

The people's choice

Tax breaks and a faster approach have boosted the profile of the Isle of Man and turned it into a more tempting destination for fund administrators. Roger Aitken reports

With the Isle of Man posting a robust 42 per cent (£3.3bn) increase in funds under management in the year to end-March 2005, the self-governing UK Crown Dependency is now bidding to become the jurisdiction of choice for the administration of hedge funds and other alternative investment strategies.

The significant increase in assets under management in the Isle of Man can largely be attributed to the introduction of the funds initiative announced by treasury minister Allan Bell in the February 2003 budget. This heralded a zero-rate of tax for all third-party fund administrators and managers of experienced investor funds (EIFs) and professional investor funds (PIFs), as well as the announcement of VAT exemption for experienced and professional investment funds.

Highlighting the upturn, the number of funds managed or administered from the island increased 17 per cent in the latest period under review with EIFs, a class of collective investment fund being promoted as the vehicle of choice for hedge funds, increasing 72 per cent in total net asset terms.

Although experienced investor schemes were launched in the Isle of Man back in October 1999, it took the tax changes to boost the appeal of these structures. As evidence of this, total funds under management/administration in the Isle of Man for years ending 2000 and 2002 (notwithstanding equity market turmoil) were static at £4.8bn. Since 2003 that figure has doubled.

Steven Beevers, business development manager at Isle of Man Finance, says "speed to launch" is a major advantage of the EIF, since no pre-regulatory approvals are required and the fund sponsor can select his chosen administrator and contract commercially to get the ball rolling quickly.

Phil O'Shea, managing director of Close Banking Services says: "The development of the fund administration business is an excellent example of a joined-up approach to finance sector operations on the Isle of Man. Each fund requires banking services to facilitate effective and timely execution of the trading process. Delivering this on island where the end-to-end model can be agreed is a major advantage." He adds that there is a skilled and flexible workforce and costs to deliver can be 25 per cent less than on the Channel Islands.

Standard & Poor's, the international ratings agency which recently reaffirmed the island's 'AAA' long-term sovereign credit and senior unsecured debt ratings, noted that while "increas-



An attractive landscape: The Isle of Man has boosted funds under administration

ing international scrutiny of the financial services industry could give rise to consolidation in the number of offshore centres operating around the world", the island had exhibited "a speedy response" to the Financial Action Task Force's initiative aimed at combating money laundering.

Around 16 licensed fund administrators operate on the Isle of Man, encompassing large global players such as Fortis and HSBC to a number of smaller niche operators, as well as fund managers who are also able to provide fund administration services. But moves have been set in motion to attract new entrants onto the island.

GLOBAL INTEREST

David McGarry, a partner at KPMG (Isle of Man) and head of marketing at the Isle of Man Fund Management Association, points to "active interest from a number of global players" who are looking to set up operations in the jurisdiction. He said that recent presentations in Dublin were met favourably and that a positive development could be announced shortly.

Such initiatives form part of wider efforts to promote the island's fund management industry. For over a decade the Isle of Man has been building contacts in the Middle East. A delegation from the Isle of Man government made history this year in becoming the first country to sign a Regulatory Memorandum of Understanding (MOU) with Dubai Financial Services Authority.

A key attraction of the Isle of Man is its lower cost base, which has been highlighted in benchmark studies. Fund administration salaries can typically be 20 per cent lower than is presently

the case in Dublin, and 25 per cent below those in the Channel Islands. Headline office rents, at around £18 per sq ft, are competitive by international standards.

"With Dublin having a capacity issue, administrators have been looking for alternative solutions to handling business growth. The Isle of Man is a real alternative for them," adds Mr Beevers. Administrators here are positioned in "theory and practice" to pass on the benefits of their low-cost operations, which can be especially attractive for start-up funds.

Mr McGarry adds that the Inward Incentive grant programme, which the Isle of Man Treasury announced through the 'Financial Services Scheme' (August 2004), was specifically aimed at providing assistance - of up to 50 per cent - in relation to set-up costs for financial services businesses establishing a new physical presence on the island. Staff relocation costs and one-off consultancy fees associated with a move come under consideration.

Of the larger players, HSBC Securities Services (Isle of Man) total assets under administration stood at \$9bn as at 30 June. Following the acquisition of BoE International Fund Services last September from Nedcor, HSBC (through Bank of Bermuda (Isle of Man) Limited) has seen the number of funds grow from 109 to 144.

Caroline Cornish, Head of HSBC Securities Services (Isle of Man), says: "In terms of new asset classes, the Isle of Man has always been a strong base for private equity fund administration, and this is likely to continue as the private equity space grows."