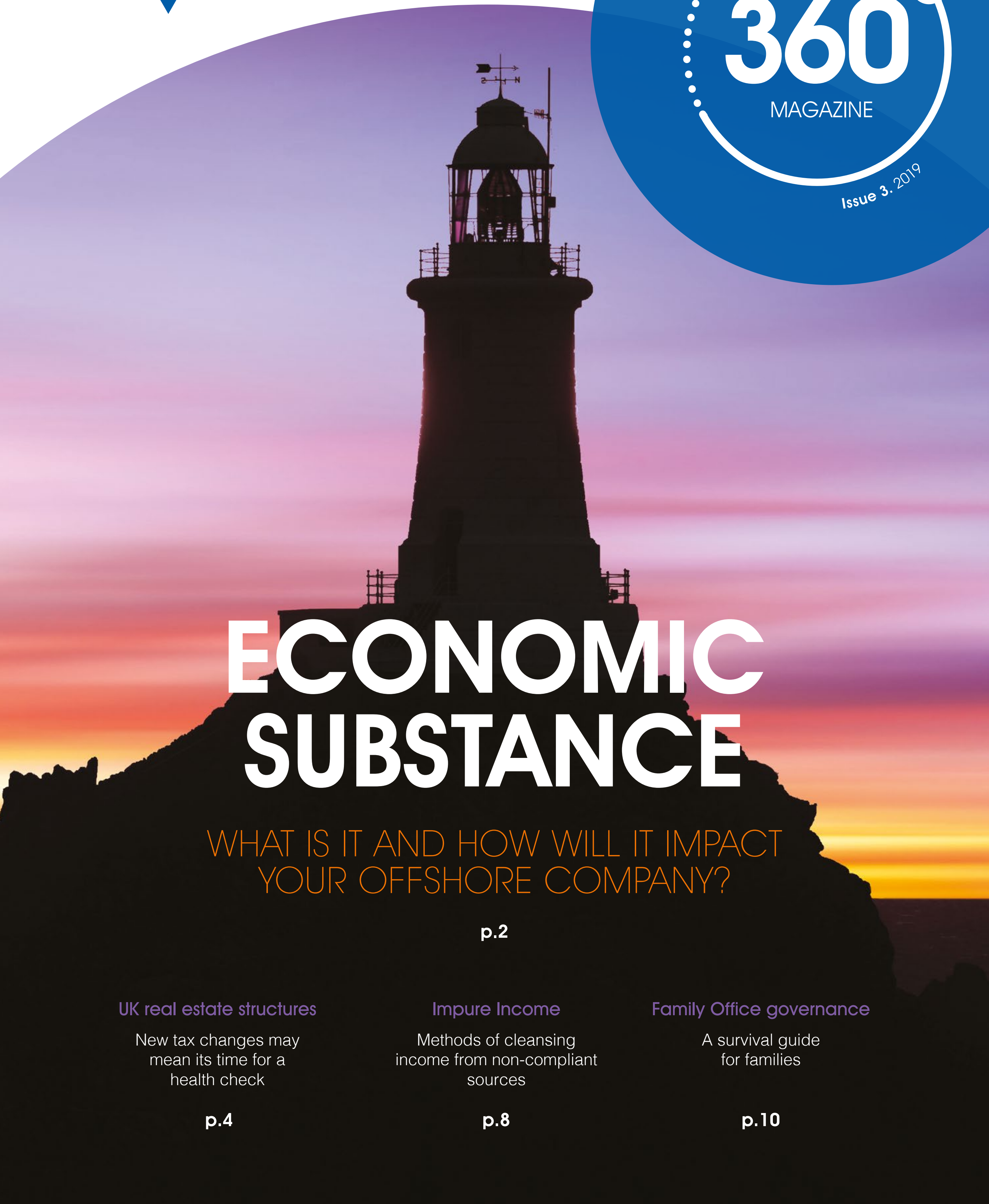
VG

Independent fiduciary
and administration solutions

360
MAGAZINE

Issue 3. 2019



ECONOMIC SUBSTANCE

WHAT IS IT AND HOW WILL IT IMPACT YOUR OFFSHORE COMPANY?

p.2

IN FOCUS

WELCOME TO **VG 360 MAGAZINE – ISSUE 3**

TO B OR NOT TO B? THAT IS THE QUESTION!

HOWEVER, WHILE THE BREXIT SAGA CONTINUES, JERSEY REMAINS A SAFE HARBOUR OF CERTAINTY, CLARITY AND STABILITY.

"The expectation is that, given the high professional standards and commitment to good corporate governance that already exists in Jersey, most companies can already demonstrate that they meet the new substance requirements."

Joe Moynihan
CEO, Jersey Finance

Against a backdrop of new legislation and tax changes, increased regulation and geopolitical turmoil, the island continues to be a beacon for clients – which is why we have chosen to place Jersey's very own La Corbière lighthouse on the front cover of this issue.

Governance and **substance** are flavour of the month with EU Finance Ministers formally confirming Jersey's position as a cooperative jurisdiction following an extended period of screening on 12 March 2019. Our lead article takes a close look at substance and the impact it may have on offshore companies.

In **Family Office – A Survival Guide**, we provide a brief to the types of governance required to ensure that a family complies with the myriad of applicable laws and regulations whilst retaining the flexibility of a family's structure. We also take a look at how you can futureproof your UK real estate structures in light of recent Capital Gains Tax changes in **UK Real Estate Structures – Time for a health check?**

