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Welcome to the 2014 Edition

Now in its sixth year of publication, we are pleased to present Barbados International Finance & Business 2014, and extend best wishes to all our readers for prosperity in the year ahead.

During 2013, Barbados saw an increase in company registrations. The forecast for the coming year is encouraging as the global outlook is generally positive, following strengthened activity in the latter half of last year and projections suggesting that this momentum should continue into 2014, with the focus very much on growth.

Barbados continues to market itself as the domicile of choice for Canadian-parented companies and companies incorporated in its double taxation agreement (DTA) network of countries, with particular focus on Latin America and Europe. Last year, the DTA with Bahrain and Protocol to the DTA with Canada entered into force. During the same time period, a DTA with Singapore and the Protocol to the DTA with Malta were signed, while agreements with Malaysia and the United Arab Emirates were initialled.

Barbados remains a low cost, well regulated International Financial Centre with world-class infrastructure and an intelligent workforce. Importantly too, Barbados is very much open for business. We invite you to consider us as your domicile of choice - providing innovative solutions for international business expansion.

Barbados continues to market itself as the domicile of choice for Canadian-parented companies and companies incorporated in its double taxation agreement (DTA) network of countries ...

We also invite you to send your comments and suggestions to bifb@investbarbados.org.

With very best wishes,
James Gardiner

MESSAGE FROM MINISTER THE HON. DONVILLE INNISS
MINISTER OF INDUSTRY, INTERNATIONAL BUSINESS, COMMERCE AND SMALL BUSINESS DEVELOPMENT

The last year has been another notable one for the international business sector here in Barbados and across the world. It certainly has been an exciting first year as Minister of International Business as I proverbially return home to the sector in which I have worked for numerous years. I am therefore pleased to make my first contribution to the sector’s flagship magazine.

This is the sixth edition of Barbados International Finance & Business. The magazine is produced annually by Invest Barbados in order to provide you, our existing and potential investors, as well as tax and legal advisors, an update on what has changed recently and the continued value of using Barbados in your operations. It is therefore a useful and informative tool for you.

The international business sector is the largest contributor to corporate taxes in Barbados and is of major importance to our economy. The most recent measurement of its contribution showed that earnings reached BD$874 million. On top of this, spillover effects from the sector include spend in the wider economy through hotel stays, food and restaurant visits, and importantly, indirect employment. Approximately 4,500 direct, full time jobs can be attributed to the sector. During 2013, four hundred and seventy-four international business entities were registered, a useful and informative tool for you.

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The past year has been marked by continued threats to this important sector of Barbados’ economy. Even though some parts of the world economy have begun to rebound, the outlook remains cautious, as does the approach of decision makers in business. This has been a challenge to sectoral growth but Barbados continues to make strides forward. The move to automatic and multilateral exchange of information is the latest in international changes to regulatory requirements for international financial centres. Being a transparent jurisdiction that attracts businesses of substance however, Barbados is up to the task.

Barbados offers an exceptional range of investment vehicles. It is still an excellent place to do business. Expanded opportunities for high net worth individuals interested in residing here are also on the cards.

This leads me to mention a few of the initiatives being undertaken by the government to maintain and further improve the quality of the Barbados value proposition. Strengthening our regulatory framework is always important. Right-sized, we continue to comply with international standards and best practice, including the expansion of our treaty network.

Constantly introducing products in demand is another important part of maintaining our attractiveness. Several vehicles are on course for development and are creating a buzz among our local and international partners. For example, legislation to facilitate the establishment of limited liability partnerships, real estate investment trusts, investment funds and incorporated cell companies are all in various stages of development and will add to the numerous ways in which investors can use Barbados to do business. Expanded opportunities for high net worth individuals interested in residing here are also on the cards.

Bringing these new products to the market is just one example of the Government’s commitment to international business. In addition, increased resources are being made available to the sector to make sure that Barbados can continue to attract and facilitate investors. Determined efforts are also being made to ensure that international best practices in regulation are enshrined in law, safeguarding the quality of our product. We are continuing our modernisation of government agencies that are integral to the sector to ensure the best possible service is being offered. Our goal is to make Barbados the leading International Financial Centre in the Western Hemisphere.

The Hon. Donville Inness
Minister of Industry, International Business, Commerce and Small Business Development
Facing the Challenges while Building a Strong Brand

Small developing economies such as Barbados, when faced with a challenging global environment and subdued growth prospects, constantly search for new industries that will maximize the country’s economic potential.

Over the last couple of decades, the international financial services sector has emerged as one such area and has become an important source of government revenues for home and host economies. This activity has proven to be successful in Barbados for reasons such as economic and political stability, good regulation, legal structures that made financial transactions easy to undertake, freedom from exchange controls and the ability of high-quality service providers to meet investor requirements. In recent times, the negative effects of the global financial turmoil on international markets and on policymakers’ attitudes towards International Financial Centres (IFCs) have become a big challenge for small states.

To protect their revenue base, developed economies have accelerated efforts to strengthen their global financial systems and, as a result, there has been an emergence of global initiatives targeting IFCs and the tax and regulatory environments in which they operate. These initiatives centre on black listing, reputational risks, possible sanctions and an increased pressure for IFCs to raise their adherence to Organisation for Economic Co-operation and Development (OECD) proposed financial standards and tax information sharing practices.

More recently too, the G-20’s action plan specifically addressed the use of low tax jurisdictions like Barbados. Small IFCs have been at the forefront of the OECD’s work on tax transparency and focus is now being placed on automatic exchange of information and base erosion and profit shifting. There is concern that these new initiatives might adversely affect the economies of developing countries.

The move towards global tax information exchange is well underway with the introduction of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, to which more governments are signing up. Barbados’ position has been that under its Double Taxation Agreements it could exchange information on request. The trend toward multilateral and automatic tax information exchange therefore challenges Barbados’ established response.

As the global economy remains relatively fragile, control of the agenda for tax and financial transparency continues to shift from the technocrats at the OECD to heads of developed nations - with the UK already declaring its protectorates as compliant and not tax havens. Additionally, Canada’s grant of exempt surplus treatment to countries with which it has tax information exchange agreements has placed Barbados under pressure in terms of the potential loss of revenue to competing jurisdictions.

Another challenge is that small IFCs are largely unrepresented in international debates. There is limited opportunity to highlight the important and salutary effects of IFCs to global economic growth through the promotion of trade and job creation. Barbados will continue to seek to make its concerns heard at the table through the development of stronger alliances with policymakers in the G-20 and OECD. Multifaceted relationships with major financial hubs will be a determinant of success and as the pace of globalization accelerates, the development of relationships with more than one financial hub will assume increased importance.

Barbados continues to demonstrate a commitment to meeting international standards ...

IFCs also need to be mindful that they may be required to have higher levels of transparency than their onshore counterparts and of the recent spin of investigative journalism to discredit most jurisdictions. Greater emphasis will therefore be placed on building a brand of excellence, making sure that there exists a repertoire of best practices, structures and services that are well known and used effectively.

The changing environment presents an opportunity for Barbados to stay relevant and competitive as it competes with a growing number of offshore and onshore jurisdictions.

Barbados continues to demonstrate a commitment to meeting international standards but will now refocus on maintaining its competitive edge.

For example, while Barbados enjoys the highest standard of living in the Caribbean, it must also seek to achieve top ranking and position itself as the preferred jurisdiction of choice for discerning high net worth clients. Confidence must be built to ensure Barbados continues to be regarded as a world-class jurisdiction which offers a sophisticated array of market-driven, quality financial products and services. Therefore, Barbados will strive to sustain a solid reputation globally, to maintain a stable economy with a business-friendly and cost-effective environment, to adhere to global regulatory standards and readily participate in information exchange.
Barbados: the Ideal Jurisdiction for Family Offices, Private Trust Companies and Foundations

BY CAROLINE PROW

As a single or multi-Family Office manages the financial and personal needs of wealthy families, ensuring that their wealth and values are protected and passed on to future generations.

The purpose of the Family Office is to centralise the management of the family’s assets, investments, tax, estate and philanthropic planning. The legal structure of the Family Office will depend on such factors as the complexity of the family’s financial affairs, the tax domicile and residence of its principal members; the level of asset protection that may be required and, most importantly, the wishes of the family itself. Often, such families have diversified private fortunes accumulated over many years, which have complex multi-jurisdictional aspects.

When a high net worth (HNW) family considers whether to set up a Family Office of their own or to use an existing and established multi-Family Office, the location of the office is very important. There are a number of criteria that a family considers when selecting a particular jurisdiction in which to establish their Family Office:

- economic, political and financial stability
- a beneficial tax regime
- easy access to reputable financial service providers
- good infrastructure
- a highly educated, experienced and available workforce.

The finance industry in Barbados is ideally placed to provide the widest scope of Family Office services and for these reasons, many international wealthy individuals and families have selected Barbados as a base for their operations.

Today, Family Offices have seen increased demand for more specialised services, requiring them to expand their scope of service offerings and to include everything from bill paying, property management, oversight of yachts, private aircraft, artworks and other assets. They have become a “one-stop shop” for the resources, tools and technology that can protect and advise HNW families both in the immediate and longer term.

