SOVEREIGN REPORT 52

EUROPEAN RESIDENCY AND CITIZENSHIP –
Providing for your family and future generations

BREXIT –
The End of the Beginning

UPDATES FROM OUR
Global Office Network

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In most jurisdictions in which we operate, the trust and corporate services industry is now used to being challenged on several fronts by international pressure. Initially, plans to enforce economic substance rules caused industry-wide alarm. It was even feared that the very future of several international financial centres was in doubt.

This has not happened and, as we review how economic substance has been implemented across the world, the process has not proved as negative as first thought. Perhaps a more reasonable outcome may result. I am certainly of this view and am increasingly optimistic about the way forward.

The dash by a number of low tax jurisdictions to introduce new legislation began in earnest following the publication of new substance guidelines by both the EU and the Organisation for Economic Co-operation and Development (OECD). Both were seeking to impose new global standards so that low-tax countries were prevented from attracting profits from elsewhere without any corresponding economic activity – real local substance – being proven.

The EU drew up a blacklist of jurisdictions that had not yet introduced economic substance legislation, while the OECD's BEPS project set out a range of business activities, including several typically offered by the low-tax jurisdictions such as headquarters activities, financing, leasing, insurance, shipping and holding structures.

Most affected jurisdictions started implementing new rules by 2018 and this effort is ongoing. As a result of innovative legislation by many, the most negative effects have, in the main, been avoided. In fact, recently issued guidance has shown that not as many companies will be adversely affected as was feared.

Readily available solutions will allow international business owners to ensure they remain compliant with the new rules, but professional advice should be sought at an early stage. With our global presence, Sovereign is able to provide solutions through one or more of our offices, depending on specific circumstances. This may involve re-domiciling part or all of an existing structure but the costs and management time involved should be considered money well spent to ensure compliance.

A positive approach has been seen in almost all the jurisdictions where Sovereign is located, whether in Europe, Asia, the Middle East or Africa. All have followed the EU and OECD guidance on new substance requirements, but there is still scope for selecting one or more jurisdictions as a result of the changes enacted.

Typically, the new laws include requirements to manage the business and conduct 'Core Income Generating Activities' (CIGA) locally, as well as guidance on the numbers and experience of local staff and overall expenditure in the jurisdiction. This has led to the threat of sanctions receding and in some cases previously blacklisted countries have been reinstated.

Mauritius, for example, has taken active steps to radically overhaul its previous company law regime in order to comply with new economic substance requirements. New rules now govern its international company sector – the Global Business Licence regime – where companies become licensees and are presented with clear guidelines relating to substance. These include both the number of suitably qualified persons who may carry out the CIGA locally and whether such work can be outsourced to a local management company.

Banking in the same jurisdiction as a company's place of incorporation is an increasingly important consideration in future planning. Over 20 banks operate in Mauritius and, in addition to traditional banking services, they offer a range of specialised services ranging from custodial services to cross-border activities.

Sovereign is committed to ensuring that its corporate clients meet substance rules. As a group, we now employ close to 500 staff in over 20 offices worldwide. A growing proportion of these staff are fully qualified and boast legal, accounting and banking expertise.

The recent opening of an office in Riyadh is a demonstration of Sovereign's commitment to the Middle East, our fastest growing regional market. Saudi Arabia is an exciting new market and Sovereign is now well placed to assist international companies with all their market entry and growth requirements.

Economic substance is of growing importance but the feared consequences have not materialised. Sovereign can provide reliable, professional advice on these matters from the outset; readers should contact their local office for a 'no obligation' discussion without delay. ■

From the Chairman

By Howard Bilton, Chairman of the Sovereign Group

Recent times have not been easy for those of us who live and work in Hong Kong. Last year we had the protests. Now we have, like many other places, the coronavirus. We recognise the motives of the demonstrators but we question some of their methods. For the moment they remain silent, possibly because of the virus.

Hong Kong remains well placed to deal with the new virus. Remember, we were previously affected by swine flu and then SARS. The authorities here took immediate action over COVID-19 and seem to have it under control but the situation obviously changes on a daily basis. Our sympathies go to all affected.

Despite this, we remain confident in Hong Kong's long-term future and it appears that investors share this sentiment. There are a record number of listings scheduled for the Hong Kong Stock Exchange this year, no reduction in the number of new companies coming to Hong Kong (despite many of them seeking reassurances) and our Hong Kong office had one of its busiest years ever.

In our view, civil unrest is almost always caused by economic factors. In Hong Kong over one million people live below the official government poverty line. That is both a surprise and a disgrace for one of the richest cities in the world. We continue to try and assist through the Sovereign Art Foundation which has now raised over US$9 million that we have used to help disadvantaged children around the region and in Hong Kong in particular.

Thanks to all SAF supporters for assisting our efforts in helping to make Hong Kong a better and fairer place, not least through our 'Make it Better' programme which offers empowering learning activities to children from the lowest income families and those with special educational needs. Of course we can't solve all the social problems in Hong Kong or elsewhere, but that should not and does not stop us doing what we can.

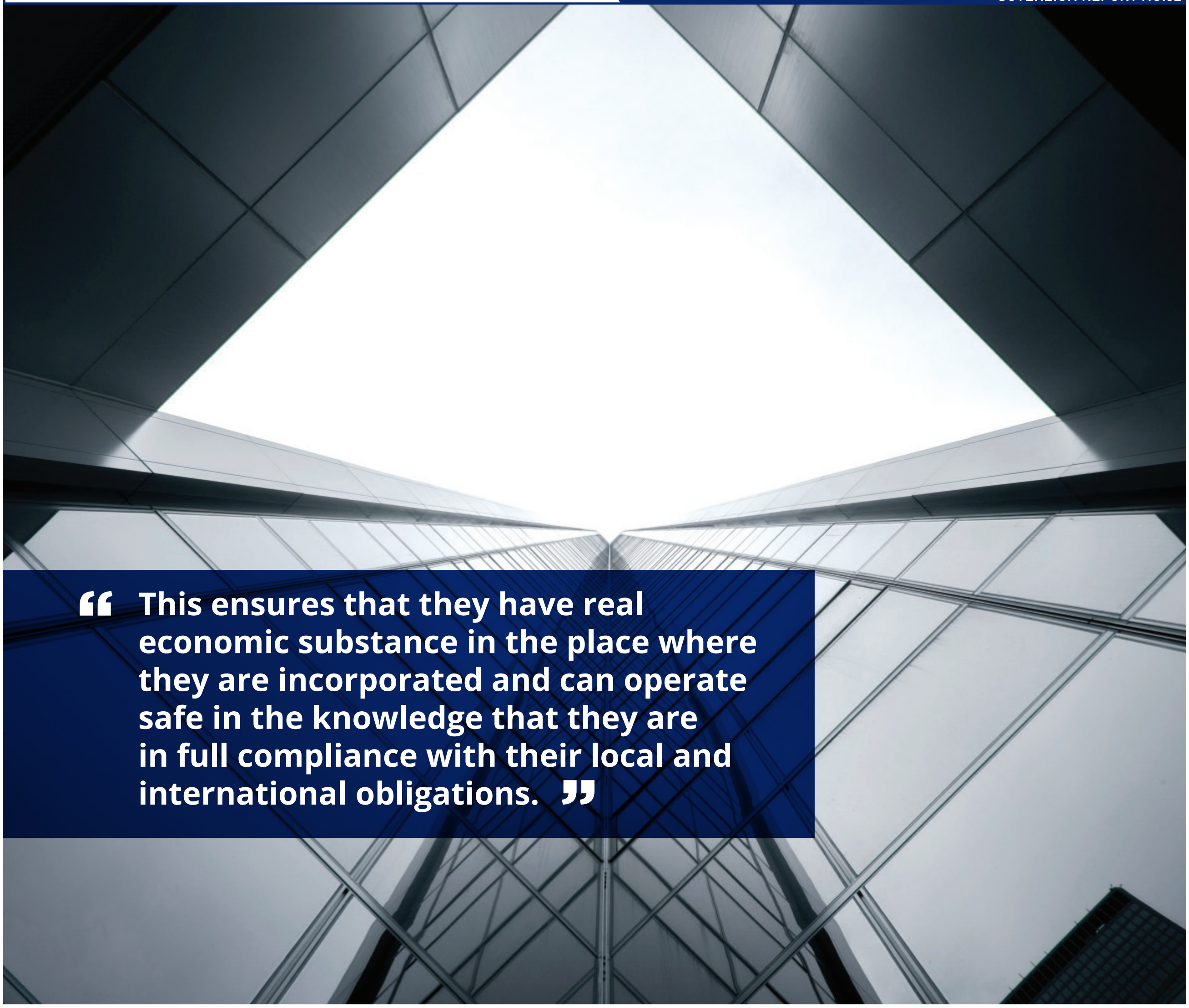
Hong Kong's importance as the gateway to China was further strengthened on 1 January last year when an arrangement was signed between Hong Kong and Mainland China for the reciprocal recognition and enforcement of judgments in civil and commercial matters. The commencement date is not yet announced.

Litigation in China is fraught with difficulties. The strength of Hong Kong is that UK law applies for at least another 30 years so anyone investing into China via the tax-efficient Hong Kong route can now litigate in Hong Kong under UK law and then execute that judgment in China with little further procedure. This is a massive advantage.

The other matter dominating the news around the world has been Brexit. By the time you read this, the UK will have formally left the EU with a withdrawal deal. The easy bit is over. Now for the trade negotiations. The removal of some of the uncertainty has already had an impact. It seems that house prices in London are again on the march and commentators are predicting the biggest annual rise for a considerable time. That may or may not be a good thing, but it is certainly an indication of the renewed confidence of investors in London and the UK.

It also now appears that the Trump administration and China may be starting to settle their differences over trade and row back on the damaging tariff war. As someone once said: "Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning." If this proves to be the case, it will be relief all around and more good news for Hong Kong.

Pressure on offshore financial centres (OFCs) to improve transparency and stop abusive tax practices continues to mount but there are still many legitimate ways to structure your affairs offshore to reduce tax. OFCs can still play a big part in that. The end is not nigh and never will be! All onshore countries continue to encourage us to save through our pensions, to insure our lives and give to charity. Using these 'products' – often offshore – can result in large and legitimate tax savings. You know where to come if you wish to explore available opportunities. ■



> This ensures that they have real economic substance in the place where they are incorporated and can operate safe in the knowledge that they are in full compliance with their local and international obligations.

Sovereign Corporate Services – increasing in substance

By Nicholas Cully, Group Sales Director

As with any business, a new year brings new opportunities, new challenges and new focus. After a particularly tough 2018, 2019 proved to be busier than ever: the ongoing administrative burdens imposed by the US Foreign Account Tax Compliance Act (FATCA), OECD Common Reporting Standard (CRS) and the EU's General Data Protection Regulation (GDPR), were further exacerbated by the arrival of the OECD's new economic substance rules. These have led to a significant shift in focus for Sovereign and our competitors.

At the start of the last decade, our core business was the setting up of offshore companies and trusts for individuals and companies who were looking to structure their assets in the most tax-efficient way. Fast-forward 10 years and Sovereign's business has diversified into three key business strands – Corporate Services, Private Client Services and Retirement Planning.

These three 'pillars' are now clearly defined on the homepage of our new website, which was launched at the end of 2019, and the Corporate Services section shows just how far Sovereign has evolved from the days when simply registering and administering companies was often the sum total of our involvement. So, what has led to this change?