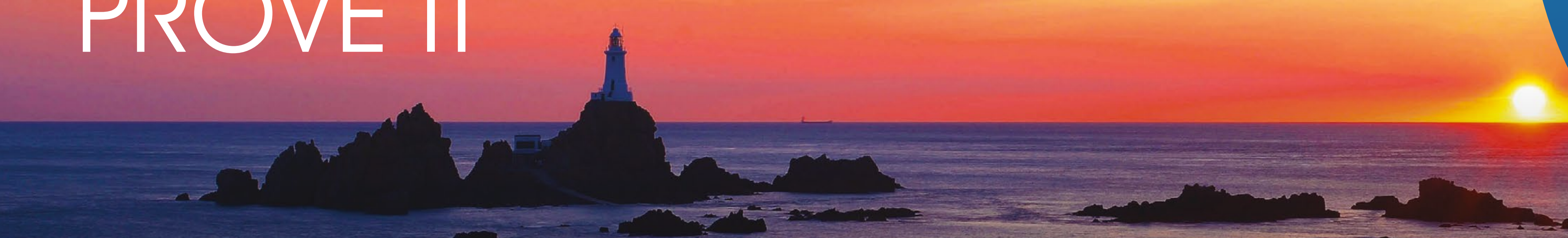
We are delighted to include guest contributions in this edition from Rosette Merchant Bank on **Weathering the storm – Geopolitics and UK Real Estate** and a discussion by CMS and Bespoke Globiz on **Impure Income**. Meanwhile **The High Street Reborn**, written by Numerica Associates, looks at the combination of residential and retail in attractive surroundings with close links to cities. Is this the acorn of an innovative new asset class?

We also introduce the **Jersey International Savings Plan** which launched in January 2019 and hear from VG's very own Carina Santos and her unique view point on how she 'took a **look behind the curtain**' from working in the Jersey Financial Services Commission ("The JFSC") to joining VG.

I hope you find the magazine interesting and informative. We try to capture some of the themes that matter to clients and partners and we welcome any feedback, however challenging!

These are interesting times; let us see what lies ahead in the next 6 months before VG 360 Issue 4.

Claire Malkoun
Editor
Director – Business Development
T +44 (0)1534 500493
M +44 (0)7700 721355
E cmalkoun@vg.je



ECONOMIC SUBSTANCE PROVE IT

There is no doubt that 'substance' is flavour of the month in the offshore jurisdictions. But what is it and how will it impact your offshore company?

To start with, it is important to understand that the recent focus on substance was driven by the EU list of non-co-operative jurisdictions for tax purposes published in December 2017*. This identified areas of concern over tax practice and transparency and 'invited' relevant jurisdictions to address those deficiencies by 31 December 2018 (or be blacklisted). For the Channel Islands, where transparency and reporting are well established, the area of concern was the "existence of tax regimes that facilitate offshore structures that attract profits without real economic activity" or, in very simple terms, lack of 'substance' within the jurisdiction.

In line with the other UK Crown Dependencies, Jersey responded by passing the Taxation (Companies – Economic Substance) (Jersey) Law which came into force on 1 January 2019. This legislation applies to all companies resident in Jersey for tax purposes, and seeks to ensure that companies performing various prescribed activities generate an appropriate level of economic activity and can also demonstrate effective governance and oversight in the island. The activities are defined by the OECD's Forum on Harmful Tax Practices** and include banking, insurance, shipping, fund management, holding companies, headquarters and intellectual property.

Restricted Services

The most immediate impact is likely to be on 'restricted service' entities – companies which have a registered office address on the island but non-resident directors and little or no local infrastructure. Where their activities are 'relevant' these entities will need to change, close or move onshore (relocation to another offshore location is unlikely to be an option because most have already committed to implement an equivalent substance regime). So one of the first questions to ask is – do the company's activities fall within the OECD definitions and if so does it still serve a valuable purpose to you?

There is no need to panic though. If this all seems complicated and potentially expensive, there is help at hand. At VG, we have worked with restricted service entities for many years and we are committed to supporting both current and new clients. We understand the importance of protecting your legitimate confidentiality while meeting all relevant laws and regulations. You will, almost certainly, need specific advice if the company falls within the scope of the new law but we do offer a preliminary analysis to help make that determination and, if necessary, we can help you to build a revised structure that meets substance requirements.

Our commitment

In practice this could mean providing local directors to help demonstrate strategic and management decision-making, organising board meetings, producing accounts, performing administrative functions and retaining records, or a combination of these functions. However, whatever is needed to demonstrate that the economic substance of the company on the island is commensurate with its activities, our commitment is to offer a competitive, fixed fee for those services so that you have certainty and clarity.

Demonstrating substance is particularly problematic for companies holding, or deriving income from intangible assets such as intellectual property. If you own or control such a company, then you need to take advice without delay. Whilst restructuring may be possible, the timeframe in which this can be implemented is limited.

In conclusion, substance is an important issue if you have an offshore company and you do need to take appropriate tax advice as soon as practical.

What you need to know

1. The challenge from the EU Code of Conduct Group to all the jurisdictions was to have legislation which was effective from 1 January 2019.
2. All companies resident in Jersey for tax purposes are required to prove substance or they could be forced to close or move onshore.
3. Demonstrating substance is particularly problematic for companies holding, or deriving income from intangible assets, such as intellectual property.

AT VG, WE HAVE WORKED WITH RESTRICTED SERVICE ENTITIES FOR MANY YEARS AND ARE COMMITTED TO SUPPORTING EXISTING AND NEW CLIENTS

Debbie Du Feu
Senior Manager
T +44 (0)1534 712401
E ddufeu@vg.je

Karen Grieve
Associate Director
T +44 (0)1534 500429
E kgrieve@vg.je

*Source: https://www.consilium.europa.eu/en/press/press-releases/2017/12/05/taxation-council-publishes-an-eu-list-of-non-cooperative-jurisdictions/
** Source: http://www.oecd.org/ctp/harmful-tax-practices-2018-progress-report-on-preferential-regimes-9789264311480-en.htm

UK REAL ESTATE STRUCTURES
TIME FOR A HEALTH CHECK?

Historically, non-UK resident investors purchasing UK commercial property as an investment have benefitted from a fairly benign UK tax regime.

Prior to April 2019, there was generally no UK tax charge on any profits arising from disposal due to an increase in value of the property over the period for which it was held (capital gains tax 'CGT') and, through the use of leverage (both from third party and/or shareholders and other connected lenders), it was possible to achieve a relatively low net rate for UK tax on any rental income received.

However, both of these points are changing, and investors need to consider the commercial implications of these changes to ensure they fully understand the impact of the proposals on their investment structures and whether any alterations to the underlying corporate structures are subsequently required.

So what are the key changes?

1) The current exemption from capital gains tax for non-resident investors will be abolished from April 2019.

