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BOOSTING THE ISLE OF MAN'S FUND INDUSTRY
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In March 2002, the Isle of Man's Treasury Minister, Allan Bell MHK, challenged the Manx Fund Management Association to suggest ideas for improving the local funds industry.

The industry took up the gauntlet and the result has been incorporated in the Treasury Minister's latest Budget announced this February. It included a package of initiatives designed to give the Island's investment fund industry a major boost and seek to sharpen the fund industry's competitive edge.

The Island's fund industry thrives on the management and administration of highly specialised funds and the specialist Experienced Investor Fund category is showing a trend towards exponential growth and topping the 100 fund mark. The Treasury Minister's announcement will provide a solid base from which the Island's fund industry can take its next major step forward.

Despite the current downturn in equity markets, the global funds industry continues to experience significant and sustained growth. The initiative announced in the Budget combines a sensible mixture of tax reduction with regulatory simplification and reflects a determination to see this Celtic Tiger of an Island competing for business in a vital sector of the global finance industry.

The zero rate of tax for all Third Party Fund Administrators and managers of Experienced and Professional Investor Funds is being brought forward by three years to start on 6 April 2003. Its scope is also being widened.

VAT exemption is being extended more widely from the current restriction to profits derived from the management of authorised and international collective investment schemes - effectively extending it to the specialised as well as retail categories. This is a reflection both of the Government's commitment to its zero rate tax strategy and the changes to the global funds industry since the zero tax exemption was first introduced.

It will also help ensure the running costs of EIFs and PIFs incorporated in the Isle of Man are highly competitive compared with the costs of operating funds in other jurisdictions. And overseas incorporated funds will now be able to be administered in the Isle of Man without the burden of "dual regulation".

Reducing the regulatory burden is likely to affect a large section of the industry already established on the Island. As there will no longer be a requirement to amend an overseas fund's constitutional documentation to

comply with a second raft of regulations imposed by the Isle of Man, it will also assist globally-based fund groups looking to transfer management and administration of foreign incorporated funds to the Island on account of its excellent reputation and international standards of regulation.

The previously adopted notion of applying a second layer of regulation to funds incorporated in other well regulated jurisdictions did not improve shareholder protection and could be confusing. The Financial Supervision Commission's licensing policy recognises this, and through arrangements with its licence-holders seeks to minimise any reputational risk to the Isle of Man.

Streamlining of legislation for the redomiciliation of funds to the Isle of Man is also pending and provides an opportunity to managers of schemes in some jurisdictions to transfer to an Isle of Man incorporated fund with minimal disruption to shareholders. Promoters of these funds will have a fund incorporated in another well-regulated centre, but may find it attractive to redomicile the fund on the grounds that Isle of Man administrators have a track record of excellence and are competitive.

What impact will these changes have? Firstly, the tax component of the latest Budget boost for funds is part of a continuing long-term strategy to maximise the impact of a series of tax reductions. Indeed the Island's low tax strategy has helped the Isle of Man in recent years to be the fastest growing economy in Europe.

Nor has this been achieved at the price of holding back public spending. Although the Isle of Man charges less tax, it still manages to spend more per head on education and on health than the UK. So, although the Island has a continuous drive towards improvement, it already seems to have achieved a winning double of low taxes and high public spending on the things that matter to Isle of Man residents. This view is echoed by both Standard and Poor and Moody's, who awarded the Isle of Man a "AAA" rating in its own right and recently reaffirmed that rating in the light that they do not consider the Island will be affected adversely by the EU Savings Directive.

The Island's three main tranches of fund management reform are expected to be in place by summer 2003.

It is typical of the vision of the Manx Government to create a public-private partnership to provide input into Island initiatives. Although the Government is responsible for enacting legislation on tax and regulations it is aware that the professionals at the sharp end of the business have the insight into what will and will not generate maximum new business.

The package of reforms targeting the Island's growing funds industry is a prime example of the Island's finance industry working in close partnership with various Treasury departments and the Financial Supervision Commission. However, the job of promoting these new initiatives has only just begun.

Liz Tansell, Chairman of the Fund Management Association, is delighted so much of her members' input has been incorporated into the initiative *It is vitally important we have a structured, combined marketing effort to raise the profile and awareness of the Island's fund industry to ensure the Island takes full advantage of the opportunities that these new initiatives will present.*"

The Government and the fund management industry are equally committed to working towards helping the fund sector echo the success of the Island's life insurance business. The measures taken in the Budget aim to have long-term beneficial significance for the Island and the Government is determined to maintain the close partnership it has created with the private sector. This will in turn no doubt lead to additional initiatives and further strengthen the position of the Manx fund industry well into the future.