Family Offices will call on a wide range of advisors and service providers to work together as an integrated team, to provide tailored and responsive solutions to the family’s needs. Barbados has an abundance of professional service providers whose services meet these requirements. International Banks, Trust Companies, Wealth Managers, Tax Consultants, specialised Insurance Companies, (the Big 4), Accountants and Lawyers operating in Barbados are able to provide many of the spokes to this wheel, offering strong fiduciary services for the administration of Private Trust Companies (PTCs), Family Trusts, Foundations and other corporate vehicles.

As a jurisdiction, Barbados continues to advance its corporate structures to meet the evolving needs of the international client, developing attractive and relevant solution-based initiatives in partnership with the industry. Recent enactment of Barbados trust legislation has brought about the development of alternative trust structures. The Private Trust Companies Act, 2012-22 and the Foundations Act, 2013-2, respectively, allow for the formation of PTCs and Foundations in Barbados, enabling families to have greater purview over their trust assets. A PTC enables the Settlor to exercise greater control and to have more discretion over the administration of the assets of the trust, providing greater flexibility and freedoms when compared to traditional trust structures.

...further enhancements were made to Barbados’ immigration policies, enticing HNW individuals (and their spouses) owning property in Barbados to apply for Special Entry and Reside Permits.

Similarly, the purpose of a family or private foundation is the protection of the assets of the family, the protection of privacy and tax optimisation. However, often only free investable assets are contributed to the structure, with the objective of safeguarding these assets for the next generation and to separate the assets from other assets of the Founder for asset protection purposes. The Founder can also retain the power to revoke the Foundation. The Foundation can deal with concerns about specific family members and provides a secure and stable resource for spouses and children. Foundations can also be used for charitable purposes. The Family Office, if required, can act as a member on the Foundation’s Board or as an advisor or guardian.

Effective September 2013, further enhancements were made to Barbados’ immigration policies, enticing HNW individuals (and their spouses) owning property in Barbados to apply for Special Entry and Reside Permits. The criteria for eligibility have been expanded, to include property and investment (foreign currency bank deposits, mutual funds or other financial instruments); and a new investment category of US$2 million has been introduced. Individuals who are tax resident in Barbados and remit foreign currency earnings are subject to a favourable tax regime. This presents an attractive choice for many non-domiciled families looking to relocate as a result of adverse changes and increased taxation imposed in other countries.

Over the years, Barbados has been proactive in developing its infrastructure and legislation to provide a solid foundation for long term success, based on stability, consistency and objectivity, which wealthy families will require as they seek to preserve generational assets in uncertain times.

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"Creative Insurance Solutions for Your Business"
Current Trends in International Wealth Planning

BY CHRISTIAN PAUL

The idea of Wealth Planning is an integral component in the discipline or practice of Wealth Management. A useful place to start this discussion is by examining the concept of Wealth Management.

What is Wealth Management?

In short, the practice of Wealth Management, and by extension Wealth Planning, involves the use of various investment vehicles and complex structures (including hedge funds, mutual funds and trusts) to increase and safeguard the wealth of their clients.

The landscape is changing

The discipline of Wealth Management has evolved over time and is constantly changing, fuelled by customer demand for increased services, market and economic forces, technological advances and regulation. Indeed, post 2008, the evolution has shifted towards wealth preservation as opposed to simply wealth creation.

International Wealth Planning has become primarily about asset protection and safety, and less about taxes - although the latter remains a key component for both high net worth (HNW) individuals and revenue collection agencies the world over. A practitioner attending a recent Family Office conference in New York recently summed it up by commenting that his message to his clients is “you have been in the get rich business and we are in the stay rich business”.

Specific trends

Following the downturn in the world economy which has characterised the business environment over the last five years, many countries and firms are looking to re-energise their wealth management business and are looking increasingly at the facilitation of HNW individuals as a growth opportunity. Barbados is also among the group of countries looking to focus more on this niche market, and recent enhancements to facilitate the immigration status of HNW individuals are testament to the perceived value of the segment. There has been an explosion of HNW and Ultra HNW classes around the world, especially among emerging thriving economies like the BRICs (Brazil, Russia, India and China), where annual growth rates range between 4% and 8%.

This has led to the emergence of the Family Office, which is a growing trend in the Wealth Planning arena. These are Wealth Management advisory firms that serve Ultra HNW individuals and are akin to Private Banks. There are two main types: single Family Offices, serving one family, and multi Family Offices, having more than one client. These are especially popular in the United States and offer complete solutions, which include managing investments, budgeting, insurance and philanthropic activities.

Technological trends

A review of trends in Wealth Planning would not be complete without examining technological trends and the part they play. Companies around the world are investing heavily in the use of technological tools to help them manage their wealth businesses, which range from Customer Relationship Management tools to help them get a handle on the myriad needs of the customers in a proactive way, rather than wait for them to request, or worse, complain about an issue. The use of state of the art, integrated financial planning software and sophisticated databases to manage anti-money laundering/know your customer information has become even more important in this global world. Generally speaking, the use of technology is transforming work flow and customer service processes more and more into a ‘paperless office’ concept.

Life planning

Another noteworthy trend is that of Life Planning, which examines the clients’ life goals and dreams, setting these as the lynchpins for the plan, rather than from the perspective of only dollars and cents.

As the global business environment changes, fuelled by economic factors, increased due diligence requirements and customer demand, new trends in international Wealth Management emerge and the landscape will continue to evolve.
Finding the right asset allocation is the most important investment decision an investor can make. There are many other follow-on decisions that flow from this (tactical adjustments, manager selection, etc.), but if an investor starts with the wrong overall asset allocation for his particular circumstances, then all the other decisions he makes will be somewhat flawed.

Recent advances in index construction (for example Fundamental Indices) have provided investors with the opportunity to outperform traditional indices (and many active managers) for a low cost. Most people have heard the phrase “past performance is no guarantee of future returns”, but investors inevitably look at historic returns when making forward-looking assumptions. This is a natural inclination, as human beings have a tendency to think in linear terms and assume that (in investments) the way things have been is the way they will continue to be. However, while there is certainly value in looking to the past, a much better way to put together an asset allocation that will meet expectations is to do a bottom-up analysis of the expected returns in various asset classes and what that means for the portfolio. This will result in a more accurate range of expected returns and risks and, ultimately, more client satisfaction.

Client satisfaction = portfolio performance → client’s expected return

The first step in structuring an investment portfolio for a client is to determine the client’s investment objectives. Areas that need to be addressed in detail are the client’s return expectations, risk tolerance, liquidity and time horizon, any tax implications and any other unique considerations. These will all form the basis of a client’s Investment Policy Statement, and their strategic asset allocation.

The strategies available to international investors have expanded dramatically over the past 20 years. Many international investors are still not making full use of the wide variety of tools and strategies available today, including:

- US Equities
- International Equities
- US Bonds
- International Bonds
- High Yield Bonds
- Emerging Market Equities
- Emerging Market Bonds
- Long/Short Equities
- Low Volatility Alternatives
- Commodities
- Private Equity

Once the strategic asset allocation has been established, the next step is to construct the portfolio for the client. Important items to consider are the concepts of “passive” vs. “active” management, proprietary vs. third party investment managers, and strategic vs. tactical management.

“Passive” management is where the investment vehicle replicates the market index in which the manager is investing. Recent advances in index construction (for example Fundamental Indices) have provided investors with the opportunity to outperform traditional indices (and many active managers) for a low cost. Many large institutional investors are now taking advantage of these ‘smart beta’ index strategies. Usually a carefully constructed blend between passive and active managers is best.

No investment firm will ever be the best manager across a variety of asset classes, so it is best to avoid loading up on proprietary solutions. Assuming the client desires to find the “best-in-class” managers rather than investing exclusively in one investment firm’s proprietary solutions, then the next step is the manager due diligence process.

Finding the best managers is both an art and a science. Past performance vs. peers and benchmarks is easy to analyse, but more important is the firm’s ability to generate consistent future performance. Analysing, understanding, and accurately predicting periods of both outperformance and underperformance, based on detailed knowledge of the firm, are best left to the experts.

The next step in portfolio construction is to look at each individual investment and how it correlates to lower volatility with the other investments in the portfolio, and improve investment return based on modern portfolio theory.

Finally, the last dozen years of major market dislocation have resulted in the conclusion that portfolios need to be tactically adjusted over time. Gone are the days of “buy and hold”. It is very important that the investment firm has a disciplined tactical management approach, adjusting to changes in the current market environment.

**CASE STUDY – STS CAPITAL PARTNERS**

STS Capital Partners is an international mergers and acquisitions firm, headquartered in Barbados, with a global network of over 400 partners, mergers and acquisitions (M&A) specialists and industry advisors in over 20 major cities, including Beijing, Doha, London, Mexico City, Montreal, Monaco, New York, San Diego, Toronto and Zurich. ‘STS’ stands for Success to Significance™ - helping entrepreneurs and private business owners transform business success into personal significance by maximising value when selling businesses to international strategic investors.