2) April 2020 sees the introduction of the corporate interest restriction which will be capped at the highest of: £2 million per 'group' (using the IFRS definition of a group), 30% of the structure's EBITDA, or actual third party interest costs.

3) Also from April 2020, non-resident corporate vehicles holding UK property will be subject to UK Corporation Tax on their rental income profits, rather than UK income tax as at present.

Capital Gains Tax

It is the CGT change that has grabbed the headlines and, whilst some investor groups have taken a view that this tax is something of a 'levelling of the playing field' because of similar taxes in other countries, others have focussed on the various (but limited) opportunities to reduce the CGT charge which include:

- A rebasing to the market value of the property at April 2019 for the purposes of calculating the gain, with an option to use historic cost if preferred. This is of particular relevance where a property was purchased a number of years ago and ensures any historic gain is not taxed.
- Exemptions for **'collective investment schemes'** from the CGT charge, although the investors become liable on the disposal of their shares or units in the vehicle.
- A **'transparency election'** for entities such as unit trusts (or JPUTs) such that any disposal of UK real estate is treated as a direct disposal by the individual investors, rather than the entity itself.
- An exemption for investors holding less than 25% of a property owing company.
- Exemptions for certain classes of investors such as sovereign immune bodies and pension schemes, subject to the nature of the vehicle owning the real estate.

What you need to know

1. From April 2020, non-resident corporate vehicles holding UK property will be subject to UK corporation tax on their rental income profits.
2. Historically, allowance for interest deductions from third party and shareholder loans has helped achieve a relatively low net percentage rate for UK tax charged on rental income.
3. This change from being assessed under income tax to corporation tax will require quarterly returns and may impact cash flow.

Key changes

There are too many variables in the mix of structures, investors, and asset classification to define a simple 'one stop fits all' solution, and the implications of changing a structure from a cost/benefit perspective need to be considered before any such changes are implemented. It therefore follows that getting the right advice on a timely basis is even more critical than before, particularly where there is a diverse mix of investors and promotors of structures are looking to give maximum flexibility and take advantage of relevant exemptions and other opportunities to minimise any tax liabilities.

Corporate interest restriction

Historically it has been possible to achieve a relatively low net percentage rate for UK tax charged on rental income received after allowance for interest deductions from third party and shareholder loans. The new corporate interest restriction will introduce a cap on the deductible amount, but a critical aspect is that the cap is restricted by any 'group' of related entities. The definition of a 'group' is in accordance with IFRS 10 "Consolidated Financial Statements" that focusses on the concept of control, rather than the former measure of percentage shareholding.

IFRS 10 considerations

Previously, it was relatively simple to structure a series of seemingly related entities such that they failed the consolidation test, however IFRS 10 changes this. Now, where a single investor has a significant 'controlling' interest over a number of structures these could be grouped and the deduction under the corporate interest restriction applied across the various structures. This could therefore effectively increase the tax payable across the 'group'.

NOW IS THE TIME TO CONSIDER SUBMITTING COMMERCIAL PROPERTY STRUCTURES TO A HEALTH CHECK

Change to basis of assessment

The change from being assessed under income tax to an assessment under corporation tax will require quarterly returns and may impact cash flow. It has been proposed by HMRC that certain restrictions on the use of 'brought forward' losses will apply but, on the positive side, a 2% annual depreciation allowance will be introduced for most types of commercial buildings.

In summary, whilst there are many similarities to most UK commercial real estate investment holding structures it is the minor differences that are critical. These differences may be strategic, (e.g. a decision on whether to reinvest sale proceeds or return equity to investors) or in the nature of the financing mix, but the key differentiator will be the investors themselves who may be either exempt institutions, major stakeholders in a number of structures, or possibly only have a minor holding.

It is for this reason that now is the time to consider submitting commercial property structures to a health check. Regardless of that decision, if you choose to do nothing else at this time, obtaining a market valuation at 1 April is seen as critical in ensuring an appropriate base point for future CGT calculations.

Trevor Norman
Director
T +44 (0)1534 500418
E tnorman@vg.je

IMPURE INCOME
AN ESG PERSPECTIVE

SHARIFAH BAKAR ALI, BESPOKE GLOBIZ
SHAKEEL ADLI AND CHINYELU ORANEFO, CMS

INVESTORS CLEANSE IMPURE INCOME BY GIVING THE MONEY AWAY TO CHARITIES OF THEIR CHOICE. NO BENEFIT MUST ACCRUE TO THE DONOR IN THE PROCESS

Not all income received by Islamic institutions is Shariah-compliant. Given that Islamic Finance co-exists with conventional finance, it is almost impossible to find fully Shariah-compliant assets to invest in. Income earned from non-compliant sources must therefore be 'cleansed'.

Practitioners came together recently at two events to look at the definition of impure income and how it is treated. The first was a round table discussion held in Kuala Lumpur. The other was the "Beyond Profit: Global Purification Fund and SRI/Green Sukuk for a Sustainable Future" event held in London.

Shariah standards

Impure income can be passive or active. Passive sources include interest from conventional NOSTRO accounts tied to Islamic accounts, parts of late payment penalties imposed on Shariah financing or commitment fees on undrawn Islamic facilities. For fund managers it includes gains made from disposal of equities that breach Shariah standards, while in the real estate context, it arises from rental income attributable to space used to sell non halal products. The active source comprises income earned from Islamic contracts that do not follow proper Shariah sequencing.

Shariah conventions require the immediate expulsion of impure income from financial statements once identified. Investors cleanse impure income by giving the money away to charities of their choice. No benefit must accrue to the donor in the process.

Further scrutiny

Speakers at the London event questioned if the above definition is exhaustive. They argued that income from investment activities that cause harm to the environment and society must be scrutinised further. These should also be purified if proven impure. They asked, should the real price of an Islamic mortgage include the 'cost' of enslaving a borrower? Should the profit rate of a project finance Sukuk consider the carbon footprint left by projects? Synergy can be achieved between Environmental, Social and Governance (ESG) principles and Shariah rules in defining impure income, the speakers suggested. Income from non-halal meat sources, for example, is prohibited by Shariah practice driven largely by the need to ensure the protection of animal welfare, a practice propagated by ESG principles.

