

INTERVIEW

In the Chair...Mark Simmonds MP, Parliamentary Under Secretary of State at the Foreign & Commonwealth Office



Part of Mark Simmonds MP's remit at the Commonwealth Office is providing support for the Overseas Territories. IFC spoke to Mr Simmonds about what this support entails, particularly with relation to the IFCs that some of the OT host.

IFC A number of the Overseas Territories (OTs) and Crown Dependencies (CDs) have set themselves up as successful international finance centres. How important do you think their role is in the global movement of wealth?

MS: *The Overseas Territories, which are part of my Ministerial responsibility, and the Crown Dependencies, include some of the world's leading financial centres and play an important role in the global economy and driving global economic growth. I discussed these very important issues with Territory Leaders at the Overseas Territories Joint Ministerial Council in November. We agreed in the Communiqué to create a fair, responsible, and effectively regulated global business environment and to work together to promote the application of high international standards. Financial business is global and everybody, not just the Overseas Territories and Crown Dependencies, should play their part in developing and applying international standards.*

It is not just me who talks about the positive role that international financial centres can play for third countries. Academic literature also supports this. For example, in 2010 Professor Sharman suggested that international financial centres help domestic and foreign investors in developing countries access the kind of efficient institutions necessary

to drive growth, but which are often unavailable locally.

IFC How important is the financial services sector to the economies of these jurisdictions?

MS: *The international financial centres hosted by the Territories are conduits of capital in the global economy where international trade is based on complex value and supply chains. Most Territories rely heavily on one or two economic sectors, one of which is financial services. In some Territories financial services contribute more than 40 per cent to GDP and 20 per cent of government revenues.*

To give you some examples. The Cayman Islands is the world's leading centre for hedge funds and is also a significant wholesale banking centre. Bermuda is the third largest reinsurance centre in the world and the second largest captive insurance domicile. The British Virgin Islands is the leading domicile for international business companies and Gibraltar provides an extensive selection of financial services. The Crown Dependencies have similarly established important financial services industries with Jersey being a strong player in trusts.

Revenue from financial services activities allows the Territories to be self supporting and so, with the exception of Montserrat, they do not require financial aid from the UK Government.

That is why we are working closely with

both the Overseas Territories and the Crown Dependencies as the international standards evolve. We all share the same commitments to high standards, and together, we are in a stronger position to encourage other jurisdictions to follow the path we are taking. The steps announced by the Overseas Territories and the Crown Dependencies in advance of the G8 Summit in June are a clear demonstration of the results we can jointly achieve internationally.

IFC How important are they to the UK economy?

MS: *The Overseas Territories and the Crown Dependencies are separate jurisdictions, which have the right to compete in that market. In some areas there is competition but in others there are mutual benefits. The global nature of business and financial flows means that there is very close interaction between them and the City of London. For example, the UK is a net recipient of funds flowing through the banking system with large inflows from the Crown Dependencies. Financial flows are also generated by insurance business and fees earned by professionals, such as lawyers and accountants.*

IFC The Foreign and Commonwealth Office promises in its policy document 'Supporting the Overseas Territories' to support the OTs and particularly to

promote economic growth and the creation of jobs. In what ways can the government actively support the growth of the financial services sectors in the OTs?

MS: Economic growth and the creation of jobs are vital for the Overseas Territories.

That is why I wanted this year's Joint Ministerial Council to focus on these important issues. The Territories have come a long way from their predominantly agriculture and fishing based economies of half a century ago, but their economies are still based on a small number of pillars, namely, financial services and tourism. Financial services will continue to be important but Territories should continue to explore opportunities to diversify their economies.

Economic diversification is not easy. It requires a clear strategic plan and takes time to implement. But there are opportunities and that is why I was delighted with the very positive response we had to the first ever investment event held for the UK's Overseas Territories which took place during the Joint Ministerial Council week.

Over 140 companies and organisations were represented. It was an opportunity to introduce businesses to opportunities in tourism, infrastructure, services and renewable energy that exist in the Territories. This does not only help the Territories – the UK will benefit as well. It is a win win and our joint efforts to encourage trade and investment in both directions will continue.

The Territories are separate jurisdictions with their own Constitutions and economic development policies and therefore the growth of their financial services sectors is predominantly a matter for their democratically elected governments. Our shared ambition is for them to be successful, economically sustainable, and secure - the main themes of our White

Paper on the Overseas Territories. The Territories have demonstrated through their own actions that they are committed to meeting the highest standards in financial services regulation. Meeting these standards will help to demonstrate that they only want 'legitimate' business.

IFC **Would you agree that the OTs and their offshore sectors have been much maligned in recent years, with the negative aspects of offshore superseding the positive economic benefits that arise from the likes of Bermuda's insurance sector or Cayman's funds industry?**

MS: *There has been much debate about the role and regulation of financial services business in many jurisdictions around the world. It falls to all of us to explain the positives and to address the negatives. That is why the UK's Presidency of the G8 in 2013 focussed on what we referred to as the 3Ts – tax, trade and transparency. The key to preserving the benefits of all financial centres whether they are onshore or offshore is transparency. Tackling tax evasion and fraud is a global responsibility. The Territories have demonstrated through their actions that they are committed to this. I am confident that they will continue to play their full part to promote the application of high international standards.*

IFC **Will the UK government help to promote the financial services sectors in the OT and follow up on the Prime Ministers pronouncement in September that they can no longer be considered 'tax havens'?**

MS: *We all have a shared agenda on the application of high international standards for financial regulation. This commitment was reiterated by Territory Leaders at the Joint Ministerial Council.*

I want to reiterate that the Territories and Crown Dependencies responded speedily

and positively to the Prime Minister's G8 tax and transparency agenda. The OTs have been doing a lot of work in this area since the G8 Summit:

