



FINANCE BERMUDA

A News Update For Today's International Investor

GOVERNMENT OF BERMUDA • MINISTRY OF FINANCE



Volume 4 Number 1

January/February 2011

Entering a New Decade: A Look Back at 2010 – A Year of Progress and Change

Bermuda came into 2010 with the wind at its back, after a period of intense activity that increased its reputation and standing in the international financial community. We had maintained an even keel and demonstrated that the Island had the management ability to overcome the economic stress that had troubled so many jurisdictions in the global economy. Moreover, the Island had embarked on a mission to expand its friendships and commercial relations with vital markets around the world. Looking back, here are some of the significant highlights that marked the progress of the past year:

Agreements with Asian Powers

Bermuda, which early in the year signed its 19th tax information exchange agreement with Japan, at the Japanese Embassy in London, brought 2010 to a close with the signing of a bi-lateral tax agreement with the People's Republic of China, at Camden, the Premier's official residence. In between these book-end events, Bermuda finalized a treaty with India, tightening its relationship with the sub-continent's rapidly growing economic power, and completed negotiations for a TIEA treaty with Korea.

Shared roles as Vice Chairs

At the ceremony in Camden, the Chinese Deputy Commissioner of the State Administration of Taxation, Wang Li, noted that the relationship between the two countries had drawn closer through their shared roles as Vice Chairs of the OECD Steering Group.

Opens to Islamic Business

After signing, in the Spring, a Double Taxation Agreement with the Kingdom of Bahrain, the Minister of Finance, and current Premier, Paula A. Cox, led a successful trade mission to Bahrain, as a further step towards enhancing business ties and investment opportunities between Bermuda and Bahrain, and expand the Island's outreach to other countries within the Gulf Cooperation Council. The mission demonstrated the Island's interest in promoting the development of Islamic finance in Bermuda and creating ways

to support its growth. Premier Paula Cox had earlier pointed out that many of the Island's service providers have experience in Islamic structured finance including Shariiah investment funds.

Hosting Global Forum

OECD's Global Forum Steering Committee and Peer Review Groups selected Bermuda as the host nation for the 2011 Organization for Economic Cooperation and Development Global Forum on Transparency and Exchange of Information for Tax Purposes. The meetings in Hamilton will bring together 200 delegates representing more than 90 jurisdictions and international organizations. The selection was further recognition of Bermuda as a leader amongst non-OECD countries in the areas of transparency and cooperation. Bermuda is also well known a leading international financial center, evidence of the right balance of international cooperation and providing an attractive platform for global business operations."

"All The Elements"

Bermuda was one of only two countries recognized as having "all the elements in place" to meet the OECD's international tax transparency standards. The OECD Global Forum's Peer Review Group, issued its finding that only Bermuda and India, out of the first eight nations to undergo the exhaustive six-month review process, had all the ele-

ments in place in its legal and regulatory infrastructure, for the proper and transparent exchange of tax information. "The best and perhaps only way to finally put to rest the erroneous title of "tax haven" was to open up, for intense scrutiny, all aspects of our jurisdiction, demonstrating once and for all, that we comply with all aspects of the internationally agreed standard for transparency," Premier Paula A. Cox said.

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Bermuda and Czech Republic Negotiate Tax Agreement



Czech Republic and Bermuda treaty negotiating teams met in Bermuda in early February to complete drafting a bilateral agreement on exchange of information on tax matters. The agreement is to be approved by the Ministers of Finance of the two countries before signing later this year. Taking part in the negotiations were l. to r. Dennis Simons, Research Officer, Treaty Unit, Ministry of Finance. Michal Rohacek, Head of Direct Taxes International Cooperation Unit, Ministry of Finance, Czech Republic. Laura Hershey, Treaty Advisor, Treaty Unit, Ministry of Finance. Wayne Brown, Assistant Financial Secretary, Treaty Unit, Ministry of Finance. Radim Blaha, Director of Taxes Administration Department, Ministry of Finance, Czech Republic. Lucie Vltavska, Strategic Management of Taxes Administration Unit, Ministry of Finance, Czech Republic. Leighton Rochester, Crown Counsel, Attorney General's Chambers

Change in Mexican Tax Laws Benefit Bermuda's Captive Insurance Entities

A recent modification to Mexico's tax laws has lowered the withholding tax rate to Bermuda entities, especially to Bermuda-based captive insurance companies.

"This is wonderful news and could not have come at a better time," Bermuda's Premier and Minister of Finance, the Hon. Paula A. Cox JP, MP, said, when informed that the Ministry of Finance and Public Credit officials in Mexico City had confirmed the modification to the Miscellaneous Tax Regulations. As a result of the change, a 40 percent withholding tax will not apply to a resident of a country

having a "broad" Agreement for Exchange of Information on tax matters with Mexico.

Bermuda signed a TIEA with Mexico in October 2009, which was the catalyst for the tax modification. Other jurisdictions that have established Tax Information Exchange Agreements with Mexico will receive the same benefit.

