



Beyond globalisation

**The British Virgin Islands'
contribution to global prosperity in
an uncertain world**

A report for BVI Finance

March 2023



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contribution to global prosperity in
an uncertain world

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Foreword

As we turn the pages to the next chapter, the last few years have taught us that the future though unpredictable at times, can yet be inspiring. Five years ago, the predecessor to this report was described as a “line in the sand”. Few could have predicted how the sands would shift in the intervening years.

Since 2017, we have witnessed one unprecedented event after another: devastating climate events, the Covid-19 pandemic, the war in Europe, global political tensions and geo-economic challenges, and more.

Yet, through these extraordinary times, the British Virgin Islands (BVI) international business and finance centre’s resilience has been nothing less than inspiring. The British Virgin Islands has remained steadfast, attracting companies and individuals from around the world to do business, supporting the domestic economy and enabling investment around the world.

This continued success lies in the expertise and services that the British Virgin Islands offers across the whole lifecycle of a company, from incorporation, through mergers and acquisitions, public listings, privatisation, digitalisation, restructuring, litigation, insolvency, and liquidation. These services are provided by a network of BVI-specialised practitioners from the world’s leading corporate firms, trust companies, law firms and accounting firms. The jurisdiction’s tax neutrality, agile corporate framework, low administrative costs, and strong legal sector have long created the perfect ecosystem to conduct business. The jurisdiction’s commitment to a robust regulatory framework and international standards, in lock step with its dedication to driving innovation in financial services, have also been key components of its success.

The experts doing business in the British Virgin Islands’ international business and finance centre are engaged in the types of substantive, high-value transactions essential to the functioning of global markets. Our financial services sector’s ability to remain resilient and prosper while operating in a shifting economic and regulatory landscape has enabled the jurisdiction to remain competitive and consolidate its position as one of the world’s leading offshore centres.

But given the complexities of the work of our international business and finance centre, misunderstandings can arise both at home and abroad about what it is the BVI does. For this reason, BVI Finance commissioned independent United Kingdom-based economics and strategy research consultancy Pragmatix Advisory to undertake this work.

Beyond globalisation: the British Virgin Islands’ contribution to global prosperity in an uncertain world demonstrates the significant and ongoing contribution we make to the world economy, as well as to employment and government revenues at home. It sets out

the ongoing and future challenges we are facing as a jurisdiction, both domestically and internationally.

Our financial services industry and its success were born of globalisation and the benefits of cross-border trade and mobility. Still, we recognise those benefits have yet to be universally felt. Pressure has been building since the global financial crisis, and the events of the last five years have only increased pushback. The findings of this report set out three indicative scenarios for the future of globalisation and, in turn, for what the future may look like for the BVI. There are important discussions for us all to have on how we navigate these changes and how best to take advantage of the opportunities that arise. The climate, new technology, and the rise of digital and economic blocs will all feature heavily in those discussions.

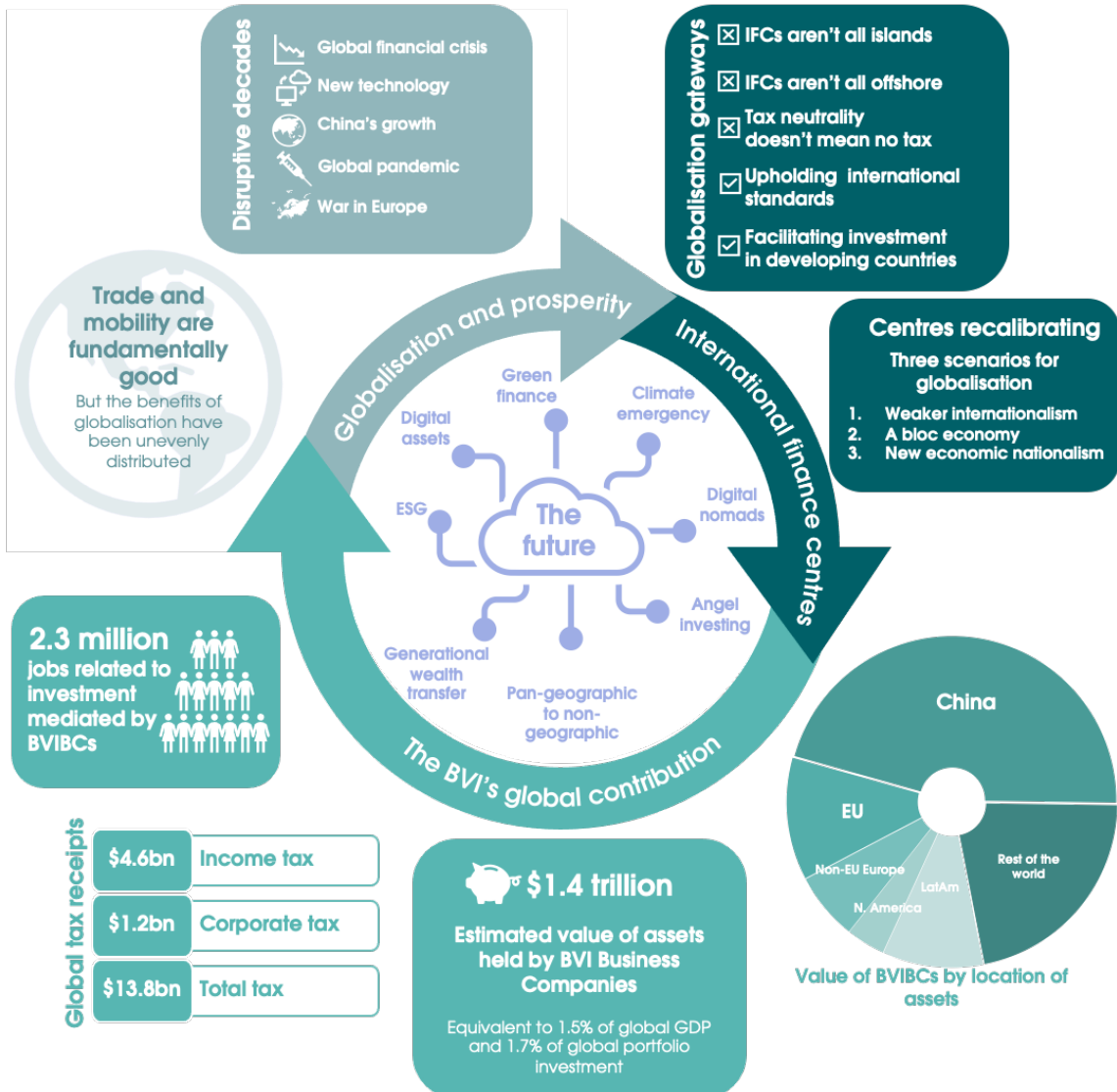
Whatever form the next evolution of globalisation takes, international financial centres like the British Virgin Islands will remain vital cogs in boosting the global economy by enabling investment, facilitating sophisticated transactions, and making for a more efficient global marketplace. To remain a leading offshore centre, however, we will all need to work together to build our future, evolve and innovate, ensuring our offer is just as attractive to clients as it has been for decades.

Elise Donovan
Chief Executive Officer
BVI Finance Limited

Key findings

Pragmatix Advisory has been commissioned by BVI Finance to assess the role and value of the British Virgin Islands and its international business and finance centre to the global economy in what are increasingly uncertain times.

- ❖ **The British Virgin Islands' economy is sound, balanced and sustainable.** With gross domestic product of US\$43,000 per capita, levels of prosperity are among the highest in the Caribbean and its sound fiscal position has been maintained despite the impacts of Hurricane Irma and the global pandemic.
- ❖ **The islands are home to a globally respected, unique international business and finance centre,** which employs directly around 2,000 people and supports an additional 2,600 jobs. It generates US\$469 million of gross value added for the domestic economy and accounts for two-thirds of all government revenues.
- ❖ **The BVI Business Company is a widely used, respected and dependable legal vehicle to facilitate cross-border trade and investment.** There are currently just over 375,000 active BVI Business Companies holding assets with a combined estimated value of US\$1.4 trillion.
- ❖ **The British Virgin Islands is a constructive, responsive and innovative jurisdiction that supports growth across the world and helps to resolve challenges facing the global economy.** Investment mediated by BVI Business Companies supports around 2.3 million jobs globally and generates an estimated US\$14 billion each year in taxes for governments worldwide.
- ❖ **The British Virgin Islands is a safe and reliable centre which has worked diligently to meet international standards and regulations. It is not a tax haven.** When compared with other jurisdictions, it performs well in international standards for tax information exchange, transparency, anti-money laundering and in its measures to combat the financing of terrorism. The world-leading Beneficial Ownership Secure Search system established in 2017 ensures its regulatory and enforcement bodies have access to up-to-date beneficial ownership information for all BVI Business Companies. The territory has been instrumental in helping to enforce sanctions implemented in response to the Russian invasion of Ukraine.
- ❖ **The international business and finance centre is well-positioned to serve new and developing digital asset and sustainable finance markets.** The total addressable market of digital assets is expected to be worth between US\$8 trillion and US\$13 trillion by 2030, while the value of the global sustainable fund market could be near 50 times greater by the end of the decade.
- ❖ **Looking into an uncertain future and beyond the globalisation of recent decades, there are many different scenarios for geopolitics and economics, but there will remain a need for expert, neutral and innovative centres, like the British Virgin Islands, to support cross-border trade, investment and mobility.**



Two main pillars

Tourism Financial services

Responsible business

Information is shared with international law enforcement through information held in BOSSs

Sound public finances

- \$43,000 GDP per capita
- 2.9% Unemployment rate
- \$26,000 Average earnings
- 900,000 international visitors in 2019
- 0.4% Average fiscal deficit 2014 to 2020

Cross border cluster

- 375,000 active BVIBCs
- \$200m+ fees collected
- 1 in 9 jobs
- \$469m in GVA
- \$246m paid in tax

The BVI economy and international business and finance centre

1 Introduction and summary

Pragmatix Advisory have been commissioned by BVI Finance to assess the role and value of the British Virgin Islands and its international business and finance centre in the global economy in what are increasingly uncertain times.

1.1 Globalisation and international finance centres

The future of the British Virgin Islands as an economy and as a hub for global business can only be understood in the context of wider international social, political and economic trends, especially globalisation, and the associated development of international finance centres.

While the end of the Cold War marked an acceleration in global trade and a (temporary) period during which the major powers aligned with a rules-based system of international cooperation, the global financial crisis of 2007/8 started a decade-and-more of disruption. Prior norms of economic geography have been up ended by the growth of China and other emerging markets. Geo-political stability has been rocked by a war in Europe. New digital technologies have revolutionised work and lives, and redrawn physical boundaries but created new threats. The covid pandemic has highlighted to the potential frailty of global supply chains. Governments have run up record debts and had to find new ways (including working together) to raise more tax receipts. (See sections 2.2, 2.3 and 2.4.)

But, despite the disruption, globalisation isn't dead. Cross-border trade and mobility are as old as civilization. The logic of trade, freedom of mobility and globalisation remains even if the pace and trajectory changes.

Scenarios for the future of globalisation

Weaker internationalism	Pre-pandemic globalisation trends continue, albeit more slowly and with plenty of political obstacles to navigate
The bloc economy	Economic and regulatory integration between countries continues within geopolitical blocs, but these different groups diverge
New economic nationalism	Partial reversal of globalisation with increased protectionism, less porous borders and more erratic politics

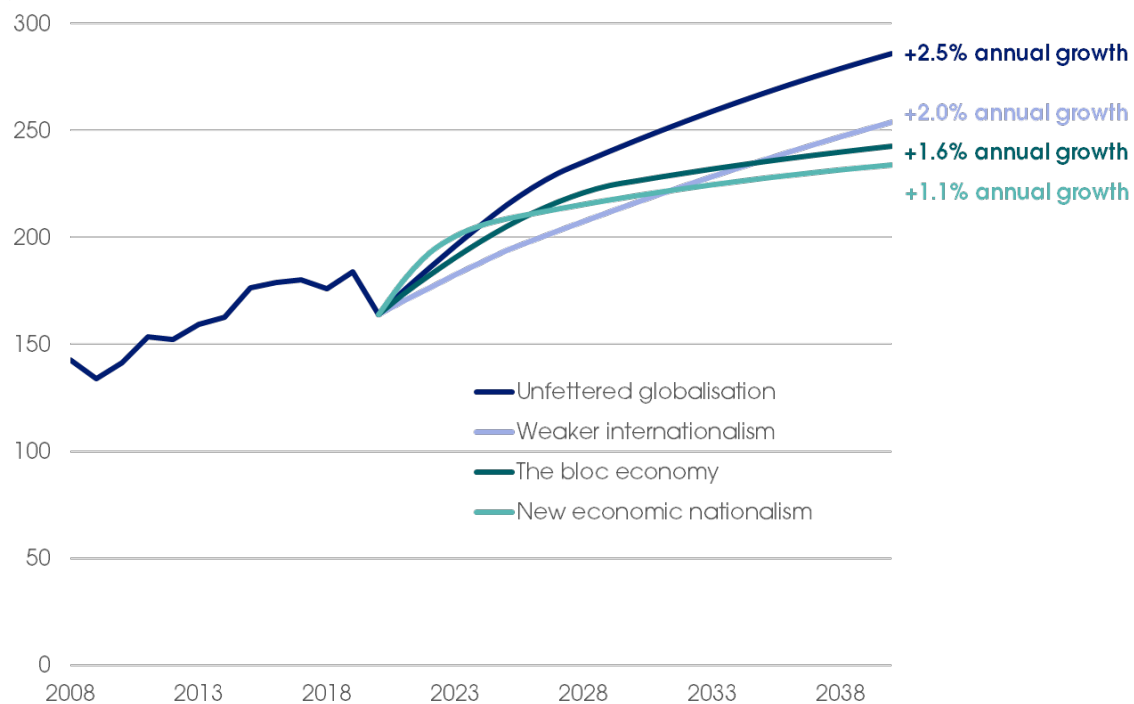
Source: Pragmatix Advisory

To illustrate the range of directions and outcomes, we have developed three narrative scenarios. **The first scenario, which we've called 'weaker internationalism', sees no change in the direction or nature of globalisation** – but these trends continue at a slower pace. It has the most positive outlook for the global economy out of our three scenarios, but it still represents a material reduction on historical growth rates. **The second scenario, 'the bloc economy', envisions continued economic, regulatory and, in some cases, political integration between countries within predominantly regional geopolitical blocs, but with these different groupings diverging from each other.** It offers a less positive outlook for the global economy than the weaker internationalism scenario or recent history. **The third scenario, 'new economic nationalism', sees many of the larger individual nations**

increasingly go their own way and become more protectionist and anti-internationalist. Out of our three scenarios, it would cause the most damage to the future growth of the global economy – potentially pushing growth as low as one percentage point per annum in real terms. None of our three scenarios for the future will deliver as much growth in the world economy as would have occurred with unfettered globalisation, however. Regardless of the geopolitical and economic outlook, the world faces a climate emergency that will impact on all our futures. Major natural disasters are no longer contained to once-in-a-generation events, and their increasing frequency and severity will have far reaching consequences for the global population. (See section 2.4.)

International finance centres, including the cluster of finance, legal and business services providers in the British Virgin Islands, have evolved in response to the changing needs and demands of individuals, families, businesses, financial institutions and governments with interests, operations, customers, investors or assets in more than one country or jurisdiction. **By facilitating cross-border trade, mobility and investment, these offshore centres have developed with, and as a result of, globalisation.** They support investment, jobs and prosperity across the globe, including being catalysts for the economic development of emerging nations. (See sections 3.1 and 3.2.)

Illustrative scenario forecasts of the volume of cross-border activity, with compound annual growth rates for 2022 to 2040, indexed 2000 = 100



Source: Pragmatix Advisory

Their futures are inextricably linked to that of the global economy. We have used our three scenarios to consider the potential future for international finance centres:

- Weaker internationalism is the least precarious scenario economically. Nonetheless, the industry must change and evolve in response to slower growth and ever tougher political demands.

- In the bloc economy, demand for offshore services could remain robust but international finance centres may struggle to keep simultaneous access to increasingly opposed regimes.
- A new economic nationalism would damage the global economy the most, however perversely this may reinvigorate the *raison d'être* for international finance centres and provide a potentially sizeable albeit temporary fillip to their businesses' revenues. (See section 3.3.)

Beyond the three globalisation scenarios, innovative international finance centres are well-placed to meet the challenges and leverage the opportunities of climate change and new digital technologies. (See section 3.4.)

1.2 The BVI's economy and international business and finance centre

The British Virgin Islands, with a population of around 33,000, punches well above its weight with a strong and balanced economy, sound public finances, and a world-class cluster of specialist finance, law and business services firms.

The BVI is a self-governing democracy; it legislates for itself and determines its own taxes and regulations. As a United Kingdom overseas territory, it has partial independence, with authorities in London retaining control over a few aspects of the islands' life and reserve powers over others. **The jurisdiction is a country without sovereignty, and its locally elected government has responsibility without equivalent control.** (See section 4.1.)

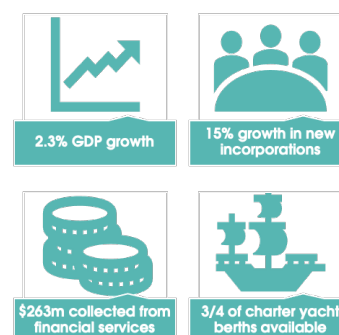
The British Virgin Islands' economy outperforms most of its Caribbean and Latin American neighbours. For a small island nation, the mix of businesses is diverse providing stability and resilience. Tourism and cross-border finance are the key pillars. While most goods are imported, their value is more than offset by the export of services. (See sections 4.2, 4.3, 4.4 and 4.5.)

The **BVI benefits from sound public finances.** With little or no recourse to United Kingdom resources, the jurisdiction is fiscally self-reliant. To fund the running of the public services, the territory levies taxes on residents, visitors and businesses with local operations – plus fees, which account for over half of government revenues, on the establishment and maintenance of international businesses registered there. Borrowing is minimal, with any government loans usually tied to specific capital expenditure projects. Meanwhile, the **country's economic and social resilience has been tested and proven in recent years** – both with the impact of Hurricane Irma in 2017 and the covid pandemic that started in 2020. (See sections 4.6, 4.7 and 4.8.)

Irma in numbers:



One year later:



The British Virgin Islands are a **globally significant hub for cross-border investment**. Over the past four decades, the islands' capital, Road Town, has been home to a cluster of specialist offshore services firms, which we call the 'international business and finance centre'. Central to much of this is use of the 'BVI Business Company', which is a registered company structure established under the territory's long-established and respected legislation providing a flexible and secure legal framework for a wide range of cross-border financial, wealth management and corporate activities. There are currently around 375,000 active BVI Business Companies. The bulk of these are used as contractual vehicles to, for example, hold assets and define their ownership, or to establish robustly the basis for a joint venture; few are trading businesses. (See sections 5.1 and 5.2.)

Estimated gross value added impact (2018, US\$ million) and estimated total impact on employment (2019) of the BVI's international business and finance centre

	Direct GVA	Indirect GVA	Induced GVA	Total GVA	Direct employment	Indirect employment	Induced employment	Total employment
Corporate service providers	136	24	67	228	821	315	866	2,002
Legal	185	50	87	323	493	196	345	1,035
Insolvency	24	7	11	43	65	26	45	136
Accounting	33	4	11	49	135	53	151	338
Insurance	23	3	7	33	98	35	96	229
Banks	49	9	16	73	252	92	182	526
BVI Financial Services Commission	17	3	6	26	150	56	112	318
Other regulation and support	1	0	0	1	39	15	29	82
Total	469	100	206	776	2,052	788	1,825	4,665

The cluster of businesses in the international business and finance centre comprise corporate service providers, and law, accountancy, insolvency and other professional services practice plus insurers and banks (although the British Virgin Islands are not a major location for offshore banking) – as well as judicial, regulatory and public bodies. These businesses and agencies employ more than 2,000 directly, contribute US\$469 million to the islands' economic output and pay US\$246 million in taxes and fees to the government. In addition, there is the indirect economic impact from those firms' expenditure on local suppliers and the induced effect resulting from their employees spending in the local economy. Factoring in these multiplier effects, **overall, the sector supports one in five jobs in and over half of the economic output of the territory**. The international business and finance centre proved resilient in the aftermath of Hurricane Irma and through the pandemic, and provided support to the territory through its toughest times. (See sections 5.3 to 5.8 inclusive.)

Without the cluster, the islands would be much less prosperous. Gross value added would be substantially lower, the government would need to borrow to finance services, and public debt would quickly grow. **The jurisdiction is more prosperous to the tune of nearly US\$8,000 per resident with its offshore cluster than it would be without.** (See section 5.9.)

The international business and finance centre has evolved, developed and innovated over the decades to maintain its relevance and position in global markets. This is ongoing – and developments in technology and digital assets provide a good illustration. **The territory is open to new advances in digital technologies.** Measures have been taken to welcome and support new technologies and the opportunities they bring. Legislation has been implemented to both encourage and manage the growth in digital asset holding in the jurisdiction. (See section 5.10.)

The British Virgin Islands are **home to responsible business**.

The islands are a tax neutral jurisdiction. Residents and domestic businesses are required to pay a variety of taxes, including on their payroll, property and goods and services. However, the islands' policy of tax neutrality means that local taxes are not levied on transactions conducted by a business company or assets held in vehicles undertaking economic activity elsewhere. This has no bearing on tax liabilities in other jurisdictions but does avoid companies facing double taxation. The islands' tax regime does not allow individuals or businesses to avoid or evade their liabilities to other governments. **The islands are not a tax haven.** (See section 6.1.)

The **authorities in Road Town engage fully with other governments' tax and enforcement agencies** to ensure that the islands are not used for money laundering, tax evasion or in contradiction to other nations' tax codes. And they were **world-leaders in the development of a comprehensive and robust electronic record of beneficial owners**. The Beneficial Ownership Secure Search system (BOSSs) stores the details of beneficial owners of registered companies and certain other entities in a central database, accessible to domestic law enforcement, regulators, and international partners. Law requires that registered agents verify this information and carry out customer due diligence, with enhanced requirements for politically exposed persons. (See sections 6.2 and 6.3.)

The strength of the islands' transparent system was demonstrated throughout 2022 as it was able to **help onshore jurisdictions to deliver on their judicial mandates against Russia where their own systems proved insufficient to trace ultimate beneficial owners**. Previously, the territory has helped larger countries uphold sanctions against Iran, and more recently against Belarussian nationals and companies due to the country's role in the invasion of Ukraine. (See section 6.4.)

The **territory engages fully with the international community and quickly adopts relevant common standards and protocols**, including incorporating them into domestic legislation as appropriate. For example, it has introduced economic substance requirements in response to obligations set out by the European Union and Organisation for Economic Co-operation and Development to prevent harmful tax practices and profit shifting. (See section 6.5.)

Nonetheless, the international business and finance centre, like other similar hubs, is not without its detractors. Individuals and organisations, including the news media, have long claimed that it is ill-regulated and complicit in international financial crime. Of course, no nation can claim to be completely free of crime and dishonesty, but the supposed evidence against Road Town's offshore industry fails to substantiate the rhetoric. Over the years, various campaigners have attempted to calculate the alleged negative social and economic impact of offshore finance centres, including the British Virgin Islands. However, much of the underpinning data used have been shown to be unreliable, out-of-date, incomplete or misinterpreted, while **many commentators fail to grasp the fundamentally innocuous nature of the islands' tax neutrality**. Too often, the so-called tax justice campaigners suffer confirmation bias having started with the incorrect assumption that all offshore activity is illicit. (See section 6.6.)

Looking ahead, **the international business and finance centre has both opportunities to grasp and challenges to surmount**.

In the short term, the jurisdiction, under the leadership of a new unity government, is dealing constructively with the consequences of and recommendations from the Commission of Inquiry into governance standards in the islands' public services. However, maintaining ongoing access to robust and wide-ranging **international banking facilities are a growing**

concern. The British Virgin Islands, which uses the United States' dollar as its currency, rely on arms-length correspondent banking arrangements with continental North America providers, but these are taking an increasingly cautious attitude to such relationships in the Latin America and Caribbean region. (See sections 7.1 and 7.2.)

Further ahead, our different scenarios for globalisation offer alternative opportunities and challenges for the islands:

- **Under weaker internationalism, the islands' offshore cluster is under no immediate threat** but it will need to evolve and innovate to respond to an increasingly competitive market, especially for volume incorporations. **Success will depend on continuing the shift away from the historical business model** which focused on increasing volumes of incorporations, towards providing a wider and deeper range of higher value advisory and other professional services.
- **Under the bloc economy, it becomes harder to face all markets simultaneously and tough choices must be made.** The costs of compliance with European Union rules make services too expensive for Asian and American customers, while the different blocs take measures to limit activity across regional borders. There will be a role for trade and investment intermediaries between blocs; given its existing global reach, the territory could become such a centre. But this is neither certain nor without risk. Alternatively, the territory must choose between blocs.
- Although the most damaging to the global economy, the **prospects for the islands under new economic nationalism scenario could be comparatively good (at least initially).** Offshore expertise is likely to be sought after as cross-border transactions become more complex and costly, and the islands' long history and global breadth of experience will be appealing. (See section 7.2.)

Technological advancements will bring opportunities and risks to the jurisdiction and its international business and finance centre. With the ongoing expansion of the digital world and remote ways of working, geographical barriers will continue to erode. Digital connectivity makes the jurisdiction's financial services industry and the services it provides accessible to clients all around the world, and as investors in developing markets look to expand their portfolios across borders, the jurisdiction is ideally placed to meet those needs. (See section 7.3.)

The incentive to tackle the negative impacts of climate change hits particularly close to home for the British Virgin Islands. Ecologically fragile, the small island state is ground zero for the catastrophic risks of intense hurricanes, rising sea levels and torrential rainfall. The tourism industry in the British Virgin Islands and the jobs that rely on the visitor economy are already threatened by rising sea levels, flooding, drought, erosion, and coral and sargassum bleaching.¹ Recognising this, the jurisdiction is well-placed to position itself as a centre for green finance with a genuine interest in responding to the climate emergency. (See section 7.4.)

1.3 The BVI's global contribution

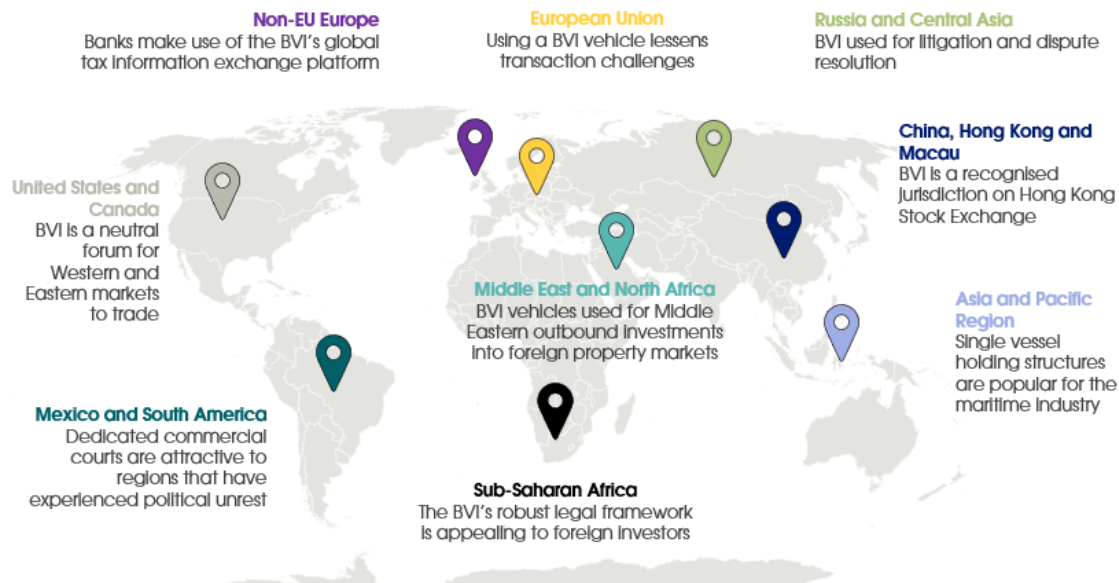
The British Virgin Islands are an attractive location in which to conduct cross-border investment and trade thanks to its robust legal framework, its regulation and compliance in

¹ Murray Simpson et al, *Climate Change's Impact on the Caribbean's Ability to Sustain Tourism, Natural Assets, and Livelihoods* (Inter-American Development Bank, New York), March 2011. pp1-2

line with international directives, and its cohesive and cost-effective administration. The international business and finance centre supports substantial global flows of investment that support jobs throughout the world.

The islands are a significant intermediary for foreign direct investment, and **BVI Business Companies hold an estimated US\$1.4 trillion in assets**. The territory is particularly favoured by businesses in Asia. The majority of companies are used for cross-border structuring. (See sections 8.1, 8.2 and 8.3.)

Examples of why international clients choose to use the British Virgin Islands' international business and finance centre



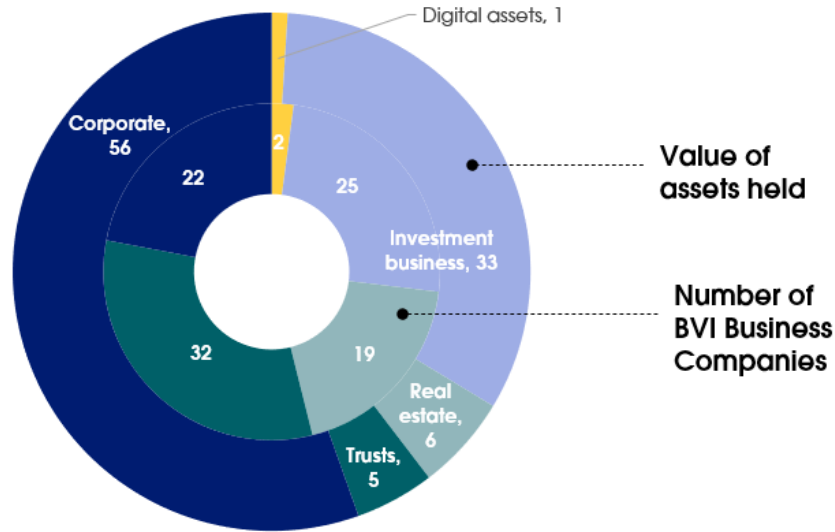
Source: Pragmatix Advisory

BVI entities make popular listing vehicles on international stock exchanges, with BVI Companies listed on the Hong Kong, London, New York and Toronto Stock Exchanges, amongst others. The islands are also an appealing jurisdiction for entities wishing to structure their investment funds. Indeed, **it is the second largest offshore jurisdiction for hedge funds in the world.**² A variety of assets are held in BVI Business Companies, and cross-border investment involving real estate, vessels and digital assets will typically use a special purpose vehicle, which can hold a single asset or a portfolio and provides investors with the reassurance of limited liability. (See sections 8.4, 8.5 and 8.6.)

High net worth individuals still see the islands as an attractive centre in which to hold and manage assets, but **while privacy and security remain considerations, they are no longer main drivers**. The British Virgin Islands are a leading jurisdiction for private trust companies, with over a thousand on its register. (See section 8.7.)

² Robert Briant et al, *British Virgin Islands Investment Funds* (Conyers, Road Town), 2022. <https://www.conyers.com/services/legal-services/investment-funds/british-virgin-islands-investment-funds/> (Accessed 28 October 2022)

Estimated underlying value of active BVI Business Companies by primary purpose (outer ring) and estimated share of active BVI Business Companies by primary purpose (inner ring), 2021, per cent



Note: 'Corporate' refers to corporate group structuring; 'Trusts' refers to family, trust and succession planning; 'Real estate' refers to real estate holding; 'Investment business' refers to investment business, joint ventures, listing and vessel or aircraft registration. Source: Pragmatix Advisory industry survey, 2021/22

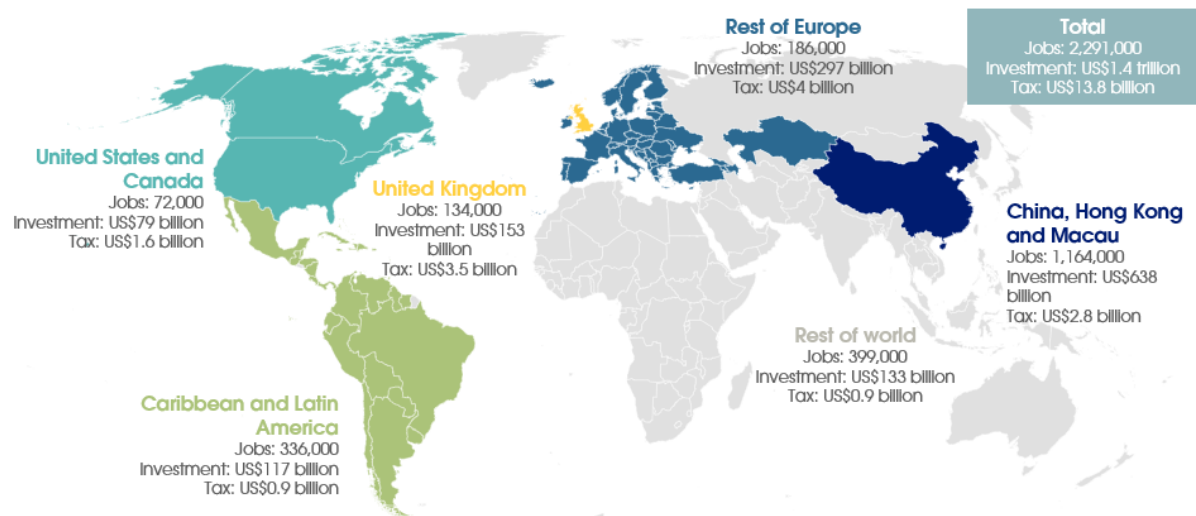
Investment activity mediated by the British Virgin Islands sustains significant economic growth. We estimate that **assets held in BVI Business Companies are equivalent to 1.5 per cent of annual global gross domestic product³** and four per cent of all sectors' total cross-border banking liabilities.⁴ More than two million jobs worldwide are supported by the mediated assets, contributing over US\$14 billion a year to public sector revenues. There will be some tax lost from larger nations through the use of offshore vehicles such as those incorporated in the islands, but the scale of these losses has been evaluated before and shown to be small – especially when considered against the benefits of investment mediated via the jurisdiction. (See sections 9.1, 9.2 and 9.3.)

³ World Bank, *Gross domestic product* (World Bank, Washington DC), 2022.

<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD> (Accessed 28 October 2022)

⁴ Bank of International Settlements, *BIS international banking statistics and global liquidity indicators at end-March 2022* (Bank of International Settlements, Basel), 28 July 2022. <https://www.bis.org/statistics/rppb2207.htm> (Accessed 28 October 2022)

Estimated economic and fiscal impact of investment mediated by BVI Business Companies, 2021



Source: Pragmatix Advisory analysis of industry survey 2021/22 and Capital Economics 2017 estimates

The territory is not the only tax neutral jurisdiction with sound government, respected law and a well-developed cluster of financial and professional service providers, but costs in the Crown Dependencies are higher than in the Caribbean – and only certain categories of activity conducted in Road Town would be able to bear them. **If the international business and finance centre didn't exist, much of the investment mediated through it would likely happen anyway – but there would be adverse consequences.** There are several locations where international businesses can be incorporated and run at a lower cost. Typically, these jurisdictions have one or more characteristics that may differentiate them from the British Virgin Islands in the minds of investors, including no access to the British legal system, limited track record of high value dispute resolution and/or predictable jurisprudence, short history of sound government and financial regulation, idiosyncratic or unwieldy company law or limited expertise and capacity in local service providers. (See sections 9.4 and 10.1.)

Many of the lower cost centres have not kept pace with the Government of the Virgin Islands in the adoption of international standards for transparency, tax information exchange, anti-money laundering and combatting the financing of terrorism. And some, like the US State of Delaware, have wide networks of double taxation agreements that may facilitate corporate profit shifting. For some investors, **the islands' combination of cost effectiveness, sound common law and local specialist expertise will not be matched in other jurisdictions.** Here, investors will opt instead for domestic opportunities with, presumably, lower returns – while the recipients of the investment, often in developing countries, will either go without or have to pay more. (See section 10.1.)

The globalisation of the post-Cold War period, and the stability and certainty it brought, is over. But cross-border trade, mobility and investment will continue – and likely grow (albeit more slowly than over recent decades). The role of the islands will expand both in size and nature and the different scenarios for geopolitics will place new demands on investors and their agents. **Markets are developing and evolving in ways that are in many respects non-geographic,** and the international business and finance centre is well-placed to serve these markets. Technology and the digital environment provide potential new opportunities for the islands' ongoing contribution to the global economy, and as an island territory under regular threat from hurricanes, the international business and finance centre is well placed to support the fight against climate change, as well as contribute constructively to evolving social values worldwide. (See sections 10.1, 10.2 and 10.3.)

It is in the interest (and the responsibility) of the United Kingdom government and the taxpayers they represent to nurture and support the ongoing development of Road Town's international business and finance centre. **Without the cluster, the islands' economy would be weaker, less resilient and less able to support its own public services or raise funding for needed public investment.** Currently the British Virgin Islands is fiscally independent, but it is unclear what demands would be placed on United Kingdom finances and resources without the international business and finance centre supporting the islands' economy. (See section 10.4.)

Efforts to restrict the use of tax neutral and well-run international finance centres in order to fight tax evasion and avoidance or bolster onshore tax bases are not only groundless, they are an act of global economic and fiscal self-harm.

Globalisation scenarios summary

	The weaker internationalism scenario	The bloc economy scenario	The new economic nationalism scenario
Geopolitics	<ul style="list-style-type: none"> Current trends of globalisation continue at a slower pace 	<ul style="list-style-type: none"> Continued economic and regulatory integration between countries with regional geopolitical blocs but with groups diverging from each other 	<ul style="list-style-type: none"> Larger individual nations become more protectionist and anti-internationalist
The global economy	<ul style="list-style-type: none"> Lower rates of growth slow cross-border trade and investment Tensions between old and emerging economies Indicative CAGR 2020– 2040: 2.3 per cent Indicative growth of up to 5.8 per cent in emerging economies, with Europe and the United States lower less than two per cent 	<ul style="list-style-type: none"> Fissures grow between groups of nations in regards to conflicting economic interests Rates of growth in worldwide economic output could be less than half of those prior to the pandemic Indicative CAGR 2020– 2040: 1.5 per cent Indicative growth of between 2.7 and 3.5 per cent for China and emerging Asia, close to zero per cent for Europe and the United Kingdom 	<ul style="list-style-type: none"> This scenario causes the most damage to future growth of the global economy – potentially as low as one percentage point per annum in real terms Global value chains fracture, markets are more volatile and trends less predictable Indicative CAGR 2020– 2040: 1.0 per cent Indicative growth of two per cent for China and negative growth for Europe
Global trade and investment	<ul style="list-style-type: none"> Efforts to remove trade tariffs, quotas and non-tariff protections continue Progressing towards freer trade in services Rates in foreign direct investment will fall compared to pre-covid rates Plans for a global minimum corporate tax rate continue to move forward, but with geopolitical tensions between China, the European Union and the United States May see pressure for the fifteen per cent tax rate to increase 	<ul style="list-style-type: none"> Rise in tariffs and quotas for inter-regional trade Access to the European market will involve an increased tariff Blocs will take measures to limit activity across regional borders so there will be a need for investment intermediaries between blocs An even wider divide on tax and transparency between Washington and Brussels drives a wedge between markets Faster integration and coordination of tax initiatives within blocs Different ideas about tax competition will develop between blocs and global minimum corporate tax will be abandoned 	<ul style="list-style-type: none"> National self-sufficiency take precedence over the gains from trade Investment relations increasingly decided on a one-to-one basis between nations The global minimum corporate tax rate will no longer apply European nations, either individually or aligned to the European Union, will increase protectionist tax rules
Impact on international finance centres	<ul style="list-style-type: none"> The market for offshore services grow at modest rates Existing international standards and tax initiatives to remain largely unchanged 	<ul style="list-style-type: none"> Demand for services could remain robust, but international finance centres may struggle to keep access to opposed regimes 	<ul style="list-style-type: none"> Offshore expertise will be sought after as cross-border transactions become more complex and costly Neutrality of offshore centres is increasingly attractive However, the initial boost for the industry is likely to be offset by a weaker global economy
Opportunities and threats for the British Virgin Islands'	<ul style="list-style-type: none"> Incorporation costs will likely increase Squeezed margins for the higher volume and lower value end of the market The industry needs to shift from relying on organic volume growth to focusing on increasing relationships with existing clients Business model to expand to provide a wider and deeper range of advisory and other professional services Due to pressure from the West, concerns over how to maintain a successful relationship with Chinese markets will arise 	<ul style="list-style-type: none"> Simultaneous access to markets will pose a significant challenge – the centre will have to decide whether it chases growth in emerging markets such as Asia and Africa or retain revenues from established markets like North America and Europe The jurisdiction will have to choose between blocs or reconfigure itself to become an investment intermediary centre, though this is not without its own set of risks 	<ul style="list-style-type: none"> Initially the islands' long history and global breadth of experience will be appealing Fee rates will rise as offshore intermediation becomes more complex The number of incorporations may see an increase as cross-border structures become more convoluted

Source: Pragmatix Advisory

PART I: GLOBALISATION AND INTERNATIONAL FINANCE CENTRES

The development, role and future of the British Virgin Islands as an economy and as an international business and finance centre can only be understood in the context of wider international social, political and economic trends, especially globalisation and the growth of offshore finance.

Section 3: Globalisation and global prosperity considers the development and impact of cross-border trade, mobility and investment. Globalisation accelerated after the fall of the Berlin Wall, but the global financial crisis marked the start of decades of disruption. Meanwhile, nations have had to adapt and respond to its impact on their abilities to raise taxes. Looking ahead, globalisation isn't dead – but it won't continue unchanged. We have developed three scenarios to consider the range of potential futures.

Section 4: Globalisation gateways explains the development of international finance centres. These cross-border trade and investment specialists deliver real benefits to the global economy. Although the future is uncertain, it is clear their role and value will remain beyond the turbulence. Indeed, the new global challenges and opportunities of new technologies and climate change make the role of neutral investments hubs even more relevant.

2 Globalisation and global prosperity

In this section we outline how cross-border trade and increased mobility have historically increased economic prosperity and explore how the events of the last two decades have resulted in a pushback against globalisation and increased protectionism within major economies, leaving the future uncertain. We identify three possible scenarios that illustrate potential future paths for globalisation.

2.1 Globalisation's foundations

There is a fundamental logic to cross-border trade and mobility that is based on mutual benefit. Larger markets created by porous borders allow for exploitation of greater economies of scale. Through specialisation and trade, countries can increase their joint output and prosperity.

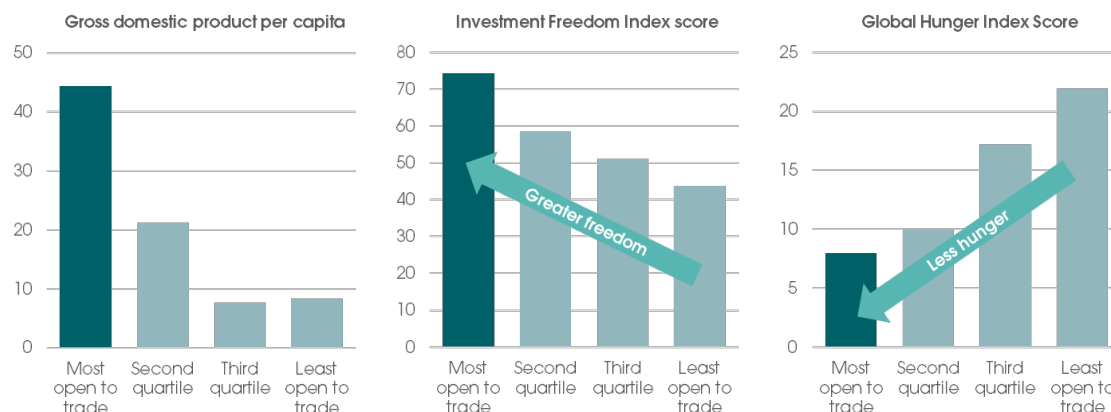
Exhibit 2-1 Stylised gains from specialisation and trade

		Without specialisation and trade		With specialisation and trade		
		Production	Consumption	Production	Consumption	Gains
Country A	Laptops	10	10	↓ 0	↑ 14	+4
	Cars	80	80	↑ 115	↑ 86	+6
Country B	Laptops	35	35	↑ 50	↑ 40	+5
	Cars	30	30	↓ 0	↑ 34	+4

Source: Pragmatix Advisory

Trade between people of different cultures is as old as human civilisation. By the time of the Roman Empire, there were extensive trading networks between emerging nation states from the Far East to Western Europe and Africa. Today, the benefits of trade and cross-border activity to those countries that engage in it are clearly evidenced in official statistics. Countries that encourage and embrace more open borders have more prosperous national economies, have lower levels of poverty amongst their citizens and are more open to inward investment.

Exhibit 2-2 Measures of economic progress for 177 countries against their openness to trade

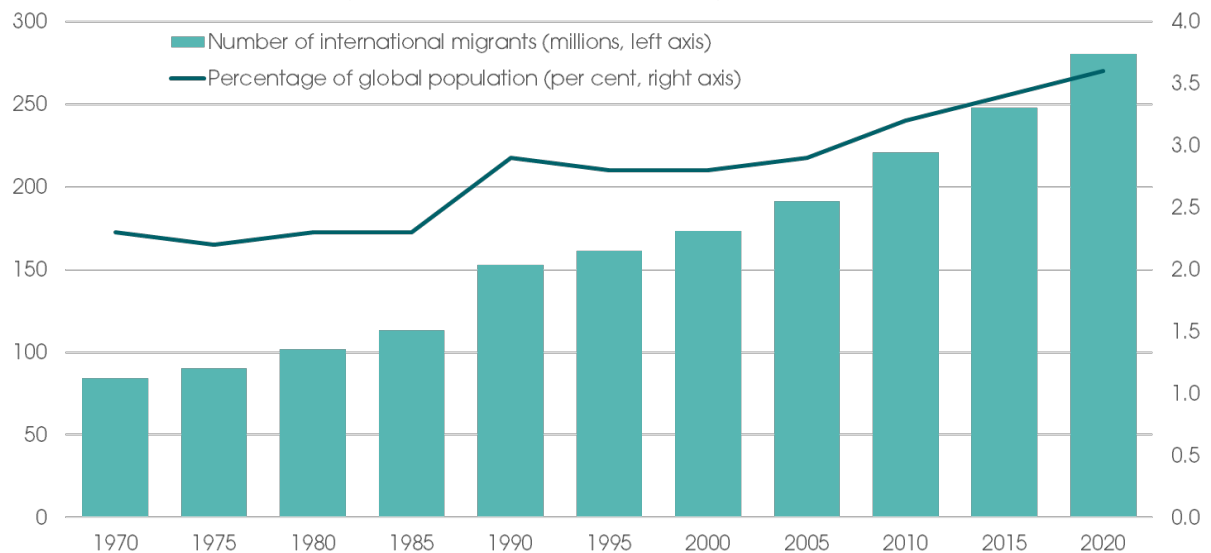


Note: Average gross domestic product per capita by quartile of trade freedom score, 2021, US\$ thousands; average Global Hunger Index score by quartile of trade freedom score, 2022; Sources: Pragmatix Advisory, Heritage Foundation and the International Food Policy Research Institute; Note: Gross domestic product per capita and Investment Freedom Index figures based on 177 countries, Global Hunger Index Score figures based on 116 countries

The pace of cross-border trade, mobility and investment picked up after the fall of the Berlin Wall in 1989 and collapse of the Soviet Union in 1991. The post-Cold War peace brought (temporarily) greater predictability and stability to global politics and economics. An effective Western (largely, United States’) hegemony saw the development accelerate of a global institutional framework for trade and investment based on common rules, which included the creation of the World Trade Organisation in 1995.

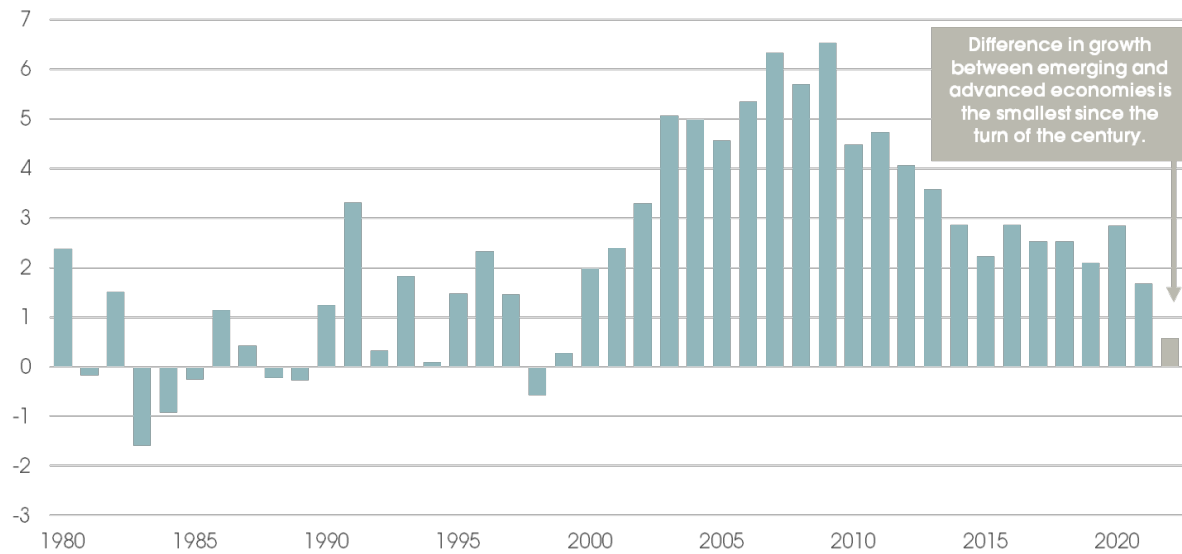
This system has led to years of economic growth through increased barrier-free and tariff-free trading, resulting in improved living standards, reduced poverty and an increase in the number of democratic nations. Global gross domestic product increased four-fold in the four decades to 2020, with the highest growth rates from 2006 onwards being seen emerging and developing Asia, China and India. Looking ahead to 2026, these same countries are predicted to see higher gross domestic product growth than the Group of Seven. The improvements in economic activity and prosperity were especially marked outside the cohort, including the Group of Seven, of advanced industrialised countries from the twentieth century.

Exhibit 2-3 International migrants and their share of the global population, worldwide, millions



Source: International Organisation for Migration

Exhibit 2-4 Gross domestic product differential between emerging and advanced markets, per cent



Source: International Monetary Fund, GeoEconomics Center

Globalisation has had its winners and losers. Its benefits have not been universally felt with blue collar and lower income workers in North America and Europe typically seeing their real earnings stagnate after the global financial crisis, while the rich globally and Asia’s working middle-classes saw theirs jump. Discontent has been steadily building, as evidenced by the growth in populist nationalist voting across a range of Western and emerging economy democracies.

Exhibit 2-5 Growth in average per capita household income by income distribution percentile, 1988 to 2008, (2005 purchasing power parities adjusted US\$), per cent

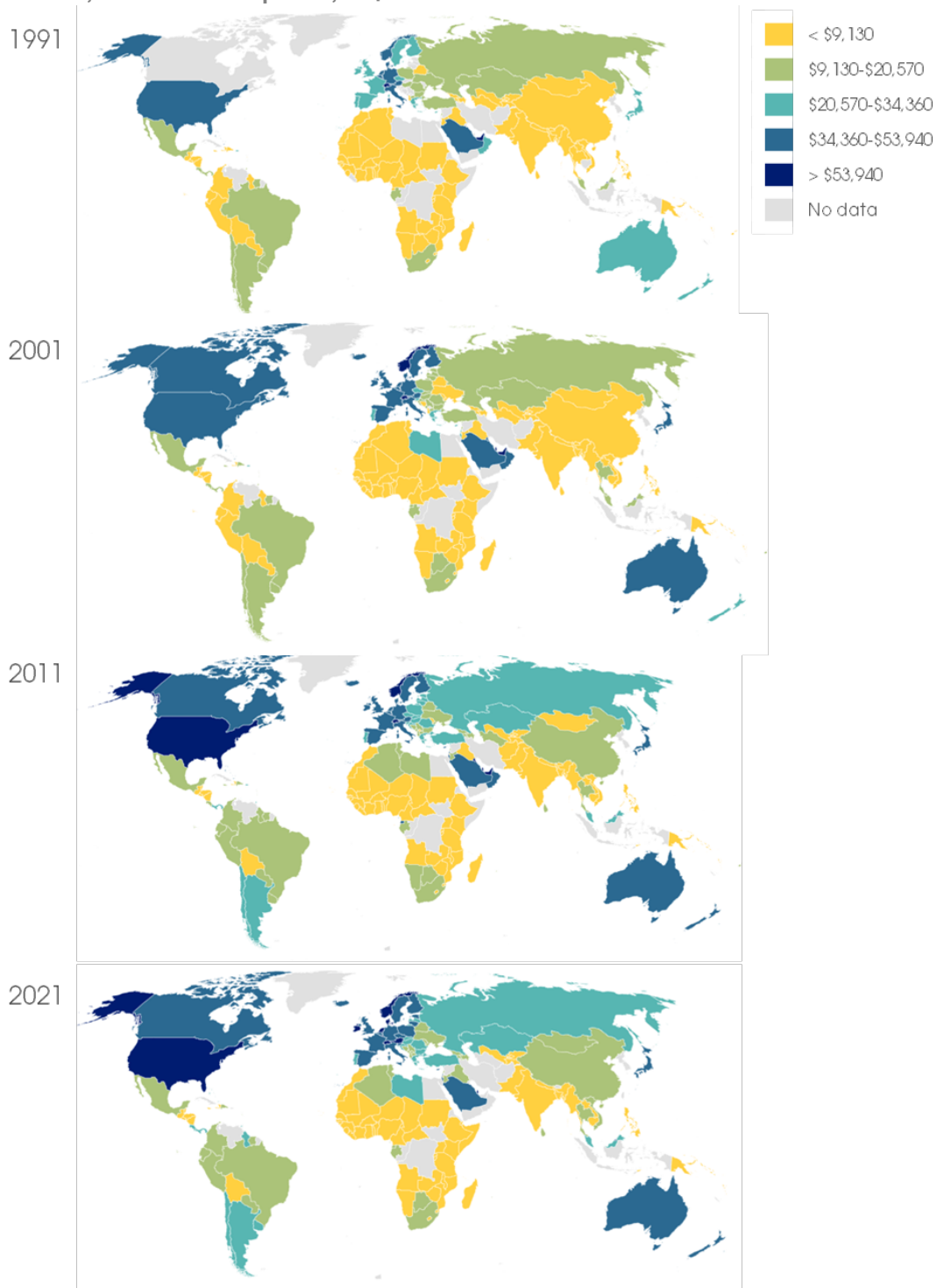


Source: Christoph Lakner, Branko Milanovic and The World Bank

2.2 Disruptive decades

Since the global financial crisis in 2007/2008, the late-twentieth century model of economic relations has been weakening. Global trade has slowed, growing at an average annual rate of thirteen per cent over the two decades to 2007 before falling to less than four per cent a year between 2012 and 2019.

Exhibit 2-6 Gross domestic product per capita adjusted for differences in purchasing power, worldwide, constant 2017 prices, US\$



Source: World Bank

There have been a series of events over the past decade-and-a-half that have put pressure on the world economy and stimulated intense debate about the advantages and disadvantages of globalisation.

First, the global financial crisis of 2007/08 sent shockwaves through the world economy, and its effects are still being felt today thanks to the levels of public debt incurred by governments in stabilising the global economy. The crisis began in the United States housing

market before spreading to the rest of the world and caused the most severe global recession since 1929; the value of world trade fell from 31 per cent of global gross domestic product in 2008 to 27 per cent in the following year.

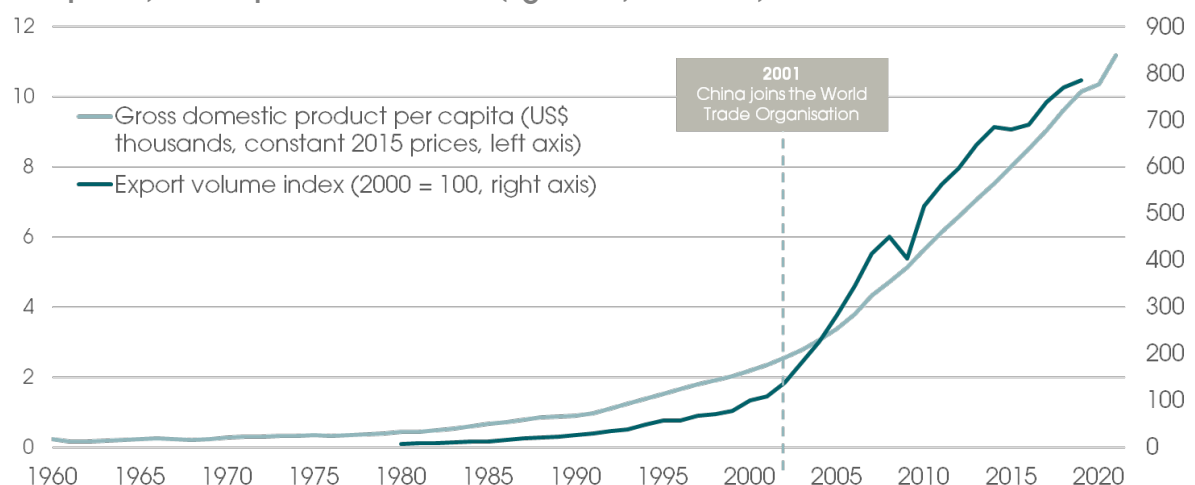
Public borrowing increased in the immediate aftermath of the global financial crisis, with general government debt as a percentage of economic output 60 and 100 per cent higher in 2012 than 2007 in the United States and the United Kingdom respectively.⁵ A similar pattern was seen across the European Union and much of the west (although public borrowing remained comparatively low in many developing countries). In the decade that followed this snowballing public debt was not resolved and was instead compounded by even greater amounts of covid-period borrowing.

With the tightening of government purse strings and the implementation of austerity measures, there was a focus on reducing tax evasion and avoidance to raise additional revenues. This shift of focus has resulted in the increased scrutiny of international finance centres, like the British Virgin Islands, who are often (falsely) accused of facilitating tax leakage from Europe and the United States.

Second, the economic development and growth of China has both driven global trade in the 21st Century and been fuelled by it.

Over the last quarter of a century China’s economy has expanded rapidly, rising to become the largest global exporter of goods, totalling fifteen per cent of all global exports in 2020.⁶ Prior to being admitted to the World Trade Organisation in 2001, gross domestic product per capita was less than US\$1,000 per year. By 2020 it had increased to US\$10,500. Its accession to the World Trade Organisation and the emergence of global value chains kickstarted China’s journey to becoming the world’s most dominant manufacturing hub. Prior to being admitted in 2001, gross domestic product per capita was less than US\$1,000 per year. By 2020 it had increased to US\$10,500.

Exhibit 2-7 Chinese real gross domestic product per capita (left axis, US\$ thousand, constant 2015 prices) and export volume index (right axis, 2000=100)



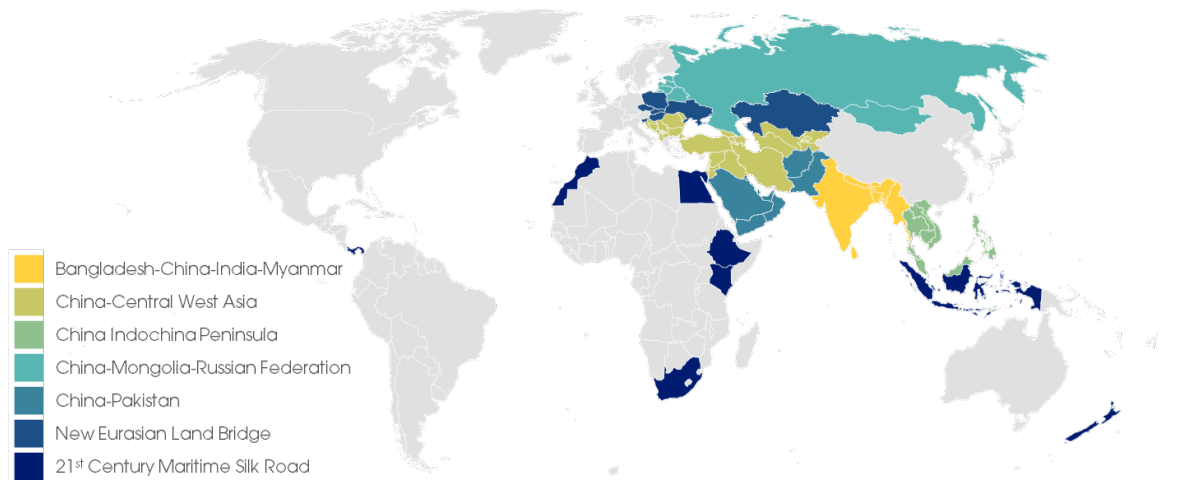
Source: World Bank

⁵ Mbaye, S., Moreno-Badia, M., and K. Chae, *Global Debt Database* (International monetary Fund, Washington DC D.C.), 2018. <https://www.imf.org/external/datamapper/datasets/GDD> (Accessed 27 October 2022)

⁶ Alexandro Nicita and Carlos Razo, *China: the rise of a trade titan* (United Nations Commission on Trade and Development, Geneva), 27 April 2021. <https://unctad.org/news/china-rise-trade-titan> (Accessed 26 October 2022)

China's influence has been extended further through the Belt and Road Initiative's economic corridors. The global infrastructure development strategy was adopted in 2013, with the aim of investing in almost 150 countries and international organisations.⁷ The initiative seeks to connect Asia with Africa and Europe through a series of land and maritime networks to increase trade, stimulate economic growth and improve regional integration. Its estimated that economies taking part in the initiative account for two thirds of the world's population and 40 per cent of global gross domestic product.⁸

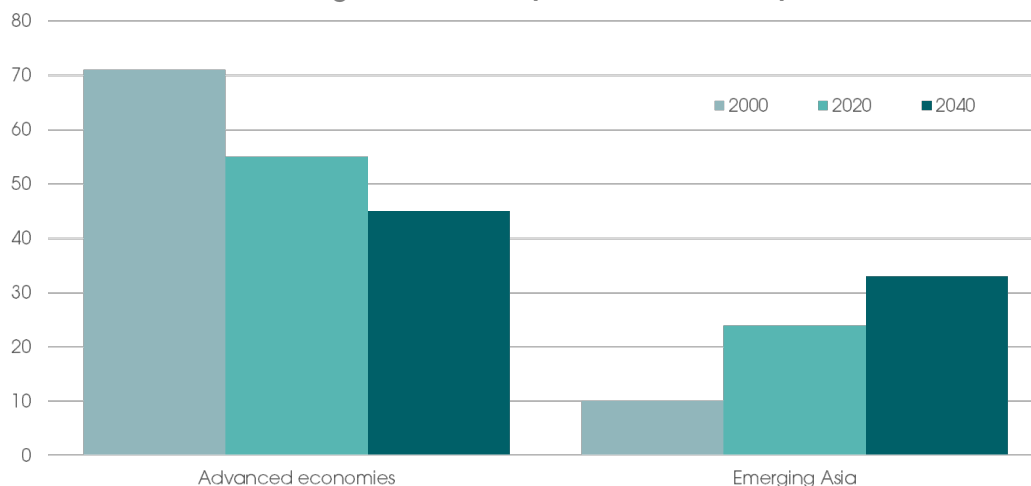
Exhibit 2-8 Belt and Road Initiative participating economies and their economic corridors



Source: Organisation for Economic Co-operation and Development and China's Official Action Plan for the BRI, March 2015

More broadly, the emergence of China as an economic superpower has been paralleled by growth in emerging markets worldwide, but especially in Asia. As emerging economies continue to grow in population and productivity over the next several decades, even greater shifts in relative economic power is to be expected.

Exhibit 2-9 Share of world gross domestic product over time, per cent



Source: Oxford Economics

⁷ Christoph Nedopil, *Countries of the Belt and Road Initiative* (Green Finance and Development Centre, Shanghai), 2022. <https://greenfdc.org/countries-of-the-belt-and-road-initiative-bri/> (Accessed 1 November 2022)

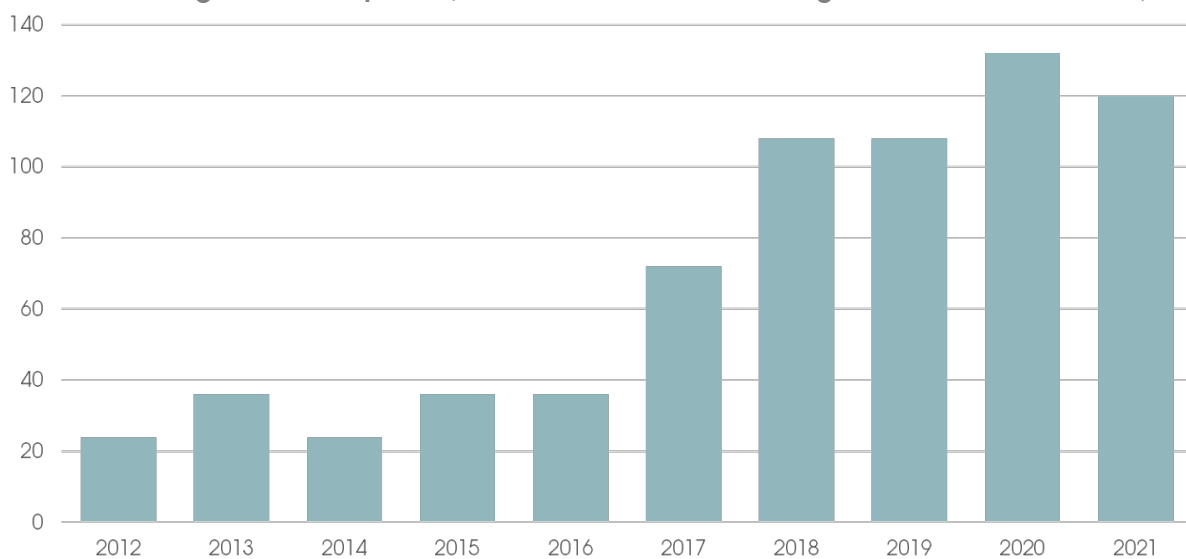
⁸ Charlie Campbell, *China says it's building the new Silk Road* (Time, Beijing), 2017. <https://time.com/4776845/china-xi-jinping-belt-road-initiative-obor/> (Accessed 9 January 2023)

Third, the rise of the internet has permanently changed the way we live our lives, further blurring international borders and opening up even greater potential markets.

The worldwide web progressed rapidly since its inception in 1989 and the first personal computer-based web browsers in the early 1990s. Households, businesses, and governments are nearly all now reliant on the internet in everyday life, with over 6.6 billion smartphone users in the world.⁹ Online retail sales made up nineteen per cent of all retail sales globally in 2020, while global e-commerce sales totalled US\$26.7 trillion in 2019, equivalent to 30 per cent of global economic activity.¹⁰

With the digital age comes the potential for cybercrimes. Cyberattacks and their associated malware can be incredibly harmful and disruptive to governments, businesses, organisations and society, and facilitate cross-border crime.

