Navigating global headwinds

THE BAHAMAS' GROWING REPUTATION AS A RESILIENT, TRANSPARENT AND COMPLIANT INTERNATIONAL FINANCIAL SERVICES HUB

ELECTRONIC SIGNATURES
How executing documents may be made simpler in the current climate of COVID-19 restrictions

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Why families choose The Bahamas for their business and succession planning

SPOTLIGHT ON CESRA
The implications for entities seeking to establish economic substance in The Bahamas
In the past few years, international financial centres have had to respond to concerns raised by the European Union’s demands to enhance tax transparency and cooperation measures. They have required international financial centres to address economic substance, preferential tax regimes and access to beneficial owner information. The Bahamas, situated off the eastern coast of the United States, has just passed this complex set of tests with flying colours and has been ‘whitelisted’ by the trading bloc. A suite of legislation and economic planning has led to a revitalisation of its financial services, both in the well-established field of wealth management and in other areas.

There have been tremendous efforts made to address all concerns of the Financial Action Task Force (FATF) and its regional styled body, the CFATF. The anti-money laundering, counter-terrorism financing and counter-proliferation financing (AML/CTF/CPF) framework, legislative, regulatory and enforcement landscapes have been thoroughly overhauled and augmented. Despite recently being placed by the EU on its AML blacklist, The Bahamas has consistently demonstrated its commitment to best practices in the AML/CTF/CPF space.

In February 2020, following submission of its fourth progress report in December 2019 to the FATF and the desktop review of same with supporting documentation by the International Cooperation Review Group, the FATF deemed that The Bahamas had made substantial progress towards addressing the ‘Action Plan’ items and approved an on-site review to verify the actions taken, which was scheduled for the week of the 28th April 2020. The COVID-19 pandemic and the travel restrictions made it impossible for the on-site examination to occur as per FATF requirements and was rescheduled for September 2020.

While the pandemic persists, The Bahamas has approached the FATF directly and via CFATF and regional organisations, seeking a virtual on-site review but, to date, has not been successful in securing same. We remain ready to accommodate a FATF (on-site or virtual) review and expect a favourable outcome from such an examination (on-site or virtual), if given the opportunity to accommodate such a review.

It is also noteworthy that The Central Bank of The Bahamas has released summary results from a survey of internationally active banks and trusts, in regard to operational impacts since March 2020 from the COVID-19 pandemic. The results from the survey are reassuring. They indicate institutions in The Bahamas have been able to maintain effective operations in the new environment and, to date, financial impacts have been minimal.

As we move forward in a COVID-19 ‘new normal’ environment, jurisdictional competitiveness, the continued development of the sector and staying abreast of the various international initiatives impacting the financial services industry in The Bahamas sector remain at the forefront. This supplement illustrates just some of the ways we continue to move forward in making The Bahamas the clear choice for your financial service requirements.

In closing, I would like to thank the STEP membership for your continued support as we navigate through the issues and opportunities that lie before us.
The Bahamas is a leading international financial centre (IFC) situated in the Latin America and Caribbean region and respected for its expertise in fiduciary services. Its financial services sector has been impressively resilient and progressive in the face of events such as Hurricane Dorian, the current COVID-19 pandemic, international tax initiatives, and the continued and sometimes challenging evolution of the global industry.

None of these challenges has impeded the country’s financial services industry from conducting business and delivering bespoke solutions to meet changing, diverse client needs. Bahamian financial institutions’ robust business continuity plans allowed business to continue during Hurricane Dorian in autumn 2019 – and now, as the world deals with the coronavirus pandemic. Far-sighted business continuity measures have helped cushion the impact of these events and reinforce The Bahamas’ reputation among financial institutions as an ideal location from which to serve their international client base.

This adaptability has been especially evident in The Bahamas’ response to international tax initiatives, which has ensured the highest standards of compliance with every internationally agreed standard of conduct.

A COOPERATIVE PARTNER

The Bahamas has evolved into being a leading ‘offshore’ centre, with all that the word connotes, to being a leading international banking and trust business centre. The jurisdiction has been, and remains, demonstrably and effectively unwelcoming to those seeking to engage in questionable and illegal activities. Further, The Bahamas is a cooperative and transparent partner in tax and related matters. Acknowledgement of this commitment came earlier in 2020 with the removal of The Bahamas from the List of Non-Cooperative Jurisdictions for Tax Purposes by the EU’s Economic and Financial Affairs Council.

Against this background, The Bahamas joined more than 105 countries in the OECD’s Global Forum in formally acceding to the Multilateral Convention on Mutual Administrative Assistance in Tax Matters. The Bahamas also put in place the legislative framework for implementation of the Common Reporting Standard (CRS) in 2016.

In addition to CRS implementation, signing the Multilateral Competent Authority Agreement and entering the OECD’s base erosion and profit shifting initiative, the integrity of the jurisdiction is evidenced by its strong anti-money laundering and counter-terrorism financing (AML/CTF) regime, and compliance with the US Foreign Account Tax Compliance Act.

WORKING WITH THE FATF AND EU

The Financial Action Task Force (FATF) has acknowledged that The Bahamas has remediated the issues identified in the FATF’s assessment of the jurisdiction’s AML framework and has agreed to an on-site inspection as part of the formal process of exiting the FATF Grey List. This on-site visit was scheduled for April 2020 but was postponed due to the COVID-19 pandemic. The Bahamas remains buoyed by the FATF’s announcement, notwithstanding later conflicting news of the EU’s intention to include...
The Bahamas on its list of high-risk third countries, which took effect in October 2020. The Bahamas is engaged with EU officials at the highest diplomatic and political level to demonstrate the strength of its AML/CTF regime. The Bahamas maintains that it is attaining the highest standards in the fight against money laundering, terrorism financing and other identified financial crimes risks.

