

## UPCOMING CONFERENCE: "IFCs IN A BORDERLESS DIGITAL ECONOMY"

**Barbados, a leading Caribbean IFC, will host a forum of global experts on international financial services on September 11, 2014 at the Hilton Hotel in Bridgetown, Barbados under the theme, "IFCs in a Borderless Digital Economy."**

In an increasingly borderless and interconnected digital environment, the conduct of global business is undergoing a paradigm shift and the global financial architecture is in the process of being remodelled. In this transformation process, International Financial Centres (IFCs) may contribute in a crucial way to increasing the efficiency of global financial transactions, to the benefit of all parties to those transactions.

Businesses across all sectors have changed the way they conduct business, to take advantage of developments of information and communication technology, to lower transaction costs and extend global their reach through the use of subsidiaries and permanent establishment structures that maximise assets and minimise risks. Given this dynamic, the overarching principle for the borderless and digital economy ought to be that regulatory measures will facilitate efficient market transactions.

In the aftermath of the recent financial crisis, there has been intensified activity by the IMF, the Financial Stability Board, the Financial Action Task Force, the Global Forum on Transparency and Exchange of Information for Tax Purposes, and other international coordinating bodies. These initiatives to strengthen international financial stability must incorporate the activities of small IFCs in ways that facilitate the constructive role of these centres in the international financial system. This in turn requires a full understanding of the actual and potential functioning of IFCs in the global system.

Presentations will highlight the actual and potential contributions of IFCs in increasing the efficiency of global markets to an audience of policy makers and regulators from the Caribbean region, offshore business strategists, potential investors as well as senior executives of multinational corporations across the globe. Specifically, the conference will provide attendees an opportunity to explore ways in which IFCs might most effectively function as lubricants for the world economy, and the international agreements, regulations and practices which can best facilitate the role of IFCs in this regard.

Expert speakers from around the globe have been confirmed, including Professor Walid Hejazi, Associate Professor of International Business at the Rotman School of Management; Michael Horgan, former Deputy Minister of Finance, Canada; Albert Essien, CEO of the Pan African Bank Ecobank Group; Andrew Sellgren, Principal, McKinsey & Company; and Professor Avinash Persaud, Chairman Intelligence Capital Limited, and Emeritus Professor, Gresham College.



The Constitution River Beautification Project in Bridgetown, officially unveiled by Barbados Tourism Investment (BTI) Inc. in March, 2014.

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One of the conference organisers, retired Canadian Senator Don Oliver speaks about the Sept. 11, 2014 conference and its expected outcomes.

### **Senator Don Oliver: "This conference is timely and significant!"**

**WHY A CONFERENCE ON IFCs?** The OECD Action Plan is underway and it is important that small IFCs have a real opportunity to input into their conclusions; as one of the speakers, I look forward to being part of this process.

**WHY HOLD IT IN BARBADOS?** Holding a global conference in Barbados brings the world to Barbados where policy makers and thought leaders can see first hand that Barbados is the embodiment of what is good about IFCs:- the epitome of accountability, transparency, good government and is a global multi-billion dollar conduit for trade.

**ANY OTHER THOUGHTS?** Base Erosion and Profit Shifting (BEPS) is a critical issue, in that the rules and regulations have often not kept up with technology. This conference would propose solutions to such issues as transfer pricing, that could influence OECD, G-20 and other groups.

## INTERNATIONAL FINANCIAL CENTRES IN THE GLOBAL CAPITAL NETWORK

**I**nternational Financial Centres (IFCs) have become vital to the international flow of capital. By lowering the tax burden, IFCs are able to reduce the required expected returns from investing. This has the effect of creating additional investment opportunities where, under normal circumstances, there would be no investment. IFCs also trade more intensely than their onshore counterparts as a result of greater flexibility, lower investment restrictions and the obvious tax benefits. The worth of the IFC in reducing market frictions is defined by its ability to transmit capital efficiently throughout the globe.

To measure this ability to encourage more cost-efficient capital movement, the international movement of capital is portrayed as a network. Here, 17 of the world's top IFCs are examined to pinpoint the efficiency of the IFC using the IMF's Coordinated Portfolio Investment Survey (CPIS), which dates from 2001-2011 and covers 240 countries. Two specific measures of importance to the network are employed that define the idea of capital diffusion efficiency. Counting betweenness tells us how efficient the country is at receiving and diffusing capital, while random walk centrality tells us how well integrated a country is within the entire capital network.



