

Isle of Man Funds

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The Isle of Man's funds industry has grown rapidly in the last decade, in March 2006 assets under management totalled US\$29bn the total funds now stand at US\$50billion representing an increase of 150% in 2006-7.

Isle of Man Finance is part of Government Treasury and is responsible for the promotion of the Island's Funds Industry. Regulated by the Financial Services Commission (FSC) and supported by the Isle of Man Fund Management Association (FMA), the sector now accounts for around 6% of the Island's GDP. It does this by providing a competitive and constructive base for a wide range of fund sponsors including hedge funds, private equity, property funds, emerging markets and fund of hedge funds.

Strong growth in the sector has been driven by the increase in demand for high quality fund management and administration services, and by updates to the Island's industry developed by Isle of Man Government in response to this. The removal of VAT on funds vehicles, zero rating for corporation taxation of fund managers/administrators, and the ending of dual regulation of funds not domiciled in the Island have encouraged the Isle of Man to grow as a centre of fund management as well as fund administration, and have begun to attract much larger funds from competitors. This includes a growing number of closed-ended funds seeking listings on AIM. It is interesting to note that over 5% of all AIM listings are Isle of Man incorporations.

It is against this background that the Isle of Man Government has launched a funds industry campaign to identify reforms and to secure the future growth and development of the sector.

With this aim and in light of global trends and changes in other jurisdictions, a Funds Review Group was formed in 2006 under the auspices of the Isle of Man Finance Steering Group, composed of both public and private sector representatives. The ultimate objective of the Group is to achieve the Fund Management Association's vision of having \$100billion of funds under administration and \$50billion of funds under management on the Island by 2010.

The Funds Review Group was chaired by international funds expert and ex-Global Head of HSBC's Alternative Fund Services Division Paul Smith, and over a six month period it completed a major review of the Isle of Man's investment funds industry. The group's recommendations were delivered in the form of a report – 'The Smith Report', announced by the Treasury Minister in his 2007 budget speech earlier this year.

The Smith Report made a number of recommendations designed to secure the Isle of Man fund sector's long term prospects and to capitalise on market opportunities in the international investment funds arena, including the institutionalising of alternative asset management.

These recommendations include the introduction of a new specialist fund category, featuring a \$100,000 minimum initial subscription, flexibility to base management and/or

administration in other jurisdictions, no restrictions on investment strategies, and a 'light touch' regulatory approach. This represents part of the new funds package that will update the funds structure to make it more flexible and attractive to City based fund managers.

The Report also recommended a focus on the target market of front and middle office functions of London based alternative fund managers, as well as managers in other key fund centres, and a revised offering to fund managers to include a tailored business proposition for relocation to the Island, and a generous Government assistance package.

Major Capital expenditure on marketing the Isle of Man was also proposed. This and the other suggested reforms are designed to make the Isle of Man attractive for the domiciliation of specialist institutional funds, and to position the Island as the preferred offshore location for the establishment of front and middle office operations for fund managers.

The recommendations put forward by the Smith Report, which are expected to be introduced in Q3 2007, demonstrate the huge potential for growth that exists in the Isle of Man funds industry. Upon implementation the positive impact on the fund sector, as well as the wider benefits for the financial services industry and the Island as a whole, will be far-reaching.

Outcomes are expected to include an increased GNP contribution from the funds industry, a cohesive, consistent and well-resourced marketing programme, and the attraction of specific functions of alternative fund management to the Island, which will bring high value high skilled jobs, a key factor within the Government's economic strategy.

Further, implementation of the recommendations will result in a more competitive platform on which to develop business. It will provide the Isle of Man with the ability to develop a funds industry which will better utilise the intellectual capital of the workforce, and provide an environment of career opportunity and development.

This review represents a major industry initiative which will be critical in determining the future size and shape of the Island's fund industry and in achieving the ambitious funds growth targets outlined by the Isle of Man FMA.