STS differentiates itself from pure financial advisors and investment banks by bringing strategy and marketing to the M&A equation. There is significant benefit in understanding strategic drivers of a business and then effectively positioning that strategic value with potential international investors. A win-win is created by maximising multiples for individuals selling a business and delivering strategic investment opportunities to buyers.

STS plans to continue to expand in many countries, hiring seasoned M&A professionals, managing directors and advisors with deal experience in specific sectors and geographies.

Founding Chairman, Rob Follows, chose to establish STS in Barbados to give clients from countries with tax treaties with Barbados the opportunity to benefit from preferred tax situations when domiciling deal structures here. Barbados also brings asset protection and confidentiality for clients in countries where it is important to keep transactions strictly confidential locally from a security and/or competitive standpoint.
Global Trends in Wealth Management – the New World of Risk Mitigation in Portfolio Management

BY JEROME DWIGHT

It’s been said that one must never let a perfectly good crisis go to waste. The lessons learned from the global financial crisis of 2008 and the ongoing sovereign debt crisis have challenged traditional risk models and approaches to portfolio construction and diversification. The modern investor’s approach to portfolio investing has shifted to place greater emphasis on risk management in shaping portfolio management decisions. Global developments pertaining to US quantitative easing, Mid-east geopolitical tensions and European fiscal imbalances present far reaching implications to portfolio construction.

Today’s practitioners are taking a more holistic view of investing, utilising various scenario testing models and value at risk analysis to quantify and hedge tail risk. The new global client utilises a variety of risk quantification techniques, accompanied by a range of traditional and non-traditional asset classes with a range of dynamic hedging strategies. The use of real estate funds, commodities, insurance linked securities, single strategy hedge funds, etc., is also on the rise as investors continuously look for diversification alternatives.

The new investor mindset focuses beyond traditional investment product selection and simple asset allocation choices that focus on bonds and equities. Income planning, whether it be for high net worth individuals investing for future lifestyle needs, or institutions matching a series of maturing liabilities, seeks to mitigate the portfolio from being locked at a single overall yield rate. The use of a variety of bonds, convertible instruments and fixed income securities is increasingly utilised in a laddered bond approach to gain protection against interest rate and market risk correlation. Credit default swaps to mitigate credit risks and currency overlays are also highly effective tools in today’s portfolio risk management.

The decade ahead promises to pose tough challenges to both investors and professionals. With the lessons of the past behind us, the new global wealth management approach requires a thoughtful, multidimensional strategy to address global events and developments. Those wealth managers that utilise a risk-based approach to portfolio construction, with access to a broad selection of markets, asset classes, domiciles, credit and banking solutions, stand to succeed in the new era.

The strategic use of options and swaps to hedge away currency and market exposure is increasingly playing a greater role in portfolio construction. The new investor looks to gain exposure to currencies outside of his home country and seeks to mitigate against concentrations of economic and geopolitical risks in any particular region. Increasingly, investors are moving towards a mix of Australian, Canadian, Euro and US currencies, combined with exposures to certain emerging market denominations, such as the Brazil real or Chinese yuan.

In the current environment, investors and their advisors are also looking to incorporate operational risk as part of manager due diligence. Wider risk assessment frameworks that evaluate governance, systems, and fraud controls at management level are also an increased part of the portfolio management process.

The modern era of investing calls for investors to take a multifaceted approach to portfolio strategy. The lessons of the 2008 financial crisis and the Eurozone crisis have shown that large scale market disruptions have the potential to significantly increase correlation within a portfolio, thereby compounding portfolio losses. The big risk in today’s ultra correlated markets is systemic shock. If recent history has proven anything, it’s that even with strong due diligence on an underlying company, tail risk is not reflected in fundamental analysis. Fundamental analysis is valuable so long as the basic assumptions of capital markets remain intact; however, when faced with unexpected macro shocks, such as a debt crisis or the US dollar’s loss of world reserve status, traditional models of cross-asset and regional diversification are less effective. The integration of global economies and capital markets, cross-border supply chains and high frequency trading are all factors causing the rising trend in cross-asset correlations. This trend creates increased challenges and complexity for clients looking to insulate portfolios against macro shocks.

In the new paradigm, boards and investment committees are increasingly focused on risk management in shaping portfolio management decisions. Global developments pertaining to US economies and capital markets, cross-border supply chains and high frequency trading are all factors causing the rising trend in cross-asset correlations. This trend creates increased challenges and complexity for clients looking to insulate portfolios against macro shocks.

The value lies in knowing how to shape a vision.

Structure is the foundation for building and preserving wealth.
Why Global Investors are Choosing Barbados
BY PAUL JENKINS

Engineering is the study of structural design; it is a branch of science concerned with building tangible form via mathematics, discipline and intelligent thought. Engineering and finance have similar tenets based on discipline, science, and foundations in mathematics. It is therefore no surprise that many finance professionals have a background in science and/or engineering. To expand beyond the discipline of this science, savvy investors will continue to engineer the most effective and intelligent use of ‘jurisdiction choice’ to reduce risk and achieve better investment returns in a disciplined manner.

Barbados continues to be a jurisdictional choice for many global investors to establish and manage legal entities and/or global portfolios.

The Barbados advantage is plentiful and continues to evolve to meet the demands of global investors. Consider the network of double taxation agreements (DTAs) that Barbados continues to expand. This intelligent strategy of having a multitude of sovereign agreements with many reputable nations offers global investors a transparent, compliant and legal framework to reduce their overall effective tax rate.

Paramount to the Barbados advantage is the unique relationship Barbados has with Canadian banks. The Canadian banking system is considered one of the safest and most well regarded in the world, and Barbados has a majority of Canadian financial institutions dominating its landscape. Many of these Canadian firms have wealth management divisions present in Barbados. Investors can benefit by having a portfolio or structure established in Barbados, taking advantage of unique DTA relationships, while having assets held in custody in Canada. For institutional and forward thinking clients, this engineering of a lower effective tax rate, while having assets safely in Canadian banks, demonstrates intelligent form and design.

Also attractive to global investors is a jurisdiction of integrity, regulatory compliance and transparency. Barbados offers all these qualities. By maintaining a clean and globally compliant scorecard, Barbados has been able to remain on the Organisation for Economic Co-operation and Development list – which offers comfort for global entities wishing to establish an offshore structure or expand beyond their host country.

Compliance standards are also quickly becoming a major point of consideration. By having an internationally respected framework of compliance and transparency, Barbados demonstrates a commitment to the global standard – which adds to an already unique value proposition.

Adherence is evident not only with global compliance standards. Respecting and valuing a global service standard is extremely important. Clients are aware that service, in terms of reporting, financial expertise and administration, is extremely important in evaluating the jurisdiction in which to invest.

Barbados is unique in that, for the past three decades, an unusually high percentage (relative to peers) of Gross Domestic Product has been re-invested into educational excellence. This strategy has purposely created, or engineered, a skilled, bright and talented workforce.

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Trust Barbados for a Firm Foundation
BY MELANIE JONES & SADE JEMMOTT

Barbados has distinguished itself, over time, as an attractive offshore financial centre, owing to its extensive treaty network, prudent regulatory framework, excellent professional services, modern infrastructure, economic and political stability and special incentives for a variety of business structures. Indeed, these features have traditionally afforded this Caribbean island state a competitive edge in the areas of international business and wealth management.

In the trust arena in particular, Barbados has quietly built a reputation as a high quality jurisdiction well suited to high net worth individuals whose primary concerns may be estate planning, asset protection and tax planning. Local experts have capitalised on the Barbados legal system’s English common law heritage. As such, local practitioners keep abreast of global changes in trust practice, particularly case law precedents in other offshore financial centres.

... Barbados has quietly built a reputation as a high quality jurisdiction well suited to high net worth individuals...

This translates into increasingly sophisticated and responsive trust instruments and thoughtful legislative evolution. In this regard, Barbados has recently joined several of its common law counterparts in legislating for Foundations, traditionally a civil law construct. Thus, the enactment of the Foundations Act 2013-2 of the laws of Barbados (Foundations Act) is really an effort to cater to a wider selection of potential consumers of Barbadian offshore financial products, especially civil law jurisdictions and emerging economies such as China, Latin America and Russia, which may be more naturally predisposed to Foundations due to familiarity with them, rather than with trusts.

Essentially, a private Foundation is a revocable, or irrevocable, separate legal entity, without shareholders or any equivalent concept of ownership. It is managed by a Council following its incorporation by or on behalf of the founder. The entire ownership of the Foundation’s assets (called the endowment) rests with the Foundation, to be used for the benefit of beneficiaries or a purpose, and must be managed strictly in accordance with the Foundation’s governing documents (known as the Charter and By-laws, under Barbados’ legislation).

Given that Foundations are traditionally found in civil law jurisdictions, where there is no real concept of judicial precedent, there is very little rich and instructive development of these structures or their management within case law (the reverse is true for Trusts). This creates an opportunity for local practitioners to input into the creation and management of Foundations transferable approaches from their vast experience with Trusts, such as best practices, to reinforce the integrity of the structure for tax planning purposes. Moreover, Barbados’ legislature, drawing on the jurisdiction’s trust experience, has included effective asset protection provisions which expressly address forced heirship rules and foreign orders in the Foundations Act itself, to avoid potential vulnerabilities.