Encouraging mindfulness

Speakers were then asked to consider the creation of a fund from impure income to build social assets such as schools and hospitals. In general they felt this is a noble cause, however, they cautioned the fund must not encourage the creation of more impure income or the recognition of harmful practices.

Upon further deliberation they agreed that, if viewed from an ESG perspective, the fund may very well encourage Islamic institutions to be more mindful of the harm that capital can bring to the environment, economy and society in general. They were also amenable to the fund being combined with **waqf** and **sadaqah** monies to create scale for bigger social projects.

Sharifah Bakar Ali
Director
Bespoke Globiz – Consulting and Advisory
T +603 2298 8442
E sharifah@bespokegb.com

Shakeel Adli
Partner, Head of Islamic Finance
CMS
T +971 (0)4374 2816
E shakeel.adli@cms-cmno.com

Chinyelu Oranefo
Senior Associate – Banking & Finance
CMS
T +44 (0)20 7524 6932
E chinyelu.oranefo@cms-cmno.com

FAMILY OFFICE GOVERNANCE
A SURVIVAL GUIDE

Governance is the framework of structures, policies and controls that enables all stakeholders to be confident a business is operating in accordance with applicable laws and regulation as well as with the entity's own internal constitution.

Why does it matter for families?

One of the key advantages of a Family Office (or looser structure set up to control family assets) is its flexibility. Decision-making can be quick and effective, interests should be well aligned and they are often lightly or even unregulated.

So why is governance such a hot topic for families? Here are seven reasons why it is critical to get it right:

1. Many families are controlled by a **dominant personality.** This is often the person who has generated the family wealth and demonstrated a successful track record as an entrepreneur and/or investor. You may not want to constrain that talent but bear in mind that airplanes have crashed because co-pilots were too scared to challenge their more experienced colleagues in the cockpit…
2. Unfortunately families are not exempt from **disputes and litigation**. Effective governance can reduce the risk (in the simplest case by ensuring that there is a 4-eye review of key decisions and documentation) and make it easier to defend yourself if it does happen.
3. There are typically **multiple stakeholders** in a family, and governance can provide a framework for them to understand what is happening and to have a voice in decision-making where it is appropriate. And, even if they do not need to be involved, governance can give them confidence in both who is making the decision and how it is reached.
4. **No family is an island** (to paraphrase John Donne). We live in a world of global trade and investment and, if your family wishes to invest alongside partners or with banks and advisers, for example, they will expect to see the evidence of an effective governance framework in signing up to agreements or contracts.
5. **Anti-Money Laundering** ('AML') and **Customer Due Diligence** ('CDD') are a fact of life across all entities and jurisdictions. Proper governance can make it much easier to comply while protecting the confidentiality and privacy of family members.
6. **Succession** is a key stress point for families. Handing over the reins can be a lot easier if the structure of the Family Office has been established and the roles and responsibilities agreed at the outset. These checks and balances can survive and facilitate a transfer of control within an agreed structure.
7. **Laws and regulations** are increasingly cross-jurisdictional. In many ways FATCA established the precedent but the UK and EU have followed suit – extending their reach beyond citizens and resident businesses to any party wishing to transact in, or with, their territory (for example EU rules on Data Protection). In all these cases a family needs to comply and, just as importantly, be able to demonstrate that compliance.

What you need to know

1. One of the key advantages of a Family Office is its flexibility. Decision-making can be quick and effective, interests should be well aligned and they are often lightly or even unregulated.
2. Succession is a key stress point for families. Handing over the reins can be a lot easier if the structure of the Family Office has been established and the roles and responsibilities agreed at the outset.
3. Laws and regulations are increasingly cross-jurisdictional. In all these cases a family needs to comply and, just as importantly, be able to demonstrate that compliance.

MAKE SURE YOU APPOINT SOMEONE YOU TRUST

So how do you retain the flexibility of a family structure and still enjoy the benefits of sound governance?

First, it is important to understand the key principles for your own family structure. You should then be able to build a framework that respects those principles while creating a suitable level of assurance to all stakeholders. Of course, there will be a process of 'give and take' and you will almost certainly need to be willing to adapt but the gains can be considerable.

It may be helpful to think about some specific questions about your business as it is today (these are not exhaustive and they are in no particular order):

- What works well in your current structure and why?
- Does it work well simply because one member of the family makes a decision without reference to anyone else?
- Have you documented the risks that your family is facing and how you are mitigating those risks?
- How easy do you find it to transact with third parties – do you have the answers to their questions or is each engagement a painful process?
- Do all family members feel happy with the information they receive (bearing in mind that they may not really want or need to be involved at all)?
- Is there evidence of how decisions are made and why? This can often 'save' you in the event of a dispute or litigation.
- Have you recognised the conflicts of interest within your family and with advisers/counterparties and are you happy that they are managed appropriately?
- Is anyone independent actively involved with the family who can, and does, provide advice and challenge?
- Have you kept proper records, for example evidence of ownership, and do you know where to find them?
- Have you ever had an independent (and confidential) review of your governance? Governance should be individually tailored to your needs, protecting what you value most while taking into account best practice.

So how do you proceed from here?

- If you recognise some of the challenges you face in your family, and see the opportunity to improve how your structure works, then make effective governance a priority.
- Look for someone with the relevant knowledge and experience to advise you. Governance is a specialist subject like any other and there is an evolving model of best practice. You do not have to solve every problem from scratch.
- Make sure you appoint someone you trust enough to allow full access to your family's confidential information and whose advice you are willing to embrace.

At VG, we have worked with families for more than 35 years, specialising in the Middle East, so we are familiar with the challenges and some of the solutions. We have strong compliance, risk and company secretarial capabilities and we would be delighted to offer our family clients a free governance 'health check' when they join us.

If you have any specific concerns or just want to discuss the issues then feel free to give us a call.

Iain Mason
Director, Compliance and Operations
T +44 (0)1534 500445
E imason@vg.je

Ian Murphy
Head of Compliance and Risk
T +44 (0)1534 500406
E imurphy@vg.je

OF COURSE, THERE WILL BE A PROCESS OF 'GIVE AND TAKE' AND YOU WILL ALMOST CERTAINLY NEED TO BE WILLING TO ADAPT

WEATHERING THE STORM GEOPOLITICS AND UK REAL ESTATE

WHY REAL ESTATE FUNDAMENTALS ARE MORE IMPORTANT NOW THAN EVER.

