

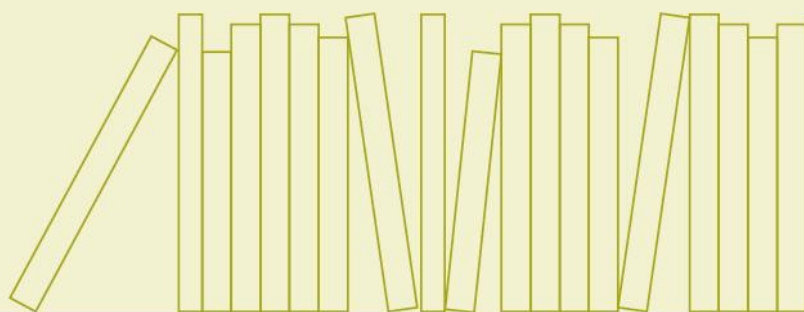
Economic Commission for Latin America and the Caribbean

ECLAC SUBREGIONAL HEADQUARTERS FOR THE CARIBBEAN



Report of the expert group meeting: an assessment of the challenges to Caribbean offshore financial centres

Saint Kitts and Nevis, and Antigua and Barbuda



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Economic Commission for Latin America and the Caribbean
Subregional Headquarters for the Caribbean

Expert group meeting: an assessment of the challenges
to Caribbean offshore financial centres
Saint Kitts and Nevis, and Antigua and Barbuda
9 November 2017
Port of Spain, Trinidad and Tobago

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**REPORT OF THE EXPERT GROUP MEETING:
AN ASSESSMENT OF THE CHALLENGES TO CARIBBEAN OFFSHORE
FINANCIAL CENTRES**

SAINT KITTS AND NEVIS, AND ANTIGUA AND BARBUDA

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This document was prepared by Nyasha Skerrette, Economic Affairs Assistant, under the supervision of Sheldon McLean, Coordinator, Economic Development Unit, ECLAC subregional headquarters for the Caribbean.

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A. SUMMARY OF RECOMMENDATIONS

1. The established link between regulatory prosecutions and compliance is such that increased regulatory enforcement positively impacts compliance and in turn increases transparency. By addressing challenges with respect to transparency, countries can mitigate reputational risk that has plagued the offshore financial sector.
2. Given the challenges faced by the members of the Organization of Eastern Caribbean States (OECS) with data collection and management, it is recommended that the subregion establishes a subregional statistical bureau to improve the availability of data. This regional office would be separate from the Eastern Caribbean Central Bank (ECCB) which has a narrow focus on the statistics of the Eastern Caribbean Currency Union (ECCU). Such an institution would facilitate deeper statistical analysis, econometric modeling and critical forecasting.
3. There is urgent need for the region to function as a coordinated unit to address regional issues given the myriad issues linked to small size. This approach can also serve to minimize the ever increasing cost of compliance and may even increase the opportunities for small states to be involved in the multilateral process so that challenges of small island developing countries can more effectively be heard on the international front.
4. There currently appears to be a mismatch between the expectations of the private sector and the policy positions of the regulators. Regulators have indicated that a successful partnership exists with the private sector. However, the private sector has expressed the view that there has been little or no effort to solicit its involvement in consultations on the regulatory process and in addressing emerging challenges in the market. Therefore, increased effort should be placed on strengthening public-private sector partnership as it relates to legislation and policy.

B. ATTENDANCE AND ORGANIZATION OF WORK

1. Place and date of the expert group meeting

5. The United Nations Economic Commission for Latin America and the Caribbean subregional headquarters for the Caribbean convened an expert group meeting to discuss the findings of the study “An assessment of the challenges to Caribbean offshore financial centres” on 9 November 2017 in Port of Spain, Trinidad and Tobago. The meeting was primarily conducted via WebEx teleconference.

2. Attendance

6. Representatives from the following institutions participated in the meeting: Nevis Financial Service Regulatory Commission (Nevis FSRC), and Antigua and Barbuda Financial Service Regulatory Commission (Antigua and Barbuda FSRC).
7. This meeting was chaired by the Coordinator of the Economic Development Unit (EDU) of ECLAC subregional headquarters for the Caribbean. The study findings were presented by the ECLAC consultant.

3. Agenda

- Welcome remarks and introduction
Sheldon Mc Lean, ECLAC subregional headquarters for the Caribbean
- Overview and presentation of the study
Ava Jordan, Consultant, ECLAC subregional headquarters for the Caribbean
- Plenary discussion on presentation and study

Sheldon Mc Lean, Coordinator, Economic Development Unit, ECLAC subregional headquarters for the Caribbean
- Closure of the meeting

Sheldon Mc Lean, ECLAC subregional headquarters for the Caribbean

C. SUMMARY OF PROCEEDINGS

1. Opening of the meeting

8. The Coordinator of the EDU welcomed and thanked all meeting participants. He noted that the study was commissioned by The Honorable Mark Brantley, Minister of Foreign Affairs, Saint Kitts and Nevis and Deputy Premier of Nevis, to explore the functioning, challenges and importance of the offshore financial sector for Caribbean economies within the context of their attempts to diversify and build resilience against exogenous shocks.

