



Substance rules coming offshore

Cayman, Guernsey and Jersey are consulting on making regulatory changes to require more local industry substance. Greater substance is needed to avoid being placed on the EU's blacklist.

The EU's Code of Conduct Group provided information on what it wants to see on substance in June, in order to avoid being placed on its list of non-cooperative tax jurisdictions. Offshore financial centres have until the end of the year to meet these requirements. If they do not meet them they are likely to be blacklisted by the EU.

The EU has stated that part of its assessment will involve a review of the legal and administrative framework (whether regulatory, commercial tax, or other legislation) and other information provided by the jurisdiction to determine whether the substance requirements are met. This includes whether their legislation requires substance, and whether there are adequate enforcement and sanction provisions, as well as information on the mechanism for overseeing these provisions (such as which agency will enforce the requirements, how this will be done and with what resources).

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Why is it happening?

There has been an extraordinary wave of consolidation in the alternative fund service provider this year. And from what ADI understands it is not over yet. Why is this happening now? And what does this tell us about this industry?

First of all, an update of the M&A that has occurred in this business so far over 2018. Ipes has been bought by Apex as has Custom House. Augentius has been acquired by SGG. It has also taken over the First Names Group, which had not long ago acquired Moore Management. SGG has also snapped up Lawson Conner. All of this has taken place in the last few months.

2017 was also a strong year for industry consolidation with Ocorian purchasing MAS, Heritage being acquired by Estera. And shortly before that Elian was taken over by Intertrust, on top of IDS being obtained by Sanne. Sanne also acquired LIS. This followed on the heels of Vistra's purchase of Orangefield-Legis and Maitland's acquisition of R&H Fund Services.

A very large amount of these acquisitions have been in the private equity fund servicing sector. One might ask why this is taking place now, when the private equity business has been doing so well?

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