Exhibit 2-10 Average number of significant cyberattacks (targeting government agencies, defence and high-tech companies, or economic crime incurring losses over US\$1 million)



Source: Centre for Strategic and International Studies

Cyberattacks and their associated malware can be incredibly harmful and disruptive to governments, businesses, organisations and society as they affect a far wider audience than just the intended target. Indeed, cyberattacks have even been appropriated as a form of modern warfare. For example, on the first day of Russia's invasion of Ukraine, Ukrainian military communications were severely disrupted.¹¹

Although well-established pre-pandemic, covid-related restrictions in place from early 2020 saw an unprecedented shift in remote working. After around two years of altered behaviour, the switch back to office working as it was pre-covid seems unlikely. While employees appreciate the flexibility of remote working, many employers recognise that savings can be made on office space, whilst remote working has resulted in lower levels of staff absence

⁹ The Radicati Group, *Mobile Statistics Report 2021-2025*, (Radicati Group, London), April 2021. P3

¹⁰ United Nations Conference on Trade and Development, *Global e-commerce jumps to \$26.7 trillion, COVID-19 boosts online sales* (United Nations Conference on Trade and Development, Geneva) 3 May 2021 <https://unctad.org/news/global-e-commerce-jumps-267-trillion-covid-19-boosts-online-sales> (Accessed 26 October 2021)

¹² Gavi, The Vaccine Alliance, *COVAX* (Gavi, The Vaccine Alliance, Geneva) https://www.gavi.org/covax-facility?gclid=CjwKCAjwm7mEBhBsEiwA_of-TPAPfNsiHapGUemKsk3zBG8bUwKVr7DaxawJhVbwJTVyJwOoinfrhoCIREQAvD_BwE (Accessed 26 October 2022)

and illness. Geography is no longer a barrier to hiring, growing the pool of potential employees to include applicants located hundreds, if not thousands, of miles away.

A relatively new type of money without physical cash analogues, cryptocurrencies are entirely digital assets designed to form an unregulated peer-to-peer digital payment system that does not rely on banks to verify transactions. Cryptocurrency is so-called because it uses encryption to verify transactions, thus providing security and safety.

Fourth, the covid pandemic acted to accelerate the change in attitudes towards globalisation, highlighting issues with just-in-time supply chains and the problems that can arise from a reliance on imports of essential goods.

In Europe, border controls were reinstated where the Schengen Agreement previously guaranteed there were none, before borders were closed completely. The United States' travel ban was in place for twenty months. The consequences of border closures over a period of almost three years had significant implications for tourism, air travel and business travel. Trading between countries was reduced by a series of lockdowns and control measures, and individual nations often operated alone in their response to the health and economic crisis. Even those nations with shared interests within the European Union struggled to agree on acceptable support mechanisms for member countries. Supply chains were stretched during the pandemic as many non-essential businesses temporarily stopped operating. National lockdowns slowed down or completely halted the flow of finished goods and raw materials, resulting in the disruption of manufacturing. The dominance of China as a producer of much of the world's goods exposed the vulnerability of global supply chains when there are disruptions to production and distribution.

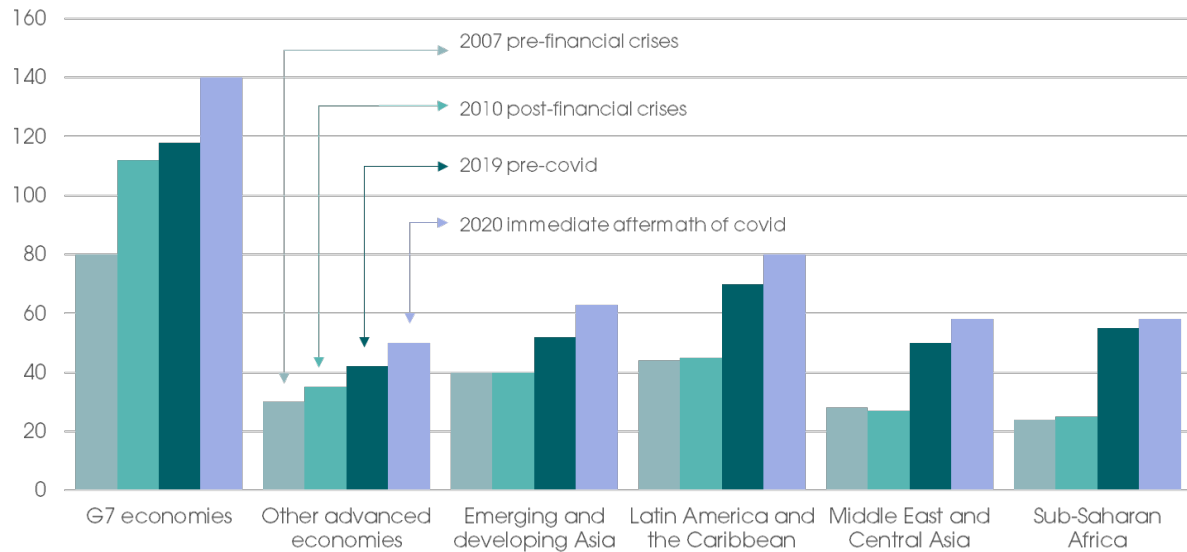
Even once covid vaccines had been successfully developed and deployed, the quarrels continued. Accusations of 'vaccine nationalism' - the quest for vaccines in the national interest, which can include supply agreements or export bans to the potential detriment of other countries - were widespread. It was alleged that richer nations were buying up much larger quantities than they required while poorer nations, particularly in the global south, struggled to secure doses. The COVAX initiative, an enterprise between the World Health Organisation and partners, was established as a global risk sharing mechanism for pooled procurement and equitable distribution of covid vaccines, but even it could not stop vaccination rates diverging.¹²

When covid struck, governments, businesses and individuals alike increased the amount they were borrowing to safeguard their jobs, homes and livelihoods. With the pandemic amplifying an already increasing trend of borrowing around the world, 2020 saw a record high of US\$226 trillion in global debt. But the record did not stop there. In 2021, global debt increased by 34 per cent, the biggest one-year jump in debt since the Second World War, and surpassed a landmark US\$303 trillion.¹³ The International Monetary Fund estimates that at least 100 countries will have to cut back spending on vital sectors such as health and education in order to meet debt repayments, and the World Bank estimates that 60 per cent of low-income countries will fail to meet their financial obligations, a term referred to as 'debt distress'.

¹² Gavi, The Vaccine Alliance, COVAX (Gavi, The Vaccine Alliance, Geneva) https://www.gavi.org/covax-facility?gclid=CjwKCAjwm7mEBhBsEiwA_of-TPAPfNsiHapGUemKsk3zBG8bUwKVr7DaxqWJhVbwIJTVyJwOoinfrhoCIREQAvD_BwE (Accessed 26 October 2022)

¹³ Victoria Masterson, *What does 'global debt' mean and how high is it now?* (World Economic Forum, Geneva) 16 May 2022 <https://www.weforum.org/agenda/2022/05/what-is-global-debt-why-high/#:~:text=In%202021%2C%20global%20debt%20reached,in%20its%20Global%20Debt%20Database.> (Accessed 26 October 2022) Note: this includes borrowing by governments, business and households.

Exhibit 2-11 National debt as a share of gross domestic product, per cent

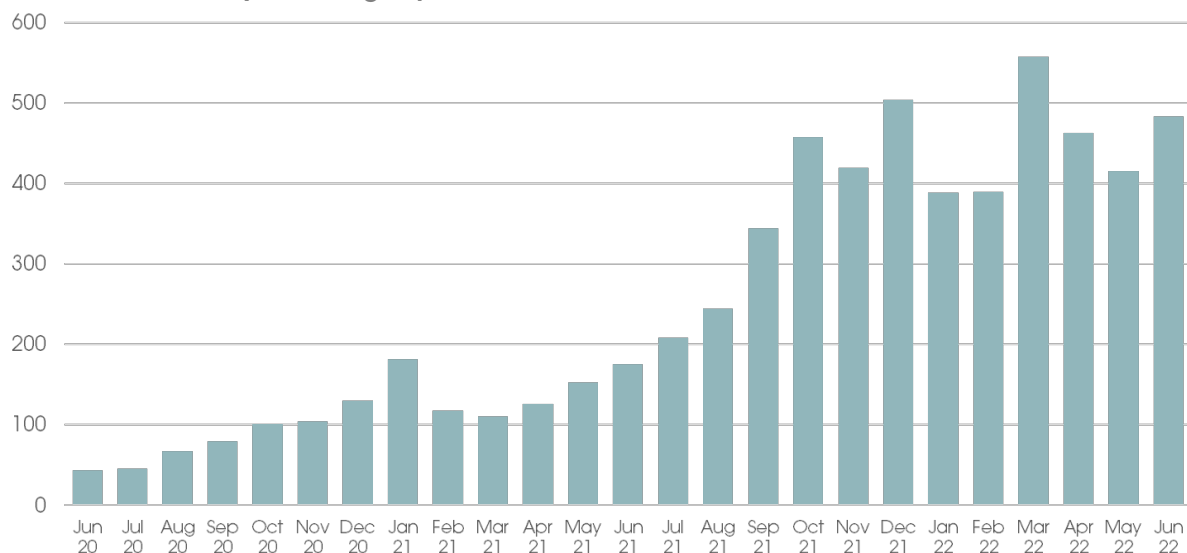


Source: World Economic Outlook 2020 Database

Fifth, the invasion of Ukraine has highlighted geopolitical fractures and exposed the risk of depending on foreign supply chains, especially for energy and food.

As a major global producer of sunflower oil and staple grains, food costs have risen in response to reduced output and the inability to export from Ukraine, with the impact most acutely felt in developing nations. The reduction in gas and oil supplies from Russia to Europe has driven up energy prices worldwide, with serious impacts on the global economy through the consequent increases in inflation and central banks needing to respond by increasing interest rates. Overcoming vulnerabilities in the supply chain will be a key priority for businesses and national governments moving forward. Building resilience could see an increase in local and regional warehousing and manufacturing.

Exhibit 2-12 Monthly natural gas price index, worldwide, 2016=100

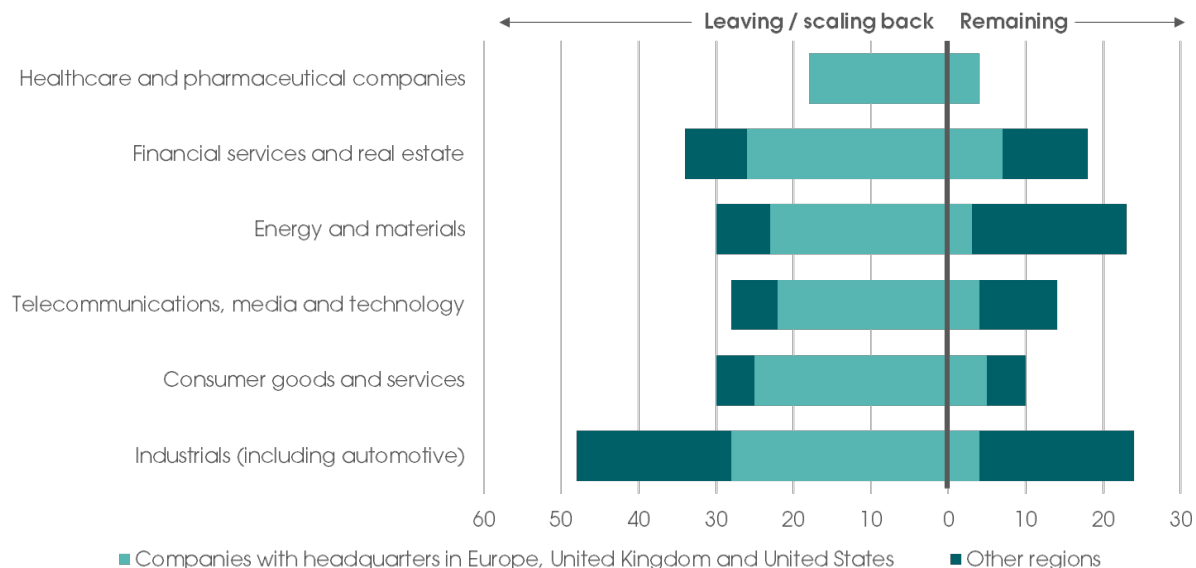


Source: International Monetary Fund

Furthermore, the war has raised geopolitical tensions, with both governments and businesses having to pick a side. Over half of all Fortune 500 listed companies had a presence in Russia

before the war, but since the beginning of the invasion, approximately 70 per cent of these companies have reduced their operations in Russia or exited altogether. Meanwhile, previously ubiquitous and neutral financial infrastructure, such as the SWIFT payment regime, has been used for partisan purposes.

Exhibit 2-13 Status of Fortune 500 companies (281 companies) with a presence in Russia, 28 April 2022



Source: Fortune Global 500, Yale School of Management, McKinsey analysis

Russia's invasion of Ukraine in February 2022 will provide future historians with the clearest marker of the end of what was an already-faltering post-Cold War world order. Larry Fink, chief executive of the world's largest asset manager, BlackRock, wrote in March 2022 to shareholders: "The Russian invasion of Ukraine has put an end to the globalisation we have experienced over the last three decades".¹⁴ The Western powers' economic doctrine of free, albeit rules-based, trade and mobility of labour and capital achieved effective hegemony following the fall of the Berlin Wall, but this late-twentieth century model of economic relations had been waning since the global financial crisis, if not before.

Globalisation has brought interdependence – and with that, an uncomfortable reliance on not-always-reliable trading partners. Nonetheless, the fundamental logic, and benefits, of international trade, open borders and global investment remain. Bigger markets, lower costs, greater efficiency, wider choice and better matching of talent to opportunities mean a globalised world economy can deliver higher rates of prosperity, employment and growth than a fragmented and factionalised one.

Globalisation is dead. Long live globalisation.

2.3 Taxing times

Recent decades have seen substantial developments in the taxation of cross-border activity. The atrocities in New York, Virginia and Pennsylvania of 11 September 2001 prompted a new focus on the closure of funding routes for terrorist groups, while the public debt hangover

¹⁴ Larry Fink, *Larry Fink's 2022 Letter to CEOs: The Power of Capitalism* (BlackRock, New York) 2022 <https://www.blackrock.com/corporate/investor-relations/larry-fink-chairmans-letter>. (Accessed 26 October 2022)

after the global financial crisis lead many Western nations to clamp down more tightly on tax evasion and avoidance.

There has been substantial innovation in the ways nations cooperate to reduce cross-border money laundering, especially in relation to the financing of terrorism and the evasion of taxes. (See Exhibit 2-15.)

First, the Financial Action Task Force is an inter-governmental body which sets international standards that aim to block financial crime. It works to stimulate political will to enact legislative and regulatory reforms to prevent money laundering and terrorist financing.¹⁵ The Financial Action Task Force has developed 49 Recommendations, with 200 jurisdictions, including the British Virgin Islands, committed to implementing these standards.

Second, tax information exchange agreements allow governments to enforce tax laws domestically by exchanging information relevant to tax matters covered by the agreement. Many agreements largely follow the Organisation for Economic Co-operation and Development's model agreement on exchange of information on tax matters which was approved in June 2015. The model protocol can be used by jurisdictions to extend the scope of their existing tax information exchange agreements to cover the automatic exchange of information, while the *Common Reporting Standard* requires jurisdictions to obtain information from their financial institutions and automatically exchange it with other jurisdictions on an annual basis. The United States has its own *Foreign Account Tax Compliance Act*, enacted in 2010 to target non-compliance by United States taxpayers using foreign accounts.

Third, registers of beneficial ownership record who the ultimate beneficial owners of an asset are, and central registers of beneficial ownership are created when a regulator collates all the information in one place. These registers may be publicly accessible or only available to law enforcement and tax authorities. The aim of beneficial ownership registers is to prevent the ability to hide assets and income which are acquired through illicit means or on which tax is owed.

The period has also seen some governments and international bodies place pressure on other sovereign nations or independent jurisdictions to change their tax regimes.

Tax regimes and liabilities vary between different countries. Often this is a result of big country tax competition, fighting to attract major businesses to their jurisdiction. In 2017, the European Union introduced its list of non-cooperative jurisdictions for tax purposes, more commonly known as its 'blacklist'. To be considered cooperative, jurisdictions are screened on a number of criteria relating to tax transparency, fair taxation and the implementation of measures to prevent base erosion and profit shifting. Members of the European Union were excluded from this process, severely undermined the credibility of the listing process. Oxfam found in 2017 that Ireland, Luxembourg, the Netherlands and Malta—and potentially more—would feature on the blacklist if screened against the European Union's own criteria. As it stands, the list is updated twice a year with twelve jurisdictions named as of the last update in October 2022, half of which are Pacific island states, and the remainder Caribbean island states.¹⁶

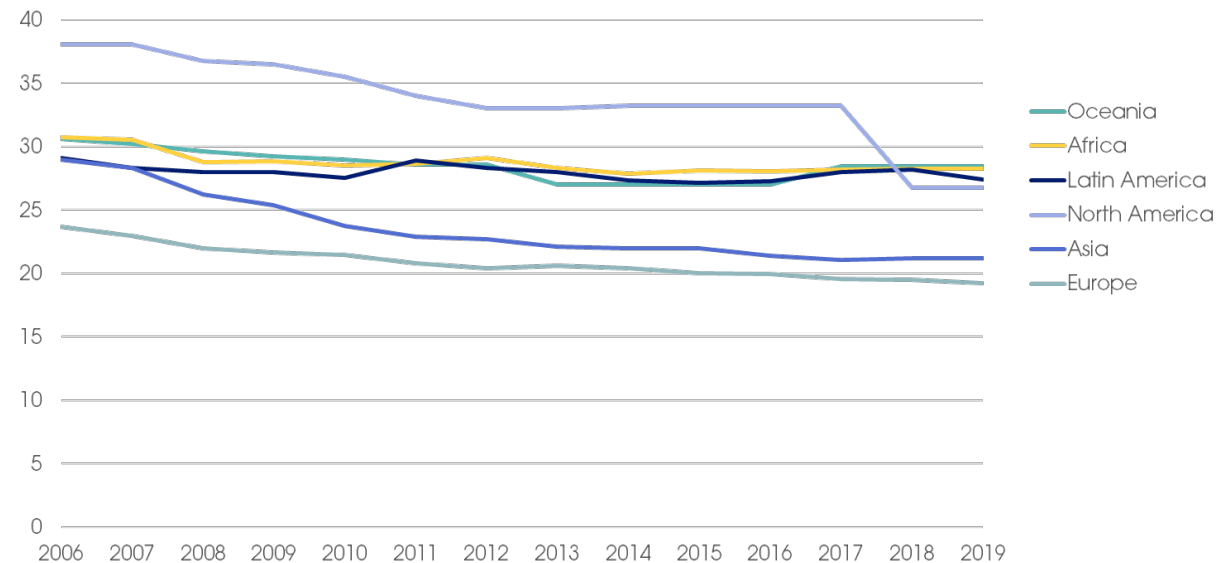
¹⁵ Financial Action Task Force, *Who we are* (FATF, Paris), 2022. <https://www.fatf-gafi.org/about/whoweare/> (Accessed 1 October 2022)

¹⁶ European Union, *EU list of non-cooperative jurisdictions for tax purposes*, (European Council, Brussels), October 2022. <https://www.consilium.europa.eu/en/policies/eu-list-of-non-cooperative-jurisdictions/> (Accessed 24 October 2022)

Meanwhile, globalisation encouraged the flow of capital around the world, with individuals and corporations being less restricted by international borders. As the corporate tax base has become more mobile, nations have been offering lower tax regimes to attract cross-border trade and investment to their jurisdictions.

The average corporate income tax rate varies significantly depending on what region of the world you are in. The tax competition driven by globalisation has seen corporate tax rates fall to all-time lows as nations compete for investors. Over the past two decades, the average corporation tax rate for Organisation for Economic Co-operation and Development countries has fallen by nine percentage points.

Exhibit 2-14 Average corporate income tax rate for global regions, per cent



Source: KPMG

In October 2021, a record agreement was reached as the Organisation for Economic Co-operation and Development and Group of Twenty Inclusive Framework on Base Erosion and Profit Shifting agreed to a “two-pillar solution to address the tax challenges arising from the digitalisation of the economy”.¹⁷ All Inclusive Framework members have since joined the two-pillar plan. Pillar One sets out a global minimum tax of fifteen per cent, with large multinational enterprises paying more taxes in countries with their client-base and less in countries where they are headquartered.¹⁸ Pillar Two aims to prevent competition over corporate income tax from dropping below a certain point.

The countries that signed the agreement represent more than 90 per cent of global gross domestic product, and the agreement will see more than US\$125 billion of profits from around 100 multinational enterprises redistributed under Pillar One and a generation of US\$150 billion in additional global tax revenues every year under Pillar Two.¹⁹

¹⁷ Organisation for Economic Co-operation and Development, *Statement on a two-pillar solution to address the tax challenges arising from the digitalisation of the economy* (Organisation for Economic Co-operation and Development, Paris) 8 October 2021 <https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.pdf> (Accessed 26 October 2022)

¹⁸ Daniel Bunn and Sean Bray, *The latest on the global tax agreement* (Tax Foundation, New York) 7 September 2022 <https://taxfoundation.org/global-tax-agreement/> (Accessed 26 October 2022)

¹⁹ Organisation for Economic Co-operation and Development, *Tax challenges arising from digitalisation* (Organisation for Economic Co-operation and Development, Paris) 2021 <https://www.oecd.org/tax/beps/beps-actions/action1/> (Accessed 26 October 2022)

Global minimum tax brings with it uncertainty for national economies. The Organisation for Economic Co-operation and Development itself found that corporate taxes are the most harmful to growth. Countries with a lower corporate income tax are likely to grow faster and attract more investment and jobs than high-tax countries.²⁰ The new global minimum tax could stifle growth, particularly in developing economies that have purposely set rates lower to encourage investment.

As well as causing uncertainty about future growth, the implementation of a global minimum tax raises questions about sovereignty and fiscal autonomy. It is a particularly concerning development for smaller jurisdictions who lack the power and influence of the larger Group of Twenty members and sets a precedent that larger countries can enforce policy on smaller states.

For jurisdictions with low or no corporate income tax rates currently, they have three options:

1. Continue with rates as they are and not implement the fifteen per cent minimum rate (although this is unlikely for those signed up to the agreement)
2. Implement a new corporate income tax rate of fifteen per cent
3. Implement a split corporate income tax policy, with the fifteen per cent rate only applying to multi-national companies with revenue exceeding €750 million

Initially the new rules were due to be completed by mid-2022, but the Organisation for Economic Co-operation and Development has now announced that the formal rules will not be finished until 2023. There are concerns that no nation is willing to go first, and if that is the case then the agreement to reform the international tax system may prove difficult to follow through on.

Exhibit 2-15 Summary of major global tax and money laundering initiatives, 1998 to 2022

Initiative	Body	Date of agreement	Details
Harmful Tax Competition: An Emerging Global issue	OECD	April 1998	Recommendation for countries to sign tax information exchange agreements with each other to facilitate cooperation on tax
International Convention for the Suppression of the Financing of Terrorism	United Nations	December 1999	Treaty to criminalise the financing of terrorism
United Nations Convention against Corruption	United Nations	October 2003	Multilateral treaty, requires states to implement several anti-corruption measures
Foreign Account Tax Compliance Act	United States	March 201	Act requires US citizens holding assets outside the country to report them to the IRS. Foreign financial institutions must also report information about US taxpayers to the US government

²⁰ A. Johansson et al, *Taxation and Economic Growth* (Organisation for Economic Co-operation and Development, Paris) 2008 <https://doi.org/10.1787/241216205486>. (Accessed 26 October 2022)

Initiative	Body	Date of agreement	Details
Alternative Investment Fund Managers Directive	European Parliament and Council of the European Union	June 2011	Directive requiring all alternative investment fund managers to gain authorisation to operate from the member states regulator if the value of assets under management are over a certain amount. Also requires them to disclose particular information to investors and places them under certain governance, capital and organisational obligations
Action Plan on Base Erosion and Profit Shifting (BEPS)	OECD	July 2013	Fifteen actions to tackle tax planning strategies that shift profits to no or low-tax locations where there is little or no economic activity by exploiting gaps and mismatches in tax rules, resulting in little or no tax being paid
Common Reporting Standard	OECD	May 2014	Calls on governments to obtain detailed information on their financial institutions and exchange it automatically with other jurisdictions annually
Directive of Administrative Cooperation (replaced Savings Directive of 2005)	European Council	December 2014	Requires members to automatically exchange information in line with OECD/ G20 global standards
Committee on tax ruling (TAXE 1)	European Parliament	February 2015	45-member committee on tax rulings set up to look into allegations that some member states were using special tax regimes to favour large corporations
Action Plan for Fair and Efficient Corporate Taxation in the European Union	European Commission	June 2015	Report setting out proposals aimed at making corporate taxation in the E.U. more efficient, fair and transparent
4th Anti-Money Laundering Directive	European Parliament	June 2015	Calls for European countries to set up central registers to record the ultimate beneficial owners of all companies and trusts
Aggressive tax planning - The TAXE 2 report	European Parliament	June 2016	Report recommending the introduction of sanctions against non-cooperative tax jurisdictions included on a blacklist of tax havens drawn up by the commission
List of non-cooperative tax jurisdictions (EU 'blacklist')	European Union	2017	Used by member states to tackle tax abuse and unfair tax competition (list was last revised in February 2021)
Action Plan on Base Erosion and Profit Shifting (BEPS) Interim report	OECD	March 2018	Sets out the Inclusive Framework's agreed direction of work on digitalisation and the international tax rules through to 2020
5th Anti-Money Laundering Directive	European Parliament	May 2018	AML5 strengthens the EU's anti-money laundering and combatting the financing of terrorism including amongst other things, increasing transparency of beneficial ownership, enhancing cooperation and information sharing between financial authorities and allowing for better identification of politically exposed persons
Action Plan on Base Erosion and Profit Shifting (BEPS) statement	OECD and G20	January 2020	Statement on the Two-Pillar approach to address the tax challenges arising from the digitalisation of the economy

Initiative	Body	Date of agreement	Details
Action Plan on Base Erosion and Profit Shifting (BEPS) statement and reports	OECD and G20	October 2020	Inclusive Framework statement and reports on the blueprints of Pillar One and Pillar Two, and the economic impact assessment. Pillar One seeks to ensure a fairer distribution of profits and taxing rights among countries. Pillar Two seeks to put a floor on competition over corporate income tax through a global minimum tax of fifteen per cent
Statement on a Two-Pillar solution to address the tax challenges arising from the digitalisation of the economy	OECD	October 2021	136 countries and jurisdictions agree to a global minimum corporation tax of fifteen per cent from 2023
Global Anti-Base Erosion Model Rules (Pillar Two)	OECD	December 2021	Report delineating the scope and setting out the operative provisions and definitions of the GloBE rules. Rules are intended to be implemented as part of a common approach and be brought into domestic legislation as from 2022.

Source: Pragmatix Advisory research of individual organisations' websites

2.4 Scenarios for an uncertain future

Looking to the future, the economic pressures on businesses and governments that have led to globalisation will continue, but these will be balanced against a heightened perception among many of the risks involved. Different businesses and different governments will strike a different balance. The future outcome is unclear.

To illustrate the potential nature of this 'new globalisation', we have created three outline narrative scenarios for the world economy.

The first scenario, **weaker internationalism**, sees no change in the direction or nature of globalisation – but these trends continue at a slower pace.

Governments of the major world economies, including China, continue to observe the post-Cold War 'rules-based international system', although there may be some (often highly visible) tensions between the old and emerging economic superpowers. Recognising the mutual self-interest, extant open borders and tariff-free trade arrangements remain largely intact. Efforts to remove trade tariffs, quotas and non-tariff protections continue, but with less intensity than in recent decades resulting in slower implementation. Further progress is made towards free (or freer) trade in services – initially within regional trading blocs but eventually between them.

With a relatively stable and familiar international political and policy environment, the financial and efficiency benefits of international supply chains weigh more highly with businesses and investors than the risks of disruption underlined by the pandemic and the Russian invasion of Ukraine. Global value chains will continue to grow in depth and range, albeit with more focus placed on testing and improving their resilience.

Weaker internationalism has the most positive outlook for the global economy of our three scenarios, but it still represents a material reduction on historical growth rates. None of our three scenarios for the future will deliver as much growth in the world economy as would

have occurred with unfettered globalisation, however. Free trade, mobile capital and footloose labour are good for global prosperity; the addition of (or failure to remove) unnecessary costs – in the form of border controls, red tape, tariffs, etc – is not. Whereas the worldwide economic output grew in real terms by an average of 3.6 per cent annually between the fall of the Berlin Wall and the start of the covid pandemic, future rates could be at least a full percentage point lower per annum. Similarly, rates of growth of international migration, trade in goods and services, and foreign direct investment will fall compared to their pre-covid rates.

The second scenario, the **bloc economy**, envisions continued economic, regulatory and, in some cases, political integration between countries within predominantly regional geopolitical blocs, but with these different groupings diverging from each other.

Fissures grow between groups of nations reflecting increasingly conflicting economic interests and diverging social values, political ideologies and cultural perspectives – and activity between these blocs is increasingly restricted. There is a rising incidence of traditional barriers to inter-regional trade – such as tariffs and quotas. But much of the additional friction at the regional borders is created by other means, such as: entry and residency visas; regulatory standards; technology standards; and professional recognition and the trade in services.

The global gatekeepers of the twentieth century – the United Nations, Bretton Woods institutions and World Trade Organisation – are marginalised and ineffective, with bilateral negotiations between blocs or between individual large nations and blocs, taking their place.

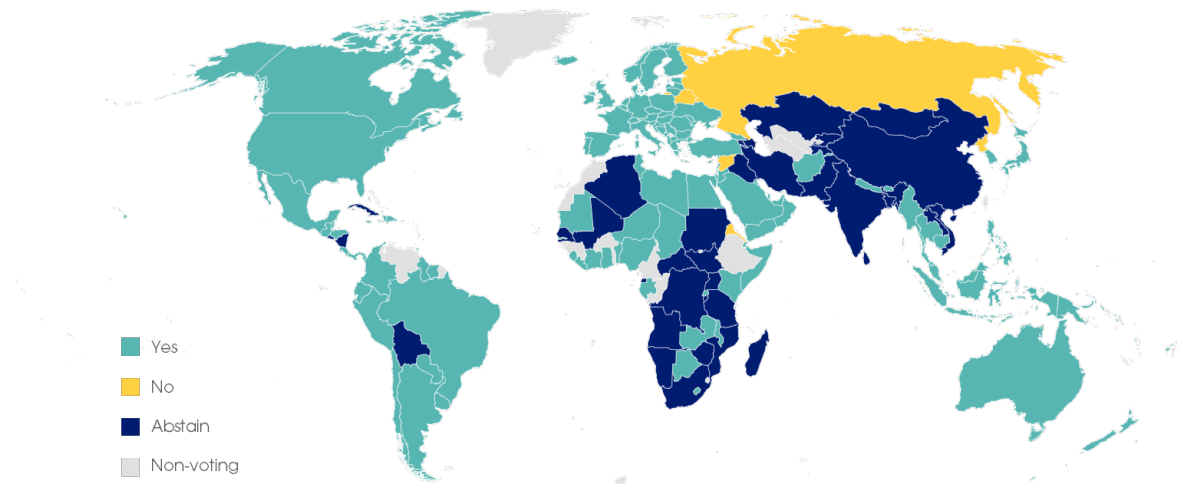
Conversely, trade tariffs, quotas and non-tariff protections continue to be eroded within blocs (possibly at a faster rate than before) – as do barriers to intra-regional travel and migration. Some blocs may accelerate in the direction of political and military integration. What is not clear is which existing blocs, or potential new ones, will provide the future dividing lines.

The European Union (together with the four nations of the European Free Trade Association) has a well-established willingness to stand apart internationally on a range of issues and to take tough stances on trade policy and business regulation. But, as Europe's economic clout fades, other regions flex their growing commercial as well as diplomatic and military muscles. There are numerous formalised blocs worldwide: free trade areas, customs unions, single markets, currency unions, visa-free and borderless travel areas, and political and defence pacts. Nations align and group informally too. Economic geography is formed not only by bilateral and multilateral government agreements, but also through the likes of soft diplomacy, humanitarian and development aid, arms supply and military support, and government-to-government loans. China, for example, is not a member of a formal bloc, but it has established a robust and widespread sphere of influence – including through its Belt and Road Initiative.

Russia's war on Ukraine has brought the changing global political geography into stark focus. The initial response from Europe was unified, and even saw Finland and Sweden reconsidering their neutrality and applying to join the North Atlantic Treaty Organisation three months after the invasion. The United States reengaged with the transatlantic defence alliance and Japan overturned 80 years of self-defensive military policy. At least initially, the Western coalition has been resilient in the face of the war in eastern Europe. Some may even argue the unity of the West has been strengthened by it.

Meanwhile, the response beyond Europe and North America illustrates how nations are realigning.

Exhibit 2-16 Vote in the United Nations to condemn Russia's aggression against Ukraine, 2 March 2022



Source: United Nations

On 2 March 2022, a total of 141 countries took part in a historical vote at the United Nations to condemn Russia's war on Ukraine, but five nations voted against the resolutions and 36 abstained. While one debate doesn't determine where future loyalties might lie, they do provide a suggestion as to what the future bloc economy could look like. The countries that supported Russia or abstained account for around 54 per cent of the world's population and a quarter of the global economy currently but are among some of those expected to grow the fastest in the coming decade.

The evolving – and more uncertain – international political and policy environment of the second scenario impacts on the decisions and risk appetites of businesses and investors. Corporates must factor-in the higher costs and risks of serving markets or relying on lengthy supply chains that cross regional boundaries. Investors may face added costs or risks repatriating their returns from or liquidating assets in other blocs.

The bloc economy offers a less positive outlook for the global economy than the weaker internationalism scenario or recent history. Rates of growth in worldwide economic output could be less than half of those achieved before the pandemic, with similar impacts on the other various indicator of international economic connectivity.

The third scenario, called **new economic nationalism**, sees many of the larger individual nations increasingly go their own way and become more protectionist and anti-internationalist.

The pressures of domestic politics combine with both businesses and governments seeking greater post-covid resilience from international risks. National self-sufficiency and self-reliance take precedence over the gains from trade, efficiency and economic growth. Protection of domestic jobs is more expedient politically than ensuring a level playing field for trading with other nations. Trust in international institutions declines – or is lost, with not only the global gatekeepers, like the United Nations, marginalised but also the regional bloc administrations, like the European Commission, struggling to keep their memberships cohesive. Bilateralism snowballs with trade, travel, investment and tax relations increasingly decided on a one-to-one basis between nations, and with different rules, protocols and practices varying from one pair of nations to another.

There is a rising incidence of barriers to both inter- and intra-regional trade – such as tariffs and quotas, and additional friction created by the likes of entry visas, regulatory and tax requirements, and technology standards. Widespread growth in trade in services is unlikely.

Out of our three scenarios, new economic nationalism would cause the most damage to the future growth of the global economy – potentially pushing it as low as one percentage point per annum in real terms. Businesses, investors and consumers face new and unnecessary additional costs and risks. Global value chains fracture and fragment. Markets are more volatile and trends less predictable.

Exhibit 2-17 Indicative compound annual growth rates of globalisation measures by each central scenario, 2022-2040, per cent

		Trend between 2000 and 2019	The weaker internationalism scenario	The bloc economy scenario	A new economic nationalism scenario
Global economy	Overall globalisation	3.2	2.0	1.6	1.1
	Real gross domestic product	3.7	2.3	1.5	1.0
	International migrants	2.4	1.5	1.3	1.2
Global trade	Real merchandise exports	3.8	2.4	1.9	1.5
	Real service exports	5.0	3.2	3.8	1.2
	Volume of trade	4.1	2.6	2.4	1.4
Global investment flows	Real foreign direct investment inflows	2.3	1.4	1.0	0.5

Source: Pragmatix Advisory, International Monetary Fund, International Organization for Migration, World Bank and United Nations Conference on Trade and Development

The impact of new economic nationalism on growth rates will differ across the regions. While India and emerging Asia can expect compound annual growth of between three and 5.1 per cent, the United States and Europe would see low or negative rates under this scenario.

Exhibit 2-18 Indicative compound annual growth rates of real gross domestic product by geographical bloc under each central scenario, 2020-2040, per cent

	The weaker internationalism scenario	The bloc economy scenario	A new economic nationalism scenario
Europe and United Kingdom	1.2	0.3	-0.4
United States	1.6	0.8	0.3
China	3.5	2.7	2.0
India	5.8	5.3	5.1
Other emerging Asia	4.3	3.5	3.0
Rest of the world	1.8	1.1	0.7
World	2.3	1.5	1.0

Source: Pragmatix Advisory based on Oxford Economics' regional forecasts for 2040

Although there are significant economic and political uncertainties, as reflected in our scenarios, there is no doubt that the world faces a **climate emergency**. Major natural disasters are no longer contained to once-in-a-generation events, and their increasing

frequency and severity will have far reaching consequences for the global population. We are now witnessing the effects scientists predicted, including more intense heat waves, the loss of sea ice, melting glaciers, rising sea levels, and worsening weather events. Human emissions of heat-trapping gases have already warmed the climate by 1.1 degrees Celsius since pre-industrial times, and the global average temperature is expected to reach or exceed 1.5 degrees Celsius within the next few years.²¹ The impact and severity of climate change will vary across the globe, but it will have consequences for every nation and for the economic relations between nations.

²¹ Intergovernmental Panel on Climate Change, *Climate Change 2021: The Physical Science Basis* (Intergovernmental Panel on Climate Change, Geneva), 2021. <https://www.ipcc.ch/report/ar6/wg1/> (Accessed 27 October 2022)

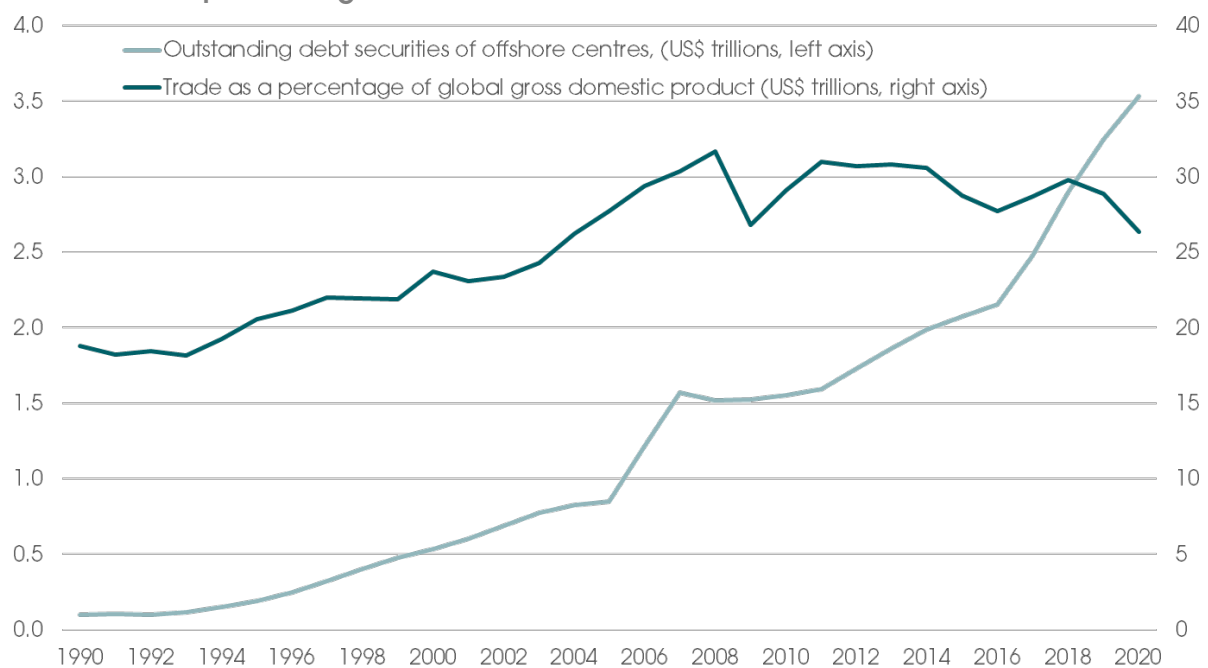
3 Globalisation gateways

In this section we outline the evolution of international finance centres, and the changes in the markets they serve. We look at their broader benefit to the world, the implications for international finance centres under our three globalisation scenarios, and the challenges and opportunities arising from ESG and digital development.

3.1 Cross-border specialists

The growth of international trade and the growth of international finance are noticeably entwined. Reliable centres offering services to enable cross-border transactions have been necessitated through the increase in international business and the evaporating significance of geographical borders. International finance centres have evolved over the decades and are now home to a sophisticated network of law firms, accountancy firms, corporate governance practitioners, fund managers, bankers and other professionals. All over the world, an expanding collection of international business and finance centres have risen to meet the needs and demands for non-domestic activity.

Exhibit 3-1 Comparison of global trade and offshore finance



Source: Pragmatix Advisory; Bank of International Settlements; United Nations Conference on Trade and Development

International finance centres do not have to be islands and they do not have to be small. The United States, the United Kingdom and the Netherlands are all centres. What defines a centre is its ratio of non-domestic to domestic financial services. Despite what the term 'offshore' suggests, international finance centres can be physically onshore, with prominent examples like Liechtenstein, Luxembourg and Switzerland. However, these centres all have different areas of specialisation and services provided.

Exhibit 3-2 Profile of global finance centres based on measures of speciality, connectivity and diversity, September 2021

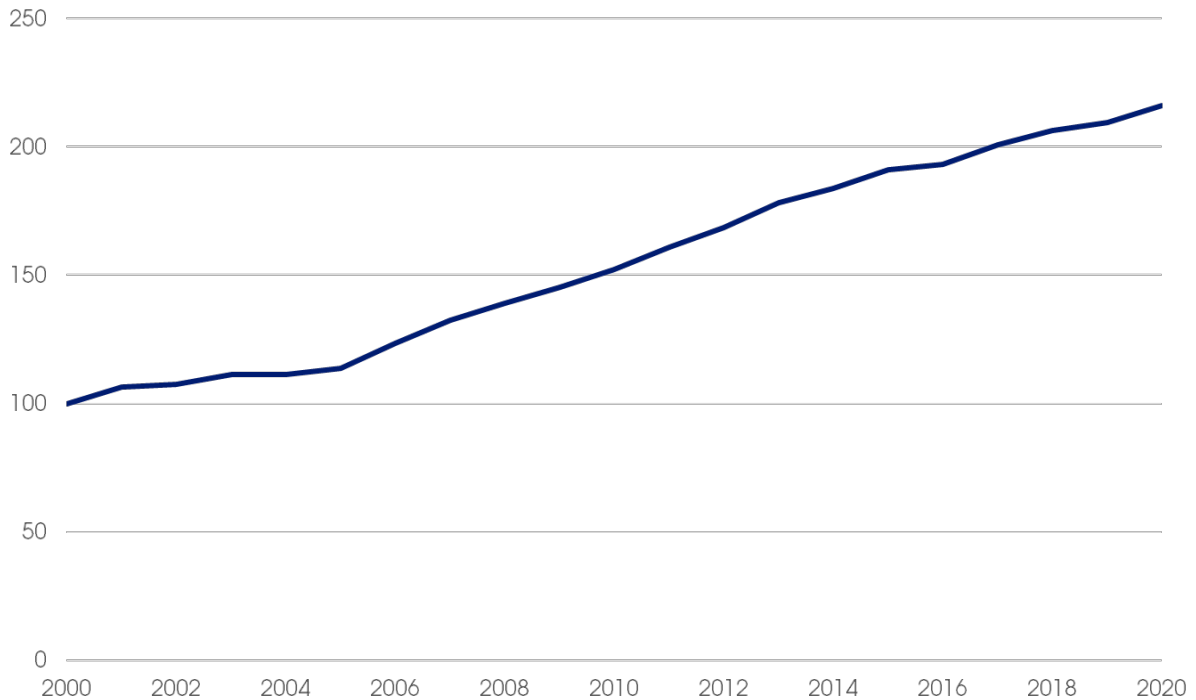
	Diverse and specialised	Relatively diverse	Relatively specialised	Emerging
	Global leaders	Global diversified	Global specialists	Global contenders
Global	New York London Shanghai Zurich Paris Hong Kong Washington DC Frankfurt Singapore Los Angeles Chicago Amsterdam Geneva Brussels Tokyo Toronto	San Francisco Seoul Dublin	Dubai Beijing Luxembourg Guangzhou Shenzhen Moscow Abu Dhabi Chengdu Hangzhou Qingdao Tianjin	GIFT City-Gujarat
	Established international	International diversified	International specialists	International contenders
International	Boston Busan Milan Berlin Oslo Bangkok Madrid Munich Warsaw Sydney Kuala Lumpur Vancouver Melbourne Rome Montreal Stuttgart Budapest Hamburg Athens	Istanbul Mexico City Tel Aviv	Mumbai New Delhi Wuhan Cape Town Dalian Panama Bogota Cyprus Riyadh Riga Baku Taipei Xi'an Nanjing Vilnius Kigali (New) Buenos Aires Nairobi Lagos (New)	Sao Paulo Mauritius Nur- Sultan Bahrain Casablanca Doha Johannesburg Almaty Guernsey Bermuda Liechtenstein Isle of Man British Virgin Islands Cayman Islands
	Established players	Local diversifies	Local specialists	Evolving centres
Local	Copenhagen Prague Calgary Stockholm Edinburgh Osaka Glasgow Wellington San Diego Santiago	Vienna Lisbon Helsinki	Kuwait City Reykjavik Manila Tehran St Petersburg Gibraltar Barbados Bahamas Sofia Tallinn Bratislava Monaco Trinidad and Tobago	Rio de Janeiro Malta Jersey Jakarta

Source: Z/Yen Global Financial Centres Index

Larger jurisdictions with international finance centres enjoy an elevated status among the diplomatic community and tend to have a more readily welcoming reception from their home and partnering nations. International finance centres operating in smaller jurisdictions tend to be more specialist providers with their individual selling points, for example funds in the Cayman Islands, insurance in Bermuda, trusts and private wealth in Jersey, and company incorporations in the British Virgin Islands.

Assessing the scale of growth in offshore activity across international finance centres can be challenging, with market data and intelligence uncoordinated and fragmented. To build a picture of the cross-border activities facilitated, we have collected data from individual jurisdictions' statistical offices, regulators and other relevant agencies to help build a picture of the industry as a whole.

Exhibit 3-3 Index of active offshore companies, 2000=100



Source: Pragmatix Advisory based on available data from eleven international finance centres

International finance centres originated as ‘safes’ and acted as a place to store assets that were not being actively managed or traded, and they offered privacy and protection for internationally mobile private wealth clients. Although international finance centres today are not ‘tax havens’, their origins in the first half of the twentieth century stem from the demand for wealth protection and secrecy. The modern international finance centre can be traced to Switzerland in the 1930s, as a new Swiss law demanded ‘absolute silence’ and banking customer confidentiality.²² The economic boom of the 1960s led to the substantial expansion of banks in Switzerland and around the world.

The services provided developed to include the administration of estates through succession planning, offering security and certainty. The number of international finance centres grew exponentially between the 1960s and 1990s, and British banks began to expand their activities in the Crown Dependencies in the early 1960s, before being joined by larger American banks. Around the same time, the Cayman Islands enacted a new set of laws, setting itself up as a successful centre. Singapore followed, along with other Caribbean and European jurisdictions. By the early 1990s, international finance centres could be found in every region of the world, many of which were styled following the *BVI International Business Company Act, 1984*.

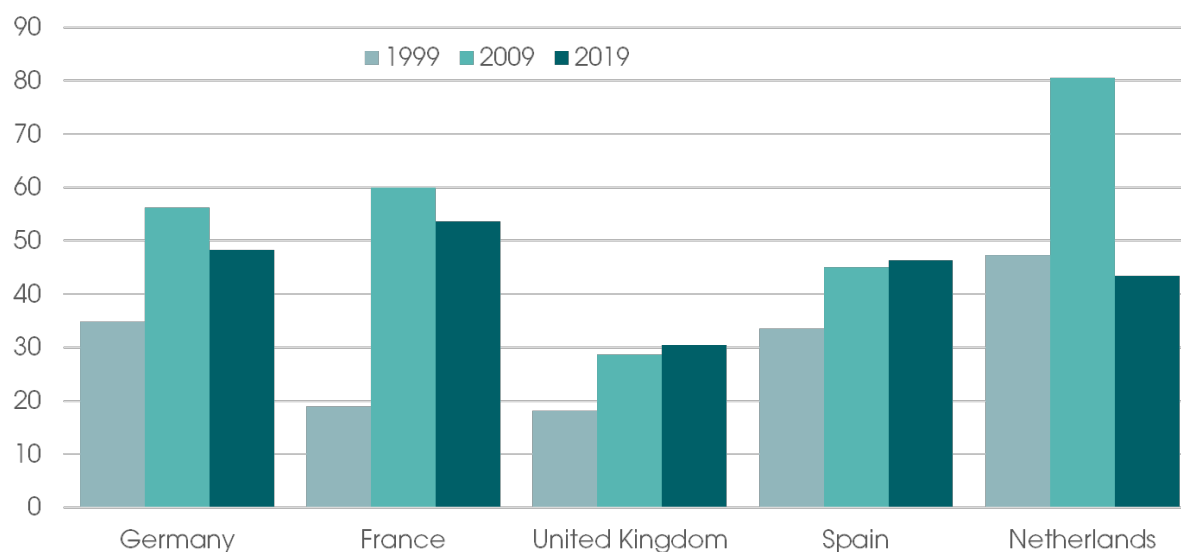
As capital markets became increasingly more global, investors began seeking returns from beyond their national borders and investors began accessing wider sources of finance, international finance centres were well-placed to facilitate global investment flows. Many offshores developed into ‘pipelines’ where cross-border transactions between two or more usually corporate parties are structured. These pipelines are chosen because of their regulatory specialisation, jurisdictional neutrality, and tax advantages to undertake cross-

²² Sébastien Guex, ‘The origins of the Swiss Banking Secrecy Law and its repercussions for Swiss federal policy’, *The Business History Review*, Vol 74 (No.2), 2000. Pp237-266

border transactions easily and efficiently. These transactions can include real estate purchases, business transactions and joint ventures.

The number of multinational enterprises grew by more than a third in a decade while the volume of international trade has more than doubled in twenty years.²³ The financial services industry in offshore centres is instrumental in helping firms and institutions to carry out business across national borders. It can be in the form of mergers, acquisitions and joint ventures, asset purchase, disposal and protection, insurance and access to capital, or it can be operating in new markets.

Exhibit 3-4 Share of total government bond holdings by non-residents for selected developed countries, per cent



Source: Bruegel database of sovereign bond holdings, Merler and Pisani

Some offshore centres have evolved to become regional or global ‘hubs’, where a variety of financial activity is undertaken across a range of different clients and vehicles. International business and finance centres also support the efficient pooling, deployment and distribution of investment funds and their returns across multiple jurisdictions. This includes the administration and management of funds, trusts, limited liability partnerships and other structures for cross-border property, private equity, venture capital and pensions investors among others. An International Monetary Fund-coordinated survey reported global assets more than doubled in value between 2004 and 2019, which was the equivalent of a compound rate of five per cent per annum.²⁴

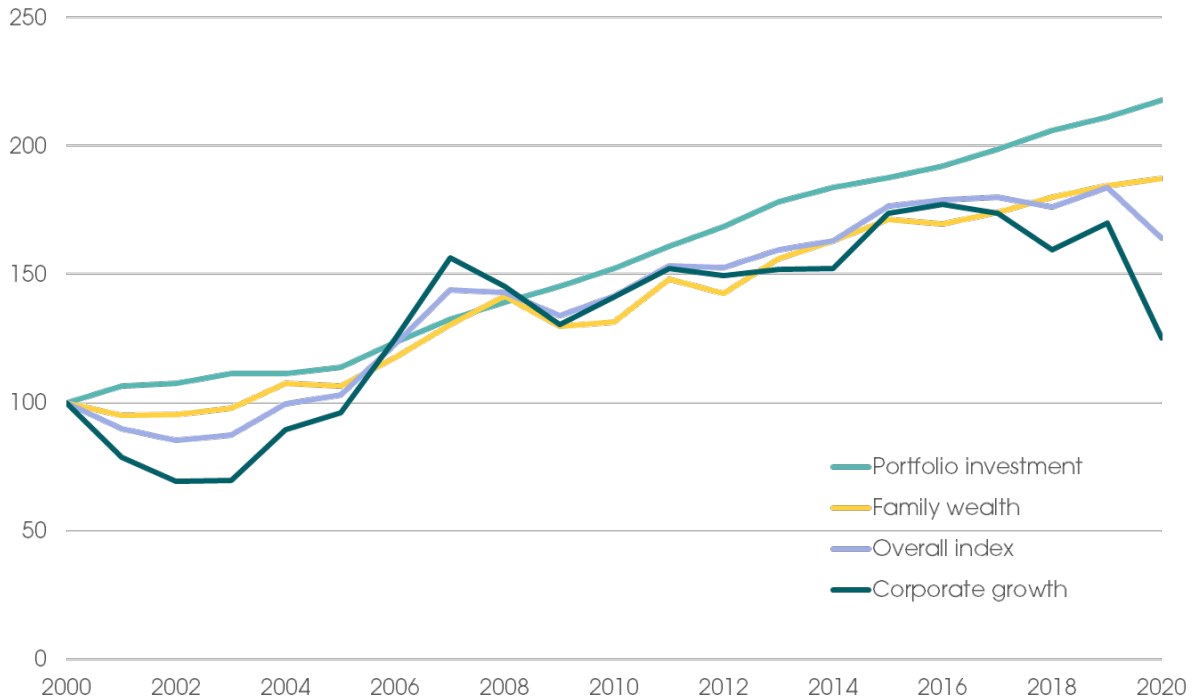
We have developed several experimental metrics that combine relevant macroeconomic statistics including foreign direct investment with data from multiple international finance centres including, for example the number of active companies registered in the jurisdictions. We have used this data to construct indices of the volume of cross-border activity for the three broad categories outlined above. We have also created a composite of the three categories to reflect the industry overall.

²³ Organisation for Economic Co-operation and Development, *Outward activity of multinationals by industrial sector* (Organisation for Economic Co-operation and Development, Paris) 2022. https://stats.oecd.org/Index.aspx?DataSetCode=AMNE_OUT (Accessed 27 October 2022)

²⁴ International Monetary Fund, *Coordinated Portfolio Investment Survey (CPIS)* (International Monetary Fund, Washington DC), 14 September 2022. <https://data.imf.org/?sk=B981B4E3-4E58-467E-9B90-9DE0C3367363> (Accessed 27 October 2022)

Due to the challenges with gathering and assessing data from different sources, the indices are purely indicative. Despite this, they are useful in demonstrating what has happened to the industry, with offshore activity growing since the start of the new millennium before rates of growth declined after the global financial crisis.

Exhibit 3-5 Indicative indices of the volume of cross-border activity by market, 2000=100



Source: Pragmatix Advisory based on available data from eleven international finance centres

3.2 Centres with global benefit

International finance centres have become important facilitators of the provision of capital in developing countries. Sourcing investment is difficult in countries where there is limited private finance or where financial systems are not yet developed and where the cost of borrowing is high. Many developing nations do not have domestic capital markets large enough to support the growth they want to achieve. According to estimates by the Overseas Development Institute in 2018, international finance centres boosted the level of finance in sectors key to growth by US\$1.6 trillion in developing countries between 2007 and 2017. This represented an increase in gross domestic product of US\$400 billion and US\$100 billion in tax revenues for developing countries.

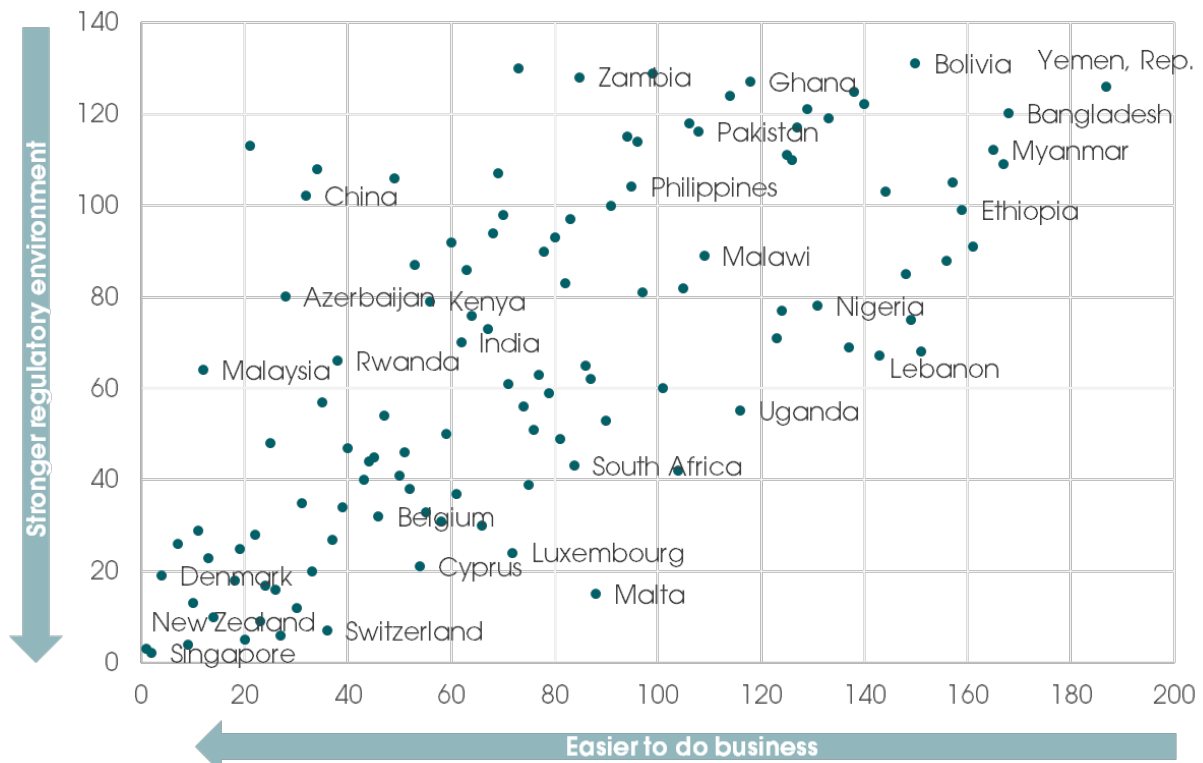
On top of the challenge of raising capital, some developing economies have an environment in which it is difficult to attract investment. In these cases, international finance centres do not just facilitate the flow of international capital, they also mitigate risks to investors. Institutional investors such as mutual funds, pension funds and insurers in developed countries want to invest in developing economies but are unable to buy high risk assets and so cannot make direct investments in developing nations.

Foreign investors can be dissuaded from investing in some developing countries because of the difficulty of conducting business. Economic crime can be a major problem, for example. As of June 2022, developing countries including Albania, Cambodia and Pakistan were under increased monitoring by the Financial Action Task Force. More than US\$1 trillion in

bribes are believed to be paid each year, with the global cost of corruption estimated to be at least US\$2.6 trillion – equivalent to five per cent of global gross domestic product.²⁵

Where the banking system or government may not be stable or reliable, structuring operating companies or holding companies in offshore centres means investors can ensure their money is used in the way they intend.

Exhibit 3-6 Correlation between ease of doing business and regulatory environment global rankings



Source: The World Bank

International finance centres have their critics. Over the years, various reports, articles and books – including many from reputed non-governmental organisations – have made or repeated claims regarding offshore finance centres and created the narrative of tax havens. In practise, the quality of evidence and analysis behind them demand examination, with concerns about the logic and methodology being used (see [appendix](#)).

Indeed, international finance centres have responded positively to the various initiatives of recent years, implementing new regulations, reporting requirements and standards.

Exhibit 3-7 Summary of international finance centres' response to international tax initiatives

Initiative	International finance centres' response
Financial Action Task Force (FATF) recommendations	Offshore international finance centres including Guernsey, Jersey, Cayman Islands and Bermuda are all deemed to be largely compliant with the FATF recommendations, the same rating as the United Kingdom, United States and Germany.

²⁵ United Nations, *Global cost of corruption at least 5 per cent of world gross domestic product*, Secretary-General tells security council, citing World Economic Forum data (United Nations, Geneva), 10 September 2018. <https://press.un.org/en/2018/sc13493.doc.htm> (Accessed 27 October 2022)

Foreign Account Tax Compliance Act (FATCA)	The United States has FATCA agreements in force with international finance centres including the British Virgin Islands, Cayman Islands, Cyprus, Guernsey, Hong Kong, Isle of Man, Luxembourg, Mauritius, and Switzerland, amongst others.
Tax Information Exchange Agreements (TIEAs)	The British Virgin Islands, Cayman Islands, Jersey and Isle of Man all have more TIEAs in force with partner jurisdictions than the United Kingdom and the United States.
Common Reporting Standard (CRS)	Early adopters of the Common Reporting Standard in 2017 included international finance centres such as Jersey, Lichtenstein, Ireland, the British Virgin Islands and Luxembourg.
Beneficial ownership registers	All the inhabited United Kingdom Overseas Territories, including those which are international business and finance centres, have committed to adopting publicly accessible registers of company beneficial ownership. The British Virgin Islands' progress will be 'in line with international standards and best practices as they develop globally.'
European Union list of non-cooperative tax jurisdictions (EU 'blacklist')	International finance centres that were blacklisted on the original list, including Jersey, Isle of Man, Hong Kong, Guernsey and Lichtenstein, have subsequently been cleared and removed after being deemed compliant with the necessary obligations. The list does not include member jurisdictions on its blacklist, despite the EU accepting in 2019 that Luxembourg, Malta, Ireland, the Netherlands, and Cyprus display 'traits of a tax haven and facilitate aggressive tax planning' ²⁶
Base Erosion and Profit Shifting (BEPS) framework	Over 135 jurisdictions have signed up to the BEPS framework, including finance centres like Switzerland, the British Virgin Islands, the Netherlands, Gibraltar and Mauritius.
Global minimum tax	The 137 jurisdictions committed to implementing a global minimum corporate tax rate include international finance centres like Jersey, Guernsey, Hong Kong, the British Virgin Islands, Mauritius and Switzerland.

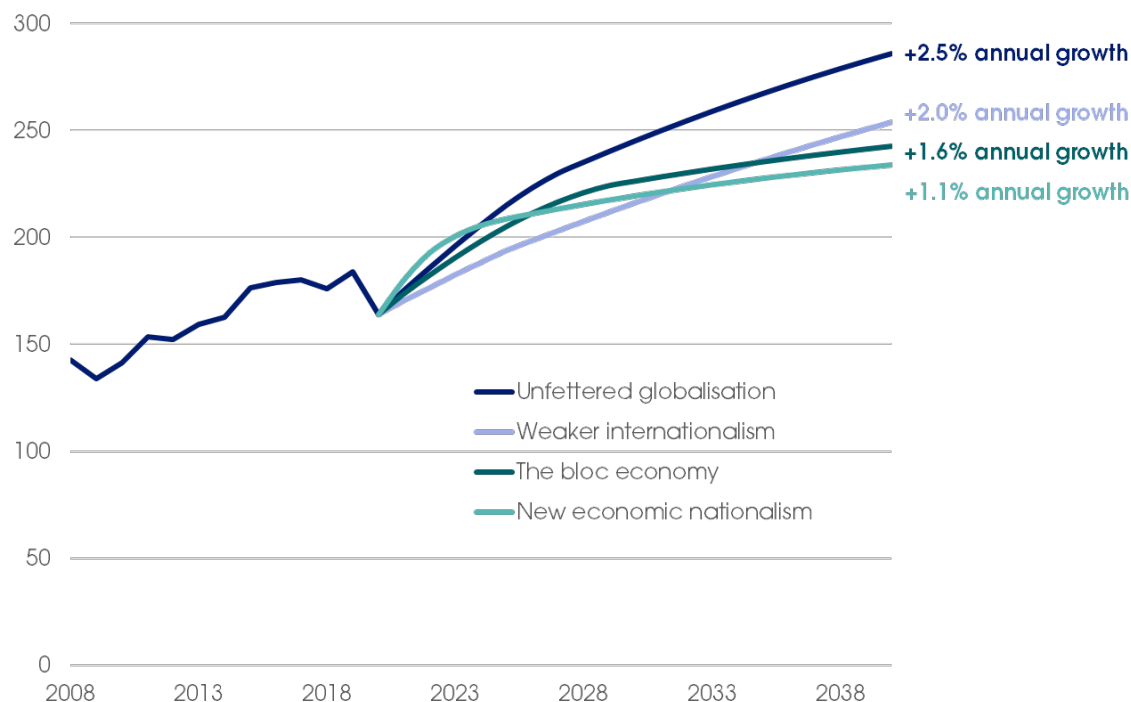
Source: Pragmatix Advisory analysis of individual organisations' and jurisdictions' websites

3.3 Beyond globalisation

Just as it has driven the demand for their services of over recent decades, the prospects for international finance centres depend on the future shape and pace of globalisation. Our three scenarios help illustrate the potential range of implications for the cross-border finance, investment, corporate services and advisory markets ("the industry"). Although the scenarios have negative impacts on macroeconomic prospects, the impact on international finance centres, and the British Virgin Islands specifically, is less certain.

²⁶ Matteo Guidi, *Tax crimes: special committee calls for a European financial police force* (European Parliament, Brussels), 27 February 2019. <https://www.europarl.europa.eu/news/en/press-room/20190225IPR28727/tax-crimes-special-committee-calls-for-a-european-financial-police-force> (Accessed 24 October 2022)

Exhibit 3-8 Illustrative scenario forecasts of the volume of cross-border activity, with compound annual growth rates for 2022 to 2040, indexed 2000 = 100



Source: Pragmatix Advisory

Weaker internationalism – where pre-pandemic globalisation trends continue, albeit more slowly, and with plenty of political obstacles to navigate – is the least precarious scenario for international business and finance centres. Nonetheless, the industry must change and evolve. Lower rates of growth in the global economy generally slow cross-border trade and investment disproportionately. The market for offshore services continues to grow, but at modest rates. The industry needs to shift from relying on organic volume growth to concentrate more on increasing the value of their relationships with existing clients.

Under the weaker internationalism scenario, we would expect existing international standards and tax initiatives to remain largely unchanged. The global community would continue to move forward with plans for a global minimum corporate tax rate, albeit with friction between China, the European Union and the United States slowing progress.

This friction makes further sweeping changes unlikely. But slow economic growth, especially in Western nations, puts pressure on European and North American governments to bolster their public finances. Under the auspices of tackling supposed harmful tax practices, there is unrelenting incremental toughening of reporting, information exchange and substance requirements, reinforced by threats of blacklisting and exclusion. The global minimum corporate tax proposals are implemented, but slowly – although over time there is pressure for the fifteen per cent rate to increase. The scope for profit shifting remains unchanged.

In the **bloc economy** – where economic and regulatory integration between countries continues within geopolitical blocs, which are then increasingly divergent – demand for cross-border facilitation services could remain robust. But international finance centres may struggle to keep simultaneous access to increasingly opposed regimes. The divergence of standards and regulations between the United States, China and the European Union is already posing the industry tough questions about how to serve these markets. Indeed, a widening divide on tax and transparency between Washington DC and Brussels is driving a wedge between long-established markets. The danger in such a regionalised world is that

the offshore centres (and potentially individual businesses) must, in effect, align to one bloc – at the expense of access to others. In these circumstances, their markets are limited to intra-regional activity, and their growth is constrained to that of their chosen bloc. Although it remains unclear how the map may be drawn or redrawn, some broad trends are clear. If a bloc economy emerges, the industry potentially faces an uncomfortable choice between chasing growth in emerging markets such as Asia and Africa, and retaining revenues from the currently larger, more predictable but slower established markets of North America and Europe.

It sees Asia, Europe and North America go their separate ways with the European Union likely to follow the most protectionist path. Brussels demands a higher price for non-members to access the single market; expect rapid tightening of reporting, information exchange and substance requirements. And while the implementation of a global minimum corporate tax falters and possibly collapses, a European-only equivalent could be implemented quickly at a higher rate and with fewer exemptions than the current international proposals. This comes with further scrutiny of jurisdictions' corporate tax allowances, reliefs and exemptions. Although less likely, more radical developments are possible, such as measures to restrict or tax the use of trusts, partnerships and various collective investment vehicles. Capital controls could be introduced. In the longer term, substantial harmonisation of tax rates and regimes covering both individuals and businesses across Europe is possible – with non-member nations having to pay the difference between their regimes and Europe's for market access.