Undoubtedly, there are significant structural differences between the Trust and the Foundation, each with its own attractive characteristics. It is nonetheless indisputable that, in the context of offshore financial centres, they bear more similarities than differences when one takes a practical view and considers the purposes for which they are used. Additionally, they will inevitably face similar challenges from onshore jurisdictions. Happily, Barbados has long risen above these challenges leveraging its history, since inception, as a low tax (not zero tax) jurisdiction of transparency and substance.

Admittedly, it is too early to gauge precisely the market’s response to this new product in Barbados. Uptake elsewhere suggests, however, that there is considerable interest in Foundations in the wealth management arena. Coupled with Barbados’ overarching strength as an offshore financial centre, it may therefore be safe to conclude that it is only a matter of time before more and more consumers turn to this tried and trusted domicile for their Foundation needs.

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17 2014 BARBADOS INTERNATIONAL FINANCE & BUSINESS
Tax Treaties Prove their Resilience

BY FRANÇOISE HENDY

Forty-eight months after the Organisation for Economic Co-operation and Development (OECD) started its ambitious work programme to codify the exchange of confidential taxpayer information ‘on request’, using its model Tax Information Exchange Agreement (TIEA), it has abandoned the project. This despite the spectacular success of this G-20 backed initiative, which witnessed the conclusion of 800 TIEAs.

At the 2013 St. Petersburg Summit, the leaders of the G-20 proclaimed a new international standard for tax information exchanges by confirming their endorsement of automatic exchange of information - not through bilateral means, but based on another OECD model agreement, the Multilateral Convention on Mutual Administrative Assistance in Tax Matters. This OECD Convention, until recent amendments, was largely ignored by its own membership, as only a handful of states routinely engaged in the automatic ‘bulk’ transmission of taxpayer information.

Pursuant to this new G-20 edict, members of the OECD Global Forum on Transparency and Tax Information Exchange (Global Forum) – whose membership is responsible for the proliferation of TIEAs – have been advised that it has been “strongly recommended” by the G-20 that countries sign, or at least indicate an interest in signing, the OECD Convention.

Moreover, the G-20 has instructed the OECD, which functions as Secretariat to the Global Forum, to work out the implementation agenda for the new standard by February 2014.

The likely catalyst for this strategic change at the OECD is probably the USA’s announcement of the Foreign Account Tax Compliance Act (FATCA). This legislation attempts to impose the automatic exchange of the banking information of US taxpayers, using a series of bilateral inter-governmental agreements (IGAs) to form a global ‘web’ of commitments to routinely share information, and supported by an electronic platform currently being designed in conjunction with the OECD and a number of other interested states.

Barbados has already signalled its interest in negotiating a reciprocal FATCA IGA, so as to avoid the 30% withholding tax set to be levied on Foreign Financial Institutions who have not made arrangements to give the USA access to this information by July. However, Barbados also appreciates that the multilateral agenda may overtake the US’ bilateral approach, as the OECD has already publicly criticised FATCA as cumbersome, and US legislators have expressed concern that FATCA diminishes US competitiveness.

Barbados can take little credit for the recent proliferation of TIEAs, having only concluded such agreements with three countries (deliberately) and the Nordic group since 2009.

Over the past four years Barbados has staunchly defended the right to use the other bilateral mechanism accepted by the OECD and G-20 to effect bilateral tax information exchanges ‘on request’, namely tax treaties. Unlike the special purpose vehicle that properly describes the TIEA, tax treaties not only provide economic benefit to its partners but also meet the global ‘on request’ standard.

It should come as no surprise that Barbados, in the face of much ‘name calling’, resisted efforts to ‘bully’ it into abandoning its business model, which has always been premised on tax diplomacy, principally expressed through the negotiation of tax treaties.

With a mature, comprehensive taxation system, accompanied by a suite of tax incentives for Barbados companies exclusively engaged in services export, Barbados has maintained and accelerated its programme of tax treaty negotiation with countries interested in avoiding double taxation, preventing fiscal evasion and creating a legal basis for the exchange of taxpayer information between revenue authorities.

To this end, Barbados has leveraged its membership in the Global Forum to advance its own economic interests and its shared commitment to norms that support the better functioning of the global financial system, once applied in a manner not inconsistent with other international rules related to the right of small states to develop.

For these reasons, Barbados has not wavered from its foreign policy commitment to expand its network of tax agreements. Its dogged pursuit of this national agenda continues and has blossomed in the past four years against the backdrop of truncated TIEA activity.

Before 2009, Barbados’ network of tax treaties largely reflected its membership in the Commonwealth, its commitment to the Caribbean integration movement, its centuries-old trading relations with North America, and its post-independence declaration to be “friends to all and satellites of none”. Moreover, its then network of 18 agreements institutionalised the prevailing standard for tax information exchange now amended by a series of protocols to these agreements.

As of December 2013, Barbados has 33 tax treaties in force, including its multilateral arrangement with ten other members of the Caribbean Community, and countries such as Bahrain, Czech Republic, Iceland, Panama and Spain. New treaties with Ghana, Portugal, Qatar, San Marino and Singapore await ratification, and agreements with Belgium, Italy, Malaysia, the Slovak Republic, United Arab Emirates and Vietnam await signature.

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Globally Connected,
As a small international business jurisdiction, Barbados enjoys the proud record of having successfully completed three financial systems assessment programmes (FSAPs) in the past 15 years. Conducted by the World Bank and the International Monetary Fund, the FSAPs involve the rigorous scrutiny of a jurisdiction’s financial services by independent assessors. These reviews test a country’s regulatory laws and practices against international standards for banking, insurance, securities and credit unions, with the assessors critically examining the legislative framework that governs these sectors. Assessors also conduct in-depth interviews with the regulators and senior officials of some of the regulated entities that operate within the jurisdiction.

The preliminary report for the just-concluded FSAP has indicated a favourable prognosis. The report highlighted the progress in enhancing financial stability by, inter alia, implementing risk-based supervision, issuing industry guidelines and strengthening the legal framework. This positive outcome underscores the intensive work by regulators to safeguard and encourage only healthy and sound businesses of substance to Barbados' shores and the strong focus on modern day oversight and supervision practices.

In essence, the success recorded in the FSAPs is a signal accomplishment for a small jurisdiction, and one of the reasons why Barbados is viewed as a centre of choice for international investors and businesses.

To the island’s credit, the successful completion of three FSAPs is not the sole barometer for its reputation as a jurisdiction of preference for international business. Faced with mounting pressures and opposition to the development of its international offshore business by the Organisation for Economic Co-operation and Development (OECD), Barbados has sharpened its regulatory processes and modernised the legislation governing international business.

In the legislative landscape, the country will very soon enact the International Corporate and Trust Services Providers Regulations to buttress the International Corporate and Trust Services Providers Act, 2012. This legislation will ensure that all corporate and trust services providers are appropriately registered and monitored, in an effort to minimise or eliminate unsavoury business practices and practitioners, and will promote and maintain high standards of conduct, ethics and competence in the provision of international services. In addition, the legislation will provide greater comfort for potential investors, while concomitantly meeting the OECD Global Forum’s standards. Indeed these enactments underscore the jurisdiction’s efforts to maintain its proud record of sound supervision and enviable reputation as a preferred destination for international investment.

The International Corporate and Trust Services Providers Act endeavours to ensure that providers adhere to modern, internationally acceptable standards of best practice and to promote the operations of international entities in Barbados. Once the Regulations are in place, service providers will be held accountable. They will have to enhance their due diligence procedures because they will have to know and understand their customers more intimately, thereby lessening any scourge occasioned by failure to detect and prevent any illegal activity within the international services sector and, in particular, money laundering and financing of terrorism.

In addition, Barbados will shortly be revamping its International Financial Services Legislation to ensure greater compliance with international banking standards and to enhance the ease of doing business in the jurisdiction.

All in all, the successful FSAPs and the modernisation of legislation are testament to the island’s determination to maintain its well-earned record and reputation as a preferred destination for international business and financial services.
Establishing and Maintaining Trust and Transparency  

BY SIR TREVOR CARMICHAEL, Q.C.

Writing more than a century and a half ago, the French political economist, Frédéric Bastiat, noted that “life, liberty and property do not exist because men have laws ... on the contrary, it was the fact that life, liberty and property existed beforehand that caused men to make laws in the first place”.

Bastiat’s safe comments are as apposite today, particularly since necessary burgeoning legislation has accelerated with the advent of heightened international commerce conducted in real time as well as virtually. The need for highly developed legislation and regulation has now become the clarion cry of national jurisdictions as well as a plethora of international organisations. Bastiat, however, becomes particularly relevant since the strength and sustainability of the jurisdiction will transcend the mere presence of its laws; and will be more poignantly reflected in the critical areas of trust and transparency of its professionals and the jurisdiction itself.