Even before the substance rules were introduced in 2018, substance was becoming more and more important and the OECD, the US and the EU were collectively cracking down on 'tax havens' and 'harmful tax practices', even going so far as to put a number of jurisdictions on a so-called 'blacklist'.

The economic substance requirements vary depending on the actual activity of the company. In general economic substance includes a requirement for the company to be directed and managed in its place of residence; to conduct core income-generating activity in its place of residence and have adequate people, premises and expenditure in its place of residence.

There are two key stages to establishing how an entity might be impacted by substance regulations in any given jurisdiction. Firstly, is the entity in scope of the new law, and secondly, if it is in scope, does it meet the substance requirements? We have significant experience in gathering and reporting company data and are helping our clients understand and respond to the new legislation.

In preparation for these changes over many years, Sovereign's advice to clients has developed and has focused more on 'onshore' jurisdictions where companies are set up to trade and provide services rather than simply for business or personal structuring purposes. We are now setting up more onshore companies than offshore companies in places such as the UAE, China and Saudi Arabia, and an ever increasing number of our clients are trading entities from the US, the UK, South-East Asia and Europe that are looking to expand their businesses into new markets.

Inevitably these clients want Sovereign to set up their company for them, but increasingly they are also relying on us to provide them with ongoing assistance in respect of their accounting, payroll, labour and immigration, HR consultancy and insurance requirements. This ensures that they have real economic substance in the place where they are incorporated and can operate safe in the knowledge that they are in full compliance with their local and international obligations.

Naturally, this move onshore has also led to a shift in our client demographic. We are now receiving more enquiries from East and West Africa and have undertaken business development trips in the past year to Rwanda, Kenya, Ghana and the Cote d'Ivoire. Only a few years ago these markets were virtually unknown to Sovereign but we have quickly come to the realisation that there are a lot of businesses in these vibrant regions that are looking to expand into the Middle and Far East. There is huge potential in other parts of the world too – South America and Central Asia spring to mind – and our products and services are well suited to assist clients in these emerging regions.

As we travel the globe looking for new opportunities, we have also seen a big increase in interest in the residency and citizenship by investment (RCBI) schemes. Last year saw the launch of our RCBI division, which provides clients with assistance in applying for and obtaining residency, or ultimately citizenship, in Portugal, Malta, Cyprus and Gibraltar.

Whether we are contacted through our corporate services, private client or retirement planning strands, this is a fantastic 'add on' because so many clients in certain parts of the world find that their existing citizenship or residency doesn't provide them with sufficient flexibility when it comes to their ability to travel. As the RCBI market has become more competitive, these schemes have become increasingly affordable and are no longer restricted to the high net worth segment. In Portugal, for example, the purchase of a property for €250,000 offers residency and visa-free access to the EU.

A further development in the last year has been the opening of our office in Riyadh, Saudi Arabia. Traditionally, Sovereign clients have looked to the United Arab Emirates, and Dubai in particular, to establish regional headquarters, but with the opening of Saudi Arabia through Mohammad bin Salman's 'Vision 2030' initiative, the Kingdom has become a far more attractive proposition for international businesses. As the country continues to open up, we see a huge opportunity for companies looking to invest there but also for Saudi-based clients that are looking to benefit from our other, more private client-focused products.

With the development into new markets and the increase in the amount of administration and compliance work required to onboard a company, we see that the move towards 'onshore' business is set to continue. And with this development, our compliance systems and procedures have become increasingly important in ensuring that both our existing and new clients can meet the regulatory changes with the minimum of disruption.

We are also seeing an increase in the amount of collaboration between our offices, as our clients become more global. Often, a client will require the assistance and services of multiple offices, whereas in the past they would more commonly have dealt with one. This is a sign of the times and is extremely positive for our business. As a result of this shift we have also seen Gibraltar-based Sovereign Insurance Services and Sovereign Wealth expand into Malta and Dubai respectively in order to be able to service clients from more than one location. Substance is here to stay and so are we. ▪

Sovereign Private Client – safe, sustained growth in a fast changing world

By Victoria Kent-Baguley, Tax Counsel

With the advance of technology, communications and international co-operation, the world is said to be getting smaller. This is certainly true in the international tax sphere. To help fight against tax evasion and protect the integrity of tax systems, governments around the world have introduced new information gathering and reporting requirements.

Data sharing between countries reached unprecedented heights in 2019, while compliance requirements are increasing and penalties are becoming tougher. Fiscal transparency is here to stay and the major headache now faced by tax authorities is how to process effectively the volume of data coming their way.

Sovereign Private Client Services provides trustee services, wealth management and succession planning to internationally mobile families and entrepreneurs. Directly represented in over 20 locations worldwide, the group's main administration centres are in Gibraltar, Hong Kong, Isle of Man and Dubai. Other Sovereign offices are strategically located across Europe, the Middle East, Asia and Africa.

Sovereign designs and implements structures – trusts, foundations, companies and funds in both domestic and overseas jurisdictions – to hold assets and investments in a way that will help to grow wealth now and preserve it for future generations.

While some clients are based only in a single location, many are international families with assets and family members spread across different countries. Sovereign has broad experience in managing trusts and estates with complex structures involving assets and beneficiaries in multiple jurisdictions, as well as the legal, tax and compliance issues that arise when the laws of several jurisdictions may apply.

Sovereign's founding vision was for a trust company that was focused on safe, sustained growth, balancing competitiveness with the maintenance of best professional practice. We review our products and services and make improvements for the benefit of our clients on an ongoing basis, while continuing to invest in our systems and in training for our staff to ensure that they are up-to-date with the latest laws and regulations.

We are committed to ensuring that Sovereign and its clients always remain in full legal and fiscal compliance in a fast changing regulatory environment. The Sovereign Group of companies hold over 30 professional licences around the world, which are testament to our high standards, knowledge and professionalism.

Last year, Sovereign Trust (Hong Kong) became one of the first firms to be formally licensed as a Trust or Company Service Provider (TCSP) under Hong Kong's newly-created licensing regime. Sovereign has been lobbying the relevant authorities for many years to introduce licensing in Hong Kong to ensure that standards within the industry are consistent and in accordance with best international practice.

This commitment was recognised at the influential International Adviser Global Financial Services Awards in 2019, when Sovereign was named as 'International Retirement Provider' of the year – for the second time – as well as being shortlisted in the 'International Trust and Estate Planning Firm' and 'Best International Retirement Product' categories.

In 2019, Sovereign has launched a new UK Corporate and Trustee Services Centre to operate alongside its existing UK Pensions Services Centre on the Wirral Peninsula in North West England. Sovereign Corporate & Trustee Services

(SCATS) will incorporate and administer UK companies, including Family Investment Companies (FICs), as well as providing trustee services to UK trusts.

These new UK services will complement our Self-Invested Personal Pension (SIPP) and Small Self-Administered Scheme (SSAS) administration capabilities in the Wirral and add to Sovereign's growing footprint in the UK.

UK limited companies can be used for a variety of domestic and international trading activities, regardless of the beneficial owners' place of residence. UK companies are generally taxed at significantly lower rates than individuals and partnerships, and shareholders also benefit from limited liability status. The UK has signed over 130 double tax treaties, the largest treaty network in the world. As a result, UK companies are highly effective as holding vehicles, enjoying reduced or even zero withholding tax (WHT) on dividends paid from overseas subsidiaries.

A FIC can provide an alternative to a trust by enabling parents to retain control over assets whilst accumulating wealth in a tax-efficient manner and facilitating future succession planning. FICs are also highly effective vehicles for domestic and foreign individuals to invest in the UK property market. With careful planning, it is possible to structure an investment company in such a way that it resembles a trust but without giving rise to the punitive tax charges.

The international regulatory landscape saw a lot of changes in 2019 and this will continue in 2020. European Union member states had until January 2020 to implement the Fifth Anti-Money Laundering Directive (AMLD 5), the latest in the EU's arsenal for combatting financial crime. The UK intends to implement the Directive despite Brexit.

The Fourth Anti-Money Laundering Directive (AMLD 4) placed a requirement for companies and taxable trusts to obtain and hold information on their beneficial ownership and to register this information with a central national register. This register is accessible to competent authorities, Financial Intelligence Units (FIUs) and obliged entities for customer due dligence purposes.

AMLD 5 expands the scope of the beneficial ownership register to include all trusts, regardless of whether they incur a tax consequence, and also to any legal arrangement that is similar to a trust. AMLD 5 requires public access to data on the beneficial owners of legal entities such as companies, but not trusts. Instead, members of the public wishing to access trust data need to demonstrate a 'legitimate interest', which includes "preventive work in the field of anti-money laundering, counter terrorist financing and associate predicate offences undertaken by non-governmental organisations and investigative journalists."

"We review our products and services and make improvements for the benefit of our clients on an ongoing basis, while continuing to invest in our systems and in training for our staff to ensure that they are up-to-date with the latest laws and regulations."

These changes mean that trustees in particular will face substantial investment in terms of operations, systems, processes and time to enable them to obtain the relevant information, complete initial registrations, maintain accurate and up-to-date records and comply with ongoing reporting requirements.

The EU has also introduced an additional level of disclosure designed to detect potentially aggressive tax planning with an EU cross-border element. The requirements come from European Directive (DAC6), which needs to be implemented in domestic legislation by 1 July 2020 but provides for implementation with retrospective effect from 25 June 2018. These rules therefore effect arrangements currently in use.

DAC6 introduces a notification obligation on intermediaries (and in certain cases taxpayers) in relation to certain cross-border arrangements that represent "potentially aggressive tax planning" and provides for the exchange of that information between member states. It is designed to provide tax authorities with early knowledge of tax avoidance arrangements so they can be swiftly countered.

These regulatory developments will cause further procedural and administrative changes for Sovereign and its clients, but they will not cause concern. As the sector evolves, so do we. ■

> “Sovereign has committed substantial capital expenditure to introduce a new state-of-the-art pension administration system across the organisation in 2020. This will be a market leading software system that includes web portals for members, introducers and employers.”

Sovereign Retirement Planning – 2020 Vision

By Claire Du Feu, Sovereign Pensions

2019 proved to be another busy year for Sovereign's retirement planning business, both in building on our successful product launches of 2018 and in gearing up for a substantial programme of investment for 2020 and beyond.

The breadth and depth of Sovereign's service provision was recognised at the influential International Adviser Global Financial Services Awards 2019, where Sovereign was again named as 'International Retirement Provider' of the year. Beating off stiff competition, Sovereign was singled out for its "innovation, continued investment, service and commitment to the industry sector".

The regulatory environment in which we operate continues to evolve. In 2019 we saw the implementation of new pension rules in the UK, Guernsey and Malta. In both our roles as pension product providers and as professional trustees, Sovereign continues to work closely with all relevant industry bodies and regulators, to ensure full compliance with legislation and regulation and to provide optimal customer service and peace of mind to our clients.

To protect our members' interests, we have recently introduced a commission cap to limit the amount that investment advisers are permitted to earn from a member's pension. This is also designed to align the international market place with that of the UK and the retail distribution review (RDR) commission regime, which came into force at the end of 2012.

One of Sovereign's underpinning values is its commitment to investing in the training and development of its staff. We recently arranged for 43 senior members of our international team to attend a training programme organised by the Institute of Directors. This included an in-depth examination of the key duties, roles and legal responsibilities of board members, as well as the board's role in corporate governance and strategy.

In 2020 Sovereign plans to launch its own in-house training programme for pension administration staff under the 'Sovereign Academy' brand, which is designed to ensure that technical excellence and knowledge is embedded across the whole business. The programme will draw from both external consultants, as well as Sovereign's in-house specialists, covering all areas of retirement planning administration.