Although North America may opt for more protectionist trade policies, these are unlikely to include further tax initiatives; indeed, current standards may be relaxed. In Asia, any protectionism likely comes in the form of trade barriers and controls on capital and currency flows – and not tax standards. Nonetheless, as Asian economies mature and their export markets slow, there is increased pressure to balance the public sector books, and tax rates rise. Over time, all blocs look to find ways to grab greater taxes from beyond their borders, as well as protecting their own base; citizenship-based models of taxation may have increasing appeal instead of or in hybrid form with the currently more common residence-based approach. Meanwhile, the lack of coordination between blocs provides greater opportunities for multinational (and multi-bloc) businesses to shift profits and minimise their corporate tax liabilities, especially for non-geographic activities such as digital services; as such, governments look to sales and withholding taxes to help secure revenues.

A **new economic nationalism**, where individual nations go their own more-protectionist way, would damage the global economy the most. However, perversely, this may reinvigorate the *raison d'être* for international finance centres and provide a potentially sizeable albeit temporary fillip to their businesses' revenues. Offshore expertise will be sought after as cross-border transactions become more complex and costly, while the neutrality of offshore centres will be increasingly valued by those wanting a locus for their international activity. The challenge will be that the initial boost for the industry is likely to be eventually offset by a much weaker global economy.

The new economic nationalism scenario firmly halts further global cooperation on common tax and financial crime standards (although some new bilateral and small group deals are brokered, for example we would expect to see European nations either by themselves or aligned to the European Union ratcheting up protectionist tax rules). Indeed, individual nations backtrack on some existing commitments. Arrangements for a global minimum corporate tax rate fail. Tax competition between nations accelerates, and a variety of protectionist measures are introduced erratically around the world, including controls on capital and currency flows. Unsophisticated power politics, rather than pre-existing agreements and protocols, determine the trade and investment rules between countries;

those with power can set tougher rules and extract higher taxes, while those without power cannot.

Previously legitimate and widely accepted forms of business, such as trusts, partnerships and various collective investment vehicles, may be challenged by individual nations seeking ways to penalise foreign competitors. Nations look to find ways to grab greater taxes from beyond their borders, possibly even without concerns about double taxation, as well as protecting their own base; citizenship-based models of taxation may have increasing appeal instead of or in hybrid form with the currently more common residence-based approach. Meanwhile, the lack of global or even regional coordination provides greater opportunities for multinational businesses to shift profits and minimise their corporate tax liabilities, especially for non-geographic activities such as digital services; as such, governments look to sales and withholding taxes to help secure revenues.

Under all three scenarios, we anticipate there will be a reduction in the number of international finance centres and a consolidation of the industry. Over the past few decades, financial centres were established all over the world as demand for their services increased thanks to unrestrained globalisation. But with the many global and geopolitical uncertainties now facing them, professional services firms who previously had multiple offices in many countries will consolidate their business.

3.4 New challenges: Sustainability, digital and beyond geography

We are currently witnessing a once-in-a-generation shift in social attitudes, with an increasing number of businesses and investors making clear their preference for climate friendly and socially aware investments. These changing attitudes and demand for environmental, social and governance (ESG) investment and reporting have the potential to cause the largest shift in transnational investment. Supporting businesses and governments to tackle the climate emergency and respond to the emergence of ESG reporting as a corporate standard presents an opportunity for international finance centres.

Sustainable exchange-traded funds have seen particularly strong growth with more than 250 funds being added to global stock exchanges since 2010,²⁷ accompanied by strong growth in the level of assets under management, particularly since the end of the global financial crisis. Assets under management in sustainable exchange-traded funds are now more than twelve times what they were in 2010. It is estimated that in 2019 between US\$3.8 trillion and US\$12.5 trillion of assets were invested sustainably. At least US\$1 trillion—and up to US\$10 trillion—in assets were estimated to be subject to strategies led by sustainability-focussed activist shareholders, and the overall appetite for pure impact investments alone could be as great as US\$26 trillion.²⁸ Sustainable investments flourished during the global pandemic, and they delivered an average return of 22 per cent in 2020, compared with thirteen per cent for all global funds.²⁹ The value of the global sustainable fund market could be near 50-fold greater by the end of the decade.³⁰ While currently dominated by European investors, the coming decade will likely see a shift in the market with investors in the United States and elsewhere surpassing those in Europe.

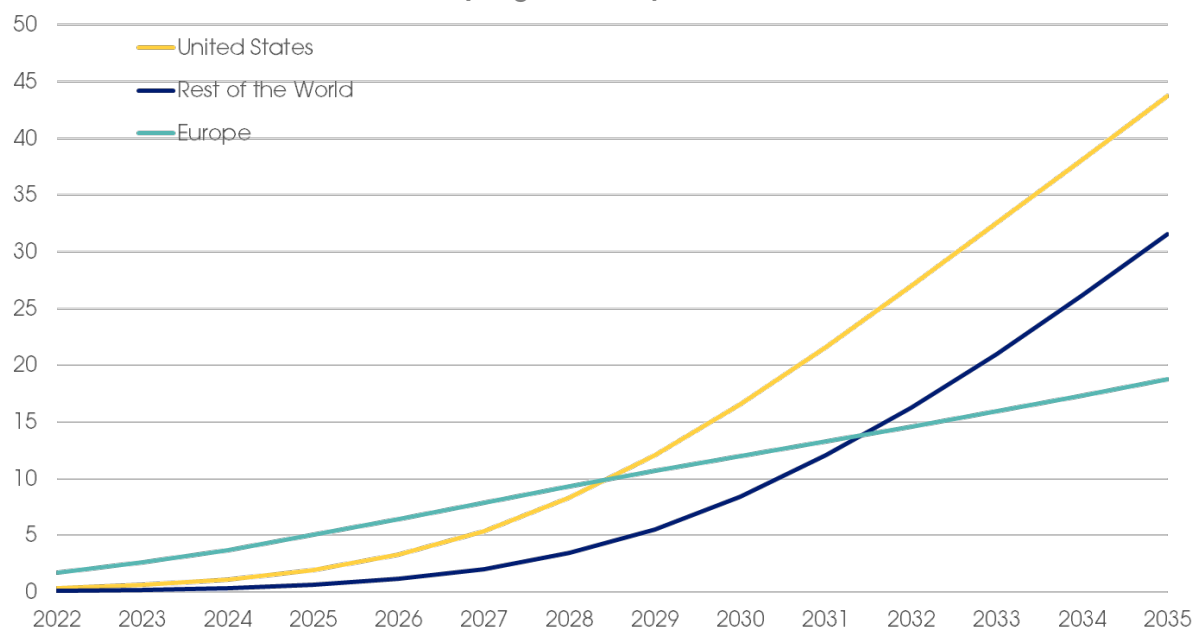
²⁷ Refinitiv Lipper, *ESG data* (Refinitiv Lipper, New York), 2022. <https://solutions.refinitiv.com/esg-data> (Accessed 31 October 2022)

²⁸ Pragmatix Advisory analysis of International Finance Corporation data

²⁹ Morningstar, *Surfacing ESG data and research* (Morningstar, Chicago), 2022. <https://www.morningstar.com/products/direct/esg-data> (Accessed 2022)

³⁰ Pragmatix Advisory

Exhibit 3-9 Sustainable fund assets by region, 2020 prices, £ billions



Source: Pragmatix Advisory modelling using Morningstar data

As centres for evolution and innovation in the past, international finance centres are ideally placed to meet growing demand for digital assets. They are neutral locations with well-established asset holding vehicles which are already attractive to traditional investors.

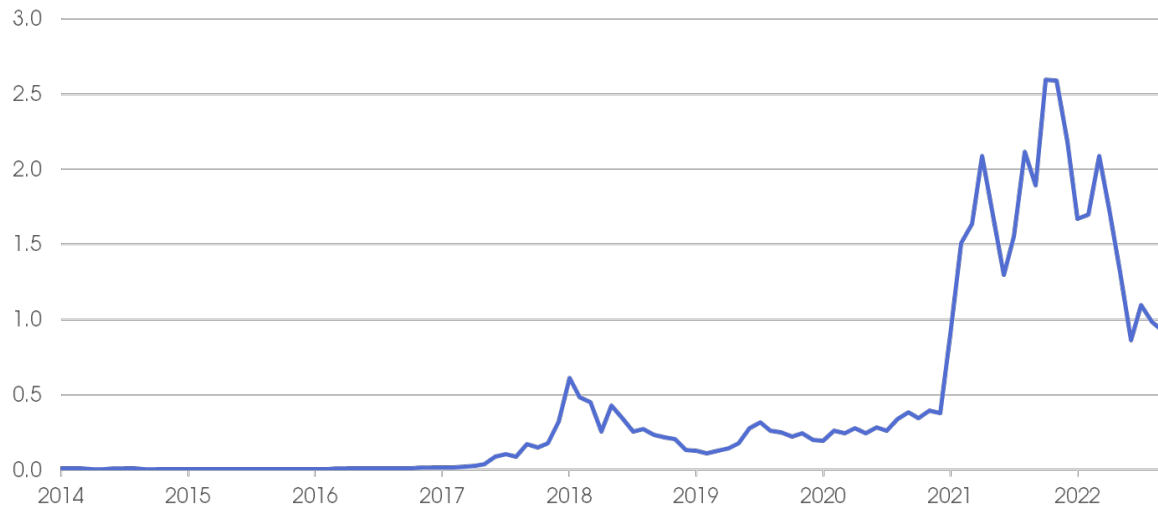
Bitcoin was the first cryptocurrency and remains the most well-known with the highest exchange rate with physical fiat currencies. Several national governments are now considering their own cryptocurrencies, such as China's e-CNY or the United States' digital dollar. Produced and issued by a nation's central bank, these central bank digital currencies can be used for cross-border transactions.

The market includes around 21,000 cryptocurrencies,³¹ many of which are not asset backed, and a total value of around US\$1.0 trillion in October 2022, down from over US\$2.5 trillion twelve months prior. The market speculated that Bitcoin's value could exceed that of gold within a decade,³² however, the value, stability and security of the cryptocurrencies market has fallen back since its highs in 2021.

³¹ Chris Jones, *Are there too many cryptocurrencies?* (Cointelegraph, New York), 21 September 2022. <https://cointelegraph.com/news/are-there-too-many-cryptocurrencies> (Accessed 28 October 2022)

³² Billy Bambrough, *Bitcoin 'Next Logical Stop' – Saylor Makes Huge \$10 Trillion Crypto Price Prediction* (Forbes, New York) 24 September 2022 <https://www.forbes.com/sites/billybambrough/2022/09/24/bitcoin-next-logical-stop-saylor-makes-huge-10-trillion-crypto-price-prediction/?sh=215546182d05> (Accessed 26 October 2022)

Exhibit 3-10 Total value of all cryptocurrencies, monthly*, US\$ trillions



Source: Coin Market Cap. Note: * tick marks represent January of stated year.

Other types of digital assets include non-fungible tokens and security tokens. Like cryptocurrencies, non-fungible tokens are based on blockchain technology, and they represent ownership of a digital item, such as digital art or domain names. In business, they can be used to track supply chains. Security tokens essentially perform like a key, allowing access to an electronic resource with restricted access. Typically, they tokenise digital stocks and bonds and other financial investments.

Although there has been no unanimous global reception of digital assets – ranging from bans of initial coin offerings in China to the United Kingdom’s Financial Conduct Authority’s lighter-touch regulatory approach - institutional investment in cryptocurrencies has been gaining momentum. Covid was somewhat of a litmus test for the resiliency of cryptocurrencies and saw a shift from periphery investment to big investment. By the end of 2020, long Bitcoin was ranked the third most populated trade, ahead of long gold, for example.³³

The rise of the use of blockchain technology offers opportunities for international financial centres to be global blockchain innovation hubs, but this would require a pivot from the existing activities of many. As tax neutral jurisdictions, many international financial centres are well-placed to attract the relocation of start-ups and disruptor companies who are at the vanguard of using this technology, or the outsourcing of relevant development teams of major financial institutions.

In the area of finance, blockchain-enabled efficiency includes both reductions in the costs of activities and increased speed of processing. Indeed, Santander has put potential savings at circa US\$20 billion per annum and CapGemini has estimated that blockchain applications could save up to US\$16 billion in consumer fees.³⁴ Blockchains used in permissioned environments are likely to reduce the costs of products and back-office services. They would also reduce the time and costs associated with audits because auditors would have access to all relevant information instantly and be able to trace transactions or records quickly and

³³ Metaco, *Volatility* (Metaco, London) 18 May 2021 <https://www.metaco.com/digital-assets-glossary/volatility/> (Accessed 26 October 2022)

³⁴ Tapscott, D. & Tapscott, A. (2017). *How Blockchain Is Changing Finance*. Harvard Business Review. *How Blockchain Is Changing Finance* (hbr.org)

effectively.³⁵ Blockchains are also permissionless, and as such, they can enable people to store and transfer money without needing a bank to approve their suitability for an account or allow people to enter contracts without needing legal advice. This is particularly relevant in rural parts of the developing world where such services tend to be non-existent³⁶ and could offer new opportunities for jurisdictions facilitating cross-border investment and widening access to banking facilities globally.

Smart contracts are self-executing, rules-based and pre-programmed 'if/then' decisions within blockchain applications that extend their use from simple data storage platforms into a wide range of uses.³⁷ Like traditional contracts, smart contracts are simply transaction-based agreements between two parties but remove the need for intermediaries such as solicitors or brokers. Through this approach, smart contracts are cheaper for both parties than traditional contracts and quicker to execute, whilst increasing the certainty of execution once the conditions are met as they cannot be altered once programmed. Given the nature of the businesses within international finance centres, smart contracts would offer a significant and innovative way to reduce overheads whilst maintaining profitability and the breadth of activities that they could deliver.

Within the investment industry, there is already an acceleration in the number of 'robo-investing' platforms that retail investors can use to set their investment preferences and allow algorithms to trade assets in ways that fall within those (usually risk-based) parameters. These are not true smart contracts but do offer an insight into the future of the financial industry in terms of how they could be used to replace brokers and facilitate a true 24/7 trading environment. From the perspective of many international finance centres, therefore, there will be opportunities to sit at the vanguard of this agenda.

There is a growing trend of firms favouring stable over speculative trading. Mirroring this is the stablecoin movement within the digital asset world. Stablecoins or 'pegged coins' offer investors some element of stability by being tied to a commodity or fiat currency and therefore reducing wild swings in price volatility as much as possible. A prominent example is JP Morgan's JPM coin, where every token is worth US\$1. Should stablecoins be more widely used in the future, they will provide higher levels of accessibility and efficiency to users, offering a new connection to the mainstream financial system.

But digital assets have their limits and risks. The anonymity can encourage illicit behaviour and cause issues when compliance checks are required. Concerns have also been raised about their impact on the environment, with the electricity usage for cryptoassets estimated to exceed that of countries like Australia and is equivalent to between 0.4 and 0.9 per cent of all global electricity usage.³⁸

Following the 'crypto winter' in early 2022 initiated by the failure of a major stablecoin and resulting in the insolvency of some institutions, supervision and regulation of digital assets has ramped up. Some nations are extending existing regulatory frameworks, while others have created new and specialised regimes. Other countries, including the most active bitcoin mining nation, China, have implemented an outright ban on all crypto-related activities.

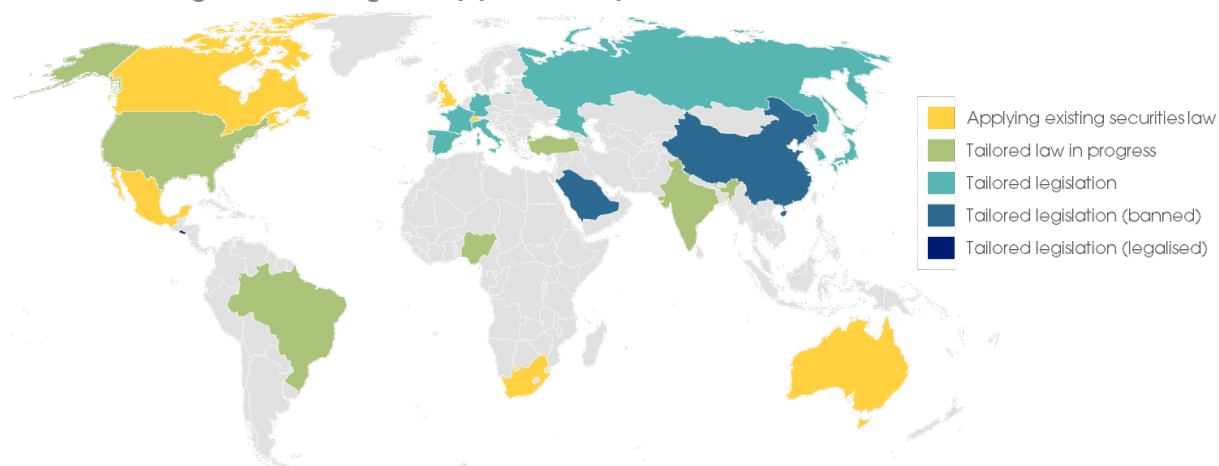
³⁵ IOSCO (2017). IOSCO Research Report on Financial Technologies (Fintech). Accessed on 28 April 2022 at: FR02/2017 IOSCO Research Report on Financial Technologies (Fintech).

³⁶ Allen, F., Gu, X. & Jagtiani, J. (2022). Fintech, Cryptocurrencies, and CBDC: Financial Structural Transformation in China. *Journal of International Money and Finance*. 124

³⁷ Lin, T., Huan, Z., Shi, Y. & Yang, X. (2022). Implementation of a Smart Contract on a Consortium Blockchain for IoT Applications. *Sustainability (Basel, Switzerland)*. 14 (7): 3921.

³⁸ OSTP, *Climate and Energy Implications of Crypto-Assets in the United States* (White House Office of Science and Technology Policy, Washington DC), * September 2022. P5

Exhibit 3-11 Digital assets regulatory policies in place around the world



Source: Digital Monetary Institute

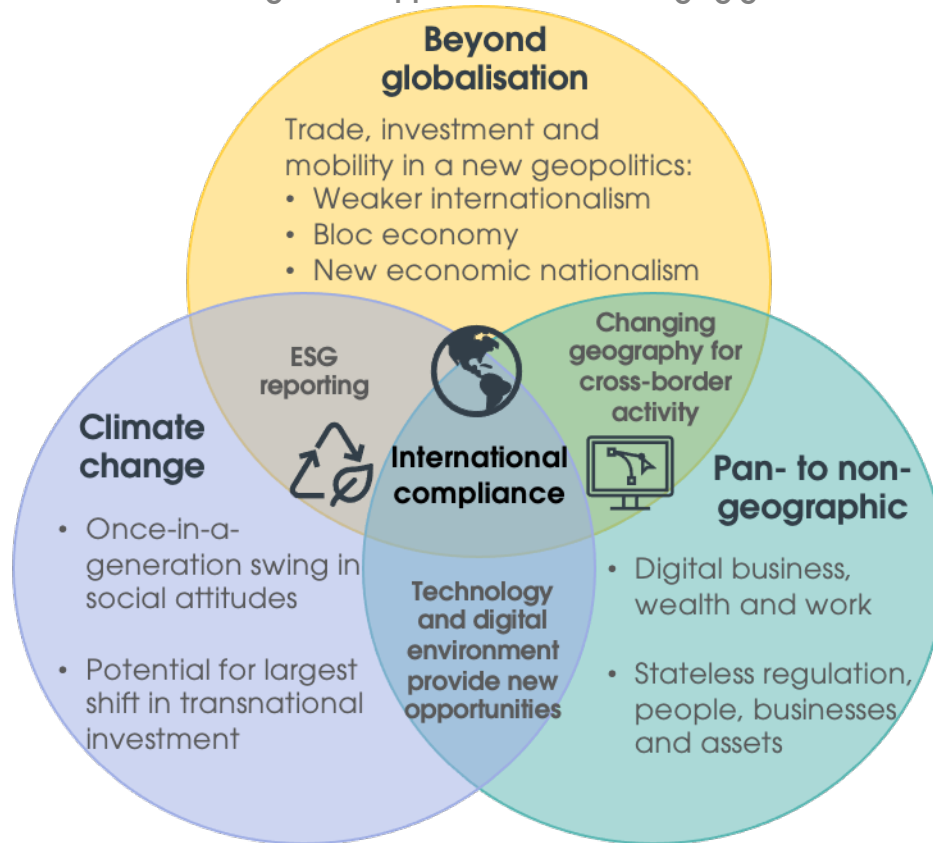
There is a short history to measure cryptocurrency risk and the history available is peppered with boom-and-bust cycles. In 2021, like many other assets, cryptocurrency's volatility was been steered by the war on Ukraine, inflation and ever-changing monetary policies, as well as real issues with 'fake' currencies and questionable asset backing behind others damaging the reputation of and investor confidence in the sector. The digital assets industry is crowded with trending scams, from fake crypto exchanges to ransomware and phishing. It is a multi-trillion-dollar industry, yet it is a largely uninsured one. Most risks are uninsurable and the ones that are require complex insurance policies.

Risks are ubiquitous in any emerging industry, reinforcing the need for well-regulated and aware jurisdictions. But these risks can be mitigated in the future with greater regulatory guidance, as called for by top industry voices. With the greater cooperation of key financial regulation and compliance players, the opportunities from digital assets in international finance centres have the potential to increase.

Technology is not just changing how we invest and spend money, but also how we work. With the rise in hybrid working comes the opportunity for islands to attract workers who are no longer constrained to living within a commutable distance of their workplace. Digital connectivity and move to non-geographic working also mean clients can access the services and expertise offered by international finance centres easily from anywhere around the world.

This new normal has resulted in the rise of the 'digital nomad' - individuals, usually younger, entrepreneurs or semi-retired - who live in a nomadic way while working remotely via the internet. Several nations have introduced digital nomad visas, including the islands of Antigua and Barbuda, Cayman Islands and Bermuda. As well as attracting new talent, welcoming digital nomads could provide a boost to the domestic economy, as they spend money locally, facilitate collaboration and encourage innovation.

Exhibit 3-12 Challenges and opportunities in a changing global environment



Source: Pragmatix Advisory

PART II: THE BVI'S ECONOMY AND INTERNATIONAL BUSINESS AND FINANCE CENTRE

The British Virgin Islands, with a population of around 33,000, punch well above their weight with a strong and balanced economy, sound public finances and a respected international business and finance centre. Looking beyond the recent decades of globalisation, there are opportunities for, but also threats to, the islands.

Section 5: The islands' economy outlines the basic facts about the British Virgin Islands, its economy and key sectors. This globally-trading United Kingdom overseas territory has sound public finances and has been resilient to the impacts Hurricane Irma and the pandemic.

Section 6: Cross-border cluster explores the role and contribution of the international business and finance centre by examining each of the different types of business involved. The cluster contributes significantly to the islands' prosperity and support the economy in times of crisis.

Section 7: Responsible business highlights the ways in which the islands and their international business and finance centre meet international standards on tax transparency and combatting financial crime. The British Virgin Islands are not a tax haven. They are a tax neutral, transparent jurisdiction which shares information with international law enforcement through.

Section 8: Opportunities and challenges explains the current issues facing the jurisdiction, including dealing with the consequences of the Commission of Enquiry and problems with correspondence banking. It further explores the risks and opportunities to the islands from advancements in technology and the impact of climate change.

4 The islands' economy

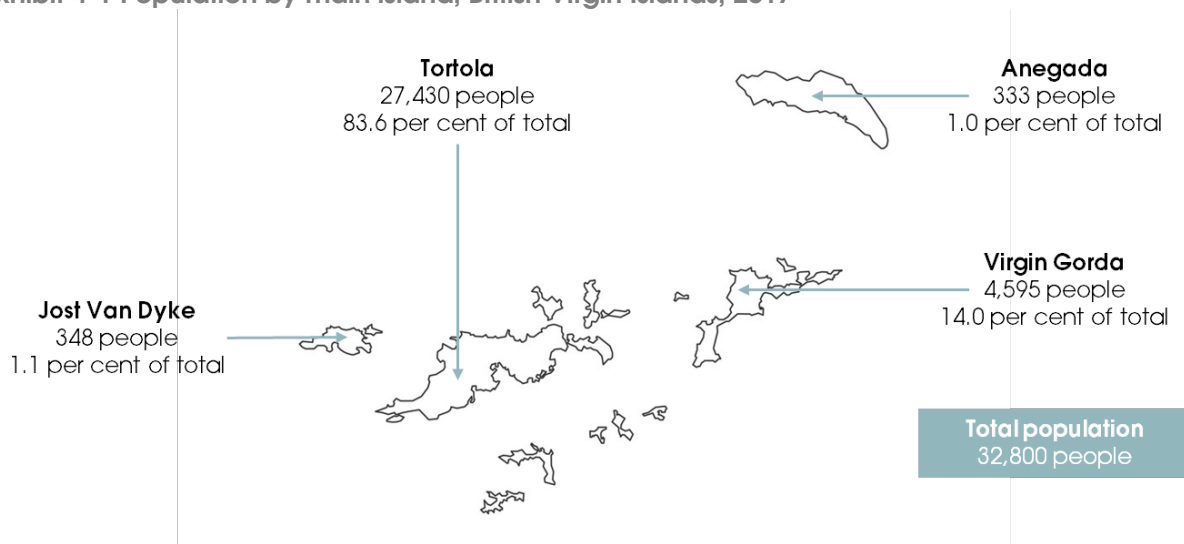
In this section we provide an overview of the British Virgin Islands and its economy, from the two industry pillars of tourism and financial services through to the ways in which the jurisdiction successfully overcame the impacts of both Hurricane Irma and the global pandemic.

4.1 Basic facts

Situated in the eastern Caribbean Sea 100 kilometres east of Puerto Rico and part of the Greater Antilles, the British Virgin Islands are a United Kingdom overseas territory, consisting of four main islands – Tortola, Jost Van Dyke, Virgin Gorda and Anegada – with smaller and often uninhabited surrounding islands and islets. The largest of the four islands, Tortola, is home to the capital, Road Town, which is where many of the businesses forming the international business and finance centre are based.

The islands cover an area of 152 square kilometres and have a population of around 33,000, with over 80 per cent of the overall population (c.27,000) living on Tortola.

Exhibit 4-1 Population by main island, British Virgin Islands, 2017



Source: British Virgin Islands Central Statistics Office

There are two main highways on Tortola, and ferry and small boat services run between the islands and neighbouring jurisdictions including the United States Virgin Islands. The Terrance B. Lettsome International Airport on Beef Island is connected to Tortola via the Queen Elizabeth II bridge and serves as the main point of entry for international visitors. There are also airports on Anegada and Virgin Gorda (August George Airport and Virgin Gorda Airport, respectively), which provide seaplane services and private charter flights.

There are four licensed, privately-owned telecommunication operators and the territory hosts four submarine telecommunications cables to support high bandwidth global connectivity:³⁹

The British Virgin Islands Electricity Corporation generates, transmits and supplies electricity throughout the territory. The government owns the corporation, with members being

³⁹ TeleGeography, *Submarine Cable Map* (TeleGeography, Washington DC), 2022. <https://www.submarinecablemap.com/> (Accessed 27 October 2022)

appointed by the cabinet. The power provider has over 16,000 customers and meets a peak demand of 32 megawatts from eleven diesel fired generators (although they have an installed capacity of 59 megawatts).⁴⁰

The islands are a self-governing overseas territory of the United Kingdom. They have been included on the United Nations Committee on Decolonisation's list of non-self-governing territories since 1946, alongside other British territories such as Anguilla, Bermuda, the Cayman Islands, Monserrat and the Turks and Caicos Islands.

The British Virgin Islands are a country without sovereignty. The political system is a multi-party parliamentary representative democracy with independent judiciary and a written constitution, the current version of which is the *Virgin Islands Constitution Order, 2007*. King Charles is sovereign and head of state. He is represented on the islands by the locally resident Governor, who is appointed by the crown (in effect the United Kingdom government). The head of government, the Premier, is a member of the House of Assembly, selected by the governing party and formally appointed by the Governor. The Premier heads the cabinet, which consists of four other ministers and the Attorney General. The islands' legislature, the House of Assembly (formerly known as the Legislative Council), is made up of thirteen members, a speaker and the Attorney General. Members of the government are elected based on a four-year term.

The *British Overseas Territories Act 2002*⁴¹ automatically gave British citizenship those who held British dependent territories citizen status on 21 May 2002, and to those who have an automatic claim to British overseas territories citizenship since that date. Those registering as British overseas territory citizens after May 2002 do not automatically receive British citizenship, but must instead register as a British citizen. Residents of the British Virgin Islands who hold a British passport have the right to live and work in the United Kingdom, but those holding a British Overseas Territory Citizen passport must apply for a visa or permit if planning to reside in the United Kingdom for more than six months.

Together with the other thirteen overseas territories and three crown dependencies of Guernsey, Isle of Man and Jersey, the British Virgin Islands form 'one undivided realm' with the United Kingdom, where the King is sovereign. This means there is no separate representation internationally, though there are constitutionally devolved powers and some aspects of foreign affairs are shared with the United Kingdom. The islands' international advocacy and relations rests with the United Kingdom. Without the United Kingdom's explicit permission, the government has no right to agree to international agreements.

Although there are no representatives (elected or otherwise) of the territory in the Westminster parliament, the authorities in London retain responsibility for the overseas territories' security and good governance – and have reserve powers to legislate and govern.

The historical and constitutional relationships between the United Kingdom and elsewhere in the realm are not reflected in resources. There is limited and often no financial support from the United Kingdom's government to the overseas territories or crown dependences. The self-governing jurisdictions are also self-funding.

Currently, the United Kingdom provides three primary sources of funding to the territories:

⁴⁰ British Virgin Islands Electricity Corporation, *About Us* (British Virgin Islands Electricity Corporation, Road Town), July 2022. <https://bvielectricity.com/about-us/> (Accessed 27 October 2022)

⁴¹ United Kingdom Government, *British Overseas Territories Act 2002* (The National Archives, Richmond), May 2002. <https://www.legislation.gov.uk/ukpga/2002/8/contents> (Accessed 27 October 2002)

- The United Kingdom aid budget: Only three overseas territories are eligible for the 2021/22 funding of £76 million. The others, including the British Virgin Islands, are exempt from the fund due to either having relatively high levels of income or being uninhabited.
- Conflict, stability, and security funding: All overseas territories are eligible for this fund that helps with relief for natural disasters and financing infrastructure. In 2020/21, this fund exceeded £62 million.
- Darwin Plus: For this scheme, the United Kingdom has pledged £30 million over the next three years. All overseas territories are eligible and the scheme is intended to facilitate projects related to biodiversity and the natural environment.

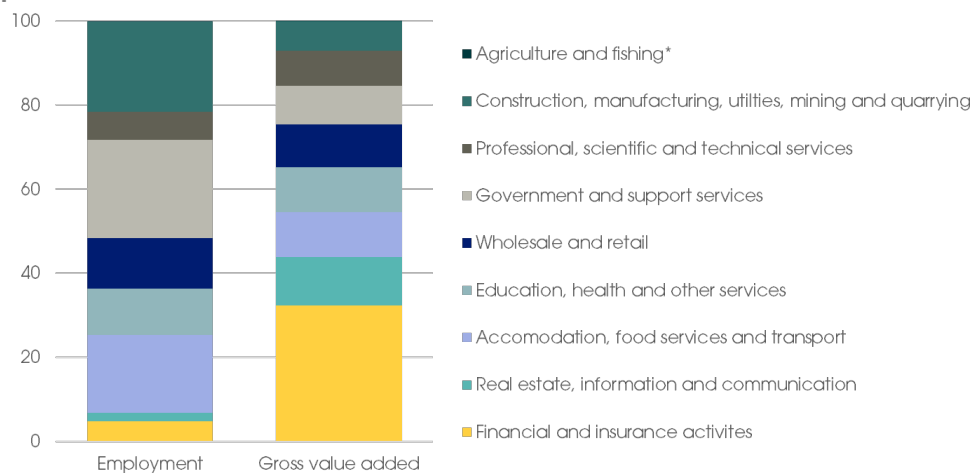
Prior to the establishment two economic mainstays of the territory – financial services and tourism – the economy relied on agriculture and fishing. However, the size and type of land available on the islands limits what industries are viable to support the growing population.

Through crown dependencies and overseas territories, the United Kingdom has a constitutional relationship with half of the top-performing international finance centres. Indeed, the development of the islands’ economy evolved with the tacit (and possibly direct) encouragement of policy makers in London. The jurisdiction is self-reliant, and that ability to be self-reliant comes from its success in creating and maintaining a trusted international business and finance centre.

4.2 A small island economy

The spread of employment across industries means the British Virgin Islands have developed a more stable and resilient economy than other jurisdictions of a similar size. It is common for island economies to specialise in a particular sector, and many small Caribbean economies depend on tourism while a few others depend on the financial services sector. In the British Virgin Islands, the two pillars of the economy, the international business and finance centre and the tourism industry have formed a symbiotic relationship. Good tourist facilities are required to support business travel, while business travellers support the revenues of the tourism industry.

Exhibit 4-2 Employment (2019) and gross value added (2018) by sector, British Virgin Islands, per cent

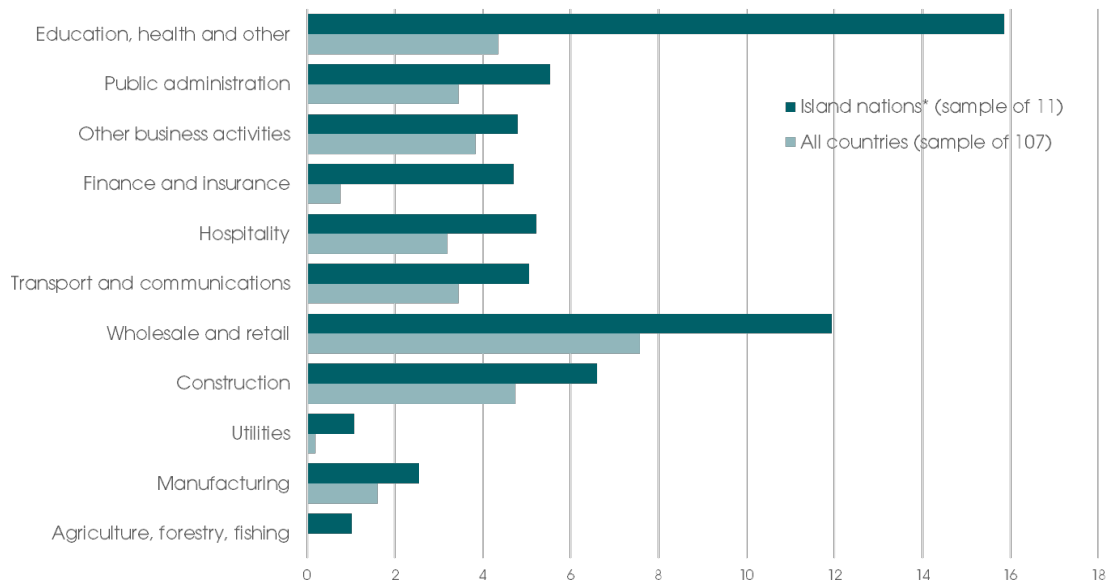


Source: Pragmatix Advisory and Central Statistics Office *Agriculture and fishing less than one per cent of gross value added and employment

Financial services and tourism are weighty contributors to the economy, but neither dominates. Around 57 per cent of the islands' economic output (measured as the 'gross value added') in 2018 came from sectors other than tourism and financial services.

Like all small islands, the British Virgin Islands require a greater level of economic self-sufficiency than would typically be found in larger and onshore nations due to there being proportionally more jobs in essential services like healthcare and education.

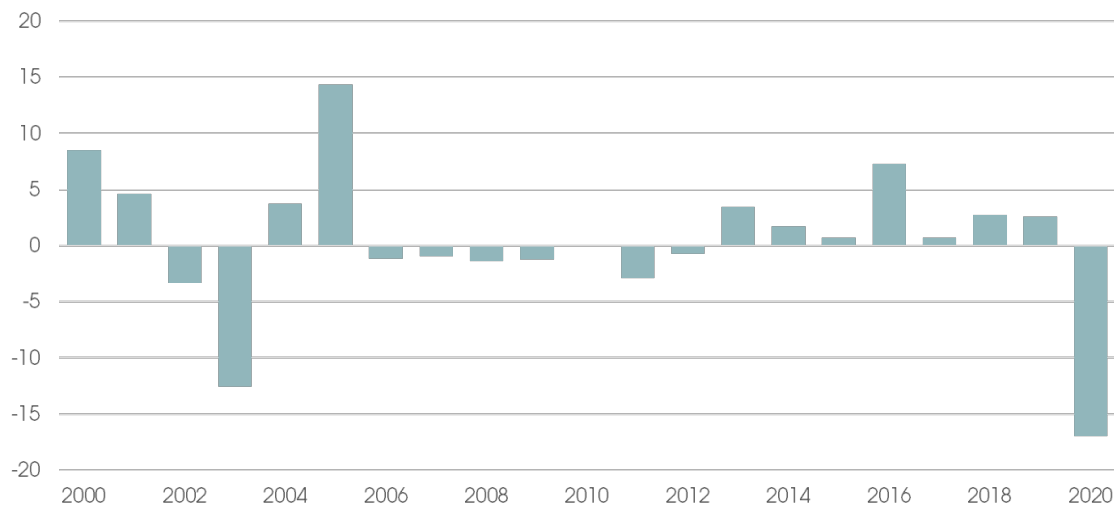
Exhibit 4-3 Minimum share of employees in each sector, 107 countries with economies not dominated by agriculture, twelve sectors, 2019



Source: Pragmatix Advisory using International Labour modelled estimates

The strength of the financial services industry has been central to the health of the economy during tough times. When tourism was decimated during the pandemic, the international business and finance centre was able to continue operating and limit the damage to the economy.

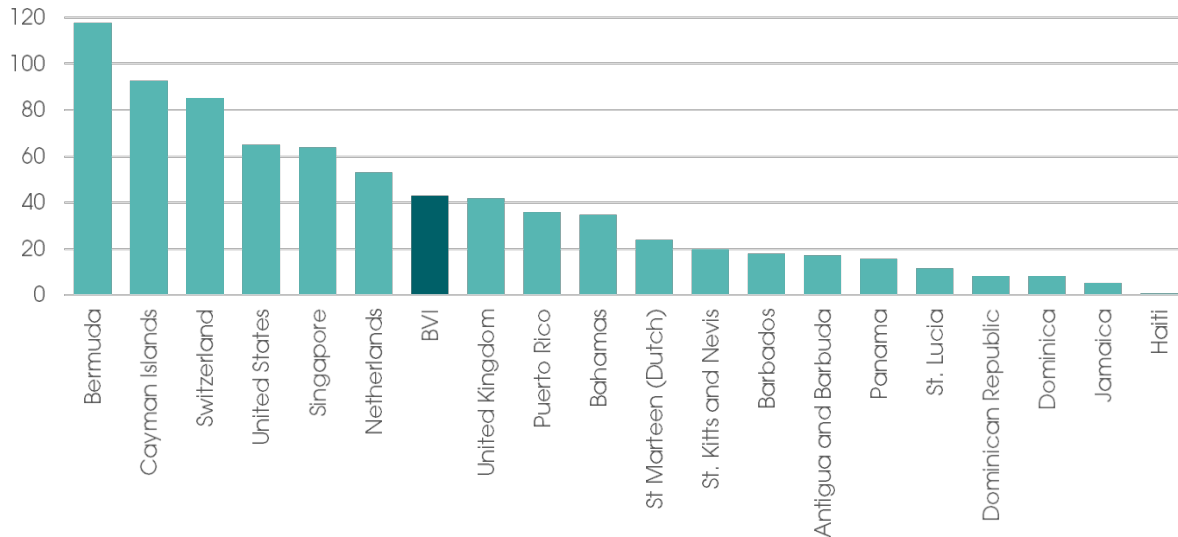
Exhibit 4-4 Annual change in gross domestic product (constant price), British Virgin Islands, per cent, 2015=constant



Source: United Nations Conference on Trade and Development

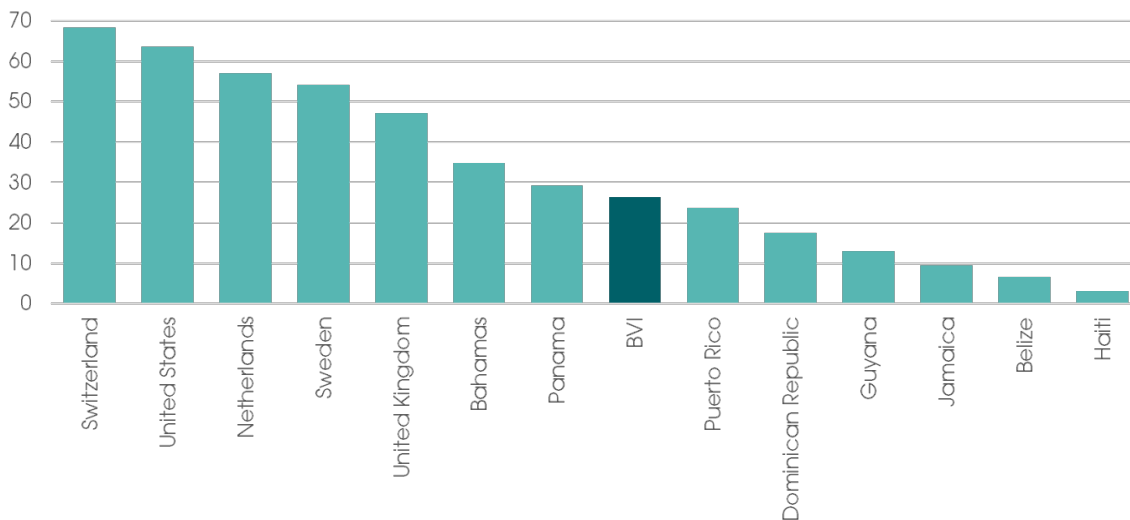
The islands' economy outperforms most of its Caribbean and Latin American neighbours in terms of both gross domestic product per capita and gross national income per capita. The British Virgin Islands' gross domestic product per capita of US\$43,000 in 2019 was US\$1,000 more than that of the United Kingdom, though gross national income per capita was US\$21,000 less.

Exhibit 4-5 Gross domestic product per capita for selected jurisdictions, 2019 prices, US\$ thousand



Source: United Nations Statistics Division

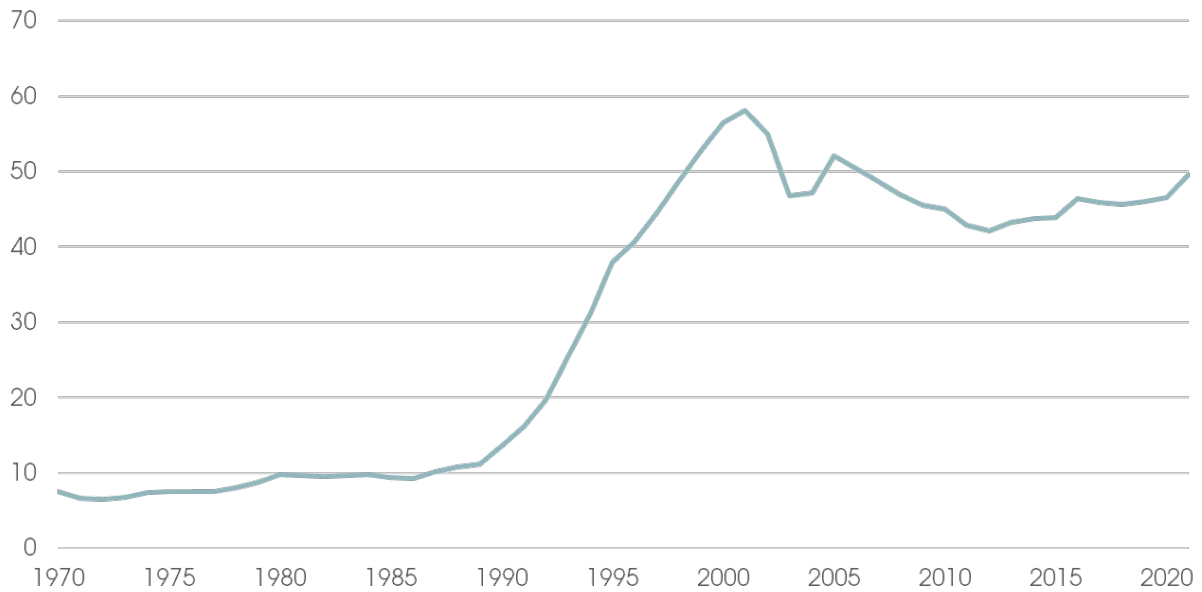
Exhibit 4-6 Gross average national income per capita (constant price), 2019, US\$ thousands, 2017= constant



Source: World Bank; Central Statistics Office

Gross domestic product per capita stagnated prior to the conception of the *International Business Company Act* in 1984. Adjusting for inflation levels, the sharpest rise in income was experienced during the 1990s, with gross domestic product per capita increasing by nearly US\$50,000.

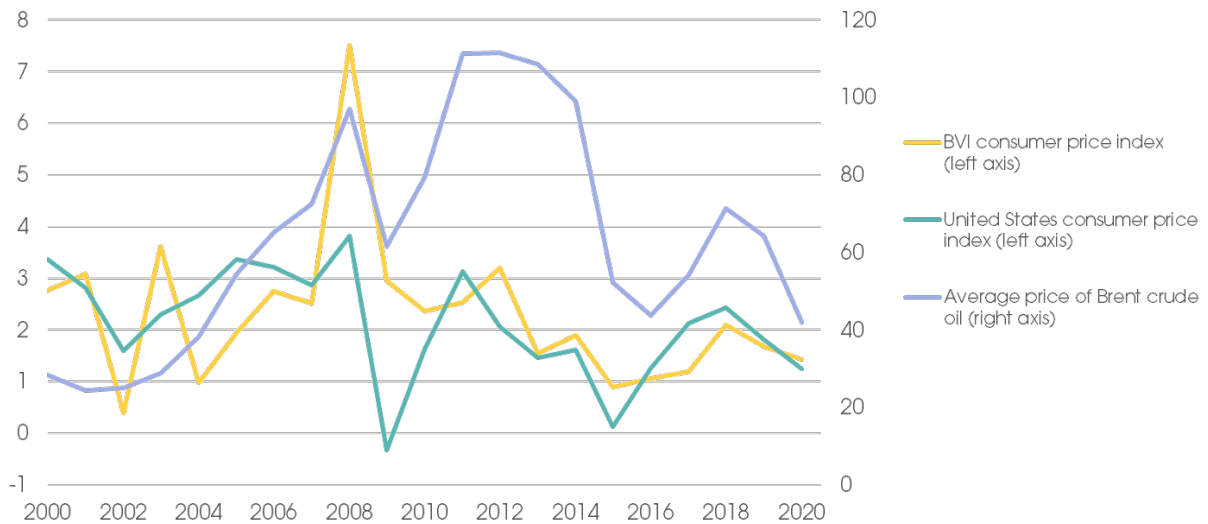
Exhibit 4-7 Real gross domestic product per capita, British Virgin Islands, US\$ thousand, constant 2015 prices



Source: United Nations Statistics Division

The British Virgin Islands import most of what it consumes. As such, the economy is majorly reliant on imports and is impacted by inflation, particularly from the United States and the changes in world oil prices. Consumer prices for the territory peaked during the global financial crisis. Over the last decade the consumer price index has closely mirrored the consumer price index for the United States, with consumer prices rising and falling in accordance with the changes in price for crude oil.

Exhibit 4-8 Annual change in consumer prices for the British Virgin Islands and the United States (per cent) and annual average price for Brent crude oil (US\$ per barrel)



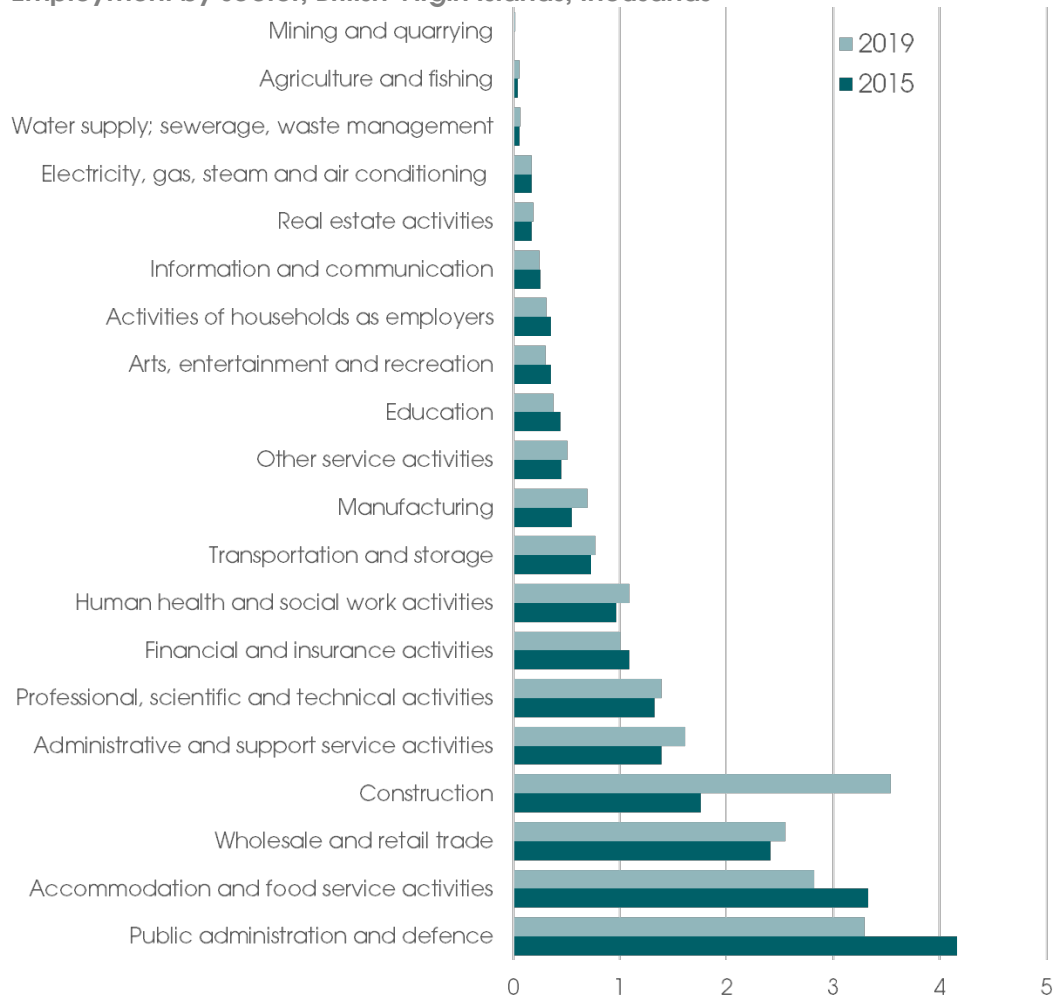
Source: United Nations Conference on Trade and Development and the World Bank

There is a strong labour market in the British Virgin Islands. Unemployment levels have been stable over the last decade, with a rate of 2.9 per cent in 2021.⁴² Overall employment

⁴² GlobalData, *Unemployment rate of British Virgin Islands* (GlobalData, London), 2022. <https://www.globaldata.com/data-insights/macroeconomic/the-unemployment-rate-of-british-virgin-islands-220027/> (Accessed 28 October 2022)

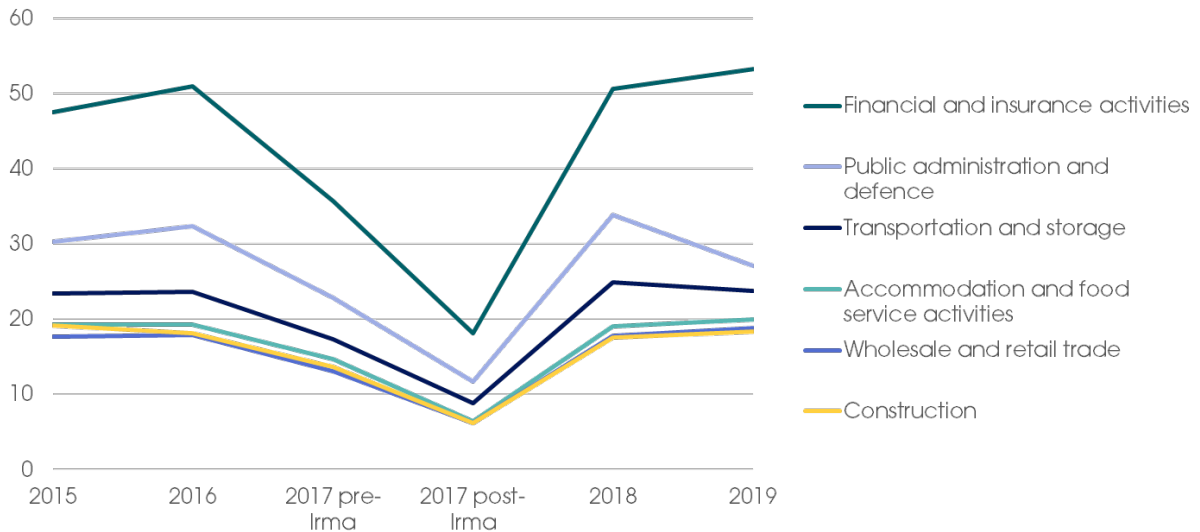
between 2015 and 2019 grew by five per cent, higher than the three per cent overall population growth between the same years. The construction industry experienced the steepest change in employment from 2015 to 2019, with an increase of 1,777 workers. This increase resulted from the need to rebuild after Hurricane Irma damaged or destroyed 80 per cent of buildings and infrastructure.

Exhibit 4-9 Employment by sector, British Virgin Islands, thousands



Source: Central Statistics Office

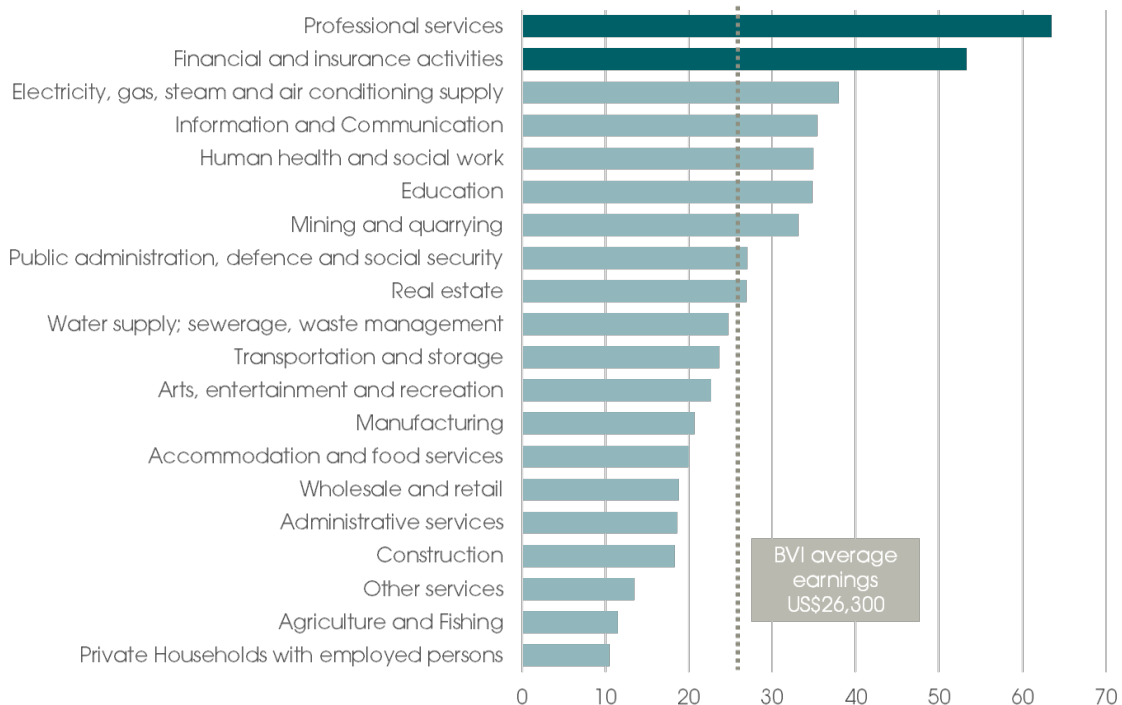
Exhibit 4-10 Average earnings by selected industries, British Virgin Islands, US\$ thousands



Source: Central Statistics Office

Average annual earnings across the islands were just above US\$26,000 in 2019 – ranging from US\$10,500 for those employed in private households to more than US\$53,000 for those employed in the finance and insurance industry and US\$63,500 for those working in the professional services sector. Here, the professional services sector is distinct from the financial and insurance sector as it includes legal, accounting, consulting, and other professional, scientific, and technical services.

Exhibit 4-11 Average earnings by industry, 2019, British Virgin Islands, US\$ thousands

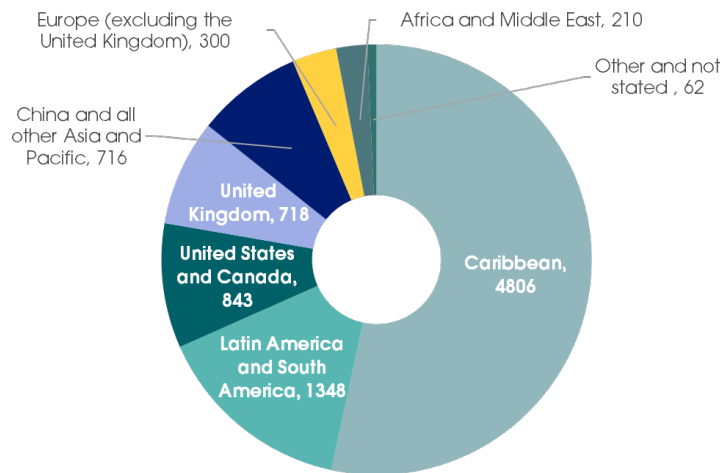


Source: Central Statistics Office

The territory attracts an international workforce. In 2019, four in every ten of the 21,000 people working in the territory were employed with a work permit. Of the 9,000 work permits issued in 2019, over half were from the Caribbean region. The proportion of Caribbean work permit

holders has increased by two percentage points since 2014, while proportions of work permit holders from other regions have seen a slight decrease since 2014.

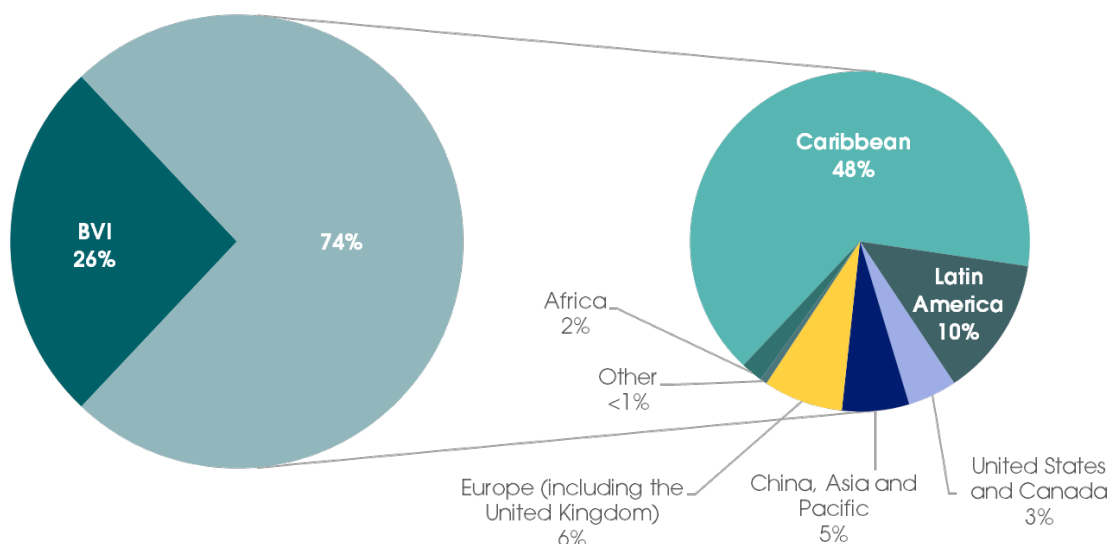
Exhibit 4-12 Share of British Virgin Islands work permits issued by nationality of worker, 2019



Source: Pragmatix Advisory and Central Statistics Office

In 2019, the countries with the highest volumes of work permit allocations were Jamaica, the Dominican Republic and Saint Vincent and the Grenadines. Of these three nations, the Dominican Republic had the lowest unemployment rate in 2019, measuring six per cent. Jamaica middled at eight per cent, while St Vincent and the Grenadines had the highest level of unemployment at nineteen per cent.⁴³ All of these unemployment levels were higher than the British Virgin Islands' unemployment rate of approximately three per cent for the same year, exemplifying how the territory offers employment opportunities for people coming from less prosperous neighbours in the Caribbean.

Exhibit 4-13 Employment by country of birth, British Virgin Islands, 2019, per cent

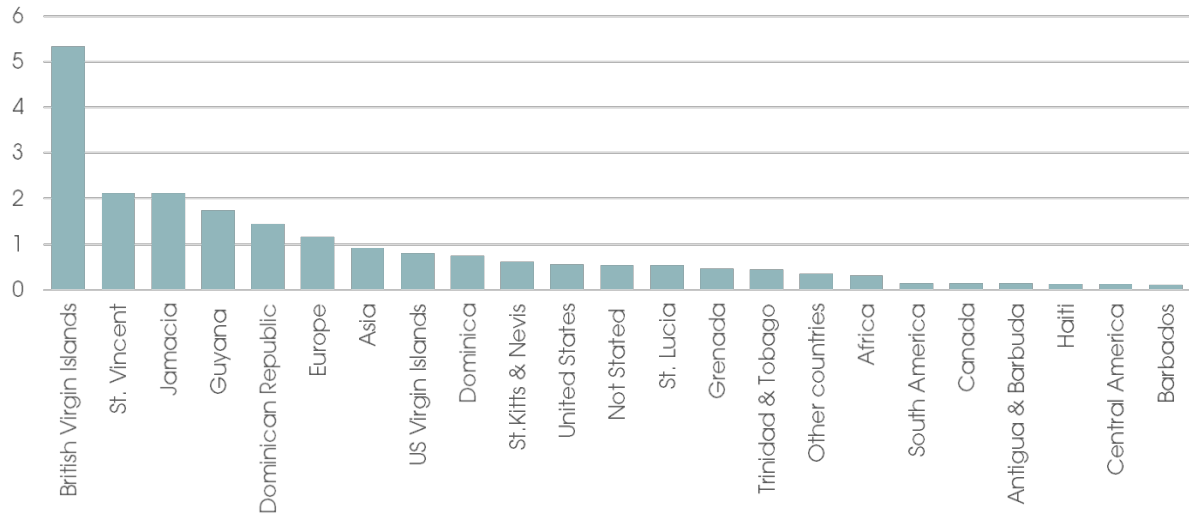


Source: Central Statistics Office

⁴³ World Bank, *Unemployment* (World Bank, Washington DC), June 2022. <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS> (Accessed 28 October 2022)

One in four of those employed are from the islands. Of the three quarters not from the islands, nearly half were from the Caribbean.

Exhibit 4-14 Labour force by nationality, British Virgin Islands, 2019, thousands



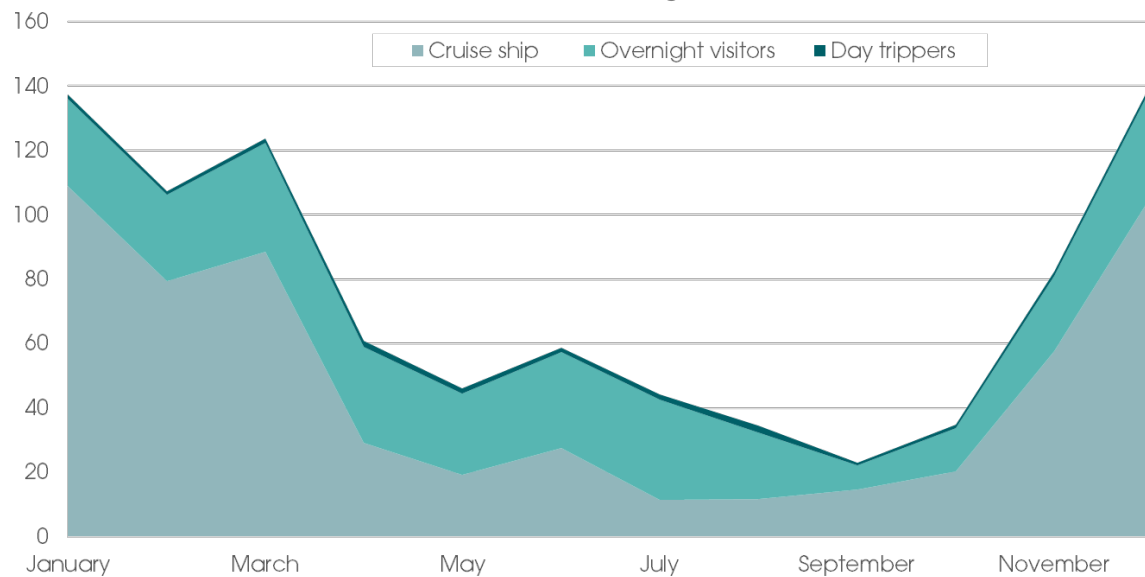
Source: Central Statistics Office

4.3 A destination for international tourism

The islands are an attractive destination for visitors from across the world, with tourism accounting for around a quarter of all jobs.

There is a mix of tourists with many chartering yachts to enjoy the islands; some stay at resorts while others day trip – often by yacht – from the nearby United States Virgin Islands. In 2019, the largest proportion of tourist arrivals came from cruise ships. The peak season is towards the start and end of the calendar year, with December and January the busiest months.