What you need to know

1. More so now than ever, investments should be underpinned by income generation fundamentals without reliance on capital appreciation. Long leases continue to be an intrinsic theme for sound investments.

2. Tax changes from April 2019 represent a significant departure from the existing regime and non-resident investors must consider the impact of such changes on their existing structures, with which VG are well-placed to advise.

3. Rosette views the UK market's potential short-term volatility as an opportunity to acquire good value assets in 2019, with a continued focus on core property fundamentals that will withstand the headwinds that a 'bad' Brexit might bring.

GIVEN THE VERY SHARP YIELDS PAID FOR LOGISTICS FACILITIES, COULD RETAIL YIELDS COMPRESS WHERE THEY PROVIDE A LOCAL LOGISTICS SOLUTION?

Zahir Nayani, Rosette Merchant Bank

Whilst geopolitical uncertainty continues in earnest with no immediate let up in sight, we continue to witness the 'evergreen' attraction of UK real estate amongst our GCC and Asian investor base.

Presently, real estate markets are intently watching and waiting to see what form Brexit will take. This was not explicitly the case in 2018 where investment volumes continued without dipping. The outcome of Brexit will dictate how the UK real estate sectors react over the year ahead.

Opportunity ahead

Potential short-term volatility in the UK market post Brexit means we see an opportunity to pick up good value assets this year. If structured as long income (possibly amortising) transactions, we see this as mitigating some of the short-term volatility in valuations likely to be seen in the immediate aftermath of Brexit.

For Rosette, acquisitions will continue to focus on core property fundamentals that will withstand the headwinds that a 'bad' Brexit might bring. As ever, a key aspect of our business plan is income generation and not relying on capital appreciation. Long leases continue to be an intrinsic theme for investments.

Retail potential

The wider retail sector continues to witness contractions, as savvy shoppers scour the high street and internet for the best deals. The effects of the gradual move to online shopping is still working its way through the retail sector. However, we see value in the larger supermarket retailers in the right locations. Long leases in urban locations that have strong underlying site value will ride through Brexit and likely the next market event as well. It has been said by many that larger supermarket stores will become obsolete. We support the contrarian view that many larger stores actually have great potential to adapt to changing consumer trends.

By changing their configuration, larger stores can service online deliveries, either through 'click and collect' on site or as local logistics hubs for deliveries. Given the very sharp yields paid for logistics facilities, could supermarket yields compress where they provide a local logistics solution? It is a thesis we at Rosette are closely monitoring.

Real estate trends

Turning to student accommodation, it will surprise many that the number of students from the EU in the UK is actually very low. Given the comparatively cheap pound, it is conceivable that the more predominant countries sending students abroad to UK universities will see a bargain and take-up any slack in applications.

Aside from Brexit dynamics, there has been a steady 'flight to quality' by UK students, with decreasing applications to lesser ranked universities and increased applications for the higher ranked.

Offices also remain an attractive investment sector for our clients. Highly skilled professionals working in office space specially fitted out to cater for the needs of their highly skilled workforce, can be found across the UK. When companies have come to rely on this specialist workforce and in a particular location, we see value. Ideally, this would be compounded by the underlying site value but be complimented by the tenant's desire to invest further into the site. Specialist use for research and development or technical infrastructure, such as on-site data centres, are occupier themes and attributes that we will be looking for in our acquisitions over the year ahead.

Inward investment

In summary, for all the political 'noise', the UK remains attractive for inward investment due in part to our mature real estate market, established legal and regulatory framework and the oft-overlooked fact that title to real estate is guaranteed by HM Land Registry.

Investors should also be cognisant that, from April 2019, the current exemption from capital gains tax for non-resident investors will be abolished. In addition, from April 2020, non-resident corporates holding UK property will be subject to UK Corporation Tax on their rental income profits, as opposed to UK income tax as at present. These changes represent a significant departure from the existing regime and non-resident investors will need to consider the impact of these changes on their existing structures.

About Rosette Bank

Based in Mayfair, Rosette Merchant Bank LLP is an independent investment advisory and asset management firm specialising in commercial real estate, capital markets, supply chain finance and bespoke family office services. Our client base includes corporates, institutions, ultra-high net worth individuals and family offices in the GCC and Asia. Founded in 2003, and regulated by the Financial Conduct Authority, we have close ties to Kuwait and the rest of the GCC states.

Zahir Nayani
General Counsel
Rosette Merchant Bank LLP
T +44 (0) 20 7042 8376
E zahir@rosette.co.uk

THE HIGH STREET REBORN

RETAIL THERAPY – A NEW ASSET CLASS

HIREN SHAH,
NUMERICA ASSOCIATES

A decade ago VG established Rio Estates Limited in partnership with Hiren Shah, Managing Director of property consultants Numerica Associates Ltd, property company Deekay Management Ltd, and accountants Shah Gillani & Company. Now ten years later the same group has come together to form Natal Estates (Jersey) Limited, a new vehicle focused on an innovative asset class: neighbourhood centres within commuter belts, comprising high quality retail units and amenities supporting new housing developments in vibrant surroundings which offer attractive yields to investors.

A community hub

Located in Chelmsford, Essex, Beaulieu Square is the community 'hub' serving Beaulieu, a development of 3,600 new homes across a 604 acre site. Conceived as a series of 'neighbourhoods' connecting to the wider landscape and countryside, within easy commute to London, Beaulieu represents a new way of modern living – attractive housing in a safe community setting served by schools, sports facilities, transport links and retail amenities. Beaulieu Square provides a variety of facilities for the residents with Sainsbury's, Bright Horizon's day nursery and Costa Coffee alongside local businesses and services. It comprises 11 commercial units and 34 freehold ground rents with approximately 115 car parking spaces producing an annual gross rent of £460,190.

Natal obtained consent under the Control of Borrowing (Jersey) Order 1958 from the Jersey Financial Services Commission, with borrowing secured both from shareholders and a Guernsey Bank. A net initial yield on purchase costs of 5.68% is anticipated, and the company will seek to distribute 3% per annum to the shareholders.

