



IFC Forum Parliamentary Breakfast – hosted by Andrew Rosindell MP

10 November 2010

Andrew Rosindell MP

Introducing the breakfast, Andrew Rosindell MP welcomed speakers Senator Philip Ozouf and Nick Kershaw. In introducing Ozouf he said that Jersey has been particularly successful in marketing itself through both tax neutrality and good governance.

Rosindell briefly touched upon the all party parliamentary groups that cover the crown dependencies and overseas Territories and said that the groups take great pleasure in hosting breakfasts such as this one. He added that the groups are very keen to foster good relations with the crown dependencies and overseas territories.

Senator Philip Ozouf

Senator Ozouf thanked Rosindell for his remarks and the IFC Forum for organising the breakfast event. He then turned to the forthcoming French chairmanship of the G20 and said that he welcomes the opportunity to engage further on the need for high quality regulation and economic cooperation. He also said that he recognises the challenges that are likely to emerge.

He set out that since the financial crisis the G20 has become increasingly focused on so-called non-cooperative jurisdictions and that this focus has led to the introduction of a comprehensive peer review process to identify the extent to which jurisdictions are committed to international standards. He suggested that whilst challenging, the new demands placed on IFCs are also welcome opportunities. For Jersey, he said that this has meant a barrage of assessments by international bodies such as the IMF and the FSB. Despite being burdensome, he said, these assessments have served to dispel myths surrounding poor regulation.

Ozouf argued that the independent verification of Jersey's regulatory framework has bolstered the island's reputation as a well regulated financial centre. Further, he suggested that the enhanced scrutiny Jersey has had means that there is now a deeper understanding of the function of its financial services industry in the context of the global economy.

He then went on to speak about the relationship between Jersey and the City of London. The island offers services that appeal to foreign clients of the City and a great deal of business is introduced through City law firms and other agencies, he said. In return, he explained, funds from Jersey and similar jurisdictions are up-streamed to head offices in the City thereby helping to fill the liquidity gap for many London based banks and provide funds for investment.

Ozouf suggested that while some of the G20's focus on IFCs has been less than helpful, the independent assessments that stemmed from it generate a greater understanding of offshore jurisdictions and their role in the global financial system. Jersey in particular, he said, has benefited from this process.

He concluded by saying that as we look forward to the French presidency of the G20, we call for a continued focus on the need for consistent application of international standards. IFCs, he said, must be assessed transparently and on a level playing field with G20, EU and other OECD countries.

Nick Kershaw

Kershaw opened by explaining that small IFCs came under particular scrutiny following the global financial crisis – despite the conclusions of those such as Lord Turner who in March 2009 said that it is important to recognise that the role of offshore centres was not central in the origins of the current crisis. He then described some of the rhetoric that has come out of the G20 and the EU in regard to IFCs since the financial crisis. Against this context, he said, we have the French Presidency of the G20 coming up soon and in President Sarkozy we have one of the most vociferous critics of small IFCs.

He continued to explain that we have already perhaps seen the first manifestation of a 'countermeasure' already when Belgium decided in May this year that transfers of over €100,000 to "tax havens" would be subject to reporting to the Belgium tax authorities. Adding bureaucratic additional reporting requirements into any transaction or structure inevitably impacts the attractiveness of using IFCs for international transactions, he said.

He set out that the UK's crown dependencies and overseas territories are under threat from powerful countries and this should be of concern to the UK and in particular the City of London.

Kershaw then gave a brief explanation of why small IFCs are beneficial to the global economy. The simple reason, he said, is that they promote and facilitate global investment. He gave the example of investment into the UK – and said that investors will only invest if they can make that investment in a way which does not require them to suffer multiple levels of taxation. IFCs, he said, keep things simple and gives investors certainty – which ultimately means there will be a greater level of investment in the relevant jurisdiction if IFCs are being used.

He then went on to discuss the role of IFCs in terms of investment into developing countries. He said that the same principles apply in relation to investment, but that developing countries do not tend to have the level of financial, legal and regulatory infrastructure to give investors the security they want when making an investment. For this reason, he explained, investors prefer to make their investment through a well regulated tax neutral jurisdiction such as a small IFC. To illustrate this point, he pointed to the conclusions of the research by Professor Jason Sharman commissioned by IFC Forum and the Commonwealth Secretariat.

He identified two of the main charges aimed at IFCs and explained why they do not hold. Firstly, he said that it is claimed that IFCs erode the tax bases of higher tax jurisdictions. He said that in this debate it is important to understand the distinction between tax neutrality and tax avoidance, and that the vast bulk of the activity in an IFC aims to provide a conduit for

investment by investors in one part of the world into businesses and assets into another part of the world. In this activity, investors remain fully taxable in their home jurisdiction, he explained – the only ‘tax avoidance’ is double or triple tax avoidance.

The second charge he identified is that IFCs lack sound regulation and transparency. This, he said, simply does not hold up to scrutiny – all of the principal IFCs are on the OECD’s white list as having implemented internationally agreed cross-border exchange of tax information standards. He also gave examples of ratings from the Financial Action Task Force, the World Bank and the IMF that illustrate the sound regulation and levels of transparency found in IFCs.

On what the crown dependencies and overseas territories need from the UK, he said that the UK is responsible for their international relations and therefore has a vital role to play in standing up for and defending IFCs. This is something, he suggested, that we have not seen much evidence of over the last few years.