- *The extension of the Multilateral Convention on Mutual Administrative Assistance on Tax Matters has been notified to the Council of Europe for Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Gibraltar, the Isle of Man, Montserrat and the Turks and Caicos Islands;*
- *Intergovernmental Agreements on automatic tax information exchange have been signed between the UK and the three Crown Dependencies and seven Overseas Territories, ie, all those with a financial services industry;*
- *All are playing an active part in the pilot initiative on automatic tax information exchange launched by the UK, France, Germany, Italy and Spain;*
- *All have published Action Plans setting out the steps that they will take to ensure the collection and availability of complete company ownership information. The Overseas Territories are launching, and in the case of the British Virgin Islands and the Cayman Islands have launched consultations on the question of beneficial ownership and whether this information should be publicly available.*

These are strong commitments and demonstrate why the Prime Minister noted that the Overseas Territories and Crown Dependencies have taken action to make sure that they have fair and open tax systems and that it is important that our focus should now shift to those territories and countries which really are tax havens.

IFC **The Overseas Territories Joint Ministerial Council met in November with the objective of promoting economic growth in the OTs and creating jobs – what will be done to follow up on this goal?**

MS: *We have discussed some of this earlier but it is worth re-iterating that, although small, the Territories are open and dynamic economies with exciting opportunities for investment and trade. They have stable legal systems based on common law, the English language, educated workforces and links with growing and emerging markets.*

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We have recently concluded successful negotiations on a new EU Overseas Association Decision which ensures that goods and services from Territory firms have tariff and quota free access to the Single Market; to 500 million potential consumers.

Across the UK Government we are working closely with the Territories to promote globally the investment and trade opportunities they present including through:

- providing co-operation between Territory investment agencies, UK Trade and Investment teams and our diplomatic network;
- Informing UK companies of investment opportunities in the Territories and encouraging them to explore the opportunities;
- Promoting Territory exports and service industries;
- Exploring further opportunities to boost inter Territory trade and investment and the sharing of best practice;
- Publishing Territory investment policies

IFC Many of the financial services sectors in the OTs have been in existence for many years, do you think that they are now being recognised as reputable financial centres with legitimate and important role to play in the international finance industry?

MS: In the lead up to the G8 Summit and at the Joint Ministerial Council the Territories re-iterated their commitment to creating a fair, responsible and effectively regulated global business environment and to continuing to work to promote the application of high international standards. The Caribbean Territories and Bermuda are members of the Caribbean Financial Action Task Force, which was chaired by the British Virgin Islands in 2012, are members of the OECD Peer Review Group as well as other international regulatory bodies.

It is important that the Territories also help themselves to promote the good work they are doing on financial regulation through all means available, including social media.

IFC Is automatic exchange of tax information the best way forward for the OTs that wish to continue as successful IFCs?

MS: Automatic exchange of information

“We firmly believe that a public registry of company beneficial ownership provides the most effective way of meeting Financial Action Task Force recommendations on company transparency.”

is the emerging new standard. The Territories have signed Inter Governmental Agreements with the UK and will be doing so with the United States. They are also playing an active part in the pilot initiative on automatic tax exchange launched by the G5 in the summer and to which over 30 jurisdictions are now committed.

IFC How important is the multilateral convention on mutual assistance for the administration of tax matters to the financial centres in the OTs?

MS: We encouraged the Overseas Territories to seek extension of the Multilateral Convention. I am delighted they have done so and this has been recognised as a positive development by the OECD. It will allow more countries to quickly benefit from greater levels of tax information exchange and will be particularly beneficial for developing countries. The extension of the Convention builds on the extensive network (over 160) Tax Information Exchange Agreements the Overseas Territories and the Crown Dependencies already have in place. But the Territories and Crown Dependencies are not holding back as they are continuing to negotiate and conclude further bilateral Tax Information Exchange Agreements.

IFC David Cameron announced in the summer the creation in the UK of a public register of beneficial owners of shell companies— how important will this be for the UK and the OTs going forward?

MS: Transparency of company ownership and control is a key priority for the UK and was a major element of our G8 agenda. The UK is taking the lead internationally by announcing that we are committing not only to establish a central registry of company beneficial ownership information but also to allow public access to that registry. We firmly believe that a public registry of company beneficial ownership provides the most effective way of meeting Financial Action

Task Force recommendations on company transparency. Not only will it assist international cooperation between law enforcement authorities, reducing the time and cost associated with mutual legal assistance requests, but it will also enhance jurisdictions’ reputation as open and transparent places to do business.

The Territories have welcomed the G20 agreement at the St Petersburg Summit to take forward international standards on transparency of company ownership. They have committed to consult on the establishment of a central registry and whether the information held therein should be publicly available. The Territories will want to analyse the results of their consultations and will reach their own decisions. We will stay in close contact with them to explain what the UK is doing as we take forward and implement our policy and will continue to encourage them to remain focussed on the effectiveness of their regimes.

We want a publicly accessible central registry to become the new international standard. We are in touch with our European colleagues on this issue and the G20 has already committed to lead by example on company transparency and Finance Ministers will be reporting this year on the steps they have taken.

IFC What does the future hold for the economies of the OTs that host financial centres?

MS: The key is that the Territories should continue to meet international standards. They have constantly said they will do so and will play their full part to root out tax evasion. There is however no room for complacency and all jurisdictions will continue to have work to do. But it is not simply about rules. The standard setting bodies will focus on the effectiveness of jurisdictions regulatory regimes and we all need to have the necessary resources in place to meet these standards. If they do this then there is no reason to believe why they cannot continue to have a flourishing financial services industry.