At the same time, Sovereign has committed substantial capital expenditure to introduce a new state-of-the-art pension administration system across the organisation in 2020. This will be a market leading software system that includes web portals for members, introducers and employers. This will mean Sovereign can readily comply with the data-driven nature of the industry, while also enhancing the experience for its clients and introducers alike.

Sovereign's pension business made a number of acquisitions in 2019, and more are planned for 2020. The market is undoubtedly consolidating as increased regulation, capital investment requirements and distribution costs have put pressure on smaller, owner-managed businesses. Sovereign continues to grow and now has more than 15,000 pensions under administration.

Sovereign Pension Services (UK), which conducts Sovereign's UK SIPP and SSAS administration business, joined the UK government-backed STAR initiative in 2019. This aims to improve industry standards while reducing pension transfer times for defined contribution pension schemes. Participating firms benefit from greater certainty when dealing with other providers, leading to fewer queries and reduced administration costs, while consumers will benefit from better communication, uniform standards and improved transparency.

Regulated by the UK Financial Conduct Authority, the UK administration business is already a member of the Pensions Scams Industry Group (PSIG) and the Association of Member Directed Pension Schemes (AMPS). It is also a subscriber to the ORIGO pension transfer system. Participation in such industry initiatives underlines Sovereign's commitment to the sector and its desire to conduct its business with customer outcomes at the forefront.

There has been increased focus across a number of jurisdictions on the introduction of 'secondary pensions' legislation as governments seek to meet the challenge of state pension provision for an ageing demographic. Such regimes are similar to the UK's 'auto-enrolment' regime, introduced in 2012, which made it compulsory for employers to enrol eligible workers automatically into an occupational pension scheme. Employers are also required to contribute to these schemes.

In Guernsey, the current expectation is that the Guernsey States will make available a default secondary pension scheme into which employers can enrol their employees from 2021. Employers who already provide their employees with a pension scheme may be able to continue with their current arrangement if the scheme qualifies and the level of contributions that the employer is making is consistent with the required contribution rates that the government will apply.

Employers may also decide not to opt into the States' default secondary pension scheme and instead either establish their own qualifying scheme or join an existing qualifying scheme that is offered by a regulated provider.

Sovereign is a specialised and experienced pension provider that is fully regulated by the Guernsey Financial Services Commission for the formation and management of pension schemes. We have positioned ourselves to provide cost-effective and tax-approved retirement solutions to suit the specific needs of Guernsey-based employers in satisfying the secondary pensions requirements. These include multi-employer occupational pension plans, bespoke occupational pension plans and multi-member retirement annuity trust schemes.

All such solutions are approved by the local Guernsey Revenue Service and therefore qualify for tax relief for individual contributions, as well as for deductions for contributions paid by an employer. This expansion of the product range, complements our Guernsey office's existing occupational offering to international (non-Guernsey employers), which is marketed in conjunction with the Isle of Man offering, as well as its varied range of personal pension arrangements. As Sovereign broadens its range of retirement planning solutions beyond trust and contract-based QROPS, our Malta office will further be launching a scheme for local employers based in Malta that will leverage the experience and technical knowledge of our staff to administer local corporate plans. Our Gibraltar team also now operates as trustee for more than ten local employers' pension schemes, including a number of high profile gaming companies.

Our fully compliant and highly competitive retirement planning products – both personal and occupational pension schemes for the local and international markets – continue to be serviced by our specialist administration teams from administration hubs in Gibraltar, Guernsey, IOM, Malta and the UK.

Our dedicated retirement planning international business development team continue to provide a technical 'on the ground' support network to our introducers from our international office network throughout Europe, Africa, the Middle East and the Far East.

Sovereign's retirement planning products remain underpinned by our focus on 'adding value' through in-house access to technical, legal, fiscal, investment, and wealth planning specialists. Sovereign Retirement Planning continues to prosper and grow, investing in staff, systems and business for the future. ■

China’s new foreign investment law

Mark Ray
Managing Director
Sovereign (China) Ltd

Since joining the World Trade Organisation in 2001, China has faced substantial criticism from the international business community and governments in respect of its lack of IP protection, forced technology transfers and failures to implement fair market policies.

At the end of 2019, the National People’s Congress passed the new Foreign Investment Law (FIL), which is a new guiding document to govern foreign investment in China. It pledges to “build a market environment of stability, transparency, predictability, and fair competition” for foreign investors and was brought into force on 1 January 2020.

The FIL replaces several other laws governing foreign direct investment – the Wholly Foreign-Owned Enterprises Law (also known as the Foreign-Capital Enterprises Law), the Sino-Foreign Equity Joint Ventures Law and the Sino-Foreign Contractual Joint Ventures Law – with the purpose of accelerating market opening reforms and eliminating inconsistencies in the enforcement of laws.

Since 1 January 2020, all WFOE’s and JV’s have been simply categorised as Foreign Invested Enterprises (FIE’s). This includes investors originating from Hong Kong, Macau and Taiwan.

The new law seeks to address many common complaints by foreign investors, such as explicitly banning forced technology transfers and includes provisions to protect foreign investors’ IP and commercial secrets from their joint venture partners.

Article 22 explicitly bars Chinese JV partners from stealing IP and commercial secrets from their foreign partners and also prohibits government officials from using administrative measures to pursue forced technology transfers. Article 39 further makes government officials criminally liable if they do so.

The FIL seeks to level the playing field between foreign and domestic companies in regards to applying for licences (Article 30) as well as participating in government procurement projects (Article 16), two substantial hurdles previously facing foreign invested enterprises in China. Article 15 provides that foreign investors should be given equal opportunity to participate in the formulation of standards.

In terms of managing foreign investment, Article 4 states that the government should use China’s Negative List to ensure that foreign investors are treated on a par with domestic investors during the initial stages of setting up. The Negative List is a comprehensive list of restrictions on foreign investment determined by the State Council.

The FIL contains measures (Article 20) to protect foreign investments from arbitrary expropriation. However, it also provides that the state may, under special circumstances, expropriate or requisition the investment of foreign investors for the public interest. Any such actions must be in accordance with legally prescribed procedures and offer “fair and reasonable compensation”.

There are still a number of significant questions attaching to the new law. For example, it defines foreign investment as “investment activity directly or indirectly carried out by foreign natural persons, enterprises or other organisations”. It is unclear precisely what “indirect investment” means. This and other areas of ambiguity may provide local authorities with scope to interpret the law and make implementation less consistent and transparent for foreign investors.

Although the new law is seen as a positive step, it is not yet certain whether the new provisions will simply be ‘on paper’ or if they will actually be enforced, providing meaningful change to the business environment. Foreign investors will need to wait and see to determine what practical implications the new law will have. Moreover due to the current outbreak of COVID-19, some changes will be implemented quicker, slower or in a different format. We do see that the outbreak is pushing the government to a more digital approach which we applaud.

China is a market where there has always been a substantial local company advantage, so any move to level the playing field should have a positive impact on foreign companies’ ability to do business in China and be more successful. Now that the law is in effect, foreign investors will have to wait and see how it will actually be implemented over the next 12 months.

The US and China signed what they billed as a preliminary trade agreement on 15 January 2020 in an attempt to lessen trade tensions that have weighed on global markets. It echoes many of the issues addressed by the FIL, including criminal penalties on anyone caught stealing commercial secrets and a broad commitment for China to stop pressuring US companies to share technology with local joint-venture partners and for the Chinese government to stop supporting or directing Chinese firms to buy up strategic technologies by acquiring foreign companies.

The Trump administration said the key new element was the enforcement mechanism. Rather than rely on a slow-moving World Trade Organisation dispute system, the new agreement enables the US to impose tariffs or other measures within 90 days if officials decide China is breaking its promises.

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Cyprus – tax residency and trusts

George Ayiomamitis
Managing Director
Sovereign Trust (Cyprus) Ltd

> “ Cyprus is at the forefront of best practice in the area of trusts. It is a reputable international financial centre with very attractive opportunities for setting up and operating a trust. ”

Whether it is clients with concerns about the continued uncertainty over the manner of the UK’s exit from the EU or clients with concerns about political ▸

or economic stability in other parts of the world, we have seen a marked increase in inquiries about the options for personal tax residency in Cyprus.

Residence is probably the most widely used criterion for the taxation of individuals by governments around the world, but the rules vary considerably from jurisdiction to jurisdiction.

Why Cyprus? Besides the lifestyle, climate, sophisticated infrastructure and highly educated, cosmopolitan population, there are also a number of significant tax benefits associated with being resident in Cyprus – particularly for individuals who opt to become non-domiciled tax residents.

There is no tax on worldwide dividend and interest income for non-domiciled individuals for 17 years, no tax on gains arising from the disposal of investments – shares, bonds, etc. – and no withholding tax on the repatriation of income as dividends, interest and royalties. Cyprus has no estate duty, wealth tax, gift tax or inheritance tax.

There are many further advantages to relocating to Cyprus and establishing tax residency – the tax incentives for expatriate employees taking up residence in Cyprus, for instance. There is a 50% income tax exemption of remuneration from any office or employment in Cyprus that exceeds €100,000 per annum, applicable for 10 years, for an individual who was not previously tax resident in Cyprus.

These are just some of the benefits that Cyprus has to offer but it is the timeframe for the tax residency that will really grab your attention. In 2017, Cyprus amended its Income Tax Law to provide that an individual who is physically present in Cyprus for more than 60 days in a year of assessment and does not reside in any other single state for a period exceeding 183 days can elect to be tax resident in Cyprus in that tax year. Known as the '60-day rule', applicants are required only to declare their intention to reside within the tax year of the application.

Since the initiation of the 60-day rule, Sovereign has seen a sharp increase in the interest of individuals choosing Cyprus for tax residency purposes. Brexit has certainly played a role to this, but other reasons like high rates of income tax in applicants' home countries have also triggered this interest.

Many different countries worldwide have enacted trust legislation but when establishing a trust it is essential that the legislation should be up-to-date, including contemporary trust concepts, and that the jurisdiction should also offer a strong tradition of enforcing trusts, an English common law system, a high reputation for trust business and favourable taxation for trusts.

Cyprus is at the forefront of best practice in the area of trusts. It is a reputable international financial centre with very attractive opportunities for setting up and operating a trust. The recently amended International Trusts Law of Cyprus builds on the well-established English principles of equity and has created one of the most attractive trusts legal frameworks in the world.

The original Law restricted the availability of Cyprus International Trusts (CITs) such that neither a settlor nor any beneficiary could be a permanent resident of Cyprus. This was inconsistent with the EU principle of free movement of persons and capital, and these restrictions were therefore relaxed, together with the prohibition on ownership of immovable property in Cyprus, when the Law was amended.

The procedure for establishing a CIT trust is now straightforward and can be arranged in a relatively short period of time. The settlor and the beneficiaries must not be tax residents in Cyprus during the year preceding the year of creating a CIT and at least one of the trustees must be a permanent resident of Cyprus.

The Cyprus International Trust is now the structure of choice for non-resident settlors. Succession, heirship or other laws applicable in foreign jurisdictions do not affect the validity of a CIT or the transfer of property to the trustee of a CIT. The settlor has the right to reserve many powers, while a CIT can now last for an indefinite period and the income can be accumulated without limitations. The law governing a CIT can be changed to another foreign law.

CITs are widely employed in what may be loosely termed 'family situations' but also in commercial and business transactions and as a vehicle for charitable and other purposes. The CIT is now one of the best available options worldwide and it is worth mentioning that Sovereign Group's office in Cyprus is fully licensed to act as a professional trustee.

