



THE CASE FOR AN INTERNATIONAL STOCK MARKET

[Jonathan Brathwaite](#)

The Government of Barbados, the Barbados Stock Exchange as well as the private sector are working jointly on the introduction of the Barbados International Stock Market (ISM) and mutual funds legislation, and are working to implement these initiatives as soon as possible and deliver economic growth for Barbados.

As proposed, the ISM allows international issuers (companies and institutions wishing to raise capital), to raise capital from investors who want to invest their capital, transparently via the ISM. International issuers will list their securities and funds on the Barbados ISM. International and local Investors can then invest in those listed securities and funds through the ISM.

International issuers which the ISM is likely to attract would be Fortune 500 companies, multinationals and private equity firms, and investors would likely be international pension funds, investment banks and investment houses. These investors can be confident in the listed securities or funds because due to them being listed, the security or fund is transparent as information about it is public and there has been compliance with ISM rules.

Why would institutions and other investors want to list in the Barbados jurisdiction? The Barbados prudential regulator is the best equipped in the region with proper prudential oversight. Regional jurisdictions with ISMs include Cayman and Bermuda, but Barbados would have a unique selling point for an ISM in that it has a treaty network, whereas Cayman and Bermuda do not.

A treaty network is fundamentally important for a specific class of mutual fund administrators, given international tax developments with respect to taxation of such funds. Ireland and Luxembourg are in the EU and subject to EU regulation; Barbados is not in the EU however it has treaties like them. Also Barbados is a common law jurisdiction, Luxembourg is a civil law jurisdiction. The Barbados ISM therefore would have a strong regulatory and tax proposition to attract mutual fund administrators and investors.

Entities in Barbados that have one million US dollars in assets or revenues have always had to be audited by law. This type of regulatory approach would be attractive to institutions that are seeking to raise and invest capital in a tax neutral, cost effective and well-regulated environment. The Barbados reputation and regulatory track record would attract institutions.

The establishment of an ISM in Barbados is expected to deliver a number of economic benefits to Barbados. *(continued on bottom of page 2)*



The view from Bridgetown, looking southwards to Needham Point.

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THE CONSEQUENCES OF THE WITHDRAWAL OF QUANTITATIVE EASING

[Avinash Persaud](#)

Last May, when Chairman Ben Bernanke suggested the US Federal Reserve would soon taper its USD \$80bn a month bond-buying program - a policy dubbed *Quantitative Easing (QE)* - financial markets panicked. Across the globe, bond yields rose, stock and commodity prices fell. Particularly hard hit were emerging market currencies - the Indian rupee, the Indonesian rupiah and Brazilian real led the slide. Since then, weaker than expected economic data, Government shutdown and the still large uncertainty around budget negotiations, has pushed back expectations of when the tapering will begin in the US and elsewhere. As a result and to varying degrees, global markets have recovered. US stock markets are close to their five year peaks.

Since the collapse of Lehman Brothers in September 2008, the Fed, Bank of England and the European Central Bank have had a target for short-term interest rates - just above zero- and a target for the quantity of long-term assets to be purchased at weekly auctions with the electronic creation of central bank cash. This program of asset purchases, carried out in rounds of increasing intensity and focus on long-term government bonds, has expanded the balance sheet of the Federal Reserve from approximately USD\$750bn in 2008 to USD\$3.5trn today. The Fed now owns roughly a quarter of US Government bonds - more than the Chinese. The Bank of England's balance sheet has grown by similar proportion.

Whatever the precise timing, an end to QE will arrive. Central Bank Governors have been at pains to emphasise that this will only occur after economic recovery is entrenched, but the events of May have made many nervous about the prospect. The world economy, some fear, has become addicted to the central bank injection of cash. The first round of QE, which was the least focused with central banks buying a wide range of assets, occurred when markets were in free-fall and there was near unlimited uncertainty. It put a needed floor under the financial system. There is, however, little evidence that subsequent rounds have had much impact over and above the existing effect of low short-term interest rates.

The private sector has been under no compulsion to invest the cash they have received, into the real economy - the stated goals of the policy. The best that can be said is QE signaled (very expensively) that low interest rates were here to stay for long. The effect of QE's withdrawal will be based not on the quantity of bonds no longer purchased, but on the effect of rising rate expectations. This will have impact: when more decent returns can be had for holding the safest assets, the yields on riskier instruments are forced to rise even further. This will make the external financing of government deficits in the Caribbean hard, until US rate rises are fully priced-in and the slow recovery in the region's tourism markets takes hold. This would argue for Caribbean governments to take renewed steps to mobilise domestic savings, to facilitate investment in the tourism industry, and perhaps to do a bit of both at the same time.