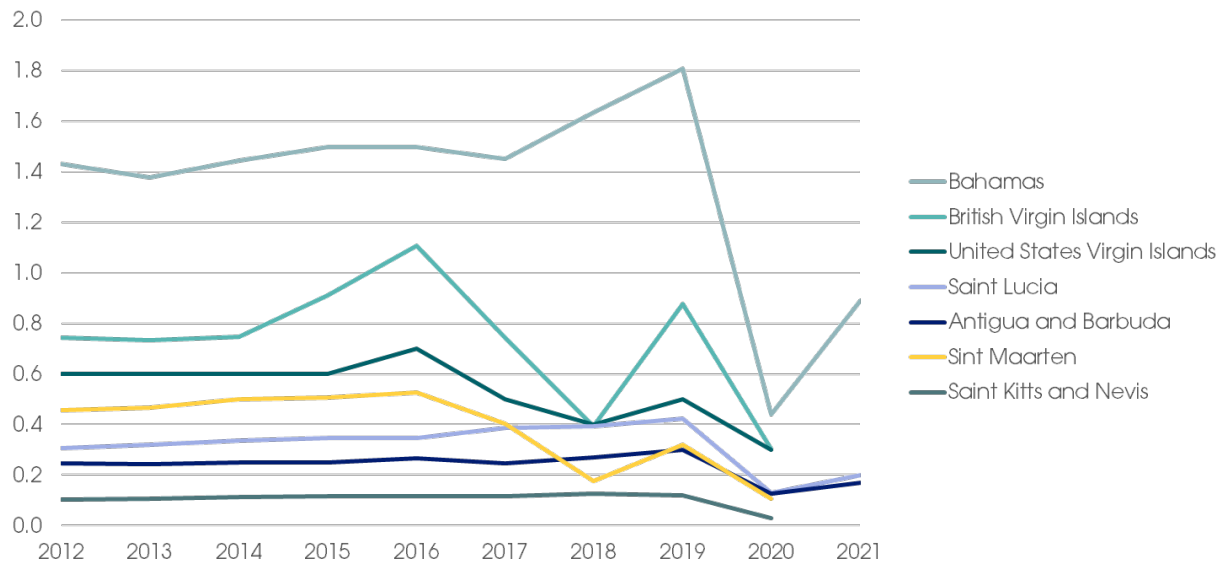
Exhibit 4-15 Tourist arrivals by type of visit, British Virgin Islands, 2019, thousands



Source: Central Statistics Office

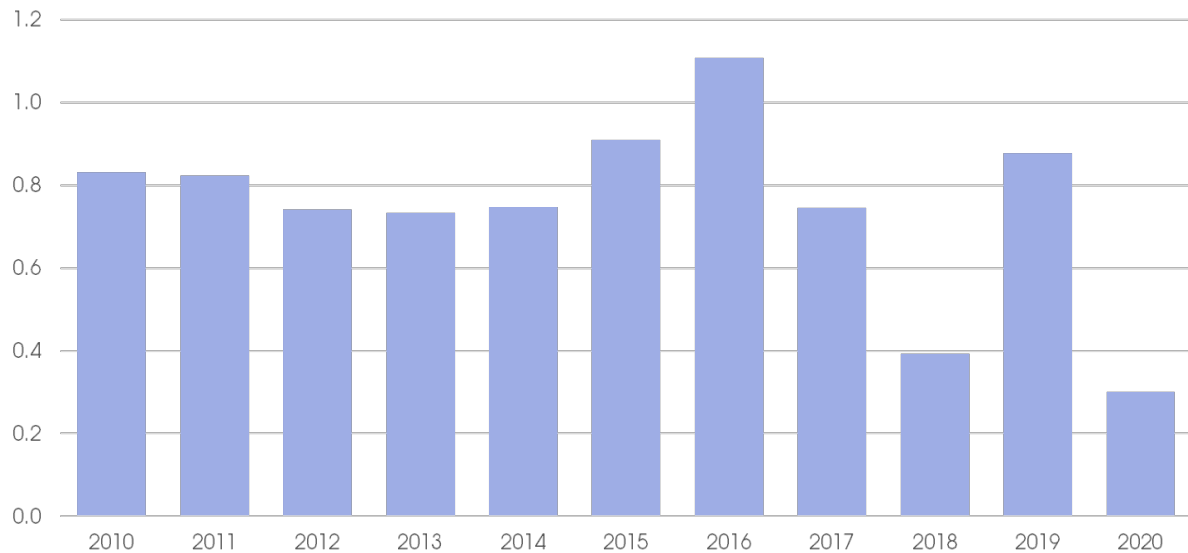
There were over a million inbound international tourists in 2016. The sharpest rise in visitor levels across the last decade was from 2018 to 2019 as the jurisdiction continued to recover from Irma with a 123 per cent increase year-on-year to a total of 877,000 visitors. As was the case all over the world, covid's closure of borders had a significant impact on the territory's tourism industry, with visitor numbers dropping by two thirds in 2020. However, the jurisdiction retained its decade-long position of being the second most visited destination amongst small island nations in the Caribbean, ahead of nations like of the United States Virgin Islands, Saint Lucia and Antigua and Barbuda.

Exhibit 4-16 Total inbound tourism to selected Caribbean regions, millions



Source: United Nations World Tourism Organisation (*2021 data not available for British Virgin Islands, United States Virgin Islands, Sint Maarten and Saint Kitts and Nevis)

Exhibit 4-17 Total number of international tourist arrivals, British Virgin Islands, millions



Source: United Nations World Tourism Organisation

4.4 A nexus for international business and finance

The British Virgin Islands are home to an internationally established and respected cluster of professional and financial services businesses that specialise in facilitating cross-border investment and trade for clients across the globe.

The islands' international business company legislation has been central to its success. Dating back to the 1970s and 1980s, the territory was a leader in the development of tax- and jurisdiction-neutral corporate vehicles that could support cross-border investment. The *International Business Companies Act, 1984*, and its successive amendments, has shaped a successful international business and finance model that has been replicated around the world.

Exhibit 4-18 Origins of the International Business Company Act

The *International Business Company Act* was developed by three Harney Westwood & Riegels (Harneys) partners, Michael Riegels, Neville Westwood, and Richard Peters, along with then Attorney General Lewis Hunte and Paul Butler, a Wall Street lawyer from Shearman & Sterling.

The *International Business Company Act* was born after the United States cancelled its double taxation treaty with the British Virgin Islands and other Caribbean nations in 1982. Mr Butler suggested to his Harneys colleagues that the best way to respond was to offer a tax-neutral company that could provide a user-friendly, flexible corporate vehicle for multiple commercial purposes. The so-called "Gang of Five" mentioned above was tasked with developing legislation to create this new corporate product. The bulk of the work was done by Mr Peters, a tax barrister from London who was new to Harneys at the time, but later became the firm's global managing partner for 21 years.

The draft was written and reviewed with Mr Hunte in the Attorney General's Chambers to work it into suitable legislative format. It was based on Delaware corporation law but incorporated elements of innovative company legislation elsewhere. The *International Business Company Act* was radical at the time – it streamlined the incorporation procedure, removed the requirement of corporate capacity, abolished the need for corporate benefit, recognised that companies could exist without members, and permitted companies to provide financial assistance for the acquisition of their own shares. It provided for true statutory mergers and created new statutory tools for restructuring and reorganisation. (Most of these innovations would not appear in English company law until the *Companies Act, 1986*, and some did not appear until the *Companies Act, 2006*.)

Source: Peter Tarn, Partner, Harneys BVI [Seminal global offshore industry legislation reaches 30th anniversary](#)

Between 1989 and 1997, the international business and finance centre saw 50 per cent year-on-year growth in the number of vehicles incorporated which created an economic surge throughout the jurisdiction. More offices were built in Road Town to accommodate the influx of workers arriving to support the growing volume of business. In this way, the centre supports other sectors like construction. With the use of higher-end accommodation, amenities and hospitality by visiting clients and professionals, the centre also strengthens the tourism sector.

Throughout the early 2000s, international business incorporation rates hit a record high and in 2004 the jurisdiction boasted the twelfth highest gross domestic product per capita in the

world.⁴⁴ While in more recent years the number of business company incorporations have peaked, limited partnerships – an agreement whereby the partners are not liable for the debts of the partnership exceeding their contribution – have increased by almost three-fold in the first half of 2021 as compared to the first half of 2020.⁴⁵ The personal liability protection afforded to investors in a limited partnership is perhaps one of the reasons why limited partnerships have seen an increase, while the volume of incorporations has remained relatively even.

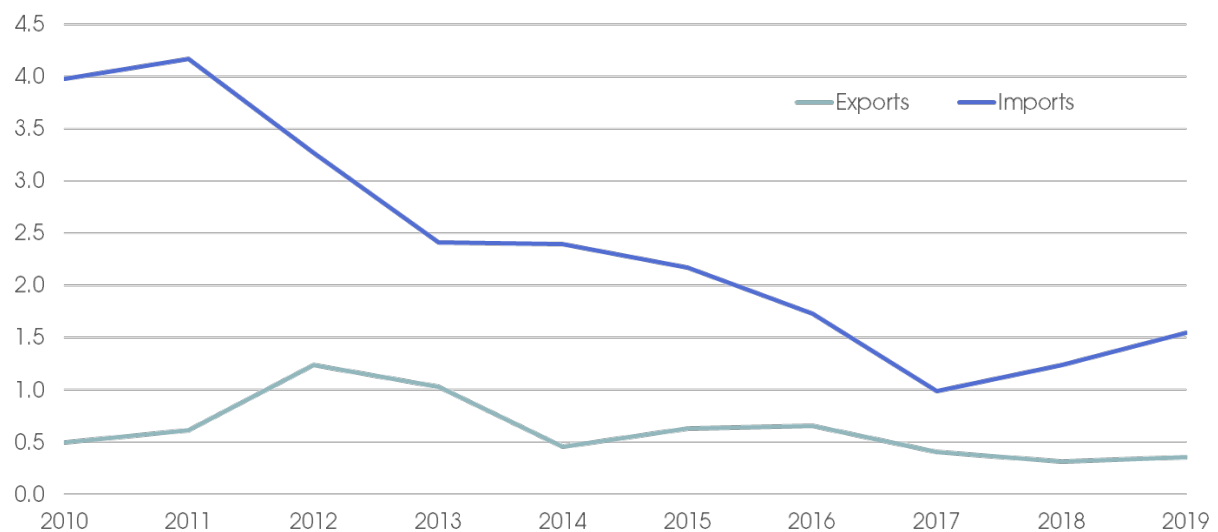
Today, the international business and finance centre (including its regulatory agencies) employs around 2,000 people, equivalent to nine per cent of all jobs on the islands.

4.5 A trading territory

As a small island economy, the British Virgin Islands import most of the goods they consume, along with many of their services, although the jurisdiction does have a small manufacturing and export industry.

In 2019, goods to the value of US\$1.6 billion were imported, while exports totalled US\$0.4 billion. But these statistics are dominated by the purchase and sale of yachts and other recreational boats, which accounted for US\$0.9 billion of imports and US\$0.2 billion of exports in 2019. These will include vessels acquired to service the islands’ holiday lease rental market, but will also likely cover many that never reach the islands’ waters – but are purchased through a British Virgin Islands’ vehicle for use elsewhere.

Exhibit 4-19 Imports and exports of goods, British Virgin Islands, US\$ billion



Source: The Observatory of Economic Complexity

Given the dominance of recreational boats in the trade statistics, it is unsurprising that main export destinations by value include other archipelagos and island countries such as Cyprus, the Seychelles and Malta, as well as European countries such as the Netherlands and

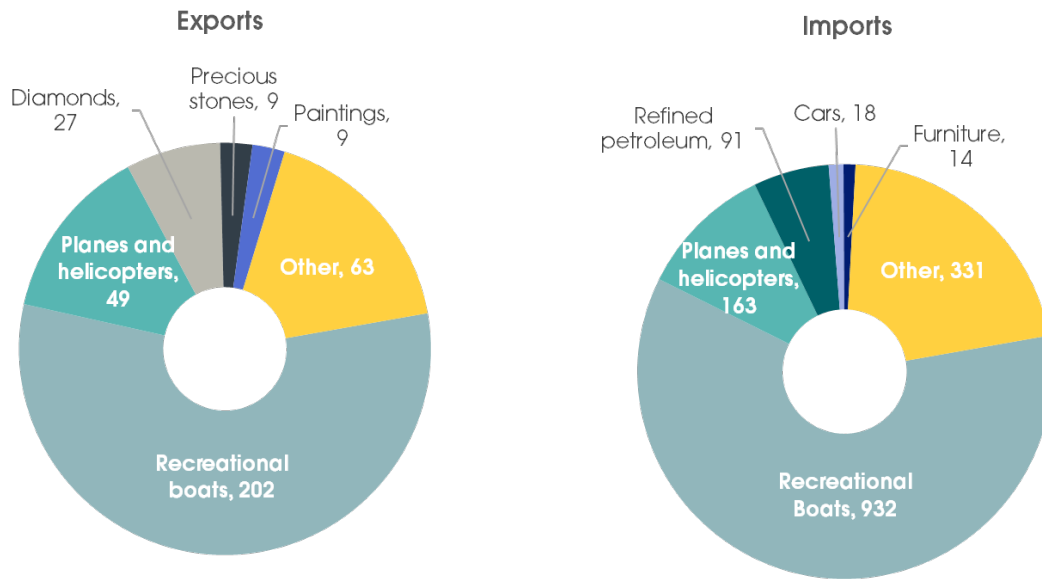
⁴⁴ Sylvia Moses, *The British Virgin Islands draws in corporate business from afar* (World Finance, Florida), 13 February 2015. <https://www.worldfinance.com/strategy/the-british-virgin-islands-draws-in-corporate-business-from-afar> (Accessed 27 October 2022)

⁴⁵ Government of the Virgin Islands, *BVI financial services sees strong growth in H1 2021* (Government of the Virgin Islands, Road Town), 24 September 2021. <http://www.bvi.gov.vg/media-centre/bvi-financial-services-sees-strong-growth-h1-2021> (Accessed 27 October 2022)

Switzerland. The jurisdiction's main import partners by value are Germany, the United States, Italy, France and the Seychelles again, which again reflects the yachting business.

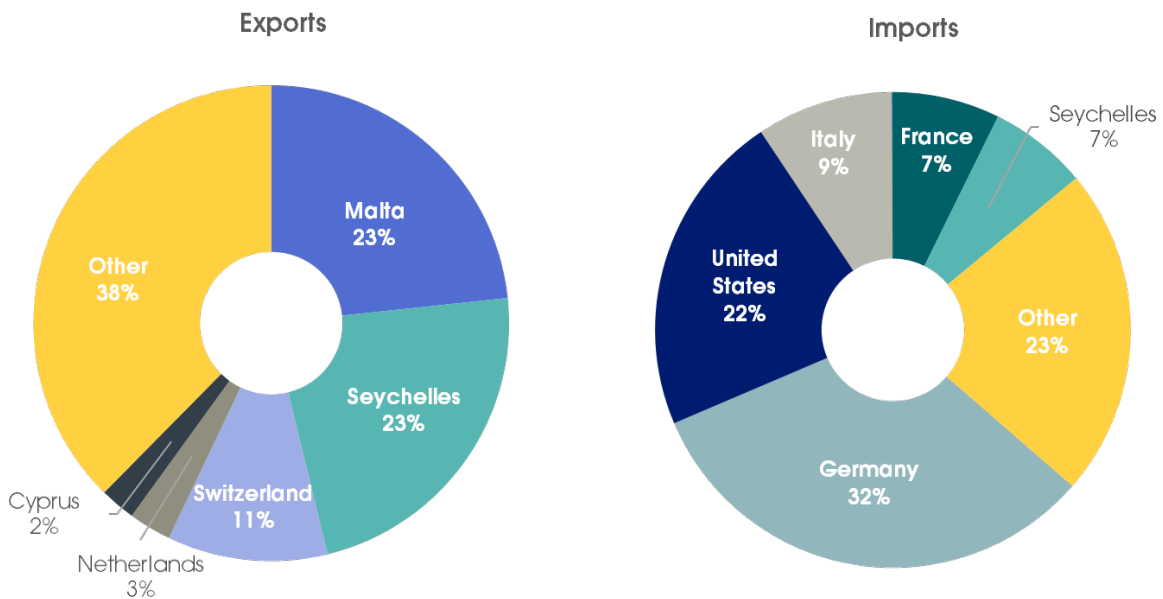
Excluding recreational boats and other high value assets booked through the islands, the United States is the islands' primary import partner – with most imports shipped in containers via Florida. Some people shop in the nearby United States Virgin Islands as it is an hour's ferry journey from Road Town in Tortola. BVI islanders take advantage of the mail courier services located in Saint Thomas, buying drugstore-type items there. Though less common than with the United States Virgin Islands, imports from Sint Maarten and Puerto Rico are also popular.

Exhibit 4-20 Export and import commodities by type, British Virgin Islands, 2019, US\$ million



Source: The Observatory of Economic Complexity

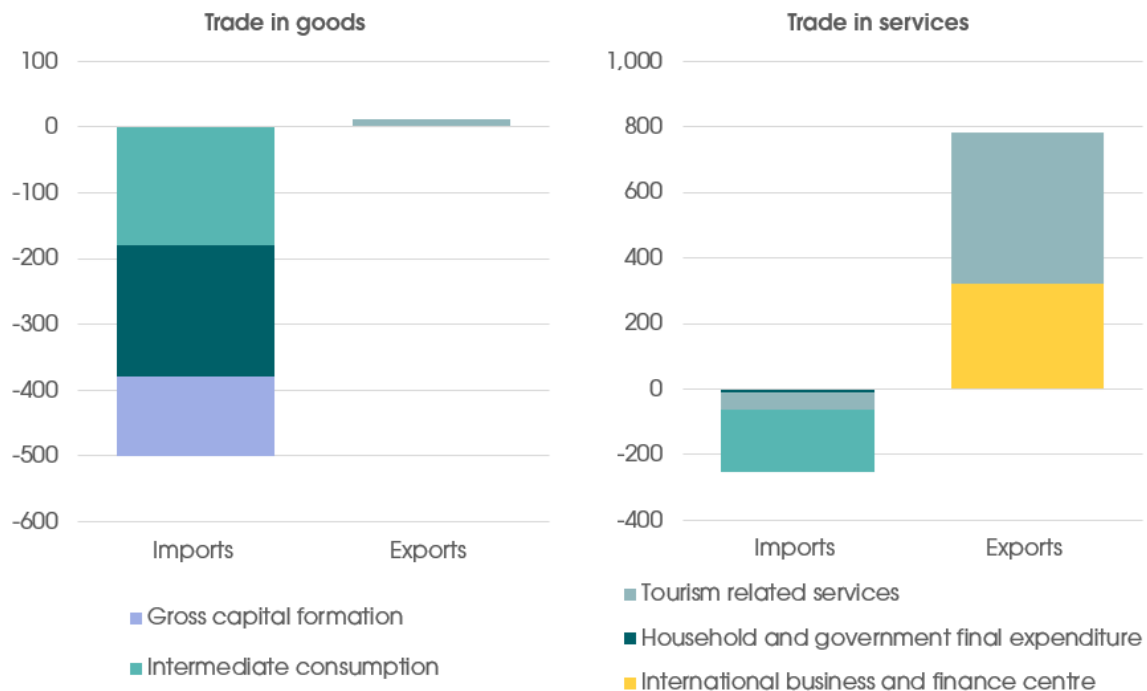
Exhibit 4-21 Destination of exports (left) and origin of imports (right), British Virgin Islands, 2019, per cent



Source: The Observatory of Economic Complexity

Data from the Observatory of Economic Complexity suggest that one of main exports and imports are planes and helicopters. However, this does not properly represent what occurs in the British Virgin Islands as the trade statistics conflate trade relating to the jurisdiction and trade relating to the BVI Business Companies. In 2017, Capital Economics estimated the British Virgin Islands' trade account. Goods imports were estimated to be US\$500 million, while service imports were estimated to be US\$251 million. Goods exports were estimated to be US\$13 million, while service exports were estimated to be US\$784 million.

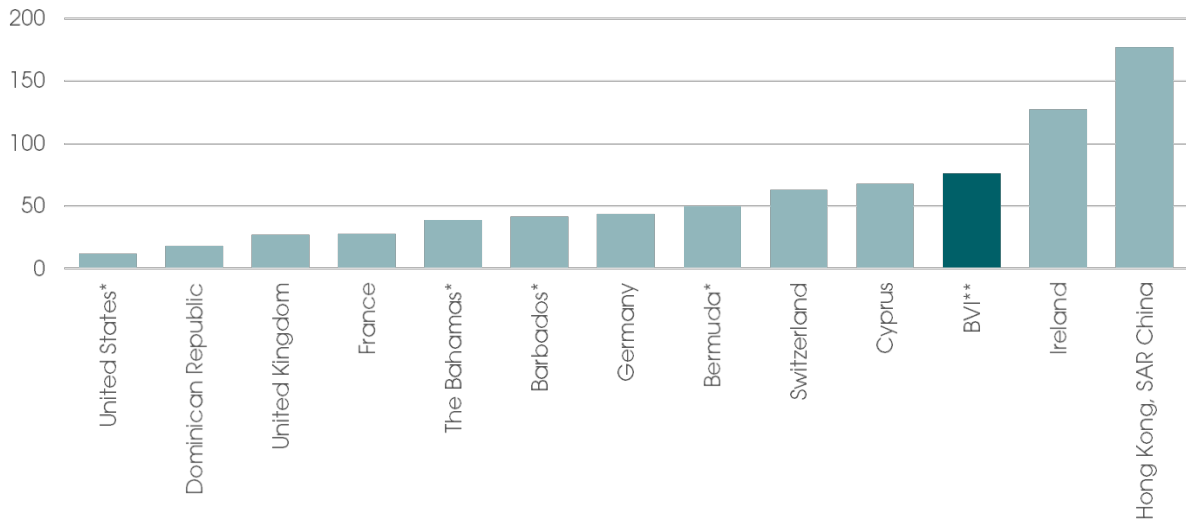
Exhibit 4-22 Capital Economics' indicative estimates of trade in goods (left-hand figure) and trade in services (right-hand figure), British Virgin Islands, 2014, US\$ million current prices



Source: Capital Economics' indicative estimates calculated using data from the Central Statistics Office

On the overall values, the jurisdiction has a high value of exports for the size of its economy. The total value of exports of goods is equivalent to 76 per cent of the islands' total gross domestic product, complemented by the yacht and charter industry.

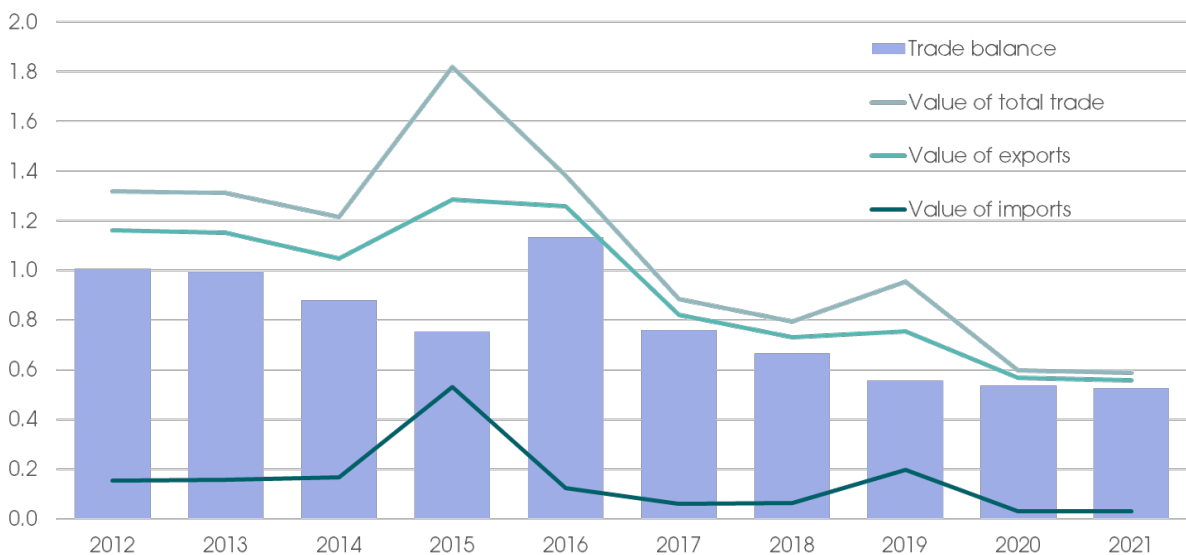
Exhibit 4-23 Total value of exports of goods and services as a share of gross domestic product for selected jurisdictions, per cent, 2020 (*2019 data, **2018 data)



Source: Pragmatix Advisory and World Bank

There is only a limited goods trading relationship between the islands and the United Kingdom. The territory was the United Kingdom’s 91st largest trading partner in 2021, its 76th largest export market and joint 137th largest import market.⁴⁶ In 2021, total trade in goods and services between the United Kingdom and the territory was £606 million, which was an increase of £12 million from the previous year.

Exhibit 4-24 Trade between the United Kingdom and the British Virgin Islands (current prices), £ billion



Source: United Kingdom Department for International Trade

⁴⁶ Natalie Jefferies, *UK total trade: all countries, seasonally adjusted* (Office for National Statistics, Newport), 27 October 2022. <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktotaltradeallcountriseasonallyadjusted> (Accessed 27 October 2022)

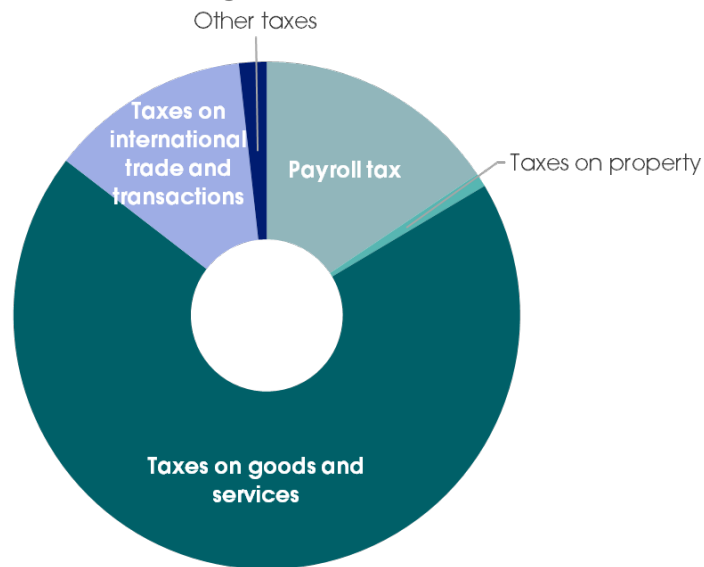
4.6 Sound public finances

Successive governments have delivered a jurisdiction with sound public finances.

With little or no recourse to United Kingdom resources, the islands are fiscally self-reliant. To fund the running of the public services, the territory levies taxes on residents, visitors and businesses with local operations – and charges fees on the establishment and maintenance of international businesses registered there.

Total tax receipts were US\$332 million in 2019 (the latest available year), while overall government revenues, including fees received by the Financial Services Commission, totalled US\$537 million.

Exhibit 4-25 Tax revenues by type, British Virgin Islands, 2019

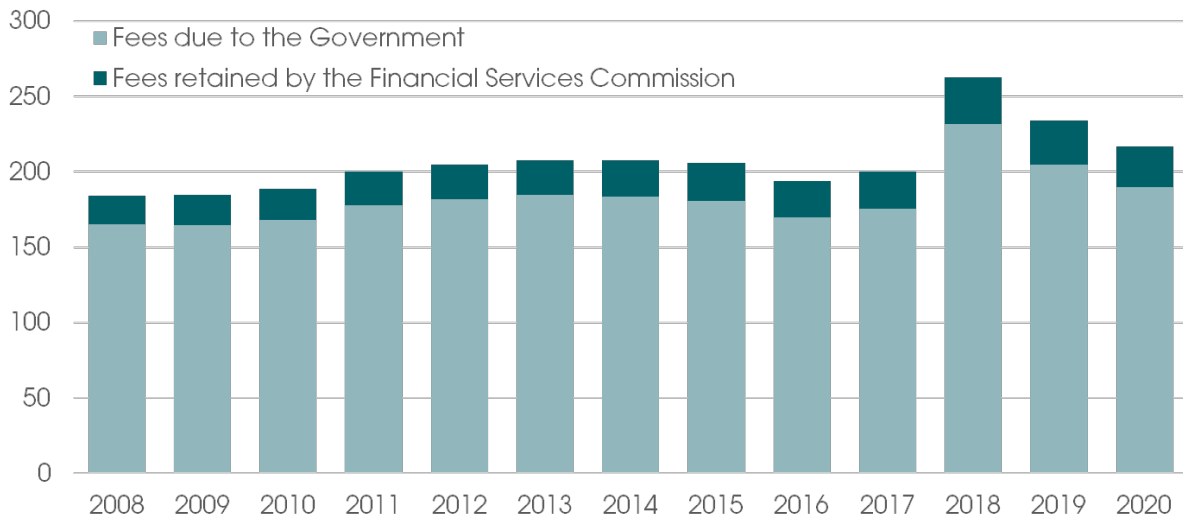


Source: Central Statistics Office, Ministry of Finance Budget Unit

As is common for small jurisdictions, taxes on goods and services make up two thirds of all taxes. There are a range of taxes and levies on the tourist trade including hotel accommodation, motor vehicle rental, and sea and air passenger arrivals. In 2021, the hotel accommodation tax alone raised almost US\$2 million.⁴⁷ A tax on overseas' remittances – initially set at a rate of seven per cent but halved in 2022 by the new Government of National Unity – was implemented in 2020.

⁴⁷ Government of the Virgin Islands, *2022 Budget Estimates* (Government of the Virgin Islands, Road Town) 2022. Pix

Exhibit 4-26 Fees collected by the Financial Services Commission on behalf of the government from the international business and finance centre, British Virgin Islands, US\$ million



Source: Financial Services Commission

The islands are tax neutral and, to avoid potential double taxation of cross-border transactions mediated through the islands, there is no taxation of corporate profits. Nonetheless, those who incorporate a business company pay a one-off registration charge, along with an annual licence fee for renewal, to the Financial Services Commission – in addition to businesses on-island that the regulator licenses, such as banks, insurers and trust companies.

In 2020, the Financial Services Commission collected US\$217 million from the international business and finance centre on behalf of the government, retaining 12.4 per cent of this collection (see the above exhibit). The US\$190 million due to the government was equivalent to 56 per cent of total government revenue. By looking at the Registry’s activity in 2020, and the subsequent fees due (as outlined in **Error! Reference source not found.**), it can be estimated that 70 per cent of the fees collected by the Financial Services Commission (the fees due to the government added with the fees retained by the Commission) derive from the annual renewal of business companies. A further five per cent derives from new incorporations, while the rest consists of revenue derived from activities such as banking, trust and insurance licence renewals. These estimates are conservative ones, using the lower bounds of the fee ranges, and assuming that the number of shares is less than or equal to 50,000.

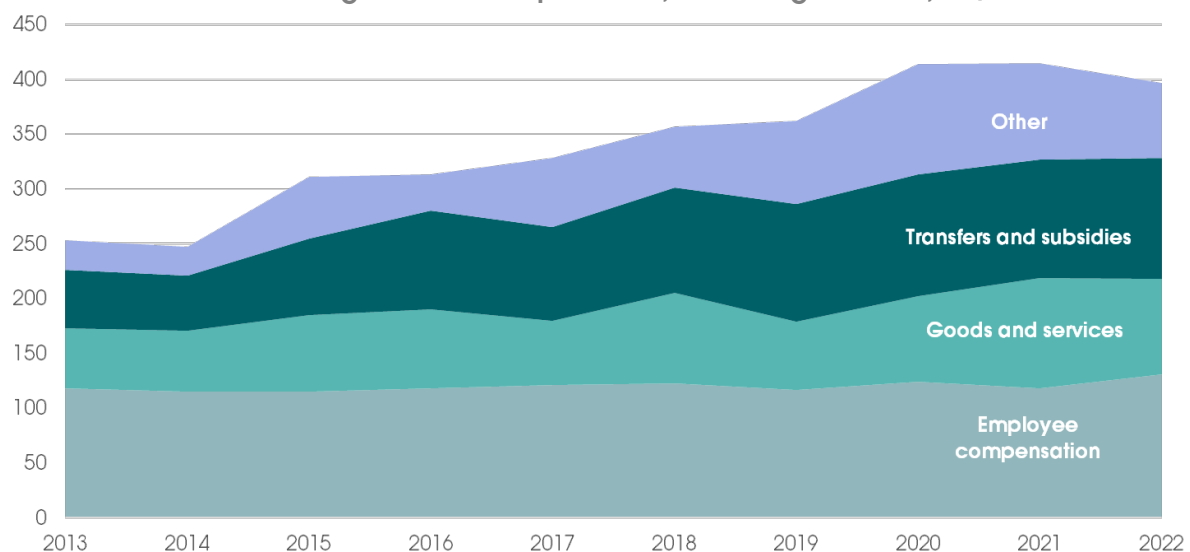
Exhibit 4-27 Taxes and fees payable, British Virgin Islands, 2021

Taxes and fees payable in the BVI	Tax rate	Frequency of taxation
BVI Business Company registration fee	\$450 if the number of shares is less than or equal to 50,000	One-off
	\$1,200 if the number of shares is greater than 50,000	
BVI Business Company	\$450 if the number of shares is less than or equal to 50,000	Annual licence fee
	\$1,200 if the number of shares is greater than 50,000	
Banking licence	Ranges from \$32,000-\$50,000	Annual licence fee
Insurance company licence	Less than or equal to \$10,000 (varies depending on type of licence)	Annual licence fee
Trust licence	\$500-\$16,000 (varies depending on type of licence)	Annual licence fee
Stamp duty on transfer of real estate and the transfer of shares in a BVI company owning real estate in BVI	BVI Islanders and Belongers: 4.0 per cent	One-off
	Non-BVI Islanders and non-Belongers: 12.0 per cent	
Customs duties	Tax rate depends on the type of product being imported	One-off
Property tax	Rate of land and house tax dependent on BVI Islander, BVI Company or expatriate ownership	Annual
Payroll tax	Class 1 employer: 10.0 per cent (8.0 per cent by employee and 2.0 per cent by employer)	Annual
	Class 2 employer pays 14.0 per cent (8.0 per cent by employee and 6.0 per cent by employer)	
National health insurance	7.5 per cent of insurable earnings split between employer and employee	Annual
Social security	8.5 per cent (4.5 per cent by employers and 4.0 per cent by employees)	Annual

Source: Government of the Virgin Islands, Trident Trust, Virgin Islands Social Security Board, Captiva, Financial Services Commission

The budget for total recurrent government expenditure in 2022 was US\$337 million, with 40 per cent of the expenditure allocated for employee compensation and a third set aside for transfers and subsidies (such as the grant to the Tourist Board). The largest categories for goods and services expenditure in the 2022 Budget Estimate were water and sewage (US\$26 million) and health and social development policy planning (US\$12 million).

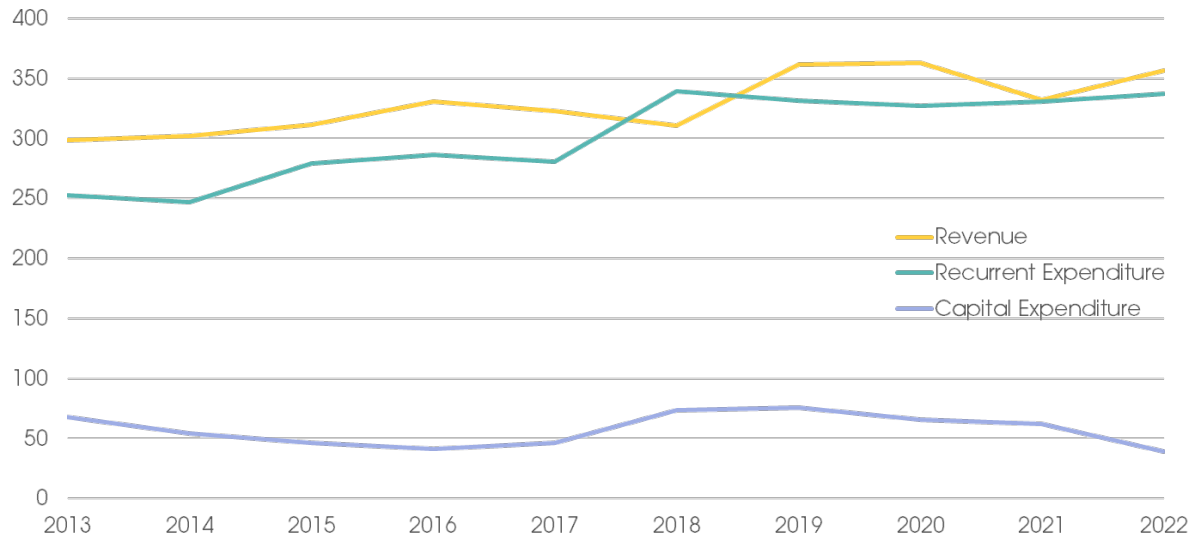
Exhibit 4-28 Breakdown of government expenditure, British Virgin Islands, US\$ millions



Source: Government of the Virgin Islands Budget Estimate 2013-2022

While total government expenditure has increased over the last decade, employee compensation remains relatively unchanged.

Exhibit 4-29 Annual budget estimates, British Virgin Islands, US\$ millions

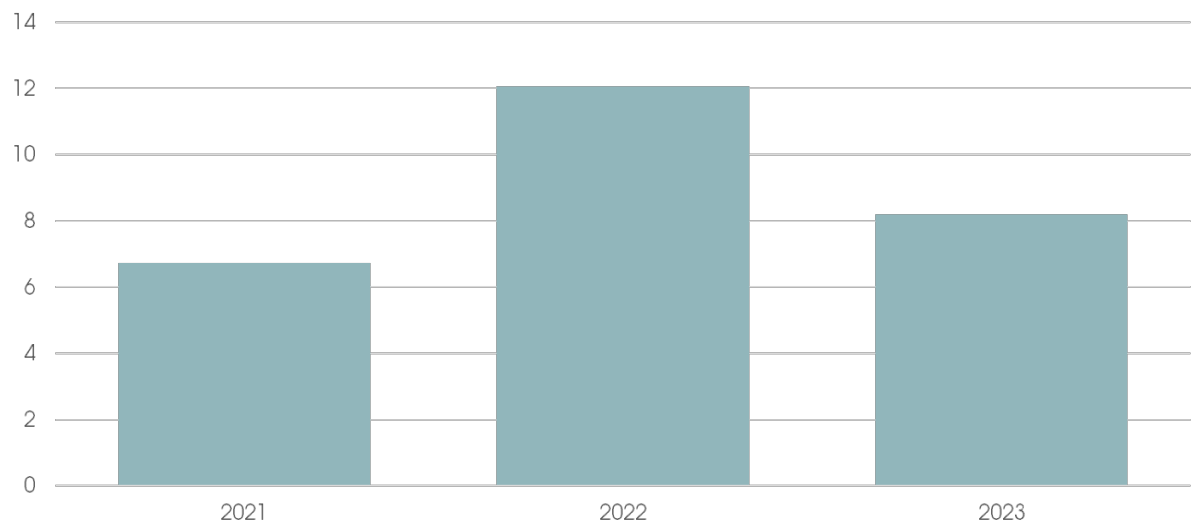


Source: Government of the Virgin Islands Budget Estimates 2013 – 2022

With the government commonly running annual budget surpluses, the islands have limited levels of public debt – estimated to be close to US\$155 million at the end of 2020. This is just over US\$6,600 per person and is equivalent to 13.6 per cent of gross domestic product. In 2020, the government paid US\$6.3 million in interest and US\$9.6 million in principal repayments.

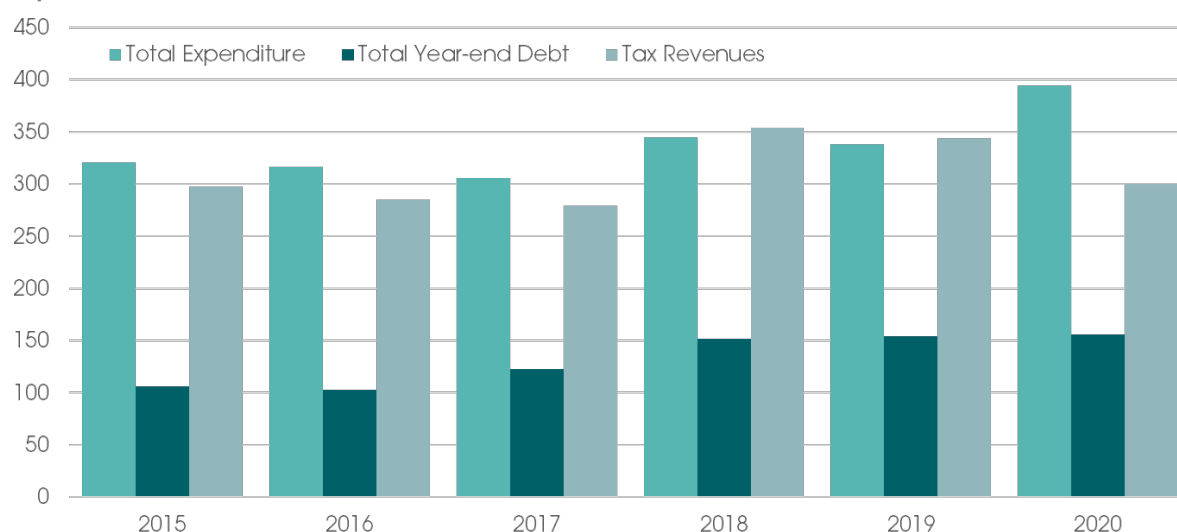
The government has almost always only borrowed to support major capital projects, and not to fund operating deficits. More recently, debt has been raised to help fund the islands’ rehabilitation and reconstruction following Hurricane Irma.

Exhibit 4-30 Annual public sector borrowing requirement estimates, British Virgin Islands, US\$ millions



Source: Government of the Virgin Islands Budget Estimates 2021

Exhibit 4-31 Tax revenues, total expenditure and total year-end debt, British Virgin Islands, US\$ millions



Source: Ministry of Finance Macro-Fiscal Unit; Ministry of Finance Budget Unit

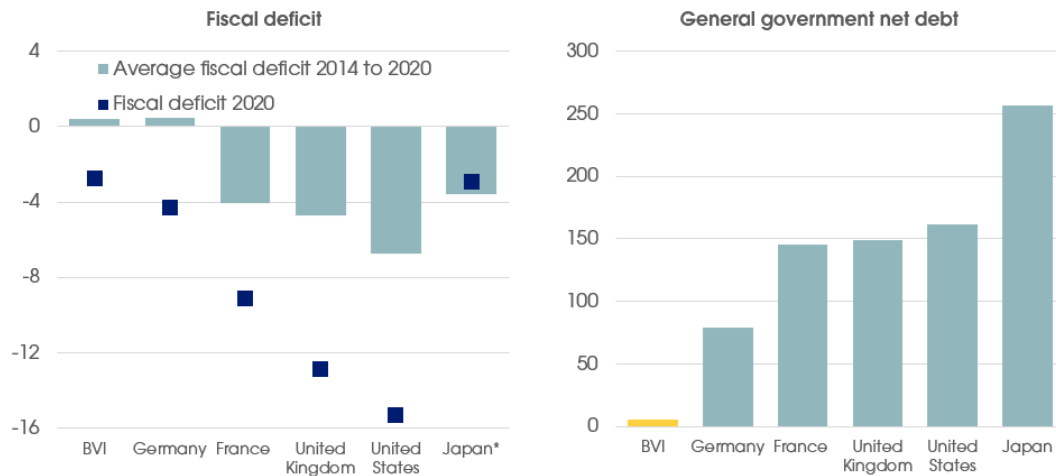
Exhibit 4-32 Public debt by lender, British Virgin Islands, December 2021

Institution	Year began	Reason for loan	Loan amount (US\$ thousand)	Principle repayment (US\$ thousand)	Disbursed Outstanding Debt (US\$ thousand)
BVI Social Security Board*	2005	Road improvement infrastructure development	7,290	456	-
	2007	New Peebles Hospital	35,000	1,458	3,646
	2009	New Peebles Hospital	15,000	375	-
	2015	Road construction and reconstruction	16,000	807	12,101
Banco Poplar	2009	New Peebles Hospital	45,000	18,750	18,750
Republic Bank	2021	Replacement for Banco Poplar loan	17,250	1,362	17,250
First Caribbean Bank	2014	New Peebles Hospital/ National sewerage project	22,000	1,000	14,600
	2016	Line of credit/ overdraft facility for financing capital requirements	25,000	-	-
European Investment Bank	1993	East End/ water supply	862	31	72
	2001	Virgin Gorda/ Tortola water supply	2,622	88	935
Caribbean Development Bank	1998	Hurricane rehabilitation (sea defence)	1,667	56	503
	2005	Beef Island International Airport	24,867	219	-
	2012	Natural disaster management infrastructure	15,672	1,215	8,019
	2008	Student loan scheme	5,000	464	2,028
	2017	Rehabilitation and reconstruction loan, Hurricane Irma	60,291	-	47,255
	2017	Rehabilitation and reconstruction loan, Hurricane Irma	5,000	-	5,000
	2017	Immediate response loan, Hurricane Irma	750	94	469
	2017	Immediate response loan, Hurricane Irma	750	94	469
	2017	Immediate response loan, Hurricane Maria	750	94	469
	2018	Policy based loan	50,000	3,846	44,231
1998	Student loan no. V	1,499	50	87	

*BVI Social Security Board is a statutory body under the Minister of Health and Social Services. Source: Government of the Virgin Islands

The average fiscal deficit across 2014 to 2020 as a share of gross domestic product was 0.4 per cent for the territory. The jurisdiction frequently runs a smaller proportionate deficit than the likes of the United States and Japan.

Exhibit 4-33 Annual government fiscal deficit as share of gross domestic product and general government net debt as a share of gross domestic product, selected jurisdictions, 2020 (*2019)



Source: Pragmatix Advisory, The Organisation for Economic Co-Operation and Development, United Nations Conference on Trade and Development, and Government of the Virgin Islands Budgets 2018 – 2022

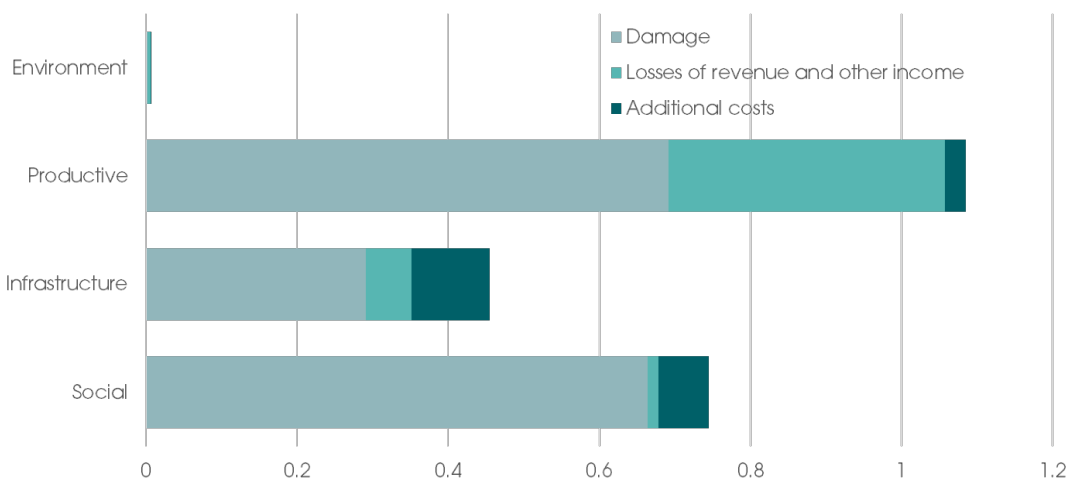
4.7 Impact of Irma

Hurricane Irma had a catastrophic impact on the British Virgin Islands, but the jurisdiction showed incredible resilience in the wake of the natural disaster.

A tropical wave on Africa’s west coast formed Hurricane Irma at the end of August 2017, progressing into a tropical storm, its path ripped through the Caribbean and the east coast of the United States. The ramifications were widespread and devastating for many Caribbean islands. It was the longest-lived Category 5 hurricane ever in the Atlantic Ocean.

Irma hit the British Virgin Islands on 6 September with wind speeds of up to 185 miles per hour. Four people lost their lives, 125 were injured and twenty per cent of the population were displaced from their homes. Following Irma, approximately 3,000 people, ten per cent of the overall population, emigrated. Another Category 5 hurricane, Hurricane Maria, hit the islands on 17 September 2017, although no casualties were reported.

Exhibit 4-34 Cumulative loss due by sector, British Virgin Islands, 2017, US\$ billions

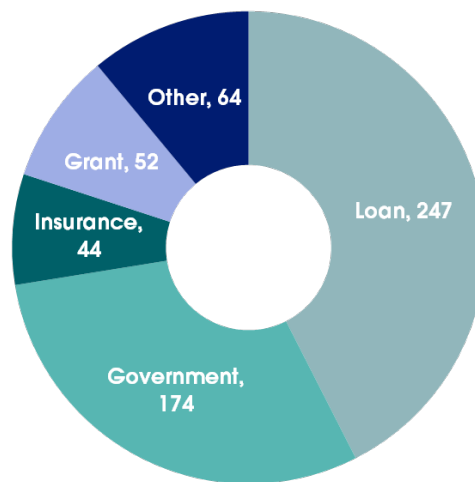


Source: United Nations Assessment Team

The hurricanes caused damage valued at US\$2.3 billion to all of the islands. Much of Jost Van Dyke’s infrastructure was affected with water storage facilities and gas stations damaged. It took over six months for electricity to be reinstated on the island. Docks and tourist accommodation in Anegada were ruined. Schools in Virgin Gorda suffered roof damage while some schools and seaside cemeteries in Tortola were displaced. Debris from houses and buildings cluttered the streets and telephone lines were completely ruined.

The clean-up and reconstruction programme has been mostly funded by the territory’s institutions themselves and partly through public debt, especially loans from development banks. Some loans were guaranteed in principle by the United Kingdom government but never taken up. Humanitarian aid was also provided – including US\$93 million from London in 2017, which represented a modest four per cent of the British Virgin Islands’ estimated needs at the time and was split across all the affected overseas territories.

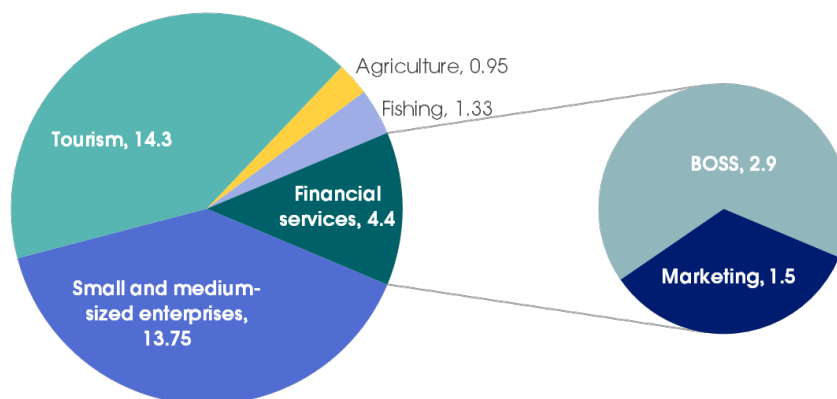
Exhibit 4-35 Sources of funding for redevelopment, British Virgin Islands, 2018, US\$ millions



Source: Recovery to Development Plan of the Virgin Islands

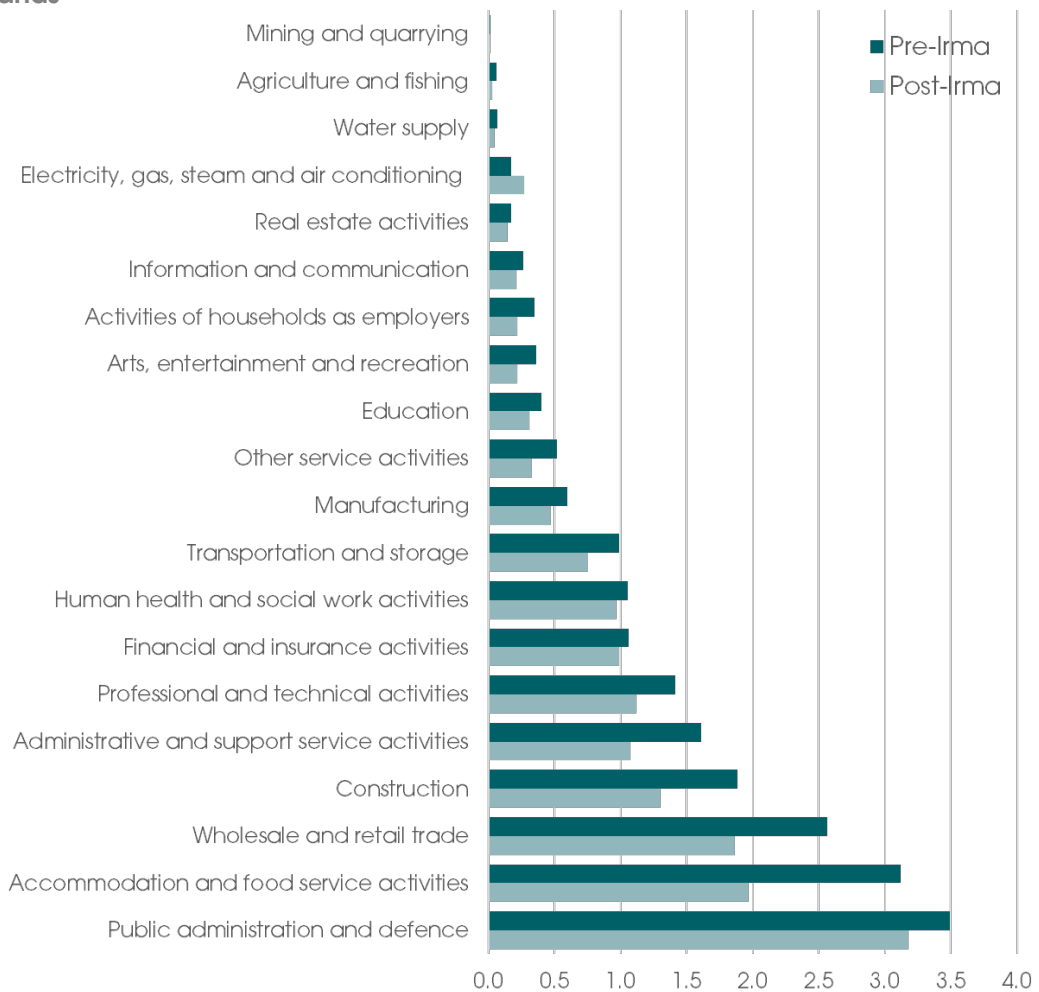
In 2018, the government set out its recovery plan, which included committing US\$34.7 million towards the rehabilitation, recovery and development costs for five business and economy sub-sectors: US\$4.4 million for financial services, US\$2.9 million of which was dedicated towards the maintenance of the tax information exchange system and the remaining US\$1.4 million towards promotion and marketing.

Exhibit 4-36 Rehabilitation, recovery and development costs for the business and economy sector, British Virgin Islands, 2018, US\$ millions



Source: Recovery to Development Plan of the Virgin Islands

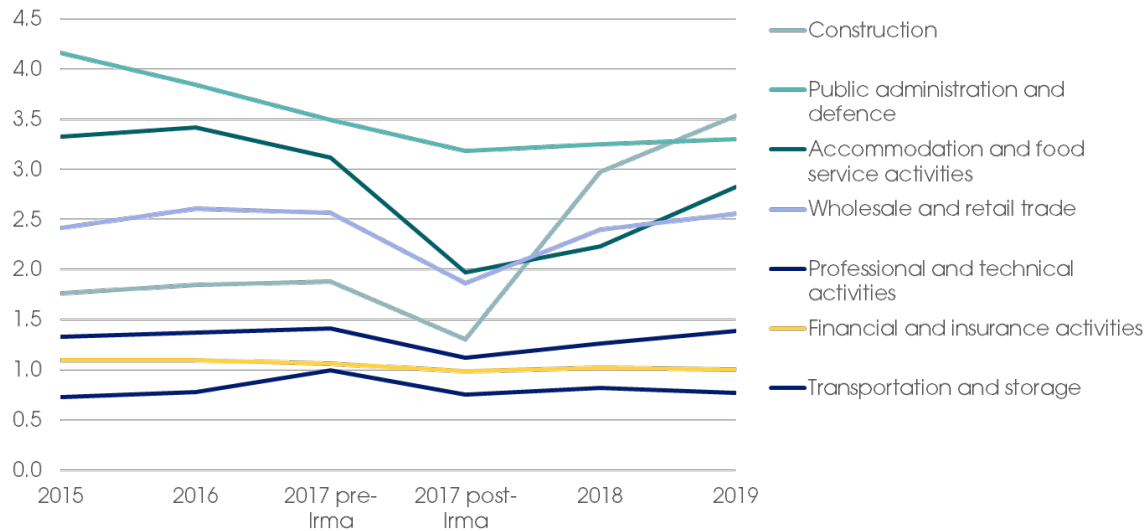
Exhibit 4-37 People in employment before and after Hurricane Irma, British Virgin Islands, 2017, thousands



Source: Central Statistics Office

Some sectors such as transportation and storage and financial and insurance activities did not see as significant an impact to employment levels as other sectors following the hurricanes, and in fact had been relatively unchanged in the years leading up to 2017. Employment within the accommodation and food service sector had the steepest decline because of the hurricanes. Following Irma and Maria, some sectors such as the construction sector grew significantly, employment levels two years on from the hurricanes doubling what they were two years before the hurricanes.

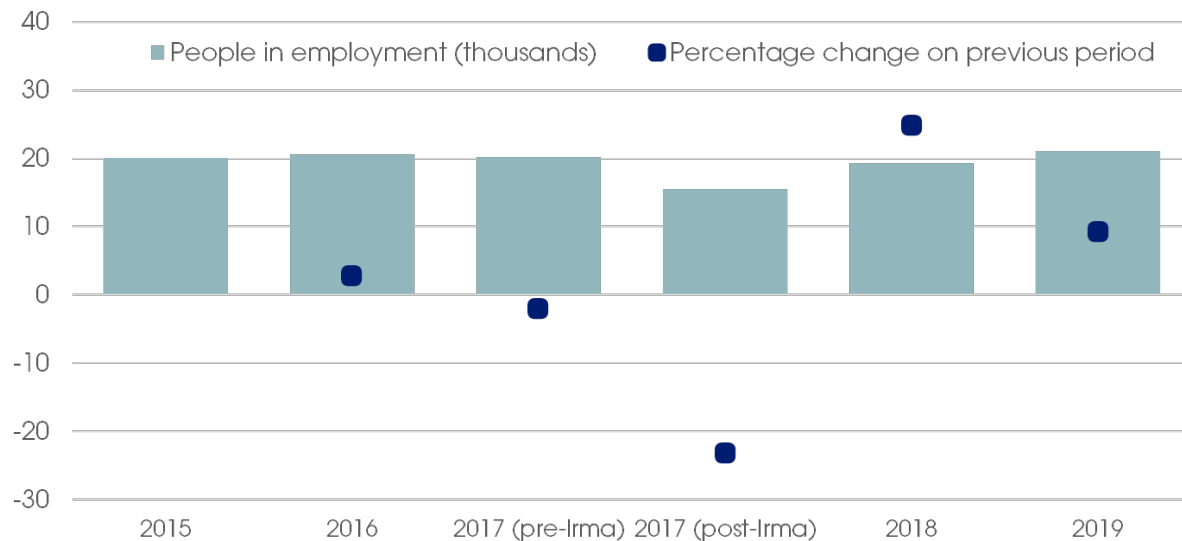
Exhibit 4-38 Employment in selected sectors, British Virgin Islands, thousands



Source: Central Statistics Office

Overall, employment fell by a quarter but was back to pre-Irma levels within two years. This employment decline could, in parts, be attributed to the people temporarily migrating from the territory in the wake of Hurricanes Irma and Maria.

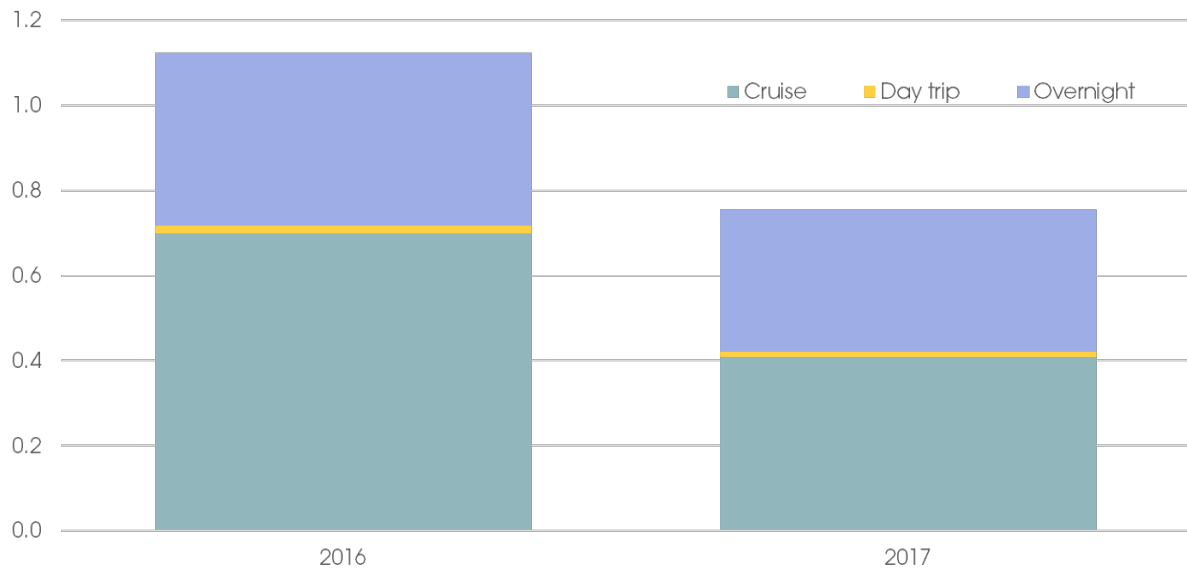
Exhibit 4-39 Total number in employment and per cent change in employment on previous period, British Virgin Islands



Source: Central Statistics Office

As with other Caribbean regions that fell within the hurricanes' pathways, tourism levels declined. The total number of visitors in 2017 decreased by a third compared to 2016 with sub-categories such as cruise visitors (the majority of whom come from the United States), day trip and overnight visitors decreasing by 41, 33 and eighteen per cent, respectively. The latest data available for inbound tourism to the territory is from 2020, and as such is heavily impacted by covid, with visitor levels lower than 2018.

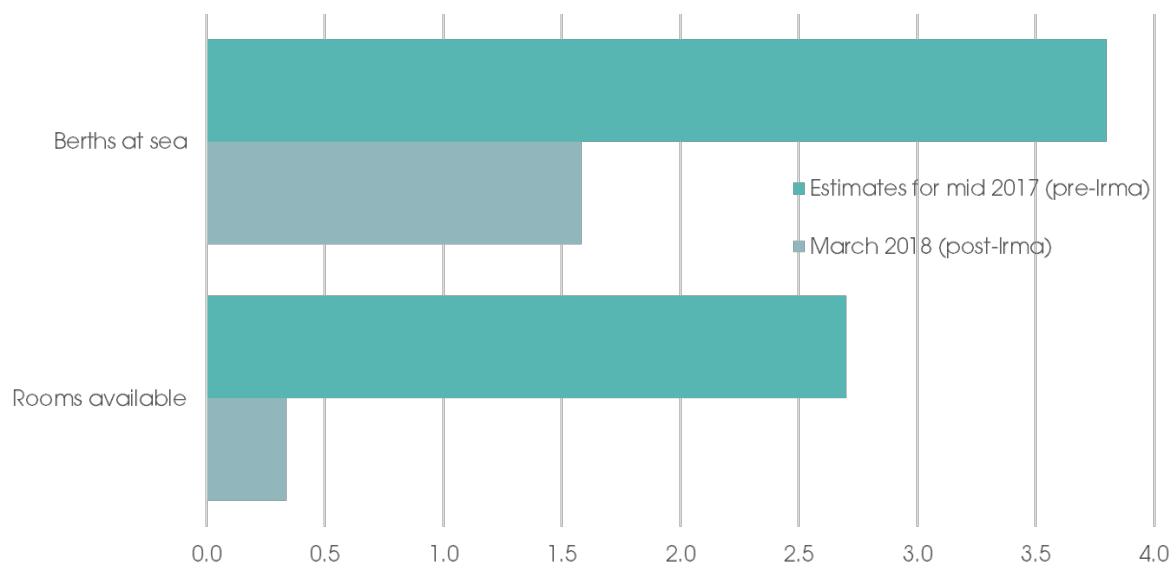
Exhibit 4-40 Tourist arrivals in the calendar year prior to and of Hurricane Irma, British Virgin Islands, millions of visitors



Source: British Virgin Islands Central Statistics Office; British Virgin Islands 2018 Budget Address

Before hurricanes Irma and Maria there were 2,700 rooms available for accommodating tourists, while in March 2018 there were 336 rooms available – an 88 per cent decline. Similarly, for the charter yacht industry, there were 3,800 berths before the hurricanes hit. This decreased by over half to 1584 berths after Irma and Maria, but has since recovered to pre-hurricane levels.

Exhibit 4-41 Number of available rooms and berths at sea, British Virgin Islands, thousands



Source: British Virgin Islands 2018 Budget Address

Four years on from hurricanes Irma and Maria, the recovery is considerable. The islands' robustness was not purely dependent on international aid and loans, but rather private-public community-led endeavours which saw power restored and many local businesses once again operational.

4.8 Navigating the pandemic

Early border closures protected the islands’ residents from the initial waves of the pandemic, but the impact of covid and its multiple lockdowns in the territory and elsewhere has been more detrimental to many sectors of the economy than Hurricane Irma.

Exhibit 4-42 Number of confirmed covid related deaths and the number of vaccination doses administered per person, 3 January 2020 – 14 October 2022

Jurisdiction	Number of deaths	Vaccination doses per person
Cayman Islands	34	2.27
Saint Kitts and Nevis	46	1.21
British Virgin Islands	64	1.37
Sint Maarten	87	1.60
Antigua and Barbuda	146	1.40

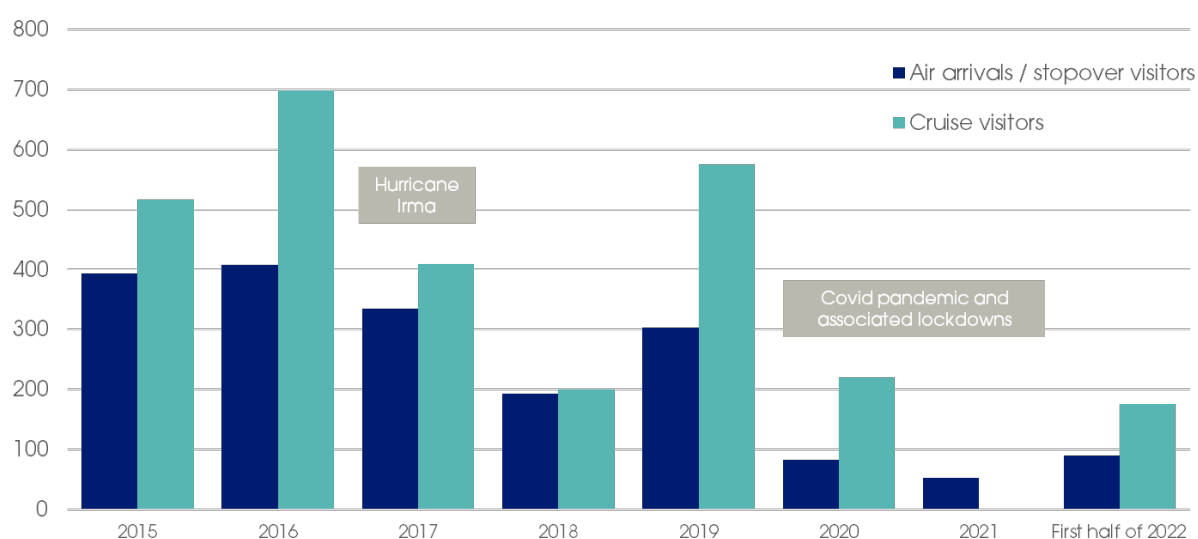
Source: World Health Organisation

The first wave of covid alone closed a quarter of businesses in the islands. By May 2020, 337 businesses had submitted data to the Department of Labour and Workforce Development: 23 per cent reported temporarily closing, with over 900 employees affected.

Across the globe, restrictions on travel and border closures saw tourism businesses facing an unprecedented situation. As cruises and flights were suspended, income from visitors dried up, and the impact of the pandemic on tourism in the territory exceeded that of Hurricane Irma.

Air arrivals and stopover visitors decreased by 73 per cent in 2020 compared with 2019, positioning the islands in the five worst affected countries in the Caribbean. Indeed, there were more overnight visitors in 2018, when the islands were rebuilding after 85 per cent of buildings had been damaged, than in 2020 and 2021 combined. Numbers are looking more positive for 2022 though, with over 90,000 air arrival and stopover visitors and over 175,000 cruise ship passengers to the islands in the first half of 2022.