[Simon Naitram](#)

Countries such as Luxembourg, Singapore, and Bermuda are found to rank very highly among all 240 countries despite their small physical size. More impressively, all of the IFCs under examination rank within the top 35% for counting betweenness – clear evidence that IFCs are very efficient in ensuring capital reaches its final destination. In contrast, lower and more volatile rankings for random walk centrality suggest that not all of these entities are well integrated into the wider financial system.

Of great concern is the fact that the majority of these IFCs have fallen in the rankings from 2001-2011, suggesting that they have suffered reputational damage during the crisis. This tumble is not specific to either relatively higher or lower ranking IFCs, and only four countries had improved on their 2001 ranking by the end of 2011. Barbados' rankings for both measures improved from 2001 to 2007, but lost ground thereafter, leading to a 46<sup>th</sup> position in 2011 for both measures.

More generally, these findings suggest that IFCs are excellent distributors of capital, but maintain too narrow a focus. The British Virgin Islands and Monaco are extreme cases which rank significantly higher for efficiency of capital movement than for their reach in the market. While specialized IFCs may be profitable, broader targeting can increase the influence of IFC efficiency and foster further welfare improvements for global capital flows.

Simply put, a secrecy jurisdiction is designed to strangle the flow of capital, providing cover for hidden money. In stark contrast, countries ranking so highly for their effectiveness in diffusing capital throughout the globe cannot be considered secrecy jurisdictions. The evidence that IFCs are more efficient movers of capital provides a strong contra argument to those who believe that tax competition is harmful.

IFCs are then able to encourage the creation of additional investment as investors can demand a smaller required rate of return, particularly on investments into less traditional and capital deficient regions. This suggests that IFCs play a strategic role in the network of global capital and economic development, simply by reducing the frictions associated with international investment.

However, one must recognize that the unfortunate inferred notions of money laundering and illicit activity create an implicit risk of doing business within an IFC. Eliminating this risk to a level on par with onshore financial activity can complement the reduced tax burden. This is certainly the globally optimal choice for policy makers. By further decreasing the cost of capital, increased growth in international portfolio investment can be stimulated.

Full paper at <http://www.degruyter.com/view/j/qej.ahead-of-print/qej-2013-0059/qej-2013-0059.xml>

## HEJAZI STUDY SHOWS BARBADOS OFFSHORE STRUCTURES A STIMULUS FOR CANADIAN ECONOMY

**A recent study by Dr. Walid Hejazi, Associate Professor of International Business, Rotman School of Management, demonstrates significant benefits to Canada's economy that results from the investment of Canadian businesses through Barbados offshore structures.**

TORONTO, June 16, 2014 /CNW/

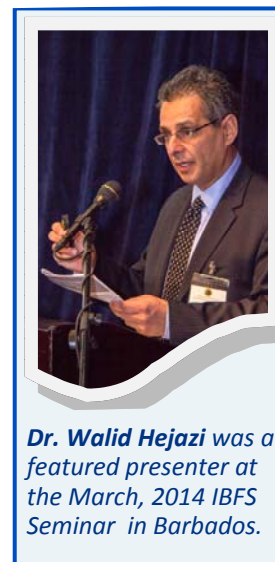
**B**arbados structures result in increased global competitiveness, innovation and exports from Canada, while reducing investment risk

"There is strong evidence showing that when Canadian companies use Barbados as a conduit into the global economy, these companies are more competitive and earn higher profits internationally. Additionally, the increase in Canadian business activity abroad has been shown to enhance exports from Canada", said Dr. Walid Hejazi, Professor, Rotman School of Management. "Given that Canada lags international trends in global trade, it is critical that a greater percentage of Canadian business executives learn how to use offshore financial jurisdictions like Barbados to develop foreign operations and target international markets".

Dr. Hejazi's work demonstrates that the increase in exports that follows an increase in outward investment is larger when the Canadian company uses Barbados as a conduit when compared to direct investment in a foreign market. The beneficial effects of using Barbados are stronger when Canadian investments flow into emerging, high growth international markets – markets that are otherwise considered to be higher risk.

