# Small nations, big expertise: economic substance in IFCs

**Key points**

- Small-jurisdiction international finance centres (IFCs) are typically more specialised than larger centres – focusing on specific service areas and/or geographies
- Individuals and businesses use IFCs for a variety of reasons that are not motivated by tax. Clusters of expert specialist legal and professional service providers, coupled with specialised regulatory environments and frameworks, offer clients an attractive place to do business
- These clusters of professional service providers across smaller international finance centres add value in a substantive way

## 1. International finance centres in smaller jurisdictions are typically more specialist than larger centres – focusing on specific service areas and/or geographies

IFCs vary greatly in their size, scope, specialisation, geographical coverage, and services offered.

By contrast, larger onshore centres – like London, New York, and Amsterdam – offer a wide range of services – for example from investment banking through equity, bonds, commodities, and derivatives exchanges to asset management and corporate legal service – to a global client base. Typically, these have developed in large industrialised sovereign nations, often with a mercantile history.

They benefit from the international status and diplomatic clout of their host nations, including any 'double taxation agreements' negotiated with other countries. These bilateral or multilateral international treaties ensure that the same income, profit, or capital gain is taxed only once in only one jurisdiction – which reduces some of the costs and risks of cross-border business.

IFCs in smaller jurisdictions are typically more specialist – focusing on specific service areas and/or geographies; for example:

- Bermuda – for insurance
- BVI – for cross-border acquisitions
- Cayman Islands – for funds, corporate structuring, and captive insurance
- Gibraltar – for insurance and funds
- Guernsey – for banking, trusts, and funds
- Jersey – for banking, trusts, and company administration

2. **Individuals and businesses use IFCs for a variety of reasons that are not motivated by tax. Clusters of expert specialist legal and professional service providers, coupled with specialised regulatory environments, offer clients an attractive place to do business**

IFCs in small jurisdictions provide services through which companies, institutions, and individuals across the world carry out cross-border trade and investment. Across the Crown Dependencies and British Overseas Territories, cluster of firms – local, regional, and global – have developed to help service the needs of those that are looking to carry out cross-border trade and investment and that want the comfort of the jurisdictions' well-regarded corporate law.

This cluster of professional service providers – which include legal, insolvency and accountancy practices, fund managers and administrators, trust and estate planning experts, banks, and insurers – plus specialist government and regulatory authorities, comprise these jurisdictions' IFCs. These specialist and highly-personalised services, coupled with specialised regulatory environments and frameworks, offer clients an attractive place to conduct business.

3. **These clusters of professional service providers across smaller international finance centres add value in a substantive way**

By offering these platforms, small IFCs add substantive value to cross-border business and investment. There is an international consensus that profits are deemed to arise – and thus are taxable – where value is added to a process. This is often where products are made or sold: where there is the physical 'substance' of a large numbers of employees doing the manufacturing or retailing.

However, substance increasingly goes beyond the physical. IFCs add value through their use of specialised institutions and corporate law – their facilitation of the pooling of funds increases returns to capital and their reliable legal services create business certainty and reduces risk. This challenges the traditional definition of 'substance', which does not take full account of globalisation and the growing digital economy, where labour and capital are increasingly mobile.

The activities that these small jurisdictions engage in provide an invaluable contribution to the global economy. International financial flows are a vital component of a robust, vibrant, and growing world economy – and centres like Bermuda, the BVI, the Cayman Islands, Gibraltar, Guernsey, and Jersey are central to facilitating these flows. These jurisdictions have substance in that they offer jurisdictional and tax neutrality to clients from all over the world, helping to create investment opportunities to meet the needs of global businesses.

They also provide legal and contractual substance. Along with tax and jurisdictional neutrality, administrative convenience, and country risk mitigation, these British-linked IFCs offer legal expertise rooted in English law. There is high value in incorporating in a Crown Dependency or British Overseas Territory, as it comes with a legal framework renowned for quality, confidence and stability. Businesses gain material comfort that disputes can be resolved fairly and asset ownership is properly articulated and respected; this is neither physical nor intellectual, but it is a material and substantive requirement for business and investment, especially cross-border.