Jersey Finance

Delivering Insight ▪ Driving Innovation

Jersey's Value to Europe: Executive Summary

Jersey Finance commissioned Capital Economics, the respected independent research firm, to look at the economic, financial and fiscal linkages between Jersey and the European Union.

The role of Jersey in a globalised world

The report begins by looking at Jersey's role in the international economy where globalisation continues apace. Trade between countries is getting ever larger, people are more mobile and capital flows are increasingly international:

- World output grew by an average of 2.8 percent a year over the past 30 years
- Trade now accounts for 31 percent of global GDP, compared to under 20 per cent 30 years ago
- Cross-border trade has expanded by 7.9 percent each year
- Global external liabilities, a measure of the scale of cross-border lending and borrowing by internationally active banks, has risen from just over US$1 trillion in 1980 to US$25 trillion in 2015
- The proportion of the population whose governments are part of the Organisation for Economic Cooperation and Development (OECD) and who are born outside their resident country has risen from 7.5 percent to over 12 percent in one decade.

These trends have generated strong demand for services that facilitate efficient and secure cross-border transactions, which Jersey provides. Like other international financial centres (IFCs), these include regulation, supervisory and taxation regimes tailored to the needs of individuals, businesses and institutions with cross-border asset portfolios and taxation:

- An environment that offers a safe harbour for those carrying on business in unstable and risky countries
- A location that is independent and not subject to legislative or administrative bias in favour of the 'home' countries of the counterparties
- Tax neutrality that allows assets to be pooled, grown and distributed across borders without double taxation, but does not reduce or eliminate any tax liability in other jurisdictions
- Robust legislation for the creation of trusts and other asset management vehicles which are attractive to an international clientele.

Jersey's status and structures help facilitate long-term investment across borders, playing a vital role in generating growth in recipient countries.

Trade now accounts for

31%

of global GDP

compared to under 20 percent 30 years ago

Cross-border lending and borrowing by internationally active banks

For further information please visit www.jerseyfinance.je/valuetoeurope

Jersey's financial linkages with the EU

Jersey is not part of the UK and remains outside of the EU. The report says that its role as an IFC has allowed it to develop mutually beneficial relationships with both the UK and the rest of the EU, and with individual EU countries. Financial services provided to the EU by Jersey are treated as coming from a 'third country' for the purposes of EU financial services legislation. The same applies to services trade and investment, where Jersey is considered to be a 'third party' to the EU's common commercial policy. However, for the purposes of goods and trade, Jersey is considered to be part of the EU.

Jersey complies with all relevant international standards, whilst voluntarily implementing many of the EU's regulations. For example, EU environmental standards are used as guidelines for the Island's domestic legislation. Meanwhile, Jersey is among the few 'third countries' to have been officially assessed by the European Commission as having met their data protection standards.

The report estimates that the Island is custodian of €1.7 trillion of wealth through its banks, investment funds, Jersey trusts established by private individuals, and other specialist structures used by businesses and institutions. Three-fifths of this €1.7 trillion originates from ultimate beneficial owners (as depositors, investors or settlors) who are domiciled in Europe* as a whole.

Jersey is custodian for

€1.7

trillion of wealth

Key findings on Jersey's financial linkages are as follows:

- Roughly one-third of the almost €300 billion of funds administered or managed in Jersey are located in markets in the EU other than the UK
- Of the €185 billion of bank liabilities held by Jersey's 32 banks, roughly 10 percent derives from EU markets other than the UK
- Over €500 billion of assets are held in Jersey private trusts, of which 8 percent has been settled by individuals resident in EU states excluding the UK
- Assets from corporate and institutional settlors with a value in the region of €800 billion were held in Jersey trusts and special purpose vehicles. Of this, around one-fifth ultimately originate from EU countries if we exclude those that originate from the UK. The majority of these are related to investors from France and Germany.

Jersey's fund industry has not only grown in size over the last decade, but it has also changed shape, driven in large part by the Island's effective adoption of the EU's Alternative Investment Fund Managers Directive (AIFMD). It was the first 'third country' to offer a fully functional regime that provides fund managers with the flexibility to market to investors both inside and outside the EU. The net asset value of the 1,300 regulated funds under administration in Jersey stood at €311 billion as of December 2015 – a 36 percent increase since 2009.

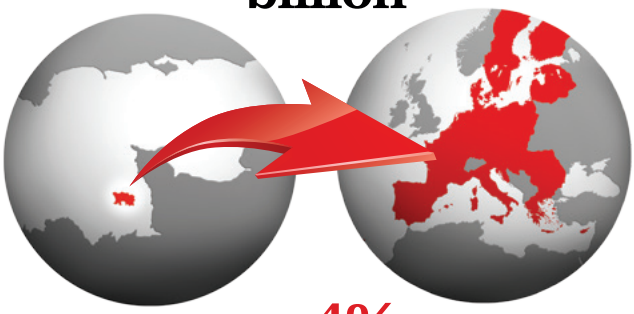
Jersey's financial impact on the EU

The report says that around 12 percent of the combined value held in the Island's banks, funds, trusts and special purpose vehicles has been invested in assets located in EU countries other than the United Kingdom. This amounts to just over €200 billion of accumulated investment, most of which originates from non-EU sources. Indeed, the report estimates that Jersey's financial services sector facilitates €188 billion of foreign investment into the EU; equivalent to 4 percent of the EU's total net international investment position liabilities.