Exhibit 4-43 Air arrivals and cruise visitors, British Virgin Islands, thousands



Source: Caribbean Tourism Analytics

The government continues to support tourism recovery and growth with, for example, the Work in Paradise Initiative and the Invest and Stay Programme. The 'Work in Paradise' initiative allows remote workers with foreign jobs to stay in the Virgin Islands for an extended period. With 'Invest and Stay', investors who meet certain criteria are allowed to live in the territory without citizenship rights, and the idea behind these programmes is to help support local businesses following an unprecedented time.

5 Cross-border cluster

In this section we examine the international business and finance centre, the services it provides and its contribution to the domestic economy.

5.1 An international business and finance centre

Over the past four decades, the capital Road Town has been home to a cluster of global, regional and local firms that constitute the international business and finance centre. Collectively, these firms facilitate clients conducting cross-border trade and investment, while working within the parameters of a highly respected business company law. This activity has centred around the use of a specially developed company vehicle, the BVI Business Company, and its predecessor.

Exhibit 5-1 Estimates of key economic contributions by sub-sector of the British Virgin Islands' international finance and business centre, most recent year for which data are available

	Employment, number of people (2019)	Gross value added, US\$ million (2018)	Tax paid, US\$ million (2019)
Corporate service providers	821	136	221
Legal	493	185	12
Insolvency	65	24	1
Accounting	135	33	2
Insurance	98	23	2
Banks	252	49	5
Regulation and support	189	18	2
Total	2,052	469	246

Source: Pragmatix Advisory analysis of 2021/22 industry survey, Central Statistics Office and Capital Economics

The international business and finance centre includes:

- Corporate service providers
- Professional services firms, especially legal, insolvency and accounting
- Banks
- Insurance providers
- Government, regulatory and judicial bodies

Exhibit 5-2 Classification of the British Virgin Islands' international business and finance centre

Official government statistics do not categorise the international business and finance centre as a separate sector.

This report, however, defines it as including all activities directly related to the following businesses registered and operating in the territory:

1. Corporate Service Providers and Registered Agents
2. Banks
3. Insurance and reinsurance providers
4. Insolvency practitioners
5. Legal firms
6. Accountancy firms

The Central Statistics Office classifies 'financial intermediation' as activities relating to financial services and insurance, reinsurance and pension funding. In the jurisdiction, this sector relates directly to the banking and insurance industries.

The Central Statistics Office's official 'real estate, renting and business activity' sector can be broken down into three sub-sectors; 'real estate activities'; 'professional, scientific and technical activities'; and 'administrative and support service activities'. Specifically, the sub-sector 'professional, scientific and technical activities' includes 'legal and accounting activities', 'activities of head offices', 'architectural and engineering activities', 'scientific research and development', 'advertising and market research', 'other professional, scientific and technical activities' and 'veterinary activities'.

The international business and finance centre sector comprises the entirety of the Central Statistics Office's financial intermediation sector, as well as a share of 'professional, scientific and technical activities', specifically those activities relating to legal, accounting and insolvency work.

Source: Pragmatix Advisory

Overall, the centre directly employs around 2,000 people and supports an additional 2,500 jobs on the islands, although many of the professional services firms are part of worldwide groups or networks. In 2017, these groups or networks had around 200 offices outside of the islands and employed a total of 5,000 people around the world. The regions employing the highest concentration of workers are Europe and China.

5.2 The BVI Business Company

The BVI Business Company is the cross-border vehicle of choice for many major respected companies and investors around the world.

With 370,150 active BVI Business Companies listed on its register, the British Virgin Islands are one of the world's largest centres for incorporation. The assets in these vehicles have an estimated combined value of US\$1.4 trillion.

When considering the nature and use of a BVI Business Company, it is important to avoid confusing or conflating businesses with companies. Businesses have active operations – which typically generate revenues from customers and incur costs to suppliers and employees. In contrast, companies are a form of contractual relationship established with

their own independent legal personality; these operate within the parameters of the incorporating jurisdiction's prevailing company law, while their constitutional documents set out agreed and prescribe the roles, rights and obligations of various stakeholders, such as equity shareholders. Many, but not all, businesses are established as companies; but not all companies are businesses.

Many BVI Business Companies are dynamic and active businesses, which trade and operate in the same manner as their onshore counterparts. But most do not have business operations and, instead, are legal structures to facilitate efficient and effective cross-border cooperation, investment and trade. They include some of the largest and most valuable holding companies, multinational companies and joint venture companies in the world.

It has its origins in the *International Business Companies Act, 1984*, which built on but enhanced Delaware company law with improvements such as:

- An orderly incorporation system, making use of corporate service providers
- The ability for a firm to purchase its own shares
- Simple capital maintenance rules
- Mergers, consolidations and continuations
- A substructure to allow investors to reflect their commercial agreements

The 1980s' legislation eliminated outdated and costly aspects of the then widely prevailing company law, such as financial assistance, *ultra vires* and corporate benefit. These innovations were not only successful in terms of the numbers of incorporations they stimulated, but also in the extent to which the approach was emulated by numerous jurisdictions who copied, often with little revision, the text into their statutes.

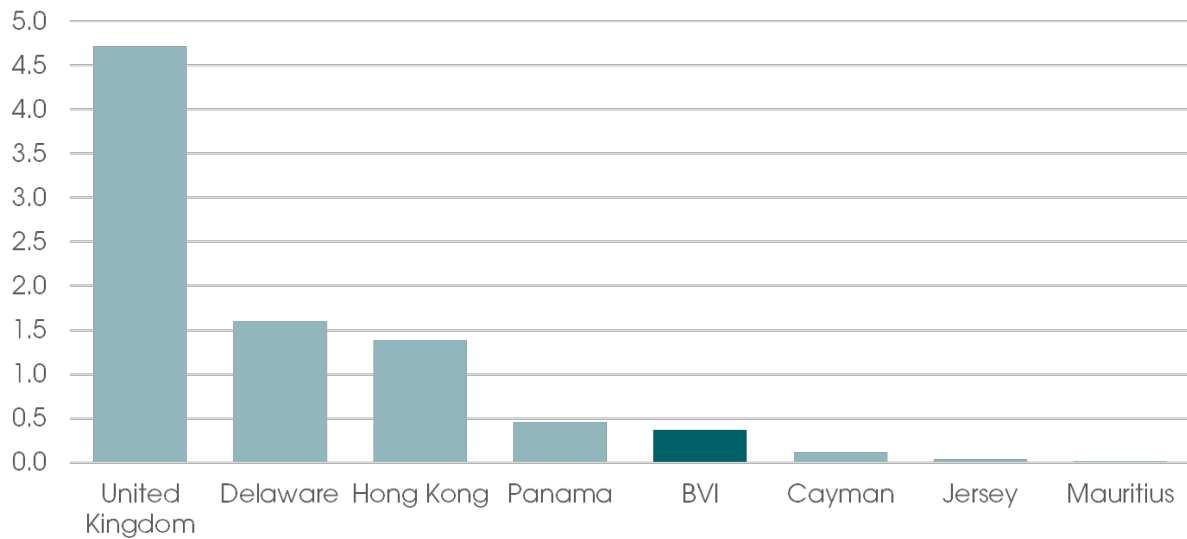
Coming into effect on 1 January 2005, the *BVI Business Companies Act, 2004* created the 'BVI Business Company', a corporate vehicle with its own autonomous legal identity within the jurisdiction's legal system. It can take one of many forms:

- (i) Company limited by shares
- (ii) Company limited by guarantee, not authorised to issue shares
- (iii) Company limited by guarantee, authorised to issue shares
- (iv) Unlimited company, not authorised to issue shares
- (v) Unlimited company, authorised to issue shares
- (vi) Restricted purpose company
- (vii) Segregated portfolio company

The act, which has been revised subsequently, sets out the requirements for incorporation of a company and the directors' and members' individual responsibilities. The most recent revisions were made in 2022, became effective in early 2023, and reflect the jurisdiction's ongoing commitment in battling financial criminal activity.

Of course, incorporating an entity in the territory does not mean that it will be tax resident there. It is standard protocol across the world for tax authorities to use the location of 'central management and control' to determine residence and tax liability, rather than the location of the entity's registration.

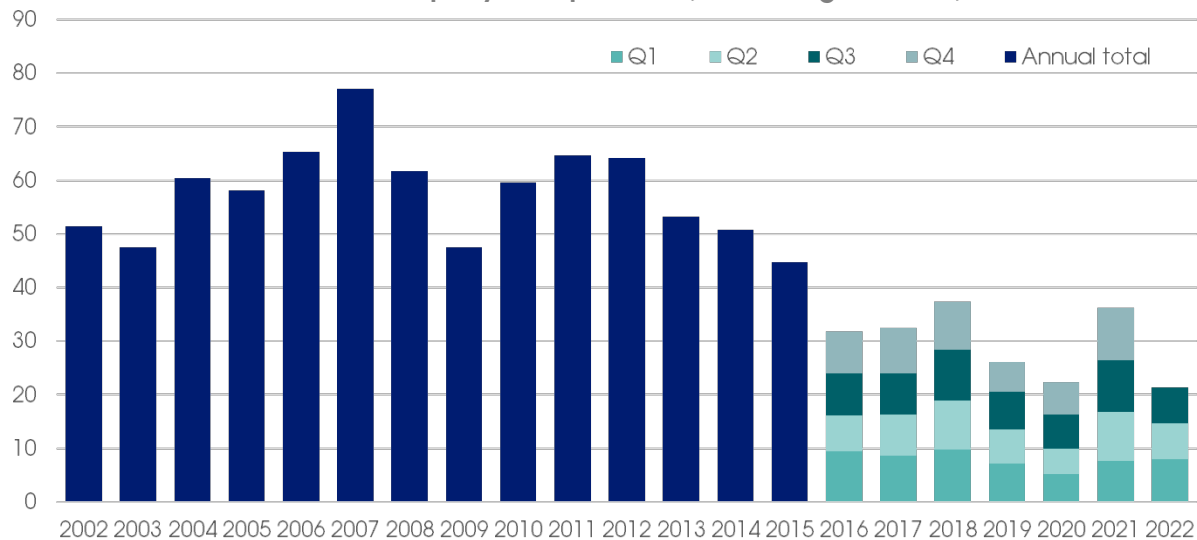
Exhibit 5-3 Total number of active registered companies by jurisdiction, millions of companies, 2021



Source: Cayman Islands General Registry; Delaware Division of Corporations; Jersey Finance; The Government of the Hong Kong Special Administrative Region; Mauritius Financial Services Commission 2021 Statistical Bulletin; British Virgin Islands Financial Services Commission 2021 Statistical Bulletin; Matta and Pitti Panama Attorneys; United Kingdom Government Companies House Official Statistics

The British Virgin Islands has the highest concentration of companies when measured against population, although this metric which is widely quoted has little real-world relevance.

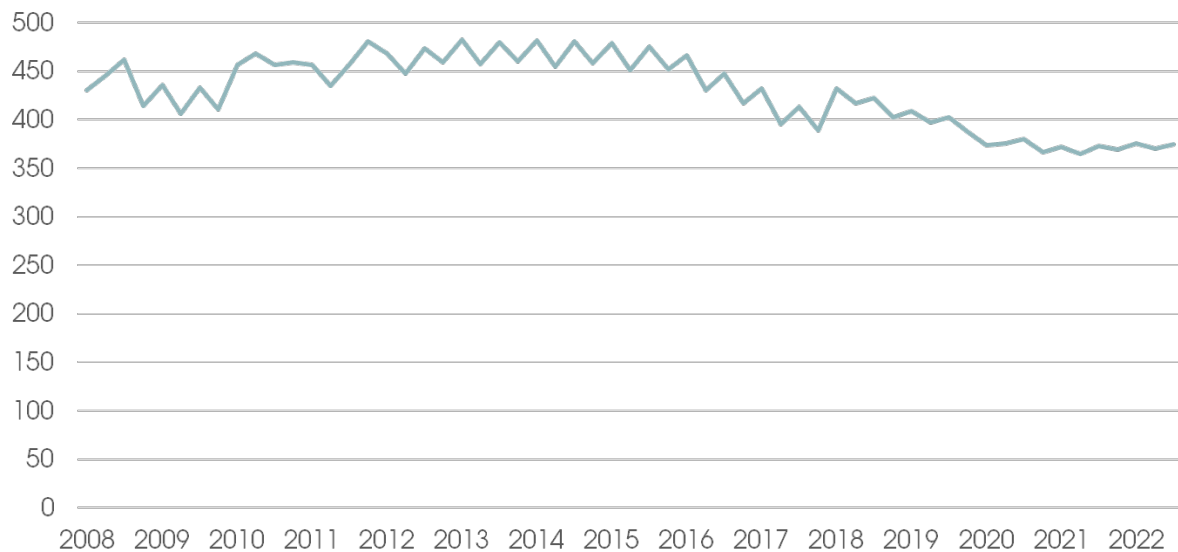
Exhibit 5-4 New BVI Business Company incorporations, British Virgin Islands, thousands



Source: Financial Services Commission Statistical Bulletins

The number of new incorporations on the islands' register has fluctuated over the decades but remains robust. Recent levels are lower than those experienced in the mid-2000s. However, this partly reflects the changing use of the BVI Business Company away from, for example, a short-term and/or single purpose asset holding vehicle towards more complex and longer-term corporate structuring and finance management.

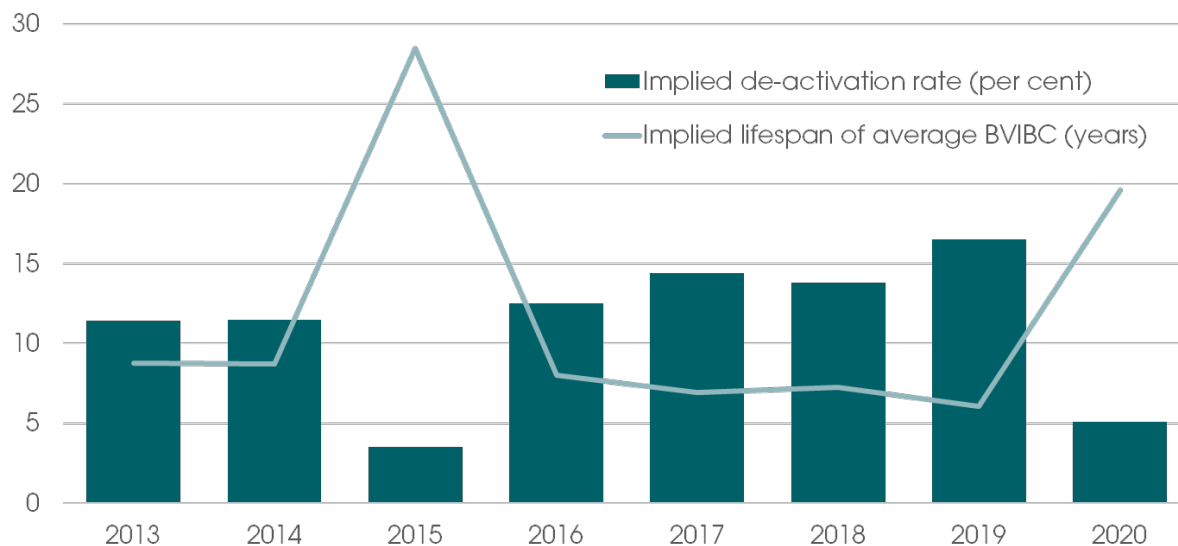
Exhibit 5-5 Cumulative total of all active BVI Business Companies at end-of-quarter, thousands



Source: Financial Services Commission Statistical Bulletins 2008-2022

The implied average lifespan of a BVI Business Company has been falling overall in recent years (excepting 2015 and the covid impacted 2020). Although the number of new incorporations has declined over time, industry insiders believe the existing companies, although smaller, have a longer lifespan.

Exhibit 5-6 Implied average lifespan of a BVI Business Company, number of years, and de-activation rate of BVI Business Companies, per cent



Source: Pragmatix Advisory and Financial Services Commission

5.3 Corporate service providers

The main role of corporate service providers is to establish and maintain BVI Business Companies, trusts and other vehicles on behalf of their global clients. Although not strictly interchangeable, corporate service providers may also be known as 'registered agents', 'trust companies', 'company service providers', 'company incorporation providers' and 'trust or company service providers'.

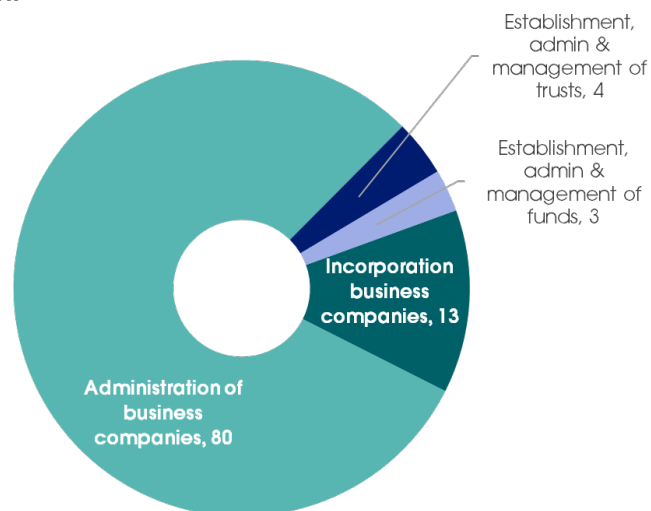
There are 99 authorised registered agents listed on the Financial Services Commission 'Regulated Entities' list.⁴⁸ The sector employed over 800 people in 2019, contributing US\$136 million in gross value added and paying US\$220 million in fees and taxes.

The services delivered by corporate service providers include:

- **Corporate services**, including the incorporation of BVI Business Companies
- **Directorships**, in line with good governance of BVI Business Companies
- **Fiduciary services**, including the establishment, administration and management of trusts
- **Fund services**, including the establishment, administration and management of funds
- **Ship and aircraft services**, including the registration of vessels under the Virgin Islands Shipping Registry

In 2021, an estimated 93 per cent of corporate service providers' revenue derived from incorporation and administration work relating to BVI Business Companies.

Exhibit 5-7 Share of corporate service provider revenues derived from various services, British Virgin Islands, 2022, per cent



Source: Pragmatix Advisory industry survey 2021/22

An 'end-user' client wishing to have a vehicle incorporated can instruct the corporate service provider directly or via an 'introducer'. These intermediaries, who account for the majority of business, include global law firms, accountancy groups, private wealth managers and independent practices. Approximately 30 per cent of corporate service providers' business derive directly from the end-users.

⁴⁸ Financial Services Commission, *Registered Agents* (Financial Services Commission, Road Town), 2022. https://www.bvifsc.vg/regulated-entities-registered-agents?combine=&field_entity_status_tid%5B%5D=72 (Accessed 27 October 2022)

Exhibit 5-8 Global network of corporate service providers located and operating in the British Virgin Islands, 2021



Source: Analysis of Pragmatix Advisory industry survey 2021/22 and individual company websites

Only corporate service providers (as ‘registered agents’) are authorised to file applications for company incorporations with the Financial Services Commission. The providers have a legal duty to uphold anti-money laundering and tax transparency rules. This includes obtaining, verifying and recording accurate information on the ultimate beneficial ownership. A corporate service provider might conduct the due diligence work on a client themselves, or they might collaborate with an ‘eligible introducer’ overseas who has already completed the due diligence work to an approved level acceptable. Eligible introducer notwithstanding, beneficial ownership information must be kept in the British Virgin Islands and it must be current. Approximately two thirds of business for corporate service providers derives from the eligible introducer.

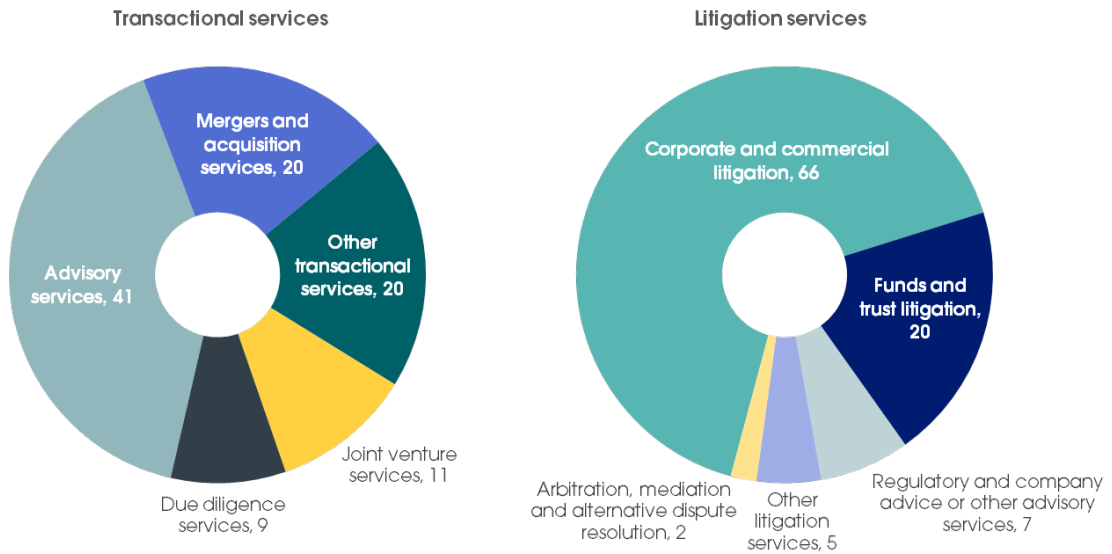
Corporate service providers also offer services to the funds industry. This encompasses investment management, fund administration, fund custodian, fund auditor and fund directorship.

The United States and Canada, Europe (including the United Kingdom), and Hong Kong, Shanghai and China collectively represent just over three quarters of the share of gross revenue from corporate service providers’ clients, with a vast majority of that client-base being introducers rather than direct end-users.⁴⁹

Corporate service providers tend to work within large multinational businesses. These groups or networks have approximately 200 offices outside of the British Virgin Islands and employ more than 6,000 people around the world.

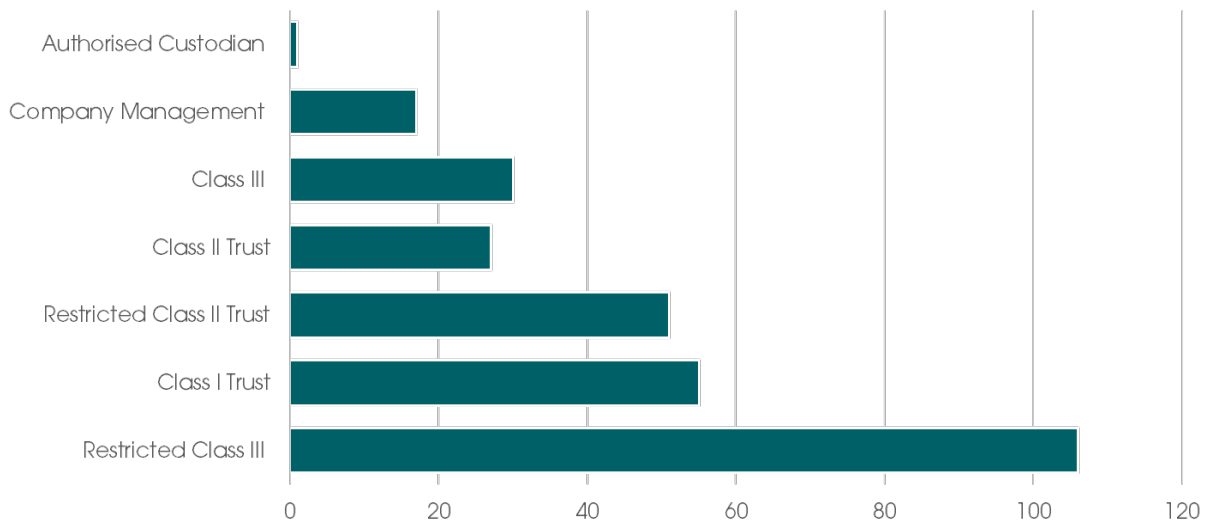
⁴⁹ Mark Pragnell et al, *Creating Value: The BVI’s Global Contribution* (BVI Finance, Road Town) June 2017. Pp110-111

Exhibit 5-9 Share of revenue derived by type of transactional and legal and dispute resolution services, British Virgin Islands, 2016, per cent



Source: Capital Economics

Exhibit 5-10 Fiduciary services licensees, British Virgin Islands, as at 30 September 2022



Source: Financial Services Commission Statistical Bulletins 2021-2022

A Class I trust licence is used for carrying on trust and company management business; a Class II trust licence is used for carrying on trust business only; a Class III trust licence is used for carrying on company management business only; and the restricted versions of these have limitations on the number of trusts the licence holder is allowed to conduct business for.⁵⁰

The largest proportion of fiduciary services licensees hold the Restricted Class III licence. The holder of such a licence is one who is not involved in the management of the company. The smallest proportion is the Authorised Custodian as this provider is not incorporated in the jurisdiction.

⁵⁰ Financial Services Commission, *Trust Business* (Financial Services Commission, Road Town), 2022. <https://www.bvifsc.vg/trust-business> (Accessed 27 October 2022)

5.4 Professional services

The professional services, including legal, insolvency and accounting firms, employed almost 700 people in 2019, contributed US\$242 million in gross value added and paid US\$15 million in taxes.

At approximately 60 per cent, the largest share of their revenues comes from corporate clients, while private wealth clients account for fourteen per cent.⁵¹

The islands' 40 legal services firms employed an estimated 500 people in 2019, contributed US\$185 million in gross value added and paid US\$12 million in taxes. The work of the law firms includes mergers and acquisitions, trusts and private wealth, banking and finance, investment funds and private equity, dispute resolution, property law and insolvency.

The 26 insolvency practitioners, operating with a full license from the Financial Services Commission,⁵² contributed an estimated US\$24 million in gross value added in 2018 and paid US\$1 million in taxes in 2021. Their services include administering and advising on insolvency, compulsory and voluntary liquidation, and company dissolution. In 2017, over 80 per cent of revenue was derived from compulsory liquidation services.⁵³ The Insolvency Services Division of the Financial Services Commission acts as supervisor of insolvency practitioners in accordance with the *Insolvency Act, 2003*.

Accounting and bookkeeping firms employed over 130 people, contributed US\$33 million in gross value added and paid US\$2 million in taxes in 2019. Their services included audit, bookkeeping, tax and advisory services – both for domestic and international clients.

Many professional services firms act within the remit of larger international networks. As of 2017, they were part of networks with over 1,000 offices outside the jurisdiction and employed over 30,000 people in the world.

Exhibit 5-11 Global network of professional service providers located and operating in the British Virgin Islands, 2017



Source: Capital Economics

⁵¹ Mark Pragnell et al, *Creating Value: The BVI's Global Contribution* (BVI Finance, Road Town), June 2017. P112

⁵² Financial Services Commission, *Statistical Bulletin – Q2 2022* (Financial Services Commission, Road Town), June 2022. P17

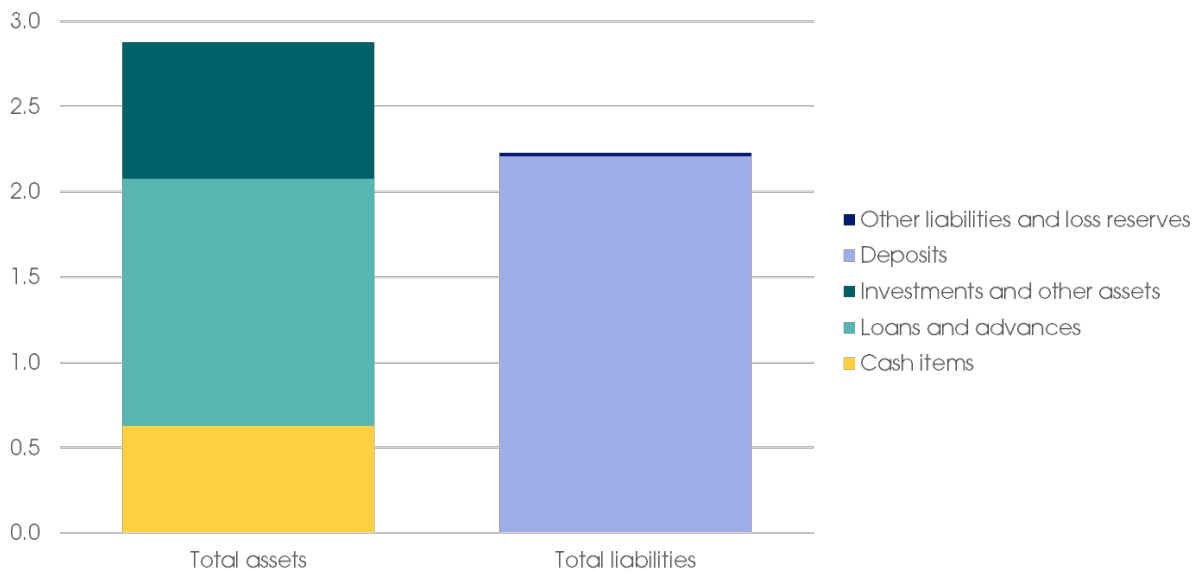
⁵³ Mark Pragnell et al, *Creating Value: The BVI's Global Contribution* (BVI Finance, Road Town), June 2017. P113

5.5 Banking and insurance

The British Virgin Islands is not a major location for offshore banking, with local providers focussed on domestic customers – albeit these include the legal advice and corporate service provider firms in the international business and finance centre, but not the assets held in BVI Business Companies.

In 2019, the most recent year for which employment data are available, the banking sector employed over 250 workers, contributed US\$49 million in gross value added and paid US\$5 million in taxes.

Exhibit 5-12 Balance sheet items of all commercial banks in aggregate, British Virgin Islands, US\$ billion, Q2 2022

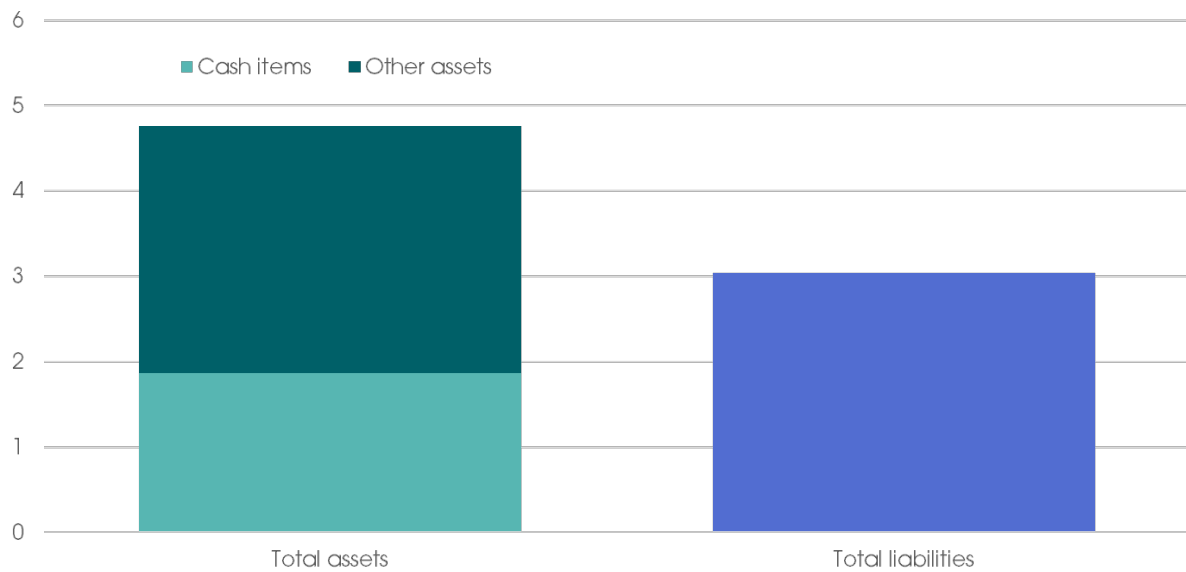


Source: Financial Services Commission Statistical Bulletin

With US\$2.9 billion in assets and US\$2.2 billion of deposits being held in all commercial banks in the British Virgin Islands, banking services are predominantly deposit taking and direct lending.⁵⁴

⁵⁴ Financial Services Commission, *Statistical Bulletin* (Financial Services Commission, Road Town), June 2022. P10

Exhibit 5-13 Balance sheet items for the Money Services Business sector, British Virgin Islands, US\$ million, Q2 2022

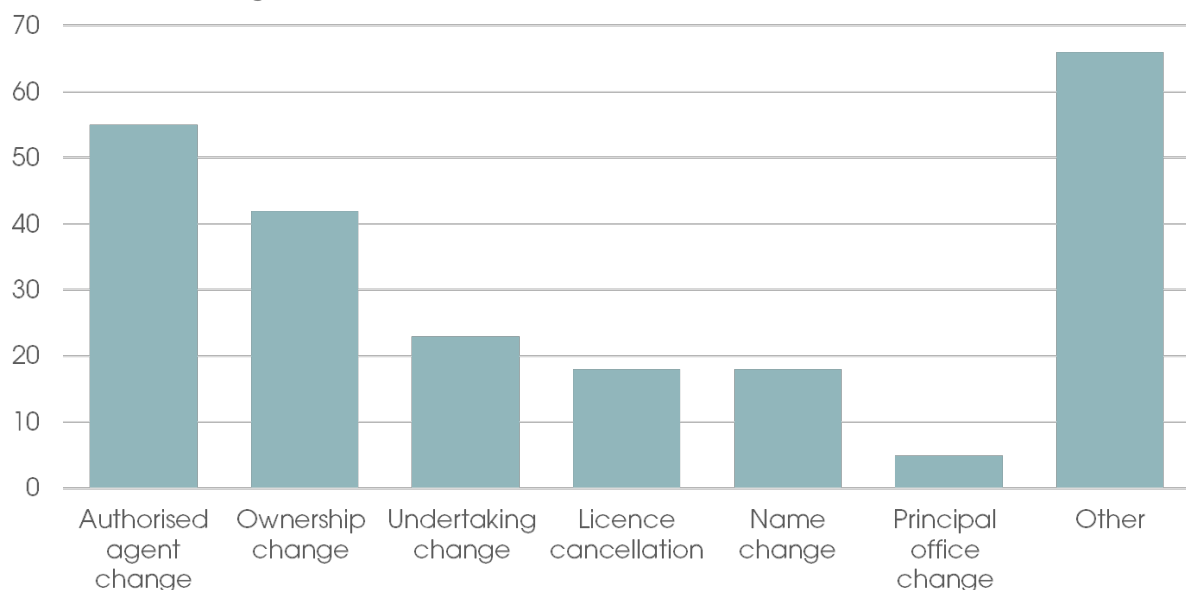


Source: Financial Services Commission Statistical Bulletin

The insurance sector employed approximately 100 people in 2019 (the last year for which data are available) and was responsible for US\$23 million in gross value added and contributed around US\$2 million in taxes.

Insurance business includes services relating to insurance, reinsurance, advisory and insurance management. Any BVI Business Company conducting insurance business will need to have a licence given to them by the Financial Services Commission. Currently, there are 111 licence-holders. The sector services domestic and offshore clients, and includes captive and domestic insurers, agents, brokers, insurance managers and loss adjusters.

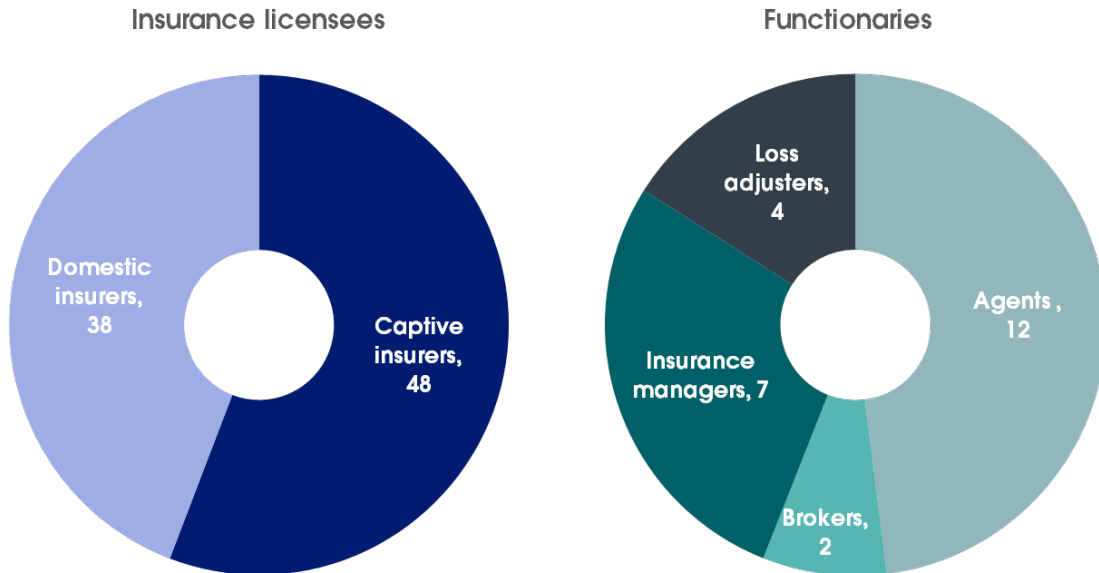
Exhibit 5-14 Annual post-licensing activities by type of transaction for fiduciary services licensees, British Virgin Islands, 2022



Source: Financial Services Commission Statistical Bulletins 2021-2022; 'Other' includes things such as appointment of liquidator, voluntary liquidation, removal of subsidiary etc.

Captive insurers account for the highest proportion of insurers' licences. A captive insurance company, which is a form of self-insurance, is created by a parent group to provide coverage for the owners.

Exhibit 5-15 Total insurance licensees and total functionaries, British Virgin Islands, June 2022



Source: Financial Services Commission Statistical Bulletin Q2 2022

5.6 Judicial and regulatory authorities

The international business and finance centre operates within a legislative, regulatory, enforcement and promotional environment created and fostered by the public sector. The related regulatory, judicial and government institutions are as much a part of the centre, and the basis for its success, as the corporate service providers, law and accountancy firms.

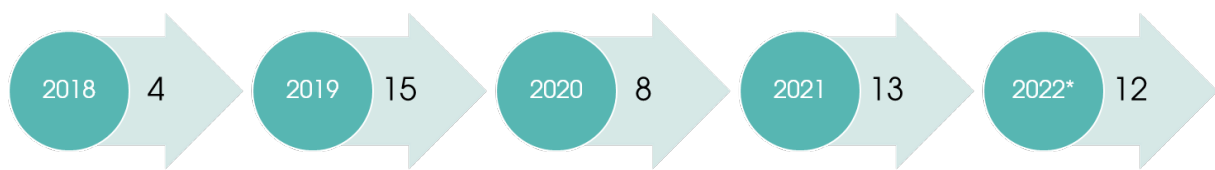
The Financial Services Commission was established in 2001, in accordance with the *Financial Services Commission Act, 2001*, taking on the work previously conducted by the government's Financial Services Department. The Financial Services Commission is responsible for regulating the activities of the islands' international business and finance centre, including:

- Insurance
- Banking
- Fiduciary services
- Trustee business
- Company management
- Investment business
- Insolvency services
- Registration of companies
- Limited partnerships

- Intellectual property

One of the main responsibilities of the Financial Services Commission is to ensure the financial services industry is being regulated. A part of this supervision includes onsite inspections carried out by the Compliance Inspection Unit to identify any potential systemic risks associated with operation. Topics reviewed during the inspections range from financial book-keeping to customer due diligence and suspicious activity reporting. Indeed, the latter half of the Compliance Inspection Unit's 2021 program included record keeping related to suspicious activities with a focus on the Trust and Company Service Provider (TCSP) and investment business sectors.⁵⁵

Exhibit 5-16 Total number of onsite inspections conducted by the Compliance Inspection Unit between 2018 and 2022, as at end June 2022



Source: Financial Services Commission

Only halfway through 2022, the Compliance Inspection Unit have conducted nearly the same number of onsite inspections as they did in 2021, emphasising the Financial Services Commission's resolve towards transparency matters. Even during the covid period, the number of onsite inspections in 2020 was double the number of onsite inspections in 2018.

But while its remit extends to detecting illegality or illicit behaviour, the bulk of its work is to ensure that normal business is conducted within bounds that reduce risks to stability, reputation and customer protection. The Financial Services Commission is an independent, authoritative body which has implemented a plethora of anti-money laundering and terrorist financing legislation to ensure the jurisdiction operates in line with evolving international rules and regulations. The Commission's work also extends to promoting public understanding of the financial system and its products,⁵⁶ publishing quarterly bulletins on industry performance as well as a wealth of other publications.

The BVI offers legal and contractual substance to international businesses and transnational investors. The jurisdiction uses an English-version of Delaware law which has been adapted for more business-oriented purposes. The legal expertise with its links to English Law, and the security it provides, is an important factor for many entities incorporating in the jurisdiction. The jurisdiction has a premium commercial court, with final right of appeal to the Judicial Committee of the Privy Council in London. It also has an Arbitration Centre.

Established in 1967, the Eastern Caribbean Supreme Court has member states including Anguilla, Antigua and Barbuda, the British Virgin Islands, the Commonwealth of Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines. The Commercial Division was established in the BVI in 2009. The Court has

⁵⁵ Financial Service Commission, *Compliance Inspection Program 2021* (Financial Services Commission, Road Town), 2021. https://www.bvifsc.vg/sites/default/files/2021_ciu_program.pdf (Accessed 28 October 2022)

⁵⁶ Financial Services Commission, *About Us* (Financial Services Commission, Road Town), 2022. <https://www.bvifsc.vg/content/about-us> (Accessed 28 October 2022)

unlimited jurisdictional power in each member state and there are two court structures within the Supreme Court, the Court of Appeal and the High Court of Justice.

The innovative International Arbitration Centre is another example of the jurisdiction's high quality legal services. The International Arbitration Centre developed in accordance with the international business and finance centre's need for a neutral dispute resolution centre on a Caribbean and global level. The jurisdiction's arbitration panel conduct world-class hearings, with arbitrators from more than 40 countries, who collectively speak more than twenty languages.

For almost two decades, the British Virgin Islands Financial Investigation Agency has operated as an autonomous law enforcement agency, responsible for investigating serious financial crimes taking place within or from within the British Virgin Islands. The Financial Investigation Agency's stated mission is to provide an effective, professional and transparent international cooperation and financial investigative service that fosters public confidence and promotes the reputation of the jurisdiction as a centre of financial and law enforcement excellence. As well as domestic investigations, the agency is responsible for processing requests for legal assistance from law enforcement and authorities in foreign jurisdictions. In addition, the Financial Investigation Agency receives all disclosures of information which are required to be made to various financial services legislation. In 2019, 90 per cent of requests had been responded to within a 24-hour window.⁵⁷ Despite 375,000 companies being registered in the jurisdiction, the agency received just 126 beneficial ownership information requests in 2020.

The International Tax Authority is responsible for ensuring the jurisdiction is fully compliant with international standards of transparency and exchange of information for tax purposes. The authority is also responsible for negotiating tax information exchange agreements and dealing with all practical aspects of tax information exchange. The British Virgin Islands currently has agreements in place with 117 other countries and jurisdictions, ensuring tax information can be easily shared with international partners. The jurisdiction's treaty network was significantly expanded following the extension of the Convention on Mutual Administrative Assistance in Tax Matters in 2014 which added 89 relationships for exchange of information. The convention provides for exchange of information on a multilateral basis and allows for exchange of information upon request, automatically and spontaneously. The jurisdiction has 28 Tax Information Exchange Agreements in force, which are bilateral agreements with other nations establishing a formal process for exchanging information which relates to civil and criminal tax matters.

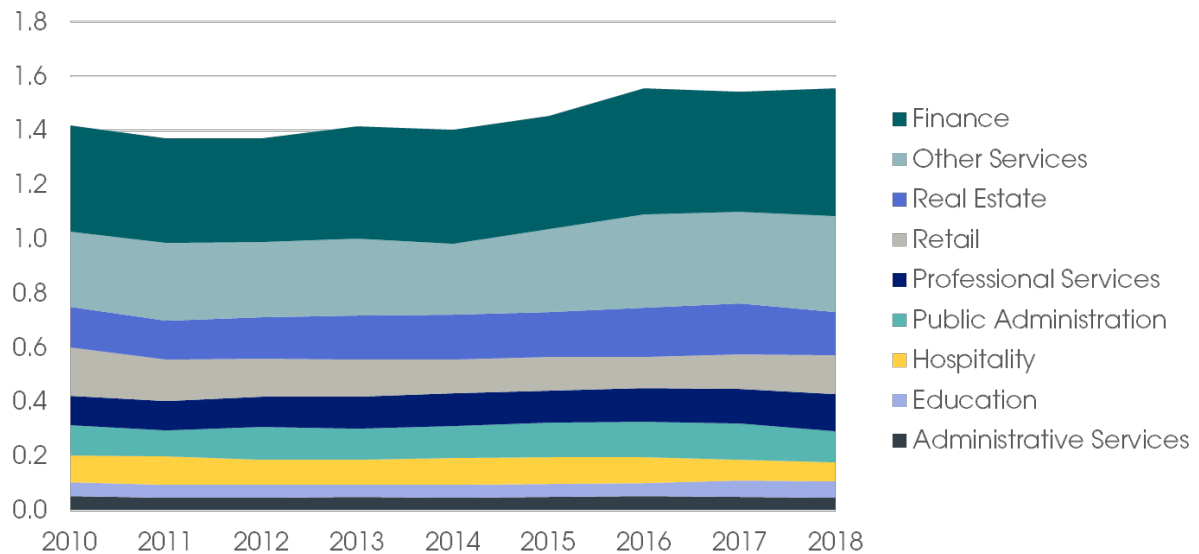
5.7 Economic contribution to the British Virgin Islands

Overall, the international business and finance centre employs 4,500 people directly and indirectly, generates US\$776 million of gross value added, which is 57 per cent of the islands' total, and contributes US\$246 million in taxes and fees.

The centre is beneficial to the local population. Two in every three jobs are held by BVI Islanders and Belongers. In addition, rates of pay are materially higher than the average for the islands. A quarter of all wages come from employers in the cluster even though they account for just over ten per cent jobs.

⁵⁷ Stephanie Baker, *Sun, Sand, and the \$1.5 Trillion Offshore Economy* (Bloomberg, New York), 3 July 2019. <https://www.bloomberg.com/news/features/2019-07-03/the-bvi-s-struggle-to-protect-its-offshore-economy?leadSource=verify%20wall> (31 October 2022)

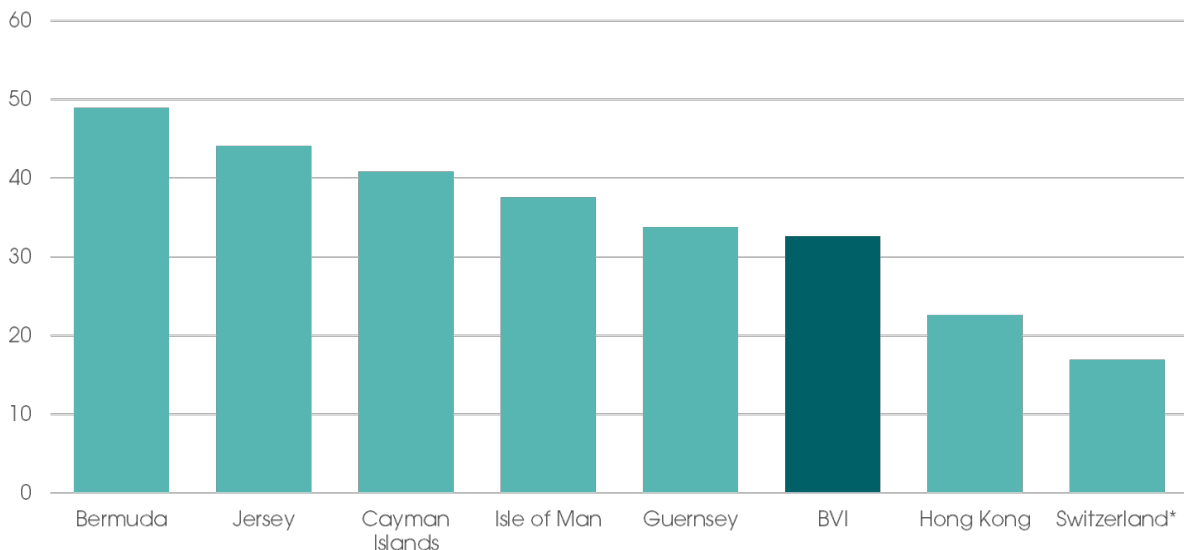
Exhibit 5-17 Real gross value added by economic activity, British Virgin Islands, US\$ billion (2021 prices)



Source: Central Statistics Office

In comparison to other international finance centres and with respect to the business and financial services contribution to total gross domestic product, the British Virgin Islands are behind jurisdictions such as Bermuda, the Cayman Islands and the Crown Dependencies.

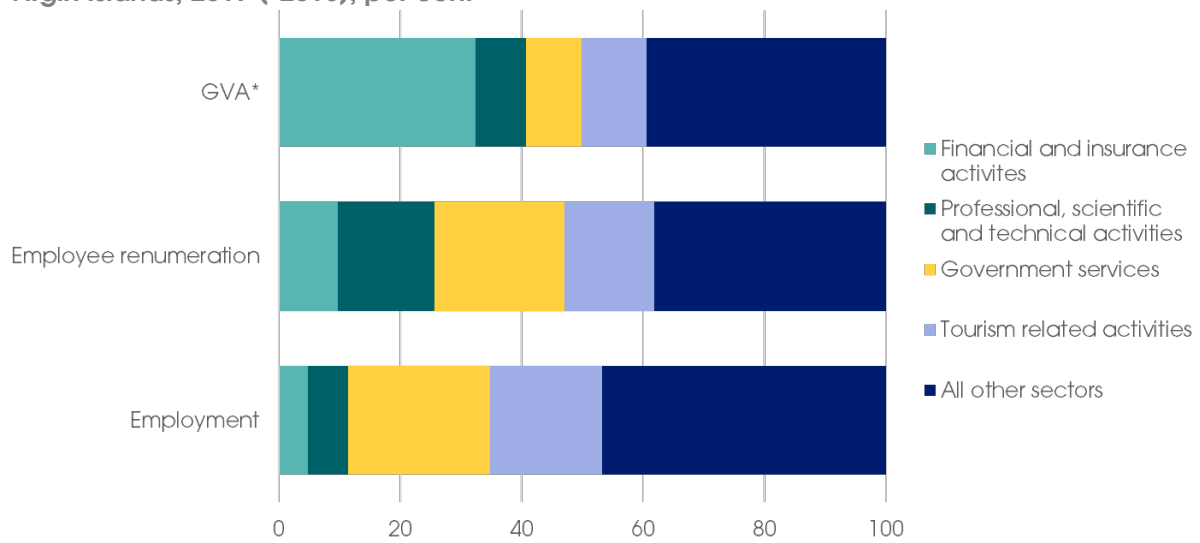
Exhibit 5-18 Business and financial services contribution to total gross domestic product by selected offshore jurisdiction, 2014, per cent



Source: Capital Economics and individual jurisdictions' national accounts data

However, this is by no means to suggest that the British Virgin Islands are not a significant finance centre on the global stage, as the jurisdiction provides significant judicial and regulatory substance, lending itself to cross-border trade and global financial activity. Furthermore, the international business and finance centre contributes the most to gross value added than any other individual sector, exemplifying the high-value work conducted.

Exhibit 5-19 Employment, employee remuneration and gross value added by sector, British Virgin Islands, 2019 (*2018), per cent



Source: Pragmatix Advisory and Central Statistics Office

The economic contribution extends beyond the direct activity of the businesses in the cluster themselves. There is the indirect impact from those firms' expenditure on local suppliers. In addition, there is the induced impact resulting from employees in the centre spending their wages in the local economy. As their earnings tend to be greater than those in other sectors, there is a strong jobs multiplier effect here.

Factoring in the indirect and induced impacts of the international business and finance centre, the sector supports over 4,500 jobs. This is equivalent to one in five jobs in the territory.

Exhibit 5-20 Estimated total impact on employment of the international business and finance centre, British Virgin Islands, 2019

	Direct employment	Indirect employment	Induced employment	Total employment
Corporate service providers	821	315	866	2,002
Legal	493	196	345	1,035
Insolvency	65	26	45	136
Accounting	135	53	151	338
Insurance	98	35	96	229
Banks	252	92	182	526
BVI Financial Services Commission	150	56	112	318
Other regulation and support	39	15	29	82
Total	2,052	788	1,825	4,665
Share of total employment	9.7%	3.7%	8.7%	22.1%

Source: Pragmatix Advisory analysis of 2021/22 industry survey, British Virgin Islands Central Statistics Office and Capital Economics

The international business and finance centre contributes US\$470 million directly to gross value added. Combined with indirect and induced gross value added, this is a total close to US\$780 million, representing over half of the territory's gross value added.

Exhibit 5-21 Estimated total impact on gross value added of the international business and finance centre, British Virgin Islands, 2018, US\$ million

	Direct GVA	Indirect GVA	Induced GVA	Total GVA
Corporate service providers	136	24	67	228
Legal	185	50	87	323
Insolvency	24	7	11	43
Accounting	33	4	11	49
Insurance	23	3	7	33
Banks	49	9	16	73
BVI Financial Services Commission	17	3	6	26
Other regulation and support	1	0	0	1
Total	469	100	206	776
Share of total gross value added	34.6%	7.4%	15.2%	57.2%

Source: Pragmatix Advisory analysis of 2021/22 industry survey, British Virgin Islands Central Statistics Office and Capital Economics

The international business and finance centre contributed a grand tax total of US\$246 million, 90 per cent of which derived from corporate service providers.

Exhibit 5-22 Estimates of the breakdown of total tax contribution by the international business and finance centre by sub-sector, British Virgin Islands, 2019, US\$ million

	Government fees	Employment taxes	Social security contributions	Total tax	Share of total tax contribution
Corporate service providers	210.8	7.1	2.9	220.8	90%
Legal	0.0	9.5	2.1	11.6	5%
Insolvency	0.1	1.0	0.2	1.4	1%
Accounting	0.0	1.6	0.6	2.2	1%
Insurance	0.7	0.9	0.3	2.0	1%
Banks	2.3	2.1	0.8	5.2	2%
BVI Financial Services Commission	0.0	1.6	0.6	2.2	1%
Other regulation and support	0.0	0.1	0.1	0.2	0%
Total paid to the government	214.0	24.1	7.7	245.8	100%

Source: Pragmatix Advisory analysis of 2021/22 industry survey, British Virgin Islands Central Statistics Office and Capital Economics

This tax contribution had a further economic impact of US\$99 million, making the total fiscal impact US\$344 million. This is equivalent to just under 95 per cent of the total government revenue.

Exhibit 5-23 Estimated total fiscal impact of the international business and finance centre, British Virgin Islands

	Tax take	Economic impact	Total fiscal impact
Corporate service providers	221	89	310
Legal	12	5	16
Insolvency	1	1	2
Accounting	2	1	3
Insurance	2	1	3
Banks	5	2	7
BVI Financial Services Commission	2	1	3
Other regulation and support	0	0	0
Total	246	99	344
Share of total government revenue	67.5%	27.1%	94.6%
Share of total gross value added	18.1%	7.3%	25.4%

Source: Pragmatix Advisory analysis of 2021/22 industry survey, British Virgin Islands Central Statistics Office and Capital Economics

5.8 Supporting the islands during times of crisis

The territory's balanced economy – with both tourism and an international business and finance centre – has helped both in the aftermath of Irma and throughout the pandemic.

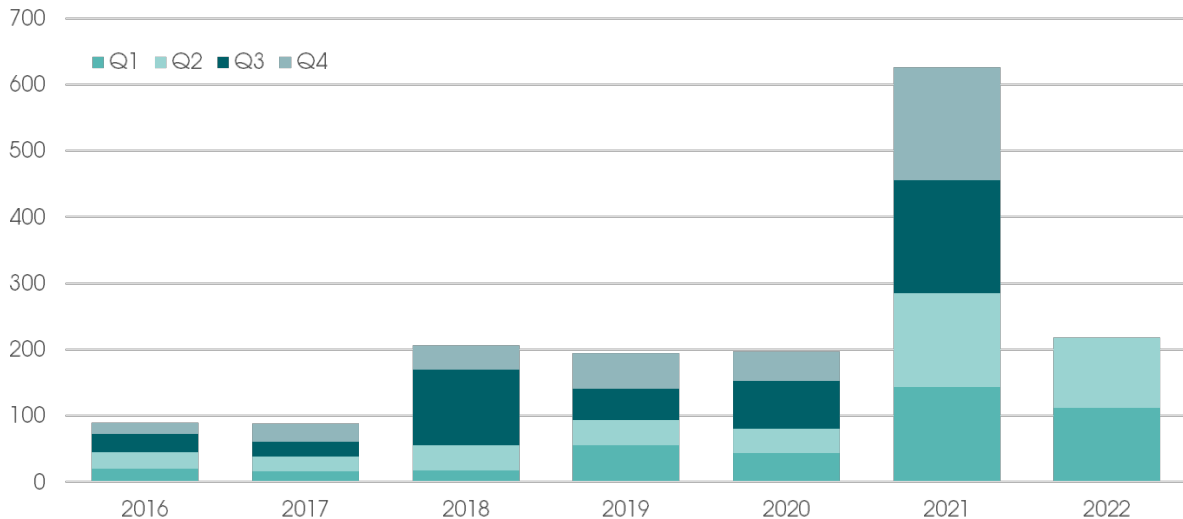
For both the hurricane and covid, demand for the islands' cross-border financial services have remained robust, while the operations of the cluster have been resilient. Business incorporations increased by 25 per cent from the third quarter of 2017 to the third quarter of 2018, with all 2018 quarterly levels above those in 2016 and 2017. In terms of pre-hurricane levels, the total number of new incorporations in the third quarter of 2016 decreased by less than two per cent in the third quarter of 2017, exemplifying the durability of the finance centre.

Incorporations directly after Irma were possible due to the Financial Services Commission facilities being relatively untouched and the Virtual Integrated, Registry and Regulatory General Information Network (VIRRGIN) remaining open. Corporate service providers enacted their emergency continuity plans and were able to incorporate companies even if they had relocated from the territory because of the hurricanes. For example, service providers with offices in Hong Kong were allowed to access the system and incorporate companies from there.

The number of new incorporations for 2021 exceeded those pre-covid for each quarter. Indeed, the number of business incorporations for the second quarter of 2021 was over 90 per cent higher than twelve months earlier.

In addition to an increase in the number of new business incorporations in 2021, the number of new limited partnerships formed in the last quarter of 2021 was four times the number formed in the same period a year before.

Exhibit 5-24 New limited partnership formations, British Virgin Islands



Source: Financial Services Commission

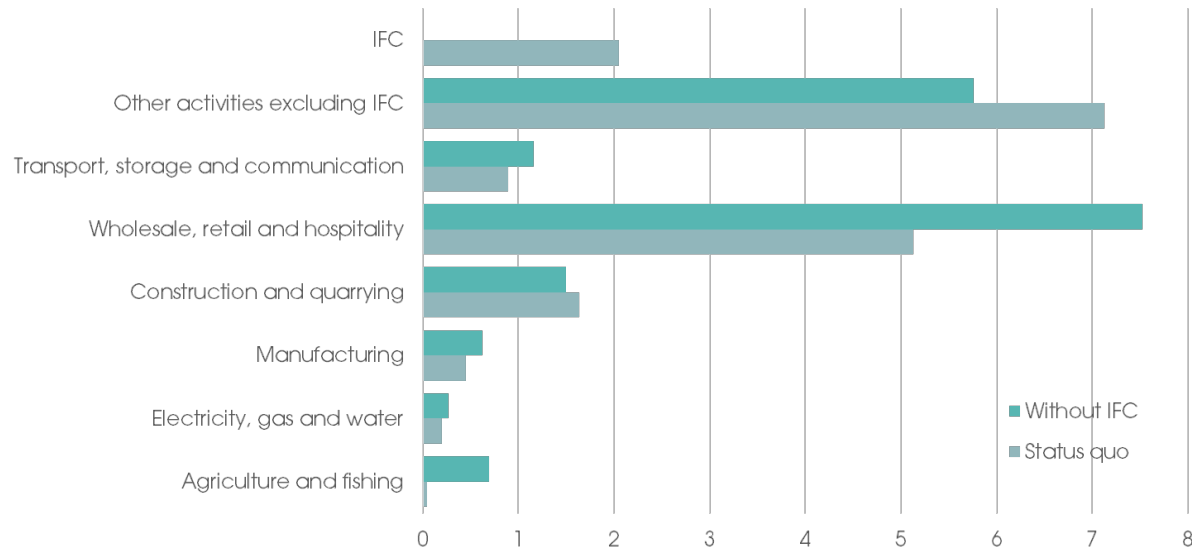
5.9 The islands without the international business and finance centre

Without its international business and finance centre, the islands' gross value added would be substantially lower, the government would need to borrow to finance services, and public debt would quickly grow.

Over the past four decades, the changing industry mix, with increasing employment in the offshore cluster and other service-based activities, has proven positive for the economy. The growth in financial services and its associated businesses has been a boost to household incomes, economic activity and, consequently, the public purse.

To examine the likely implications of a business mix without international business and finance services on domestic prosperity we have built a simple bespoke spreadsheet model of the economy. Our indicative modelling takes pre-pandemic industry mix as a baseline to compare against an alternative scenario in which current levels of total employment are retained, but a business mix that looks more like other island economies of a similar size that do not have a finance centre. In this counterfactual scenario, jobs currently in the finance sector servicing non-domestic activity are replaced by posts in other sectors, with an emphasis on hospitality and tourism activities.

Exhibit 5-25 Indicative employment by industry in two scenarios, British Virgin Islands, 2019, thousands



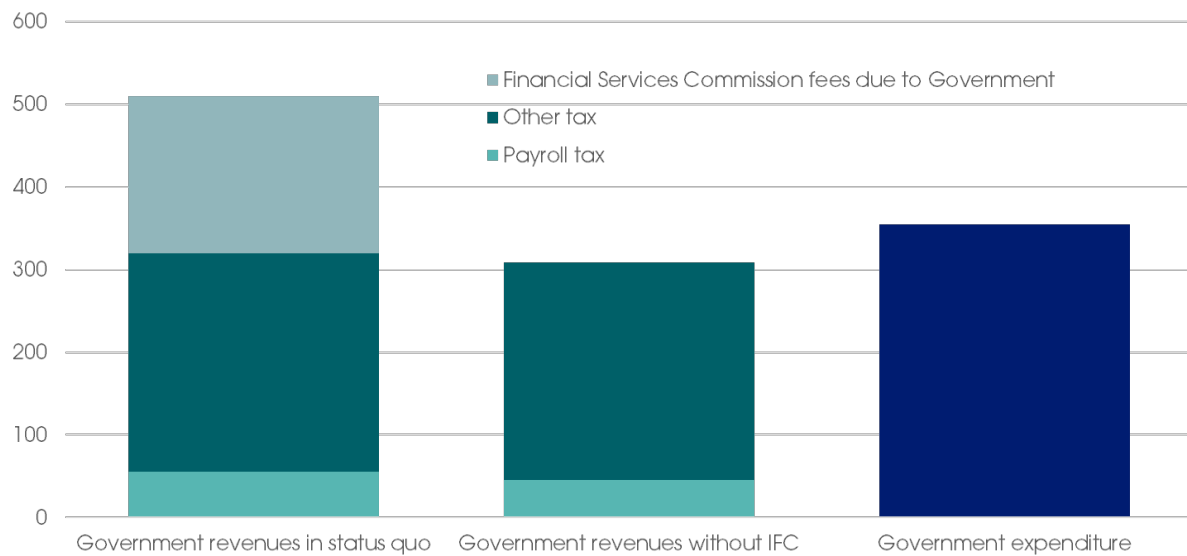
Source: Pragmatix Advisory modelling with Government of the Virgin Islands data

We explicitly consider how the different sectors of the economy can benefit from economies of scale as they get larger, and *vice versa*. We simulate the impact of this different industry mix by assessing the likely change in the productivity of jobs given the relative size of each sector. As a result, tourism productivity increases by nearly a third in our alternative scenario, but the productivity of finance and other professional service activities is just over half of what it is today.

Our alternative industry mix risks cutting the size of the economy by 30 per cent. If we assume the number of jobs on the island remains at current levels, a move to our alternative scenario industry mix with a lower proportion of jobs in finance but higher in all other sectors, will cost the island over US\$400 million in gross value added each year.

We acknowledge that profits in agriculture, tourism and most other sectors are more likely to remain on-island than those in the banking sector. To capture the local impact of our scenarios, therefore, we focus on annual gross value added less banking profits after tax (which we call 'aggregate prosperity'). Given the current economic split of industries, the jurisdiction is more prosperous to the tune of nearly US\$8,000 per resident with its offshore cluster than without.

Exhibit 5-26 Indicative government revenues and expenditure in two scenarios, British Virgin Islands, US\$ millions (2021 prices)



Source: Pragmatix Advisory modelling with Government of the Virgin Islands data

The public purse directly benefits from the centre. In 2020, the Financial Services Commission collected US\$217 million in fees from it, with US\$190 million passed on to government. This was equivalent to 48 per cent of all government expenditure in the same year.

A significant proportion of payroll tax receipts will also be lost with a move away from the financial services as average earnings would reduce by nearly one-fifth. Without access to more granular income distribution data, it is difficult to accurately quantify the full scale of payroll tax that would be lost. If payroll tax increased in direct proportion to incomes, the loss would be in the region of US\$10 million, but in reality the figure is likely to be much higher than this as a greater proportion of higher salaries goes towards tax.

Using US\$10 million as a conservative estimate for the additional payroll tax provided by the international business and finance centre, the government's annual revenues are circa US\$200 million greater with the current industrial structure than they would be without the centre. This difference means that if government expenditure remains the same as it has in recent years, government would need to borrow to finance its activities and public debt would quickly grow. With a reduction in revenue from financial services, government would have to consider where the money would come from to fund the gap.

And this is before we have taken into account the dynamic impacts of population change and the effects that the international business and finance organisations and workers have on the wider economy. In our model, we make the conservative assumption that expenditure remains constant in this scenario. However, in practice, expenditure would likely be higher given greater proportion of households on lower incomes.

5.10 Innovative islands: The example of digital assets

The international business and finance centre has evolved, developed and innovated over the decades to maintain its relevance and position in global markets. This is ongoing – and developments in technology and digital assets provide a good example.

Across the international business and finance centre, measures have been taken to welcome and support new technologies and the opportunities they bring. Legislation has been implemented to both encourage and manage the growth in digital asset holding in the jurisdiction.

In 2020, the Financial Services Commission launched a 'Regulatory Sandbox' as part of the *Financial Services Regulations, 2020*. This sandbox is designed to encourage innovation and investment in the financial technology sector, with key objectives including providing a defined test environment and protecting market participants. BVI Business Companies, foreign companies, limited partnerships, micro business companies and licensees were among those eligible to put forward a sandbox business proposal without the need to apply for a separate licence.⁵⁸

The Financial Services Commission had been brainstorming this concept for two years prior to its introduction to compete with other trail-blazing jurisdictions in Europe, North America and Asia-Pacific. The sandbox offers another option of business in the jurisdiction. A rise in similar ventures may be the way forward should the international business and finance centre want to promote itself as a talent hub.

The *Anti-Money Laundering Act, 2020* has stated that the *Bank Secrecy Act* must be applied to cryptocurrencies, and digital assets are more commonly being perceived as money services businesses. This means that crypto exchanges must adhere to the *Bank Secrecy Act* regulations such as customer due diligence and suspicious activity reports. However, concerns over exactly how these regulations will be implemented linger for the international business and finance sector.