"Barbados is the most prominent offshore financial centre for Canadian companies and takes that position of leadership seriously – working to continuously enhance its relationship with Canada and to refine its international business offerings", said Senator the Hon. Darcy Boyce, Minister in the Office of the Prime Minister. "Barbados believes that all governments need to embrace relationships, structures and legislation that facilitate the development of highly productive economies – ones that are fully integrated into our shared global economy."

When used by Canadian companies, Barbados' offshore structures provide many benefits to Canada including; the Canadian economy is more diversified and stable, Canadian companies are more profitable and productive, Canadian businesses access foreign markets more safely, employment in Canada increases, Canadian employees are paid higher salaries and Canada increases its net tax revenues.



*Dr. Walid Hejazi was a featured presenter at the March, 2014 IBFS Seminar in Barbados.*

### NEW ISSUE OF 5-YEAR BARBADOS 6% TREASURY NOTES (2014—2019)

A new Treasury Note opened on Monday May 26, 2014 for issue June 01, 2014, for which applications are invited. It will be issued at par with a fixed interest rate of 6% payable on May 31 and November 30 of each year. There is a minimum purchase of BDS \$1,000.

The interest due to Pensioners 60 years and over residing in Barbados will not be subject to withholding tax. Non-residents seeking tax exemption must satisfy the Commissioner of Inland Revenue of their status before exemption is granted. However, for all persons resident in the island, the interest from these Treasury Notes will be taxed separately from other income at a rate not exceeding 12½%. These Treasury Notes will be repayable at par on May 31, 2019.

The issue will remain opened until it has been fully subscribed. Prospectuses may be obtained from the [Central Bank of Barbados website](#), the Accountant General or any commercial bank. [Application forms](#) and other information can also be downloaded from the website.

## “TRANS-CULTURAL CONDUITS” :

### THE SCIENCE AND ART OF ACHIEVING INTERNATIONAL BUSINESS SUCCESS



Thomas Sears

**B**usinesses with international operations face the often unexpected challenges of working in different business environments and cultures. After the initial set-up and honeymoon phases, subsidiary leaders find themselves facing the task of seeking to meet the financial and business expectations of the international operations. In each case, success can be defined as keeping both Head Office and local stakeholders by thinking global and acting local. This can be a difficult balancing act.

Canada’s “Big 5” banks seem to have found the solution. They all have material international operations that offer banking services to customers outside of Canada. Scotiabank for example, is considered to have the most extensive international presence operating in over 60 countries and with over 50% of its workforce speaking Spanish as a first language. Following a different strategy, TD Bank now has more branches located in the United States than they have in Canada. Meeting the requirements of Head Office and effectively meeting the needs of local clients and staff is both a science and an art.

How is it a “science”? We start with Head Office – Management and the Board must identify and articulate what are their “Enterprise Wide Standards” (EWS). These are non-negotiables to which all offices and employees must adhere. Usually the company’s Code of Conduct is a non-negotiable – every employee must follow these stated rules. Also the company logo (or branding) is usually a non-negotiable. In a company like McDonalds, a product like the Big Mac is an Enterprise Wide Standard –don’t mess with the Big Mac! These EWS’s come in the form of systems and processes, and policies and procedures. Everything else is then technically negotiable and open for subsidiary management to evaluate for the benefit of local employees and customers. Compensation systems are usually locally based. Products can be created or tweaked to meet the unique needs of the local market. It is up to Subsidiary management to be successful in the local market - they have the responsibility to meet the needs of their customers and other local stakeholders.

Swiss researcher Martin Hilb coined the term “Glocal” to identify companies that balance GLObal Effectiveness and LoCAL Responsiveness.

Where is the “art”? Subsidiary management must ensure that EWS’s are understood and met at the local level. Additionally these international leaders also serve as cultural representatives of the company in the local market. The Dutch researcher Geert Hofstede in his analysis of successful international leaders referred to these managers as “Link Pins” – people who can actively represent and translate global requirements in the local market. This is an art. Additionally Link Pins must adapt policies, products and processes that are not EWS’s to be successful in the local market. Obtaining approvals from Head Office for these local changes requires leaders in Head Office who understand the local differences and trust the subsidiary leader. Hofstede calls these decision makers “Bi-Cultural Managers”. Both Link Pins and Bi-Cultural Managers serve as conduits between the two entities and cultures to generate Global Effectiveness, by maintaining Enterprise-wide Standards while also ensuring Local Responsiveness for success with local employees and local customers is met.