Bermuda is the leading captive insurance center and one of the preferred jurisdictions of choice for captives.

"We hope that the news will spur further growth by encouraging Mexican nationals to establish captive insurance companies in Bermuda," Premier Cox said.



Bermuda Ranked Safest for Overseas Investors

The Alliant Political and Economic Risk Ratings placed Bermuda at the top of its index, stating that the Island is the safest and most stable bet in the world for overseas investors.

Based in Chicago and New York City, Alliant Emerging Markets is a leading provider of credit and political risk analysis and insurance solutions. The Risk Ratings series placed Bermuda at the top of its index of 176 countries.

Alliant looks at eight political and economic risks in its ratings, including trade credit, currency, legal and regulatory risk, sovereign defaults, civil unrest, war and terrorism, creating a ranking with a top index of 100. Bermuda was the highest ranked country with an index rating of 90.



Doha's Bermuda Bank Issues \$500M Bonds

The Bermuda-based subsidiary of Doha Bank of Qatar will issue \$500 million of senior debt bonds in first quarter of 2011. The Bermuda-based Special Purpose Vehicle (SPV) which will issue the bonds, has been incorporated to support the bank's market interventions to raise capital. The bonds and other market instruments will be guaranteed by Doha Bank, the third largest bank in Qatar.



A Look Back at 2010

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Upsurge in Cat Bonds

A significant increase in Insurance Linked Securities (ILS) or cat bonds, was reported by the Bermuda Stock Exchange (BSX) during the year. Catastrophe bonds were proving to be an important source for the transfer of risk capacity. By year's end, Insurance linked Securities on the BSX had a total market capitalization of more than \$1.8 billion. The new issuers are attracted to Bermuda for the same reasons that reinsurance and insurance companies have been attracted to the Island – effective regulation and a critical mass of experienced and knowledgeable participants in the industry, said Greg Wojciechowski, CEO of BSX. "We see an increased understanding and appreciation in the industry, of the Island's commitment to the future growth of the market," he said. Bermuda is well-placed to support further growth, following legislative changes enacted last year.

Domicile of Choice For Shariah Funds

With a history as a domicile of choice for global private equity funds, Bermuda was being seen by global investors, in the past year, as an advantageous financial centre for the development and administration of Shariah-compliant funds. The Island government welcomes Islamic finance, and offers advantages in location – situated within easy access to New York and London – plus a highly regarded regulatory environment and infrastructure, as well as the experience of a strong alternative fund industry. Shariah-compliant funds are similar in their set up to conventional funds and private equity funds are typically structured as an exempted limited partnership. Bermuda's limited partnership structure can accommodate the main principles governing Shariah-compliant funds.

G geared for EU's New Solvency II Regulations

The Bermuda Monetary Authority and the government ministries have taken major strides to gain recognition for its enhanced regulatory framework as meeting the anticipated requirements of the new European Solvency II regulations. In June, Finance Minister Paula Cox met with regulatory and political officials in Brussels to discuss issues of equivalence. "Working closely with the Bermuda Monetary Authority, and business associations in Bermuda, the government has enhanced its outreach in Europe to address new standards in the areas of insurance, funds, and fund management as well as audit oversight," the Minister said. The BMA, at about the same time, initiated a pilot of its internal capital model review process that involved a number of the Island's largest insurers, demonstrating significant progress with enhancements in insurance regulations, in line with international best practice, according to BMA chief executive, Jeremy Cox. Bermuda will be among the first group of countries that will be assessed in 2011 for equivalence with the new European regulations for insurance companies. The new EU risk-based capital framework goes into effect on January 1, 2013.



Fitch Affirms Bermuda's AA+ Rating

The ability of Bermuda "to maintain its track record of economic stability and large current account surpluses," while the financial system weathered the financial crises without any fiscal cost to the government, was among the reasons cited by Fitch Ratings, in affirming the Island's AA+ credit rating.

Fitch said Bermuda's sovereign ratings were supported by its strong institutions, an extremely high per capita income, sustained sizeable current account surpluses and a low public debt burden, compared with peers.

Premier and Finance Minister Paula Cox welcomed the continued AA+ rating, "especially in these challenging economic conditions when many countries rating are being downgraded. Despite recent increases in debt levels, Bermuda's debt ratios are more than 40% below the AA category median."

"Bermuda's sophisticated legal system, strong regulatory framework, favorable tax regime and the local presence of highly skilled human capital underpin the Island's solid reputation as a domicile of choice for re/insurance and financial services companies, a factor that will continue to support the local economy," said Theresa Paiz Fredel, senior director of Fitch's sovereign group.

AA+ is one notch below Fitch's top AAA rating for the important foreign currency issuer default rating. It means Bermuda will avoid higher borrowing costs that would come with a downgraded rating.