The Case for an International Stock Market in Barbados (continued from page 1)

Economic benefits which the establishment of an ISM in Barbados can be expected to deliver:

(1) Three to four thousand new jobs; **(2)** Thirty thousand new directorships paying between US\$5K-30K; **(3)** One hundred trust and banking licenses (Cayman has six hundred); **(4)** New international institutional clients who will substantially increase the bottom line profitability of the professional legal and accounting industries; **(5)** New government revenues from regulatory fees and income tax revenues - approximately an additional US\$100M per year. (The economic impact on tourism, real estate and Barbados foreign currency reserves has not yet been completely assessed.)

BARBADOS AND FATCA: NEXT STEPS

The US and Barbados governments recently agreed that the two countries will negotiate a Model IA Intergovernmental Agreement (IGA) under the Foreign Account Tax Compliance Act (FATCA). FATCA requires foreign financial institutions (FFIs) to report to the US Internal Revenue Service (IRS) information about financial accounts held by U.S. taxpayers, or by foreign corporate entities in which U.S. taxpayers hold a controlling interest.



[Elson Gaskin](#)

FATCA was enacted in 2010 by the United States (US) Congress to target non-payment of Federal Taxes by U.S. taxpayers who utilise foreign accounts for this purpose. The US Government has sought international sovereign partners to implement and operationalise FATCA. FATCA implementation is on the basis of s IGAs between the US and the partner jurisdictions. Countries refusing to comply with FATCA run the risk of causing their financial institutions to be subject to a 30% withholding tax on both income and capital from US sources.

What is a Model 1A agreement? Simply put, there are two types of Model I agreements: a reciprocal version and a non-reciprocal version. Under both types of Model I agreements, the competent tax authority of a jurisdiction collects information on US account holders from its Financial Institutions (FIs) and transmits the information to the IRS. Under the reciprocal version, the IRS would collect and provide financial account information on Barbadians in the US to the Inland Revenue Department of Barbados.

In addition to the Model 1 agreement, there is also a singular Model II agreement pursuant to which, the FIs of a particular country will transmit the aforementioned information to the IRS directly. Both the Model I and II agreements carry certain annexes. Annex I sets out what are called US “reportable accounts” as well as the due diligence procedures required to be utilized by FFIs in identifying US accounts. Annex II identifies entities and products that present a low risk of US tax evasion, and as a consequence will be excluded from the ambit of FATCA - and particularly the obligation to report.

FATCA is a seminal development in international taxation because it has created a platform for the move to a new paradigm, namely the multi-lateral automatic exchange of tax information. Many OECD countries have indicated a desire to develop FATCA-like processes of their own, while news has come that the UK and the Cayman islands have agreed to such an arrangement. Despite its undoubted importance to developed economies, FATCA may raise challenges for emerging markets in relation to administrative costs and burdens and the possibility of reduced financial services activity. In addition, final outcomes for FTACA are far from known, as issues relating to information security, confidentiality and true reciprocity remain open questions.



Fair and partly cloudy: a scenic South Coast view.

Editor's Note



[Laurie Blackman](#)

This quarterly newsletter has routinely featured articles from a cadre of professionals who are experienced and knowledgeable about the dynamics of the Barbados international business sector. We are also open to relevant submissions from new contributors. and representatives of stakeholder agencies. Please direct submissions, comments and other feedback to:

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CANADA MEETINGS FOR BARBADOS DELEGATION

In early November, a team from the Central Bank of Barbados led by Deputy Governor Haynes will be holding a series of meetings with Canadian regulators, Canadian banks with a presence in Barbados, and BIBA Canada. Haynes will be accompanied by Marlene Bayne, Tamara Hurley, Sadie Dixon and Anton Belgrave. During the week-long trip, the team is also expected to meet with the High Commissioner for Barbados, His Excellency Mr. Evelyn Greaves, and the Consul General, Mr. Haynesley Benn.



Clevison Haynes



IBW 2013 'WORTHY OF SUPPORT'

The Central Bank of Barbados was among the corporate sponsors offering support to BIBA's International Business Week (IBW) 2013 which had as its theme, "International Business Barbados: Embrace the Opportunities." In speaking at the IBW press launch at the Barbados Hilton, Minister of Industry, International Business, Commerce and Small Business Development, the Hon. Donville Inniss lauded the contribution of the sector to the economy. The number of Barbadians who have pursued higher qualifications and found work in the sector, the number of companies requiring ancillary services to support their operations here, and especially the contribution made by the sector in terms of taxes and registration fees are all illustrations of the Minister's sentiments.

The Central Bank had a presence in the Exhibition Hall during this year's conference, and also had a representative on the IBW Public Education Committee, Ms. Laurie Blackman. IBW is an important exercise, as during the week of activities, stakeholders from various segments and also the general public are sensitized to the current challenges being faced as well as the immense benefits which have redounded to Barbados as a whole through the business activity generated by companies and local professionals operating in the sector.