*(continues on page 5)*

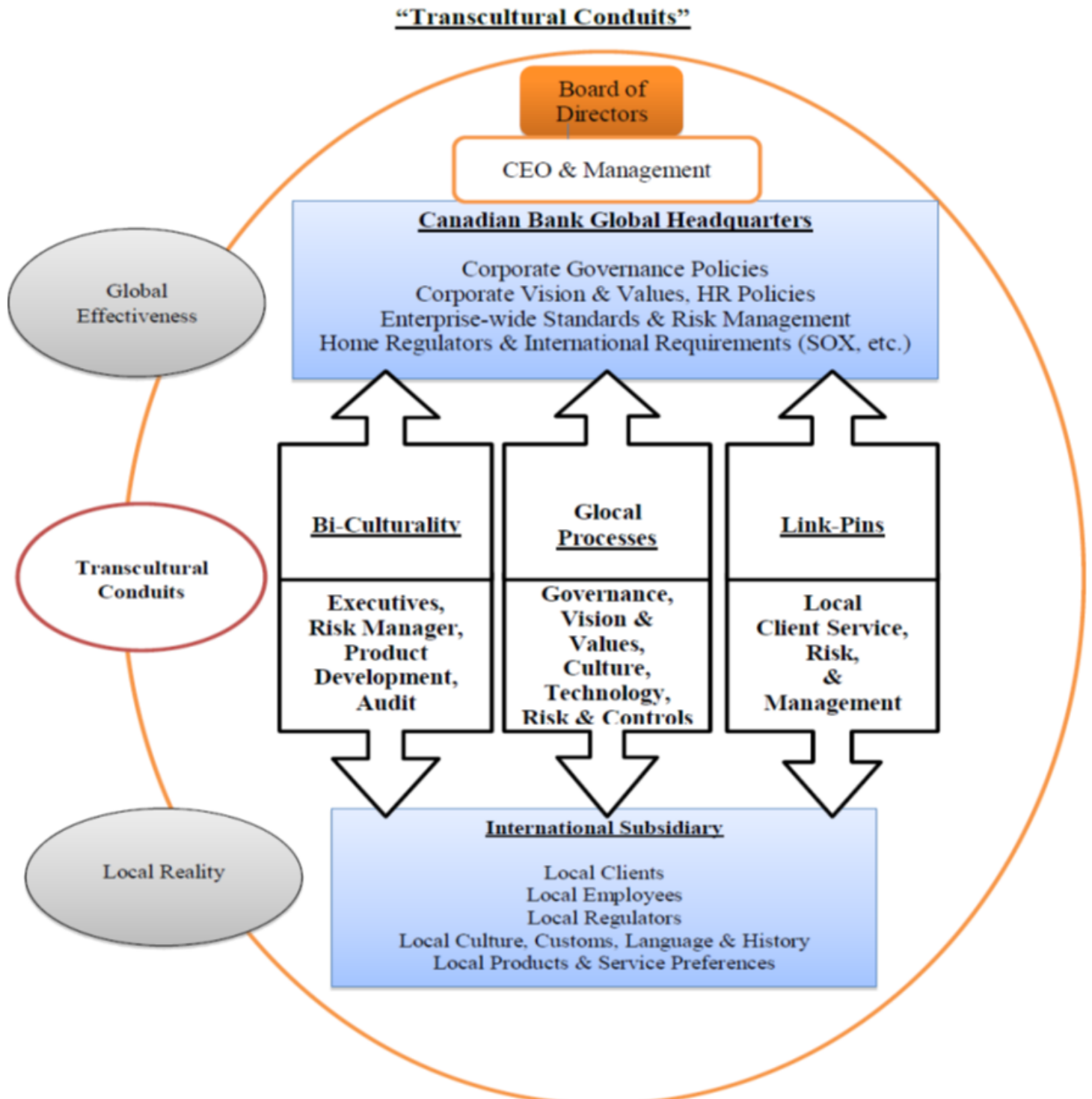
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Collectively these policies, processes and systems (the Science) and the Link Pins and Bi-Cultural Managers (the Art) are referred to as “Transcultural Conduits” that operate as follows:



(Source: Own design, based on Hilb & Hofstede)



**Elson Gaskin**, Bank Secretary of the Central Bank of Barbados, and Chairman of the Special FATCA Negotiating Team for Barbados.