A SHARED COMMITMENT
Financial services is the second most important industry in The Bahamas after tourism. As such, successive governments have recognised the value of the industry to the country’s continued economic and social development. The financial sector’s viability is therefore a priority for both public and private sectors.

This sector’s importance is indicated by the responsiveness of the legislature and regulators to the needs and demands of the market, as well as the swiftness with which new processes are put in place. It is also demonstrated by the balance that regulators strike between ensuring that the financial services industry keeps its integrity, while still encouraging lively competition. Further, The Bahamas has a government ministry dedicated solely to financial services, and a shared commitment exists between the public and private sectors.

A TRANSPARENT ENVIRONMENT
With a history of financial services dating back to the 1930s, The

The Bahamas offers an array of wealth planning and structuring products and services

With its historic commitment to providing high-quality services to global families, The Bahamas is one of the world’s foremost wealth management centres. It services an international client base with a full range of private banking, estate planning, asset management, insurance and fund administration services.

Private banking
Many of the world’s largest and most prestigious financial institutions have taken advantage of The Bahamas’ stable political and economic system to establish branches or subsidiary operations offering private banking services to high- and ultra-high-net-worth individuals and families. There are many advantages to establishing a private banking relationship in The Bahamas, including the opportunity to build a trusted, personal relationship with your own private banker.

Trusts
The Bahamian trust is a long-standing fixture in the international wealth management market. Trust legislation in The Bahamas is robust and, in many cases, precedent-setting, providing the benefits of asset protection, control, succession planning and privacy. The level of protection afforded to trustees of Bahamian trusts continues to provide The Bahamas with an advantage over other jurisdictions.

Foundations
The foundation is a relatively new addition to The Bahamas’ wealth management arsenal, as an option where a trust is not the preferred vehicle. Under Bahamian law, foundations may have beneficiaries and are separate legal entities capable of holding assets. One of the main purposes of a foundation is the management of the assets settled into it. It may engage in commercial activities, such as the buying and selling of further assets, as long as those activities are incidental or ancillary to its main purposes.

The Bahamas Executive Entity
The Bahamas Executive Entity (BEE) is designed to fill governance roles within wealth structures. The BEE is ideal, because it: is a legal entity with limited liability; is designed to have a governance or office-holding purpose; can purchase liability insurance; has no shareholders or beneficiaries, and thus lends itself extremely well to the executive purpose of holding the shares of, and exercising voting rights in respect of, a private trust company or other company; and can operate in multi-jurisdictional structures.

Investment funds
There are over 800 licensed and regulated investment funds in The Bahamas, with numbers steadily increasing year after year. The Bahamas’ regulatory framework is flexible and accommodates a wide variety of strategies, including pure hedge funds, money market, private equity, real estate and distressed debt. A large majority of investment funds on the register in The Bahamas are private funds for a small number of investors, typically employed by family offices and related investors.

Captive insurance
The Bahamas is strategically nurturing captive insurance as an important addition to its growing and impressive array of financial services. With almost 40 years of experience in the sector, an internationally lauded regulatory and legal framework, an exacting yet supportive regulator, and a world-class talent pool of professional service providers, The Bahamas is a world leader.

Fania Joseph is Legal and Policy Officer, Bahamas Financial Services Board.
The Bahamas’ commitment to international best practice in financial services

The Bahamas prides itself on being a compliant jurisdiction that follows international best practice. It therefore continues to work diligently to demonstrate its commitment, at the highest political level, to ensuring that it complies with international standards on information exchange, tackling harmful tax practices, dismantling artificial tax structures and preventing financial crime.

In recent years, The Bahamas has passed a compendium of legislation to address concerns regarding economic substance, removal of preferential exemptions and automatic exchange of tax information, to meet the EU and OECD’s criteria on tax matters. The legislation includes:

- the Commercial Entities (Substance Requirements) Act, 2018;
- the Removal of Preferential Exemptions Act, 2018;
- the Multinational Entities Financial Reporting Act, 2018;
- the Register of Beneficial Ownership Act, 2018 and its subsequent amendments in 2019 (expanding the definition of legal entity to include partnerships) and 2020 (expanding the definition of legal entity to include non-profit organisations limited by shares and segregated accounts companies); and

The Bahamas’ complete removal from the EU’s List of Non-Cooperative Jurisdictions for Tax Purposes, after being deemed fully compliant with the bloc’s tax standards, underscores its commitment to adhere to global regulations and best practices.

The fight against money laundering

The Bahamas maintains that it is attaining the highest standards in combatting money laundering, terrorism financing and other identified risks, and therefore has been making significant strides in the fight against financial crime. Its anti-money laundering, counter-terrorism financing and counter-proliferation financing (AML/CTF/CPF) legislative, regulatory and enforcement landscapes have been thoroughly reviewed and strengthened.

The following legislation, among others, was enacted to address deficiencies in the existing law and to strengthen the AML/CTF/CPF regime:

- the Proceeds of Crime Act, 2018;
- the Anti-Terrorism Act 2018;
- the Financial Transactions Reporting (Wire Transfers) Regulations, 2018; and

This suite of legislation was passed in an attempt to place the country in compliance with the FATF’s 40 Recommendations. In 2019, The Bahamas improved its compliance with the Recommendations to 30 ‘compliant or largely compliant’ ratings (up from 18 in 2015), with 10 ‘partially compliant’ ratings.

In February 2020, the FATF agreed The Bahamas had ‘substantially addressed’ all matters of concern raised in its 2017 Mutual Evaluation Report. The recent EU AML listing hinged on The Bahamas currently being grey-listed by the FATF. However, The Bahamas’ current standing vis-à-vis the FATF Recommendations places it firmly on par with the top FATF members.

Fania Joseph is Legal and Policy Officer, Bahamas Financial Services Board

Tanya McCartney is CEO and Executive Director of the Bahamas Financial Services Board

Bahamas ranks among the world’s most significant IFCs. The centre comprises several sectors, including banking, private banking and trust services, mutual funds, capital markets, investment advisory services, accounting and legal services, insurance, and corporate and shipping registry. It provides the largest offering of international banks – American, European, Asian and Latin American – in the Caribbean and Latin America region.