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Gibraltar – the gateway to the UK

John Blake
Managing Director
Sovereign Trust (Gibraltar) Ltd

> **"The recent Gibraltar-UK DTA is a major milestone that reflects how serious Gibraltar has become in its ambition to trade with leading economies."**

These are interesting times for Gibraltar. The transformation has been underway for a number of years, but in recent times the 'Rock' has emerged as a serious and mature player on the world stage, and one that continues to punch well above its weight. Not only has Gibraltar been effectively recognised by Spain, for the first time in its history, but it has also entered into its first double taxation agreement (DTA), with the UK.

Whilst Gibraltar's tax regime is highly competitive – like most small jurisdictions that have to fight to survive in the wider world – it may come as a surprise that Gibraltar is ranked as far down as 28th in the Tax Justice Network's Corporate Tax Haven Index 2019, below many of the leading industrial nations including the UK (ranked 13th), Belgium (16th), China (19th), France (22nd), Germany (24th), USA (25th) and Spain (27th).

It is positive that the Gibraltar Socialist Labour Party won the recent election, retaining power for a third term. This reflects a politically stable environment, where the economy is thriving and the relationship with the UK is becoming ever closer. Gibraltar is Sovereign's home and we are certainly optimistic about the future – so much so that we are making a further commitment to Gibraltar by investing in larger premises.

The regulatory landscape in which we operate is becoming ever more challenging. Initiatives such as FATCA (US Foreign Account Tax Compliance Act), CRS (OECD Common Reporting Standard) and DAC6 (EU Mandatory Disclosure Regime) reflect a new age of transparency and substance that individuals and firms such as ours can either embrace or ignore at their peril.

Sovereign supports such initiatives. For some time we have been providing clients ▸

with the support and services to create real economic substance. Sovereign has developed a compelling suite of corporate services to assist the entry, growth and sustainability of businesses in all major international finance centres.

These include structuring employee benefit packages and incentive plans for attracting and retaining key staff, accounting services, payroll, bespoke insurance packages, corporate and personal pension plans, obtaining local licences and permits, and assisting with executive relocation.

Historically it was not in Gibraltar's interest to pursue double taxation agreements, but that has now changed. So the recent Gibraltar-UK DTA is a major milestone that reflects how serious Gibraltar has become in its ambition to trade with leading economies. More are now likely to follow.

Despite the sombre mood in Gibraltar immediately after the 2016 UK referendum on EU membership, the attitude to Brexit is now extremely positive. We expect business to increase post-Brexit. Gibraltar truly will be the location of choice for European (and non-European) businesses to establish in to access UK markets.

Likewise, the UK and Spain signed a tax agreement that is designed to provide clarity for businesses and individuals that straddle the two jurisdictions. Under the agreement, individuals and companies in Gibraltar will have to pay taxes in Spain if they conduct most of their business there. It was a highly significant milestone because it was the first bilateral treaty over Gibraltar in more than 300 years.

Unlike the vast majority of service providers in Gibraltar, Sovereign has a global footprint. This enables us to service mobile multi-nationals and individuals on a global basis. Our offices across Europe, Asia, Africa and the Middle East do not act as separate 'silos'. Rather they work together to offer a truly cross-border service.

Finally, Gibraltar's purpose-built Distributed Ledger Technology (DLT) framework has now been in effect since 1 January 2018. One of the first pieces of legislation of its kind globally, the framework has been designed to provide an efficient, safe and innovative regulatory framework for firms that use DLT – also known as 'blockchain' ¬– for the transmission or storage of value belonging to others.

The framework positions Gibraltar as a jurisdiction that facilitates innovation, whilst ensuring it continues to meet its regulatory and strategic objectives and understands the modern need for robust and speedy interaction with regulators in this fast-moving area of business.

There are now 13 FinTech businesses operating as licensed DLT providers in Gibraltar, with numerous applications in the pipeline. This may not sound a lot, but in Gibraltar the number of DLT providers now equals that of licensed investment managers, auditors and banks, and exceeds that of e-money institutions.

As we continue through 2020, we can foresee further recognition and understanding of blockchain solutions and Sovereign is well positioned to offer a range of services to assist FinTech business to establish in Gibraltar, from initial consultation to providing full corporate services assistance.

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2019 – Growth and evolution for Sovereign in Guernsey

Stephen Hare
Managing Director
Sovereign Trust (Channel Islands) Ltd

Sovereign Trust (Channel Islands) reached a significant milestone in 2019; it has now been operating in Guernsey for ten years. During that time we have enjoyed periods of rapid growth but also faced challenges that have required us to develop new products and services in order to maintain growth and stay competitive. It is a tribute to Sovereign's versatility that we now employ 43 permanent staff and one contractor in Guernsey.

During 2019 we saw this pattern repeated with further diversification of services and product development resulting in increased new business. This has been complemented by targeted acquisitions of small local books of business, which we have successfully integrated into the business.

Until recently, the bulk of our client base and business under administration was international, but in the past year Sovereign has developed and launched new products specifically for the domestic market in Guernsey. These include a multi-member pension arrangement that has proved successful, attracting more than 50 Guernsey-resident members since its establishment in 2018.

Sovereign is also now providing corporate services to Guernsey employers, including payroll services for local companies and their resident employees. We are further promoting our multi-jurisdictional service capacity to other local corporate service providers (CSPs) that have clients requiring services from other jurisdictions in which they cannot assist directly.

Looking forward, the most significant development in the Guernsey pensions industry for many years fast approaches with the introduction of the new 'Secondary Pensions' regime anticipated in 2022. This will be a compulsory workplace pension system that is similar to the UK's 'Auto-Enrolment' regime, introduced in 2012, which made it compulsory for employers to enrol their eligible workers into a pension scheme.

Sovereign will be launching specific products to cater to this opportunity, having already diversified its offering in

recent times to include the provision of corporate pension plans, in addition to personal pension schemes. This is expected to further strengthen Sovereign's domestic service offering and local client base.

The range of products and services that Sovereign Guernsey can provide is now more extensive than ever and includes personal and corporate pension plans for both local and international companies, end of service benefit solutions, trusts, foundations, managed companies, corporate payroll and much more.

We also look forward to the proposed introduction of a Limited Liability Company (LLC) structure in Guernsey following a public consultation to gauge the level of demand and potential economic benefits, which concluded in September 2019.

LLCs offer legal personality and limited liability in a tax transparent structure with, in many jurisdictions, the opportunity to elect to be taxed in the same way as a corporation. LLCs are commonly used in the US as structures for trading businesses, holding vehicles and special purpose vehicles in finance and investment structures.

The US LLC is recognised as providing a flexible hybrid structure, combining features of both US corporations and partnerships. An LLC may be formed for any lawful business purpose, or activity, whether or not for profit.

In the past 12 months, Sovereign Guernsey has also developed solutions aimed at corporate clients in the Gulf Cooperation Council (GCC) region, to assist with making provision for end-of-service liabilities and/or to provide a centralised plan to accommodate employer and employee savings.

We have also seen an increase in the number of individuals, particularly UK residents, looking to relocate to Guernsey. Sovereign is in a position to offer entry services to those relocating to the island, at both the personal and corporate level.

We are now celebrating the fifth year of the Sovereign Art Foundation Students Prize. In these five years we have seen the competition go from strength to strength, with increased interest from the local education community and an excellent standard of entries annually.

The competition has also grown in terms of support from local businesses, with a number of sponsors enabling its continued growth. This year's prize featured the first auction of artworks submitted into the competition. We are proud to able to promote the Foundation and support this worthy charity.

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Hong Kong 2019 – a turbulent year

Marcel Treurnicht
Legal Counsel
Sovereign Trust (Hong Kong) Ltd

2019 was undoubtedly a tumultuous year for Hong Kong. The first half of the year was stable if somewhat subdued, with modest economic growth between 0.5% and 0.6%. Tensions between the US and Mainland China over trade and technology led to an economic slowdown in Asia. Even so the unemployment rate in Hong Kong remained steady and the property market remained buoyant.

Unfortunately the economy contracted sharply by 2.9% in the third quarter due to widespread protests after the government tried to introduce a controversial bill enabling extradition to China. Particularly hard-hit were the tourism, retail and catering industries.

Protest activity decreased before district council elections were held on 24 November and the voting day was calm and peaceful. There was a record turnout of 71% of registered voters and Democrats took 17 out of 18 seats, which was widely seen as a vote of 'no confidence' in the HKSAR government. Chief Executive of Hong Kong Carrie Lam said the government would "seriously reflect" on the election results and, for now, an uneasy peace prevails.

Meanwhile on 4 September, the Financial Action Task Force (FATF), a global inter-governmental body set up to combat money laundering and terrorism financing, issued its Mutual Evaluation Report for Hong Kong, China 2019, which followed a comprehensive review of Hong Kong's anti-money laundering (AML) and counter-terrorist financing (CTF) regime.

Overall the report was positive and Hong Kong's AML/CTF regime was assessed to be compliant and effective – the first jurisdiction in the Asia-Pacific region to have achieved an overall compliant result in the current round of FATF evaluation.

In line with increasing regulation in Asia, the business of Trust and Corporate Service Providers (TCSP) became licensable in 2018. One year into the new regime 6,812 TCSP licences have been issued, including Sovereign Trust (Hong Kong) Ltd. The authorities have also successfully prosecuted three companies and three individuals for carrying on a trust or company service without a licence, and four individuals for knowingly or recklessly providing false information to the Registrar of Companies.

In addition, one TCSP licensee has been disciplined for failing to verify customers' identities and failure to identify beneficial owners. This prompt action by the authorities indicates a resolve to enforce the new TCSP regulations with an emphasis on the existing AML and CTF Ordinances.

In more good news for the TCSP industry, the Court of Final Appeal handed down a ruling on the important case of Zhang Hong Li and Another v DBS (Hong Kong) Ltd and Others on 22 November. The basic facts of the case are that a company called 'Wise Lords', which was owned by a trust, made investments into high risk financial products in the years leading up to 2008. These investments were largely funded with credit.

When the global financial crisis struck in 2008, the investments collapsed leading to large losses. Parties to the trust then began proceedings against the trustee (DBS) and the corporate director of Wise Lords for breach of duty in respect of failure to intervene in the investments.

The trust deed contained so-called 'anti-Bartlett' clauses, which provide for trust-owned companies to be managed independently by relieving the trustee from any duty to enquire into or interfere in the management of underlying companies within a trust structure when an investment manager is appointed.

The Court of First Instance and the Court of Appeal both found that the trustees could not rely on the anti-Bartlett clauses and

did have a residual obligation to undertake a high-level supervisory role. They were consequently ordered to replenish the trust fund for the amount of the loss.

DBS appealed to the Court of Final Appeal. The Court disagreed with the previous judgments and held instead that the duties to interfere or become involved the business or affairs of Wise Lords were expressly excluded by the anti-Bartlett clauses. As a result DBS held no powers or duties in relation to the company.

Also in November, the Chinese e-commerce giant Alibaba chose to launch its second listing on the Stock Exchange of Hong Kong, raising USD11.2 billion with shares surging by 6.6% on the first day of trading. Alibaba went public in 2014 on the New York Stock Exchange and its second listing in Hong Kong became the world's largest offering so far in 2019.

This was a significant boost to the local economy and a sign of confidence in Hong Kong as a jurisdiction in the future. Forecaster FocusEconomics predicted that the Hong Kong economy would gain some ground in 2020. That was before the arrival of the coronavirus, which has understandably created further uncertainty. However the Hong Kong government was quick to respond and stabilise the outbreak, which should minimise any economic damage.