Barbados, with its small size but widely exposed international business sector, strives to maintain these twin virtues. As a treaty jurisdiction, it interfaces with external elements in a more frequent and dynamic way than the zero tax jurisdictions. Hence, matters which go hand in hand with the establishing of an entity’s central management and control, as well as its permanent establishment, are critical to ensure transparency and indeed validity. Issues such as properly recorded minutes of real and reflective directors’ and shareholders’ meetings are pivotal but not definitive, for to ensure true transparency, audit committees, where appropriate, must also be established and their roles spelled out carefully. So, too, with corporate charitable donation policies which, where relevant, ought to be properly adopted and followed. Depending on the type of insurance corporate structure, a price and risk review committee can also add strength and security to board information and decisions.

Underscoring the need for transparency is trust, its logical partner, which translates to confidence in the jurisdiction as well as its professional service providers. Distinguished University of Toronto Professor, Anita Anand, characterises the need for trust in the context of ethics which are not restricted to the legal profession, but to the society as a whole. Succinctly, she states that “high standards in ethics go to the heart of what we as a society aspire to - learning to stop and consider right and wrong before we make decisions is crucial”. Service providers are therefore encouraged to receive the necessary training or exposure not only in their immediate field of study, but also in related disciplines within the areas of international business and ethical practice.

Trust and transparency remain in everlasting battle with image and reality. Small, beautiful islands are permanently in struggle with an image of paradise, twinned with one of extreme laissez faire. The beautiful Canadian hamlet of Pangnirtung, located on the eastern side of Baffin Island and 40 kilometres south of the Arctic Circle, is clearly one of the more inspiring sites on this planet, yet is rife with all of the social problems faced within the Canadian native communities. However, the transparency and trust which its Government of Nunavut exhibits is exemplified in the hope, sincerity and seriousness with which social services delivery is continually being intensified.

Barbados, like Pangnirtung, within a contextually modified milieu, aims to ensure trust and transparency. For the gem of the Caribbean, so appropriately characterised by Emile Strazer’s Merrymen, its first international singing group, continually seeks to affirm and reaffirm an ongoing role as a jurisdiction of historical certainty and present day accountability. It seeks to ensure that its undisputed role as the leader of 19th century transatlantic trade and commerce is translated into 21st century commercial integrity and rectitude. Like Canada’s Pangnirtung, it seeks to match beautiful but small size in a changing and challenging environment with fortitude and fairness.

Frédéric Bastiat never visited Barbados or Pangnirtung; but both places recognise his thesis in different ways, and indeed in different contexts; namely, that law is but one factor - albeit an important one - in the quest for jurisdictional trust and transparency.

For the gem of the Caribbean ... continually seeks to affirm and reaffirm an ongoing role as a jurisdiction of historical certainty and present day accountability

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Barbados has been a domicile for international insurance since 1983. Over the past 30 years, industry participants have acquired significant institutional knowledge and skill to appropriately facilitate a growing and successful captive insurance sector. The Financial Services Commission (FSC), as the regulator of this sector, functions within a strong and robust framework which considers the international core principles for insurance regulation. While the established framework for captive insurance in Barbados is very sound, it is not onerous on companies, as a key objective for the FSC is business facilitation.

The FSC’s approach to regulation … has enhanced Barbados’ reputation as a well regulated financial centre

The FSC’s approach to regulation, as well as its membership and affiliation with several international regulatory organisations, including the International Association of Insurance Supervisors and the Group of International Insurance Supervisors, has enhanced Barbados’ reputation as a well regulated financial centre. In addition to this, Barbados has an extensive list of approved double taxation treaties which offer many financial benefits to companies. These attributes have made the country – now domicile to approximately 230 captive insurance companies – an attractive jurisdiction, writing approximately US$30 billion in annual gross premium with combined treaties which offer many financial benefits to companies. These attributes have made the country – now domicile to approximately 230 captive insurance companies – an attractive jurisdiction, writing approximately US$30 billion in annual gross premium with combined

The Captive Registration Process

The captive insurance company is legitimate, regulated, and widely used. It creates important flexibility in the insurance market, where risk transfer may be achieved by using innovative insurance policies covering both pure and speculative risks that the traditional insurance market may or may not cover.

Barbados continues to use the institutional knowledge gained in the area of captive insurance company registration to improve the operations in the sector. Hundreds of captive insurance companies have applied for and been granted licences to operate in Barbados and as regulator, the FSC reviews the registration process frequently to ensure it is as efficient and effective as possible. The current registration process involves submission of the following documents:

- an application form, which is available at www.fsc.gov.bb
- a business plan detailing the company’s proposed operations
- financial projections for the captive
- résumés and copies of photo identification for the directors and principal representatives
- confirmation that the minimum required capital is in place.

Once a completed application is submitted, the FSC will ensure an efficient turnaround time to conduct the regulatory review, make a determination on the application, and issue the requisite approvals where applicable. Applications for a captive insurance licence are assigned to an analyst in the department, who acts as relationship manager during the review to ensure there is transparency and completeness throughout the process. This has worked very well in the past and the FSC continues to monitor the level of efficiency for any possible improvements in the system.

The FSC – Assisting the International Insurance Sector

As regulator of the international insurance sector in Barbados, the FSC continues to ensure the market remains well regulated so that business opportunities may be created and appropriate risk management strategies implemented to oversee new developments.

FSC – Assisting the International Insurance Sector

To this end, the FSC has made several strides to increase the transparency in the regulatory process, and is available to answer any queries an investor may have during the feasibility study stage and also after an entity has been licensed. Investors are free to seek meetings with the regulator, where highly qualified staff will discuss any proposed business developments, or any proposed developments in the regulatory environment. The FSC believes it is of mutual benefit to have high levels of transparency in the regulatory process, as well as in the operations of the insurers licensed in Barbados. This increased understanding provides for an efficiently run and well regulated sector.

When these benefits are considered, along with a regulatory framework that is proven to be robust and sound, it is understandable why the insurance sector in Barbados continues to expand and provide feasible insurance options for companies.

Aims to Enhance Barbados Operations

Sea NG Corporation of Canada, the world’s leader in the emerging energy sector of marine transportation of compressed natural gas (CNG), located its international business corporation (IBC) subsidiary – Coselle Technologies Inc. – in Barbados in 2011. As nearly all of the projects of Sea NG are international, it was essential to select the most strategic location for an IBC. After a review of the alternative jurisdictions, Sea NG chose Barbados as having the optimal combination of attributes: robust

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Marine Compressed Natural Gas Transporter Aims to Enhance Barbados Operations

Sea NG Corporation of Canada, the world’s leader in the emerging energy sector of marine transportation of compressed natural gas (CNG), located its international business corporation (IBC) subsidiary – Coselle Technologies Inc. – in Barbados in 2011.

Sea NG’s proprietary Coselle™ technologies enable the economic, safe and reliable transport of moderate quantities of natural gas over medium distances where it is not viable for liquified natural gas or a sub-sea pipeline. Target markets for the deployment of this new natural gas shipping system by Sea NG are islands in the Caribbean, Mediterranean, Southeast Asia, as well as a range of offshore gas production zones around the world. Sea NG is assisted by its global strategic partners Enbridge Inc., Marubeni Corporation and Teekay Corporation.

Sea NG looks forward to expanding its operations in Barbados significantly as Coselle™ CNG ships connect regional markets to new sources of natural gas.
International Insurance

Why a Captive and Back to the Basics -

from the insurance business under the right circumstances.

The deduction for its insurance premium and still accrue tax free income

Company with an established Captive in Barbados to take a tax

the Barbados-Canada tax treaty, which essentially allows a Canadian

was offset by the emergence of the Canadian market, facilitated by

established itself as a reputable domicile. The fallout in US business

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insurance paid to a non-US corporation, once that corporation was

exemption of the 1% to 4% Federal Excise Tax applicable to (re)

of the Barbados-US tax treaty. This piece of legislation allowed an

Captives in Barbados essentially commenced in 1984 with the signing

Origins and Evolution

Captives have historically been used either during periods of rising

commercial market insurance costs, or when there has been difficulty

Captives have used Captives to guard against environmental claims related to

hard-to-insure risks, for example where energy exploration companies

Compensation and Directors’ and Officers’ liabilities.

Professional (e.g. medical malpractice), Product, General, US Workers’

such as Auto (including physical damage and third party liability),

provide mainstream property and casualty insurance type coverage

a commercial insurer has been observed. The majority of Captives

provide main risk property and casualty insurance type coverage such as Auto (including physical damage and third party liability), Professional (e.g. medical malpractice), Product, General, US Workers’ Compensation and Directors’ and Officers’ liabilities.

Barbados Captives also provide specialised coverage for unusual or

fund uninsurable risk and/or risk that is deemed to be

overpriced by the marketplace.

Insurable Risks

Companies form Captives to mitigate their exposure to a wide range

of risks. Within the Barbados context, there are no prohibitions on

the type of insurable risks, as practically every risk underwritten by

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within the Barbados-US tax treaty. This piece of legislation allowed an

exemption of the 1% to 4% Federal Excise Tax applicable to (re)

insurance paid to a non-US corporation, once that corporation was

domiciled in Barbados.