Wealth management accounts for a large part of The Bahamas’ financial sector. For many high-net-worth individuals (HNWIs), conducting banking and wealth management outside one’s home country is simply good business and a wise avenue for investment. There are several reasons for this.

First, multinational and multigenerational families and family businesses find that they can preserve their wealth for the long term and transmit it to younger generations with ease when they site some of their assets in a jurisdiction with trust laws. Their home jurisdiction might be subject to civil unrest or have a history of political or financial instability, while its government might want to expropriate their wealth and subject them to capital controls.

It is therefore important for HNWIs to offset these risks by keeping at least some of their assets in a jurisdiction that does not suffer from these problems. Further, international banking and wealth management centres often possess financial products and services that are superior to those found in their home countries.

The integrity of the jurisdiction as tax transparent, cooperative and being committed to the fight against financial crime is a priority for all stakeholders. This is what underpins our other strengths, such as expertise in wealth management, innovation and our ideal location. We have also proven to be a resilient jurisdiction where people can live, work and enjoy an excellent quality of life.
As families seek greater control over their financial affairs, the establishment of family offices (FOs) has become a vital part in the cohesive and efficient management of family business interests, along with the domestic and personal affairs of family members.

Despite differing opinions as to the type of governance that FOs and their associated structures should have, present political and regulatory conditions suggest that substance prevails over form. Anyone who wants to establish an FO must consider permanent establishment regulations (these govern fixed places of business, which usually generate direct-tax liabilities in the jurisdictions where they are situated) and controlled foreign company (CFC) rules. They must also contend with rules that relate to tax, residency and immigration while overseeing and managing things competently.

The Bahamas’ legislative and regulatory regime gives such people the opportunity to create effective and efficient structures for FOs that comply with financial regulations. Service providers (including financial institutions, lawyers and accountants), skilled professionals and staff are readily available. The Bahamas’ proximity to major cities, its direct flights to Miami, New York, Toronto and London, and the opportunity for families and their trusted advisors to take up residence and purchase property, are all highly advantageous for long-term strategic planning. As persons seek safe harbour in a post-pandemic environment, The Bahamas should be top of mind.

This article examines how FOs can take a holistic approach to succession planning while creating durable governing structures.

**WHAT IS AN FO?**
An FO is a vehicle that can provide the family or families that it represents with a broad range of services, including domestic administrative matters (e.g. travel arrangements, staffing and housekeeping), sophisticated support for long-range business, and tax and estate planning. The supervision of trusts and the management of investments that may be outside the family’s main operating businesses are two of the main functions of FOs operating in The Bahamas.

**REASONS TO ESTABLISH AN FO**
When a family uses a single comprehensive structure, it can spot evolving opportunities and evaluate its overarching objectives with ease. When such a structure controls that family’s various interests and keeps an eye on its obligations, its affairs are likely to be stable over a long period of time. An FO also helps the family evaluate the goods and services that firms offer it and can also keep information about relatives’ lives confidential because it consolidates advisory services, wealth management, income distribution and other services inside a structure that the family themselves own. This is the antithesis of a piecemeal review of disparate elements in isolation.
MULTIGENERATIONAL RELATIONS
An FO facilitates generational planning and can avail itself of a broad variety of tools. Wills are a common means of planning but are rarely good at helping people manage their dynastic interests from beyond the grave. On the other hand, trusts (stalwarts of common-law practice) and foundations (structures originally established under civil-law codes) have been developed with the explicit aim of helping people to plan the lives of others in the decades, even centuries, ahead.

The oversight and management of family trusts or foundations can be placed in the hands of third parties who report to an FO. Alternatively, the FO may itself establish a Bahamian private trust company (PTC) for the express purpose of acting as the trustee of a trust or group of trusts; equally, it can act as the founder or supervisory party to a foundation. A PTC commonly takes the form of a limited liability company and its board of directors can include members of the family in question, as well as trusted advisors and independent third parties. Consequently, the family may retain a measure of control over the strategic management of the assets without prejudicing the validity of the underlying trust or foundation. If the family establishes the structure with an unlimited lifespan, subsequent generations can help to govern it.

SUCCESSION PLANNING
An increasing number of FOs are being established by patriarchs and matriarchs who have, through their own efforts, established the businesses and interests that those offices are destined to oversee. Their knowledge and expertise cannot, however, be the sole basis for current and future planning if those FOs are to prosper over long periods. They might require the following:

- The preparation of a family constitution or charter, which may encompass the family's overarching aspirations and goals; the things that it values; the missions of its businesses; the jobs and responsibilities of family members and various third parties (persons and entities) that work for it; and policies, procedures and processes that might resolve disputes (business or otherwise).
- A regular evaluation of the executives (who may or may not be family members) who work at the office, along with a continual assessment of the jobs and responsibilities of people at the office.
- The development and augmentation of knowledge and skills through formal training, plus an encouragement of the flow of information between people in the office and between family members and their internal and external advisors.
- Plans of action to help the family live up to its social responsibilities and further its philanthropic interests.

FAMILY GOVERNANCE
Much of this planning depends on the amount of time that family members wish to devote to their tasks, their willingness to deal with advisors and their attitudes towards the disclosure of information about themselves to people outside the office. A family that wants to derive the greatest benefits from its office ought to take corporate governance very seriously.

The family in question – and its advisors – should ensure that the people in its office have the right skills and expertise to do their jobs, even if those people come from within its own ranks. Governance is not solely the province of directors and officers; people perform important functions at lower levels as well. The proper management of the FO's books and records is of the utmost importance, not least because adequate accounting records and the comprehensive compilation of information (internal and external) is necessary if the office is to meet its multitudinous reporting requirements.