The successful US$12.9 billion offering by Alibaba may prompt other Chinese technology leaders currently listed overseas to consider returning to Asia through a similar secondary listing in Hong Kong, said Irene Chu, partner and head of new economy and life sciences at KPMG in Hong Kong.

"A lot of these companies are also expanding rapidly in the Asia-Pacific reason, so coming to Hong Kong for a secondary listing makes a lot of sense," she said. "This will enable Chinese investors to also tap into their own companies."

Some of China's biggest new economy names, including Baidu, JD.com and Weibo, are among a small universe of companies who previously raised capital in the United States and could easily pursue their own secondary listing in Hong Kong thanks to a rule change by the city's bourse.

The listing reform made it easier for companies with dual classes of shares – a structure favoured by technology companies such as Facebook and Google – and pre-revenue biotechnology firms to seek secondary offerings in the city. It came after the Hong Kong stock exchange lost out to New York in a race for Alibaba's US$25 billion IPO in 2014.

"Chinese companies being listed in China or Hong Kong should be the starting point," KPMG's Chu said. "We've seen changes of regime and we've now got the infrastructure that we need to welcome these companies back to Hong Kong or to the mainland."

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Mauritius recognised as compliant with EU tax good governance principles

Nico van Zyl
Managing Director
Sovereign Trust (Mauritius) Ltd

> "Mauritius continues to be a jurisdiction of substance and good governance, leading by example in the region as an IFC and as the gateway to Africa."

The Economic and Financial Affairs Committee of the European Union (EU) confirmed, on 10 October 2019, that Mauritius was fully compliant with all its commitments on tax co-operation and EU tax good governance principles. It said Mauritius had implemented all necessary reforms in line with its previous commitments ahead of schedule.

The Mauritian government brought in a raft of reforms to the tax framework in the Finance (Miscellaneous Provisions) Act 2019 – the Finance Act – which included the introduction of 'controlled foreign corporation' (CFC) rules and other measures.

This Act was supplemented by the adoption of the Income tax (Amendment No.2) regulations on 16 August, which amended the legislation applicable to the Mauritius Freeport zone and Partial Exemption regimes:

- The conditions to be met by tax-resident companies in order to benefit under the Partial Exemption regime (PER);
- The new CFC rules as introduced in the Finance Act; and
- The conditions to be satisfied by a Freeport operator or private Freeport developer engaged in the export of goods or manufacturing activities in order to benefit from the preferential tax rate of 3%.

The regulations, which were deemed to have come into operation on 1 July, supersede the circular letter that was issued by the Mauritius Financial Services Commission on 12 October 2018 to provide clarifications on the enhanced substance requirements for Global Business Companies (GBCs).

Following the recent changes provided by the Finance Act, s.71 of the Financial Services Act 2001 (FSA) have been amended to provide that GBCs must at all times:

- Carry out their core income generating activities (CIGA) in, or from, Mauritius, as required under the Income Tax Act (ITA);
- Be managed and controlled from Mauritius; and
- Be administered by a management company.

In light of the above, the Regulations have amended S.23D of the Income Tax regulations 1995 to provide that the conditions that must be satisfied by tax-resident companies in order to be eligible for certain types of income covered under the PER and guidance on CIGA. Tax-resident companies (including GBCs) must:

- Carry out their CIGA in Mauritius;
- Employ, directly or indirectly, an adequate number of suitably qualified persons to conduct their CIGA; and
- Incur a minimum expenditure proportionate to their level of activities in order to benefit from the PER in respect of the following types of income:
  - Interest derived by a company other than a bank referred to in section 44C of ITA;

- Income derived by a collective investment scheme (CIS), closed end fund, CIS manager, CIS administrator, investment adviser or asset manager, as the case may be, licensed or approved by the FSC established under the FSA;
- Income derived by companies engaged in ship and aircraft leasing;
- Income derived by a company from reinsurance and reinsurance brokering activities;
- Income derived by a company from leasing and provision of international fibre capacity; and
- Income derived by a company from the sale, financing arrangement, asset management of aircraft and its spare parts and aviation advisory services related thereto.

The EU's Code of Conduct Group (Business Taxation) examined these amendments and concluded that Mauritius had met its commitment to address the deficiencies identified in these two regimes.

"Whilst the Freeport zone regime is no longer preferential, substance requirements have been introduced in both regimes and the issue of lack of anti-abuse rules has been addressed by the introduction of CFC rules broadly aligned with those of EU's anti tax avoidance directive (ATAD 1)," it said.

As a result, the COCG concluded that Mauritius should therefore be removed from its "grey list" of co-operative jurisdictions that have made commitments to implement tax good governance principles but which have not yet implemented them fully. Countries on the grey list could be moved to the blacklist if they fail to deliver on their commitments.

This expected and welcome announcement comes after the OECD confirmed in November 2018 that Mauritius met all the international requirements under Action 5 of the Base Erosion and Profit Shifting (BEPS) initiative and therefore did not have any harmful practices in its tax regimes.

This recognition by institutions like the OECD and the EU reaffirms that Mauritius, as an international financial centre (IFC), has always ensured adherence to international standards and practices. It also gives the necessary motivation for Mauritius to continue to grow as an IFC of choice, reputation and substance.

"Mauritius continues to be a jurisdiction of substance and good governance, leading by example in the region as an IFC and as the gateway to Africa," said Nico van Zyl, Managing Director of Sovereign Trust (Mauritius) Ltd.
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"Ideally located between North Africa and Europe, and as a full member of the EU, Malta continues to attract business start-ups, market entry into Europe and post-Brexit business planning."

Malta positions itself as the 'Blockchain Island'

Stephen Griffiths
Managing Director
Sovereign Trust (Malta) Ltd

Malta continues to position itself as a hub for technology-based business, including online gaming and FinTech. Known locally as the 'Blockchain Island', Malta has led the way in creating a regulatory regime that will provide legal certainty and clarity for both the local and international crypto-asset community, an area that remains largely unregulated throughout the EU.

The Virtual Financial Assets (VFA) Act, introduced at the end of 2018, provides a comprehensive set of rules to both protect consumers and support the growth of the industry and its stakeholders. The Act outlines stringent requirements for those that are launching cryptocurrencies, as well as other service providers including brokerages, portfolio managers, custodian and nominee service providers, eWallet providers, investment advisors and cryptocurrency exchanges.

Any entity that offers a VFA or is classified as a VFA service provider is required under the new rules to apply for a licence from the Malta Financial Services Authority (MFSA) through the guidance of a registered VFA agent. The MFSA has also developed a financial instrument test that will determine whether a product or service would fall under financial services legislation, or whether it is covered by the scope of the VFA Act.

The MFSA recently reported that 30 applications for registration of VFA agents had been received, of which 18 had been registered. Similarly, it had received letters of intent from 34 prospective VFA service providers, 21 of which related to crypto-asset exchanges.

The applicants had been operating under transitional provisions that were contained in the VFA Act. When the transition period expired on 31 October, any entities wishing to continue their operations, in or from Malta, were then required to apply for authorisation.

The MFSA published a paper entitled "Supervision: Risks Identified, Weaknesses and Expected Controls – A Cross-Sectoral Analysis", which sets out its supervisory expectations for licensed entities and a number of best practices to which licensed entities are expected to adhere.

The document examines the key risks that authorised entities operating in the Malta financial services industry might pose to their clients and the market in general. It also identifies weaknesses that some licensed service providers have in common and which the Authority has identified in the course of its supervisory work.

The MFSA further intends to publish a second document setting out its Supervisory Priorities for 2020. This additional document, which is in line with the MFSA's current strategy of enhancing its supervisory engagement, will address how, through supervision, the MFSA intends to address the weaknesses in risk assessment and controls carried out by licensees.

Regulated entities are expected to discuss the contents of these documents with their Board of Directors and assess how the highlighted points may apply to their business. Firms are further expected to address any shortfalls they may have in respect of adhering to regulatory requirements and to establish the necessary processes in order to ensure that regulatory requirements are met on an ongoing basis.

MFSA Chief Officer for Supervision Marianne Scicluna said: "The Authority is planning to intensify its supervisory work, both in terms of coverage and standard. The MFSA has fused the three pillars of its supervisory strategy – prudential, conduct and AML Supervision – to ensure a holistic and more efficient supervisory approach. The publication of the Authority's Supervisory Expectations is part of our commitment to enhance the supervisory engagement with authorised entities, in promoting and ensuring sound governance, high compliance standards and conduct."

Sovereign welcomes the reinforcement of Malta's regulatory regime. While the requirements are onerous for service providers, the robust nature of regulation shows a commitment by the MFSA to the strengthening of Malta's position as a jurisdiction of choice for business.

Ideally located between North Africa and Europe, and as a full member of the EU, Malta continues to attract business start-ups, market entry into Europe and post-Brexit business planning. The MFSA released figures showing that the financial services sector in Malta grew by 9.5% during 2018 with the registration of 144 new entities. "Despite a challenging and highly competitive environment," the MFSA said, "more businesses sought to make Malta their jurisdiction of choice, bringing the number of entities licensed by the MFSA up to over 2,300."

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Portugal – The World's Leading Destination

Andreia Vieira
Managing Director
Sovereign - Consultoria Lda.

Sovereign's office in Lagoa, Algarve, was established in 1999 specifically to meet the growing demand for fiscal assistance from foreign investors and retirees wishing to invest or live in Portugal.

As well as assisting and guiding clients through the complex application processes under Portugal's popular non-habitual resident (NHR) and 'golden visa' schemes, Sovereign provides continued fiscal support for clients that require ongoing fiscal representation and accounting services for the renting out of their Portuguese properties and submission of their tax returns.

Portugal's residence schemes are attracting more and more people looking to move to or invest in the country, bringing much needed income to Portugal's economy. Since 2009, when the scheme started, around 28,000 people – including some 9,000 pensioners – have moved to Portugal under the NHR scheme.

Many successful NHR applicants have found that the quality of life as retirees living in Portugal far exceeds their expectations, and not just because their pensions go so much further. Portugal is also one of the safest countries in the world and has an internationally acclaimed and affordable healthcare system.

In addition, Portugal issued more than 8,200 golden visas between 2012 and 2019, bringing in investment of just under €5 billion. 2019 was also a record-breaking year for company formation and Portugal's attractiveness remains strong with short-term investment plans among the highest in Europe.

High perception ratings on key structural factors such as quality of life, social stability, infrastructure and local labour keep fueling Portugal's appeal to investors globally, underpinning the country's resilience to external pressures.

There are many reasons to consider taking advantage of Portugal's NHR and golden visa schemes. Apart from the obvious tax benefits, there is Portugal's wonderful climate, food, people, culture, beaches, and golf courses!

After three years of uncertainty the UK has now left the EU! How will this affect UK residents that have assets in Portugal?

Since 2002 it had been obligatory in Portugal for any non-resident person who owned property to appoint a fiscal representative to receive correspondence from the tax department and ensure that the fiscal responsibilities of clients are fulfilled – submitting the necessary tax returns and paying all taxes.

In 2011, however, the European Court of Justice ruled that EU residents could not be compelled to have fiscal representation because this obligation violated the rights of free movement of people and capital.

So what impact will Brexit have? Will British residents need to appoint a fiscal representative once again? The answer appears to be 'yes'. The law clearly states that non-EU residents with assets in Portugal must appoint a fiscal representative. The onus is on taxpayers to be aware of and to comply with the law.

