

**2.12 Deputy G.P. Southern of St. Helier of the Minister for Economic Development regarding the benefit to Jersey of the introduction of unregulated investment products:**

Would the Minister advise how the introduction of unregulated investment products such as those offered by hedge fund institutions will benefit Jersey if there are no requirements for Jersey domiciled administrators, directors or local audit sign-off? Would he also explain whether such investments will be subject to taxation and how the Jersey Financial Services Commission will ensure that these “unregulated” investments are not used for money laundering purposes?

**Senator P.F.C. Ozouf (The Minister for Economic Development):**

To avoid any misunderstanding I should start by explaining to Members that what the Deputy is referring to is the proposed creation of a new specialist fund vehicle called “unregulated funds”. This new product is targeted at sophisticated and institutional investors such as investment banks and conditions for its use will be very strictly prescribed including a minimum subscription amount of one million U.S. dollars per client per fund and a clear investor warning regarding its unregulated nature. The proposed creation of this product is a key issue as far as our competitiveness with other jurisdictions, including Luxemburg and Dublin. The proposed product would generate considerable additional benefit for the Island. Each fund structure would comprise a Jersey vehicle with consequent revenues generated by way of set-up fees, legal fees, administration fees, and finally, winding-up costs when the fund is closed. As to issues concerning taxation, Jersey funds and, in general, funds internationally are already tax-free so there would be no difference in this compared to existing structures. The Financial Services Commission will ensure that Jersey will maintain its high quality anti-money laundering rules by the application of all the existing laws to these funds. I, therefore, asked the Law Draftsman to prepare the legal requirements and will, of course, consider the proposal once the law drafting is ready.

**2.12.1 Deputy G.P. Southern:**

Would the Minister accept that in proposing unregulated funds in Jersey we are joining some sort of free-for-all or race to the bottom? It seems to me that one of the things that we are justly proud of is the fact that we are a clean community and that our regulation is in place to govern the use of funds and in going to unregulated investment we are joining a race to the bottom of low standards?

**Senator P.F.C. Ozouf:**

Not at all, Sir. There has been nine months of consultation that has been taking place between Jersey Finance, the funds industry and the Jersey Financial Services Commission about how best we can position the Island to develop Jersey as an internationally competitive well-regulated international fund centre. I am very pleased with the outcome of the discussions that have happened between the Commission, who this proposal has the full support of. I think it is very clear that we are going to be effectively branding this as an unregulated fund as regards the investment is concerned, but of course our gold standard, in terms of anti-money laundering provisions, to be examined by the I.M.F. (International Monetary Fund), and by the fortified rules that this Assembly is going to be considering on 9th November remains intact.

**2.12.2 Deputy G.P. Southern:**

Judging from the first answer he was suggesting, I believe, that administration would be Jersey domiciled, directors would be Jersey domiciled and local audit would also be occurring on the Island and thereby gaining benefit. My understanding of the proposals is that there will be no requirement for such administration to be Jersey-based and it would be Jersey in name only. Can he clarify?

**Senator P.F.C. Ozouf:**

It is absolutely correct to say that the proposal is not that there should be a compulsory Jersey-based administrator. There has been a lot of discussion within the industry and the Commission and the

representative bodies on this issue, but what is clear - the industry is clear and the advice that I have - is that this will provide in reality a lot of additional on-Island administration. The levels of service that we provide in Jersey is seen as certainly being comparable and if an administrator is to be used off-Island then they have to be comparable to the standards.

**2.12.3 Deputy G.P. Southern:**

Could I ask that the Minister give me a written answer showing how this non-local requirement would benefit the Island?

**Senator P.F.C. Ozouf:**

The Deputy is the Chairman of the Economic Affairs Scrutiny Panel. He can ask me questions, he can ask me written questions and I will be happy, of course, to provide any answers to him.