To ensure compliance with local laws and regulations, FOs are paying ever more attention to the hiring of qualified staff members and the use of third-party consultants with the right reporting skills.
Electronic signatures and the private client

IN THESE TIMES OF SOCIAL DISTANCING, THE BAHAMAS’ ELECTRONIC COMMUNICATIONS AND TRANSACTIONS ACT 2006 WILL PROVE INVALUABLE IN EXECUTING DOCUMENTS

BY SHARON Y INGRAHAM

Electronic signatures are the standard mode of execution for various documents employed in trusts, wills and estates practice. The practice utilises various documents including written instruments, letters of direction, contracts, powers of attorney, deeds and wills. These documents are often executed in the presence of witnesses; in some instances, the documents are mandated to be executed with witnesses in attendance to comply with statutory requirements. In the midst of a pandemic, travel and movement restrictions, and physical distancing mandates, The Bahamas’ Electronic Communications and Transactions Act 2006 (the ECT Act) may provide a useful option for the execution of documents for use in The Bahamas. While the ECT Act makes it possible to execute electronically some documents, thereby addressing certain challenges presented by the pandemic, the execution of other documents has been excluded from the scope of the ECT Act as indicated hereafter. Nonetheless, the option to execute by using electronic or digital signatures does exist and may be a useful tool in the practice area.

In the trusts, wills and estates practice area there are two tiers of documents: the core or foundational documents, which establish the relationship, and operational or supplemental documents by which the relationship is managed. The core documents include trust deeds, wills and testamentary instruments and ensuring powers of attorney. The supplemental documents include letters of directions, written instruments, resolutions and contracts. The first tier documents, which are also subject to additional execution requirements, have been excluded from the application of the ECT Act. Specifically, the electronic execution of wills or testamentary instruments, trusts, enduring powers of attorney and other deeds are not permitted. Consequently, it is with the second tier documents where the ECT Act has utility.

ACCEPTABLE SIGNATURE FORMS

The signature is a critical element in the execution of documents. Although wet ink signatures are predominantly used, English and Welsh common law has accepted various alternative representations as valid signatures. Acceptable representations of a signature include a rubber stamp of a signature, the making of a distinguishing mark and making a cross. In accepting alternatives to a wet ink signature, the courts have established that whatever represents a party’s signature must be intended as a signature and to authenticate the document so signed. The House of Lords in the case of Coton v Coton ([1867] LR 2 HL 127), stated variously:

1. ‘The cases on this point ... establish that the mere circumstances of the name of a party being written by himself in the body of a memorandum of agreement will not of itself constitute a signature. It must be inserted in the writing in such a manner as to have the effect of “authenticating the instrument” or “so as to govern the whole instrument” ... The name of the party, and its application to the whole of the instrument, can alone satisfy the requisites of a signature.’ Per Lord Chelmsford, and
2. ‘... be so placed as to show that it was intended to relate and refer to, and that in fact it does relate and refer to, every part of the instrument ... It must govern every part of the instrument. It must show that every part of the instrument emanates from the individual so signing, and that the signature was intended to have that effect. It follows that if a signature be found in an instrument incidentally only, or having relation and reference only to a portion of the instrument, the signature cannot have legal effect and force which it must have in order to comply with the statute, and to give authenticity to the whole of the memorandum.’ Per Lord Westbury.

The above statements of what constitutes a signature have resulted in the considered view that a party’s full name, last name, initials, a combination of letters and numbers inserted into a document as an intended signature and authentication would be accepted (see Melha v J Pereira Fernandes SA [2006] EWHC 1365 (Ch)). More recently, in Cargill (Canary Islands) Ltd v Stolgold Mining Industries PVT Ltd and another [2001] EWHC 58 (Comm) it was accepted that an electronically printed signature, voluntarily inserted into email communications, was sufficient to establish a valid agreement. These developments in the common law establishes an environment where electronic or digital signatures may be more readily used and accepted, and make it possible for platforms and services to facilitate the electronic execution of documents to be used.

LEGAL CLARIFICATION

Consistent with the principles established in the common law, the ECT Act provides that:

‘signed’ or ‘signature’ includes any symbol executed or adopted, or any methodology or procedure employed or adopted, by a party with the intention of authenticating a record, including electronic methods; and

“electronic signature” means any letters, characters, numbers, sound, process or symbols in electronic form attached to, or logically associated with information that is used by a signatory to indicate his intention to be bound by the content of that information.’

Further, s.9 of the ECT Act provides:

‘Where the law requires the signature of a person, that requirement is met in relation to an electronic communication if a method is used to identify that person and to indicate that the person intended to sign or otherwise adopt the information to the electronic communication.’

Section 9 also states that the electronic signature may be proven by showing that a process existed requiring a party to execute a signatory’s security procedure to verify the party. The provisions of the ECT Act create as well an environment where the use of electronic or digital signatures may be a viable option. This is bolstered by language which incorporates platforms and services that tailor its offerings to electronic or digital execution. The incorporation of terms like ‘characters’, ‘numbers’, ‘process or symbols’ suggests such platforms and services could be used by persons in taking advantage of the option.

In light of the above, where a person, or party, has adopted or established an electronic signature, or been assigned a distinct identifying code, symbol or mark, the ECT Act create such a viable option. An intentional use of the form of signature adopted by the person in a document to demonstrate the approval of the content or purpose of such document also satisfies the above legal requirements.

VALID AUTHORISATION

In practice it would be possible to effect the valid execution of a written instrument; e.g. appointing an office holder, using electronic or digital signatures under Bahamas law. The form of the signature may be ‘any letters, characters, numbers, sounds, process or symbols’ which have either been adopted as that person’s signature or assigned to the party or by the service or platform chosen. The form of signature must, however, be clearly associated with the party to demonstrate, when used, the intention of that party to be bound by the document electronically or digitally executed. Other examples where the use of electronic or digital signatures may be useful include the execution of letters directing the undertaking of a particular action. Even though the ECT Act cannot be applied to every document essential to trusts, wills and estates practice, at a time when restrictions and difficulties in execution of documents prevail primarily due to the limited mobility or assemblage of individuals, the option to electronically execute may alleviate some concerns and problems and offer a useful tool in the right circumstances.”