EU residents can opt to have their tax department correspondence (including their property tax bills) sent to their EU address, but British residents without a fiscal representative may, in the future, find that their correspondence is retained by the Lisbon tax office because it can no longer be sent to the UK.

Notifications from the tax office generally require a prompt response within 10 to 15 days. Non-receipt of such correspondence can therefore swiftly lead to tax problems for an individual. Non-receipt of property tax bills can lead to non-payment and the incurrence of fines and penalty charges. Ultimately a property in Portugal could even be subject to seizure by the tax department and sold for debt recovery.

It is for this reason that non-EU residents are required to appoint a fiscal representative in order to receive their correspondence and be responsible for their fiscal matters in Portugal.

As a result, Sovereign is introducing a special offer, for readers of the Sovereign report, who are UK residents, that register with us before the end of July 2020 with a 50% reduction in our fiscal representation registration charge.

Sovereign – Consultoria Lda has been able to build very close relationships with local tax departments and other institutions. This enables us to keep up-to-date with the ever-changing fiscal demands placed on resident and non-resident clients.

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> “Singapore is increasingly becoming a commercial epicentre for greater-Asia. International companies headquartered in Singapore benefit from the low corporate tax rate and absence of capital gains tax.”

Singapore – steady as she goes!

Andrew Galway
Managing Director
Sovereign Management Services Pte. Ltd

2019 will no doubt be remembered as a turbulent year across the globe. Whilst large economies in the US, the UK, China (and Hong Kong) dominated headlines for well-documented reasons, Singapore managed successfully to weather the storms and maintain a steady course ahead.

Singapore's stable political and business-friendly environment continues to attract global investments, particularly in sectors like manufacturing, technology and electronics. This stability is well illustrated by the fact that, amid all the turmoil elsewhere, a new Protocol to upgrade the China-Singapore Free Trade Agreement (CSFTA) was brought into force in October.

The Protocol covers co-operation in six sectors contained in the original CSFTA – rules of origin, customs procedures and trade facilitation, trade remedies, service trade, investment, and economic co-operation – and adds three new sectors of e-commerce, competition policies and the environment.

Stability should not be confused with conservatism. Singapore is currently racing to position itself as a global tech hub, aiming to attract highly skilled technology professionals in artificial intelligence, cyber security and big data analytics. Widely regarded as the linchpin of the future economy, the newly created Tech@SG programme facilitates the hiring of foreign talent by technology companies. It is anticipated that high-growth technology companies like Alibaba, Grab and SAP will be expanding in Singapore.

In addition to being a recognised gateway for South-East Asia, Singapore is increasingly becoming a commercial epicentre for greater-Asia. International companies headquartered in Singapore benefit from the low corporate tax rate and absence of capital gains tax. Singapore also continues to roll out further tax incentives to reduce the tax burden for those businesses that create local jobs and establish themselves in Singapore.

Finnish oil company Neste, for example, announced a S$2.15 billion investment plan for the expansion of its renewable energy plant in Singapore in 2019. It chose Singapore, it said, because of its good geographic location, business environment and workforce.

British vacuum giant Dyson moved its corporate head office to Singapore in 2019. Jim Rowan, chief executive, said the move had “nothing to do with Brexit” but was designed to make sure the company was “future-proofed” and would allow management to keep an eye on its investments in the region.

Chairman and founder Sir James Dyson is also putting down his own roots in Singapore having gone on a property spending spree in excess of S$100 million. Sir James purchased an apartment at the top of Singapore's tallest building for S$73.8 million – the most expensive residential real estate deal in Singapore's history – as well as a modern bungalow on Cluny Road overlooking the Singapore Botanic Gardens for S$45 million.

Singapore continues to look long-term and plan for future growth. In 2019 it introduced a new corporate structure – the Variable Capital Company (VCC) – designed specifically as a vehicle for collective investments. VCCs can be used for both traditional funds and alternative funds and can be used for retail investors or for restricted class investors. This will provide fund managers with much greater flexibility in respect of domiciling a fund in Singapore.

A VCC can be set up as a standalone fund, or an umbrella entity with multiple sub-funds that may have different investment objectives, investors as well as assets and liabilities. If set up as an umbrella entity, each sub-fund's assets and liabilities will be segregated and ring-fenced to ensure there is no potential contagion risk.

The VCC is therefore similar to the protected cell company or segregated portfolio company structures in jurisdictions like Guernsey or the Cayman Islands. Its introduction, combined with Singapore's excellent fund management capabilities, robust regulatory framework and favourable tax regime, is expected to further solidify its position as the primary fund management hub in the region.

Often only thought of as a hub or a gateway to other Asian markets, Singapore continues to stand on its own two feet as an established, vibrant and expanding economy in its own right. Now seen as the next multiple-industry innovation centre, Singapore has its doors wide-open for global business.

And it's not just in business terms that Singapore is moving forward. Other notable highlights for Singapore in 2019, included:

- The opening of the world's tallest indoor waterfall in Changi Airport – at 40m high
- Awarded the number one restaurant in Asia – Odette
- Awarded four of the top ten bars in Asia – Manhattan, Native, Atlas and Jigger & Pony
- Ranked first in the world for the best place for expats with children, and second in the world for the best place to live and work as an expat – HSBC Expat's Annual League Table.

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South Africa relaxes policy on loop structures for individuals

Richard Neal
Managing Director
Sovereign Trust (SA) Ltd

Despite the many challenges currently facing the South African economy, there is at least one bright spot from an investment and regulatory perspective – a further relaxation of South Africa's exchange control rules "to promote investment and reduce unnecessary burdensome approvals".

In his Medium-Term Budget Policy Statement on 30 October, Minister of Finance Tito Mboweni announced that "rules on active currency hedging, loops and mortgages for individuals working in South Africa will be reformed. To support regional integration, the HoldCo regime will be extended to all banks."

The following day, the Financial Surveillance Department of the South African Reserve Bank (FinSurv) issued several circulars, including Circular 18/2019 stating that the 'loop dispensation' currently available for South African corporates under the Foreign Direct Investment (FDI) dispensation will be extended to private individuals.

This represents a significant change to the Reserve Bank's prohibition in respect of so-called 'loop structures' – the formation by a South African resident of a foreign company which, by reinvestment into South Africa, acquires shares, loan accounts or some other interest in a South African resident company or a South African asset.

Currently there are limited exceptions to this policy applicable to investments made by South African companies, but no such exceptions were available to individuals. Authorised dealers are allowed to approve requests by South African companies to invest up to ZAR1 billion (USD70 million approx.) per company per calendar year in companies, branches and offices outside the common monetary area (CMA) comprising South Africa, Namibia, Lesotho and Eswatini.

Requests for investments of more than ZAR1 billion must be approved by the Reserve Bank, which allows a so-called 'permissible loop' – a South African company is permitted to acquire up to 40% equity and/or voting rights, whichever is the higher, in a foreign target entity, which may in turn hold investments and/or make loans into any CMA country. The percentage threshold was previously 10% to 20% and was then increased to 40% in 2018.

Under the new Circular, private individuals will now be permitted – individually or collectively – to acquire up to 40% equity and/or voting rights in a foreign entity, which may in turn hold investments and/or make loans into any CMA country. This dispensation will only apply in respect of loop structures formed after 30 October 2019. Any existing loop structures will have to be regularised with FinSurv.

In addition, unintentional loop structures created with authorised foreign capital invested with non-resident asset or fund managers, who invest in foreign companies that have CMA assets/interests and/or offshore global investment funds that directly or indirectly hold CMA investments over which the South African investor has no control, are permitted.

South African individuals must also ensure that any income they derive from their investment in the foreign target entity is correctly declared to SARS from a tax perspective. It is important to note that this dispensation is extended to private individuals only and not to trusts.

The move to relax the loop structuring constraints is not coming a moment too soon. It is a clear sign that the South African Treasury is looking to support FDI by all means and opening the doors for re-entry of capital is most welcome.

Although the amendment to the looping rules provides South African individuals more flexibility in investment, it is not a full relaxation of looping provisions and great care must be taken. If a South African individual acquires equity and/or voting rights in a foreign target entity, the individual should also have to establish from the entity whether any other South African residents hold equity and/or voting rights as the collective holding by South African residents may not exceed 40%, unless the residents have obtained prior approval from FinSurv.

Any South African individual wanting to invest in a foreign entity that in turn invests in the CMA, should consult a duly qualified tax advisor and Sovereign Trust for appropriate structuring.
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Overview of the Middle East

Nicholas Cully
Managing Director
Sovereign Middle East

When I arrived in Dubai in 2010, little did I know that I would still be here in the UAE 10 years later. I may be a decade older, if not necessarily wiser, but our business model has changed even more than I have. To look at Sovereign's Middle East operations today, it is like looking at an entirely different company.

In 2010 we were working primarily with individual HNW clients, by helping them to set up SPVs in the UAE and the Caribbean to assist with complex tax planning structures. Fast forward 10 years and we are now primarily focused on assisting international companies to set up their businesses in the UAE, Bahrain and throughout the GCC.

Whether this is achieved through the setting up of an LLC in the UAE or a WLL in Bahrain with Sovereign providing the ‘corporate sponsor’, or through setting up a Free Zone company with 100% foreign ownership, there is now much greater demand from companies that are looking to establish a real presence in the region.

We continue to set up offshore companies, but these companies are generally only incorporated as part of a wider corporate structure and the SPV will typically be used to hold the shares in the local LLC or Free Zone entity.

When assisting new companies with their market entry strategy, client demand has led to expand our product offering to encompass back office assistance, visa and immigration services, accounting, HR consultancy and payroll. Clients these days are not interested in simply setting up a company; they want the full-service and ‘one-stop-shop’ capabilities that Sovereign is able to provide.

The Dubai International Financial Centre (DIFC) was recently ranked the eighth best financial centre in the world and the UAE has maintained its lead in the Middle East and North Africa (MENA) region in the World Bank's ‘Ease of Doing Business’ Ranking 2020 coming in at sixteenth place out of 190 countries. As a result, most international companies that are looking to expand into the region will consider the UAE as a preferred location in which to establish a presence.

In October 2019, after nearly two years, the UAE was removed from the EU's blacklist of ‘non-cooperative jurisdictions’ for tax purposes. It was originally included because it was perceived as facilitating offshore structures or arrangements aimed at attracting overseas profits that did not reflect real economic activity in the jurisdiction.

The removal of the UAE from this blacklist follows the UAE's commitment to the international standards set by the OECD and the EU and has been welcomed by international investors and financial institutions alike. At the same time, however, the Economic Substance Regulations introduce additional compliance and substance requirements for certain UAE entities.

Whilst things look positive for the UAE, we are currently seeing a lot of interest from companies looking to set up in Saudi Arabia where we have recently opened our fourth office in the Middle East. Naturally, a lot of investors are cautious about Saudi Arabia because it is viewed as an unknown quantity. However, with Mohammed bin Salman's much-hyped ‘Saudi Vision 2030’ – a blueprint for reducing Saudi Arabia's dependence on oil by diversifying its economy and developing public service sectors such as health, education, infrastructure, recreation and tourism – clients are beginning to appreciate the opportunities that the ‘opening up’ of the Kingdom will provide in the coming years.

With a population of close to 33 million people, Saudi Arabia is by far the largest economy in the Arabian Peninsula and the opportunities for foreign investors are only now beginning to present themselves. It is an exciting time for the region, and it will be interesting to see how the Kingdom continues to deal with the surge of interest from abroad.