Since the enactment of the Barbados Exempt Insurance Act

in 1983, there has been a strong regulatory framework supporting

the formation of “Captives”

This exemption expired in 1991, but by then the country had

established itself as a reputable domicile. The fallout in US business

was offset by the emergence of the Canadian market, facilitated by

the Barbados-Canada tax treaty, which essentially allows a Canadian

Company with an established Captive in Barbados to take a tax
deduction for its insurance premium and still accrue tax free income

from the insurance business under the right circumstances.

The recent evidence is that Captive formation and growth across
domestics continue to rise during both hard and soft insurance

markets. The main reasons given for establishing Captives are to:

1) provide the ability to offer guaranteed cost insurance
coverage to business units

2) formalise risk-retention financing

3) enhance focus and discipline in risk control of
fundamental exposures

4) access other markets, such as reinsurance and local pool
arrangements, and

5) fund uninsurable risk and/or risk that is deemed to be
overpriced by the marketplace.

Recent Developments

The most recent challenge on the international insurance landscape

has been the implementation of the Foreign Account Tax Compliance

Act. This has highlighted the reality that Barbados has to remain

proactive in satisfying the requirements of new international standards

that developed countries have been imposing, or face losing access
to these markets and ultimately market share.

The same cannot be said of the implementation of Solvency II,
as that is expected to have little impact on Barbados’ Captives in

terms of either their operations or regulation. Indeed, Solvency II is

unlikely to be fully implemented until 2015 at the earliest, and

the Financial Services Commission in Barbados has signalled that

Barbados was outside the EU regime and hence it would not be

pursuing equivalence at this time.

Barbados is well positioned to attract investment from the Latin

American market, with its government already at various stages

discussions with Brazil, Chile, Colombia and Costa Rica on tax

and investment treaties, complementing its existing extensive treaty

network.

Recently, the Government of Colombia, through its Ministry of

Finance, issued Decree No. 2193 which excluded Barbados from

the list of countries and jurisdictions that, for fiscal purposes, are

considered as tax havens. This has been attributed to the initial
discussions between the two Governments, along with the work of

the private sector in portraying Barbados as a country in which the

rule of law and democracy are deeply ingrained, with strong judicial

and regulatory institutions and a pool of talented local professionals.

Conclusion

These developments augur well for strengthening international

business activity between Barbados and Latin America, and both

the Barbados Government and the private sector stand ready to seize

this opportunity.

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The Impact of Corporate Governance on Business Performance  BY IKINS CLARKE

When one speaks of corporate governance, a number of thoughts come to mind. These can range from boardroom issues, directors’ and shareholders’ responsibilities, codes of conduct, risks, integrity, ethics and a confluence of similar words and phrases. An understanding of the core issues comprising corporate governance is critical to the success or failure of businesses, as each of the elements is inextricably linked and interdependent.

The corporate world is replete with examples of business failures and oftentimes these failures result from corporate governance failures, due mainly to mistakes made by chairpersons and boards of directors. Many businesses face a fundamental challenge in maintaining proper corporate governance standards and this is also common to the wide spectrum of business across Barbados and the region.

The difference between a successful business and a failing business often hinges on the skills that the directors bring to the Boardroom. Indeed, factors such as how a company empowers its staff, an enabling tone at the top management level, calculated risk-taking and, most essentially, effective communication, have often been deemed to be benchmarks of successful businesses.

On the contrary, research has shown that companies which had the misfortune of having directors with insufficient intellectual capital, directors with a penchant for micro management, arrogant leaders, managers who were risk averse with a poor communication framework, ultimately failed. But what exactly constitutes good corporate governance? Maybe it lies somewhere between the chasm of an effective and efficient Board and good old common sense.

The conversation has continued with the recognition of potential governance traps, such as the lack of individual and collective responsibility, and the need for accountability. Any organisation that sets dynamic and high standards around corporate responsibility, operational efficiency and is blessed with astute leadership is destined to succeed, and along the route will build up an enviable reputation for being ‘first in class’ when it comes to governance. The discourse should also focus on some of the basic things that can be taken for granted. It is not surprising that the examples of recent corporate failures in the region show a tale of a lack of a formal governance structure, ineffective Boards that were unable to curb the intentions of strong executives, lack of trust, misunderstanding of roles and responsibilities, and a lack of accountability.

Good corporate governance is therefore based on a structure which recognises the importance of the different roles played by directors, shareholders, management and staff, and the interplay of these roles for the common good of the organisation. The onus is then on Boards to ensure that good governance is practised in their organisations. The composition of the Board and the criteria used for selection needs to be tightened to include additional ethical responsibility, such as attitude and behaviour. Moreover, the effectiveness of Boards needs to be reviewed at least annually and poor Board performance should be chastised and not tolerated.

The mix of a good governance framework, the right people, clear and effective communication, as well as dynamic leadership, is the recipe for corporate success and separates the “sheep from the goats”. The link is unequivocal – good governance is good for business.

The impact of corporate governance on business performance is critical to the success or failure of businesses, as each of the elements is inextricably linked and interdependent. Good corporate governance is therefore based on a structure which recognises the importance of the different roles played by directors, shareholders, management and staff, and the interplay of these roles for the common good of the organisation. The onus is then on Boards to ensure that good governance is practised in their organisations. The composition of the Board and the criteria used for selection needs to be tightened to include additional ethical responsibility, such as attitude and behaviour. Moreover, the effectiveness of Boards needs to be reviewed at least annually and poor Board performance should be chastised and not tolerated.
Most organisations recognise that in today’s complex business world, risk financing strategies must extend beyond simply purchasing insurance to cover operational and hazard risks. Finding an appropriate balance between traditional insurance and other risk financing strategies is one of the key challenges facing corporations today.

Evaluating the options

Insurance purchasing decisions are somewhat dictated by laws, regulations, bank covenants and other stakeholder requirements. As a matter of sound business practice, some corporations also choose to purchase insurance to cover potential losses from natural catastrophes and material litigation and liabilities.

Risk financing decisions such as these cannot be made without an objective evaluation of options. Decisions about whether to transfer or retain risk should be made with the goal of reducing financial volatility by protecting the company’s earnings and/or cash flow, and be aligned with the organisation’s ‘risk appetite’, the measure of the organisation’s financial capability and willingness to retain risk. Retained risk can be funded in several ways - from operating cash flow, from an internal account, or through a long-standing and very viable option, a captive insurance company.

Captives offer many advantages

Captives offer a number of financial, insurance and risk management advantages, especially for companies with global operations and material retained risk. Captives help organisations to reduce insurance costs, improve cash flow, match revenue and expense (especially for longer-term liabilities), and generate tax efficiencies.

They allow organisations to secure coverage for risks typically not insurable, reduce the need for commercial insurance, improve a company’s negotiating position with insurers, and create flexibility in insurance programme design and coverage.

Barbados: a Comfortable Home for Canadian Captives

BY TREVOR MAPPLEBECK & NICHOLAS CRICHLow

Barbados has much to offer companies seeking to set up a Captive … strong infrastructure, high quality of life, excellent education system …

Captives also provide organisations with the ability to access international reinsurance markets - these markets may provide greater access to capacity, better pricing, and broader terms and conditions than might be available in the domestic insurance market. Captives are also able to earn ceding commissions from reinsurers, which can act as an income source.

Additionally, they provide more risk management benefits through the design of cost allocation systems, the accumulation of loss data, the design of more effective claims handling and loss control programmes, and the development of uniform expectations and standards for risk management across divisions or subsidiaries.

Captives can also be a revenue generator, and as an insurance entity, a Captive can be used to offer insurance products to a customer base. Two key benefits of this strategy include creating a possible underwriting profit from the sale of insurance, as well as offering a value added product to customers. An example of this is offering an extended warranty on a product for a premium.

Choosing Barbados as a Captive domicile

Business owners have realised that there are few limitations in terms of the risks that a Captive can finance, provided the risks are evaluated, priced and capitalised properly. In addition to traditional property and casualty exposures, Captives can be employed to insure environmental liability, product recall, weather risk, intellectual property infringement risks, volumetric risks, cost overruns and other business risks. Captives also can also serve as viable alternatives to other financial instruments, including letters of credit or other guarantees.

Barbados has much to offer companies seeking to set up a Captive. Its strong infrastructure, high quality of life, excellent education system and long-standing history of working with Canadian-owned Captives and other structures make Barbados a natural choice for Canadian businesses. Over the coming years, the number of Captives domiciled in Barbados is expected to increase as more corporations seek to take greater direct control of their risk financing strategies.

Fast Facts

A Captive can be used to finance any number of potential risks, including:

- Environmental liability
- Product recall
- Weather risk
- Intellectual property infringement risks
- Volumetric risks
- Cost overruns
- Supply chain risk
- Revenue source (e.g. extended warranty on products sold).

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Additionally, they provide more risk management benefits through the design of cost allocation systems, the accumulation of loss data, the design of more effective claims handling and loss control programmes, and the development of uniform expectations and standards for risk management across divisions or subsidiaries.