## BARBADOS' FATCA NEGOTIATIONS WELL ON TARGET

Barbados has met the June 30, 2014 deadline for the negotiation and initialing of the Foreign Account Tax Compliance Act (FATCA) Inter-Governmental Agreement (IGA) with the government of the United States of America (US). FATCA was enacted in 2010 by the United States Congress to target non-payment of Federal Taxes by U.S. taxpayers who utilize foreign accounts for this purpose.

Barbados and the USA have settled the text of the relevant documents and Barbados' name now appears on the US Treasury Department's list of countries that have concluded an IGA in substance. This latest development provides relief for Barbadian financial institutions which after June 30, 2014 would have been subject to a 30% withholding tax on both US source income and capital.

With this phase of the FATCA negotiations completed, the country will turn its attention to completing all matters necessary to operationalize FATCA by September 2015. These said matters include (1) the making of FATCA regulations and (2) the negotiation and execution of a Competent Authority Agreement between the US Internal Revenue Service and the Barbados Revenue Authority.

### How Does FATCA Affect US Citizens in Barbados?

Under FATCA, foreign financial institutions (primarily banks, insurance companies and custodial institutions such as investment funds), must report information to the US Internal Revenue Service (IRS) about specified financial accounts held by U.S. taxpayers, or by foreign companies in which U.S. taxpayers hold a controlling interest.

But the question has been often asked as to how FATCA will affect Barbadians living and working in Barbados who also possess US citizenship. The simple answer is that the US taxes its citizens on their worldwide income. Therefore earnings in Barbados are still subject to US income tax. However, if tax is paid in Barbados on that same income, the taxpayer can apply to the US Government to have the amount of tax paid in Barbados credited against the payable US tax. This is called a foreign tax credit. The net effect of the foreign tax credit is that the tax payer will not be required to pay any sum in excess of the total amount of US tax payable.

In any event, FATCA mainly applies to individual bank accounts in excess of BDS\$100,000.00 and insurance products with a cash surrender value of over BDS\$500,000.00.

**RECENTLY PUBLISHED****(1) “MOVING MONEY: INTERNATIONAL FINANCIAL FLOWS, TAXES, MONEY LAUNDERING, & TRANSPARENCY” \***

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Allegations by political leaders and others that offshore financial centers enable multinational enterprise to avoid paying a “fair” amount of tax — and that they enable wealthy individuals to evade paying any tax, much of it on ill gotten gains — are once again garnering headlines and inspiring government action. One of the most prominent commentators on these topics, The Tax Justice Network, has recently claimed that thanks to the services of tax havens \$21-\$32 trillion of wealth of questionable origin remains hidden and untaxed, and that such abuse must be stopped through greater regulation. The paper argues that such claims rest on poor data and analysis, and on mistakes about how financial transactions, international taxation, and anti-money laundering rules actually work. It further argues that demands for more regulation without considering cost and effectiveness rely on a belief that international financial transactions are assumed illegitimate unless tightly controlled, rather than primarily reflecting the normal, legitimate workings of an efficient market.

*\* abstract, courtesy of [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2348144](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2348144)*

**(2) “REGULATORY EFFECTIVENESS IN ONSHORE & OFFSHORE FINANCIAL CENTRES” \***

Andrew P. Morriss, University of Alabama School of Law; PERC—Property and Environment Research Center; George Mason University—Mercatus Center

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Onshore jurisdictions, such as the United States, United Kingdom, France and Germany, are critical of offshore financial centers (OFCs), such as Bermuda, the Cayman Islands, and the Channel Islands. Arguments against OFCs include claims that their regulatory oversight is lax, allowing fraud and criminal activity. This article presents cross-jurisdictional data, showing that OFCs are not lax. Also provided are qualitative analyses of regulatory effectiveness, demonstrating that input-based measures of regulation are inappropriate metrics for comparing jurisdictions. Based on both quantitative input measures and a qualitative assessment, the onshore critique of OFCs as bastions of laxity is rejected.