Sharon Y Inghram is a Senior Associate at Higgs & Johnson

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ELECTRONIC COMMUNICATIONS AND TRANSACTIONS
for some time now, there has been a steady shift in the financial services industry towards the implementation of global standards and international coordination. The rationale is said to be a desire to prevent money laundering, terrorism financing and tax evasion and avoidance. With respect to the latter, there is growing international concern that some businesses are artificially transferring profits between jurisdictions to minimise their tax liability.

The EU Code of Conduct Group (COCG) and the OECD are leading the charge against this and have created frameworks that are widely accepted as the global standard. Economic substance requirements feature in both frameworks, namely Criterion 2.2 in the COCG framework and Action 5 of the OECD’s base erosion and profit shifting initiative. It is not controversial that entities should be engaged in real economic activity in the jurisdiction in which they are deemed to be resident for tax purposes.

The Bahamian government passed the Commercial Entities (Substance Requirements) Act, 2018 (CESRA) in an effort to ensure compliance with international best practices while maintaining The Bahamas’ leading role in the competitive market of international financial centres. The purpose of CESRA is essentially to ensure that certain Bahamian entities are either engaged in real economic activity in The Bahamas or tax resident and compliant in some other jurisdiction.

This is a welcome development for those who have previously experienced difficulty in satisfying the relevant authorities in other jurisdictions that an entity was tax resident in The Bahamas. For others, it has necessitated fundamental changes to corporate governance and operational practices. Further, business, tax and estate planning structures often include corporate vehicles in various jurisdictions for a plethora of legitimate reasons. Beneficial owners of Bahamian companies, individuals involved in a Bahamian partnership and advisors who have clients that utilise Bahamian companies or partnerships must now be aware of the possibility that those corporate vehicles may be subject to economic substance legislation and consequently required to fulfil certain substance requirements.

It is important to understand:
- what entities are subject to CESRA?

**What entities are subject to CESRA?**

CESRA came into force on 31 December 2018 and applies to Bahamian entities incorporated, registered or continued under the Companies Act (including foreign entities that have been registered under that Act), International Business Companies Act, Partnership Act, Partnership Limited Liability Act and Exempted Partnership Act. Other Bahamian corporate vehicles, including trusts and foundations, are not subject to CESRA and therefore are not required to have substantial economic presence in The Bahamas or submit a CESRA report.

**When is substantial economic presence required?**

An entity that is subject to CESRA is required to have substantial economic presence in The Bahamas if it, or any of its subsidiaries, is engaged in any of the following business activities: banking, insurance, fund management, financing and leasing, headquarters, distribution and service centres, shipping or the commercial use of intellectual property. However, there are two exceptions:

1. if the entity is wholly owned, either directly or indirectly, by one or more persons who are either: (a) ordinarily resident and domiciled in The Bahamas; or (b) an annual or permanent resident of The Bahamas and physically there for at least three
months cumulatively each calendar year and the entity conducts its core income-generating activities in The Bahamas; and

2. if the entity is centrally managed and controlled outside The Bahamas and is tax resident in a jurisdiction other than The Bahamas.

If either of these exceptions is satisfied, the relevant entity is not required to have substantial economic presence in The Bahamas. The first exception has enabled beneficial owners of entities subject to CESRA who reside in The Bahamas to avoid the sometimes arduous analysis associated with determining whether or not substance requirements have been satisfied. Holding companies are subject to reduced substance requirements.

What qualifies as substantial economic presence?
What qualifies as substantial economic presence will vary on a case-by-case basis. Generally, entities that are subject to the substance requirements and are not tax resident in a jurisdiction other than The Bahamas must have adequate assets, qualified personnel, physical office space and control in The Bahamas. With respect to having adequate control in The Bahamas, while there is currently no Bahamian jurisprudence on this topic, it is anticipated that the seminal UK cases, which are persuasive but not binding in The Bahamas, will be instructive.

What are the greatest challenges and opportunities associated with CESRA?
Presently, the greatest challenge encountered by advisors and clients alike is confirming what is sufficient to fulfil the relevant substance requirements. Specifically, the ‘adequacy’ test (which is used to determine whether the entity has adequate levels of assets, personnel, etc. in the jurisdiction) is unapologetically qualitative rather than quantitative, and determining the location of central management and control is often something only senior personnel in the entity are able to do.

Such a challenge is not peculiar to The Bahamas, as evidenced by the voluminous guidance provided by various governments and international organisations regarding similar legislation in other jurisdictions, as well as the significant breadth of jurisprudence on issues such as central management and control, which provides insight into how jurists have interpreted similar legislative provisions elsewhere in the world.

This challenge, however, also creates an opportunity, as The Bahamas can leverage the experience of other jurisdictions to clarify the best approach.

There is presently another significant challenge resulting from the travel restrictions associated with the COVID-19 pandemic. Usually, two of the most significant factors in determining the location of the central management and control of an entity are where the board meetings take place and what is decided at those meetings. As directors are unable to travel, board meetings that usually would have taken place in a certain jurisdiction are now being held virtually. Further, major decisions regarding business strategy, redundancy, etc., which would usually be made at a board meeting in a certain jurisdiction, have needed to be made urgently by an individual located in a different jurisdiction. Some jurisdictions have provided guidance as to how the relevant competent authority will adjust substance requirements in light of the pandemic, but no such guidance has been provided in The Bahamas to date.

Finally, it would seem that, on the whole, CESRA presents a great opportunity for The Bahamas.