Next year's IBW is tentatively scheduled to take place in October, 2014.

ABOUT the IBFS Newsletter.....

It is a quarterly electronic publication, released exclusively on the Central Bank of Barbados' website, www.centralbank.org.bb. There is no subscription fee involved in accessing the publication. The primary target audience includes professionals who are experienced and knowledgeable about the dynamics of the Barbados international business sector, and are keen on monitoring the global issues which may impact it. Article ideas and submissions may be forwarded to Laurie Blackman, Editor.

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UPDATE: FINDINGS FROM FSAP REVIEW MEETINGS

The Central Bank of Barbados' Bank Supervision Department advises that the onsite visit for Mission 2 of the Financial Sector Assessment Programme commenced on September 18, 2013 and concluded on October 1, 2013. Unlike Mission 1 which focused on assessing regulatory compliance with international standards, Mission 2 sought to gain an understanding of systemic-wide issues and assess the resilience of the entire financial system to withstand internal and external factors.

The review was extensive, encompassing the review of questionnaires, meetings with the regulatory authorities, industry stakeholders and other key players in the economy. At the wrap-up meeting held on October 1, 2013, the Mission Chiefs presented the Final Assessments for Mission 1 and Preliminary Findings for Mission 2:

•**Mission 1 Final Assessment**

Both the banking and insurance sectors received commendable ratings: 28 of the 29 banking principles were rated Compliant /Largely Compliant; and 26 of the insurance principles were deemed to be Largely/Partly Observed.

•**Mission 2 Preliminary Assessment**

The authorities were heartened by the preliminary assessment which noted progress in enhancing financial stability by, inter alia, implementing risk-based supervision, issuing industry guidelines and strengthening the legal framework. The authorities were also commended for their ongoing efforts to address other gaps.

The regulatory authorities are currently reviewing the draft Aide-Memoire on the Mission 2 assessment and were expected to formally respond to the Mission Chiefs by October 25, 2013. The final report will be completed following the Article IV mission scheduled for the week of December 1, 2013, and it should be posted to the IMF website around February 2014.

The Central Bank and the Financial Services Commission (FSC), in collaboration with private financial institutions, are in the process of updating the regulatory framework. The personnel involved in this project are: (from the Central Bank of Barbados) Wilma Belgrave, Marlene Bayne and Governor DeLisle Worrell, and (from the Financial Services Commission) Warrick Ward. The IMF's Marco Pinon is Mission Chief, and Elena Loukoianova is Deputy Mission Chief, while from the World Bank, the Co-Mission Chief is Erik Feyen.



BARBADOS remains a wonderful place to live, work and do business.

Left: A leisurely stroll along the Boardwalk in Hastings.

Below: Fishing from the rocks at Batts Rock.





Invest Barbados: Showcasing Barbados' Business Advantages Globally and Locally

Invest Barbados planned several activities in the month of October, as the corporation continues its efforts to raise the profile of the international business sector and attract investment to Barbados.

Acting CEO of Invest Barbados, Emeline Taitt, will lead the Barbados delegation to the 39th annual RIMS Canada Conference, to be held at the Victoria Conference Centre in British Columbia from October 6-9. Billed as Canada's premiere risk management event, several Barbados based organisations, including the Financial Services Commission, Barbados International Business Association and representatives from select insurance, banking, law and accounting firms will join Invest Barbados as it promotes Barbados as a preferred international business jurisdiction.

Invest Barbados offers the electronic publication, "Barbados: International Finance and Business" via its website: <http://www.investbarbados.org>.

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Immediately following the RIMS Conference, Invest Barbados in association with ScotiaMcLeod, will host two International Business Seminars in Canada on Wednesday, October 9, at the Westin Edmonton and Thursday, October 10, at the Westin Calgary, both in Alberta. A third symposium will be held the following week in the USA on Wednesday, October 16, at the Grand Hyatt New York. These networking and information sessions will feature leading industry experts, who will enlighten potential investors on the advantages of doing business in Barbados. At each symposium, Minister of State in the Prime Minister's Office, Senator the Hon. Darcy Boyce will deliver the keynote address.

The month culminates on home turf with International Business Week, slated for October 20 – 26. The week of activities, which is designed to raise public awareness about the importance of the sector to the country's growth and economy, is coordinated by the [Barbados International Business Association](http://www.bibaa.org), the Ministry of Industry, International Business, Commerce and Small Business Development, Invest Barbados and other strategic partners.

One of the highlights, the International Business Conference, hosted under the theme 'Economic Realities: New Paths to Success', is scheduled for Thursday, October 24 and Friday, October 25 at the Hilton Barbados. A number of local and international speakers are expected to be in attendance, including Prime Minister, the Hon. Freundel Stuart, M.P., Q.C., who will deliver the feature address.

For further information on these events, visit www.investbarbados.org.