*\* abstract, courtesy of [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2016310](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2016310)*



## FROM WASHBURN TO BARBADOS: STUDYING INTERNATIONAL TAXATION

A group of students from the [Washburn University School of Law](#) in Topeka, Kansas, visited Barbados recently as part of their annual study abroad programme. The ten students spent seven weeks at the [University of the West Indies](#), Cave Hill campus, to improve their knowledge of international tax law. In sessions held at the Central Bank, time was also spent with the Central Bank's legal team of Elson Gaskin and Sadie Dixon, along with Tamara Hurley of the Bank Supervision Department, and Ernst & Young representatives Maria Robinson, Country Leader and Tax Director, and LaTonya Edwards of the Tax Department. These sessions offered Barbadian insights, practices, and approaches to international tax law, the tax haven debate, and reviewed our involvement in negotiating a FATCA agreement.

Washburn University Professor Laurie McMillan who accompanied the group, commented on the experience: "We've discussed in-depth the ideas of source and residence when it comes to international taxation, and generally what that means; today we discussed in-depth tax treaty concepts that really put to use residency and source concepts. It is to introduce them to international comparative taxation law in a country that has a very close connection to the matters that we are going to discuss and have discussed in our class."

In addition to sessions in the Bank, half days from Monday to Thursday, were spent in class at UWI, leaving Friday to Sunday for them to explore the country. Apparently, many of them fell in love with this small island, leading Professor McMillan to remark that "It is a lovely country, lovely people, and it has a great banking and international tax system".

One of the students spoke warmly of the time spent in Barbados: "The Bajan people are absolutely so different from what I expected; so open, so willing to help you on the street – I got lost trying to go to the beach and someone walked me to it, and just really, really, really, wonderful people. I think that's really been the most shocking experience of it all, just how wonderful they are and I'm so glad to have come here and been given the experience to meet such great people."

The Washburn summer study abroad programme uses a comparative model and takes advantage of co-teaching by the University of the West Indies and Washburn law faculty members, and involves students from both the University of the West Indies and Washburn Law. The Washburn students may earn six hours of academic credit. Cave Hill students may enroll on a not-for-credit basis, and may be eligible for scholarship funding. Specific courses in the summer programme vary from year to year. The curriculum utilizes both traditional classroom methods and site visits to observe relevant legal institutions

### THE BARBADOS 2014 EXPERIENCE

① *Ernst & Young presenters Maria Robinson (left) and LaTonya Edwards address the group during a session at the Central Bank.*

② *Close concentration was evident throughout.*

③ *Elson Gaskin reviews the Barbados' experiences with FATCA negotiations.*

④ *When found, free time was spent exploring and enjoying the island.*



## Editor's Note



[Laurie Blackman](#)

This edition of the IBFS Newsletter speaks to some of the most topical issues currently engaging the IBFS Sector in small jurisdictions such as Barbados. Articles address appropriate responses to the challenges involved in responding to changing regulations, maintaining steady progress where FATCA compliance is concerned, and as the page one article on the upcoming September 11 IFCs conference in Barbados points out, "conducting business in an increasingly borderless and interconnected digital Environment." *[Online registration for the conference is expected to commence soon, when information will be posted to the websites of Invest Barbados and the Central Bank of Barbados.]*

Included also are thoughts on this important event from Senator Donald Oliver, who has served the people of Nova Scotia and Canada during the course of a career which spans over 40 years.

Highlights of a recent study by Rotman University's Walid Hejazi are shared which points out the significance of the Barbados-Canada relationship, from the Canadian perspective. Two research papers of importance to the sector are also presented: Chairman of BIBA-Canada, Dr. Tom Sears shares his perspective on what contributes to international business success, while Simon Naitram examines the impact of IFCs on the international flow of capital.

The editorial team has also chosen to point readers to two other research papers found to be both interesting and important, highlighted on page 7. And last but not least, this issue looks in on a small group of law students from Washburn University who spent time in Barbados expanding their knowledge of international tax law.

As we look forward to producing next quarter's issue, please be reminded that submissions from new contributors and/or representatives of stakeholder agencies are invited, along with comments and other feedback; direct them to : [laurie.blackman@centralbank.org.bb](mailto:laurie.blackman@centralbank.org.bb).

## ABOUT the IBFS Newsletter.....

It is a quarterly electronic publication, released exclusively on the Central Bank of Barbados' website, [www.centralbank.org.bb](http://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 and financial services 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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## CHURCH VILLAGE GREEN – THE CITY'S NEWEST OASIS



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**1– Church Village yet undeveloped, circa 2012. 2–The excavation phase. 3–Completing the 200-seat amphitheatre. 4–The finished product, ceremoniously unveiled in March 2014.**

