and expertise have been chosen as the preferred solution by more than 7,000 clients managing in aggregate over \$26trn in assets worldwide, who rely on their skills to increase productivity, reduce costs, streamline processes and allow time to focus on strategic business decisions.

As the cost of regulatory compliance grows, SS&C GlobeOp clients are provided with transparent reporting solutions to meet their business requirements, delivered in a focused, efficient and cost-effective manner. We offer a range of flexible deployment options, recognising that there is no 'one-size-fits-all' solution. These reporting solutions support some of the most complex and data-intensive

regulatory filings required by the alternative investment community. SS&C GlobeOp's applications and services can be used on a standalone basis or in conjunction with its fund services platform. All regulatory reporting solutions are built so that managers can make the best use of their time and ensure the accuracy of their reporting. All the applications are built using the same reconciled data set, and share comprehensive workflow tools and data integrity checks to ensure timely and accurate reporting. SS&C GlobeOp couples its software applications with services so managers can leverage expertise and increase their bandwidth around its regulatory reporting. ■

“
MATCHING FUND LIQUIDITY TO
THE INVESTMENT CYCLE OF THE
UNDERLYING ILS PORTFOLIO CAN
BE CHALLENGING, PARTICULARLY IF
A CATASTROPHIC EVENT IMPAIRS AN
ASSET WITHIN THE PORTFOLIO
”

APPLEBY

Appleby, Sarah Demerling - Partner +1 441 298 3291/x6324 - sdemerling@applebyglobal.com, **Tonesan Amisshah** – Partner +1 441 298 3201/x6137 – tamissah@applebyglobal.com

Appleby is one of the world's largest providers of offshore legal, fiduciary and administration services. The group has been ranked as one of the world's largest providers of offshore legal services by number of lawyers in The Lawyer's 2015 Offshore Survey. With around 800 people, including lawyers and professional specialists, across the group, Appleby delivers sophisticated, specialised services, primarily in the areas of Corporate, Dispute Resolution, Private Client and Trusts and Property, and a broad range of fiduciary services. The group advises public and private companies, financial institutions, and high net worth individuals, working with these clients and their advisers to achieve practical solutions, whether in a single location or across multiple jurisdictions.



Bermuda Business Development Agency (BDA), Sean Moran, sean@bda.bm, 441/292-4203

The Bermuda Business Development Agency (BDA) encourages direct investment and helps international companies start up, re-locate or expand their business in Bermuda—a vibrant funds and financial services centre. An independent, public-private partnership, the agency is the primary point of contact for prospective business, providing connections to industry professionals, regulatory officials, and key contacts in the Bermuda government to facilitate jurisdictional decision-making. Bermuda's proximity to both North America and Europe make it an ideal location for companies serving global markets, along with its highly respected and business-friendly regulatory reputation, sophisticated infrastructure, world-class workforce and access to capital, legal, audit, banking and IT service-providers.

Deloitte.

Deloitte, Corner House, 20 Parliament Street, Hamilton HM 12, P.O. Box HM 1556, Hamilton HM FX, BERMUDA. **James Dockeray** - Tax Partner, Investment Management Services, Deloitte Ltd-Bermuda + 1 441 299 1399 email james.dockeray@deloitte.bm **Mark Baumgartner** - Audit Partner, Investment Management Services, Deloitte Ltd-Bermuda + 1 441 299 1322 email mark.baumgartner@deloitte.bm

Deloitte Bermuda has been serving clients worldwide for more than 50 years. Our professionals have a single focus: to help clients navigate their business challenges and achieve success. The Deloitte Bermuda team is dedicated to providing audit, tax, financial advisory, enterprise risk and consulting services to the asset management industry. What's different about Deloitte is our people, who focus on building long-term relationships and are determined to deliver measurable value for our clients' businesses. Our work combines advice with action and integrity. Deloitte Ltd. is an affiliate of DCB Holding Ltd., a member firm of Deloitte Touche Tohmatsu Limited (DTL).



IKONIC, Kristin Steele, head of marketing and business development. Tel: +1 704 927 1860; email: kristins@ikonicfunds.com

IKONIC is an independent fund administrator providing administrative support to global investment managers adopting diverse investment styles. Our comprehensive product offering specialises in hedge funds, fund of funds, private equity funds, and ILS funds. IKONIC was founded by a leadership team with significant in-depth knowledge in fund administration and has created a company that is client focused. IKONIC currently services over 140 client entities from its three offices and clients range from emerging managers to large institutional funds. In November 2011, IKONIC and the Horseshoe Group formed a joint partnership called ILS Fund Services Ltd. to provide fund administration and valuation verification services to funds that invest in insurance linked securities. IKONIC Fund Services and ILS Fund Services are licensed fund administrators by the Bermuda Monetary Authority.



KPMG, Richard Lightowler – Tel: 294 2608, E: richardlightowler@kpmg.bm

KPMG has been providing audit, tax and advisory services across five industries, insurance, investments, banking, government & public sector and to Bermuda's Middle through KPMG Enterprise.



Oyster, Alison Morrison, Managing Director, Suite 1655, 48 Par-La-Ville Road, Hamilton, HM 11, Bermuda, Tel: 441 541 5036, Alison.morrison@oyster.bm, www.oyster.bm

Oyster Consulting (Bermuda) provides comprehensive, cost-effective compliance and operational consulting to financial services and related firms in Bermuda and around the world. Our professionals bring highly-integrated industry knowledge and deep functional expertise to help our clients protect and grow their business. We offer practical solutions, creating simplicity in a complex environment. Oyster Consulting (Bermuda) is supported by a team of over 50 industry professionals within Oyster Consulting LLC, located in Richmond, Virginia. Our consultants bring the combined knowledge of both Oyster teams. Oyster Consulting (Bermuda) is able to provide a unique service to our clients with the ability to combine expertise in Bermuda, the US and Europe.



SS&C GlobeOp®, Johnine Kilgallon, 646 827 2034, jkilgall@globeop.com, **Punit Satsangi**, +44 (0)20 3310 3304, psatsangi@sscinc.com

SS&C GlobeOp® is among the largest and fastest growing fund administrators in the world. We offer the deep expertise, independence, transparency, and a comprehensive powerhouse of world-class technology that you won't find at any other service provider. We own and maintain the best technology in the industry. That's why we can deliver the speed and agility to service any new market, instrument, asset class, or regulation in your future without having to rely on third-party technology. Contact us at www.sscglobeop.com to learn more. We are the future. We are SS&C.



cutting through complexity

Offering a strong local presence and a Global reach of over 16,000 industry professionals, and counting.

KPMG in Bermuda know numbers; yet we're more than that.
We develop relationships with our clients that deliver real value.

Key Contacts:

Neil Patterson

Chairman

+1 441 294 2605

neilpatterson@kpmg.bm

Craig Bridgewater

Head of Investments & Banking

+1 441 294 2647

craigbridgewater@kpmg.bm

KPMG Crown House | 4 Par-la-Ville Road
Hamilton | HM 08 | Bermuda

kpmg.bm

© 2015 KPMG, a group of Bermuda limited liability companies which are member firms of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.



OFFICIAL LAW FIRM

Appleby Bermuda is honoured
to be the Official Law Firm of
the 2017 America's Cup.