A strong demand

Commenting on the formation of the new vehicle, 'Natal', Hiren Shah said '*Beaulieu Square represents a new way for retail – where previously we have seen the traditional high-street, out of town shopping centres and the big retail 'sheds' in commercial estates we are now seeing an appetite for a fourth way – the combination of residential and retail in attractive surroundings with close links to cities. As the retail sector undergoes a turbulent period in which a raft of administrations are underway, this type of high quality commercial property let to blue chip tenants is in strong demand. Having the right partners and infrastructure to act quickly is what we are geared up for in 2019 and onwards.*'

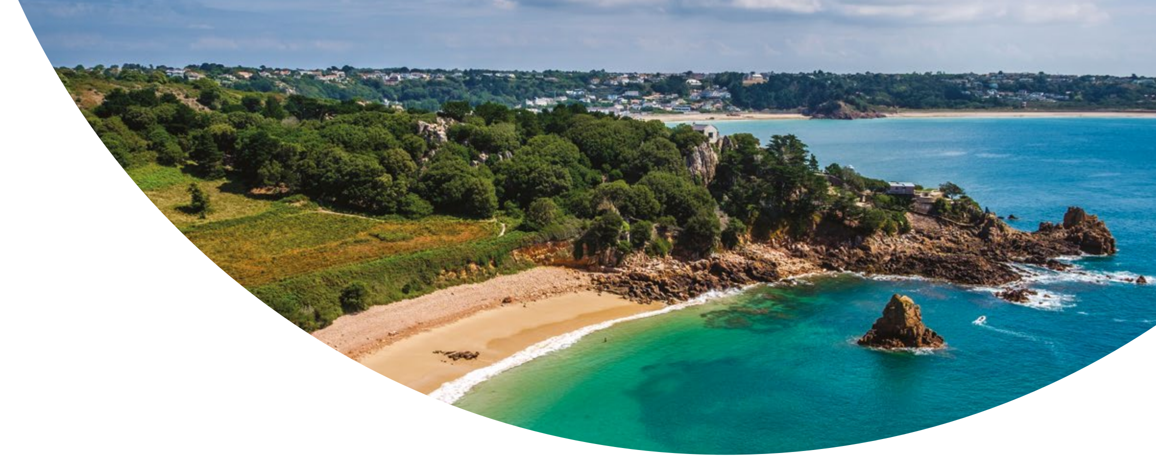
Mark Healey, Director of VG, commented on the formation of Natal Estates, '*It has always been a pleasure to work with Hiren and the Deekay team, having dealt with a number of mutual clients for almost 15 years. We are working much more closely of late in order to provide a 'one stop' service to attract investors into new commercial property opportunities. Deekay's strong reputation and trust in the market place is key to being able to attract assets that are safe and secure.*'

Hiren Shah
Managing Director
Numerica Associates
T +44(0) 20 8931 1555
E hiren.shah@kimberleyhouse.co.uk

WE ARE NOW SEEING AN APPETITE FOR A FOURTH WAY – THE COMBINATION OF RESIDENTIAL AND RETAIL IN ATTRACTIVE SURROUNDINGS WITH CLOSE LINKS TO CITIES

For more information on Numerica Associates visit:
numericaassociates.com/homepage

For more information on Deekay visit:
www.deekayproperty.com



INTRODUCING JERSEY'S INTERNATIONAL SAVINGS PLAN

COMPANIES ARE ALWAYS LOOKING FOR THE MOST INNOVATIVE WAYS TO INCENTIVISE AND RETAIN THEIR KEY EMPLOYEES, BOTH LOCALLY AND ACROSS THE GLOBE.

Launched in Jersey on 1 January 2019, the International Savings Plan (ISP) is a new way for international employers to establish a savings plan product in a reputable, well-regulated jurisdiction.

What is an ISP?

An ISP is a savings plan which has flexible rules as to when benefits can be paid out. This makes it ideal for employees working for multi-national companies where traditional pension schemes might not be available.

Who is it applicable to?

Applicable to non-Jersey residents only, the plan is suitable for companies of all sizes, from the very small to multi-jurisdictional businesses with a global work force.

The scheme can be funded by the employer making regular contributions into the plan (we suggest this would most likely be as part of the monthly payroll run). These contributions would then be invested into a pre-agreed investment strategy which would aim to provide tax free growth.

What are the benefits to both employer and employee?

Key features of the ISP include:

- The scheme is officially recognised by the Jersey Tax Office
- Any income or capital gains made within the plan are tax free in Jersey
- Payouts to plan members are free of any withholding taxes in Jersey
- Payouts are very flexible and can, if deemed necessary, be dependent on members' personal circumstances i.e. redundancy, ill health or other criteria
- Payouts can be made potentially at any age
- A range of investment alternatives can be provided including Shariah-compliant (if required)
- The ability to tailor each plan to meet employer and employee requirements

Off-balance sheet benefit

By holding the plan off a company's balance sheet, it provides the employer and employee with the comfort that benefits will be secured as they will be isolated from any credit risk of the employer and will be controlled by an independent party.

Is this a suitable product for all businesses, regardless of location?

Despite this product being attractive to businesses across all industry sectors, the consensus is that the ISP will be of especially high interest to businesses based in the Gulf Cooperation Council (GCC) states. It is a legal requirement for resident companies within the GCC to provide end of service gratuity benefits to employees following a certain period of service and this product is an ideal solution to service this requirement.

Why Jersey?

Jersey has always been very highly respected in the incentives industry due to its strong regulatory framework, independence, tax neutrality and experienced work force. As an award-winning international finance centre it has always provided a wide range of employee focused products including share plans, employee benefit trusts and pension plans. The introduction of the ISP to the island is the latest example of Jersey being one step ahead of the rest in terms of innovation.

How can VG help?