These sums have consequences for employment in the EU. The report estimates that the nearly €200 billion of investment which is intermediated by Jersey into the EU is helping to support roughly 96,000 jobs in those member states. The €188 billion which is invested from non-EU sources has the potential to support 88,000 European jobs.

Jersey is a conduit for foreign investment into the EU*

€188 billion



= 4%

of EU's total stock of liabilities

Supporting over

88,000 jobs

In total, Jersey adds €188 billion to the EU's economy, supporting over 88,000 jobs

*excluding the UK

*Europe refers to all countries within the European Union (including the United Kingdom), the European Economic Area, Guernsey, Isle of Man, Switzerland, Russia and mainland Europe.

Jersey's fiscal linkages with the EU

Jersey does not receive any form of funding from the EU institutions, and likewise it does not contribute to the Brussels budget.

The island's position as one of the world's best-regulated IFCs has been acknowledged by independent assessments from some of the world's leading bodies, including the OECD, the International Monetary Fund (IMF) and the G20. In fact, Jersey has been at the forefront of international developments to improve financial transparency and clamp down on criminality:

- Jersey introduced its proceeds of crime legislation in 1999, which made evading tax in other jurisdictions illegal. It enacted this law three years before the UK's Proceeds of Crime Act 2002 and over a decade before the Financial Action Task Force included tax evasion as a predicate offence in February 2012
- The Island is fully aligned with the standards required by the EU's 3rd Anti-Money Laundering Directive, as well as being an active member of the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
- Jersey adheres to the OECD's Common Reporting Standard, the global standard in the automatic exchange of information. It was part of the 'early adopters group', which included 51 signatory countries at the outset. Jersey adopted the United States Foreign Account Tax Compliance Act model
- Jersey has maintained a live central register of the beneficial ownership of companies for more than two decades. In addition, Jersey regulates those who form and administer companies, trusts, partnerships and foundations. They are required by statute to maintain up-to-date and accurate information on the ownership of companies, with this information being available to international law enforcement and tax authorities on request. The Island's authorities have signed up to the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, which provides for information exchange similar to that of the tax information exchange agreement process

The regular accolades awarded to Jersey over the years include the 2013 Peer Review by the OECD which said that 'the Jersey authorities are fully committed to transparency and exchange of information for tax purposes', and 'Jersey's practices to date have demonstrated a responsive and cooperative approach'.

Most recently MONEYVAL, the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism reviewed certain aspects of Jersey's institutional, legislative and regulatory framework to deter money laundering and the financing of terrorism through financial institutions. Of the 49 assessment areas, Jersey was rated compliant or largely compliant in 48 of these, placing it in the top tier of jurisdictions assessed under those criteria.

Jersey is endorsed as a top international finance centre by...

Jersey's criminal code and regulatory regime and their practical implementation are as tough, if not tougher, on money laundering and tax evasion as those of EU member states. The report says that there are very few ways for EU citizens and businesses to use the Island to avoid or evade their domestic taxes.

Nor is the Island a major centre for corporate profit-shifting. Jersey's lack of a comprehensive double taxation agreement network with many other jurisdictions, including most EU member states, means that multinational companies that use their transfer pricing arrangements to book profits in Jersey will not be sheltered from taxes due elsewhere.

There is limited scope for individuals and businesses to use Jersey to reduce their tax liabilities in EU member states. But the report estimates that excluding the UK, if EU residents and businesses exploited the most likely method for all their money and assets in Jersey, the maximum tax loss would be around €70 million a year.

The likelihood is that this is a much smaller amount, which will largely be eliminated by 2017 when the annual automatic exchange of information under the Common Reporting Standard comes into effect for many countries.

And this tax potential leakage is more than offset by the tax revenues of at least €1 billion a year generated by the additional jobs created in EU member states by foreign investment intermediated by Jersey.

The report's findings clearly demonstrate the scale and shape of the many ways in which the economies of Jersey and the EU are linked. Jersey is committed to broadening and deepening this relationship, given the EU's commitment to attract investment from across the world and Jersey's desire to foster these well-established links.

Jersey's net tax contribution to the European Union*

*excluding the UK

For further information please visit www.jerseyfinance.je/valuetoeurope

Jersey Finance

Delivering Insight ▪ Driving Innovation

For further information please visit www.jerseyfinance.je/valuetoeurope