We have assisted a number of companies to establish themselves in the UAE in advance of EXPO 2020 which has been very good for business and even better for the country. However, it does seem that the event is going to be postponed until 2021 although no new dates have been released as yet. Whenever the event takes place, it will be a fantastic “showpiece” for the country and will certainly lead to an increase in the number of companies looking to invest.

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SMART funds – Smarter than the average Experienced Investor Fund

Simon Denton
Managing Director
Sovereign (UK) Ltd

Sovereign's London office is currently assisting an organisation with the acquisition of certain assets in relation to an international management buyout. The preferred option of the investor is to create a Specific Mandate Alternative Regulatory Test (SMART) Fund in the Bahamas in order to acquire a number of international entities that have existing investments in emerging markets.

A SMART Fund is designed to allow for an inexpensive and rapid set up, typically within eight weeks. A SMART Fund with fewer than 10 investors that hold equity interests in the fund is not required to issue a prospectus, however promotional documents, a subscription agreement and term sheets will be issued to each investor.

Each investor is required to be a person who qualifies to invest in a professional fund, including: any natural person whose individual net worth or joint net worth with the person's spouse exceeds USD1 million; any natural person who had an individual income of more than USD200,000 or joint income with spouse of more than USD300,000 in each of the two most recent years; any trust with total assets in excess of USD5 million; any entity in which all of the equity owners satisfy one of the requirements above; or any entity with net assets in excess of USD5 million.

A local regulated Fund Administrator is prepared to offer fund registrar and fund administration services on a fixed-fee basis, providing transparency and cost control to the fund's promoter. Local directors approved by the Securities Commission of the Bahamas are also in place to provide management, control, regulatory oversight, corporate governance and compliance.

A SMART Fund does not require an annual audit if all investors agree in advance. However in this case, an international firm of accountants has agreed to undertake an audit on a fixed-fee basis. The fund will be tax-neutral for the investors because generally there is no direct taxation applicable to investment funds made pursuant to the laws of the Bahamas.

The overall fees for a SMART Fund are extremely competitive and would amount to a fraction of the cost of Specialised, Qualifying or Experienced investment funds in jurisdictions like Luxembourg, Ireland, the UK and Jersey.

A Smart Fund can operate for a number of years and accrue performance data and at some point in the future the promoter may decide to upgrade the licence to become a full Professional Mutual Fund. Professional Funds must hold a fund licence, which can be granted by the Securities Commission or the fund's administrator if that administrator holds an unrestricted investment Fund Administrator's licence.

Sovereign can ensure that management and control is exercised offshore, that the regulatory components are provided in-house by Sovereign at fixed reasonable fees and to the satisfaction of the non-voting preference investors, the promoters, and voting shareholders. The same fund can also become a catalyst to undertake a range of other investments in emerging markets.

The Bahamas SMART Fund concept recognises that many funds do not fit a predefined classification of retail or professional third party funds. The main facility offered by the SMART Fund is its open architecture, which allows practitioners to design innovative structures, almost like special purpose vehicles, without being encumbered by inflexible regulatory criteria predefined in legislation.

If investment funds are essentially private arrangements, they can benefit from a supervisory environment that is appropriate for the limited, specific nature of the project rather than a 'broad brush' regulatory approach. Other jurisdictions only differentiate between public and private funds by criteria such as number of investors or value of minimum investment, whereas applicants for a SMART Fund licence need only demonstrate to the regulator that the structure is an appropriate use of an investment fund.

Sovereign in London has substantial experience in assisting international clients, Family Offices and regulated organisations to structure arrangements which often bring about substantial asset and wealth protection, facilitate cross border investment, with fund establishment often being integral to a client's focus, ambitions and objectives.
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European Residency and Citizenship – Providing for your family and future generations

Ceri Pratley – Residency & Citizenship Consultant, Sovereign Group

Government approved European Residency and Citizenship Programmes have been available for many years. In recent years however the industry has evolved to an extent that such programmes now provide a solid foundation upon which families are able to build flexible wealth management strategies. It is potentially the most important investment you will make.

I still find however that the majority of individuals and advisers are not aware of the multitude of benefits to be gained when programmes are implemented and utilised correctly. European residency (RBI) and citizenship (CBI) by investment programmes provide a wide range of lifestyle, travel, business, investment and tax efficient benefits.

Why do individuals invest in RCBI programmes?

There is a common misconception that individuals invest in RCBI programmes with the sole intention of enabling their families to emigrate. Whilst this is a requirement of certain programmes – the UK and US, for example – in most instances this is not the case.

The majority of those who invest in government-authorised RCBI programmes do so in order to benefit from the flexibility and freedom they provide and to receive additional benefits that are not currently available to them. In other words, they are used to complement and enhance their existing arrangements.

Additional benefits derived from investing in a European RCBI programme include but are not limited to:

Benefit	European Residency	European Citizenship
Mobility & freedom of movement	Visa-free travel throughout the European Schengen Area	Visa-free or visa-upon-arrival to up to 182 countries
Second option or 'Plan B'	A secure alternative country where, in the event of political or economic uncertainty at home, a family is able to live, work and/or study.	A secure alternative option that enables members of your family to live and work anywhere in the EU.
Include the whole family	A single investment enables the main applicant, their spouse/partner and dependents (children and/or parents) to qualify for residency.	A single investment enables the main applicant, their spouse/partner and dependents (children and/or parents) to qualify for citizenship.
Emigration	Any qualifying member of your family can choose to live, work or study in your chosen country.	Full EU rights provide qualifying members of the family with the right to live, work and study in any EU member state.
Education & healthcare	Greater access to first class education opportunities and healthcare services	
Tax efficiency	If an applicant chooses not to become a tax resident, their global assets are generally not taxable in the RCBI country. If an applicant chooses to become tax resident, he/she can elect to be taxed under a special tax status and benefit from multiple tax incentives.	
Wealth management	Enhanced protection and diversification of assets with the facility to pass on your assets efficiently and according to your wishes.	
Corporate platform & expansion	Establishing the correct corporate structure within an EU member state provides operational access to all EU markets and additional new markets.	
Family legacy	Provide your parents, children, grandchildren and future generations with the same benefits and greater opportunities.	

Sovereign's extensive network of offices and professional service partners ensure that we are best placed to assist in determining the most suitable strategy for your needs. Our range of European RBI and CBI programmes are categorised as follows:

- Residency
- Citizenship
- Tax residency

Each of the three options can be implemented independently or combined to adapt to your personal requirements, as and when required. ‣

European Residency

European RBI programmes provide a route to temporary or permanent residency, the right to live in your chosen country, visa-free travel throughout the European Schengen zone and, provided the correct requirements are met, the option to apply for European citizenship in the future.

In order to qualify investors will need to meet the following requirements:

Qualification Requirements	Portugal	Cyprus	Malta
Minimum Non-Refundable Government Donation	N/A	N/A	€ 30,000
Minimum Investment Real Estate/Other	€ 350,000 (i)	€ 300,000	€ 320,000 (ii)
Alternative Property Lease Option - Per Annum	N/A	N/A	€ 12,000 (ii)
Minimum Investment - Government Bonds	N/A	N/A	€ 250,000
Minimum Bank Deposit	N/A	€30,000 (3 years)	N/A
Minimum Investment Timeframe	5 years	For life	5 years
Minimum Stay Requirements (average per annum)	7 days	Once every 2 years	N/A
Visa Free Travel Throughout the EU Schengen Zone	Yes	No (iii)	Yes
Able to take Employment	Yes	No	Yes
Is there a Language Test Requirement	No	No	No
Tax Applicable to Global Income if Non-Tax Resident	Nil	Nil	Nil

(i) €280,000 if a property situated within an area designated as low density.
(ii) Purchase €270k - Lease €10k for a property situated in Gozo or the south of Malta.
(iii) A Schengen visa can be applied for in Cyprus with no requirement to travel to your country of origin.

European Citizenship

European CBI programmes provide investors and their families with a second passport, which in turn affords them all the internal rights enjoyed by residents of the country, extensive visa-free travel throughout the world and the option to live, work and study anywhere within Europe.

In order to qualify investors will need to meet following requirements:

Qualification Requirements	Cyprus	Malta
Government Donation	€ 150,000	€ 650,000 (i)
Minimum Investment Real Estate	€ 2,000,000	€ 350,000
Alternative Property Lease Option- Per Annum	N/A	€ 16,000
Minimum Investment- Government Bonds	N/A	€ 150,000
Minimum Investment Timeframe	5 years (ii)	5 years
Average Processing Time	6 months	12-18 months
Is there a Language Test Requirement	No	No
Tax Applicable to Global Income if Non-Tax Resident	Nil	Nil
Visa Free Access Countries with Passport	173	182

(i) Increasing by €25,000 for each spouse and child up to age 18 and €50,000 for each child over 18 or parent over 55.
(ii) A main residence purchased for at least €500,000 must be maintained for life.

Local knowledge and support

The tables above provide a brief summary of the requirements for each programme. Sovereign has a local office in each of the countries in which we offer programmes. Each office has formulated agreements with a variety of local investment partners and, working together, we will assist you in identifying a suitable investment. Our local team will also work closely with you through each step of the process, ensuring that you successfully qualify, apply, process and ultimately receive your residency or citizenship through your preferred programme. Please contact us to discuss your requirements and obtain a detailed proposal containing the full benefits, requirements and costs associated with successfully submitting an application to any of the featured programmes.

European Tax Residency

Obtaining residency or citizenship of a second country does not automatically mean that an investor becomes a tax resident of that country, but this in itself can be highly beneficial. For those who wish to spend the majority of their time in, and/or legitimately establish themselves as tax residents of a tax-efficient European country, Sovereign is able to assist in the following countries:

- Portugal
- Cyprus
- Malta
- Gibraltar

Each programme provides its own unique range of tax-efficient benefits and is available to both European or non-European nationals. Please contact us to discuss your personal needs after which we will provide you with a recommendation detailing the benefits, requirements and costs associated with the programme most suitable for you.

Comprehensive Tax-Efficient Solutions

When combined and managed correctly, the following Sovereign products and services will enable you and your family to develop and implement a comprehensive, flexible and tax-efficient strategy:

- Trusts and foundations
- Estate and succession planning
- International retirement plans
- Wealth management
- Corporate structures and banking
- International life and medical insurances

Alternative Residency and Citizenship Programmes

Sovereign's UK and Mauritius offices also provide all-inclusive solutions for investors who wish to establish residency in the UK or Mauritius. Our consultants and partners are also highly experienced in establishing residency and citizenship for investors in many other countries; please feel free to contact us to discuss any programmes that are of interest.

If you have any questions, or you would like to discuss how your family could benefit from RBI or CBI programmes, please contact us for further information or to discuss your personal requirements. Our consultants are available to answer any questions that you have and will assist in determining which RBI or CBI programmes would be most beneficial in respect of your situation and needs.

Contact Ceri Pratley: rcbi@SovereignGroup.com

Brexit - the end of the beginning

By Rebecca Cleverly, Sovereign Corporate and Trustee Services UK

After three years of uncertainty, the UK finally left the European Union on 31 January 2020 with a withdrawal deal. But that is not be the end of the Brexit story.

The UK has now entered a period, known as the transition, until 31 December 2020, in which a new wave of UK-EU negotiations will take place to determine what the future relationship will eventually look like.

Although the UK has ceased to be a member of the EU, during the transition the trading relationship will remain the same and the UK will continue to follow the EU's rules, such as accepting rulings from the European Court of Justice.

As well as negotiating a UK-EU trade deal, the transition will also allow the UK to hold formal trade talks with other countries – such as the US and Australia. If completed and ready in time, these deals could also take effect at the end of the transition.