Although crypto exchanges are subject to customer due diligence, enhanced due diligence, which requires the collection of more evidence concerning client reputation and history, is not currently mandated. Despite the perception of cryptocurrencies being money services businesses, they actually operate more closely to a financial institution. Fiat currencies are converted to digital currencies, rather than fiat currencies being transferred to other types of fiat currencies. Regulators might yet have set guidelines within the structure of the *Anti-Money Laundering Act*, if there is still scope for illicit transactions. Sometimes the only personal identifier connected to an individual crypto transaction is an email address or a phone number. This element of anonymity poses reputational risks to an international finance centre should things like fraud losses occur for incorporated companies.

The virtual asset sector acts with speed, and as such, requires ever-evolving regulations concerning both the public and private spheres. The British Virgin Islands are implementing changes based on the Financial Action Task Force recommendations on international standards on combating money laundering and the financing of terrorism and proliferation. Virtual asset service providers are expected to comply with these new recommendations from December 2022 onwards. These recommendations will see virtual asset service providers

⁵⁸ Kishelle Blaize-Cameron, *A Guide to BVI's FinTech Regulatory Sandbox* (Financial Services Commission, Road Town) 2020. P6

included within the spectrum of businesses and individuals who are required to operate under the existing anti-money laundering legislations.

The Financial Action Task Force defines a virtual asset service provider as being somebody who acts on behalf of another person to carry out at least one of the following activities:⁵⁹

- Exchange between virtual assets and fiat currencies
- Exchange between one or more forms of virtual assets
- Transfer of virtual assets
- Safekeeping and / or administration of virtual assets or instruments enabling control over virtual assets
- Participation in and provision of financial services related to an issuer's offer and / or sale of a virtual asset

One of the sweeping issues surrounding legislation for digital assets is whether they should be classified as personal property, which links to whether those assets can really be owned.⁶⁰ Ownership is the state or fact of legal possession and control over property, which may be any asset, tangible or intangible. In the case of many media assets purchased on platforms like iTunes or Spotify, for example, the purchase contract makes it clear that the albums, songs or films are the subject of (effectively) a long-term loan of those assets and they cannot be transferred or sold on in the same way that physical assets such as digital video discs or compact discs could be in the past.

In the case of intangible digital assets such as non-fungible tokens or cryptocurrencies, ownership is secured through the blockchain as each asset has a unique token associated with it that is recorded against a user's personal cryptographic key in their digital wallet. That unique token can be transferred or bought and sold on the open market in the same way that a physical piece of art (in the case of a non-fungible token) or fiat currencies could be: there is no 'end user agreement' or contract preventing this, and therefore the assets demonstrate the qualities needed to be classed as personal property.

There is a risk, however, that hacking of a particular blockchain can lead to the loss of assets from users' personal digital wallets, particularly where they are high-value and desirable assets. The advantage of blockchain technology, however, is that digital forensics experts can trace the hack and subsequent theft in a more meaningful way than might be the case in the physical world and seek to restore assets to their rightful owners once the wallet and jurisdiction in which that wallet is held is identified.

The British Virgin Islands use pre-existing legislation to regulate cryptocurrencies and cryptoassets – at present, there is no independent framework. The main piece of legislation impacting the regulation of digital assets is the Securities and Business Act 2010, which provides for the licensing of persons who are engaged in investment businesses in or from within the jurisdiction, and for the licensing of investment funds including funds with cryptographic fund interests. The Financial Services Commission permits companies with

⁵⁹ Financial Action Task Force, *Glossary* (Financial Action Task Force, Paris) 2022. <https://www.fatf-gafi.org/glossary/uz/> (Accessed 28 October 2022)

⁶⁰ Lisa Walmisley, *Digital assets in the BVI and the search for meaning* (Bedell Cristin, Road Town), 8 March 2021. <https://www.bedellcristin.com/knowledge/briefings/digital-assets-in-the-bvi-and-the-search-for-meaning-the-argument-in-favour-of-statutory-definition-as-intangible-personal-property/> (Accessed 28 October 2022)

crypto funds such as Bitcoin and Ether to incorporate in the jurisdiction and there are no taxes levied, drawing the likes of Bitfinex, Finamatrix and Football Coin.⁶¹

A crypto mixer is a service which blends the cryptocurrencies of many users together to obscure the origins of the owners of the funds, and to fight digital crime using mixers, some companies have deployed the use of forensic digital asset tracing teams. A recent example of this in the British Virgin Islands was the case of ChainSwap (BVIHC (COM) 2022/0031).⁶² ChainSwap Limited, a BVI Business Company, was the victim of digital hacking and theft, the assets of which were laundered through a mixer. The forensic team were able to see transactions involving a decentralised system, Tornado Cash, and conclude that the digital assets had been deposited into Tornado Cash by the hacker, where they presumably hoped to 'off-ramp' the tokens. ('Off-ramping' is the term used to refer to the conversion of digital tokens into fiat currency.)

⁶¹ Clinton Hempel and Mark Harbison, *British Virgin Islands blockchain and cryptocurrency regulation 2020, second edition* (Carey Olsen, Road Town), 2020, P2

⁶² Christopher Pease and Megan Elms, *Tracing wrongdoing and making claims* (The Law Society Gazette, London), 5 September 2022. <https://www.lawgazette.co.uk/practice-points/tracing-wrongdoing-and-making-claims/5113540.article> (Accessed 28 October 2022)

Exhibit 5-27 Case study: Commercial court case involving the theft of digital assets

In a first for the British Virgin Islands, the Commercial Court granted a worldwide freezing order against 'persons unknown' accused of stealing digital assets earlier this year.

ChainSwap, a BVI incorporated company that provides cross-chain bridging was hacked twice in July 2021. Cross-chain bridging is the process of synthetically transferring cryptocurrency tokens between different blockchains and is important for productivity within the blockchain ecosystem.

The hackers exchanged large quantities of the stolen tokens for stablecoins (cryptocurrencies that peg their market value to an external reference such as the dollar or gold, making them more useful for exchange purposes than more-volatile cryptocurrencies), some of which were transferred through a mixer fund designed to conceal the origin of tokens that pass through it. These stablecoins were then sent to a centralised exchange located in Croatia, which has likely been used as an 'off-ramp' to convert the proceeds into fiat currency.

ChainSwap sought urgent ex-parte relief in the Commercial Court to recoup the stolen assets, having reimbursed its users for their loss. In addition to a freezing injunction against the unknown hackers, the company also requested permission to serve its claim on persons unknown out of the jurisdiction, and a letter of request to the Croatian Court, to obtain their assistance in identifying the alleged wrongdoers.

In a novel decision, the court granted the relief sought after the wrongdoers were identified by reference to the wallets that were caught up in the theft. With the assistance of expert forensic advice obtained in the islands, ChainSwap was able to trace the flow of assets from the wallets that directly received the stolen tokens through to the Croatian exchange.

This judgment will be welcome news to those who fall victim to cryptocurrency theft, an issue that is unfortunately becoming far too common. It follows similar decisions in the United Kingdom and other Commonwealth countries where such relief is now commonly granted, and demonstrates the pragmatic approach that the court is taking to use existing legal principles in a new context to tackle the increasing frequency of digital asset cybercrime.

Source: British Virgin Islands High Court Judgement⁶³

There is a race between legislation and innovation, with some digital companies taking advantage of the fact that laws relating to their operations are yet to exist. The European Union recently implemented the Markets in Cryptoassets (MiCA) law and it can be safely assumed that pieces of new legislation will come into force in other jurisdictions.

In 2018, the British Virgin Islands held its first FinTech conference, 'Think Differently! The Great Digital Disruption and the New Internet Economy'.⁶⁴ This conference took place in Singapore too, as part of BVI Finance's partnership with the Financial Services Institute and the National University of Singapore School of Computing to deliver FinTech and RegTech courses. The jurisdiction's work to promote education is rooted in the aspiration to nurture innovative mindsets and to champion accessibility into the digital sphere.

⁶³ Eastern Caribbean Supreme Court, *Chainswap Limited* (Eastern Caribbean Supreme Court, Saint Lucia), 15 March 2022. <https://www.eccourts.org/chainswap-limited-v-the-owner-of-digital-wallet-et-al/> (Accessed 28 October 2022)

⁶⁴ BVI Finance, *FinTech* (BVI Finance, Road Town), 2022. <https://bvifinance.vg/Industry-Sectors/FinTech> (Accessed 28 October 2022)

Common FinTech business models are mainly propelled by new game players, rather than pre-existing firms with BVI Business Companies, with key drivers including improved efficiency and reduced business costs.

FinTech business models can be split into the following groups:⁶⁵

- Funds investing in digital assets
- Blockchain businesses
- Digital asset exchange providers
- Non-fungible token platforms

A FinTech business may require licensing of investment funds (including cryptographic funds) under the *Securities Investment Business Act, 2020*.

Currently, the jurisdiction does not prohibit any one type of FinTech business. However, as the jurisdiction does curtail gambling businesses under the *Gaming and Betting Control Act, 2020*, those businesses which overlap FinTech and gaming may be restricted.

Exhibit 5-28 Case study: Huobi obtains license to participate in regulatory sandbox

Leading digital asset service provider granted approval to operate the jurisdiction's first licensed virtual assets exchange for institutional-grade derivative products

Huobi is one of world's largest exchanges, processing the equivalent of over US\$3.5 billion daily from 160 countries. Three-quarters of its trading volume accounted for by derivatives or futures (cryptocurrency derivatives work like traditional derivatives in so far as a buyer and a seller enter into a contract to sell an underlying asset at a predetermined time and price).

The corporation conducts its operations in the British Virgin Islands under its local subsidiary Btruomi Worldwide Limited. It holds an Investment Business License and has been invited to participate in the jurisdiction's Regulatory Sandbox.

In this capacity, Huobi collaborates with the Financial Services Commission to ensure the development of licensed trading products and services follows regulations. This will be of high importance to the growth of the cryptocurrency industry in the territory, setting a precedent for the issuance of future licenses.

The jurisdiction is currently adhering to the Group of Seven's Financial Action Task Force rules regarding virtual assets and affiliated products. This approval is indicative of the progress the islands' regulators have achieved while showing their support for virtual asset service providers.

Source: Huobi Group

The jurisdiction's regulator has recently broadened its digital financial landscape and has recognised the Fusang Exchange. The Fusang Exchange is the only fully regulated digital exchange operating in Asia and this move on the Financial Service Commission's part will now allow BVI Business Companies domiciled in Asia the chance to be a part of this exchange.

⁶⁵ Lucy Frew et al, *British Virgin Islands: FinTech 2022* (Mondaq, New York), 1 April 2022. <https://www.mondaq.com/fin-tech/1178640/fintech-2022> (Accessed 28 October 2022)

It may be a prudent move to encourage more FinTech businesses to incorporate within the international business and finance centre, as these may overcome the physical limitations of island nations.

In general, international finance centres across the world have encouraged the growth of cryptocurrencies, and the British Virgin Islands, being one of the early embracers of digital assets, are in a good position to encourage further sector growth. Indeed, the largest of the BVI Finance Working Groups is the Digital Asset Working Group, providing first-rate expertise to the jurisdiction.

In terms of where the jurisdiction places on a global FinTech scale, they rank third for initial coin offerings and eighth on the crypto hedge fund market.⁶⁶

⁶⁶ Lisa Walmisley, *Digital assets in the BVI and the search for meaning* (Bedell Cristin, Road Town), 8 March 2021. <https://www.bedellcristin.com/knowledge/briefings/digital-assets-in-the-bvi-and-the-search-for-meaning-the-argument-in-favour-of-statutory-definition-as-intangible-personal-property/> (Accessed 28 October 2022)

6 Responsible business

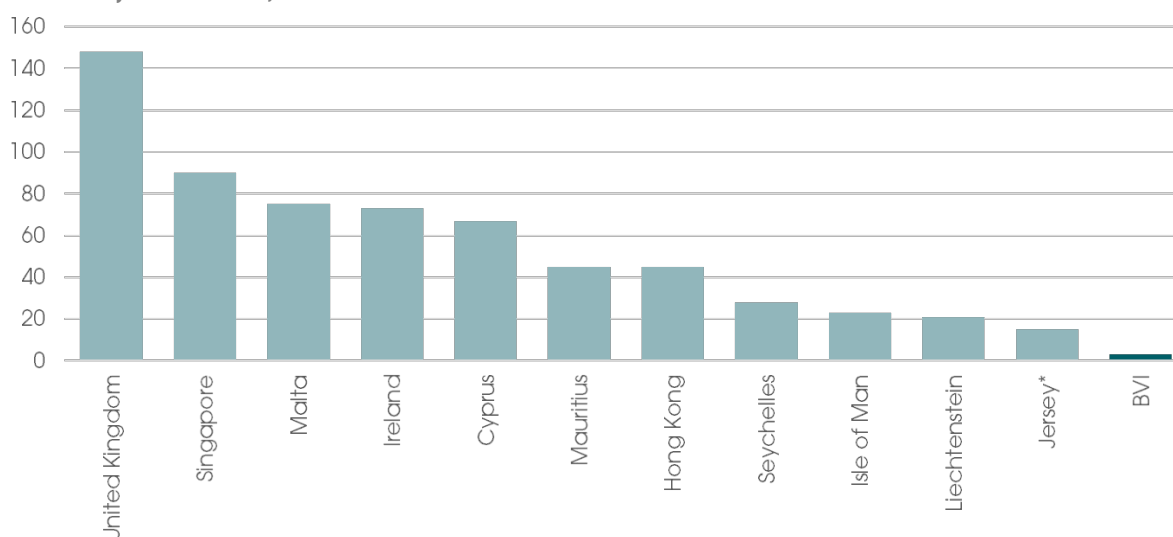
This section of the report outlines the British Virgin Islands’ approach to transparent and responsible business, including the alignment of its international business and finance centre with international standards.

6.1 Tax neutrality and the risk of profit shifting

The British Virgin Islands are a tax neutral jurisdiction, not a tax haven. Residents and domestic businesses are required to pay a variety of taxes, including on their payroll, property and goods and services. However, the islands’ policy of tax neutrality means that local taxes are not levied on transactions conducted by a business company or assets held in vehicles undertaking economic activity elsewhere. This has no bearing on tax liabilities in other jurisdictions, but does avoid companies facing double taxation. For example, investors in a fund located in the territory still pay relevant taxes in their home domicile and the funds pay relevant taxes where their assets are located.

While the annual corporate income tax revenue loss through profit shifting is estimated to be between US\$100 billion and US\$240 billion globally, the risk of the British Virgin Islands being used as a centre for corporate profit shifting is immaterial.⁶⁷ This is because the territory does not benefit from the scale and breadth of tax treaties afforded to individuals and businesses in other countries (largely because it lacks the negotiating power of larger jurisdictions). It has three tax treaties, with the United Kingdom, Switzerland and Japan, although the latter two offer limited practical benefits when it comes to avoiding double taxation. The jurisdiction is therefore unable to guarantee that international business transacted through it will not be taxed in larger countries.

Exhibit 6-1 Number of double taxation agreements in effect with individual countries, by selected jurisdictions, 2022



Source: Pragmatix Advisory and individual jurisdictions’ websites (*full double taxation agreements)

Multinational companies potentially seeking to profit shift are more likely to incorporate within centres providing them security from double taxation agreements with the other nations in

⁶⁷ Organisation for Economic Co-operation and Development, *Explanatory Statement, OECD/G20 Base Erosion and Profit Shifting Project* (Organisation for Economic Co-operation and Development, Paris), 2015. <https://www.oecd.org/ctp/beps-explanatory-statement-2015.pdf> (Accessed 28 October 2022).

which they operate. It is therefore unlikely the territory would be the destination for profit shifting to occur, given the low amount of double taxation agreements in force. If a corporation were looking to minimise their taxation burden, they are much more likely to select a low tax jurisdiction where low rates of taxes and/or tax reliefs are available to them.

6.2 Tax transparency

The British Virgin Islands have a domestic framework in place to ensure its regulatory bodies have access to the beneficial ownership information of people using BVI Business Companies. The jurisdiction is also a member of several global initiatives to address tax evasion.

Tax transparency and the exchange of information for tax purposes is about ending banking secrecy and tax evasion through global tax cooperation.⁶⁸ Tax evasion reduces government revenues, erodes trust in domestic tax regimes and can be damaging to the reputation of international finance centres. Various multi-national bodies have created initiatives to help improve transparency by bringing together jurisdictions and implementing international standards.

In the case of the Organisation for Economic Co-operation and Development, this includes agreed standards on the exchange of information on request, where a tax authority can ask for information to aid in a tax investigation, and automatic exchange of information, which is when an agreed set of information regarding financial accounts held by non-residents is exchanged automatically each year.

On 9 November 2022, the Organisation for Economic Co-operation and Development published its second-round peer review report assessing the British Virgin Islands' exchange of information on request. The report downgraded the jurisdiction's rating from 'largely compliant' to 'partially compliant'.⁶⁹

Out of the ten exchange of information categories, the British Virgin Islands were rated compliant or largely compliant for six. More than two 'partially compliant' scores will not allow for higher overall rating, resulting in a change to the jurisdiction's overall rating from round one.

⁶⁸ Global Forum on Transparency and Exchange of Information for Tax Purposes, *About*, (Organisation for Economic Co-operation and Development, Paris). <https://www.oecd.org/tax/transparency/who-we-are/about/> (Accessed 10 November 2022)

⁶⁹ Global Forum on Transparency and Exchange of Information for Tax Purposes, *Global Forum on Transparency and Exchange of Information for Tax Purposes: British Virgin Islands 2022 (Second Round): Peer Review Report on the Exchange of Information on Request*, (Organisation for Economic Co-operation and Development, Paris) November 2022. <https://doi.org/10.1787/d3fade82-en>. (Accessed 9 November 2022)

Exhibit 6-2 Summary of and response to the Organisation for Economic Co-operation and Development’s determinations and ratings for the British Virgin Islands second round peer review

Element	EOIR rating	Determination	Response
A.1 Jurisdictions should ensure that ownership and identity information, including information on legal and beneficial owners, for all relevant entities and arrangements is available to their competent authorities	Partially compliant	<p>The legal and regulatory framework is in place but needs improvement.</p> <p>Beneficial ownership information is unavailable for some struck-off entities; no public authority supervises registered agents to ensure they meet their obligations under the BOSSs Act, some grandfathered bearer share may not have been deposited with a custodian.</p>	From January 2023, in the case of wrong-doing, the Registry will issue a 90-day notice to companies, warning them of the date they will be removed from the Register of BVIBCs. Once removed from the Register, companies were previously afforded a seven-year grace period to rectify the issues that led them to being struck off and therefore regain access to their assets. A new amendment will see the period to restore a dissolved company reduce from seven years to five years. All bearer shares will be switched to registered shares on 1 July 2023. While this overcomes issues with a lack of transparency, it also overcomes proof of ownership issues.
A.2 Jurisdictions should ensure that reliable accounting records are kept for all relevant entities and arrangements	Non-compliant	<p>The legal and regulatory framework is in place but needs improvement.</p> <p>Accounting records can be kept outside of the BVI and there is no requirement to submit records to BVI authorities, there is no requirement for liquidation to take place in the BVI.</p>	As of January 2023, every BVIBC will be expected to deliver relevant financial reports to their relevant registered agent within a nine-month window following the end of the fiscal year. If the reports are not submitted within 30 days of the deadline, the registered agents are obliged to notify the Financial Services Commission. The amendment to the BVIBC Act also introduces a residency requirement for liquidators.
A.3 Banking information and beneficial ownership information should be available for all account-holders	Largely compliant	<p>The legal and regulatory framework is in place but needs improvement.</p> <p>There is no specified frequency of updating beneficial ownership information for low and normal risk customers so beneficial ownership information may be out of date.</p>	The OECD acknowledges in its summary that the materiality of the gap in ownership information is limited since the majority of entities subject to requests for information do no maintain bank accounts in the BVI.
B.1 Competent authorities should have the power to obtain and provide information that is the subject of a request under an exchange of information arrangement from any person within their territorial jurisdiction who is in possession or control of such information (irrespective of any legal obligation on such person to maintain the secrecy of the information)	Partially compliant	<p>The legal and regulatory framework is in place but needs improvement.</p> <p>When a BVIBC or limited partnership is struck off, it retains legal personality, but such an entity cannot be sanctioned owing to a provision in BVI law requiring that struck-off entities cannot defend themselves against legal proceedings. When the ITA issues a notice to produce information and no response is received, they have no recourse.</p>	As stated by the OECD in its summary, the BVI has already introduced administrative penalties to be administered directly by the International Tax Authority, and it expects the penalties to significantly decrease the administrative burden of only sanctioning through prosecution and may lead to better compliance.

Element	EOIR rating	Determination	Response
B.2 The rights and safeguards (e.g. notification, appeal rights) that apply to persons in the requested jurisdiction should be compatible with effective exchange of information	Largely compliant	The legal and regulatory framework is in place. Precedents from court decisions between 2017 and 2020 now require the BVI to seek clarification from peers and engage in a process of discussion, causing delays in replying to some requests.	The OECD states in its summary that the International Tax Authority has adapted its approach to pre-empt potential judicial reviews and reduce the number of requests for clarification and mitigate time-consuming appeals in the event an information holder seeks a judicial review.
C.1 Exchange of information mechanisms should provide for effective exchange of information	Compliant	The legal and regulatory framework is in place	The OECD made no recommendations for changes to be implemented.
C.2 The jurisdictions' network of information exchange mechanisms should cover all relevant partners	Compliant	The legal and regulatory framework is in place	The OECD made no recommendations for changes to be implemented.
C.3 The jurisdictions' mechanisms for exchange of information should have adequate provisions to ensure the confidentiality of information received	Compliant	The legal and regulatory framework is in place	The OECD made no recommendations for changes to be implemented.
C.4 The exchange of information mechanisms should respect the rights and safeguards of taxpayers and third parties	Compliant	The legal and regulatory framework is in place	The OECD made no recommendations for changes to be implemented.
C.5 The jurisdiction should request and provide information under its network of agreements in an effective manner	Partially compliant	No determination on the legal and regulatory framework has been made. The overuse of clarifications and challenges with accounting records led to delays in response times. Status updated to peers was not done consistently.	The OECD acknowledges that during the review period, the timeliness of responses was affected by hurricanes (and the change in premises of the International Tax Authority) and the pandemic. Changes have already been put in place to alleviate the challenges related to clarifications, and the BVI has put in place an automated reminder system for officials to provide status updates in pending cases.

Source: Organisation for Economic Co-operation and Development and Pragmatix Advisory

The 'partially compliant' overall rating covers the period from 1 March 2016 to 30 June 2020 for exchange of information requests received (including a 'block period' from 1 September 2017 to 31 December 2018 to consider the effects of Hurricane Irma) and assesses the legal and regulatory framework in place as of 9 September 2022. The rating does not consider the legislative changes which are due to come into force in January 2023.

Particular areas of concern led to the 'partially compliant' rating including:

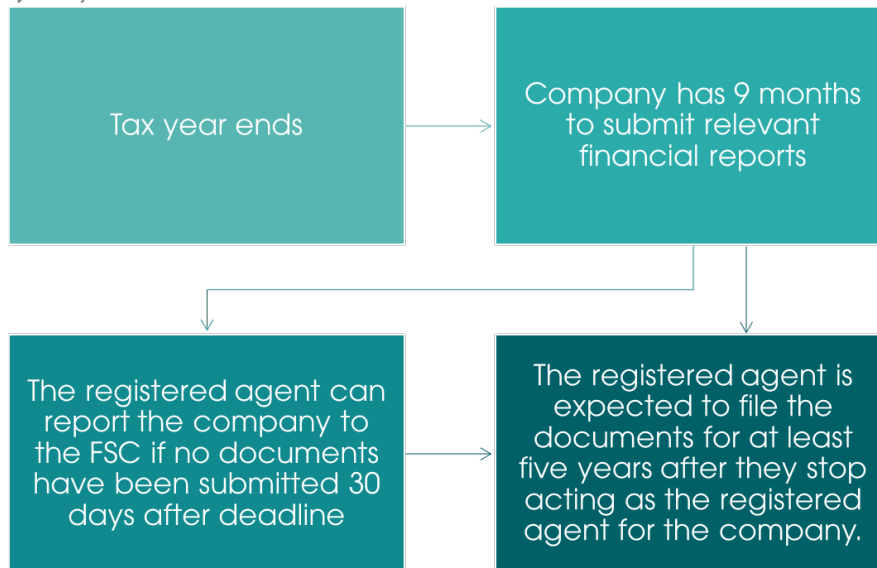
- The power to obtain and provide information that is the subject of a request under an exchange of information request. Here, companies with Mossack Fonseca as their registered agent accounted for 30 per cent of requests for information received. The destruction of records kept at Mossack Fonseca during Hurricane Irma, the cancellation of Mossack Fonseca's license in the British Virgin Islands by the Financial Services Commission and the closing of Mossack Fonseca's Panama office meant it was not possible to access all of the data requested.
- The regime which deals with entities which have been struck from the register. Amendments already made by the Financial Services Commission have not been considered as part of the Organisation for Economic Co-operation and Development's review as they do not enter into force until January 2023.
- The maintenance and storing of accounting records. Amendments already made by the Financial Services Commission have not been considered as they do not enter into force until January 2023.

The process of strengthening the British Virgin Islands' system is ongoing. Where the jurisdiction has received a ranking lower than largely compliant, progress has already been made. In July 2022, further amendments to the *BVI Business Companies Act, 2004* were brought to the legislature and were implemented on 1 January 2023.

First, amendments concerning directors. Revisions included compiling a list of directors of a company upon request. The Registry of Corporate Affairs currently lists the name, address, date of birth and nationality of any director of a BVI Business Company. These details are made accessible only to the registered agent upon request, who in turn, is only authorised to share such details with the permission of the director. With the amendment, the names of the directors will be uploaded to the Virtual Integrated, Registry and Regulatory General Information Network (VIRRRGIN) library and accessible for a fee to users registered with the search system.

Second, amendments to financial reporting requirements. As of the start of next year, every BVI Business Company will be expected to deliver relevant financial reports to their relevant registered agent within a nine-month window following the end of the fiscal year. If the reports are not submitted within 30 days of the deadline, the registered agents are obliged to notify the Financial Services Commission.

Exhibit 6-3 Financial reporting process in accordance with the BVI Business Companies (Amendment) Act, 2022



Source: Pragmatix Advisory

Third, amendments to bearer shares. A bearer share is a type of equity security, with the unique (if somewhat controversial) feature of not needing to register the name of the owner of the share, the 'bearer'. Being of a characteristically confidential nature, bearer shares can raise transparency issues. Bearer shares were immobilised previously but are now abolished with the new law. While this overcomes issues with a lack of transparency, it also overcomes proof of ownership issues. Rather archaically, whoever is in possession of the bearer share certificate is considered the 'bearer', which increases risk of theft and causes problems for companies looking to open subsidiaries or bank accounts, for example.

Fourth, amendments to the removal and restoration of BVI Business Companies. In the case of wrong-doing, the Registry issues a 90-day notice to companies, warning them of the date they will be removed from the Register of BVI Business Companies. Once removed from the Register, companies were previously afforded a seven-year grace period to rectify the issues that led them to being struck off and therefore regain access to their assets. A new amendment will see the period to restore a dissolved company reduce from seven years to five years.

The overall findings and partially compliant rating do not reflect the progress the British Virgin Islands have made on tax transparency and where it is in terms of its regulation and monitoring. The jurisdiction is hopeful for an immediate review by the Organisation for Economic Co-operation and Development to take account of the legislative changes which have been enacted since the end of the review period two and a half years ago. As it stands today, the British Virgin Islands should be receiving a rating of largely compliant or compliant.

Indeed, in the first round of the Organisation for Economic Co-operation and Development's tax transparency rating, the territory was categorised as largely compliant alongside countries including the United Kingdom and the United States.

Exhibit 6-4 Organisation for Economic Co-operation and Development's tax transparency rating, round 1, 2021

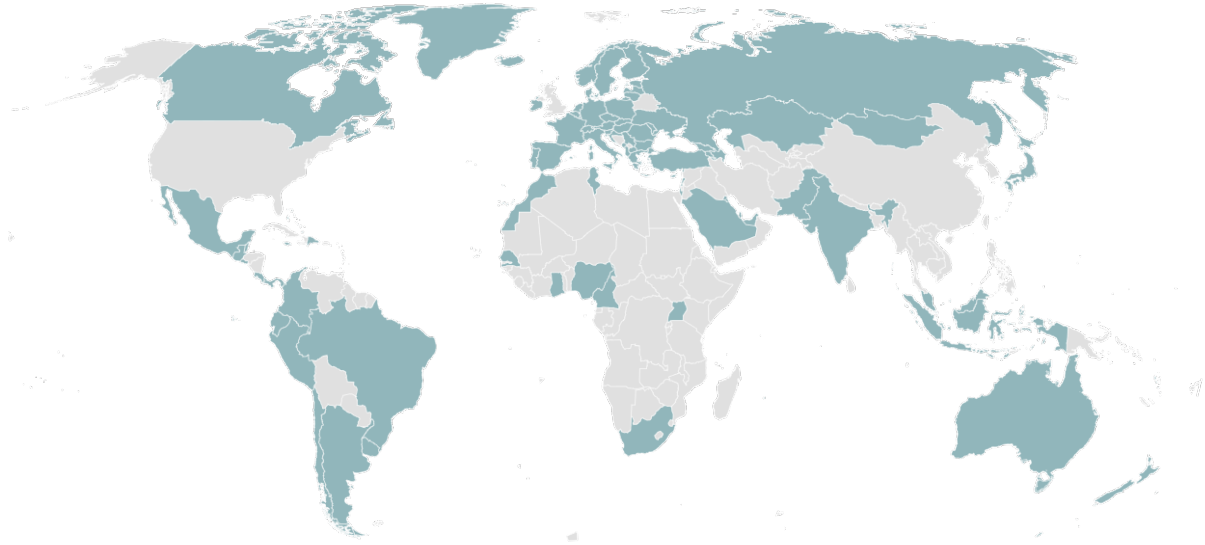
Implementation of the Exchange of Information on Request standard rating	Jurisdiction
Compliant	Australia, Belgium, Canada, China (People's Republic of), Colombia, Denmark, Finland, France, Iceland, India, Ireland, Isle of Man, Japan, Korea, Lithuania, Mexico, New Zealand, Norway, Slovenia, South Africa, Spain, Sweden
Largely compliant	Albania, Argentina, Aruba, Austria, Azerbaijan, Bahamas, Bahrain, Barbados, Belize, Bermuda, Botswana, Brazil, British Virgin Islands , Brunei Darussalam, Bulgaria, Burkina Faso, Cameroon, Cayman Islands, Chile, Cook Islands, Cyprus, Czech Republic, El Salvador, Estonia, Gabon, Georgia, Germany, Ghana, Gibraltar, Greece, Grenada, Guernsey, Hong Kong (China), Hungary, Israel, Italy, Jamaica, Jersey, Latvia, Lesotho, Liechtenstein, Luxembourg, Macau (China), Malaysia, Malta, Mauritania, Mauritius, Monaco, Montserrat, Morocco, Netherlands, Nigeria, Niue, North Macedonia, Pakistan, Philippines, Poland, Portugal, Qatar, Romania, Russia, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, San Marino, Saudi Arabia, Senegal, Seychelles, Singapore, Slovak Republic, Switzerland, Turks and Caicos Islands, Uganda, United Kingdom, United States , Uruguay
Provisionally largely compliant	Andorra, Antigua and Barbuda, Costa Rica, Dominica, Dominican Republic, Lebanon, Marshall Islands, Nauru, Panama, Samoa, United Arab Emirates, Vanuatu
Partially compliant	Anguilla, Curaçao, Indonesia, Sint Maarten, Turkey
Non-compliant	Guatemala, Trinidad and Tobago
Not applicable	Côte d'Ivoire, Croatia, Kazakhstan, Liberia, Moldova, Papua New Guinea, Peru, Tanzania, Tunisia, Ukraine

Source: Organisation for Economic Co-operation and Development

Developed in a collaboration between the Council of Europe and the Organisation for Economic Co-operation and Development in 1988, the Convention on Mutual Administrative Assistance in Tax Matters is used to better facilitate international tax cooperation. As of July 2022, 146 jurisdictions have the enforced mutual administrative assistance in tax matters, including all Group of Twenty countries, all Organisation for Economic Co-operation and Development countries, Brazil, Russia, India, China and South Africa (BRICS) and international business and finance centres.⁷⁰ More than three-quarters of these jurisdictions have an agreement in place with the British Virgin Islands.

⁷⁰ Organisation for Economic Co-operation and Development, *Convention on Mutual Administrative Assistance in Tax Matters* (Organisation for Economic Co-operation and Development, Paris), July 2022. <https://www.oecd.org/tax/exchange-of-tax-information/convention-on-mutual-administrative-assistance-in-tax-matters.htm#:~:text=Mutual%20Administrative%20Assistance%20Convention,-Definition&text=The%20Convention%20currently%20has%20146%20participating%20jurisdictions>. (Accessed 28 October 2022)

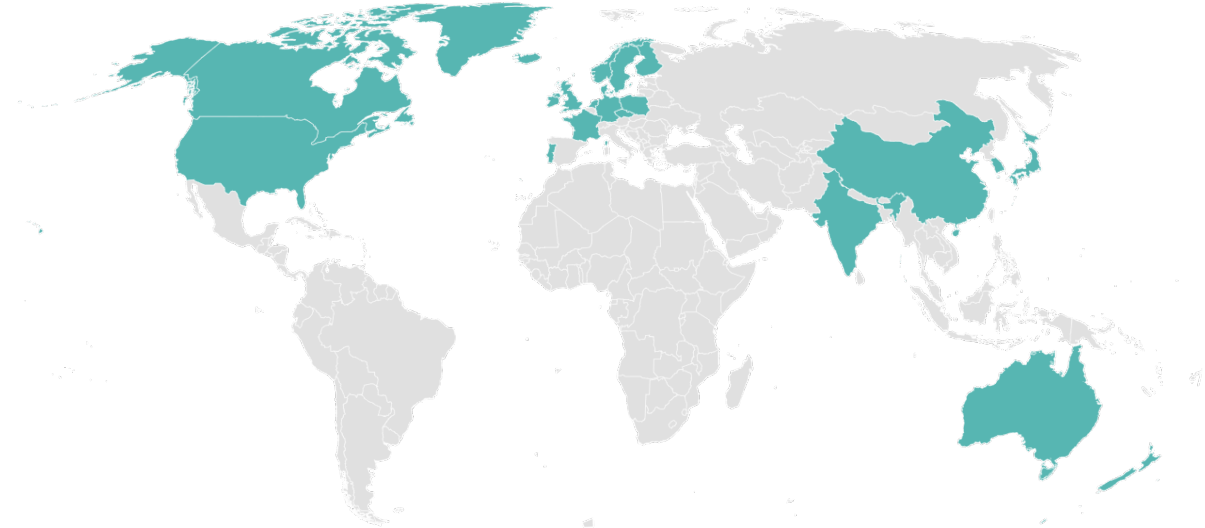
Exhibit 6-5 Jurisdictions that have enforced the mutual administrative assistance in tax matters with the British Virgin Islands, 2022



Source: British Virgin Islands International Tax Authority

In 2002, the Organisation for Economic Co-operation and Development issued a model for Tax Information Exchange Agreements to promote international cooperation with the sharing of relevant information about the accounts within their financial institutions. Acting swiftly and ahead of many peers, the British Virgin Islands developed its first agreement with the United States in 2002 and currently has 28 agreements in place, more than Ireland and the United Kingdom.⁷¹

Exhibit 6-6 Jurisdictions that have signed tax information exchange agreements with the British Virgin Islands, 2022



Source: British Virgin Islands International Tax Authority

⁷¹ The BVI has signed Tax Information Exchange Agreements with the following jurisdictions: Aruba, Australia, Canada, China, Curacao, Czech Republic, Denmark, Faroe Islands, Finland, France, Germany, Greenland, Guernsey, Iceland, India, Ireland, Isle of Man, Japan, Netherlands Antilles, New Zealand, Norway, Poland, Portugal, St Maarten, Sweden, United Kingdom, and the United States.

Each Tax Information Exchange Agreement signed between the territory and another jurisdiction is implemented following the *Mutual Legal Assistance Tax Matters Act, 2003*. These agreements govern the islands' commitment to transparency and underscore its willingness to support the authorities of other jurisdictions.

For those using BVI Business Companies, the territory is adept at balancing its responsibilities of privacy and financial transparency in sharing beneficial ownership information.

In recent decades, the jurisdiction has made significant changes to its legal and regulatory framework to ensure that information covered by the tax transparency standard is available and ready to exchange. This includes adjusting its approach to beneficial ownership information collection in 2015, the development of the Beneficial Ownership Secure Search system portal in 2016 and the changes made to the *BVI Business Companies Act*. The combination of these changes demonstrates the commitment of the islands to this work and reflects its position as one of the most regulated jurisdictions in the world.

Every year, funds, licensees, approved funds, incubator funds and approved managers are required to report their financial statements, in line with recognised international accounting standards, to the Financial Services Commission.

In June 2017, the British Virgin Islands' Beneficial Ownership Secure Search System began operation. The system established under the act stores the details of beneficial owners of registered companies and certain other entities. Law requires that Registered Agents verify this information and carry out customer due diligence, with enhanced requirements for politically exposed persons.

Only registered agents in the jurisdiction are permitted access to the search system to upload the required information on relevant entities. This information includes company particulars, beneficial owner information, registrable legal entity information and particulars on the parent of the corporate and legal entity. Beneficial ownership information recorded must include name, date of birth, proof of nationality and a residential address. For registrable legal entities, the details recorded include the jurisdiction of incorporation and whether the entity is a foreign regulated person or sovereign state. The parent of the corporate and legal entity has an additional requirement to record the particulars and the jurisdictions of incorporation of the parent company.

Despite legitimate concerns raised by international business and finance centres regarding the risks to privacy and security, the British Virgin Islands is ready to introduce a public register of beneficial owners by 2023 in line with adopted international standards. This register would make the names of business owners and ultimate beneficiaries publicly accessible.

In a November 2022 ruling, the Court of Justice of the European Union found that existing rules on public registers for member states were too loosely framed and granted overly wide access to information without properly justifying the interference into people's right to privacy. The ruling was made in response to a request by the Luxembourg courts, asking the CJEU to consider whether public registers were a violation of privacy rights, personal data and general data protection regulations. The judgement has resulted in member states including the Netherlands, Belgium and Luxembourg removing their registers from public view.

6.3 Preventing money laundering and the funding of terrorism

The scope for financial criminal activities to occur through the British Virgin Islands is minimal. The jurisdiction has robust processes and legislation to combat money laundering and terrorist financing and has a better record on this measure than many larger onshore centres.

'Know Your Customer' – steps like establishing customer identity, understanding the customers' activities, verifying that the funds have originated from a legitimate source and conducting relevant risk assessment checks – and anti-money laundering measures cultivated in the jurisdiction are superior to those in much larger nations. The territory is constantly looking for ways to elevate their adherence to anti-money laundering methods and as a result of a consultation with the Joint Anti-Money Laundering and Terrorist Financing Committee (JALTFAC), the *Anti-Money Laundering Act* was amended to include institutions' use of electronic or digital means to undertake customer verification of identity. These include digital, electrical, magnetic, optical, electromagnetic, biometric and photonic methods.

In addition to the wealth of transparency initiatives designed to prevent financial crime already outlined, the territory also works closely with international law enforcement agencies, including the United Kingdom's National Crime Agency in the global fight against financial crime. The Financial Services Commission receives and sends requests for information, in line with specific memorandums of understanding signed between the Financial Services Commission and regulatory authorities in other jurisdictions. In 2021, the territory received 108 requests for information and made 37 requests to other jurisdictions. In the second quarter of 2022, the territory had received 28 formal incoming requests for the sharing of documents and information, within the context of international cooperation.

The territory was one of the early adopters of the Organisation for Economic Co-operation and Development's Common Reporting Standard, along with the United Kingdom. Other automatic exchange of information initiatives the jurisdiction adopted early include the Organisation for Economic Co-operation and Development's Mutual Administrative Assistance in Tax Matters Protocol and the *United States Foreign Account Tax Compliance Act*.

The territory is one of the 24 members of the Caribbean Financial Action Task Force (CFATF), one of the eight bodies in the Financial Action Task Force (FATF) network combatting money laundering and the financing of terrorism. The Caribbean Financial Action Task Force carries out mutual evaluation and follow up reports to monitor a member's implementation of the Financial Action Task Force recommendations.

Exhibit 6-7 Adherence to international initiatives on automatic exchange of information and tax avoidance for selected jurisdictions, 2022

Jurisdiction	Automatic exchange of information initiatives			Tax avoidance initiatives
	Part of Early Adopters Group of OECD Common Reporting Standard (CRS)	OECD Mutual Administrative Assistance in Tax Matters Protocol/ Amended Convention in force (Automatic exchange of information)	US Foreign Account Tax Compliance Act Intergovernmental Agreement in force (FATCA)	Members of the Inclusive Framework on Base Erosion and Profit Shifting - two-pillar solution (BEPS)
BVI	✓	✓ 2014	✓ 2015	✓
Bahamas		✓ 2018	✓ 2015	✓
Cayman Islands	✓	✓ 2014	✓ 2014	✓
Cook Islands	✓	✓ 2017		✓
Dominican Republic		✓ 2019	✓ 2019	✓
El Salvador		✓ 2019		
Ghana		✓ 2013		
Gibraltar	✓	✓ 2014		✓
Ireland	✓	✓ 2013	✓ 2014	✓
Jersey	✓	✓ 2014	✓ 2015	✓
Luxembourg		✓ 2014	✓ 2015	✓
Malta	✓	✓ 2013	✓ 2014	✓
Mauritius	✓	✓ 2015	✓ 2014	✓
Montserrat	✓	✓ 2013	✓ 2016	✓
Nauru		✓ 2016		
Netherlands	✓	✓ 2013	✓ 2015	✓
Niue		✓ 2016		
Panama		✓ 2017	✓ 2016	✓
Philippines		Signed, not in force	Signed, not in force	
Seychelles	✓	✓ 2016	Signed, not in force	✓
St Kitts and Nevis		✓ 2016	✓ 2016	✓
United Arab Emirates		✓ 2018	✓ 2016	✓
United Kingdom	✓	✓ 2011	✓ 2014	✓
United States		Signed up to Original Convention	N/A	✓

Sources: Pragmatix Advisory, United States Treasury and Organisation for Economic Co-operation and Development

6.4 Delivering on sanctions

The strength of the British Virgin Islands' transparent system was demonstrated throughout 2022 as it was able to help onshore jurisdictions such as the United Kingdom to deliver on their judicial mandates against Russia, where their own systems proved insufficient to trace ultimate beneficial owners. Previously, the territory has helped larger countries uphold sanctions against Iran, and more recently against Belarussian nationals and companies, due to the country's role in the invasion of Ukraine.

Following the Russian invasion of Ukraine in February 2022, countries around the world introduced economic and financial sanctions across a broad range of sectors. Collectively, the United States, United Kingdom and European Union have sanctioned over 1,000 Russian individuals and businesses.

As of mid-February 2023, the European Union has introduced ten packages of sanctions against Russia since the war on Ukraine commenced. The United Kingdom and United States have introduced similar ranges of measures, covering restrictions on goods and services including financial transactions, the export and supply of chemicals, defence, shipping, energy, extractives, communications and technology. Russian residents have been banned from paying off international loans using funds held in many foreign banks, and the country's planes have been barred from certain airspaces.

The Governor's Office is the authoritative body for sanctions in the British Virgin Islands and they implemented measures in a joint statement with the United Kingdom in May 2022. Quickly identifying the owners of assets, and freezing those assets as soon as possible, is essential to the effectiveness of sanctions. Beneficial ownership information stored in the search system can be made available to overseas law enforcement in as little as one hour, and information is currently shared with more than 200 countries around the world. Rapid information sharing facilitated by the Beneficial Ownership Secure Search system has allowed the British Virgin Islands to identify, freeze and share details on Kremlin-affiliated assets worth over US\$400 million in the territory alone since February 2022.

Information held in the Beneficial Ownership Secure Search System enabled authorities to identify the ownership of superyachts *Lena* and *Amore Vero*, leading to their seizure in Italy and France respectively. The ownership of two further superyachts, *Halo* and *Garçon*, was revealed to be Russian oligarch Roman Abramovich due to the release of information held in the jurisdiction.

The aggregate value of sanctioned assets held in the territory has been lower than in other British Overseas Territories, likely because those jurisdictions have a larger amount of assets under management, especially in funds and other equity. However, information provided to partner jurisdictions has contributed to the freezing of hundreds of millions of dollars of assets across the globe.

6.5 Economic substance

For a business company to have 'economic substance' it must have adequate presence in and/or carry out its economic activities in the jurisdiction in which it is tax resident. Many jurisdictions, including the British Virgin Islands, have introduced broadly similar economic substance requirements in response to requirements set out by the European Union and Organisation for Economic Co-operation and Development to prevent harmful tax practices and profit shifting.

The *Economic Substance (Companies and Limited Partnerships) Act* entered into force on at the beginning of 2019. This requires all entities that conduct certain activities within the scope of the legislation must either:

1. Ensure that the substance of the relevant activity, including its 'core income generating activities', takes place within the jurisdiction; or
2. Demonstrate tax residence in a jurisdiction outside the British Virgin Islands

An entity that does not do so can expect to be the subject of enforcement proceedings by the islands' International Tax Authority.

The nine business activities relevant to this legislation and their associated core income generating activities are:

- **Banking business:** raising funds, managing risk (including credit, currency and interest risk); taking hedging positions; providing loans, credit or other financial services to customers; managing regulatory capital; and preparing regulatory reports and returns
- **Distribution and service centre business:** transporting and storing goods; managing stocks; taking orders; and providing consulting or other administrative services
- **Insurance business:** predicting and calculating risk; insuring or re-insuring against risk; and providing insurance business services to clients
- **Fund management business:** taking decisions on the holding and selling of investments; calculating risk and reserves; taking decisions on currency or interest fluctuations and hedging positions; and preparing regulatory and other reports for government authorities and investors
- **Financing or leasing business:** agreeing funding terms; identifying and acquiring assets to be leased (in the case of leasing); setting the terms and duration of any financing or leasing; monitoring and revising any agreements; and managing any risks
- **Headquarters business:** provision of senior management; assumption or control of material risk; or the provision of substantive advice in connection with risk, as each relate to any entity in the same group
- **Shipping business:** managing the crew (including hiring, paying and overseeing crew members); hauling and maintaining ships; overseeing and tracking deliveries; determining what goods to order and when to deliver them; and organising and overseeing voyages
- **Intellectual property business:** where the business concerns intellectual property assets such as patents, research and development; and where the business concerns non-trade intangible assets such as brand, trademark and customer data, marketing, branding and distribution

All legal entities regardless of whether they carry out relevant activities or fall outside of the scope of the legislation must comply with the self-assessment reporting requirements required under the *Beneficial Ownership Secure Search System Act*. This act was amended following the introduction of the jurisdiction's economic substance legislation to require business companies to provide information about their tax residency status and activities.

6.6 Debunking the myths

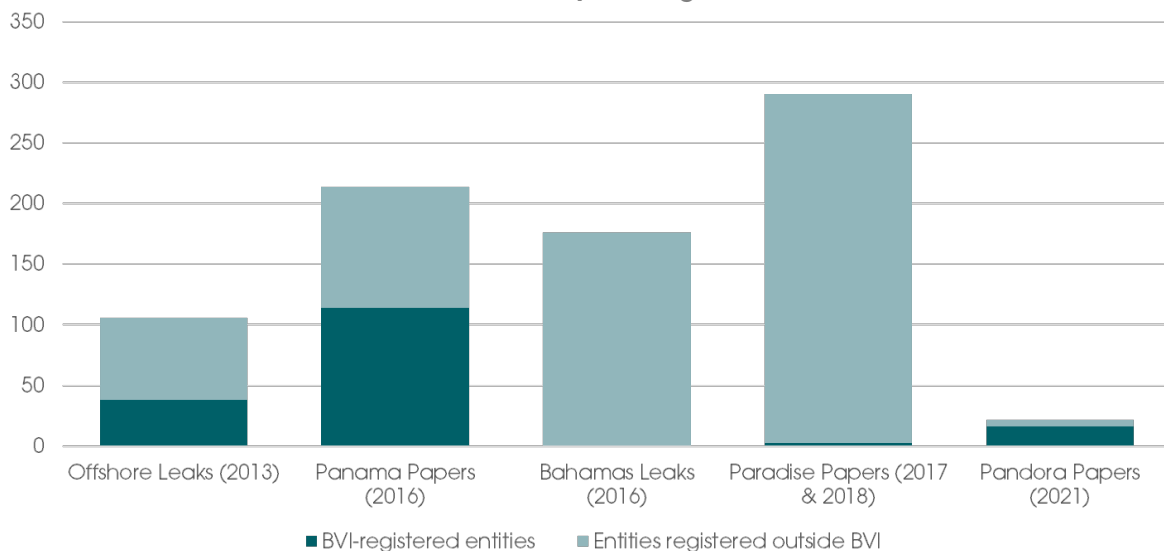
The territory's international business and finance centre, like others, is not without its detractors. Individuals and organisations including the media have long claimed that it is ill-regulated and complicit in international financial crime. Over the years, a variety of research has attempted to calculate the alleged negative impact of offshore finance centres on

developing nations. However, much of the underpinning data used in this research has been shown to be either unreliable, incomplete or misinterpreted. There is also a general underlying confirmation bias that comes through the results as authors start with an assumption that all offshore activity is illicit.

The *Pandora Papers* cover stolen information from 11.9 million confidential documents from fourteen offshore service providers and published (in part) by the International Consortium of Investigative Journalists on 3 October 2021.⁷² They include images, emails and spreadsheets exposing the accounts of entities using international finance centres. This followed a similar hacking of 11.5 million documents in 2016 known as the *Panama Papers*.⁷³

The International Consortium of Investigative Journalists itself recognises that: “there are legitimate uses for offshore companies and trusts. The inclusion of a person or entity in the Offshore Leaks Database is not intended to suggest or imply that they have engaged in illegal or improper conduct. Many people and entities have the same or similar names... The data comes directly from the files the consortium has received in connection with various investigations and each dataset encompasses a defined time period specified in the database.”

Exhibit 6-8 Total number of entities identified by investigation, thousands



Source: International Consortium of Investigative Journalists

By July 2022, the International Consortium of Investigative Journalists had added nearly 22,000 companies, foundations and trusts in connection with the *Pandora Papers* to its database, three quarters of which were registered in the British Virgin Islands. Of the 814,000 entities revealed in the last decade, just 3.6 per cent were included in releases attached to the *Pandora Papers*.

The consortium claims that offshore entities “enable owners to conceal their identities from the public and sometimes from regulators”. It is with some irony that the International Consortium of Investigative Journalists was only able to acquire the stolen data because registered agents are legally required to collect and maintain beneficial ownership information. The Beneficial Ownership Secure Search system (BOSSs) was not the source of

⁷² International Consortium of Investigative Journalists, *The Pandora Papers* (International Consortium of Investigative Journalists, Washington DC), 3 October 2021.

⁷³ International Consortium of Investigative Journalists, *The Panama Papers* (International Consortium of Investigative Journalists, Washington DC), 3 April 2016.

the Pandora leak, and none of the regulatory authorities in the British Virgin Islands have had data stolen.

Exhibit 6-9 Availability of data released by International Consortium of Investigative Journalists

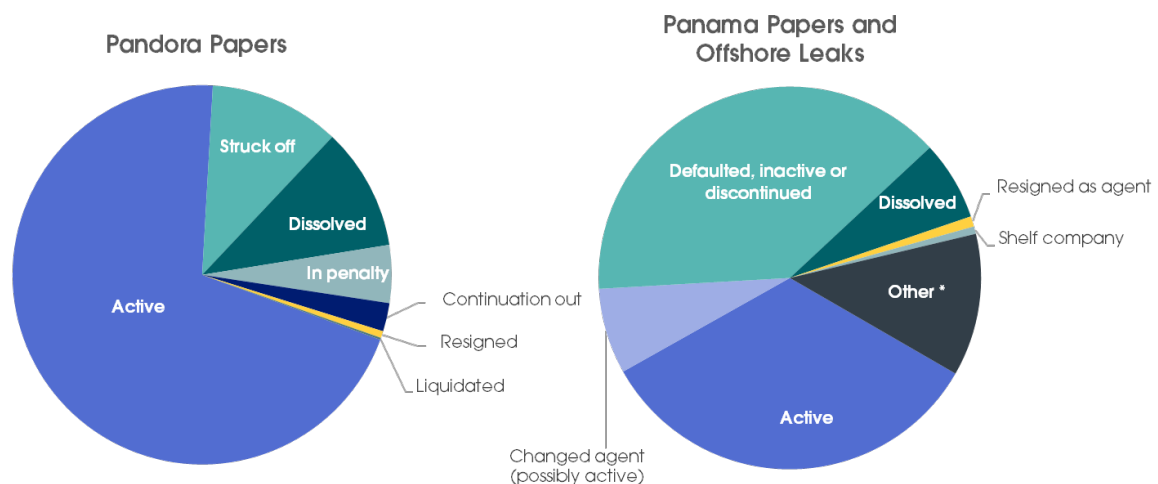
	Offshore Leaks (2013)	Panama Papers (2016)	Bahamas Leaks* (2016)	Paradise Papers* (2017 & 2018)	Pandora Papers (2021)
Entities (i.e. companies, foundations and trusts)					
Number of entities	Yes	Yes	Yes	Yes	Yes
Identify where entities are registered	Yes	Yes	Yes	Yes	Yes (but partial)
Connect entities to associated countries	Yes (but partial)	Yes	Yes	Yes	Yes
Status of entities	Yes	Yes	Yes	Yes	Yes
Year of incorporation of entities	Yes	Yes	Yes	Yes	Yes
Officers (i.e. directors, shareholders, beneficiaries)					
Number of officers	Yes	Yes	Yes	Yes	Yes
Identify type/role of officer	Yes	Yes	Yes	Yes	-
Connect officers to entities	Yes	Yes	Yes	Yes	Yes
Connect officers to associated countries	Yes	Yes	Yes	Yes	Yes

Source: International Consortium of Investigative Journalists

It can be expected that there are more entries still to come (ten out of fourteen sources have been released so far) and more detail to be added to existing entries.

Much like the publication of confidential documents that formed the basis of the *Panama Papers*, the database put together by the International Consortium of Investigative Journalists based on the documents underlying the *Pandora Papers* contains significant amounts of outdated information.

Exhibit 6-10 Status allocated to companies incorporated in the British Virgin Islands as provided by the International Consortium of Investigative Journalists, Pandora Papers in 2017/18 and the combined Panama Papers in 2015 and Offshore Leaks in 2010

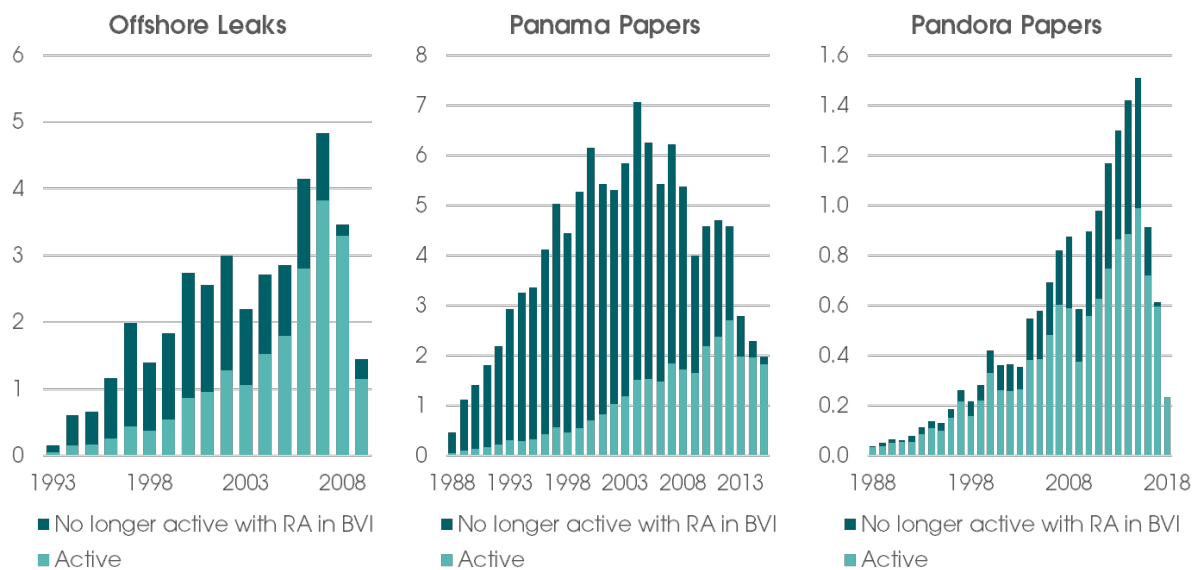


Note: * Other includes one company which was not allocated a status and companies who were given the following statuses: 'in transition', 'bad debt account', 'change in administration pending', 'in liquidation', 'reallocated in new jurisdiction', 'trash company'. Source: International Consortium of Investigative Journalists

Only two-thirds of the registered entities identified by the stolen data were active when the *Pandora Papers* information was released. Of those entities that were not active, 37 per cent had been struck from registered agent books, while 35 per cent had been dissolved. Just one in three of the islands' registered entities identified in previous releases were known to be active at the time of publication. Even if all seven per cent of additional entities from previous papers identified as having changed agents were still active, this only brings the total of active entities up to 41 per cent of all entities identified in pre-Pandora papers.

Of the 1,500 entities that were registered in 2015, less than two-thirds remained active three years later. Ten per cent of the islands' registered entities identified in the *Pandora Papers* were incorporated prior to the start of the millennium, and a further 34 per cent were incorporated between 2000 and 2009.

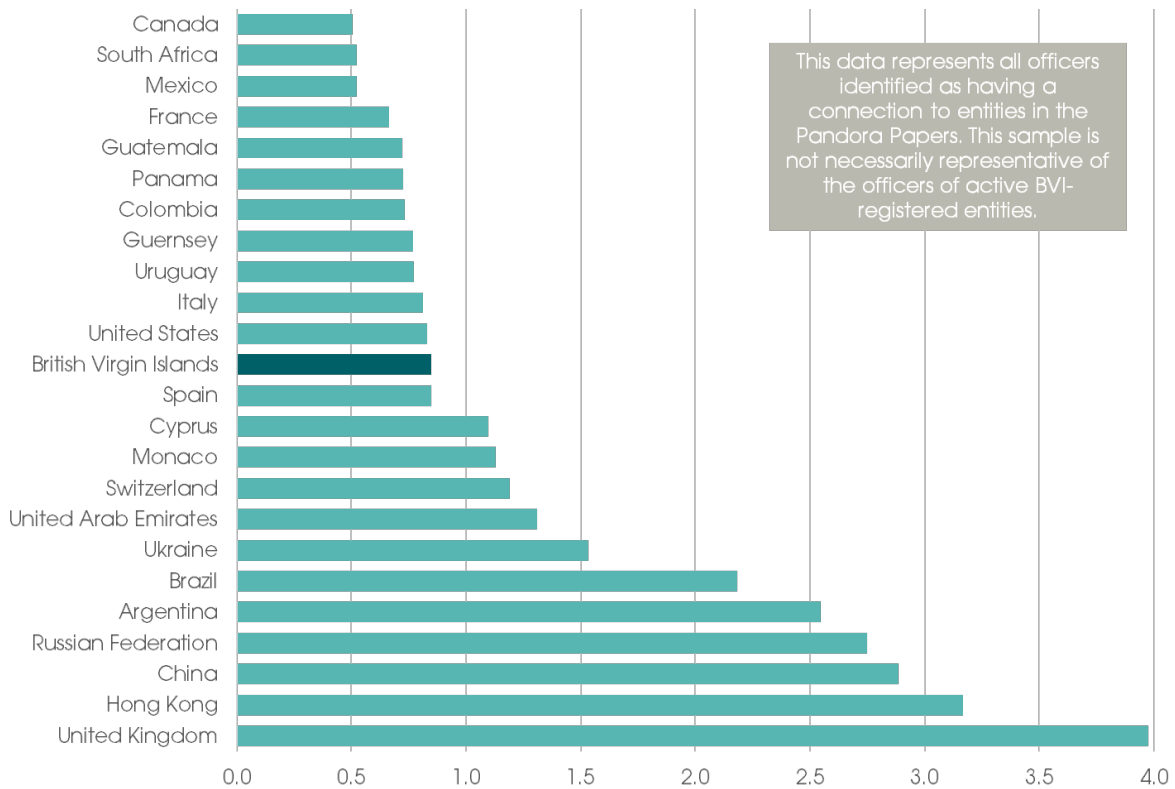
Exhibit 6-11 Number of registered entities in the British Virgin Islands identified by year of incorporation, Offshore Leaks in 2010, Panama Papers in 2015 and Pandora Papers in 2017/18, thousands



Source: International Consortium of Investigative Journalists

The *Pandora Papers* revealed the 'officers' of entities, which includes their directors, shareholders and/or beneficiaries. While it does identify the country of the officers connected to the entities generally, their relationship to specific entities remains unknown. It is therefore not possible to say how many of these officers are related to the British Virgin Islands, nor how many are even active at the time the data was taken.

Exhibit 6-12 Number of officers identified by country of association, Pandora Papers, 2020/21, thousands



Source: International Consortium of Investigative Journalists

The British Virgin Islands has been associated with various database hacks in recent years, but this is more a reflection of the geographical nature of the hacked organisation. Often the stolen data refer to historic companies that are no longer active or to legitimate organisations with no evidence of any illicit behaviour.

7 Opportunities and challenges

This section outlines the challenges and opportunities facing the British Virgin Islands' international business and finance centre, both from a domestic and international standpoint.

7.1 Political and constitutional stability

Political stability has been a key strength of the islands, but it is also a risk.

The islands have established themselves as a robust and respected international business and finance centre through decades of stable and consistent government underpinned by its ability to determine most of its own domestic legislation and tax affairs. However, the completion of a commission of enquiry into governance standards in the islands' public services by former English High Court judge Sir Gary Hickinbottom, followed quickly by the unrelated detention by United States of the then Premier, Andrew Fahie, in April 2022 sat uneasily with this hard-earned reputation. Moreover, subsequent discussion of direct rule by the United Kingdom government demonstrated the potential weakness of the territory's self-governing status.

The enquiry has identified areas of concern that need to be addressed by the islands' government. While these episodes have demonstrated the continued importance of good and close relations with the United Kingdom, they have also reinforced the robustness of the international business and finance centre.

First, no concerns have been raised about the islands' cluster of cross-border finance firms which was confirmed by the Governor, John Rankin, who noted that the financial services' sector was not under review.⁷⁴ Indeed, Sir Gary's report contains only one recommendation indirectly referencing any finance-related institution: the proposed review of "law enforcement and justice systems", which include the Financial Investigation Agency. Speaking about the Commission of Inquiry, outgoing Governor Jaspers said the jurisdiction had "an excellent financial services industry that is known worldwide for its strong regulation and international standards."

Second, the response of the United Kingdom government was measured and respectful of the islands' autonomy. The recommendation for direct rule was not implemented in favour of more constructive relationship with the islands' own elected representatives. Moreover, there was no hint of any potential interference from London in the running of the international business and finance centre – nor in the tax and legislative powers that support it.

Third, Andrew Fahie was replaced as Premier and a new unity government formed quickly, confidently and effectively. The unexpected handover of power was carried out with an efficiency that many much larger democracies would struggle to emulate. The new administration has swiftly established authority domestically and gained respect abroad.

There are broader domestic political and constitutional risks for the international business and finance centre. Although not written in statute nor measurable in official statistics, stakeholders in the cluster need to consider whether it retains a popular mandate to continue operating in the islands. The centre's significant contribution to jobs, incomes and

⁷⁴ Government of the Virgin Islands, *Statement by His Excellency the Governor John Rankin, CMG* (Government of the Virgin Islands, Road Town), 29 April 2022. <https://bvi.gov.vg/media-centre/statement-his-excellency-governor-john-rankin-cmg-regarding-commission-inquiry-report> (Accessed 28 October 2022)

taxes are a major component, but these must continue to ally with a business model that is understood and supported by the wider polity and population.

Just as it did during the aftermath of Hurricanes Irma and Maria, the global pandemic, the Commission of Inquiry and the Premier challenge, the international business and finance centre remained resilient.

7.2 Global economy and large nations' priorities

Future global economic trends are both an opportunity and a challenge for the islands' international business and finance centre.

In the near-term, growth in the global economy looks set to slow – with some of the largest economies, including the United States and the United Kingdom, at risk of recession. Given the islands' exposure to the Chinese and Hong Kong markets, the prospects for these are particularly relevant. For example, even though the outlook is for their economies to continue growing faster than those in Europe and North America, the rate will be markedly lower than recent decades. Indeed, given the levels of debt, some commentators are forecasting even worse for China than the sub-five per cent annual growth predicted by the International Monetary Fund.⁷⁵

It will therefore be a tough macroeconomic environment for the cross-border finance industry and for the territory in particular. There will be weaker underlying drivers of activity, such as trade, corporate global merger, acquisition, joint venture and expansion activities; and international portfolio investments. But it will also be an environment of heightened risk and uncertainty, which can simulate demand for the services of international finance centres because neutral, long-established and well-respected offshore centres provide safe haven for investors and businesses alike.

One specific concern is the implications of current macroeconomic trends on the risk appetites of onshore banks and their regulators. Although the islands use the US dollar as their currency, banks in the territory do not have direct access to United States' clearing regime. Instead, they operate correspondent banking with established Stateside clearers to ensure access to the global system.

Correspondent banking is a system whereby one bank – the correspondent bank – holds deposits belonging to another bank – the respondent bank. Essentially, it is a bilateral agreement between banks whereby one bank provides services to the other. Correspondent banking is useful for cross-border trade and for customers unable to access foreign financial systems. Customers do not have direct access to the correspondent bank – the business is conducted indirectly. Correspondent banking can include services such as: international funds transfers; cash management; cheque clearing; loans and letters of credits; and foreign exchange services.

After the global financial crisis of 2007/8 and the increasing scrutiny of banks by regulators, many institutions took a less favourable view of correspondent banking partnerships, and of the Latin America and Caribbean region more generally, as they looked to de-risk. Scotiabank, Bank of America, Royal Bank of Canada and Canada Imperial Bank of Commerce, for example, have all ceased such operations in the region over the past few years based on strategic risk management calls made at their group headquarters. They are

⁷⁵ World Bank, *The World Bank in China* (World Bank, Washington DC), 29 September 2022. <https://www.worldbank.org/en/country/china/overview> (Accessed 1 November 2022)

not grounded in any specific risks related to doing business in the jurisdiction, but nonetheless have significant consequences.

Looking further ahead, global economic trends, and their implications for the territory, are less clear. The three scenarios for globalisation provide a basis for considering the range of potential futures.

Meanwhile, the *realpolitik* of international relations is an imbalance of power in favour of the large nations and against small island jurisdictions.

The British Virgin Islands have limited (and, all-too-often, no) influence over the international rules, standards and protocols within which it has to operate. Over recent decades, authorities and businesses on the islands have willingly, positively and proactively responded to the requirements of larger nations in relation to anti-money laundering, tax transparency and economic substance; they have led the world with the creation of the BOSSs ownership register. However, the demands have not ended there – with ongoing pressures to implement a publicly accessible register of beneficial ownership and adopt a global minimum rate of corporate tax. Neither have a sound basis in the international fight against crime, tax evasion or tax avoidance.

The policies of the Group of Seven and the European Union are primarily determined by the interests of the members of those organisations, and with little consideration of the impact on smaller non-member nations or the world as a whole. As the big nations seek to address their weak fiscal positions, buttress their domestic economies and safeguard the jobs of their electorates, expect further demands to be made of the likes of the British Virgin Islands. The nature and scale of these will depend on the future geopolitical scenario.