Captives can also be a revenue generator, and as an insurance entity, a Captive can be used to offer insurance products to a customer base. Two key benefits of this strategy include creating a possible underwriting profit from the sale of insurance, as well as offering a value added product to customers. An example of this is offering an extended warranty on a product for a premium.

Choosing Barbados as a Captive domicile

Business owners have realised that there are few limitations in terms of the risks that a Captive can finance, provided the risks are evaluated, priced and capitalised properly. In addition to traditional property and casualty exposures, Captives can be employed to insure environmental liability, product recall, weather risk, intellectual property infringement risks, volumetric risks, cost overruns and other business risks. Captives also can also serve as viable alternatives to other financial instruments, including letters of credit or other guarantees.

Barbados has much to offer companies seeking to set up a Captive. Its strong infrastructure, high quality of life, excellent education system and long-standing history of working with Canadian-owned Captives and other structures make Barbados a natural choice for Canadian businesses. Over the coming years, the number of Captives domiciled in Barbados is expected to increase as more corporations seek to take greater direct control of their risk financing strategies.
Captive Insurance and New Governance – What Do I Need to Know?

BY GLEonna SMITH

Barbados boasts a healthy domestic and international financial services sector. Whether you are looking to establish a captive insurance company or an offshore bank, Barbados has tax treaties with many countries that facilitate global business, and it continues to expand its network of treaties.

The new supervisory structure and guidelines lend strength, stability, focus and good governance to the sector, reinforcing the international appeal of this jurisdiction.

The Central Bank of Barbados, established in 1972, regulates banks by providing supervision and ensuring a stable financial system. During reviews conducted by the Financial Action Task Force while assessing the strength of the country’s anti-money laundering and anti-terrorist regime, it was determined that several other financial entities did not have the same level of centralised supervision.

The Government of Barbados was quick to respond to the need to strengthen the oversight and legal framework and, along with revised legislation, created the Financial Services Commission (FSC) in 2001. The FSC is responsible for supervising and regulating the non-banking financial services sector in Barbados, which includes insurance companies, credit unions, pensions, securities and more.

What does this mean for a captive insurance company or other organisations wanting to incorporate in Barbados? It simply means that supervision processes and governance are more focused and streamlined. Instead of potentially being accountable to various associations or supervisors, there is now one point of contact as the ultimate authority. The new supervisory structure and guidelines lend strength, stability, focus and good governance to the sector, reinforcing the international appeal of this jurisdiction.

The FSC encourages a risk-based approach, meaning the size and nature of an insurer’s risk exposures, the complexity of each business and the approach to risk management may be determined by the entity and tailored accordingly to meet the necessary requirements. Similar to most regulatory guidelines, there are “musts” and “mayes” – for example, each insurer must be prudently managed, whereas the Board of Directors may consider the establishment of an Audit Committee. Another example is that the statutory fund shall not be invested except in the securities specified in the Second Schedule, and any assets held in trust for the statutory fund must therefore conform to the restrictions.

In addition to an annual attestation and certification, there are a number of statutory reporting requirements:

- Background Information
- Main Financial Statements
- Details on Balance Sheet
- Operating Details as Reported in the Income Statement.

If you are looking to establish an insurance company or business in Barbados, visit the FSC’s website (www.fsc.gov.bb) to learn more about the registration and licensing process.

Barbados offers a wide variety of competent professional service providers, including:

- Tax advisors
- Lawyers
- Chartered accountants
- Consultants

This combines with a stable political environment, an economy with robust and growing tax and investment protection treaty network, which not only facilitates trade with the island but also allows it to operate as a catalyst between its treaty partners. The long list of “in force” tax agreements includes countries within LATAM, namely Cuba, Mexico, Panama and Venezuela, with treaty discussions already advanced with several other LATAM nations.

Barbados’ supervisory structure most suitable to your strategic and financial goals.

Choosing a Domicile: a Latin American Perspective - Oil and Gas Opportunities

BY TERRY-ANN MOE

As the global economic crisis plays out on the world stage, the energy industry remains an important actor, as none of the world’s economies can provide goods and services without it. One of the rising stars of the energy industry is Latin America (LATAM), and with strong growth reported both in production and consumption of oil and gas, as well as the diversification of the LATAM biofuels industry, the region has been sparking considerable investor interest.

But LATAM, like other developing regions, has had its challenges, such as perceived political and social instability in some countries. These challenges have given rise to investor caution, marked by complex company structures designed to protect investors’ assets and safeguard confidentiality for legitimate security reasons. A holding or finance company within such a structure should ideally be located in a country that is suitable for both the source and destination markets, and Barbados is ideally positioned as a platform from which to launch such ventures. In addition to the general attributes which make the island an interesting domicile for clients investing into or out of LATAM, Barbados also has specific characteristics which are particularly suitable for the oil and gas industry.

Barbados has earned a solid international reputation through its robust and growing tax and investment protection treaty network, which not only facilitates trade with the island but also allows it to operate as a catalyst between its treaty partners. The long list of “in force” tax agreements includes countries within LATAM, namely Cuba, Mexico, Panama and Venezuela, with treaty discussions already advanced with several other LATAM nations.

Barbados’ bilateral investment treaty with one of the most oil-rich LATAM countries, Venezuela, provides for the protection of investments, including a guarantee of internationally arbitraged compensation in the event of Government appropriation of assets, as well as the unrestricted repatriation of funds. The oil and gas business typically involves significant local investment, and such a treaty provides additional comfort to investors - a key advantage.

In addition to the above, Barbados has a progressive domestic corporate and tax law regime, offering numerous vehicles and tax incentives suitable for structuring investments and active international business. One interesting feature is that dividends earned from foreign subsidiaries are exempt from corporation tax. Moreover, dividends paid out of foreign sourced income to non-Barbados resident shareholders are not subject to withholding tax.

Another important aspect of Barbados’ domestic tax law is a mechanism aimed at encouraging companies to earn foreign currency. Foreign currency earnings credits are available to local companies in certain circumstances, with the potential effect of reducing the tax rate to as low as 1.75%. Oil and gas activities are one of the several business categories that qualify for such a credit. Alternatively, such activities performed by International Business Companies and some other corporate international business vehicles can benefit from tax rates varying from 2.5% to 0.25%.

Due to the significant global market impact of the oil and gas industry, and the increasing Government recognition of the industry as a tax revenue source, it is often heavily taxed, regulated, and scrutinised. Therefore, when implementing either an inbound or outbound investment strategy for such investments, one should choose a domicile that facilitates business within a well regulated environment that addresses those concerns of substance and right-sized regulation. Barbados, with its low tax regime, strong international reputation, progressive legislation and stable business and political environment, is a prime choice.
... and so much MORE

1. Unique Historic & 'World Heritage' Settings
2. Thriving Commercial Network
3. Luxury Living
4. Abundant Retail Choices
5. Golfer’s Heaven
6. Farmers’ Markets
7. Dining Alfresco
8. First-class Conference Facilities
9. Championship Rallying
10. Pristine Beaches
11. Breathtaking Vistas
12. Lively Cultural Events
13. Variety of Fun Cruises

Entertainment:
- Cinemas
- Local & International Theatre
- Concerts & Live Music Venues

Activities:
- Fitness Centres & Spas
- Marathon Runs
- Horse Riding
- Ecological Hikes

Places to Visit:
- Historic Buildings & Sites
- Museums
- Rum Distilleries
- Plantation Homes

the list goes on ...
How Canadian companies use Barbados

Barbados remains an ideal place for Canadian companies to create an entity for reasons such as holding an investment, active business operations, and trading all manner of items. When it comes to conducting business and structuring ownership of investments, apart from low taxes and the many non-tax attributes about which much has been written, the features that distinguish Barbados from many other jurisdictions are the ability to:

- create a branch
- license a local corporation or branch as an international business company (IBC)
- legally migrate a local corporation into and out of Barbados.

For example, a branch that is licensed as an IBC can be set up in Barbados to assist the operation of the head office located in another country. Such arrangements can produce operational efficiencies, say, when a multinational corporation already has trained staff in Barbados or when the business wants to utilize Barbados’ sophisticated local workforce, available at a more competitive cost. The same IBC requirements and benefits apply to a branch as they apply to a company. Barbados IBC status preserves a reasonably low tax rate, even when the business is in part carried on outside of Barbados.

IBC can also be created to make operational investments in another country in the form of a branch office, preventing the need to incorporate a subsidiary in that other country. Barbados IBC status preserves a reasonably low tax rate, even when the business is in part carried on outside of Barbados. The long-standing double taxation treaty with Canada, combined with Barbados’ extensive double tax treaty network, can then produce cost efficiencies and provide the means through which earnings from the investee countries can be reattributed back to the foreign (Canadian) parent corporations in a tax efficient manner.

Barbados’ corporate law allows for an entity incorporated in another jurisdiction to enter or continue in Barbados, and it also allows for an entity incorporated in Barbados to leave or discontinue in Barbados and migrate to another jurisdiction. The migration can be done in a straightforward manner and without adverse tax consequences, provided that the corporate law of the country to or from which the entity is migrating also permits such continuance or discontinuance of entities. This attribute makes Barbados attractive to Canadian multinational corporations, because it allows for structuring flexibility in an ever-changing global landscape.

