

The BVI raises its international profile

By Nigel MacPhail

The success of the British Virgin Islands hedge fund industry in recent years can be measured by the fact that it has now overtaken Bermuda to become the world's second largest offshore domicile for professional funds. And although the jurisdiction still has plenty of work to do to start catching up with the Cayman Islands, it is already benefiting from international efforts to raise the profile of the BVI including roadshows in major financial centres involving representatives of the private sector as well as the Financial Services Commission, the industry regulator, and the government promotional body, the BVI International Financial Centre.

Co-operation between the private sector and the government is already bearing fruit, as we can see with the growth of our audit client base in the funds industry over the past two years. This year Baker Tilly (BVI) expects to see the number of BVI funds it audits grow by as much as 25 per cent, an impressive level of growth when one considers that most funds that fail to succeed and close down do so before they reach the stage of being audited. Together with the feedback we receive from law firms and fund administrators, there is every reason to believe that the industry's expansion will continue.

The BVI has many advantages as a financial centre that are contributing to strong growth not only in the fund industry but in other areas including fiduciary business, captive insurance and the staple of the island's financial sector, business company incorporations and servicing. The jurisdiction has more than two decades of experience in international financial services business, and has built up a core of expert professionals with wide-ranging expertise, including most of the leading international offshore law firms.

As a centre for fund administration, the



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BVI enjoys a cost advantage over most of its rivals, but it nevertheless benefits from the presence of a cadre of skilled professionals. By contrast with Cayman, the administration industry here up to now has focused more on start-up and medium-sized funds, with niche players offering a more personalised service that is often not available elsewhere. However, the arrival last year of Fortis has also given the BVI access to the network of a leading global hedge fund administrator and the capability to service larger funds.

The fund industry has also benefited from the introduction of segregated portfolio companies, as part of the changes when the BVI Business Companies Act replaced the International Business Companies Act at the beginning of 2006. In the past where companies had segregated portfolio structures, for example through different classes of share, there was no legal provision to stop cross-portfolio liability.

The portfolios might have been segregated in the way there were administered, but from a legal point of view, if one of them became insolvent or was sued, the assets of the other share classes could have been vulnerable. The new act formalises the establishment of cells that are ring-fenced from each other. This has proved popular; quite a number of clients have already changed the structure of their companies to SPCs.

The BVI financial services industry now appears fully up to speed following a fundamental review of its legislative framework over the past four years. However, there are always ongoing discussions between the industry and the regulator over measures that could improve the environment for financial business, so the willingness is there to tweak the rules if it is needed to maintain the jurisdiction's competitiveness. ■