With **weaker internationalism**, where pre-pandemic globalisation trends continue but more slowly and with greater turbulence, the islands' offshore cluster is under no immediate threat. Out of the three scenarios, it is the closest to business as usual. The international business and finance centre will, however, need to evolve and innovate to respond to an increasingly competitive market, especially for volume incorporations. Continued hardening of the United States' and European Union's rules add to the costs for those incorporating and servicing offshore vehicles. Margins could be squeezed especially at the higher volume and lower value end of the market. Sustainability and success will depend on continuing the shift away from the historical business model which focused on increasing volumes of incorporations towards providing a wider and deeper range of higher value advisory and other professional services, available in a 'one stop corporate shop'.

In the **bloc economy**, where increasingly integrated geopolitical groups of nations diverge from one another, the islands' government as well as the businesses in the international business and finance centre face tough choices. It becomes harder to meet the needs of all markets simultaneously. The costs of compliance with European Union rules make services too expensive for Asian and American customers, while the different blocs take measures to limit activity across regional borders. There will be a role for trade and investment intermediaries between blocs; given its existing global reach, the territory could become such a centre. But this is neither certain nor without risk. Alternatively, the territory must choose between blocs. It may well come down to the choice between the historic markets of Europe and North America and the growing markets of Latin America, Africa and Asia. There are opportunities and risks for the international business and finance centre. If it is possible to maintain access to multiple blocs, the islands' neutrality, and experience in digital assets, becomes increasingly valuable – especially as a greater share of global output is non-geographic. But the costs of access to the European market make it difficult to service clients mass-market worldwide at a competitive rate. The potential resurgence of capital and

exchange controls provides new opportunities for international finance centres, but the limited banking provision in the British Virgin Islands may limit the potential for them.

Under a **new economic nationalism**, where individual nations are increasingly protectionist, the global economy is damaged most but the prospects for the British Virgin Islands may be comparatively good (at least initially). As a trusted holder of assets with a history of facilitating inter-continental investment and open to all, the islands offer neutral location and expert support for those trying to navigate and protect themselves in the new world international factions. Offshore expertise is likely to be sought after as cross-border transactions become more complex and costly, and the BVI's long history and global breadth of experience will be appealing. Fee rates rise as offshore intermediation becomes more complex and valuable to clients increasingly overwhelmed by an increasingly complex international business environment. It is likely that more convoluted cross-border structures will require more incorporations in offshore territories. The potential resurgence of capital and exchange controls provides new opportunities for international finance centres.

7.3 Technology

Technological advancements will bring opportunities and risks to the British Virgin Islands' and its international business and finance centre. With the ongoing expansion of the digital world and remote ways of working, geographical barriers will continue to erode. Digital connectivity makes the jurisdiction's financial services industry and the services it provides accessible to clients all around the world, and as investors in developing markets look to expand their portfolios across borders, the jurisdiction is ideally placed to meet those needs.

Three key technological changes with challenges and opportunities are:

- Asset tokenisation, fractionalisation and loan security
- Digital identity
- Digital assets

Firstly, asset tokenisation, fractionalisation and loan security. Digital assets can improve investment opportunities and the pool of available assets is not just limited to cryptocurrencies. Traditional financial securities can be 'tokenised' with assets stored by the creation of an equivalent token that can be traded on a blockchain. Multiple financial assets can be pooled into a single token similar to an exchange traded fund, or assets can be divided up and traded as individual digital tokens in a process known as fractionalisation.

For institutional investors, fractionalisation may not be an attractive enough reason to switch to digital assets. They already have access to primary markets, have large pools of capital and can invest in illiquid products, so the appeal of digital comes instead from the new capabilities it offers. It gives them the ability to assemble fragments of assets to use as collateral when raising additional capital and it can reduce their reliance on intermediaries. The British Virgin Islands have been a leader in asset securitisation, and the securitisation of digital assets will be important moving forward. While countries like the United Kingdom only have a public register of land and property, the British Virgin Islands Public Register of Charges can host a range of different assets. This allows banks to know there are clear rights over assets if something goes wrong, and that assets can't easily be sold.

Secondly, challenges and opportunities will arise with regards to digital identity. Although digital-related business currently accounts for only a relatively small share of companies and

revenues in the territory, its expansion could prove increasingly important over the next decade. But much like other aspects of the international business and finance centre, digital assets are facing increased regulation from larger nations that are trying to catch up. The European Union recently agreed to the Markets in Crypto-assets law, with the expectation that additional legislation will follow from other nations.

The British Virgin Islands existing beneficial ownership rules and regulations to combat financial crime mean it is already in a strong position to support the implementation of any new legislation but implementing cryptocurrency regulations while being careful not to hinder the potential of the sector will be a complex balancing act. Early on, the promise of bitcoin and blockchain was that it would allow peer-to-peer transactions without exposing identities to any third parties, but anti-money laundering, countering the financing of terrorism and know-your-customer regulations require the verification of identities to prevent financial crime.

Developing a way to verify identities will be key, something that is already commonplace for corporate service providers in the British Virgin Islands when inputting client information into the Beneficial Ownership Secure Search system. Digital assets may require new ways to verify this information, other than the traditional identity checks. One possible option could be the development of a digital 'token', created by a third party which has gathered and checked the information which can then be used to digitally verify an identity. A similar solution, BankID, is already in operation in Norway.⁷⁶ This type of system brings with it its own dangers though, as it requires trust to be put in one single entity which is at risk of hacking.

As society integrates more cashless options, concern over digital security is one that urgently needs to be addressed to reassure potential clients. This is an issue not unique to the British Virgin Islands, and the jurisdiction has addressed concerns with Virtual Assets Service Providers (VASP) Act, which came into force on 1 February 2023. Should digital crime prove more prevalent, then the employment of forensic digital asset tracing teams will be paramount. Indeed, the jurisdiction's international business and finance centre is already expanding to include specialist teams who use forensic software, employed on a consultancy or advisory basis. Nonetheless, the growth in digital assets has the potential of boosting while simultaneously diversifying cross-border investments if the jurisdiction can navigate the challenges of digital identity and digital security.

Thirdly, the growth in digital assets will provide both challenges and opportunities. The professional services firms in the territory provide expertise for all aspects of the life cycle of a business company, making it well placed to serve new and developing markets like cryptocurrency and digital assets. It was one of the first jurisdictions to embrace the new market, with the BVI Investment Fund Association working with the Financial Services Commission to investigate ways to capitalise on digital asset funds.

With growth in the likes of stablecoins, the jurisdiction is well-placed to establish itself as the link between the real world and the digital world when it comes to the ownership of assets. All the reasons that have made the islands' international business and finance centre attractive over the decades are just as important to investors in the digital space.

It offers a neutral and secure location in which to hold the title of assets which are spread across international borders, and with assets which are increasingly non-geographic it makes sense to choose a tax neutral jurisdiction rather than one with high corporate tax rates.

⁷⁶ BankID, *About Us* (BankID, Oslo), 2022. <https://www.bankid.no/en/about-us/> (Accessed 27 October 2022)

Digital investors further benefit from the territory's respected legal system based on English law and its established and experienced professional services sector.

The British Virgin Islands are faced with opportunities and risks as technology advances. With the ongoing expansion of the digital world and remote ways of working, geographical barriers will continue to erode.

7.4 Environment

Three key environmental areas with challenges and opportunities are:

1. Climate change finance and green funds
2. Public, private and third sector joint venture
3. ESG traceability, scrutiny and authenticity

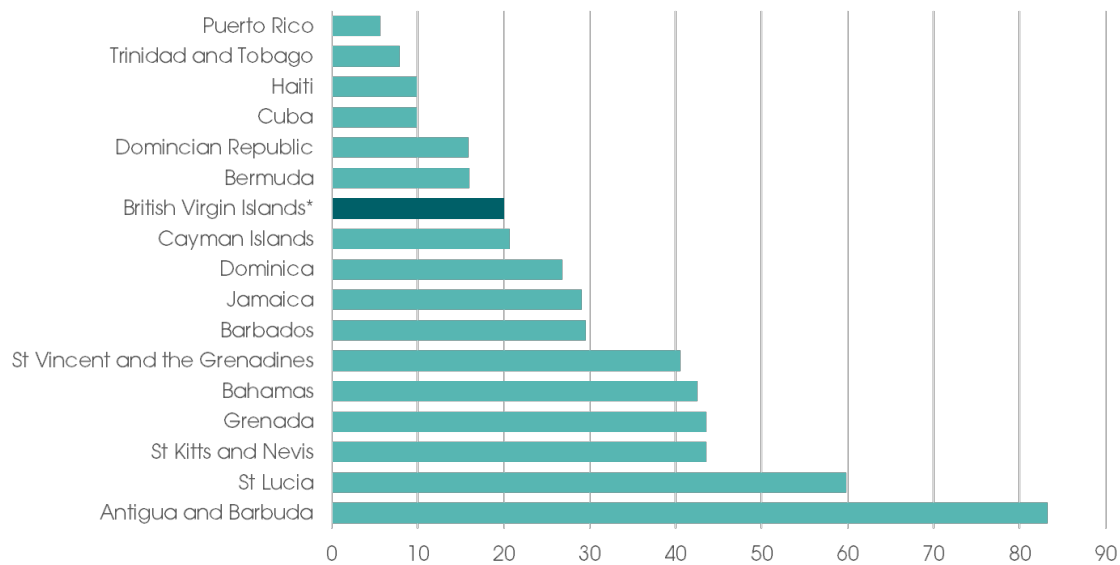
Firstly, climate change finance and green funds. The incentive to tackle the negative impacts of climate change hits particularly close to home for the British Virgin Islands. Ecologically fragile, the small island state is ground zero for the catastrophic risks of intense hurricanes, rising sea levels and torrential rainfall. The tourism industry in the British Virgin Islands and the jobs that rely on the visitor economy are already threatened by rising sea levels, flooding, drought, erosion, and coral and sargassum bleaching.⁷⁷ Recognising this, the jurisdiction well-placed to position itself as a centre for green finance with a genuine interest in supporting the cause.

Low-lying and coastal communities, like the British Virgin Islands, are some of those most at threat from the impacts of climate change. The 2017 season saw the two strongest hurricanes ever recorded in the Atlantic sweep across the Caribbean. The category five hurricanes were so severe, they necessitated the evacuation of the entire population of Barbuda for the first time. Though record-breaking events half a decade ago, disasters like Hurricane Irma are no longer so-called 'black swan' events and the frequency and intensity of such storms and the wreckage they leave behind looks set to grow if climate change is not brought back under control.

Beyond its international finance and business centre, the economic sustainability of the British Virgin Islands is inherently tied the impact of climate change on its environmental sustainability. The islands benefit from year-round sunshine, incredible natural and cultural capital, and historic links to both North America and Europe, all of which make it an attractive location for holidaymakers. Including indirect and induced impacts, we estimate that the travel and tourism sector contributed around a fifth of the British Virgin Islands' economic output in 2019.

⁷⁷ Murray Simpson et al, *Climate Change's Impact on the Caribbean's Ability to Sustain Tourism, Natural Assets, and Livelihoods* (Inter-American Development Bank, New York), March 2011. PP1-2

Exhibit 7-1 Total travel and tourism contribution to national economic output for selected Caribbean countries and territories, percentage of gross domestic product, 2019



Source: World Travel and Tourism Council. Note: * British Virgin Islands estimate is based on Pragmatix Advisory modelling using BVI government statistics

The British Virgin Islands' small scale and geographic isolation limits the extent to which the jurisdiction can diversify in two ways. First, a relatively large proportion of the population work in essential roles required to fulfil all the functions that the population requires, including public administration, essential retail, maintenance of transport links and other infrastructure, healthcare and emergency services. Second, it lacks the number of workers required in an absolute sense to take advantage of economies of scale and achieve competitive rates of productivity across multiple sectors. Though a direct result of the islands' geographic characteristics, the concentration of the economy in just two broad industries (tourism and international business and finance) brings with it a degree of systemic risk.

The United Nations Climate Change Conference in Paris in 2015 (COP 21 summit) saw nations voluntarily commit to limit overall average global warming to 1.5 degrees celsius, acknowledging that any temperature higher than this presents a significant climate-related risk for Caribbean communities.⁷⁸ Reviews of these targets and the progress to date is due to take place during the Sharm el-Shikh Climate Change Conference (COP 27 summit).

At the summit, discussions are ongoing about reparations, on the agenda for the first time at COP, for those nations most affected. They are seeking funds to help deal with the climate impacts they will be unable to recover from. Less developed countries and small island states most at risk argue they have contributed little to total emissions compared to developing nations who have been burning fossil fuels for decades.

Some leaders of nations on the front line of climate change, including in the Caribbean, have been calling for financial support from richer nations, something developed countries have previously tried to avoid discussing. The Alliance of Small Island States, a group of low-lying countries, suggested that fossil fuel companies "could carry a portion of their burden" by paying a tax on profits, while the President of the European Commission acknowledged that "those most in need in the developing world must be supported in adapting to a harsher

⁷⁸ Leo Sealey-Huggins, '1.5°C to stay alive': climate change, imperialism and justice for the Caribbean', *Third World Quarterly*, Vol 38 (Issue 11), November 2017. Pp2444-2463

climate".⁷⁹ If private sector reparations were to come to fruition, the British Virgin Islands international business and finance centre is ideally placed to mediate the funding thanks to its existing mechanisms. Fossil fuel companies could pay into a central fund in the jurisdiction, which would then distribute the money to those nations in receipt of climate emergency support.

While such funding would be welcomed by the British Virgin Islands it can neither rely on its coming to fruition in the first place nor expect that it would be sufficient to replace the economic output produced by the environmentally dependent tourism industry into the future. The BVI's prosperity hinges on its continuing ability to innovate in order to adapt to global trends beyond its control. This innovation could take several forms.

Exhibit 7-2 Case study: Innovation in the international business and finance centre

British Virgin Islands company set up the first trading floor of its kind operating outside the United States mainland and other well-known, high-profile jurisdictions

PMI began in 2007 by designing, managing, administering, and advising on pension plans. Wealth management and investment services were later added led by founder, Clarence Faulkner.

Modelled off the valued services of larger Wall Street firms, PMI established a fully-fledged trading floor in the British Virgin Islands with full-time security analysts complemented with all the necessary technology, research, and access.

PMI's portfolio management services include macro and micro market cycle analytics; security search and selection; verification for current portfolios; analytical reports for identified mandates; trade execution and capital and liquidity management analysis.

Economic substance legislation enabled PMI to provide added services in investment management to international business companies domiciled in the jurisdiction. Solutions include asset management, consulting with teams in other jurisdictions and liaising with relevant regulatory authorities, as required.

PMI's work has contributed to the wider British Virgin Islands financial market through new business introductions, elevating the jurisdiction's reputation in existing and new global markets. PMI has positively impacted local employment, with seven of their thirteen team members pursuing educational and professional qualifications with PMI sponsorship. PMI has also provided experience for students interested in finance.

Source: PMI

The jurisdiction has already established one of the first Climate Change Trust Funds in the Caribbean, which allows it to receive funding for climate change-related projects. The islands can also be used as a prototype for innovative technologies and green public sector policies, which if successful could help prove concepts for corporations looking to support larger scale projects around the world.

Secondly, we consider public, private and third sector joint ventures. In the structuring of green project finance deals across borders, novel structures are often required. The British Virgin Islands' internationally recognisable corporate regime offers significant flexibility and agility that makes it an attractive jurisdiction for such ventures. The depth and breadth of

⁷⁹ Georgina Richmond, *COP27: time to pay the climate bill – vulnerable nations*, 9 November 2022 (BBC, London). <https://www.bbc.co.uk/news/science-environment-63559426> (Accessed 10 November 2022)

experience of supporting clients throughout the investment process makes it well-placed to support investors and companies in this space. As the sector continues to evolve corporate service providers may be called upon to help identify and rectify possible blind spots when it comes to ESG criteria and reporting.

From the perspective of the international business and finance centre, there is a real opportunity to attract sustainable business but it will need to be wary of competition from other jurisdictions. With clients' climate-related preferences, incentives and risks in a state of flux, we expect to see business reevaluating their operations of structures including the domicile of corporate vehicles.

Thirdly, we look at the traceability, scrutiny and authenticity of ESG. As the sustainable investment market experiences rapid growth, perceptions of greenwashing will become an important challenge for the market. Sustainability claims and their associated reporting remain something that can be shaped based on what businesses want to disclose. Materiality is a key principle underlying financial reporting. Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make based on those financial statements, which provide financial information about a specific reporting entity. Materiality affects reliability, relevance and completeness. However, when it comes to sustainability reporting, the assessment of what is or is not material is primarily qualitative. Therefore, judgement is critical. The problem of greenwashing sees inauthentic sustainability claims made that dilute the value of those claims made by truly sustainable investments.

It will no longer be enough simply to claim to be sustainable. To stand out, investors, investees and the British Virgin Islands will need to be able to provide authentic evidence of their sustainability credentials. Such evidence will usually take a variety of forms, and often rely on a combination of self-certification and independent verification.

Exhibit 7-3 Case study: Sustainability-linked bond issues

The BVI-incorporated Central American Bottling Corporation made a US\$1.1 billion offering in the first sustainability-linked bond by a Central American issuer.

The offering also broke new ground by being the first US dollar-denominated sustainability-linked bond by a bottling company in the region and the second largest single tranche sustainability-linked bond by a Latin American issuer ever.

The bottling company is a leading producer, distributor and seller of beverages and a major bottler for PepsiCo in Latin America. With over 438 brands it has the largest portfolio in the region. As of February 2023, the company owned sixteen manufacturing plants in eight countries which employ more than 10,000 people. It distributes to over 1.26 million points of sale.

Sustainability-linked bonds are issued with specific sustainability performance targets which contain key performance indicators. If a target is missed, the bond is subject to a 'step-up' clause, meaning the bond interest increases. In this case, the interest rate of the Senior Sustainability Notes is tied to reductions in greenhouse gas emissions in its multijurisdictional operations and in the share of waste going to landfill in the areas where its main plant facilities operate.

The company believes its growth and value will be optimised by being part of the solution to ESG-related challenges, with the integration of environmental, social and governance dimensions driving its strategy and shared value creation.

This issuance has reaffirmed the company's commitment to its sustainability goals by adding a "skin-in-the-game" feature and positions it at the forefront of the industry's decarbonisation strategy and in the development of local circular economies.

This deal demonstrates BVI's prominence in Latin American and the Caribbean markets. In 2017 and 2018, the bottling corporation issued a total of \$700 million senior guaranteed notes due in 2027 by a BVI company issuer. The net proceedings of these offerings were used to refinance existing debt, fund cash on the balance sheet and for general corporate purposes including potential acquisitions.

Completed during the pandemic, this deal showed the jurisdiction's ability to execute important funding transactions for clients during a time of great uncertainty.

Without access to offshore vehicles such as those offered in the BVI, this company may have struggled to present itself as an attractive partner for PepsiCo and would likely have to choose between shouldering an additional financial burden to access the same level of rule of law as is available in the US or UK, or else incorporate in the comparatively riskier markets of other Caribbean jurisdictions.

Source: Central American Bottling Corporation

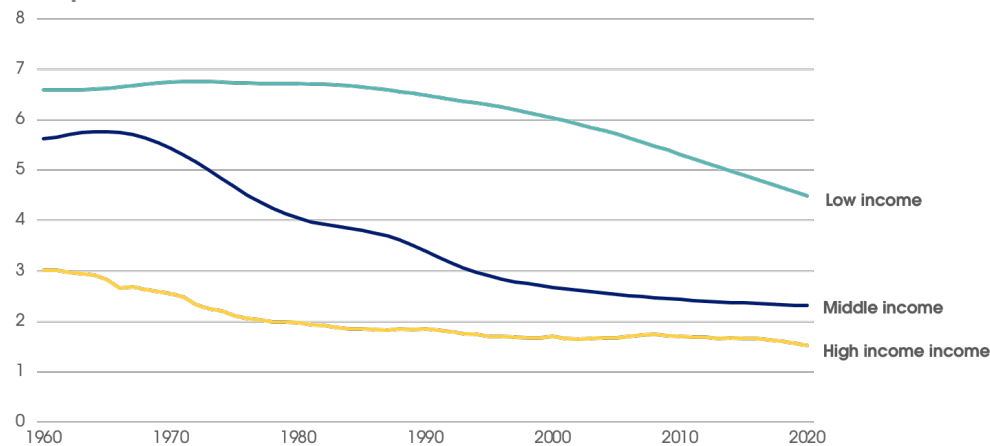
7.5 Social change

An awareness of environmental issues is taking hold in the corporate world; 90 per cent of companies in the S&P 500 Index published sustainability reports in 2019, up from twenty per cent in 2011. In 2020 alone, the number of commitments to reach net zero emissions from local governments and businesses has roughly doubled. This figure includes a three-fold increase for companies, with 1,541 in 2020 from around 500 recorded in 2019.⁸⁰ A growing number of funds and corporations, including the likes of Microsoft, are incorporating sustainability-related guidelines and standards when taking investment and other major business decisions. While there is a risk here that some are simply jumping on the bandwagon in the name of positive public relations, investors and the wider public are also becoming better able to identify greenwashing where it arises.

Companies are being held to increasingly higher levels of regulatory scrutiny. The United Kingdom has introduced new laws such as the *Environment Act, 2021* and mandatory reporting requirements for some entities in line with the Taskforce on Climate-Related Financial Disclosures. In the United States, the Securities and Exchange Commission has proposed new climate-related disclosure requirements, while the European Commission published climate reporting guidelines at the beginning of 2019.

Outside of the corporate world, the sustainable investment market has been historically associated with philanthropists, development finance and similar quasi-government institutions. Aided by the large and ongoing intergenerational transfer of wealth from the older generations to millennials, a new generation of environmentally and social aware investors are taking sustainability to the mass market. Falling birth rates, particularly in high income countries, mean we are witnessing a concentration of wealth as inheritance is split fewer ways.

Exhibit 7-4 Fertility rate over time for low, middle and high income countries, global total, births per woman



World Bank

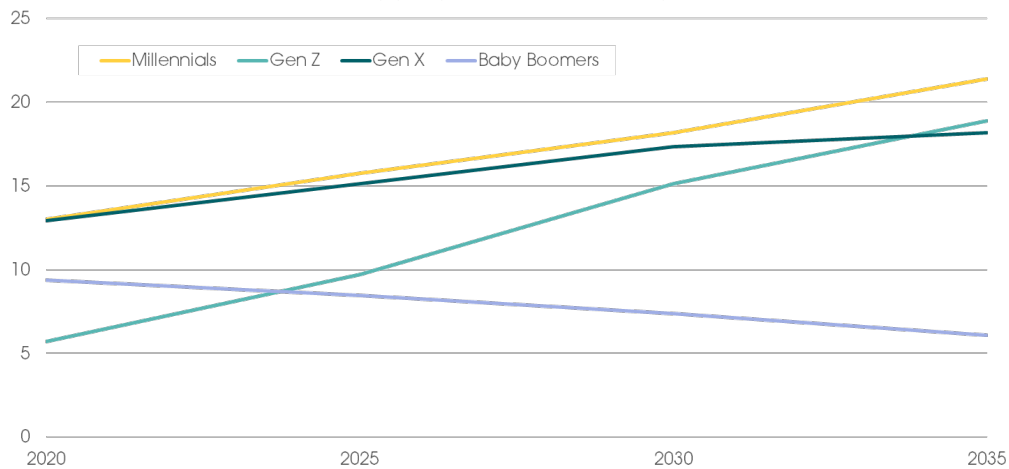
Source: The

Estimates suggest that we may have seen a greater than 100 per cent increase in the aggregate net worth of millennials in the last five years and this is set to continue. United States' households are expected to pass US\$68 trillion in assets to their children over the next three decades in what is being described by some as the largest inter-generational wealth transfer to date. This will present a challenge for wealth managers and financial advisers, as

⁸⁰ United Nations Climate Change, *Commitments to net zero double in less than a year* (United Nations Climate Change, Geneva), 21 September 2020. <https://unfccc.int/news/commitments-to-net-zero-double-in-less-than-a-year> (Accessed 28 October 2022)

younger generations have different priorities with only thirteen per cent of investors retaining the same advisor their parent(s) used.⁸¹

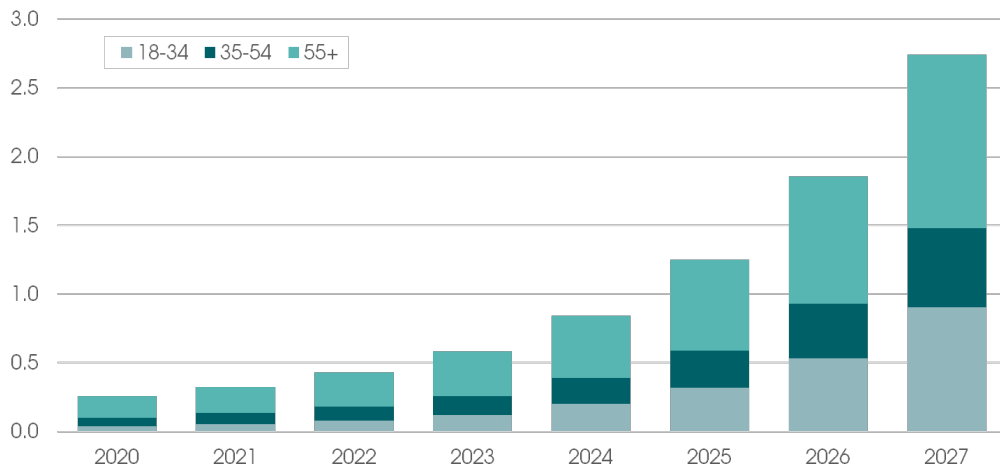
Exhibit 7-5 Forecast annual aggregate income, by generation, US\$ trillions



Source: International Institute for Sustainable Development

By 2027, the additional amount that millennial investors are expected to contribute to sustainable investing is set to increase 22-fold, growing at an annual rate of 57 per cent. Having grown up with a greater collective consciousness surrounding the growing urgency of climate change, and appreciation of the importance of diversity in company decision-making have all thrust ESG into the spotlight.

Exhibit 7-6 Expected contribution to increases in sustainable investing by age group, \$ billion



Source: Triodos and Development Economics

Younger generations are the future of sustainability with 73 per cent of Millennial and Gen Z willing to pay extra for sustainability. Across all generations, two thirds of respondents to the Global Consumer Confidence Survey said they were willing to pay more for sustainable goods, up from 50 per cent in 2013.⁸²

⁸¹ Raymond Fazzi, *Only 13% of Investors Keep their Parents' Advisors, Survey Says* (Financial Advisor Magazine, New Jersey), 9 May 2019. <https://www.fa-mag.com/news/only-13-of-investors-keep-their-parents-advisors-survey-says-44764.html> (Accessed 1 November 2022)

⁸² The Conference Board, *Global Consumer Confidence Survey* (The Conference Board, New York), 25 October 2022. <https://www.conference-board.org/topics/consumer-confidence> (Accessed 28 October 2022)

PART III: THE BVI'S GLOBAL CONTRIBUTION

The British Virgin Islands is an attractive location in which to conduct cross-border investment and trade thanks to its robust legal framework, its regulation and compliance in line with international directives, and its cohesive and cost-effective administration. The international business and finance centre supports substantial global flows of investment that support jobs throughout the world.

Section 9: Global companies explains the global role of BVI Business Companies, which hold an estimated US\$1.4 trillion in assets. The investment mediated by these companies sustains significant economic growth and supports more than two million jobs worldwide.

Section 10: Global impact outlines the effect of the territory on its neighbours, as well as the positive impact on global tax receipts. As a jurisdiction which adheres to international standards, it is constantly evolving to address changing reporting and regulatory requirements. If the British Virgin Islands' international business and finance centre did not exist, much of the investment mediated through it would likely happen anyway – but there would be adverse consequences.

Section 11: Beyond globalisation discusses the future role of the British Virgin Islands in the changing global environment, including key domestic and international policy considerations. The globalisation of the post-Cold War period, and the stability and certainty it brought, is dead. But cross-border trade, mobility and investment will continue – and likely grow (albeit more slowly than over recent decades). The role of the islands will expand both in size and nature and the different scenarios for geopolitics will place new demands on investors and their agents

8 Global companies

In this section we outline the various uses of British Virgin Islands' vehicles, and their important role in cross-border investment.

8.1 Rationale for using the BVI Business Company

The British Virgin Islands is an attractive location in which to conduct cross-border investment and trade thanks to its robust legal framework, its regulation and compliance in line with international directives, and its cohesive and cost-effective administration.

It is a popular and efficient jurisdiction for the incorporation and operation of a range of entities, including holding companies, multi-shareholder companies, joint venture companies and funds – as well as non-company trusts and partnerships. Their use is varied including supporting corporate growth, portfolio investment, asset holding and private wealth management.

Incorporating a business company is relatively low cost and there are flexible options for company structure. Corporate service providers must name only one director and one shareholder of any nationality. The timeline for incorporation is under a week, and, as a result of zero profit taxation, annual tax reporting is not mandatory.

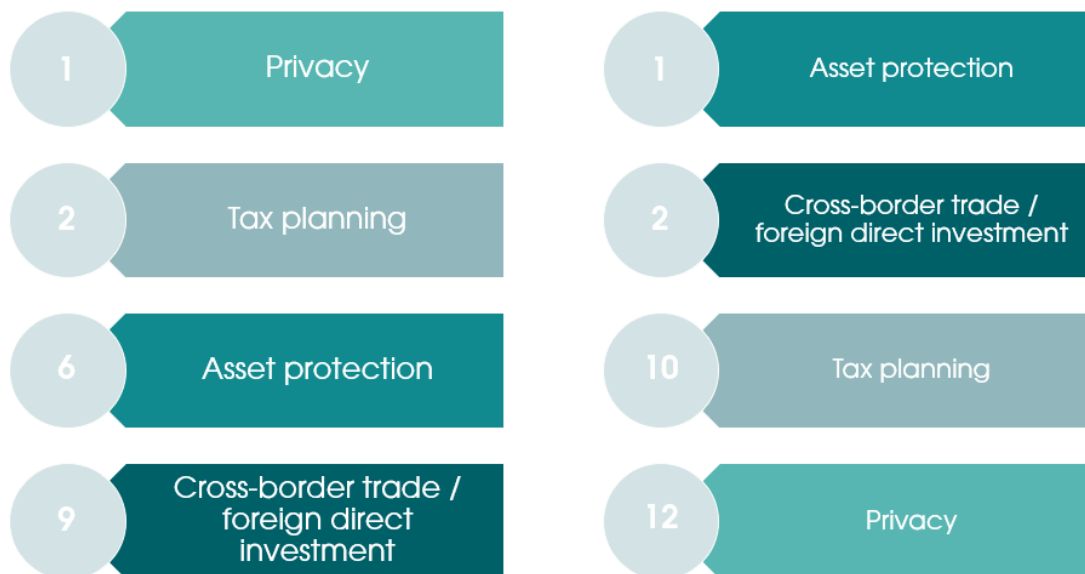
Reasons why the islands and BVI Business Companies might be chosen by investors include:

- **Company law:** The legislation is simple, flexible simple and contained in one regularly updated statute, the *BVI Business Company Act, 2004*.
- **Legal expertise and authority deriving from English law:** The islands' jurisprudence is based on English common law with the Judicial Committee of the Privy Council in London the highest court of appeal. Utilising an English-law version of Delaware statutes is reassuring for many prospective investors, with the jurisdiction's legal and commercial certainty, specialised commercial court and International Arbitration Centre for alternative dispute resolution.
- **The territory is tax-neutral:** There is no corporate profit tax. To avoid double-taxation, the government does not tax income relating to economic activity in other jurisdictions, although there may be tax liability in these other jurisdictions.
- **Register of securities:** Either as part of a corporate group structure, or as an individual company, BVI Business Companies must secure their assets for financing. This is considered an advantage for creditors as they have improved clarity over the assets.
- **The jurisdiction has political stability:** The islands' various governments have consistently shown over decades support for the international business and finance centre and have respected and reinforced the underlying legislation. The connections with the United Kingdom further serve to reassure investors' confidence in the security of their assets.
- **Client confidentiality is protected by law:** The rules on confidentiality default to English common law principles, which state that personal information shared in confidence must not be divulged without legal authority.
- **The currency is the United States dollar:** The use of the world's main reserve currency helps reduce risk, uncertainty and costs.

- **Incorporations are cost-effective:** The Financial Services Commission’s incorporation and annual renewal fees are low when compared with other international finance centres. Moreover, corporate service providers charge less for comparable services than in many other jurisdictions.
- **Efficient financial reporting requirements:** Funds, licensees, approved funds, incubator funds and approved managers are obligated to provide annual financial statements. Accounting standards can follow any prescribed international accounting standards as approved by the Financial Services Commission.
- **Speed and efficiency:** If the relevant Know Your Customer criteria have been met, then companies can be incorporated by corporate service providers in as quickly as two days if the jurisdiction’s online electronic interface is used.⁸³

The main reasons cited by those using the jurisdiction have changed over time. According to research conducted for Vistra, in 2010, the most frequently cited motivations for establishing an entity were privacy and tax planning purposes.⁸⁴ These two reasons did not keep their top rankings in 2020, which saw focus shift to asset protection and cross-border trade and foreign direct investment instead.

Exhibit 8-1 Main reasons for establishing an entity in the British Virgin Islands, 2010 (left) versus 2020 (right), rankings



Source: Vistra 2030

Furthermore, the top four benefits quoted the most by clients were those relating to corporate and institutional reasons, such as a stable regulatory regime and flexible structures.

⁸³ Harneys, *Key benefits of using BVI structures* (Harneys, Road Town), 9 December 2022. <https://www.harneys.com/insights/key-benefits-of-using-bvi-structures/> (Accessed 1 November 2022)

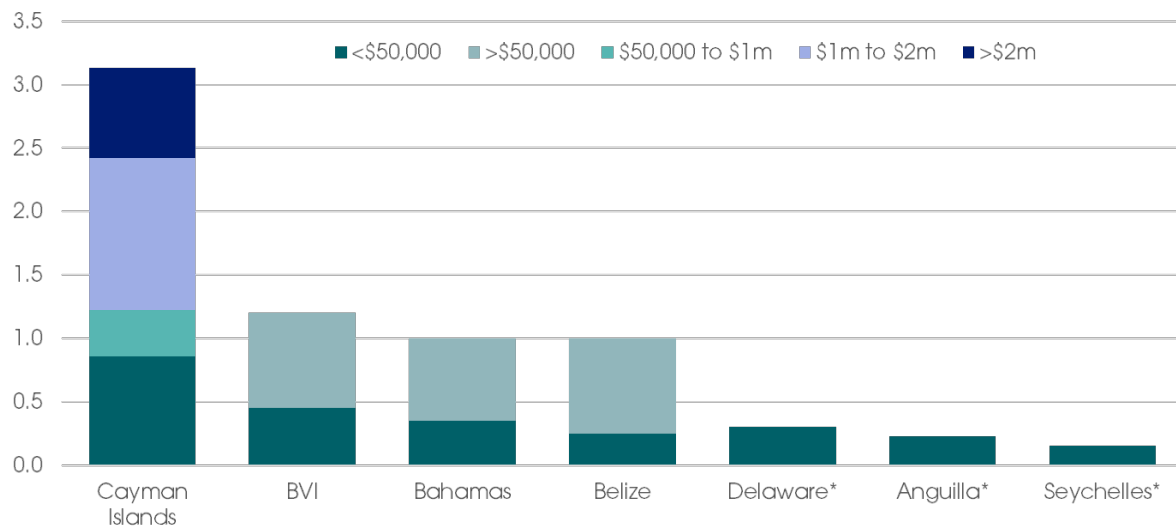
⁸⁴ Vistra, *Vistra 2030: Unlocking opportunity for the decade ahead* (Vistra, Hong Kong), 2022. <https://www.vistra.com/vistra2030> (Accessed 31 October 2022)

Exhibit 8-2 Most important benefits for those using the British Virgin Islands, 2020, percentage of clients



Source: Vistra 2030

Exhibit 8-3 Government fees for 'basic' incorporation by value of capital, selected jurisdictions, US\$ thousand



Source: Pragmatix Advisory, government department websites and corporate service providers; *general government fee irrespective of capital

The international business and finance centre's model has competitive characteristics compared to other jurisdictions. It does not levy a capital gains tax like the United Kingdom, nor a corporate tax like Delaware, Hong Kong and others. The authorities there do not stipulate a minimum capital requirement, as do Panama and Singapore.

Exhibit 8-4 Characteristics of popular business models in various international business and finance centres, selected jurisdictions

Jurisdiction (business model)	Minimum price of incorporation (US\$)	Annual licence/renewal fees (US\$)	Capital gains tax?	Corporate tax?	Minimum number of directors	Minimum capital requirement?	Local agent/address needed?	Beneficial Owner information filing requirements	Government filing of register of Directors?
Anguilla (IBC)	230	230	No	No	1	No	✓	Registered agent only	No
Bahamas (IBC)	350	350	No	No	1	No	✓	Registered agent only	✓
Belize (IBC)	250	250	No	No	1	No	✓	Registered agent only	No
BVI (BC)	450	450	No	No	1	No	✓	Government and Registered Agent	✓ private
Cayman Islands (Exempted)	855	855	No	No	1	No	✓	Government and Registered Agent	✓
Delaware (LLC)	300	300	No	✓	1	No	✓	Registered agent only	N/A
Hong Kong (Ltd)	200	290	No	✓	1	No	✓	Registered agent only	✓
Panama (Corporation)	300	300	No	No	3	US\$1	✓	Registered agent only	✓
Seychelles (IBC)	150	150	No	No	1	No	✓	Registered agent only	✓ private
Singapore (Private Ltd)	235	Unknown	No	✓	1	US\$1	✓	Registered agent only	✓
United Kingdom (Private Ltd)	16	16	✓	✓	1	No	✓	Public access	✓

Source: Pragmatix Advisory, government department websites and corporate service providers. Note Hong Kong, Singapore and United Kingdom converted using exchange rates on 1 March 2022 (HKD1 = USD0.13, SGD1 = USD0.74, £1 = USD1.34)

Although the rationale for choosing the jurisdiction’s international business and finance centre remains largely consistent for prospective and existing clients across the world, there are specific attractors for cross-border investment and trade which might vary for clients on a regional level.

Exhibit 8-5 Examples of why international clients choose to use the British Virgin Islands' international business and finance centre



Source: Pragmatix Advisory

Caribbean and Central America: BVI Business Companies possess modern attributes which prove useful for structures with multiple shareholders. In the possible events of insolvency, liquidation or litigation, international companies would favour investing in a jurisdiction with known and reputable outcomes, such as the British Virgin Islands. There are no currency controls in place.

Mexico and South America: The attraction of BVI Business Companies for individuals or organisations in Latin America lies predominantly in the offer of dedicated commercial courts. Latin America is a region not unfamiliar with political unrest, and people wishing to protect their assets are more likely to do so with the robust legal system in place. The English flag still carries weight with Latin American cultures. More generally, the territory is an appealing international finance centre as it provides flexible registration, mergers, joint tenancies and the possibility of shares under a VISTA trust.

United States and Canada: Companies originating from the United States have made cross-border trades with Asian markets via the British Virgin Islands, making use of the territory as a neutral forum. Transactions such as fund set-ups, mergers and acquisitions, financings and capital markets work often feature between Western and Eastern entities in the British Virgin Islands.

United Kingdom, Channel Islands and the Isle of Man: Real estate assets in London often make use of BVI Business Companies because of their relative simplicity. The British Virgin Islands' adherence to English common law proves to be a substantial advantage for companies based in the United Kingdom, along with the reassurance of having the same anti-money laundering and information exchange standards. The power of the United Kingdom and British Virgin Island courts are another reason why an individual or company might use the international business and finance centre.

European Union: Some parts of Europe still have archaic laws which make certain transactions difficult, if not impossible. Using a BVI Business Company would lessen some of these challenges. Group structures involving the Netherlands and Ireland often avail themselves of the British Virgin Islands, as do global private equity participants based in Europe. However, some members of the European Union, such as Luxembourg, have international business and finance centres in direct competition with the islands, and these tend to serve more of the main European Union countries.

Non-European Union Europe: Banks in non-EU Europe make use of the jurisdiction's global tax information exchange platform. More traditional jurisdictions within non-EU Europe are enticed by the advanced laws.

Russia and Central Asia: The early 2000s saw an influx of Russian energy and natural resource groups actively using BVI Business Companies for inbound investment by European, British and American energy groups and banks. However, in more recent years, these groups have shifted to Cyprus' international business and finance centre. As a result, litigation and dispute resolution concerning Russian assets is particularly active in the territory. The British Virgin Islands provide protection from government expropriation over assets outside of the jurisdiction.

China, Hong Kong and Macau: The British Virgin Islands are a recognised jurisdiction for Hong Kong Stock Exchange listing purposes. The People's Republic of China's finance centre has enlarged itself, which has led to the continued, if not extended, use of British Virgin Islands' entities throughout the region. Legacy clients from Hong Kong remain from the 1980s and the 1990s. This period saw a high take-up rate, with the use of BVI Business Companies for real estate being one of the motivating factors. Loan syndication is popular among Chinese

banks. The jurisdiction is one of the most popular holding structures in the world and a contributing factor of this is that it caters to the Asian audience by allowing incorporations in Mandarin.

Asia and Pacific Region (excluding China, Hong Kong, Macau and Central Asia): Singapore has a notable presence within the islands' international business and finance centre, with entities being used as single vessel holding structures for the maritime industry. The conventionality of use lends confidence to Singaporean banks and markets when involved with transactions related to BVI Business Companies.

Middle East and North Africa: The British Virgin Islands' compatibility with different structures of law makes it a common choice for Middle Eastern Islamic financing transactions. The jurisdiction is used to attract foreign investment and for outbound investments, particularly into foreign property markets. Furthermore, private client law in the British Virgin Islands specifies that there is no forced heirship regime.

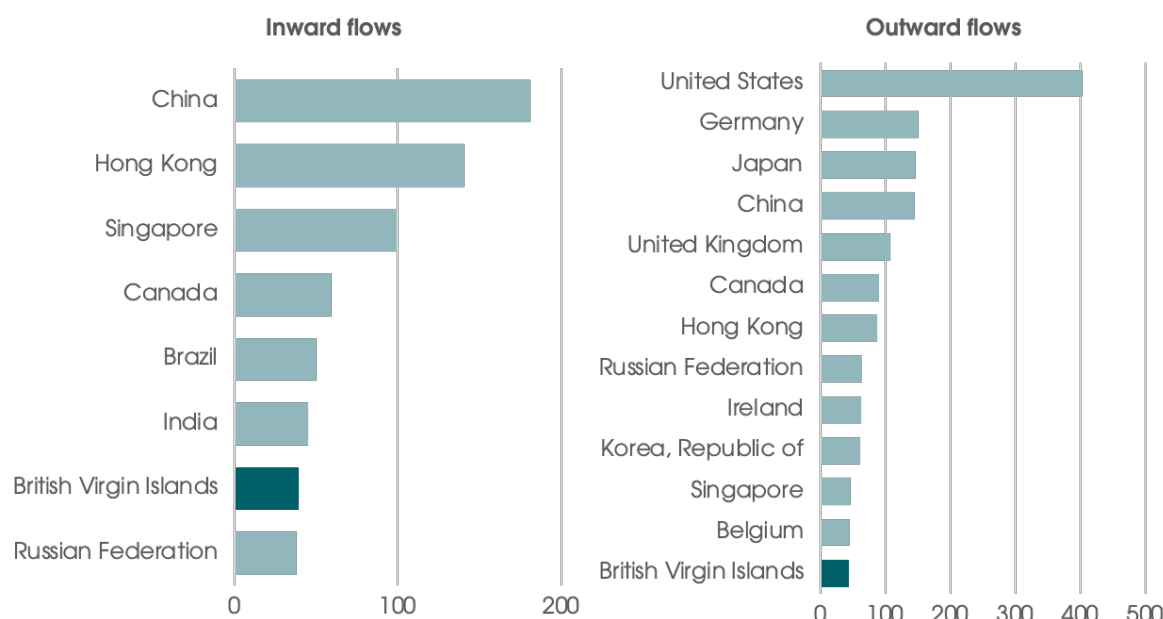
Sub-Saharan Africa: Some international natural resource groups present in Africa may use BVI Business Companies to form their transaction structuring. Local law might be too inflexible or insecure for foreign participants, whose concerns are somewhat lifted through the use of an even-handed jurisdiction such as the British Virgin Islands and ultimately helps secure financing.

The scale of use of BVI Business Companies is partially visible in foreign direct investment statistics.

At US\$1.6 trillion, global flows of foreign direct investment returned to pre-pandemic levels in 2021 while the total stock reached a record US\$45 trillion.⁸⁵ The British Virgin Islands were the thirteenth largest source of outward flows and the eighth largest recipient globally.

⁸⁵ United Nations Conference on Trade and Development, *World Investment Report 2022* (United Nations Conference on Trade and Development, Geneva), 09 June 2022. P39

Exhibit 8-6 United Nations foreign direct investment inward and outward flows, selected jurisdictions, 2021, US\$ billion



Source: United Nations Conference on Trade and Development

The United Nations no longer publishes data on the origins and destinations of direct investment flows through the British Virgin Islands. The latest available are for 2012. Then, Hong Kong accounted for the greatest share of inward and outward foreign direct investment in the jurisdiction and was responsible for 40 per cent of its outward flows.

Exhibit 8-7 The British Virgin Islands' flows of foreign direct investment, 2012, US\$ million

To the British Virgin Islands			From the British Virgin Islands	
1	Hong Kong	35,506	Hong Kong	24,741
2	United States	23,025	Luxembourg	10,039
3	Russia*	7,395	China	7,831
4	Japan	2,247	United States	7,689
5	China	2,239	Chile	3,024
6	Belgium	840	Nigeria	2,853
7	Malaysia	706	Russia*	2,474
8	Chile	483	Macao	1,487
9	Luxembourg	442	Brazil	928
10	India	425	Australia	911

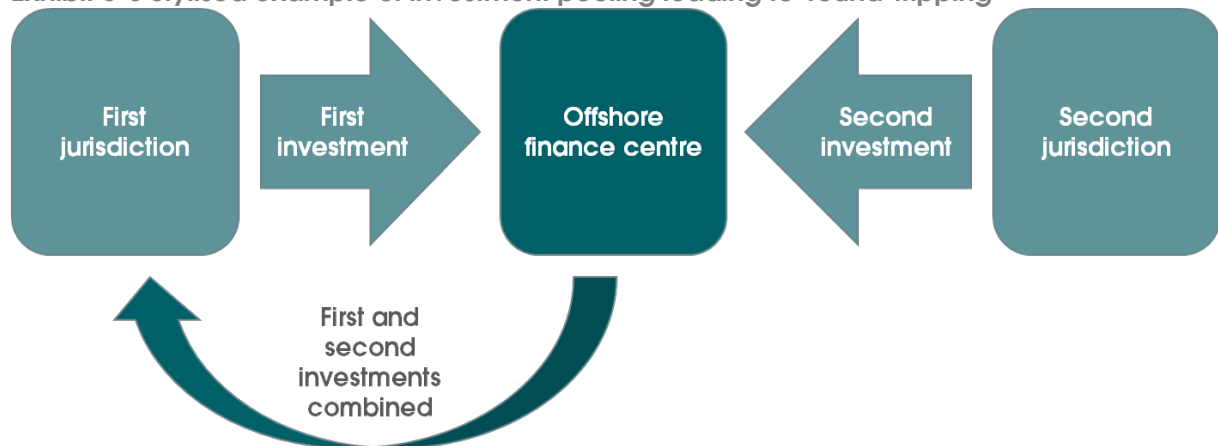
Sources: Capital Economics and the United Nations Conference on Trade and Development Statistics. Notes: Outward flow data are more comprehensive than inward data and therefore contain countries not included in the inward data *Russian data from The Central Bank of Russian Federation

These outdated investment origin and destination statistics highlight the wide geographical coverage of business conducted through the international business and finance centre. Investors from across the world use the islands to facilitate investments which are equally well dispersed.

These data also indicate the potential use of the British Virgin Islands for round-tripping, where funds are taken offshore to return to the same country as foreign direct investment. For those unfamiliar with such activity, it can raise questions about value and legitimacy. In practice, it is an important component of efficient global investment – with sound motives, such as:

1. **Investment and risk pooling.** Use an offshore centre as a neutral, cost-effective and mutually acceptable location to pool investment funds with partners from other countries for investment back into domestic market.
2. **Currency exchange management.** Manage currency exchange risk outside of a domestic market with currency and/or capital controls.
3. **Protect property rights.** Property rights may be better protected in an offshore centre, or better observed domestically for foreign owners.
4. **Access more fit-for-purpose financial services and international markets.** The final categorised motivation rests in a foreign vehicle’s ability to access stock exchanges outside of a domestic country.
5. **Access government incentives.** Some government incentives, including but not limited to tax breaks, for industry are available more easily or only for inward investors.

Exhibit 8-8 Stylised example of investment pooling leading to 'round-tripping'



Source: Pragmatix Advisory

8.2 The scale, scope and geography of BVI Business Companies

To illustrate fully how BVI Business Companies are utilised and the assets they hold, we carried out a major survey of firms in the international business and finance centre.

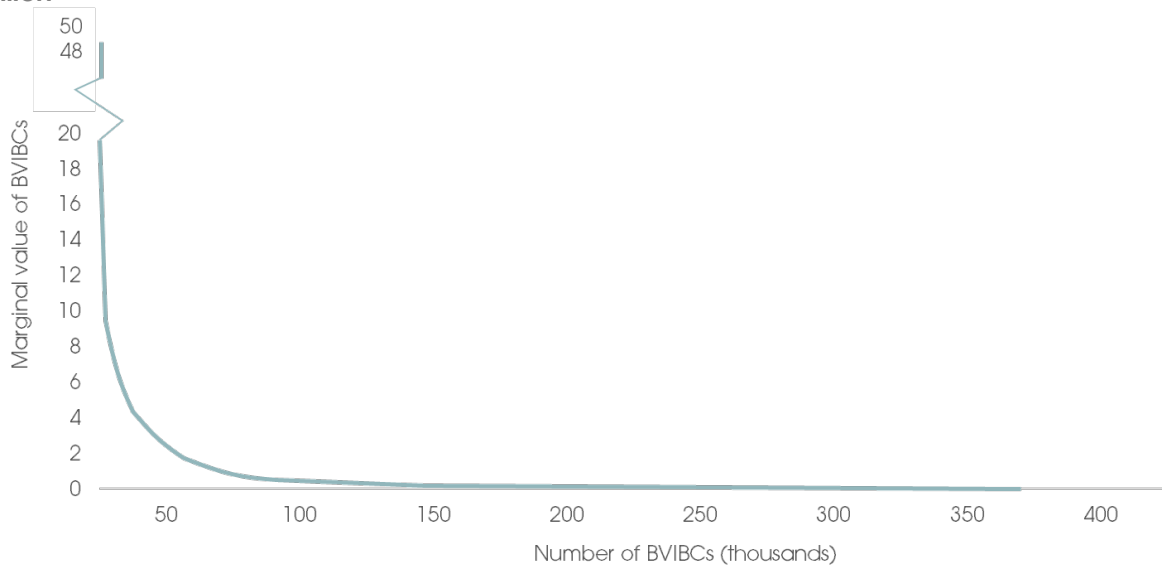
We estimate the value of assets held in the 375,000 active BVI Business Companies at circa US\$1.4 trillion.⁸⁶ This value represents the assets (and business activities) taking place at the

⁸⁶ Pragmatix Advisory conducted a confidential survey of and depth interviews with senior managers in corporate service providers and law firms in the British Virgin Islands between December 2021 and September 2022. Responses

root of each company. For example, the value of a BVI Business Company used as a holding vehicle for real estate would be the value of the property itself, while the value of a vehicle used as an intermediated holding company for a corporate group structuring deal would be the asset value of the total investment into this deal.

The population of active BVI Business Companies is varied and diverse. There is a large proportion holding a relatively low value of assets (i.e. less than US\$5 million) – but there are some which are much larger and include, for example, substantial real estate, industrial and corporate assets.

Exhibit 8-9 Indicative distribution of active BVI Business Companies by asset value, 2021, US\$ billion



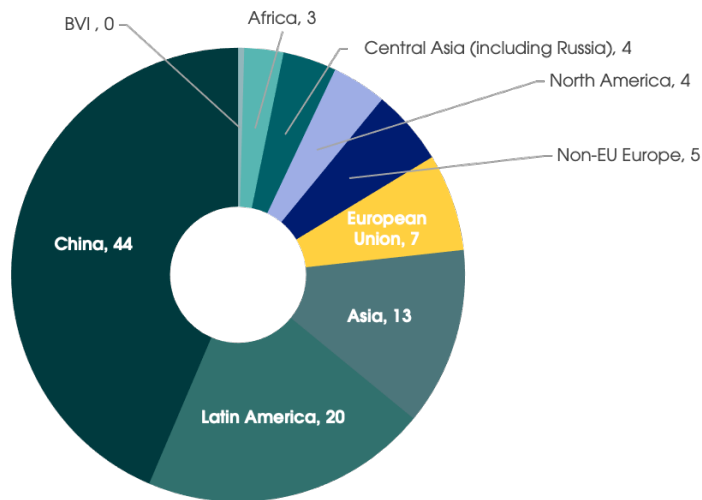
Sources: Capital Economics, Pragmatix Advisory analysis

The same survey demonstrates the wide geographical coverage of the islands’ offshore business.

A majority of BVI Business Companies have ultimate beneficial owners in Asia, with over two-fifths (44 per cent) located in China (including Hong Kong and Macau). Around a fifth (twenty per cent) originate from Latin America or the Caribbean (excluding the British Virgin Islands themselves). Beneficial owners from the European Union account for less than one-tenth (seven per cent), while those from the whole of Europe and North America combined represent sixteen per cent of the BVI Business Companies.

to the survey were received from 30 organisations, which combined had circa 500 full-time equivalent employees and were registered agent for 250,000 (or 68 per cent) of active BVI Business Company incorporations. Results have been scaled and weighted to reflect known characteristics of non-responding organisations.

Exhibit 8-10 Percentage of the number of active BVI Business Companies by location of ultimate beneficial owner, 2022, per cent

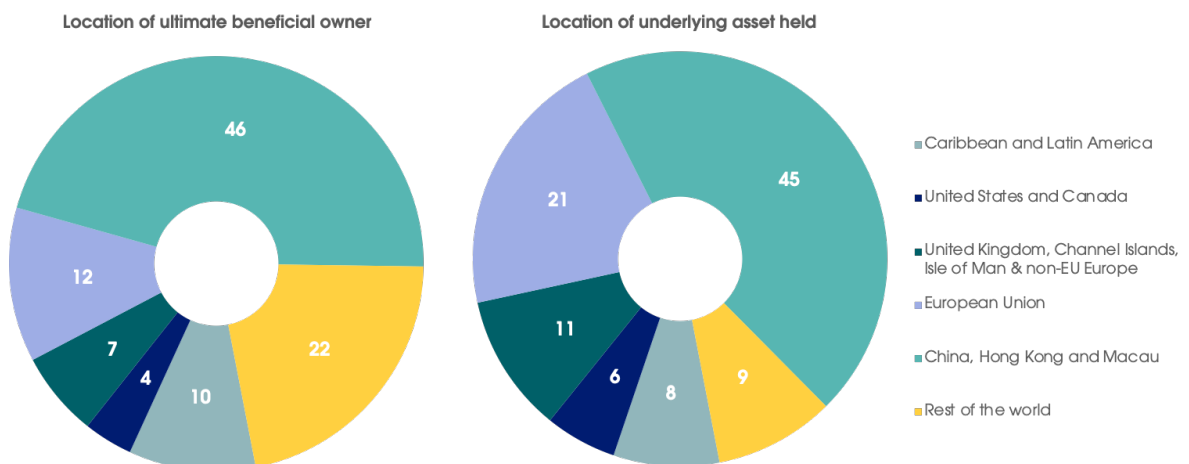


Note: 'China' refers to China, Hong Kong and Macau; 'Latin America' refers to Caribbean, Central America, Mexico and South America; 'Asia' refers to Asia and Pacific Region (excluding China, Hong Kong, Macau and Central Asia); 'Non-EU Europe' refers to Non-EU Europe, United Kingdom, Channel Islands and Isle of Man; 'North America' refers to United States and Canada; 'Russia' refers to Russia and Central Asia; 'Africa' refers to Middle East, North Africa, and Sub-Saharan Africa. Source: Pragmatix Advisory industry survey, 2021/22

Considering the assets held within BVI Business Companies, Chinese owners account for 46 per cent of the estimated total value of US\$1.4 trillion, with 45 per cent of the value of assets located in China.

Europe is a net recipient of investment mediated through the British Virgin Islands. Businesses, institutions, charities and individuals in the European Union are beneficial owners of an estimated twelve per cent of the total value – whereas 21 per cent of the asset value is located there. The equivalent shares for the rest of Europe (including the United Kingdom) are seven and eleven per cent respectively.

Exhibit 8-11 Estimated underlying value of active BVI Business Companies by location of ultimate beneficial owner and by location of underlying asset held, 2021, per cent



Source: Analysis of Pragmatix Advisory industry survey, 2021/22

8.3 Corporate structuring and joint ventures

BVI Business Companies that support the efficient structuring of cross-border corporate groups are responsible for the majority (56 per cent) of the value of assets mediated through the jurisdiction while accounting for less than one in four of the 375,000 entities. Investment-related business, including funds and portfolio investment activity, corporate joint ventures and listings, account for around a third of total value and a quarter of the number.

Respected major businesses use BVI Business Companies to manage their cross-border activities. Developers of the jurisdiction's *International Business Companies Act* and subsequent *BVI Business Companies Act* drew inspiration from both Delaware and English law. The resulting amalgamation of the two systems offers corporate clients the ability to incorporate quickly and for a lower cost compared with jurisdictions including the Cayman Islands. The BVI courts apply the case law of England and other common law jurisdictions. Clients also have access to statutory mergers, segregated portfolio companies and continuations into and out of the British Virgin Islands, which have no equivalent under English law.

All corporations have a legal structure distinct from the way in which functions and responsibilities are divided between departments and staff are organised and report to one another. From a legal perspective, many small businesses will often be a single, isolated entity. But as the number of shareholders, employees, assets and operations grows, corporate groups tend to adopt more complex legal structures to maximise opportunities, optimise efficiency and minimise risk. This is particularly true where this expansion crosses borders.

Multinational corporations and small cap firms alike, including those listed on the world's major stock exchanges, count the British Virgin Islands' vehicles within their corporate structures.

Exhibit 8-12 Case study: Major restructuring of a United Kingdom healthcare group

The United Kingdom's largest hospital group restructured its £1.65 (US\$1.98 billion*) loan financing including existing swap positions and senior loans held by a syndicate that included two separate commercial mortgage-backed securities transactions.

The deal which took two years to complete was one of the largest restructuring matters in the European market at the time, involving a large number of banks, private equity houses and international law firms.

As of 2019, it operated more than 50 hospitals and clinics in the United Kingdom, offering treatment to private patients, medically insured patients, and National Health Service patients.

The private hospitals were held through an operating company / property company structure, with the United Kingdom assets held directly by 35 BVI holding companies. The deal was described in the press as "arguably the most complex European securitisation restructuring ever".

The original debt was taken on in 2006 after the group was sold to a consortium. The group was then split into an operating company and its hospitals separated into a property arm, which borrowed £1.65bn (US\$1.98 billion*) from four major banks.

This particular group uses BVI as its preferred jurisdiction partly due to familiarity and ease of continuity. BVI entities are used to keep real estate separate from the operations business for the purposes of limited liability. This is standard procedure for organisations of this type: individual property holding companies can be used to raise finance or ring-fenced if they're unprofitable.

Certainty of legal outcome and the strength of the United Kingdom and BVI courts are a very important component of the BVI's international framework. Without access to the British Virgin Islands or other offshore vehicles, this process likely have faced added frictions.

Source: Representing law firm and company websites *Conversion rate £1 : US\$1.20

Captive insurers are dedicated wholly owned insurance subsidiaries of a non-insurance company. They are formed for the specific purpose of assuring their parent company and its subsidiaries either as a direct insurer or reinsurer. The British Virgin Islands have a dynamic captive insurance sector with 49 captives regulated by the Financial Services Commission in March 2022.

The British Virgin Islands are a popular jurisdiction for incorporating **joint venture vehicles**. As for other types of business companies, the *Business Companies Act* is the principal statute governing their formation and operation. In general, these business companies will have two or more shareholders and a shareholders' agreement structuring the relationship between them. A joint venture company can be used for a variety of purposes, including to hold shares in an operating company or to finance the acquisition of a specific asset.

In practice, offshore joint ventures are commonly set up to pool international investment. In such a context, the BVI is attractive for its impartial treatment of parties from different jurisdictions, whilst retaining a strong rule of law in the case of dispute and tax neutrality.

Exhibit 8-13 Case study: Critical covid-period capital raise facilitated by joint venture

A group of private investors reorganised their holdings in a United Kingdom publicly-listed hospitality company through the establishment of a new BVI joint venture.

Four entrepreneurs and high-net-worth individuals were substantial shareholders in a publicly listed entity with over \$1 billion in equity between them. Due to the challenges which covid had caused the entity, it needed to raise additional capital fast, and proposed a secondary share offering. In January, all 1,600 of its sites were closed and with 40,000 employees in the United Kingdom, it was left with only \$170 million in cash and was quickly burning through this at a rate of \$45 to \$55 million per month.

The group was happy to inject the full \$500 million in additional capital needed to prop up the company and in the process help save thousands of jobs. But under the rules of the relevant exchange and given their existing shareholdings, this would trigger a requirement to acquire all the shares if they were deemed to be 'acting in concert'. It was agreed, after negotiation with regulators, that they would consolidate their existing holdings in a single joint venture which would then subscribe for the new securities.

The new joint venture was incorporated in the BVI, as were several existing entities in the structure. The deal involved the acquisition of United Kingdom public securities, which were held through BVI and Bahamas vehicles and consolidated in a new BVI structure.

From first instruction of BVI counsel to completion, the transaction took approximately one week.

The BVI was chosen because it was a neutral venue and because of the flexibility of its corporate laws which enabled bespoke governance arrangements. Its similarities to English law with which the clients were familiar was also desirable, and the speed with which the transaction could be processed was valuable.

Without offshore vehicles such as those provided by the BVI, there was potentially no way for the shareholders to make the necessary cash injections and the business would have had to take on loans, risking additional financial liabilities in the future and potentially losing important time.

While investment into secondary markets can sometimes appear far-removed from the real world, without it there can be no incentive for primary economic investment in the first place. By facilitating secondary markets, TheBVI provides much-needed liquidity for the secondary markets that underpin and provide confidence in these primary real-world investments.

Source: Representing law firm and company websites

8.4 Public listings, mergers and acquisitions

BVI Business Companies make popular listing vehicles on international stock exchanges. As of October 2022, eleven British Virgin Islands companies are listed on the Hong Kong Stock Exchange, with the first added in 2010 following the exchange's decision to add the jurisdiction to its list of approved jurisdictions.⁸⁷ In March 2018, 25 BVI Business Companies were listed on the Alternative Investment Market and ten on the Main Market of the London Stock Exchange. In the United States at the same point in time, the Nasdaq counted 29 British

⁸⁷ HKEX, *List of overseas jurisdictions where securities of companies incorporated therein have been accepted for trading on the Exchange* (HKEX, Hong Kong), 2022. https://www.hkex.com.hk/Listing/Rules-and-Guidance/Listing-of-Overseas-Companies/List-of-Acceptable-Overseas-Jurisdictions?sc_lang=en (Accessed 28 October 2022)

Virgin Islands' vehicles and the New York Stock Exchange nine.⁸⁸ They can also be found on the Toronto Stock Exchange, the Singapore Exchange and the Australian Stock Exchange.

The precise steps and timetable for an initial public offering on an international stock exchange are largely dictated by the requirements of the relevant exchange, and any related share offering timetable.

⁸⁸ Ilir Mujalovic and Harald Halbhuber, *Initial Public Offerings 2018: Second Edition* (Global Legal Insights, London), 2018. P86

Exhibit 8-14 AquaVenture, British Virgin Islands, 2020

From IPO to private acquisition for Caribbean water multinational

In March 2020, a BVI-incorporated developer and supplier of sustainable water-as-a-service solutions was acquired by a global consumer water services company for \$1.1 billion in an all-cash deal.

The BVI company was formed in 2006 to provide potable water and wastewater treatment services to what was considered a fragmented market in the Caribbean islands. It grew its operations through the acquisition of existing facilities and operations as well as via organic growth driven by contract amendments requiring expanded water production capacity.

Ten years later, it had become a major multinational operator, comprised of a filtered water systems and related services firm and a separate multinational arm that provided desalination and wastewater treatment solutions. Its operations included a desalination facility at Paraquita Bay on Tortola in the BVI, amongst others.

The all-cash purchase price represents a premium of about 25 per cent on the company's closing share price prior to the announcement of the deal and an uplift of roughly 40 per cent in real terms from its original listing price.

Previously, in 2016, the company undertook a pre-IPO restructuring in the BVI before listing on the New York Stock Exchange.

This primary financial investment provided access to the funding needed to make economic investments on the ground and helped to lay the foundation for what remains one of the largest takeovers of a publicly-listed BVI company by transaction value to date.

Though its top company could have been established virtually anywhere, BVI was selected primarily to secure finance and ensure ease of exit for its investors in global capital markets with higher valuations and faster processes.

BVI entities typically enjoy greater international recognition. This allows greater access to capital, finance and trade with international counter-parties by having a wider and more receptive audience due to that enhanced recognition. International institutions prefer to invest in entities whose jurisdiction of domicile has known and preferable outcomes, including outcomes in the event of any dispute and resultant litigation, or any insolvency or liquidation type event.

Without access to offshore vehicles, the company would likely have established its top company onshore in the United States with additional tax filing requirements adding further overhead burdens from both a bureaucratic and financial perspective.

Source: Representing law firm and company websites

A **special purpose acquisition vehicle** (commonly referred to by its acronym SPAC) is a company set up and publicly listed for the purpose of raising funds for the future acquisition of or merger with one or more existing operating businesses. At the time of its initial public offering, the listing vehicle has no portfolio investments, substantive operations nor anything earmarked for acquisition. Once listed, it has between one and three years to source and complete a transaction. If no 'business combination' is achieved within the prescribed time period, capital is returned to the investors.

Investors who purchase shares in a SPAC, are effectively betting on the ability of the vehicle's management team to succeed in creating a desirable 'business combination'. This makes accessible 'buy-out' investment strategies typically restricted to private equity funds. For their founders, SPACs enable them to raise funds for a general acquisition strategy while typically providing greater flexibility and potentially superior economics than pursuing the same strategy through a private equity fund.

In recent years the British Virgin Islands' vehicles have been involved in transactions to acquire household names, including American Apparel and Burger King.

The British Virgin Islands offer a range of **merger and acquisition** tools, with four methods available to acquire a company incorporated in the jurisdiction. The structure that is most appropriate for any given merger and acquisition transaction will depend on several factors including the nature of the selling entity, the onshore tax treatment and the preferences of individual clients and their advisers.

First, a share purchase or contractual offer. This straightforward transaction takes place when existing shareholders agree to sell and buyers agree to purchase shares in a BVI Business Company. This is the simplest and most common method of conducting merger and acquisition transactions in a private context.

Second, a statutory merger. A merger takes place between two entities including at least one BVI Business Company, with the obligations and assets of both flowing to the surviving entity. When the jurisdiction first introduced its merger code, drafters looked to Delaware and Canada for guidance, and the result is a series of provisions that are particularly familiar and therefore attractive to anyone with experience of North American mergers. Clients based in the United States often prefer this method as the mechanism most often used in their home jurisdiction.

Exhibit 8-15 Case study: Take-private of a United Kingdom business via statutory merger

Ocean Outdoor, a leading BVI-incorporated operator of digital out-of-home advertising, including the BFI IMAX and Landsec Piccadilly Lights screen in London, was taken private in a ground-breaking US\$580 million deal.