Competitive advantages in the anti-Base Erosion and Profit Shifting environment

The many advantages of using Barbados as an investment-holding jurisdiction are well known, and there have been no major legislative changes that have had a negative impact on those advantages.

In fact, the current trend in the international business environment, started most notably by the introduction of the Organisation for Economic Co-operation and Development’s (OECD) Base Erosion and Profit Shifting (BEPS) report and action plans, might have made Barbados a more desirable investment-holding jurisdiction than ever.

One of the themes circling the current BEPS work streams is that corporations should attribute profits to assets that are actively maintained and managed, which, in tax parlance, means that the company owning the assets has appropriate substance. The apparent focus is on corporations that claim to have valuable assets, such as intellectual property and loans, and then charge substantial fees for providing such assets, but do not have, in the eyes of the OECD, sufficient substance of maintenance and management activities over the assets within the company.

This pressure of having more activities and substance around valuable assets gives Barbados a competitive advantage because it has a workforce that is sophisticated, well educated, and understands the needs of an international business. Barbados is price competitive with comparative jurisdictions in Europe that might also be considered when deciding where to establish (or relocate) business activity. Barbados positions itself as a sophisticated and competent centre of international business which can be appropriately used to expand international business within today’s anti-BEPS environment.

Structures and Strategies

The following are examples of typical international structures, but remember that each case is different so one should always seek professional tax advice:

**Financing Structure** – financing investment in Country A by investors in Country B, where there is no treaty between A and B and where interest payments are subjected to high withholding tax in Country A. If Barbados has a treaty with both Country A and B, it may be possible to use a financing company in Barbados to channel the investment in Country A by shareholders in Country B.

**Licensing structure** – sub-licensing of intellectual property (IP) by transferring IP to a jurisdiction of choice where a favourable treaty rate exists.

**Holding Company structure** – using a Barbados HoldCo to hold shares in the investing country, so as to minimise withholding tax and eliminate capital gains tax.

**Function & Risk Transfer structure** – using a captive insurance company to manage risks offshore, to enable the group to benefit more and have greater control in the management of the risk.

In the last decade, special enactment vehicles have attracted the attention of Governments seeking to preserve their tax base. Indeed, the current trend is for these entities to be precluded from the benefits of tax treaties concluded. Barbados has encouraged the use of domestic entities to carry on international business, and the Income Tax Act of Barbados makes provision for the claiming of a foreign currency earnings credit where a person or entity carrying on business in Barbados derives assessable income from fees, payments or rewards in respect of the undertaking of qualifying overseas professional services. Under such circumstances, the effective tax rate can be as low as 1.75%.

Traps for the unwary

The use of intermediary companies with little or no substance is no longer a feature of robust international tax planning. Over the past few years, there has been a fundamental shift in the way that people view tax, and the issue of paying one’s fair share is being scrutinised by governments and the general public and highlighted in the media. Significant brand damage can occur if there is a perception that a company’s tax affairs are overly aggressive or ‘unfair’, and calls for tax transparency and tax morality have resulted in a focus on tax evasion and tax avoidance, addressing areas such as Transfer Pricing, Controlled Foreign Corporation legislation, Tax Havens, and Base Erosion and Profit Shifting.

Critical business issues

This ever-shifting debate and tax environment creates significant complexity. With reputations and relationships on the line, business leaders will need to focus on ensuring that their organisations are not only acting responsibly in the eyes of their stakeholders, but also reinforcing their ability to comply with possible further reporting obligations. As it stands, once there is substance in a company’s activities in the jurisdiction, there are a significant number of tax planning opportunities that will stand up to scrutiny. However, given our strategy in inter-governmental tax treaty negotiation, Barbados is well placed to address any number of developing tax issues so that through proper dialogue, communication and openness, resolutions can be found.

International Business

Is there still a place for Barbados as your International Business Location?

BY GLORIA EDUARDO

Barbados positions itself as a sophisticated and competent jurisdiction with well educated, understands the needs of an international business. Barbados remains an ideal place for Canadian companies to conduct business and structure ownership of investments, apart from low taxes and the many non-tax attributes about which much has been written, the features that distinguish Barbados from many other jurisdictions are the ability to:

- create a branch
- license a local corporation or branch as an international business company (IBC)
- legally migrate a local corporation into and out of Barbados.

For example, a branch that is licensed as an IBC can be set up in Barbados to assist the operation of the head office located in another country. Such arrangements can produce operational efficiencies, say, when a multinational corporation already has trained staff in Barbados or when the business wants to utilize Barbados’ sophisticated local workforce, available at a more competitive cost. The same IBC requirements and benefits apply to a branch as they apply to a company.

Barbados IBC status preserves a reasonably low tax rate, even when the business is in part carried on outside of Barbados.

IBC can also be created to make operational investments in another country in the form of a branch office, preventing the need to incorporate a subsidiary in that other country. Barbados IBC status preserves a reasonably low tax rate, even when the business is in part carried on outside of Barbados. The long-standing double taxation treaty with Canada, combined with Barbados’ extensive double tax treaty network, can then produce cost efficiencies and provide the means through which earnings from the investee countries can be reattributed back to the foreign (Canadian) parent corporations in a tax efficient manner.
Barbados has witnessed an expansion of its offerings with products ranging from our traditional (International Business Companies, Societies with Restricted Liability, Captive Insurance Companies, Trusts, International Banks) to the more recent additions (Private Trust Companies and Foundations). We continue to maintain our strong foothold in North America and we are seeing success with our timely entry into Latin America. So how do we keep the momentum going? What is the next bold move for Barbados? We prepare to welcome Real Estate Investment Trusts (REITs). A REIT, typically, is a company/trust that manages a portfolio of real estate assets to earn profits for its shareholders/investors.

With our reputation for stability and effective regulations, Barbados is in an extremely superior position to attract REIT investors.

REITs have been in existence in many countries, including Australia, Brazil, Canada, Germany, Hong Kong, Italy, Mexico, Singapore, Turkey, the USA and the UK, for many years. The legal form and rules vary in each jurisdiction. REITs are widely acceptable investment vehicles for investments in property and mortgages, and the impetus for their introduction is usually depressed property markets. These vehicles generally receive special tax considerations and offer high yields, as well as a liquid method of investing in real estate. REITs are widely accepted investment vehicles for investments in property and mortgages, and the impetus for their introduction is usually depressed property markets. These vehicles generally receive special tax considerations and offer high yields, as well as a liquid method of investing in real estate.

REITs typically consist of a company/trust that manages a portfolio of real estate assets to earn profits for its shareholders/investors. REITs are known for their ability to provide a steady stream of income to investors through dividends, which are paid out regularly, usually quarterly. REITs are classified into different types based on the nature of their assets. REITs fall into three broad categories:

1. Equity REITs: These own and operate income-generating properties such as office buildings, retail centers, hotels, and apartment complexes. They earn income through the rental of properties and the sale of properties at a profit. Equity REITs are considered more speculative than the other two types because they are more exposed to changes in the real estate market.

2. Mortgage REITs: These finance the acquisition and development of real estate properties. They do not own the properties themselves but provide the capital that allows developers to build or renovate property. Mortgage REITs pool investors’ money and invest it in real estate mortgages, often in the form of commercial mortgage-backed securities (CMBS). Mortgage REITs are considered less speculative than Equity REITs because they are more stable and less affected by changes in the real estate market.

3. Hybrid REITs: These combine the characteristics of both equity and mortgage REITs. They may own income-producing properties and also finance the development of real estate properties. Hybrid REITs are considered to be a middle ground between the two other types.

REITs are regulated by federal law, and the extent of regulation varies by country. In the United States, for example, the Federal Housing Administration (FHA) and the Federal National Mortgage Association (Fannie Mae) do not allow REITs to purchase or hold properties that are secured by FHA-insured mortgages or Fannie Mae-insured mortgages. REITs are also subject to the Investment Company Act of 1940, which regulates the operation of investment companies, including REITs, to ensure that they act in the best interests of their shareholders.

Barbados recognises that in today’s property market and in the foreseeable future, REITs are one of the most attractive and potentially lucrative investment vehicles. REITs have the ability to make profits from real estate investments available to everyone, small and big investors alike, without any loss of revenue to taxing authorities. Apart from the domestic market, foreign investors who establish REITs in Barbados can benefit from our growing network of double taxation treaties for tax relief. With our reputation for stability and effective regulations, Barbados is in an extremely superior position to attract REIT investors.
Join the discerning group already enjoying significant benefits in a stable environment.

For decades, Barbados and Barbadians have been making the kind of decisions that have produced an island worthy of investments like yours.

Competitive Advantages:
- Extensive Double Tax Treaty Network
- Bilateral Investment Protection Treaties
- Commitment to Substance
- Well Educated Workforce
- Prudent Regulatory Framework
- High International Rankings
- Quality Professional Services
- Low Corporate Tax Regime

Financial Products:
- International Business Companies
- Societies with Restricted Liability
- International Insurance
- International Banks & Trusts
- Segregated Cell Companies
- Mutual Funds
- Ships' Registration