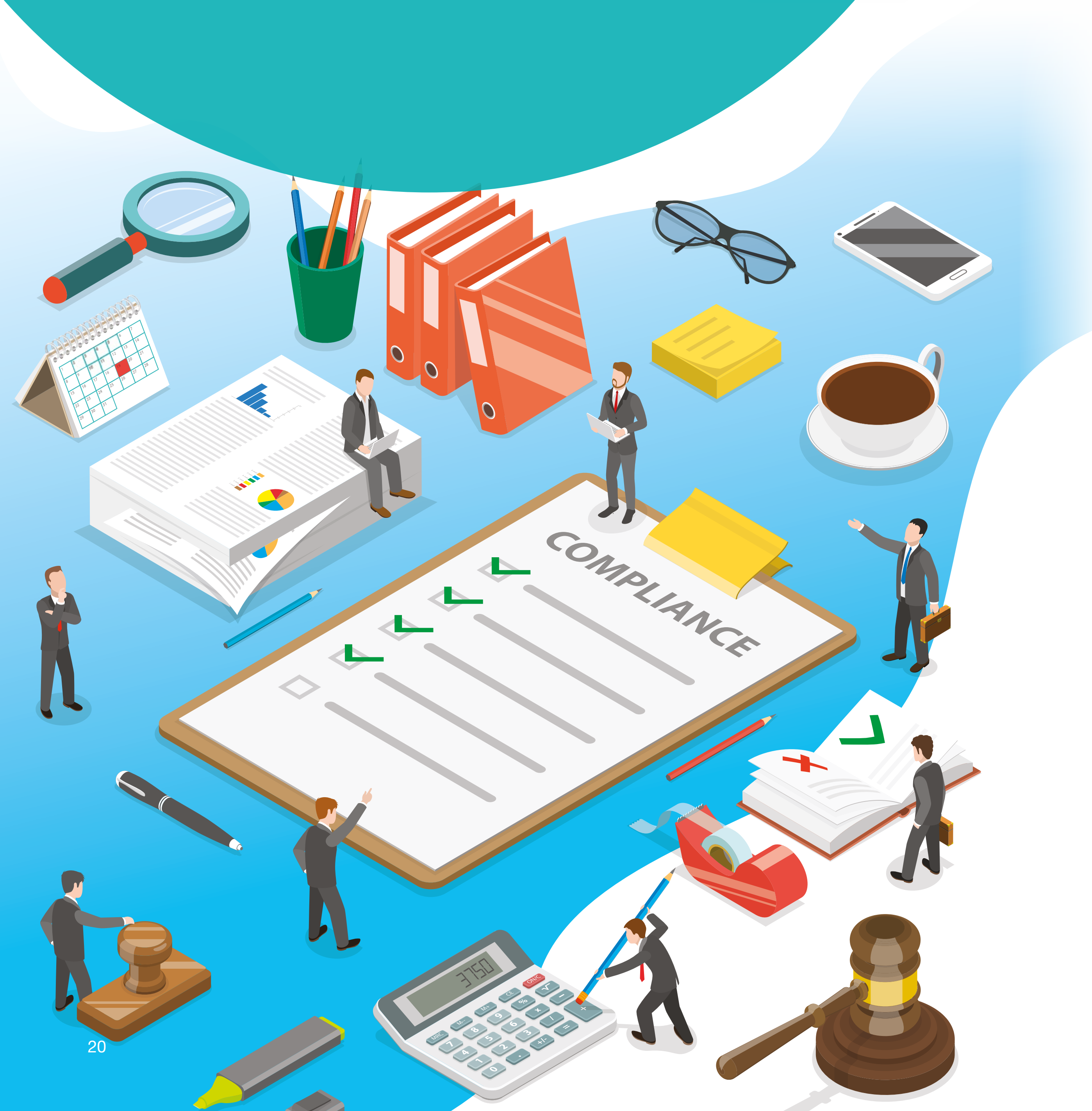
VG has significant experience in acting as trustee for similar plans. We apply our trustee, administration, record-keeping and reporting capabilities to assist you and your advisers to deliver the optimum structure for your needs.

To find out how VG can assist you or if you would like to find out more on ISPs, please contact us.

Joel Wheeler
Senior Trust Officer
T +44 (0)1534 500481
E jwheeler@vg.je

Mark Healey
Director
T +44 (0)1534 500422
E mhealey@vg.je

COMPLIANCE FROM GAMEKEEPER TO POACHER



More than just an audit function

I *'stumbled'* into the world of compliance, that is to say that I didn't even really know what compliance was. Most of the time it seemed that it was a burden to businesses, often demonstrated by phrases like "compliance always says you can't…". However, rather than deterring me, this had the opposite effect – making me want to understand why compliance was putting up these barriers. This curiosity eventually led me to actively seek a job in a compliance department.

Some people compare compliance to an audit function, and in some ways this makes sense. However, I soon discovered that there is so much more to the role. For example, did you know that the VG compliance team has to approve all publications for wording and content, including branded items and advertising campaigns, before they are published in order to ensure that all the content is correct from a legal and regulatory standpoint?

The other side of the coin

I started my career in compliance working on the other side of the coin – at the JFSC, the body responsible for the regulation, supervision and development of the financial services industry in Jersey. Working at the Regulator gave me a fast-paced platform to grow and develop my knowledge; I was fortunate enough to have the opportunity to work in different departments and, as a result, I was exposed to various areas within the industry. I was encouraged to use my own initiative and, alongside studying for my ICSA exams, I was able to piece together knowledge of what 'best practice' should look and feel like in the financial services industry.

A look behind the curtain

It wasn't enough for me though and, in order to experience the practical side of how compliance and regulation come together to support one of the top global offshore finance centres, I needed to 'take a look behind the curtain'. I realised that the best way I could achieve this was to immerse myself in a compliance role and VG offered me precisely the right opportunity at the right time to take on this new adventure.

At VG, I have been able to use my previous experience and knowledge to help the team, and I have also been exposed to the different processes which a compliance department handles, seeing first-hand the scope of the role. For example, I was astonished to see just how much work goes into every task before any submission is made to the JFSC! How the tables have turned in terms of my view from the other side.

Total investment

It is clear at VG that the whole company understands the importance of the compliance function, something evidenced not just by involvement of the team in discussions but also requests for comments and views on particular matters. It has also been encouraging to see that the compliance team forms a cornerstone of the Trainee Programme, enabling trainees to take specific knowledge with them when they move across other teams, thereby educating the rest of the business.