Prior to the takeover, the company was listed on the London Stock Exchange's Main Market, putting the transaction outside the scope of the United Kingdom's Takeover Code.

Its new owners are an independent investment company focused on providing a unique combination of active, strategic partnership and patient, long-term capital to high-potential companies and their management teams. They manage approximately US\$6 billion in equity capital with offices in the United States and the United Kingdom.

Take-privates are relatively rare in international finance and this transaction was one of the first ever United Kingdom take-privates by way of a statutory merger in the British Virgin Islands. In this case, the investors acquired Ocean Outdoor by merging it with a specially created subsidiary BVI Business Company of their own.

BVI was chosen to host this deal primarily due to the ease of doing business and the minimal fees involved. In 2018, the British advertising company whose top company was previously registered in the United Kingdom, was acquired by a special purpose acquisition company registered in the BVI and listed on the London Stock Exchange.

Without access to offshore vehicles this transaction would have likely taken place in London. Public company acquisitions in the United Kingdom are usually implemented through schemes of arrangement or takeovers, so to use this additional successful option is a great result for the client and jurisdictions involved.

The innovative use of a statutory merger allowed the transaction to be completed without involving the courts. This saved all parties both time and money.

Source: Representing law firm and company websites

Third, a scheme of arrangement. Originally designed as a restructuring tool, this court sanctioned process has become a popular means to acquire companies in several common law jurisdictions. In the United Kingdom it is used for most public takeovers. Such a process begins with the target company first seeking a court order to call a meeting where the transaction is proposed, and shareholders are asked for their approval. If it is approved by more than half in number and three-quarters in value of the members of each class, it then proceeds to a court hearing to be sanctioned. The jurisdiction's first takeover using this method took place in 2010 with others following to take advantage of the fact that court sanction limits the opportunity for future challenge and minimise post-closing legal risk. However, the cost and relative complexity of involving the court mean that it is not suitable method in every case.

Fourth, a plan of arrangement. Like a scheme, this is a statutory process that can be used for mergers, consolidations, and sales of shares or assets. The jurisdiction's legislation is modelled on the statute in Canada, where plans are a common alternative to statutory mergers. If the directors of a business company determine a particular transaction is in the best interests of the company and shareholders and/or creditors, they can apply to the court for an order approving the plan. It is at the discretion of the court who must be given notice of the transaction and what additional approvals, if any, are required. Plans have not yet been widely used for takeovers in the British Virgin Islands, but they represent a potentially simpler and more cost-effective alternative to a scheme in some circumstances.

8.5 Funds

The British Virgin Islands is an appealing jurisdiction for entities wishing to structure their investment funds. Indeed, it is the second largest offshore jurisdiction for hedge funds in the world.⁸⁹ The islands' funds industry is regulated by the Financial Services Commission and governed by the *Securities and Investment Business Act, 2010*, which replaced the *Mutual Funds Act, 1996*.

The underlying structure of investment funds can be a BVI Business Company, a segregated portfolio company, limited partnership, unit trust or other body. In this respect the BVI offers greater optionality than the Cayman Islands or Bermuda.

Due to their flexibility, **business companies** are the most commonly used vehicle for investment-related business. They are a separate legal entity from its investors who benefit from limited liability. Shares do not need to have any par value or capital attributed to them. The directors may also designate different series within each share without the need to amend the fund's constitutional documents.

⁸⁹ Robert Briant et al, *British Virgin Islands Investment Funds* (Conyers, Road Town), 2022.
<https://www.conyers.com/services/legal-services/investment-funds/british-virgin-islands-investment-funds/> (Accessed 28 October 2022)

Exhibit 8-16 Case study: Foreign investment facilitated by islands' strong rule of law

Goldman Sachs and JP Morgan jointly structured a transaction involving a BVI company to loan the Azerbaijan state oil company US\$1.3 billion.

This allowed the state oil company to pay off the remaining US\$1 billion of its loan raised for the privatisation of a Turkish petrochemical complex. The additional capital was raised via the sale of newly issued ordinary shares corresponding to thirteen per cent of the total issued share capital of the Turkish subsidiary to the investment banks. The subsidiary itself was established to implement investment projects in the oil refining and petrochemical sectors and trade in natural gas in Turkey.

A BVI-company used to hold the shares of the Turkish subsidiary is also a subsidiary of the state oil company. This was central to the success of the deal. To protect themselves against a decline in the value of the shares below US\$1.3 billion, the banks simultaneously entered into six-year put option transactions with both the Turkish subsidiary and the BVI-company that holds its shares.

The deal was successfully paid out in 2021 when the state oil company acquired the remaining thirteen per cent stake and became the full owner of its Turkish subsidiary from the investment banks.

Energy and natural resource groups in the Commonwealth of Independent States of which Azerbaijan is a member of were active users of British Virgin Islands entities in the early 21st century. Having the ability to use modern structures that sat at ease in international circles meant that the jurisdiction was one of the region's first choices for use by international counterparties transacting in the region.

The islands' international finance and business centre was used to facilitate the raising of capital in a way that works within the bounds of the notoriously inflexible laws of Turkey and Azerbaijan. For example, direct investment by the American investors would not have been permitted. Even if it were, it would be undesirable due to the inability to take security over assets under those laws.

This deal, and others like it, simply would not take place if there were no offshore jurisdictions to enable it.

Source: Representing law firm and company websites

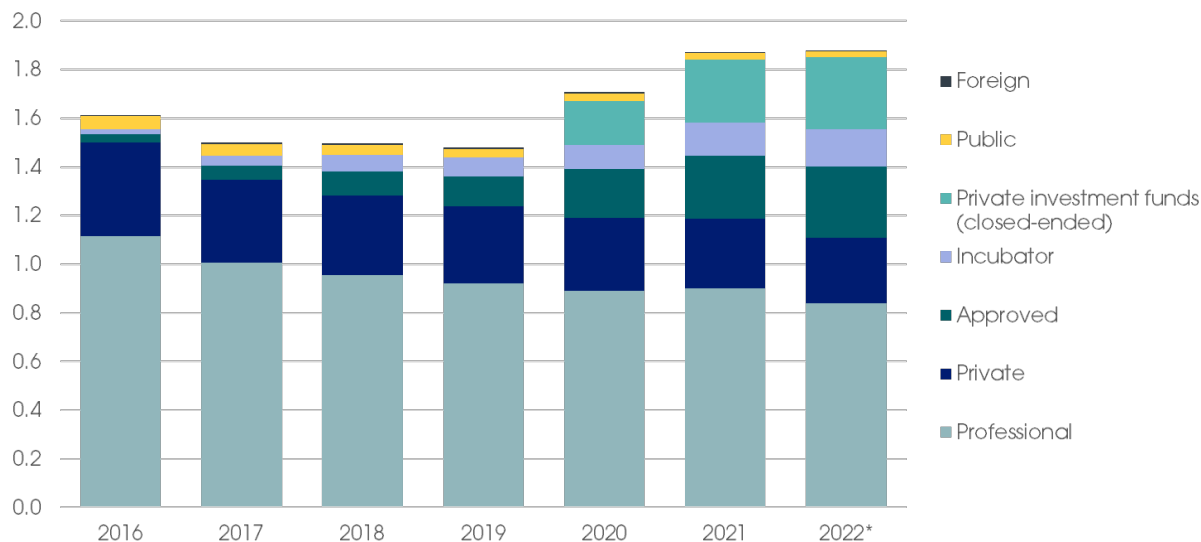
In the case of a **segregated portfolio company**, assets and liabilities either belong to a specific segregated portfolio or to the company generally. Once established, the company constitutes a single legal entity, though each segregated portfolio does not. It can issue shares and declare dividends on its own account, as well as with respect to each individual segregated portfolio. As such, this is a particularly useful vehicle for multi-class or umbrella funds that wish to offer different investment strategies to investors.

The *Limited Partnership Act* passed in 2017 and updated in 2020 provides a modern and flexible **limited partnership** regime with several advantages for those conducting investment activities, particularly private equity funds.

Unit trusts are rarely used as fund structures, largely due to its lack of a separate legal personality and therefore liability is not limited by statute in the way that it is for some other structures. However, they are suitable for a variety of investment structures, including the stand-alone trust and the umbrella trust.

As of June 2022, there were over 1,800 funds regulated by the Financial Services Commission. The largest number of active funds licences held in the jurisdiction at the end of June 2022 were for professional funds, representing a 45 per cent share of all licences.

Exhibit 8-17 Number of active mutual funds licences in the British Virgin Islands by category, as at December 31 each year (*end June 2022), thousands



Source: Pragmatix Advisory and the Financial Services Commission

Although the total net asset value of all the jurisdiction's regulated funds is not readily available. We have conservatively estimated the value to be approximately US\$501 billion.⁹⁰ In reality, this value is likely higher given the lack of restrictions on both assets and investors for certain categories of funds.

There are seven types of funds regulated in the British Virgin Islands.

First, professional funds. This is the most popular category of regulated fund in the jurisdiction. Interests in these funds must only be available to persons whose ordinary business involves dealing in the same kind of property as the fund or who has a net worth as an individual or jointly with their spouse in excess of US\$1 million with a minimum initial investment of US\$100,000. They are required to have two directors (at least one of whom is an individual), an investment manager, an administrator, a custodian (unless an exemption is granted) and an auditor. They must also keep the Financial Services Commission apprised of changes in the appointments of any prime brokers.

Second, private funds. These funds are popular with start-up managers, allowing a friends and family offering. They must be recognised by the Financial Services Commission prior to carrying on business, and either keep the number of investors below 50, or ensure that invitations to purchase fund interests are only made on a private basis. As for professional funds, they are required to have two directors (at least one of whom is an individual), an

⁹⁰ Estimate based on the net asset value of Jersey's regulated funds. As at 31 March 2022, there were 696 funds regulated by Jersey Financial Services Commission with a net asset value of US\$604 billion (using the exchange rate of 1.3148 USD to 1.0000 GBP as at 31 March 2022). Jersey funds are not directly equitable to BVI funds, as they consist of different assets classed as either Jersey / Non-Jersey Collective Investment Funds (CIFs) or Company-owned, Business Only (CoBO) funds. As these largely consist of equity and hedge funds, we would predict the investment value in these funds to be greater than that of the average investment directed into a BVI mutual fund. Due to this and various other contextual factors, we have worked under the assumption that BVI funds are 0.59 the size of Jersey funds in our model.

investment manager, an administrator, a custodian (unless an exemption is granted) and an auditor.

Third, approved funds. These funds are aimed at managers requiring a cost-efficient fund with light regulation on an ongoing basis and benefit from a fast-track approval process. Approved funds have a cap on assets under management of the fund of US\$100 million and may have no more than twenty investors. Approved funds will have no obligation to appoint functionaries other than an administrator, helping to keep third-party costs low.

Fourth, incubator funds. Introduced in 2015, these funds are aimed at the start-up manager looking to launch quickly with low cost, minimal regulatory hurdles and no mandatory functionaries. As for approved funds they are restricted to a maximum of twenty investors, but in this case they must be 'sophisticated' with an investment of at least US\$20,000. They have a lower US\$20 million cap on assets under management. A fund can operate as an incubator fund for up to three years, after which it will need to convert to a professional, private or approved fund or else wind up its operations.

Fifth, private investment funds. These funds are characterised by fixed capital, so the amount of shares that the fund possesses does not change over time even as asset values fluctuate. Commonly used for private equity investments, venture capital funds or by start-up managers investing their own money to build a track-record, investors are unable to redeem their interests on demand. These funds were unregulated in the jurisdiction until the end of 2019 when an amendment to the *Securities and Investment Business Act* was made in response to the requirements of the European Union.

Sixth, public funds. Envisaged as retail products, these funds have a higher regulatory burden placed on them. They must be registered with and publish a compliant prospectus that is registered by the Financial Services Commission before commencing business. Public funds are required to have two individual directors, an investment manager, an administrator, a custodian (unless an exemption is granted) and an auditor approved by the commission.

A seventh category of regulated fund is foreign funds, which includes those incorporated outside the jurisdiction but supervised by the Financial Services Commission so that they may carry out their business in the islands.

8.6 Asset holding

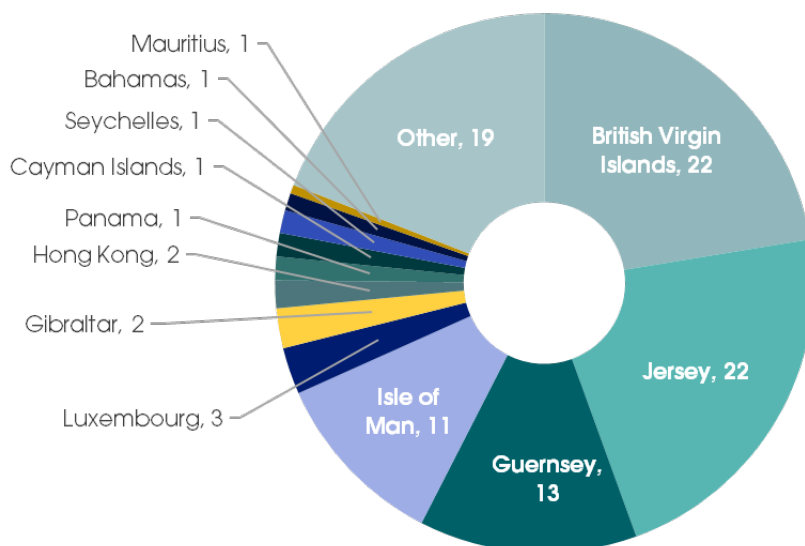
A variety of assets are held in BVI Business Companies. Cross-border investment involving real estate, vessels and digital assets will typically use a special purpose vehicle, which can hold a single asset or a portfolio and provides investors with the reassurance of limited liability. This means that the investors will not be personally liable for any debts the holding company might accrue. For instance, in the case of real estate, mortgages will be assigned to the entity rather than a particular individual which increases the efficiency of the distribution of shares.

One-fifth of BVI Business Companies are used primarily to hold real estate, representing one-twentieth of total asset value. Despite significant recent growth, given their infancy, only a small proportion of BVI Business Companies are focused on holding digital assets.

BVI Business Companies are popularly established to hold **real estate** assets. Our estimation is that nearly one in five active BVI Business Companies are real estate holding vehicles.

Around 22,000 properties in England and Wales are registered to BVI Business Companies. This represents more than one-fifth of all property owned by a foreign company, similar to the number registered in Jersey.

Exhibit 8-18 Offshore-owned properties by jurisdiction of ownership, England and Wales, 2021, per cent



Source: United Kingdom Land Registry, Overseas companies that own property in England and Wales data

Each of the top ten property deals since 2017 by value involving a BVI Business Company were for properties located in central London. The highest value transaction by a British Virgin Islands' entity in the last five years was the top two floors, plus ground and basement of 30 Gresham Street within the City of London, worth over US\$400 million.

Exhibit 8-19 Top ten British Virgin Islands-owned property transactions in England and Wales since 2017 by value

	Property	Location	Property type	Year of transaction	Transaction value
1	30 Gresham Street	City of London	Commercial	2019	£412 million
2	168 Fenchurch Street and 70 Gracechurch Street	City of London	Commercial	2017	£271 million
3	5 Churchill Place	Tower Hamlets	Commercial	2019	£263 million
4	33 Old Broad Street	City of London	Commercial	2018	£260 million
5	8 Finsbury Circus	City of London	Commercial	2019	£260 million
6	1 St James' Square	City of Westminster	Commercial	2020	£250 million
7	123 Buckingham Palace Road	City of Westminster	Commercial	2017	£215 million
8	2 Rutland Gate	City of Westminster	Residential	2020	£210 million
9	25 Gresham Street	City of London	Commercial	2018	£160 million
10	99 City Road	Islington	Commercial	2022	£150 million

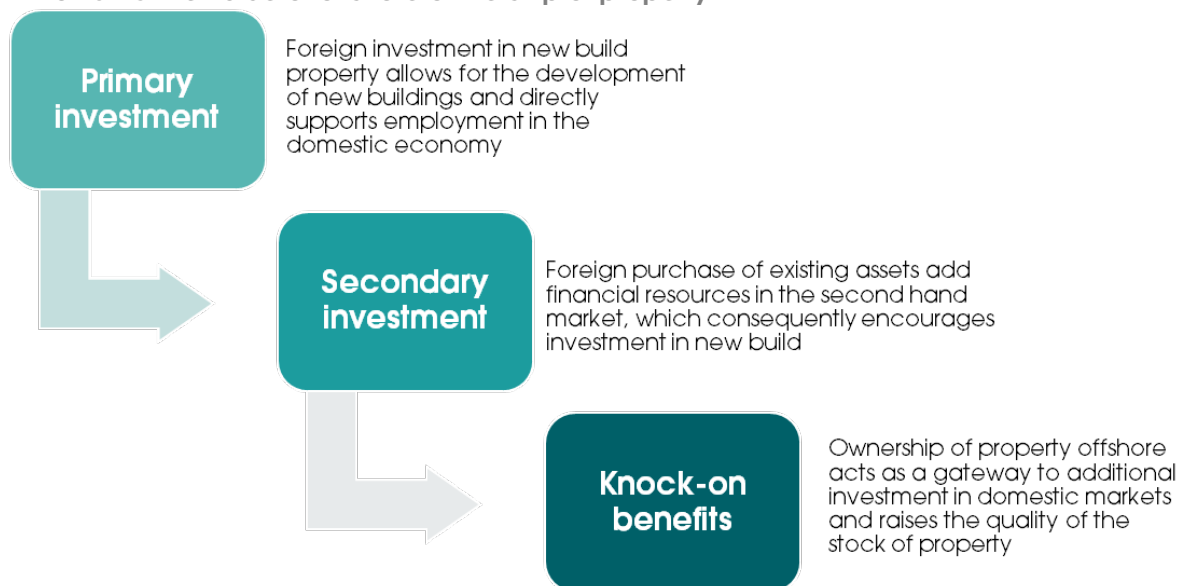
Source: Pragmatix Advisory and United Kingdom Land Registry, Overseas companies that own property in England and Wales data

The jurisdiction's company law rests within the concept of solvency; theoretically a company can issue an unlimited number of shares, without the worry of a share premium or capital maintenance. Provided the solvency test be passed, a director can distribute shares when best suits them. In this sense it is easier and more cost-effective to manage the ownership of a company rather than a property.

The United Kingdom's *Economic Crime (Transparency and Enforcement) Act, 2022* which established a register of overseas entities is now in force, with overseas entities holding property in the United Kingdom having until 31 January 2023 to register. Overseas entities are now unable to buy, sell, transfer, lease or charge against a property unless they have registered with Companies House in London. Entities who wish to do so will have to notify Companies House of their beneficial owners or managing officers, with the information verified by a United Kingdom-regulated agent. With around 22,000 properties in the United Kingdom owned by BVI Business Companies, the BVI is a key stakeholder in implementing the new act.

Of particular appeal to investors in the United Kingdom property market is that stamp duty is not paid when property changes hands through the sale of the company that holds it instead as through the sale of the underlying asset. This ensures that property can access the same levels of international liquidity as other asset classes. While BVI Business Companies are sometimes used to hold private residences, most of the highest value transactions in this space relate to commercial property. Without the financial advantages offered by offshore asset holding companies, London's skyline would likely look very different.

Exhibit 8-20 The value of offshore ownership of property



Source: Pragmatix Advisory

While BVI Business Companies are used for legitimate and legal tax planning in relation to the purchase of real estate, it is by no means the only reason. For Chinese investors buying property in London, for example, the most important consideration when it comes to pre-emigration planning along with the level of investment required is access to healthcare, education and other amenities.⁹¹ Some ultra-high net worth individuals in the region are

⁹¹BVI House Asia, *The BVI Still the Leading Offshore Jurisdiction Globally*, (Wanchai, Hong Kong) 20 May 2018. <http://bvihouseasia.com.hk/news/the-bvi-still-the-leading-offshore-jurisdiction-globally> (Accessed 7 November 2022)

taking out the insurance of second citizenship because of rising concerns over restrictions and the tightening of policies in China.

BVI Business Companies are often used to hold **vessels**. This is often done to register security for any loan. BVI Business Companies must provide security over their assets for financing either as part of a group structure or as a stand-alone company. This is an advantage for creditors, as it provides them with greater security and visibility over their assets. For example, by placing a tanker into a BVI Business Company, that company is then able to raise capital against the vessel.

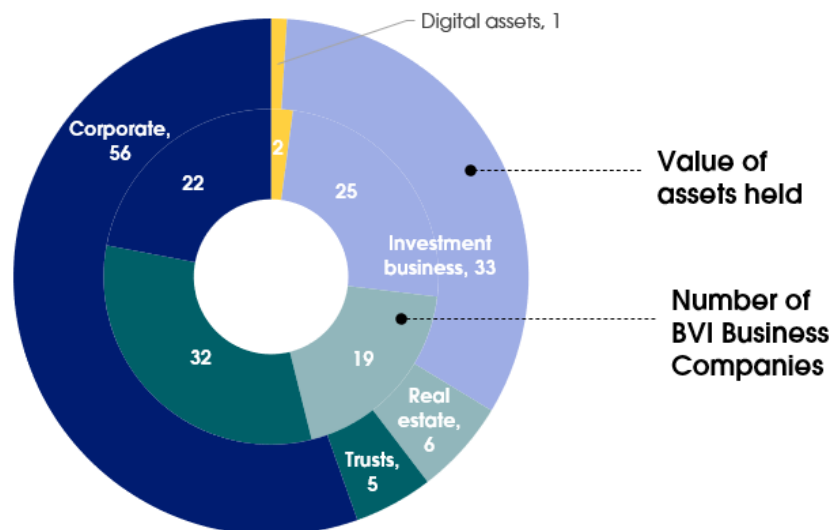
Although corporate service providers will often facilitate both, the holding of an asset in a business company is importantly distinct from the registration of vessels on the Virgin Islands Shipping Registry, a category one member of the Red Ensign Group of British Registries. Ships flying this flag are entitled to British diplomatic and consular support and Royal Navy protection. The registration of a ship is necessary for two main reasons. First, to prove nationality and for identification purposes for international voyages. Second, to use the ship as security to obtain a marine mortgage.

As with other assets, BVI Business Companies make for attractive holding vehicles for **digital assets** such as cryptocurrency, non-fungible tokens and financial technology.

8.7 Private wealth

Almost a third of entities are used for personal and family wealth, trusts and succession planning purposes; these account for five per cent of the US\$1.4 trillion total value.

Exhibit 8-21 Estimated underlying value of active BVI Business Companies by primary purpose (outer ring) and estimated share of active BVI Business Companies by primary purpose (inner ring), 2022, per cent



Note: 'Corporate' refers to corporate group structuring; 'Trusts' refers to family, trust and succession planning; 'Real estate' refers to real estate holding; 'Investment business' refers to investment business, joint ventures, listing and vessel or aircraft registration. Source: Pragmatix Advisory industry survey, 2021/22

The survey reveals the diverse uses of BVI Business Companies – and further illustrates the varied value of assets held in the different entities.

International finance centres including the British Virgin Islands have a legacy of private wealth management and this role remains important today. The services offered by the jurisdiction often attract the business of expatriates and internationally mobile individuals. High-net-worth individuals still see the BVI as an attractive centre in which to hold and manage assets, but while privacy and security remain significant considerations, they are no longer main drivers.

The BVI is now one of the world's leading jurisdictions for private trust companies with over a thousand on its register. A trust is a legal relationship created when someone places assets under the control of a trustee who is obligated to deal with them for the benefit of beneficiaries or to further specific purposes. Unlike companies, trusts are not separate legal entities; trust assets are owned by the trustee and a trust will automatically terminate when the trustee no longer holds any assets.

Trusts are the most comprehensive and sophisticated succession planning vehicles available in the British Virgin Islands, providing benefits and optionality unavailable in many other jurisdictions.

First, specialist legislation in the form of the *Virgin Islands Special Trusts Act* caters for the needs of trusts that hold BVI Business Company shares. This disengages certain traditional trustee duties such that while these shares are held in trust the directors of that company are free to administer the company as they see fit, without intervention from the trustee except in extreme circumstances.

Second, the jurisdiction's law respects the concept of testamentary freedom and thus would not impose any restrictions on who may receive the shares and in what proportion on the death of the shareholder. The robust provisions in the Trustee Act means the use of a BVI trust can prevent the impact of foreign forced heirship rights. According to the provisions in the Act, no rules relating to succession or inheritance will affect the transfer or disposition of personal property into a trust or affect the validity of such trust,⁹²

Third, two individuals may own the shares as joint tenants. This means that if one of them dies the surviving joint owner will automatically inherit the deceased's interest in the shares, regardless of any forced heirship rules and without the need for a grant of probate.

⁹² Carey Olsen, British Virgin Islands (Road Town), 25 January 2022. <https://www.careyolsen.com/briefings/private-client-guide-2022-british-virgin-islands-legal-500> (Accessed 23 February 2023)

9 Global impact

In this section we evaluate the British Virgin Islands' impact on the global economy in terms of jobs, investment and tax receipts.

9.1 The BVI's impact on its neighbours through trade and employment

Businesses operating within the islands provide employment for islanders and people from the wider-Caribbean region.

There were 9,003 work permits issued to workers not originating from the British Virgin Islands in 2019, including:⁹³

- 1,254 workers from Jamaica
- 1,110 from the Dominican Republic
- 1,016 workers from St Vincent and the Grenadines
- 986 workers from Guyana

In addition, 1,426 were employed from nations elsewhere in the Caribbean and 3,211 from beyond the region.

Moreover, the jurisdiction's residents and businesses imported US\$1.55 billion in goods and services in 2019.⁹⁴ With the bulk sourced from the United States, imports were estimated to be supporting around 12,000 jobs there in 2017.⁹⁵

9.2 Impact of investment mediated via BVI Business Companies

The multinational investment activity mediated through the British Virgin Islands' vehicles sustains economic growth on a significant scale across the globe.

We estimate that BVI Business Companies hold around US\$1.4 trillion of assets.⁹⁶ This is equivalent to:

- Four per cent of all sectors' total cross-border banking liabilities as reported by the Bank of International Settlements⁹⁷
- 1.5 per cent of annual global gross domestic product⁹⁸

⁹³ Data provided by BVI Central Statistics Office on 22 September 2022

⁹⁴ The Observatory of Economic Complexity, *Trade data* (The Observatory of Economic Complexity, Boston) 2022. <https://oec.world/> (Accessed 28 October 2022)

⁹⁵ Mark Pragnell et al, *Creating Value: The BVI's Global Contribution* (BVI Finance, Road Town) June 2017, P127

⁹⁶ Estimate based on results of a survey of British Virgin Islands' corporate service providers by Pragmatix Advisory 2021-22 using a methodology consistent with the approach taken by Capital Economics in their 2017 report.

⁹⁷ Bank of International Settlements, *BIS international banking statistics and global liquidity indicators at end-March 2022* (Bank of International Settlements, Basel), 28 July 2022. <https://www.bis.org/statistics/rppb2207.htm> (Accessed 28 October 2022)

⁹⁸ World Bank, *Gross domestic product* (World Bank, Washington DC), 2022. <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD> (Accessed 28 October 2022)

- 1.7 per cent of global portfolio investment⁹⁹

These holdings reflect cross-border investment in the widest variety of physical, corporate and financial assets. It is easy to assume that what appears to be the remote and unreal world of international finance makes no difference to the lives of employees, voters, families and businesspeople. But these substantial cross-border investments provide the underlying finance that enables real world economic investment in homes, factories, hospitals, railways, broadband, machinery, entrepreneurs, etc. – or they provide the essential liquidity for the secondary markets that underpin and provide confidence in these primary real-world investments.

Although quantifying the real-world impact of this investment is difficult to do with any level of precision, it is possible to make reasonable estimates of the orders of magnitude involved. We estimate that 2.1 million jobs worldwide are supported by the US\$1.4 trillion of assets mediated through the British Virgin Islands.

The islands' real-world economic impact is spread widely across the globe. An estimated ⅓ million jobs are supported in the Latin America and the Caribbean region, while close to a further million are in China. The Western economies benefit too, with around ½ million jobs supported across North America and Europe.

Exhibit 9-1 Indicative estimates of investment mediated by BVI Business Companies and associated employment supported, 2021

	Investment mediated by BVIBCs by location of underlying asset (US\$ billion)	Employment related to investment mediated by BVIBCs (thousands)
Caribbean and Latin America	117	366
United States and Canada	79	72
United Kingdom	153	134
Rest of Europe	297	186
China, Hong Kong and Macau	638	1,164
Rest of world	133	399
Total	1,417	2,291

Source: Pragmatix Advisory analysis

These indicative estimates of jobs supported are based on a methodology previously deployed by Capital Economics.¹⁰⁰ By examining official macroeconomic statistics for various economies, the approach is to make estimates of the mathematical relationship for different regions of the globe between total net wealth and employment, and hence the number of additional jobs associated with each extra dollar of investment. These ratios are then applied to our estimates for 2022 of the scale of investment mediated by BVI Business Companies by location of asset to assess jobs supported in each region.

⁹⁹ International Monetary Fund, *Coordinated Portfolio Investment Survey* (International Monetary Fund, Washington DC), 2022. <https://data.imf.org/?sk=B981B4E3-4E58-467E-9B90-9DE0C3367363> (Accessed 26 October 2022). Estimate is for December 2021 in current US\$

¹⁰⁰ Melanie Debono, Alexandra Dreisin, Andrew Evans and Mark Pragnell, *Creating Value: The BVI's Global Contribution* (BVI Finance, Road Town), June 2017

Exhibit 9-2 Capital Economics' approach to estimating jobs related to investment mediated by BVI Business Companies, 2017

The investment mediated through BVI Business Companies supports economic activity and employment across the globe. Estimating the number of jobs related to a given value of investment is not an exact science and there are a number of approaches and methodologies that could be deployed to do this. We take what we believe to be a reasonable and cautious approach by basing our jobs estimates on the relationship between total net wealth and employment. First, we examined the relationship between total net wealth and employment in five major economies where good data are available: the United Kingdom, United States, Euro area, France and Germany. From these relationships we estimated both the average number of jobs per dollar of net wealth (investment) and the marginal impact of an extra dollar of investment, as shown in the charts below. In order to be conservative, we use the marginal rate of employment for additional investment rather than the average rate.

United Kingdom

- Employment per £1 million of net worth (2015) = 3.84
- Marginal increase in employment for each additional £1 million net worth = 1.08

United States

- Employment per US\$1 million of net worth (2015) = 1.87
- Marginal increase in employment for each additional £1 million net worth = 0.91

Second, we estimated the marginal impact of investment for China and Mexico, where robust data on total wealth are not available. To adjust for the higher rates of investment to employment in the developing world we applied the ratio of gross fixed capital formation per employee between the given country and the average of the United Kingdom, United States, France and Germany to the average marginal impact in the countries for which we do have data. Third, we applied the relevant marginal impact to the total stock of investment mediated by BVI Business Companies by location of underlying asset from our survey. We use our estimates of the marginal impact of an extra US\$1 million in the United States for North America (0.91), the United Kingdom for the United Kingdom (0.88), the Euro area for the rest of Europe (0.87), Mexico for Latin America and the Caribbean (2.87) and China for Hong Kong and China (2.51). For the rest of the world we use a marginal impact of three jobs per US\$1 million of investment.

Source: Capital Economics

9.3 Impact on global tax receipts

The scale of the British Virgin Islands' global contribution to investment and jobs sheds light on the debate around its impact on the tax receipts of other nations.

The economic activity and incomes generated by 2.3 million jobs worldwide will likely contribute over US\$14 billion annually to public sector coffers worldwide. Governments in Europe alone are estimated to benefit by around US\$7.5 billion each year.

Exhibit 9-3 Estimated economic and fiscal contribution related to investment mediated by BVI Business Companies, 2021

	Employment related to investment mediated by BVIBCs (thousands)	Total tax (\$billion)	Income tax (\$billions)	Corporate tax (\$ billions)
United Kingdom	134	3.5	1.1	0.3
Rest of Europe	186	4.0	0.8	0.3
United States and Canada	72	1.6	0.5	0.2
Caribbean and Latin America	336	0.9	0.9	0.1
China, Hong Kong and Macau	1,164	2.8	0.7	0.3
Rest of the world	399	0.9	0.5	0.1
Total	2,291	13.8	4.6	1.2

Source: Pragmatix Advisory analysis of industry survey 2021/22 and Capital Economics 2017 estimates

Though tax loss would be minimised through the global tax transparency initiatives to which the jurisdiction is a party, there will be some loss from larger nations using offshore vehicles such as those incorporated in the islands. However, the scale of these losses has been evaluated before and shown to be small – especially when considered against the benefits of investment mediated via the jurisdiction.¹⁰¹

Given the number of tax information exchange agreements already in place, and the deployment of know your customer and anti-money laundering measures that match or exceed those executed among the large nations, there is no reason to believe that the jurisdiction will offer any greater options for the evasion of onshore taxes than are available in the onshore jurisdictions themselves. Indeed, there is every chance that the levels of tax evasion are lower in the British Virgin Islands. Moreover, the bulk of the underlying value in BVI Business Companies relates to corporate activity and not private wealth; the levels of transparency, scrutiny and external audit in the modern business environment makes tax evasion increasingly unlikely.

But there remain some potential options for tax avoidance through the use the islands' offshore services – in particular:

- **Asset transfer taxes.** Some taxes, such as the United Kingdom's property registration tax ('Stamp Duty'), are levied on the transfer of registered ownership of the taxed asset. By placing the asset in a BVI Business Company and selling shares in the vehicles, rather than selling title over the asset, offshore may avoid these taxes.
- **Deferment of taxes paid on interest income.** Interest income accruing to capital pooled offshore may not be subject to tax until it is repatriated to the investors' home domiciles. Although tax will be paid then, the user of the offshore vehicle gains some advantage by paying the tax later than would have otherwise been the case onshore.

The hypothetical upper threshold of tax avoidance through these routes would total US\$¼ billion each year. For context, the United Kingdom's tax authority estimates their annual loss

¹⁰¹ Melanie Debono, Alexandra Dreisin, Andrew Evans and Mark Pragnell, *Creating Value: The BVI's Global Contribution* (BVI Finance, Road Town), June 2017

of taxes at US\$42 billion.^{102 103} Any tax leakage which occurs as a result of using a Road Town vehicle is immaterial in comparison. Even taking into account the estimate of tax leakage, the British Virgin Islands are a considerable net benefit to national governments of around US\$14 billion.

9.4 A world economy without the BVI

If the British Virgin Islands' international business and finance centre did not exist, much of the investment mediated through it would likely happen anyway – but there would be adverse consequences.

The US\$1.4 trillion would divide between investments that, in a world without the British Virgin Islands, would otherwise:

1. be mediated through jurisdictions with higher costs than the islands;
2. be mediated through jurisdictions with lower costs than the islands; or
3. not happen at all.

It is not clear how much of the investment would fall into each of these three – but we can consider the implications.

The territory is not the only tax neutral jurisdiction with sound government, respected law and a well-developed cluster of financial and professional service providers. The three Crown Dependencies, for example, also offer a common law framework and access to the British legal system, including the right of appeal to the Judicial Committee of the Privy Council. But costs in Jersey, Guernsey and the Isle of Man are higher than in the Caribbean – and only certain categories of activity conducted in the Road Town would be able to bear them.

Alternatively, investors could use an offshore jurisdiction which has lower costs. The British Virgin Islands are cost effective, but they are not the cheapest centre; there are a number of locations where international businesses can be incorporated and run at lower cost. Typically, these jurisdictions have one or more characteristics that may differentiate them from the British Virgin Islands in the minds of investors, including:

- No access to the British legal system
- Limited track record of high value dispute resolution and/or predictable jurisprudence
- Short history of sound government and financial regulation
- Idiosyncratic or unwieldy company law
- Limited expertise and capacity in local service providers

Moreover, many of the lower cost centres have not kept pace with the Government of the Virgin Islands in the adoption of international standards for transparency, tax information exchange, anti-money laundering and combatting the financing of terrorism. And some, like Delaware, have wide networks of double taxation agreements that may facilitate corporate profit shifting. The British Virgin Islands remain the jurisdiction of choice for Chinese businesses, institutional investors, and high-net-worth individuals. That 45 per cent of BVI Business

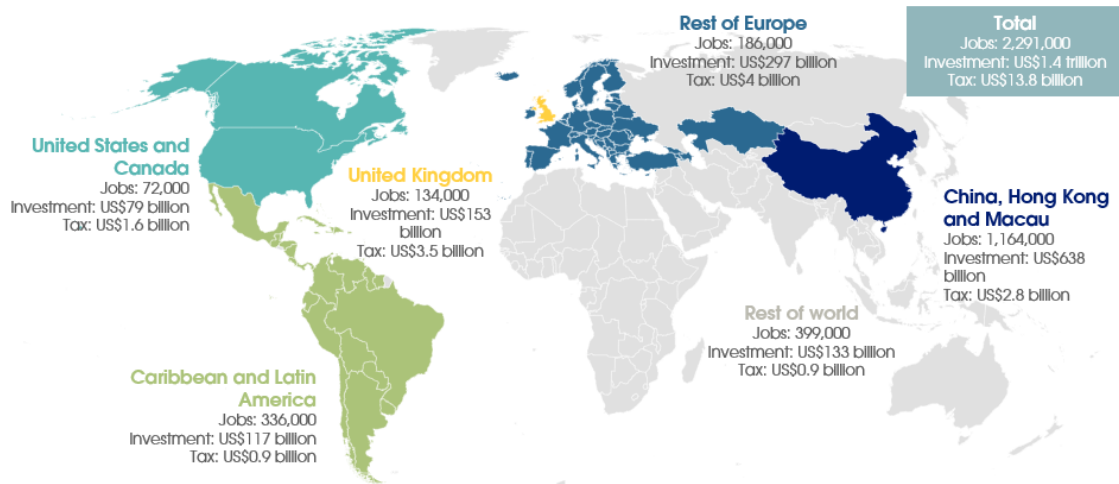
¹⁰² HM Revenue & Customs, Tax gap by behaviour (United Kingdom government, London), 23 June 2022. <https://www.gov.uk/government/statistics/measuring-tax-gaps/7-tax-gaps-illustrative-tax-gap-by-behaviour> (Accessed 12/10/2022)

¹⁰³ Tax gap estimate for 2020/21 converted into US\$ using average exchange for year to 31 March 2021

Company business originates in the region indicates the ongoing strength and appeal of the jurisdiction.

Finally, some cross-border business would not occur at all without the British Virgin Islands. For some investors, its combination of cost effectiveness, sound common law and local specialist expertise will not be matched in other jurisdictions. Here, investors will opt instead for domestic opportunities with, presumably, lower returns – while the recipients of the investment, often in developing countries, will either go without or have to pay more.

Exhibit 9-4 Estimated economic and fiscal impact of investment mediated by BVI Business Companies, 2021



Source: Pragmatix Advisory analysis of industry survey 2021/22 and Capital Economics 2017 estimates

10 Beyond globalisation

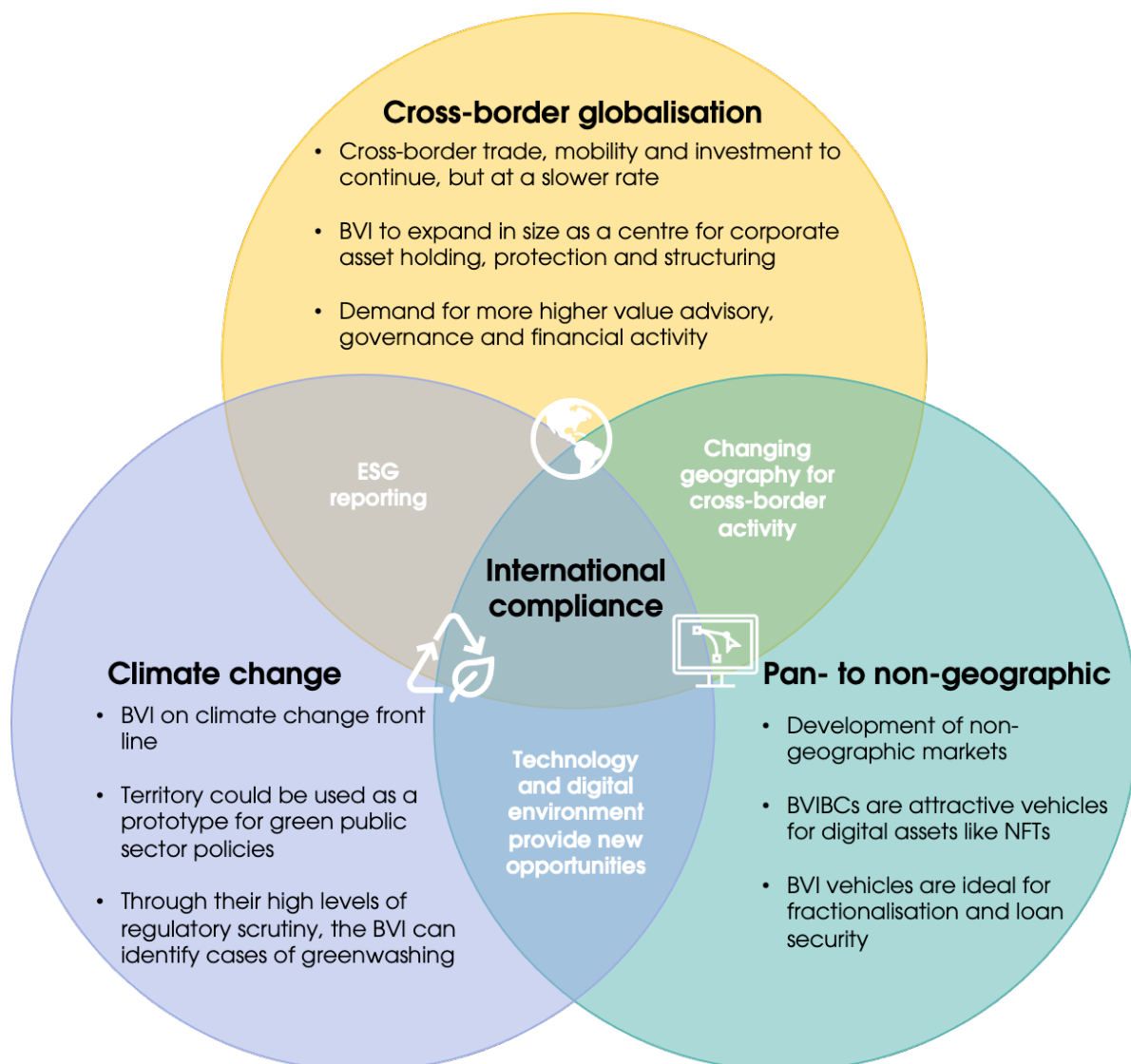
In this section, we discuss the future role of the British Virgin Islands in the changing global environment, including key domestic and international policy considerations.

10.1 Cross-border beyond globalisation

The globalisation of the post-Cold War period, and the stability and certainty it brought, is dead. But cross-border trade, mobility and investment will continue – and likely grow (albeit more slowly than over recent decades).

Our three illustrative scenarios for the world beyond globalisation point to new geopolitics and fresh uncertainties and risks. Nonetheless, all three identify refreshed roles for international finance centres and point to the British Virgin Islands making a reinvigorated and enduring contribution to global prosperity.

Exhibit 10-1 The role of the British Virgin Islands in the changing global environment



Source: Pragmatix Advisory

As cross-border trade and investment continue to grow, the role of the islands will expand both in size and nature as, for example, a centre for cross-border corporate asset holding, protection and structuring. The different scenarios for geopolitics place new demands on investors and their agents. Under the **weaker internationalism** scenario, the British Virgin Islands' pan-geographic appeal, being open and accessible to markets across the world, provides strong ongoing rationale for its use as an investment and corporate hub. With many big nations looking to defend their tax bases through rules agreed at the multilateral organisations, like the Organisation for Economic Co-operation and Development, increasing requirements for economic substance in offshore centres creates demand for more and higher value advisory, governance and financial activity in Road Town.

The **bloc economy** adds complexity to cross-border activity – especially between regions. Navigating tough protectionist rules for trade and mobility, capital and currency controls, and diverging tax and regulatory regimes demands more expert and sophisticated legal, tax and accounting advice, as well as structuring and administration. The Road Town cluster is well-placed to serve these demands – potentially as a hub for mediating between blocs.

The complexity of cross-border activity increases further with the **new economic nationalism** scenario – with protectionism more prevalent, and the number and diversity of different tax, capital, currency and regulatory regimes multiplied. Here, there is need for more offshore advisory and support services; the international business and finance centre is already multidisciplinary but further specialisms develop in response. Across the three scenarios, changing geopolitics not only make the British Virgin Islands more relevant to future businesses and investors wanting to conduct cross-border activity, they also create demand for new and more sophisticated services offshore.

The scenarios also point toward a changing geography for cross-border activity – with slower (and potentially sluggish or even negative) growth in Europe and North America. Instead, faster economic development in more recently industrialised nations, especially in Asia, will account for a quickly increasing share of offshore activity. China will remain significant (albeit growing at a slower rate than in recent decades) and Africa has the potential for a step-change in prosperity if adequate investment can be unlocked. The British Virgin Islands, with its pan-geographic credentials, is well-placed to serve these markets.

Exhibit 10-2 Globalisation scenarios summary

	The weaker internationalism scenario	The bloc economy scenario	The new economic nationalism scenario
Geopolitics	<ul style="list-style-type: none"> Current trends of globalisation continue at a slower pace 	<ul style="list-style-type: none"> Continued economic and regulatory integration between countries with regional geopolitical blocs but with groups diverging from each other 	<ul style="list-style-type: none"> Larger individual nations become more protectionist and anti-internationalist
The global economy	<ul style="list-style-type: none"> Lower rates of growth slow cross-border trade and investment Tensions between old and emerging economies Indicative CAGR 2020– 2040: 2.3 per cent Indicative growth of up to 5.8 per cent in emerging economies, with Europe and the United States lower less than two per cent 	<ul style="list-style-type: none"> Fissures grow between groups of nations in regards to conflicting economic interests Rates of growth in worldwide economic output could be less than half of those prior to the pandemic Indicative CAGR 2020– 2040: 1.5 per cent Indicative growth of between 2.7 and 3.5 per cent for China and emerging Asia, close to zero per cent for Europe and the United Kingdom 	<ul style="list-style-type: none"> This scenario causes the most damage to future growth of the global economy – potentially as low as one percentage point per annum in real terms Global value chains fracture, markets are more volatile and trends less predictable Indicative CAGR 2020– 2040: 1.0 per cent Indicative growth of two per cent for China and negative growth for Europe
Global trade and investment	<ul style="list-style-type: none"> Efforts to remove trade tariffs, quotas and non-tariff protections continue Progressing towards freer trade in services Rates in foreign direct investment will fall compared to pre-covid rates Plans for a global minimum corporate tax rate continue to move forward, but with geopolitical tensions between China, the European Union and the United States May see pressure for the fifteen per cent tax rate to increase 	<ul style="list-style-type: none"> Rise in tariffs and quotas for inter-regional trade Access to the European market will involve an increased tariff Blocs will take measures to limit activity across regional borders so there will be a need for investment intermediaries between blocs An even wider divide on tax and transparency between Washington and Brussels drives a wedge between markets Faster integration and coordination of tax initiatives within blocs Different ideas about tax competition will develop between blocs and global minimum corporate tax will be abandoned 	<ul style="list-style-type: none"> National self-sufficiency take precedence over the gains from trade Investment relations increasingly decided on a one-to-one basis between nations The global minimum corporate tax rate will no longer apply European nations, either individually or aligned to the European Union, will increase protectionist tax rules
Impact on international finance centres	<ul style="list-style-type: none"> The market for offshore services grow at modest rates Existing international standards and tax initiatives to remain largely unchanged 	<ul style="list-style-type: none"> Demand for services could remain robust, but international finance centres may struggle to keep access to opposed regimes 	<ul style="list-style-type: none"> Offshore expertise will be sought after as cross-border transactions become more complex and costly Neutrality of offshore centres is increasingly attractive However, the initial boost for the industry is likely to be offset by a weaker global economy
Opportunities and threats for the British Virgin Islands'	<ul style="list-style-type: none"> Incorporation costs will likely increase Squeezed margins for the higher volume and lower value end of the market The industry needs to shift from relying on organic volume growth to focusing on increasing relationships with existing clients Business model to expand to provide a wider and deeper range of advisory and other professional services Due to pressure from the West, concerns over how to maintain a successful relationship with Chinese markets will arise 	<ul style="list-style-type: none"> Simultaneous access to markets will pose a significant challenge – the centre will have to decide whether it chases growth in emerging markets such as Asia and Africa or retain revenues from established markets like North America and Europe The jurisdiction will have to choose between blocs or reconfigure itself to become an investment intermediary centre, though this is not without its own set of risks 	<ul style="list-style-type: none"> Initially the islands' long history and global breadth of experience will be appealing Fee rates will rise as offshore intermediation becomes more complex The number of incorporations may see an increase as cross-border structures become more convoluted

Source: Pragmatix Advisory

10.2 From pan-geographic to non-geographic

The British Virgin Islands have, in part, been successful through their pan-geographic reach – open to business from clients on every continent, and able to support investment into any region. Looking ahead, the nature and role of geography, place, nationality and residency change. Markets are developing and evolving that are in many respects non-geographic, and the international business and finance centre are well-placed to serve these.

Technology and the digital environment provide potential new opportunities for the BVI's ongoing contribution to the global economy, such as:

- **Non-fungible tokens and asset tokenisation.** BVI Business Companies make for attractive holding vehicles for digital assets like non-fungible tokens. They are well-established holding vehicles for traditional assets and coupled with the jurisdiction's reputation for evolution and innovation, it is the logical choice.
- **Fractionalisation and loan security.** British Virgin Islands' vehicles are ideal for fractionalisation, where multiple financial assets can be pooled into a single token similar to an exchange traded fund or assets can be divided up and traded as individual digital tokens,
- **Digital identity.** While previously one of the big attractions of cryptocurrency was its anonymity, going forward there will be increasing demand for transparency. Developing a way to verify identities will be key, something that is already commonplace for corporate service providers in the British Virgin Islands when inputting client information into the Beneficial Ownership Secure Search system.
- **Stablecoins.** The territory is well-placed to establish itself as the link between the real world and the digital world when it comes to the ownership of assets. All the reasons that have made the islands' international business and finance centre attractive over the decades are just as important to investors in the digital space.
- **Governance of digital ecosystems.** As more value is created by cloud-based artificial intelligence across transnational networks and servers, governance becomes increasingly complex and diffuse. The BVI is well-placed to support governance, risk management and compliance needs of emerging international business sectors.
- **Nomads and new ways of work.** New technology and the change in working practices necessitated by the pandemic have given rise to a wave of digital nomads, able to work from (almost) anywhere in the world. For those with no fixed base or non-geographical wealth, it makes sense to choose a location with low or no tax in which to hold assets. As a tax neutral jurisdiction used to cross-border operations, the BVI is perfectly placed to meet the needs of digital nomads. Additionally, there could be the opportunity to attract hybrid working professionals to live in the territory if digital nomad visas were implemented like in neighbouring Caribbean jurisdictions.

10.3 Climate change and 21st century values

As an island territory under regular threat from hurricanes, the British Virgin Islands is the climate change front line. The international business and finance centre is well-placed to support the fight against climate change, as well as respond constructively to evolving social values worldwide:

- **Green finance.** There is a natural link between the international business and finance centre and green finance and the jurisdiction has established one of the first Climate Change Trust Funds in the Caribbean, allowing it to receive funding for climate change related projects. The territory could be used as a prototype for innovative technologies and green public sector policies.
- **Public/ private/ third sector joint venture.** In the structuring of green project finance deals across borders, novel structures are often required. The British Virgin Islands' internationally recognisable corporate regime offers significant flexibility and agility that makes it an attractive jurisdiction for such ventures. The depth and breadth of

experience of supporting clients throughout the investment process makes it well placed to support investors and companies in this space. As the sector continues to evolve corporate service providers may be called upon to help identify and rectify possible blind spots when it comes to ESG criteria and reporting.

- **Traceability and integrity.** A growing number of funds and corporations are incorporating sustainability-related guidelines and standards when taking investment and other major business decisions. While there is a risk here that some are simply jumping on the bandwagon in the name of positive public relations, investors and the wider public are also becoming better able to identify greenwashing where it arises. Companies are being held to increasingly higher levels of regulatory scrutiny, and the British Virgin Islands offers those high levels of integrity and traceability.
- **Generational wealth transfer.** We will soon see the greatest ever generational wealth transfer, with United States' households expected to pass US\$68 trillion in assets to their children over the next thirty years. This presents a challenge for wealth managers and financial advisers, as younger generations have different priorities with only thirteen per cent of investors retaining the same advisor their parent(s) used. But as a jurisdiction long established as a safe and secure location in which to domicile personal wealth and assets, the British Virgin Islands will still be attractive to inheriting millennials.

10.4 Policy considerations

This report demonstrates the ongoing contribution made by the British Virgin Islands to global prosperity; meanwhile, it identifies future potential policies and approaches to leverage the greatest benefit from the international business and finance centre. It is essential that when dealing with the strategic challenges, the financial services industry and government work together.

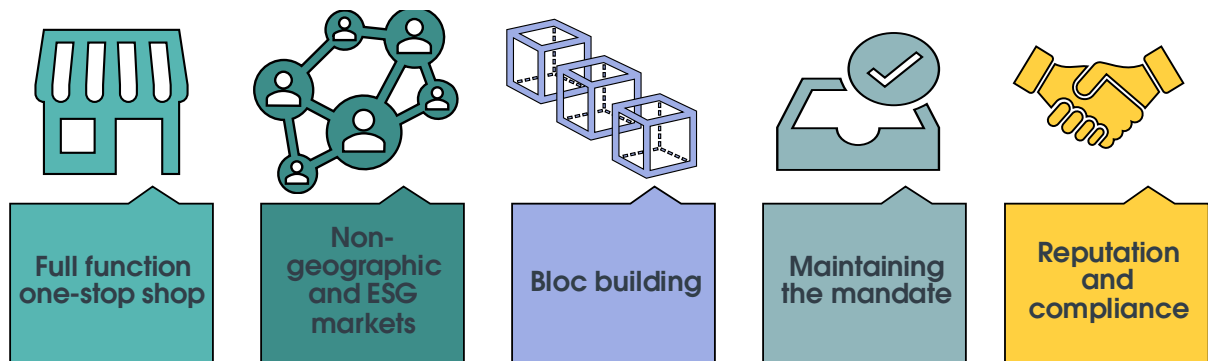
Among the key points for the **businesses in the cluster** to consider are:

- **A full function one-stop shop.** As incorporations slow, the industry must look more to new services to increase revenues. Here, the model is adding value to existing client relationships through a broad professional and financial service offering with deep and specialist expertise, making Road Town a one-stop shop. There has already been broadening of the existing offer – by corporate services providers, law firms and accountancies, and there's good reason to believe this can continue, growing domestic capacity. The limited scope for non-domestic banking on the islands may be a constraint, as will strong competition from other international finance centres.
- **Non-geographic and ESG markets.** China will remain a key market, but higher rates of growth will require greater engagement with potential customers elsewhere in Asia, the Middle East and Africa. Services compatible with principles of Islamic finance become increasingly important. Meanwhile, emerging non-geographic markets – such as digital assets and employment – will require investment and new business models. There will be a need to look beyond digital to recognize the British Virgin Islands' asset, securitization and governance credentials. Climate change and ESG are probably the largest structural shift in investment we will witness, but new mobile private wealth business will be key too.
- **Bloc building.** The British Virgin Islands have benefitted from their pan-geographic outlook and, if it can be maintained, this provides the best opportunities for sustained

success. However, under a scenario of diverging blocs of nations, there is a real prospect that maintaining access to one, for example China/Asia, will limit the potential to access others, especially Europe. A difficult choice may be needed. The industry will need to try and recognise if or when a new geographical focus is needed, and take proactive decisions around access to blocs. The choice may ultimately come down to growth in Asia, the Middle East and Africa versus existing value in the West.

- **Maintaining the mandate.** Maintaining a strong social mandate to operate in the territory includes fostering positive relationships within the community and ensuring politicians have a clear understanding of what the cluster does and the benefits it provides both domestically and internationally. The industry will need to add social value, and work to ensure the economic benefits of the international business and finance centre spill over in locally. Recognising changing values will be important, and the potential overlap between developing green finance products and mitigating the potential damage of climate change on the islands provides the possibility of direct impact.
- **Reputation and compliance.** The British Virgin Islands has a reputation as a strong and stable international business and finance centre and maintaining the respect built over decades successfully serving clients will be crucial. Compliance with international legislation regarding tax, anti-money laundering and countering the financing of terrorism, which the territory already has a strong track record of doing. New European and global initiatives will likely challenge existing practices and regulations. To ensure the impacts to business and revenues are minimal, an ongoing constructive dialogue with international legislators and multi-national organisations should be sought.

Exhibit 10-3 Strategic challenges for the financial services industry in the British Virgin Islands



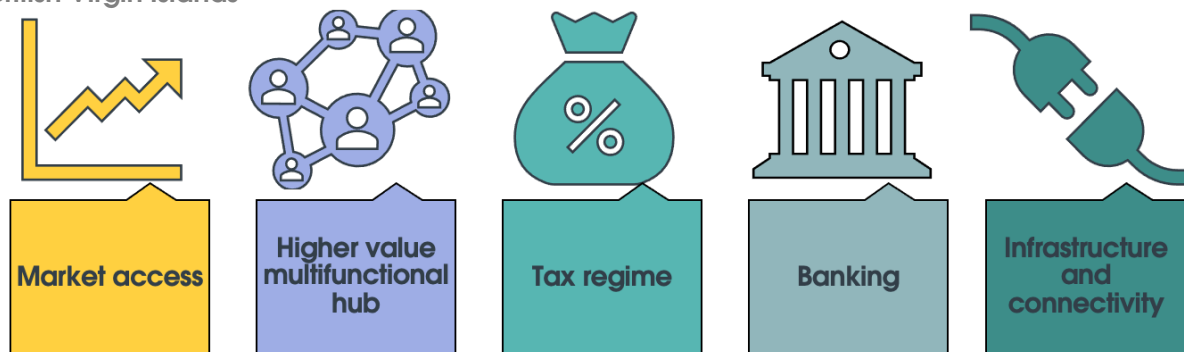
Source: Pragmatix Advisory

Some key points for the **Government of the Virgin Islands** to consider are:

- **Market access** Going forward, the territory must maintain access to other nations and blocs in which to do business. This will require preserving its reputation as a leading financial centre, as well as keeping up with ever-changing regulations
- **Higher value multifunctional hub.** New markets, new services and new people will facilitate development of a broader, multifunctional and higher value cluster. This will require new skills, experience and expertise – and, most likely, more employees. The immigration and residency rules will need to accommodate.

- **Tax regime.** Given the outlook for incorporations, the government needs to raise revenues from the international business and finance centre that are based more closely on the value of the work being conducted on the islands than the volume of companies being registered or maintained on the register. A tax rather than fees-based model may be needed.
- **Banking.** The withdrawal of correspondence banking services to the Latin America and Caribbean region by some major North American retail banks is already impacting islanders and domestic businesses. But the lack of international banking capacity on the islands may need to be addressed if a broader, multifunctional and higher value cluster is to develop.
- **Infrastructure and connectivity.** High speed broadband access for islanders should be seen as an essential utility, much like electricity and water. Transport connectivity, allowing islanders to get on and off the islands for work, or wherever they want to go, is also important.
- **Economic substance.** To achieve economic substance, the territory needs to position itself as a more attractive place to live and work for people being paid higher wages in the legal and finance sector. Now that many jobs can be done remotely, physical connectivity less important, and the islands can sell themselves as a place to be based.

Exhibit 10-4 Strategic role for government alongside the financial services industry in the British Virgin Islands



Source: Pragmatix Advisory

There are important lessons for the **United Kingdom government** too.

The BVI is a robust jurisdiction that has been successful with little support from the UK Treasury. The islands are fiscally self-sufficient – they maintained sound public finances despite the impacts of Hurricane Irma and the global pandemic and have a remarkably balanced economy given their size. They have strong gross domestic product per capita and high average earnings relative to other Caribbean nations. This success is due in large part to the contribution of the international business and finance centre to jobs, the economy and government revenues. **Without the cluster, the islands' economy would be weaker, less resilient and less able to support its own public services or raise funding for needed public investment.** It is in the interest (and the responsibility) of the government in London and the taxpayers they represent to nurture and support the ongoing development of Road Town's cluster. This includes:

- Providing better explanation and stronger defence of the tax neutral model in international policy for a, like the Organisation for Economic Co-operation and Development – where the debate is often misinformed
- Ensuring an accurate perception among international and United Kingdom stakeholders of the legitimacy, quality and value of the British Virgin Islands' international business and finance centre
- Supporting efforts to maintain and improve access for British Virgin Islands' firms to markets around the world, including the European Union
- Helping resolve issues resulting from the islands' limited scale and/or peculiar constitutional arrangements – for example, the limited banking provision for both islanders and non-domestic customers
- Working with all stakeholders on the islands to leverage the twin pillars of tourism and finance to find new innovative ways to tackle climate change

Finally, this report contains some key messages for **large nations and the multilateral organisations**.

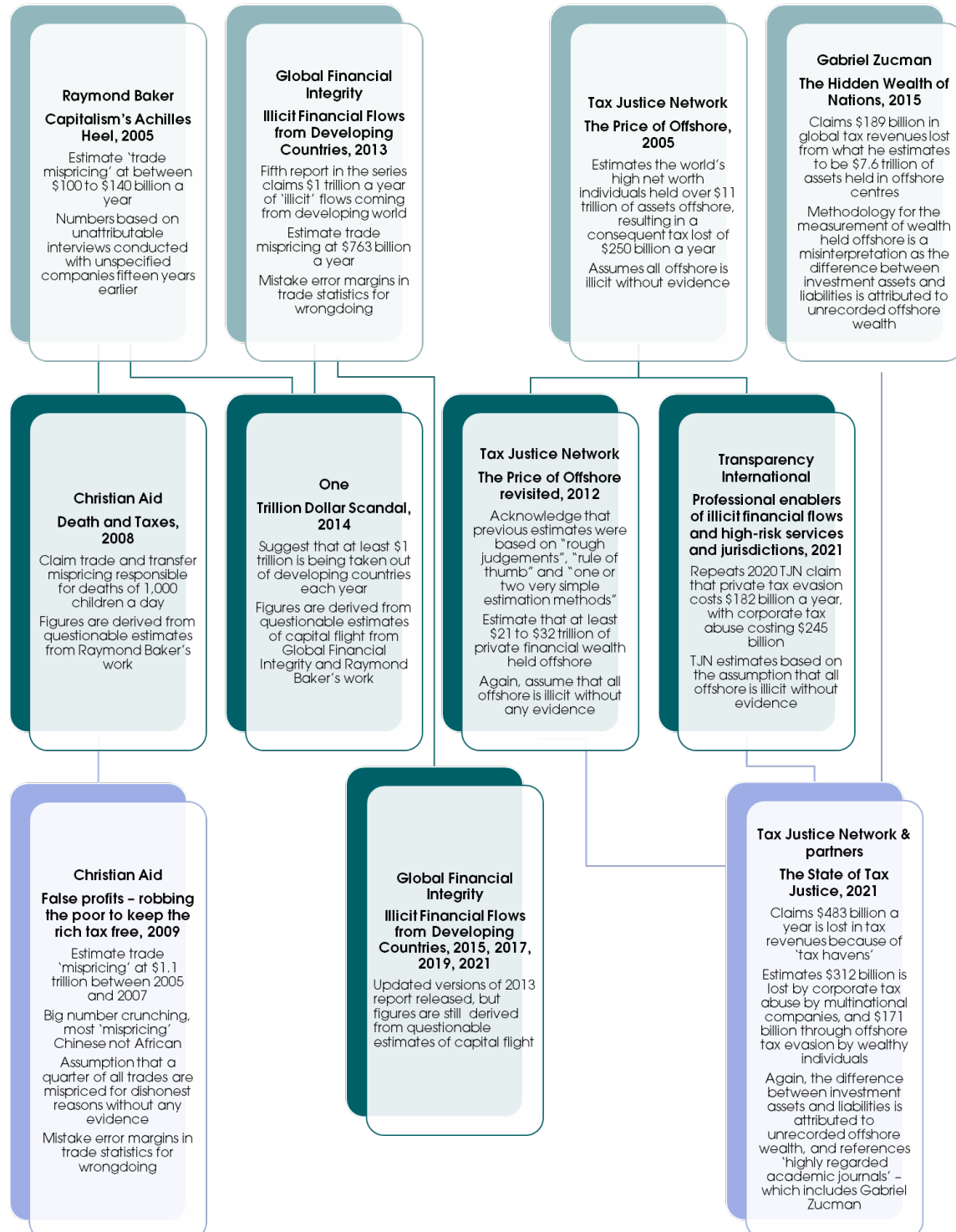
The BVI has have been and remains a constructive international partner. The jurisdiction is safe and reliable, and government, regulators and businesses have worked diligently to meet, and often exceed, international standards. The Beneficial Ownership Secure Search system was world-leading and has proven instrumental in the implementation of sanctions since Russia invaded Ukraine.

Most importantly, **efforts to restrict the use of tax neutral and well-run international finance centres in order to fight tax evasion and avoidance or bolster onshore tax bases are not only groundless, they are an act of global economic and fiscal self-harm.**

Appendix: Critiquing campaigners

Over the years, various reports, articles and books have repeated inaccurate information regarding offshore finance centres, including the British Virgin Islands, and created a false 'tax haven' narrative.

Exhibit 11-1 Timeline of and links between critiques of international finance centres



Source: Pragmatix Advisory and individual campaigners' literature

Tax haven indices

In recent years, league tables and indices have been published by campaigners that purport to assess, compare and rank different jurisdictions on various dimensions of concern.

Exhibit 11-2 Tax Justice Network's Tax Haven Index rankings (left) and Financial Secrecy rankings (right), top ten countries, 2022

Tax Haven Index rankings		Financial Secrecy rankings	
1	British Virgin Islands	1	United States
2	Cayman Islands	2	Switzerland
3	Bermuda	3	Singapore
4	Netherlands	4	Hong Kong
5	Switzerland	5	Luxembourg
6	Luxembourg	6	Japan
7	Hong Kong	7	Germany
8	Jersey	8	United Arab Emirates
9	Singapore	9	British Virgin Islands
10	United Arab Emirates	10	Guernsey

Source: Tax Justice Network, Tax Haven Index and Financial Secrecy Index

For example, Tax Justice Network publishes its *Tax Haven Index*, which evaluates jurisdictions' tax and financial systems, and *Financial Secrecy Index*, which assesses the capability to conceal financial information, every two years. The approach taken is systematic but the way in which jurisdictions are scored against criteria lacks objectivity and logic.

The scoring systems are opinion-driven and assume what they are supposedly trying to determine. For example, governments that have chosen not to levy a corporate income tax are automatically given scores across multiple indicators assuming that they offer unrestrained scope for tax abuse and secrecy; 42 out of 65 criteria that make up the *Tax Haven Index* require that a jurisdiction impose corporate income tax. There are, of course, plenty of sound reasons for a jurisdiction not to tax profits, such as the administrative and bureaucratic costs, the desire to stimulate entrepreneurship or a preference for sales-based taxation – in addition to that choice being a sovereign and democratic right. Moreover, there is no read across from a nation's preferred method of taxation to secrecy, transparency or willingness to cooperate with other nations' tax authorities.

Even meeting agreed international standards is not enough. For some criteria, the Tax Justice Network still score jurisdictions that achieve Organisation for Economic Co-operation and Development standards the most harshly. Meanwhile, a lack of information – or the researchers' failure to find it – means that the corresponding criteria is scored most harshly

and is treated as proof of unrestrained scope for tax abuse and secrecy. This is regardless of whether that information is relevant in the context of that jurisdiction's tax system or reasonable to expect to be available.



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