



# Closed-Ended Investment Companies

Total flexibility in a cost-effective European location

The Isle of Man prides itself on creating the right business environment with pragmatic regulation, providing the capacity to grow and offering a financially compelling alternative to more expensive locations.

As part of this complete solution, the Isle of Man has a full suite of business vehicles with the choice for restricted participation or stock market listing entities being our Closed-Ended Investment Company ("CIC"). Through this fact sheet we will describe the key features of the CIC and answer important questions on the vehicle and how it may be used.

Details within this document are for guidance only – the original legislation should be consulted for legal purposes.

For more general information on the Isle of Man as a domicile jurisdiction, see 'The Alternative Fund Domicile' factsheet.

## The Isle of Man as a Jurisdiction of Choice

### Constitutional position

The Isle of Man enjoys status as a self-governing dependency of the British Crown and is not part of the United Kingdom. By long-established constitutional convention, the Isle of Man has complete autonomy in relation to domestic affairs, including taxation and business law. This has allowed the Isle of Man considerable freedom to flourish without being overburdened with bureaucracy.

As the Island is not a member state of the European Union (as provided under Protocol 3 to the Act of Accession), EU rules only apply to the Isle of Man in relation to a limited range of matters. Importantly, EU directives on tax harmonisation, company law and financial services therefore do not apply in the Isle of Man.

Tynwald, the Island's parliament, has been

in existence for over 1,000 years and is the world's oldest continuously functioning parliament. We also have an independent Court system, including a High Court and a locally-based appellate court; the final court of appeal for the Isle of Man is the UK Privy Council.

However as a common law jurisdiction, the Island's legal traditions draw heavily on those of England; providing a level of familiarity when dealing with the Island. This legal stability gives the jurisdiction the commercial legal certainty long associated with the English legal system, combined with the flexibility of an international finance centre.

### Regulatory environment

The Isle of Man has a well-founded reputation as a quality jurisdiction in terms of pragmatic regulation, achieving a balance between providing a business friendly environment and meeting international standards of financial supervision. A number of independent assessments of the Island's regulatory framework have been conducted, which verify the Island's status as a 'category 1' jurisdiction. Regulation of fund managers and administrators, and of providers of corporate and fiduciary services, is undertaken in the Isle of Man by the Financial Supervision Commission "FSC". As well as a framework for the regulation and supervision of financial services providers, the Island has adopted extensive regulatory measures to prevent money laundering and the financing of terrorism.

### The distinction of closed-ended investment companies

Isle of Man law draws a fundamental distinction between "open-ended investment companies" and "closed-

ended investment companies". An open-ended investment company is a corporate vehicle that provides for investment risk spreading and provides investors with a right of exit (e.g. by a redemption of their shares). An open-ended investment company is regarded as a "collective investment scheme" for the purposes of Isle of Man law.

Collective investment schemes, or funds, are subject to varying degrees of regulation in the Isle of Man depending on the category into which they fall.

If an Isle of Man corporate vehicle does not provide its investors with a right of exit as described above then, even if it is an investment vehicle aimed at spreading investment risk, it will not be an open-ended investment company and therefore will not be subject to "fund" regulation in the Isle of Man.

Such a closed-ended investment company is treated in the same way as any other 'regular' company for regulatory purposes. As a result of this approach there are a number of important advantages to using an Isle of Man closed-ended investment company:

- no regulatory pre-approval requirements for launch in the Isle of Man
- no regulatory fees in the Isle of Man
- no requirement for a licensed fund manager or administrator to be appointed
- no prescriptive requirements as regards board composition
- no requirement for a separate custodian
- no restrictions on asset classes, investment strategy or leverage
- no prescriptive rules about permitted investors or minimum subscription requirements

Please note: requirements do differ between fund types.

## **Companies – both traditional and modern**

The Island's Companies Act 2006 means that promoters wishing to use an Isle of Man company may choose between using a vehicle incorporated under the new legislation or a traditional company established under the Companies Act 1931.

### **Companies Act 2006**

This Act created a new stand-alone corporate vehicle, which represents the gold standard for international special purpose vehicles. Minimal administrative requirements, flexible capital structure and limited disclosure requirements are counterbalanced by the Island's well-respected regime for the regulation and supervision of registered agents. Companies incorporated under this Act must disclose all material information in their prospectus but are not subject to prescriptive prospectus requirements.

### **Companies Act 1931**

For those whose tastes are more conservative, the Island's long-established conventional companies incorporated under the Companies Act 1931 draw heavily on English legislative traditions, but without the more prescriptive requirements associated with companies incorporated in metropolitan jurisdictions.

Companies incorporated under this Act must disclose all material information in their prospectus but are not subject to prescriptive prospectus requirements.

## Using the Isle of Man for AIM Listings

### **Can the CIC be used to list on the AIM Market?**

This is where the Isle of Man comes into its own. A listing or admission to a trading exchange is often a driving force behind the establishment of a closed-ended investment company. Isle of Man companies are eminently suitable for listing on many recognised

investment exchanges. In recent years the AIM Market has proved popular with both investors and promoters, and Isle of Man companies have been the vehicles of choice for quality international AIM offerings. In 2007 the Isle of Man had 15 of the top 100 AIM companies – more than any other jurisdiction outside the UK. The Island is the international gateway to the City of London for AIM listings.

### **What are the administration requirements?**

Simple. Although there is no requirement for a closed-ended investment company to appoint a regulated fund administrator, the use of an Isle of Man corporate vehicle will require an Isle of Man corporate services provider to deliver formation and ongoing compliance services. These are regulated activities in the Isle of Man and there are a wide range of service providers available.

### **What is the taxation position?**

To ensure our offering is financially compelling, the Isle of Man offers a tax neutral environment for all its business vehicles. Simply put, there are no capital taxes and a zero rate of corporate tax for CICs. This means that a corporate vehicle will benefit from a zero rate of income tax being based in the Isle of Man.

Some fees levied by functionaries based in the Isle of Man in respect of services to closed-ended investment companies are subject to valued added tax in the Isle of Man.

### **Getting a CIC AIM listed**

In order to take a CIC to the AIM Market it is necessary to assemble the right team of key advisers: a nominated adviser or "Nomad", a firm of Isle of Man lawyers, UK lawyers and a firm of reporting accountants. The Nomad must be authorised by the UK FSA and will be responsible for overall progression of the transaction and ensuring compliance with the AIM Rules. In addition to Isle of Man counsel, an experienced firm of UK lawyers will be needed to deal with UK legal requirements. Finally, a reputable firm of accountants will need to be

engaged to act as auditors and reporting accountants. Isle of Man legal and accounting firms have good relationships with UK AIM professionals and will be able to help you put the right team together.