The culture at VG is one of the most important factors contributing to a great work place. A healthy inquisitive environment has allowed me to flourish within a team consisting of individuals with a good mix of experience, knowledge, expertise and skills whilst allowing me to continue to develop personally and learn new skills with every new challenge I face.

Carina Santos
Compliance Administrator
T +44 (0)1534 500455
E csantos@vg.je

IT IS CLEAR AT VG THAT THE WHOLE COMPANY UNDERSTANDS THE IMPORTANCE OF THE COMPLIANCE FUNCTION.

CLIENT DUE DILIGENCE
THE PERFECT RECIPE

ISN'T CLIENT DUE DILIGENCE SIMPLY A MATTER OF GOOD COMMON SENSE?

What you need to know

1. Identifying and obtaining evidence of someone's identity serves to assist and protect both institutions and their clients.

2. An appropriate, well-thought out, risk-based approach to obtaining CDD adds greater value every time by allowing institutions to gain a greater understanding of clients and assess where the potential risks may manifest themselves.

3. CDD not only allows us all to play our part in the countering of money-laundering and fighting terrorism as well as other issues we face in our modern world today, but it also helps us to be better managers.

Protecting interests

Mention the words 'Client Due Diligence' (CDD), in some financial organisations and you'll be able to observe the angst of those tasked with having to procure it.

But, just for a moment, let's consider this: isn't client due diligence simply a matter of good common sense?

"Don't talk to strangers"! How many times did we hear this as children? Why were we warned of such dangers? Basically, to protect us from the unknown.

Just to be clear, I am not suggesting we should think of our clients as strangers, but we do need to get to know them and they need to get to know about us. It makes sense to understand who we interact with in our working environment, whether they are an internal or external party. After all, we should be working on the assumption that we want to have the type of relationship which benefits everyone involved while protecting their interests.

For many of us, the process of having to undergo identification protocols for legal and commercial reasons is part and parcel of everyday life now, so why is it that the subject of CDD can sometimes be so controversial?

A clear explanation

Isn't the real controversy with requesting and obtaining CDD centred on 'why' we ask for something, not 'what' we ask for? We need to consider the purpose and value the due diligence we request from our clients and third parties achieves and how we can utilise this to best effect. In addition, we also owe a duty to our clients to ensure we explain why we need certain items to identify (and verify) them and what we will use that information for during the duration of the relationship, not just at the start of it.

A good example of this was recently brought to my attention by an acquaintance who was asked to produce an up-to-date address verification document by their bank. They explained to the person at the bank the fact that they had literally moved residence three weeks previously and also confirmed their commitment to providing new, up to date documentation as soon as possible. To their amazement, the response from the person at the bank was, 'Do you have anything with your old address on?' Somehow, I suspect the person requesting the due diligence, missed the very concept of what they set out to accomplish.

Well-thought out approach

Simply requesting things for the sake of 'box-ticking' adds no value and serves no useful purpose. As compliance and risk professionals we should be conditioned to understand the critical part good due diligence plays to all parties concerned, but the component parts being requested need to be thought out and serve a purpose. An appropriate, well-thought out, risk-based approach to obtaining CDD, (which must also involve a good degree of commerciality), adds greater value every time by allowing institutions to gain a greater understanding of clients and assess where the potential risks (to both institution and client), may manifest themselves.

So how do we go about achieving this?

Well, imagine just for a moment, we as compliance and risk professionals are chefs, setting out to create the perfect recipe. Firstly, we would give consideration to the ingredients required and the potential of what these raw ingredients could create when combined together. We would then need to consider the quantity of each of these ingredients and how we could obtain them. Finally, we could set about bringing the ingredients together and creating something appropriate. Something which serves the needs of both client and chef. The perfect recipe.

Good compliance and risk professionals should be like good chefs. They should choose what they consider to be the finest raw ingredients, bring them together in the correct quantities and create the perfect recipe of due diligence! Just like good chefs, we should not be simply flinging raw ingredients together in the hope that the result may turn out to be something palatable. To create the perfect due diligence recipe, we need to plan ahead, use our expertise and bring everything together in the correct quantity.

A close relationship

Identifying and obtaining evidence of someone's identity serves to assist and protect both institutions and their clients. It allows us to understand who our clients are, what they want and helps us to provide the best possible levels of service we can. It not only allows us all to play our part in the countering of money-laundering and fighting terrorism as well as other issues we face in our modern world today, but it also helps us to be better managers, understand more about our clients, improve service levels and protect the relevant parties.

CDD is not something to be feared, loathed or avoided. It is not about box-ticking and obtaining the minimum we can get away with. It's about understanding clients. Done properly, the procurement of CDD should be straightforward to achieve and add value at all levels.

Like any good recipe, it takes effort, but the end result is usually worth it.

Bon appetit!

Ian Murphy
Head of Compliance
T +44 (0)1534 500406
E imurphy@vg.je

MEET OUR TEAM

TO ARRANGE A MEETING WITH OUR TEAM, PLEASE CONTACT:

Claire Malkoun
Director – Business Development
T +44 (0)1534 500493
M +44 (0)7700 721355
E cmalkoun@vg.je

International

Malaysia	22 – 26 April 2019 IFN Asia
Dubai	29 April – 1 May 2019 Alliott Group EMEA Regional Conference
Lebanon	13 – 16 May 2019
US/Canada	16 – 20 June 2019
Netherlands	18 – 20 September 2019 SuperReturn CFO/COO Summit
Kuwait	12 November 2019 IFN Kuwait

In addition, we travel to Saudi Arabia, Kuwait, UAE and Africa. We will publish these dates in the next issue.

UK

We travel to London and the UK every other week.

London	2 – 3 July 2019 London Sukuk Summit
	3 July 2019 Arab British Economic Summit 2019 and Dinner – Arab British Chamber of Commerce
	4 July 2019 Arab Bankers Association – Annual Real Estate Seminar
	4 September 2019 IFN UK Islamic Finance Week
	10 September 2019 Jersey Finance Annual London Funds Conference
	26 September 2019 Jersey Finance Annual London Private Wealth Conference
	10 October 2019 BVCA Summit