Kevin Moree is a Partner at McKinney, Bancroft & Hughes
The theme is uncertainty tinged with adventure whenever the subject turns to cryptocurrency. Some entity under the alias of Satoshi Nakamoto created Bitcoin in 2009 at a value of less than one US cent. That value is now USD13,115 as of 24 October 2020, reflecting a market capitalisation of approximately USD243 billion.

More than 2,000 different cryptocurrencies exist as of this year. So why is Bitcoin the dominating force? It is the first digital coin to inform the world about digital coins; about cryptography, anonymity, guaranteed scarcity and decentralisation.

Cryptography and anonymity both come from Bitcoin’s blockchain, or its publicly available ledger of transactions, each connected to the other through a system of 256-bit hashes. Every user has a public key and a private key, both granted when said user makes their first transaction. Public keys facilitate transfers; private keys, often referred to as secret keys, remain private to the owners – they are access passwords. All transfers are digitally signed with the unique signatures being products of the interplay between public keys, private keys and the transactions themselves. With the technical details going into some complexity, the system of hashes, keys, linked transactions, a common ledger and complete transaction transparency enables impersonal public addresses (derived from public keys and without personally identifying information) to send money to one another.

Decentralisation is achieved through Bitcoin’s reliance on the independent ‘miners’ validating transactions on the public ledger in exchange for small payouts of bitcoins. Computers linked together on the Bitcoin network all work to solve the 256-bit hash needed to add the next batch of transactions to the public ledger. This work, inherent in solving hashes (‘the hash puzzles’), prevents bad actors from seizing the day.

They would need to outpace the collected power of all the honest computers of the world broadcasting a different version of the blockchain that has never heard of the faked transactions. This is why blockchain technology has now gone mainstream.

The remarkable belief in humanity proposed by the concept of honest miners is still only a cherry to the real prize – a guaranteed maximum of 21 million bitcoins. In the wake of 2020’s COVID-19, global monetary stimulus (money printing) took the level it knew after 2008’s global financial crisis and threw it to the wolves. For example, the US Fed’s balance sheet is currently USD7.2 trillion, well above the USD4.5 trillion that prompted its policy of normalisation and the resulting drive to USD3.8 trillion by mid-2019. Knowing that further coins cannot be ‘printed’ beyond the programmed maximum gives Bitcoin its investing allure and encourages mass adoption.

Adding bitcoins to a traditional portfolio of stocks and bonds does improve its Sharpe ratio (return per unit of risk). Bitcoin’s identity is akin to a highly respected dark horse, existing somewhere within alternative investments. It does not pay dividends nor follow a predictable set of assumptions found within the fundamental analysis of single stocks or bonds. Yet for 2020, it saves the day with a year-to-date performance of approximately 82 per cent (as of 24 October).

At Deltec, we value the entrepreneurial spirit behind cryptocurrency driving this incredible performance

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At Deltec, we value the entrepreneurial spirit behind cryptocurrency driving this incredible performance. We admire those entrepreneurs who believed in this new asset class and have rightly earned their success. Cryptocurrency is purely disruptive, for its foundation is the private owner directly owning their own store of value without a bank. A bank cannot block a transaction nor freeze an asset. Thus regulation is limited and there is no global, formal authority on how to handle cryptocurrency.

There is a clear need for a trusted partner like Deltec, which has been a very early believer in blockchain, and especially a trust itself with estate planning.

Governments across the world do not consider Bitcoin or its like to be legal tender. As far as tax is considered, it is viewed more often as property, and generally not as a security.

It is bought, held and sold in a manner similar to traditional real estate; appraisals are important, as are cost bases. Capital gains and losses come into consideration. Giving cryptocurrency through a gift, will or estate has significant tax implications.

Due consideration must be afforded to a number of factors (though this is not an exhaustive list): when a taxable event is realised through a transaction, how long an individual has held a digital coin, how long it was held by the previous gifter if applicable, what the initial investment was in fiat currency figures, what the value is today and what the latest tax guidance is from the relevant jurisdiction. Further attention must address the multigenerational plan of the family and the eagle-eye’s view of their broader tax liabilities, particularly as many investors like to hold bitcoins for the long term.

When a will enters probate, it enters into the public record. It is recommended to mention only a memorandum in the will, with this memo pointing the trusted executor to the necessary access data and how the cryptocurrency is stored.

A ‘cold’ wallet is the only way to go; a ‘hot’ wallet is open to theft. Hundreds of millions in US dollar equivalent have been lost to this hotness, meaning the retained connection to the internet. If the goal is to hold cryptocurrency, staying cold is to keep the relevant private key in a secure flash drive not connected to the internet.

This hardware wallet can be kept to yourself or with a professional trustee. Not only does a trust formed in the jurisdiction of The Bahamas avoid the publicity of probate, it uniquely offers added privacy not found in other jurisdictions. In The Bahamas, there is no requirement for a trust to be publicly registered, nor do the beneficiaries have an automatic right to disclosure of the trust’s documents. Above all, the jurisdiction outmatches its competitors like Bermuda, the Cayman Islands or the British Virgin Islands, as it can offer an asset protection trust holding a statute of limitations of no more than two years.

Creditors can only claim against such a trust if the transfer of assets to it was done with the intent to defraud them; and only within two years of this asset transfer. Deserving entrepreneurs seeking to protect their investment and faith in the revolutionary ethos of cryptocurrency have a friend in The Bahamas and in Deltec.

Paul Winder, Head of Fiduciary Products and Markets, Deltec Bank & Trust Limited
Over the past three years, international financial centres (IFCs) have amended their investment fund rules in response to international transparency initiatives. As part of its commitment to global tax transparency, The Bahamas has enacted the revised and updated Investment Fund Act, 2019 (IFA) and Investment Fund Regulation, 2020 (IFR), and introduced the Commercial Entities (Substance Requirements) Act, 2018 (CESRA).