New Regulations for Investment Funds

New provisions for the regulation of investment funds in Bermuda have been introduced this year, with the Investment Funds Amendment Act 2010, receiving the assent of the Governor General on Dec. 22nd.

The changes implemented under the Amendment Act are designed to strike a balance between providing the appropriate degree of protection for investors in Bermuda funds, while not imposing an undue regulatory burden on the industry, according to the Conyers Dill and Pearman law firm.

The Act, the law firm observed, introduces a number of changes with a view to aligning the regulatory framework for funds and fund administrators more closely with the requirements that exist in other regulatory legislation in Bermuda, while ensuring that the overall frame-

work remains risk-based and recognizes the unique nature of the funds industry, in Bermuda.

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Fund administrators are now required to notify the Bermuda Monetary Authority in advance

when there is a prospective change of control. The amendments mirror the provisions that exist in Bermuda for other licensed entities such as banks and investment businesses.

The Amendment Act was introduced following consultation with Business Bermuda's IFA Review Sub-Committee and its Fund Administrators Committee, and after comments from Bermuda's investment fund and fund administrators.



Bermuda Shorts

Looking Better

Insurance industry executives expect economic improvement in 2011, with the worst of the financial crises behind them, according to a survey by the Insurance Industry Institute. Ninety-four percent of the property/casualty industry leaders expect that profitability will improve, and 86 percent expect an increase in consolidation among insurers and reinsurers.

Time Out

Oakley Capital Investments Ltd., a Bermuda-based private-equity firm, acquired 50 percent of Time Out, the international magazine publisher. Time Out now has 36 versions of its weekly listing and entertainment guide appearing in 24 countries. In addition, it publishes 22 travel magazines and guides to 50 cities.

Safer Landings

Bermuda is the first country to require a safety management system (SMS) for foreign operators of business aircraft landing on the Island. The requirement, which went into effect in late November, covers aircraft with an mtow of more than 12,500 pounds. Operators who are not in compliance will be refused entry to Bermuda.

Keeping Haiti Connected

Telecommunications group, Digicel, was the winner of the "Best Operator in a Developing Market" award at the World Communications Awards ceremony, held late last year. The Bermuda-headquartered mobile phone provider was given the award for its work in Haiti, both before and after the 2010 earthquake, bringing mobile services to the island, and its efforts in aiding Haiti's recovery.

Asset Value Rising

The net asset value of investment funds in Bermuda grew by 1.3 percent, or \$2.37 billion to \$183.61 billion during the third quarter of 2010. According to the Bermuda Monetary Authority the value of funds continued to climb for the third straight quarter.

Extending Tax Exemption

The Government of Bermuda is planning to extend to 2035 the period of time for which the Ministry of Finance may grant an assurance to international businesses that are identified as exempted undertakings, that they will be exempt from certain tax liabilities in the Island.

Retaining it's Role as Global Market Leader

Bermuda appears positioned to retain its competitive edge as the world's leading off-shore catastrophe reinsurance domicile, according to David Brown, chairman of the Bermuda Stock Exchange and CEO of Flagstone Reinsurance Holdings, Ltd.

In a recent interview, Mr. Brown pointed to the Island's business-friendly infrastructure and its world-class regulatory system.

"Bermuda made the transition to a leading reinsurance market following the terror attacks of 9/11 in 2001, a status reinforced after Hurricane Katrina," he said..

"Since Katrina, we have seen quite a transformation in Bermuda itself," Brown said.

After 9/11, and in the period after Katrina, the critical mass of underwriters in Bermuda reached a point that air-

craft landing are full of brokers and clients placing programmes.

Bermuda is now a market where global re/insurers come to place business – mainly in the reinsurance field.

Mr. Brown remains bullish about Bermuda's long term prospects, despite some views pointing to increasing re/insurance competition from Europe.

For start up companies, Bermuda has a great advantage, he said. The system is geared to rapid formation. In addition, the regulators are very experienced in reinsurance business, very focused on it and they understand the business, completely. So do the service providers. Trying to do the same with a startup in Switzerland, for example, would take longer and be more difficult.



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BSX Listings at Record Level

The total market capitalization of the Bermuda Stock Exchange, at the end of 2010, was over \$319 billion, of which approximately \$1.4 billion represented the domestic market.

In its year end review, the BSX reported that international listing business, particularly the listing of Insurance Linked Securities, continued to gain momentum and generate positive attention from the global capital markets.

At year end, a record number of 807 securities were listed on the BSX, including 19 Insurance Linked Securities with an approximated market capitalization of \$1.83 billion.

BSX president and CEO Greg Wojciechowski noted Bermuda's "rising profile in the global financial markets for the creation, listing and capital market support services of insurance linked securities, such as Catastrophe Bonds. The BSX" he said. "will work closely with the insurance industry to provide additional levels of support for these and other instruments, as Bermuda solidifies itself as the logical location for the convergence of the capital and insurance markets."



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Ministry of Finance
Government of Bermuda**

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