There are three potential Brexit outcomes in respect of the transition phase,:

- If a UK-EU trade deal is agreed by the end of next year, the UK could begin the new trading relationship immediately after the transition ends;
- If a trade deal is close but not finalised, the transition can be extended by 12 or 24 months to allow negotiations to continue (although UK Prime Minister Boris Johnson has ruled this out);
- If UK and EU negotiators fail to agree and implement a trade deal by 1 January 2021 and no transition extension is agreed, the UK will then trade with the EU on World Trade Organisation (WTO) terms.

Whatever the outcome, many more months of negotiation lie ahead and the end result will necessarily involve a wide range of new arrangements with the EU and other countries. UK businesses may need to consider restructuring their affairs to allow for them to operate in Europe and beyond.

At Sovereign, we have been seeing an elevated level of enquires from both sides – UK-based firms keen to retain access to coveted European markets and firms from all over the world that have existing EU operations based outside the UK, which risk losing access to the UK market of some 66 million people.

As a result we are seeing a greater demand for UK companies as well as for the establishment of subsidiaries or branches in one or more of the remaining 27 EU member states. Sovereign is located in several EU countries and has close associations in the remainder, so we can assist with setting up any new structure that is required.

Malta, Cyprus, Portugal and Ireland seem to be the most favoured locations, but the specific circumstances of individual businesses will dictate where best to establish to secure rights of access to the bloc's market after Brexit.

An increasing number of foreign firms are also considering setting up holding structures and Sovereign can advise on the various attractive and advantageous options available.

In reviewing their corporate structures, businesses should ask whether they will need to establish a new legal presence or business presence elsewhere in the EU whether by way of incorporation, branch or by a strategic merger or acquisition.

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Businesses need to understand the distinction between 'doing business with another country', remotely via internet sales for instance, and 'doing business in another country' through having a physical presence there.

In cases where businesses need to establish a presence in another country, they will then need to consider what form it will take. This typically means choosing between having a local branch of a non-resident (eg UK) company or a local subsidiary company.

This choice should not be made purely on the basis of tax considerations - commercial and practical issues are usually more important driving factors. Matters such as regulatory consents, where relevant, and contract implications will also need to be considered.

Every business is different and how you plan for Brexit will reflect this. Here are some of the main things we believe you should be considering:

- The likely impact of Brexit on your operations;
- The likely impact on the cost of trading in the EU/UK;
- The likely impact on your suppliers and other outsourced providers;
- Terms in existing contracts may no longer be relevant post-Brexit, or may raise legal or practical questions in future;
- Significant currency movements may impact foreign exchange exposure;
- Parts of UK intellectual property (IP) law may change when the UK leaves the EU;
- Potential new opportunities that your business should be leveraging.

Sovereign can help you establish or move forward your Brexit planning process, looking at the risks and the opportunities. We can help you navigate what, for many, will be a period of considerable uncertainty. ■

The finalists exhibition of The 2019 Sovereign Asian Art Prize.

The Sovereign Art Foundation – Making things better!

By Amy Cadman, Director, The Sovereign Art Foundation

The Sovereign Art Foundation (SAF) is a charitable organisation, founded by Sovereign chairman Howard Bilton in 2003 with a well-defined twin focus – to recognise the growing wealth of contemporary art talent in Asia and to bring the therapeutic benefits of expressive arts to disadvantaged children.

SAF organises the Sovereign Asian Art Prize, now recognised as the leading art award in Asia-Pacific. The unique format of the Prize allows it both to increase the international exposure of artists in the Asia-Pacific region, as well as raise funds by auctioning shortlisted artworks and sharing proceeds equally between the participating artists and SAF. SAF uses these proceeds to fund its charitable programmes and this model has so far raised over US$9 million for artists and charities worldwide.

The 2019 Sovereign Asian Art Prize

The 2019 Sovereign Asian Art Prize was the 15th edition and the Grand Prize of US$30,000 was awarded to Ahmed Javed from Pakistan for his work, Imran Qureshi Studio, which achieved the highest score in the history of the Prize.

Javed was awarded his trophy at SAF's annual Gala Dinner and Auction on 17 May 2019 at the Four Seasons Hotel Hong Kong. The artwork auction, led by Christie's Hong Kong, raised over HK$2 million for SAF's charitable programmes.

Munawar Ali Syed, also of Pakistan, clinched the popular vote and received an award of US$1,000 with his artwork My 3rd Story in English. Chinese artist Fu Xiaotong, the highest-scoring female artist in the competition, was awarded the newly launched Vogue Hong Kong Women's Art Prize and US$5,000 for her work 163,680 Pinpricks.

To reach the final shortlist of 30 artworks, over 70 independent art professionals from across Asia Pacific nominated 400 mid-career artists from 28 countries. A total of 19 countries were represented amongst the 30 finalists, making it the most geographically diverse shortlist in the history of the Prize.

The entries were shortlisted by an international panel of world-class art specialists, including writer, curator and museum director David Elliott; Arts Editor of the Financial Times Jan Dalley; Deputy Director and Chief Curator at Mori Art Museum, Tokyo, Mami Kataoka; Hong Kong architect, artist and educator William Lim; and internationally renowned artist Zhang Huan.

The 'Make It Better' programme

SAF has been running its charitable programme, Make It Better (MIB), for over six years in support of children from low-income backgrounds and with special educational needs (SEN) in Hong Kong. MIB works in local schools and community centres to offer children a programme of expressive arts workshops designed to build self-esteem, confidence, self-awareness and interpersonal skills. SAF also supports teachers, social workers and caregivers of these children by introducing them to the therapeutic benefits of art.

The workshops cater for children aged from six to 12 years-old and are led by creative arts therapists and experienced art facilitators, supported by social workers and volunteers. They cover a series of modules based on tangible learning experiences – 'Self Awareness', 'Community', 'Interpersonal Skills' and 'Exploring Nature' – that are designed to support each child's creative and emotional process. MIB further provides support and training to teachers, social workers and caregivers of children with SEN.

Over the past 12 months, MIB has seen huge growth, due in no small part to a generous HK$5 million grant from The Hong Kong Jockey Club Charities Trust that was used to launch a three-year pilot project 'The Hong Kong Jockey Club Expressive Arts Programme for Children'.

The grant enabled SAF to hire a team of dedicated project staff, including two in-house arts therapists, and to scale up the reach of the programme by increasing the number of weekly workshops to 37 and working in local schools as well as community centres. Throughout 2019, MIB also continued to run excursions and nature outings for the children, as well as community-based 'art fun days' and exhibitions that serve to educate the public and further promote the advantages of the programme.

In addition, the 'Train-the-Trainer' (TTT) programme, run in partnership with the University of Hong Kong (HKU), has allowed SAF to introduce the benefits of expressive arts to local teachers in the hope that they can use these skills to better support children with SEN.

A research project carried out by the expert staff at HKU's Centre on Behavioural Health has already provided promising preliminary results on the TTT programme, as well as the therapeutic benefits of the MIB workshops. The final research report will be published at the end of 2020 and will be presented at a symposium in Hong Kong.

2019 also saw the MIB team pilot a new arts-based intervention for parents of children with SEN, titled 'Caring for Carers – an Arts-based Empowerment Programme for Caregivers'. Focus groups explore the needs and challenges of these parents, while the workshops introduce them to the therapeutic benefits of art and nurture a culture of peer-to-peer support. Initial results have been very positive, as indicated by a participating mother whose eight-year-old child has SEN:

"I enjoy coming here to make art with other mothers. The art making process is so helpful to me. It [has] taught me skills and parenting experience, such as not judging myself and my daughter and letting go of the desire to control things. The art-making time also bonded us together as mothers."

It is hoped that SAF can continue to develop this programme into 2020 and beyond.

The Sovereign Art Foundation Students Prizes

2019 was another strong year for SAF's Students Prizes and students in all jurisdictions continue to impress with the high quality of their work. The competition remains faithful to its aims of celebrating the importance of art in the education system and rewarding and recognising particularly talented individuals, whilst still managing to raise funds in aid of local children's charities, as well as for SAF and its many programmes.

The year kicked off with the third edition of the Algarve Students Prize, which is open to participation by all pupils from years 10, 11 and 12 in the region. The 2019 finalists' showcase featured 21 artworks which were displayed in Faro, Lagos and Albufeira prior to the awards' ceremony and auction at the Lady in Red gallery in Lagoa. For the 2019 Prize, Sovereign Consultoria continued its support of the Rotary Clube de Silves, with donations used to support the School Art Projects workshops organised by artists David Trubshaw and Gudrun Bartels, who work with children of all ages in schools throughout the Algarve.

The Malta Students Prize invited all local secondary schools and colleges in Malta and Gozo to participate in the third edition of the competition by nominating and submitting artworks produced by its best students. Of these, 12 pieces were shortlisted and three winners chosen. The finalist's work was exhibited in Palazzo Ferreria in Valletta, The Carob Tree in St Julians, and at the Duke Shopping Mall in Gozo, before returning to Valletta for the awards ceremony at the Palazzo de La Salle, the home of the Malta Society of Arts.

The Mauritius Students Prize was established in 2016 and continues to go from strength-to-strength. In 2019, 34 secondary schools were invited to nominate their students and 108 artworks were submitted. The 20 selected finalists attended an awards ceremony at The Cube in Forbach, with the funds raised being donated to TIPA, a non-governmental and non-profit organisation whose mission is to empower vulnerable children through the promotion of interactive learning through art and culture.

The SAF Students Prize in Hong Kong was established in 2012 to inspire and reward young artists in the community. The finalists' exhibition of the 2019 edition took place during Fine Art Asia, a leading fine art fair held in the Hong Kong Convention and Exhibition Centre, which provided a high-profile platform for the 20 young finalists to showcase their work to the public over four days. The Judges' Prize Winners were announced on the last day of the fair, together with the Public Prize, which attracted over 1500 votes from the public, both visiting the exhibition and voting online.

The Isle of Man has seven local high schools and colleges all of which are invited to nominate the best artworks produced by their students. The 2019 edition of the competition featured 12 finalists whose work was exhibited for a month at the Youth Arts Centre in the capital Douglas. Proceeds from the prize were donated to Youth Arts Isle of Man, a registered charity that is passionate about promoting art and culture for the benefit of the people of the Isle of Man.

As well as inviting schools to nominate students, the Guernsey Students Prize allows students aged 15 to 18 to enter their own artwork independently. This enables them to explore creative ideas that might not fit with their school coursework. A brilliant 91 submissions were received this year, from which 20 artworks were selected for the exhibition tour that ran for over 10 weeks in six different venues. The event culminated in a very well attended awards ceremony at the Guernsey Market Place.

SAF has hit the ground running in 2020 with two competitions, Malta and Portugal, already launched and plans for both Bahrain and Singapore to run their prizes again this year. For the last six months great efforts have been made to align all the competitions, bringing them together in terms of prize rules and regulations, set up and execution. We hope that the improved consistency of the Prizes will allow winners from the 2020 competitions – both the Judges and Public Vote prize winners – to be entered into a SAF Global Students Prize in early 2021. This will provide a wonderful opportunity for the 2020 winners of each local competition to gain worldwide exposure. We can't wait to see what all the students have to offer.

SovereignArtFoundation.com

Vitoria Santos, Nicole Dionisío and Alycia Carvalho are winners of The Sovereign Art Foundation Algarve Students Prize 2019.

Tonia Yiu and Tam Shing Chi are the judges' winners of The Sovereign Art Foundation Hong Kong Students Prize 2019.

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