The legislative changes pertaining to the IFA and CESRA were carved out of principles established by the OECD’s Forum on Harmful Tax Practices and the EU’s Code of Conduct Group. While The Bahamas has a long history of being a well-regulated jurisdiction, the updated IFA and IFR, and the introduction of CESRA, will ensure that its product offerings reflect, and amplify, the need to counter harmful tax practices.

**Licensing and Registration Requirements**

Prior to the updates to the IFA and IFR, there were no licensing or registration requirements of fund managers when performing management functions for Bahamian domiciled funds. It was typical to incorporate a company to serve as investment manager of a fund, and that company was ostensibly the entity that traded, introduced clients, collected fees, met clients, gave advice, etc. The company did not need to have any sort of substance. In yesteryear, there was simply not enough legislative focus on fund managers, but this was simply how things were done. Most of the vetting for ‘fit and proper’ and suitability was left to the experience of service providers that used strong internal and industry standards to mitigate business risk. The IFA and IFR added the legislative teeth to mitigate not only business risk, but also regulator and jurisdictional risks.

The updated IFA requires an entity or a person to: (a) be licensed if they intend to manage a Bahamian standard fund (a fund without sophisticated investors) or a fund in any other jurisdiction, other than the EU; or (b) be registered if the intention is to manage a Bahamian SMART fund¹ or professional fund, or similar funds offered to accredited investors in other jurisdictions, other than the EU. Fund managers that want to offer funds to the EU or manage EU funds must meet AIFM-compliant² requirements, and are reportable quarterly to the European Securities and Markets Authority.

Most funds established in The Bahamas have been SMART funds (private label funds) and professional funds. The managers, whether domiciled in The Bahamas or in another jurisdiction, of both types of fund will now, at a minimum, require registration. The registration process is a formal application with the requirement to provide standard due diligence.

**Nexus to the Jurisdiction**

The IFA and IFR ensure not only that, from a tax perspective, offshore managers are now encapsulated in the global exchange of information through the Common Reporting Standard, but also that fund managers interested in using The Bahamas have a real and tangible nexus to the jurisdiction. The tenor of the IFA is to ensure that investors are protected from incompetency, anonymity and obscurity. The Bahamian fund manager is front and centre of the structure and is no longer a nebulous shell that can easily abscond from taxes or neglect regulations, or, more importantly, abandon investors.

CESRA came into force in 2019 and is reportable to in 2020. While it focuses on several types of entity, for the purposes of this article, the focus is solely on fund managers operating, or considering operating, in The Bahamas.³ Determining what is considered substance is a matter of a few simple steps or questions that should be asked with regard to fund management:
1. Is the entity a legal entity (included entity) that is tax resident in The Bahamas and conducts commercial activity under the: 
   - Companies Act, including foreign entities registered under Part IV thereof; 
   - International Business Companies Act; 
   - Partnership Act; 
   - Partnership Limited Liability Act; or 
   - Exempted Limited Partnership Act?

2. Is it an included entity, and does it carry out adequate relevant commercial activities in The Bahamas? An included entity must conduct its core income-generating activity (CIGA), have adequate people, premises, and expenditure, and be directed and controlled, in The Bahamas.

3. Is it tax resident outside The Bahamas? Substance requirements under CESRA are not relevant for entities that are tax resident, managed and controlled outside The Bahamas. Like the UK, The Bahamas follows a common-law legislative model and has adopted the interpretation of ‘tax resident’ meaning where the conduct of real business happens, management abides and the entity is controlled.

Fund managers who intend to manage Bahamian-domiciled funds via a foreign entity are permitted to do so, but must meet the registration requirements and demonstrate a foreign tax status in the jurisdiction that they organised in. Further, the foreign fund manager must provide a tax identification number and a tax certificate from the jurisdiction they operate from, and should file these with the competent authority in accordance with CESRA.

The new and updated legislative framework for substance makes it clearer what should be defined as CIGA in an included entity for fund managers:
- making decisions on the holding and selling of investments; 
- calculating risks and reserves; 
- making decisions on currency or interest fluctuations and hedging positions; and 
- preparing relevant regulatory or other reports for government authorities and investors.

CESRA is not exhaustive with respect to the types of CIGA that a fund manager may carry out for substance purposes, and is intended only to express guidance on some activities that are considered CIGA. CESRA intimates that there may be other CIGA not listed or mentioned. In other words, even if the legislation does not explicitly spell out an activity as CIGA, the responsibility is on the fund manager to demonstrate to the competent authority that it conducts CIGA.

**Requirements for Board Meetings**
The EU and OECD guidelines emphasise direction and control, with reference to board meetings, as a fundamental part of determining substance, and CESRA mirrors this. Adequate board meetings are to be held in The Bahamas. While ‘adequate’ is not defined under CESRA, its guidance says ‘as much or as good as necessary and sufficient for a specific need or requirement’. What constitutes adequate is really dependent on the business and commercial activity of each fund manager.

CESRA is less concerned with physical presence, but the legislation aims to ensure that fund structures in The Bahamas are governed by boards of directors with knowledge and experience, and that fund managers in The Bahamas are decision-making bodies. In today’s environment, where videoconferencing is the new normal, this seems fitting and clear. Nonetheless, minutes, books and records must be maintained in The Bahamas.

As with all commercial business, outsourcing is a global solution for companies that may have a shortfall in human or financial capacity. Under the new legal regime, fund managers in The Bahamas are not able to outsource CIGA. This is consistent with other IFCs. Fund managers are allowed to outsource CIGA to third-party service providers only when:
- the fund manager is able to demonstrate adequate supervision of the outsourced CIGA; 
- the outsourced CIGA is conducted within The Bahamas; 
- the economic substance of the third-party service provider will not be counted multiple times by multiple included entities when evidencing its own substance in the jurisdiction, provided that the third-party service providers will not be deemed to be counted multiple times by multiple included entities.

More importantly, the core business of (a) the portfolio management function or (b) the risk management function rests on the shoulders of the fund manager, and those two activities can only be outsourced with the approval of the Securities Commission.

While the rules for fund managers have changed under the IFA, IFR and CESRA, the changes are not onerous or beyond what is now expected in any IFC. The Bahamas will continue to enhance and develop legislative initiatives that will keep fund managers and other service providers domiciled here competitive and relevant for many years. The Bahamas remains a clear choice for global cross-border, transparent and compliant structures, and these legislative updates are ‘The Bahamas’ testimony to this.

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**While the rules for fund managers have changed ... the changes are not onerous**

Antoine Bastian is Managing Director of Genesis Fund Services

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1 The Specific Mandate Alternative Regulatory Test Fund (SMART fund) was introduced under the Investment Funds Act, 2003 as an additional type of a collective investment vehicle. 2 Under the EU’s Alternative Investment Fund Managers Directive. 3 For more information on CESRA, turn to page 17.
As many wise men have realised throughout history, the only constant in life is change. Our world is permanently evolving, and the pace of change is accelerating, driven by technological advances, socioeconomic dynamism and, above all, the unstoppable march of history itself. Dramatic changes in global geopolitics and the coronavirus crisis have served as a reminder of the latter.

The economic, political and social changes that will arise in the aftermath of the COVID-19 pandemic are very likely to shape, to some degree, the way we will do business and interact with each other for years to come. This dynamism is present in all spheres of life and demands from firms the ability to constantly evolve and adapt to new challenges and landscapes.

**The Evolution of Trading**

Technological advances in hardware, software and telecommunications mean the way trading was carried out as recently as the early 2000s – quite often by phone, sometimes even face-to-face, with clients visiting the broker’s office to open or close positions – has fundamentally changed. Today, service providers must offer ultra-fast execution, with latency measured in single digit milliseconds, available on a range of desktop, web and mobile platforms through which clients can access a vast array of financial instruments, including foreign currency pairs, stocks, commodities, indices, exchange-traded funds and fixed income. The way trading decisions are made has also evolved; today’s trader is increasingly sophisticated, relying on cutting-edge technology, with advanced chart packages supporting complex order types.

The traditional broker has evolved to become more than just an intermediary. Today, they transcend being a pricing and execution provider; they are also developers of cutting-edge technology. Competitive pricing, premium customer service and a vast plethora of educational resources are also a must for any broker wishing to remain competitive.

But technology is just one of several competitive challenges we face. Clients are culturally varied and geographically dispersed, requiring a level of service that can be complex because of the different languages, cultures and time zones we need to cover. We also find that clients outside Europe tend to have different trading requirements, often demanding features that either aren’t available or are overlooked in the ‘old continent’, such as higher leverage and a wider offer of educational resources.
Today, a large percentage of retail traders reside outside Europe and the US. Clearly, financial trading is no longer an activity exclusively reserved for those who are close to large financial hubs, such as London or New York; many in Asia, Africa, South and Central America, and the Caribbean follow the markets avidly and are interested in trading. For these reasons, as interest in our products and services grew outside our traditional territories, we decided to expand beyond Europe. The Bahamas serves as an ideal hub for servicing these clients.

SO, WHY THE BAHAMAS?
Besides the natural beauty of the islands, great weather and friendly locals, there were other reasons behind our choice. Chief among these was the availability of a well-educated and skilled workforce. The Bahamas is internationally renowned as a centre for financial services, and we assumed it would be possible to recruit locally based individuals with experience in the industry. Because of the relative complexity of the products we offer and the diversity of our client base, our staff tend to be multilingual and university educated, and have work experience in the finance sector. Our assumption proved to be spot on; today we employ more than 20 locally based finance professionals, who, among them, are proficient in seven languages.

Another important factor was the legal regime. The Bahamas’ legal system is based on English common law, and for us this was extremely important. However, the reason that weighed the most in our decision to establish a hub in The Bahamas was the presence of a reputable and globally respected regulator; that was paramount, and we found it in the Securities Commission of The Bahamas.

The country and its regulator are extremely important when it comes to deciding where to expand. Ending up in a jurisdiction with a poor global reputation is damaging for any financial firm, as trust is one of the most important factors for many clients when choosing a provider. In this respect, once again, The Bahamas proved to be the right choice.

GROWTH AS A TRADING HUB
The success story of brokers in The Bahamas is founded, to some extent, on the attractiveness of The Bahamas as a business destination, given the geographical location of the islands and the excellent transport links with the Americas and Europe – there are several direct flights to the main business centres on both sides of the Atlantic.

Last, but not least, is the social and political stability of the nation, as well as a growing international reputation for transparency. The Bahamas’ adherence to the OECD’s Common Reporting Standard pays testimony to its commitment to being a well-regulated international financial centre.

As the number of international clients choosing to be onboarded under our Bahamas office grows, so will the need for recruitment of more local talent. The increasing popularity of online trading across the planet, and particularly in South and Central America, will drive the success of The Bahamas as a trading hub.

In today’s challenging environment, an online broker’s success undoubtedly results from its ability to analyse, plan, adapt and evolve. Over the past few years, online trading has faced several regulatory challenges, including from the European Securities and Markets Authority in Europe. Competitive online brokers have embraced the spirit of the challenge, recognising the legislation as being focused on the protection of retail clients. They have identified great growth opportunities in other regions and created new product lines specifically designed for institutional clients, which include white- and grey-label solutions, application programming interfaces (APIs) and money management tools. Agile firms have also sharpened their focus on business partnerships, such as those established with introducing brokers and affiliates.

ActivTrades
Online broker since 2001

ActivTrades Corp
209 & 210 Church Street
Sandyport, PO Box SP 64388
Nassau, New Providence, The Bahamas
Tel: +1 242 603 5200
info@activtrades.bs
www.activtrades.bs