9. The EDU coordinator further noted that the study presented an overview of the OFCs sector in the Caribbean, including its emergence, economic contribution and a discussion on legislation governing the sector.

10. Following these statements, the meeting agenda was outlined and participants were encouraged to contribute during the plenary discussions with the aim of improving the analysis and strengthening the overall document. The study presenter was then introduced.

2. Overview and presentation of the study

11. The ECLAC consultant provided a summary of the draft study on “An assessment of the challenges to Caribbean offshore financial centres”, which sought to assess existing and potential challenges to the offshore financial sector in the Caribbean with a view to developing policy proposals and regional strategies for addressing these challenges.

12. Data availability and non-response to data requests were two of the main limitations to conducting a comprehensive analysis. These challenges meant that a point in time analysis was conducted instead of the anticipated trend analysis. International publications sourced as part of the study research also noted data availability as a limitation. Despite this challenge, utilizing the available information, the consultant was able to recommend a number of short, medium, and long-term solutions for the offshore financial sector.

13. The offshore financial sector is a major economic contributor to both the Nevis, and Antigua and Barbuda economies. In Nevis, it is the second economic contributor behind tourism while offshore gaming has been a huge source of employment for Antigua and Barbuda. The offshore sector also impacts hotel stays and room availability on both islands. It has also made regional financial services more sophisticated and has led to a more developed capital market system which boost their image in the international financial market.

14. The study identified three primary reasons for the continued challenges in the offshore financial sector. They include reputational risk, lack of transparency, and low profitability for international correspondent banks. For example, the International Monetary Fund (IMF) highlighted the lack of transparency issues around the citizen by investment programme as applicant's names are not published and there is little opportunity for third party vetting. Representatives of these programmes have countered this argument indicating that individuals are significantly vetted. However, the lack of transparency remains an issue as it leads to reputational risks for the country and by extension, the offshore financial sector.

15. With respect to the low profitability challenge, although the offshore sector's annual contribution to gross domestic product is substantial for Nevis, there is very little profitability for international banks, which provide correspondent banking services, with such a small share relative to the global market. Therefore, in an environment of low profitability coupled with reputational issues, international banks have demonstrated an increasing propensity to respond by ceasing correspondent banking relationships with regional banks with small transaction volumes.

16. Emerging standards and requirements have also played a significant role in the shifting global financial landscape. A brief overview of some of the major rules and requirements that have impacted the offshore financial sector (OFS) in each of these countries were outlined. Such rules, requirements and market phenomena include the Foreign Account Tax Compliance Act (FATCA), Common Reporting Standards (CRS), Public Registry of Beneficial Owner (PRBO), Base Erosion and Profit Shifting (BEPS) and Loss of Corresponding Banking relationships (CBRs).

17. Among the emerging standards and requirements affecting the OFS, the loss of CBRs has had the most significant impact on the Caribbean. Although other rules and requirements are burdensome, loss of CBRs impacts the core of business. This is further exacerbated by the uncertainty surrounding why Caribbean economies are being de-risked as correspondent banks fail to provide reasons for ending these banking relationships.

18. The impact of the loss of correspondent banking relationships have extended to increases in cost of remittances (up by 200 per cent) and wires transfers (up by 300 per cent, limited access to financing for low income groups (an issue that undermines the G-20 initiative of financial inclusion), and has led to the creation of a black market for USD. The socioeconomic impact has been increased compliance cost (up 10-15 per cent), increase in cost of doing business leading to lower profit margins, bank closures, uncertainty for businesses, overlapping impact to linked sectors and challenges with the management of the financial inclusion goals.

19. The ECLAC consultant outlined some broad recommendations to address the challenges within the offshore financial sector. Noting the established link between regulatory prosecutions and compliance and the increased transparency that results, it was determined that more emphasis should be placed on prosecuting regulatory infractions. Moreover, the establishment of a regional statistical bureau would strengthen analyses performed both at the regional and international levels limiting the potential for discrepancies. Consideration should also be given to regional integration

given issues around size in the offshore sector. Finally, there should be more effort placed on strengthening public-private sector partnership as it relates to legislation and policy.

20. Beyond the study recommendations, short, medium, and long term initiatives were highlighted to address the challenges in the offshore sector. Among the short term initiatives identified was the need to address issues of transparency surrounding the citizen by investment programme given its important contribution to the fiscal stability and economic development of its host countries. It was also suggested that Member States seek a meeting with the president of the United States of America; an approach that has proven to be rewarding for countries such as Mexico and Columbia with issues of reputational risk. Finally, it may be beneficial to the region for ECLAC to partner with the Caribbean Development Bank's programme on promoting financial transparency in the Caribbean.

21. Recommended medium term initiatives included pursuing partnerships with international institutions for the provision of CBRs, establishing a regional statistical bureau and the Eastern Caribbean Central Bank (ECCB) working with the Financial Services Regulatory Commission to improve, support and build capacity in prudential oversight.

22. In the long term, it was recommended that each country utilize annual meetings to ensure issues are on the international agenda, seek membership into emerging initiatives such as BEPS as a regional group, consider diversification into the agriculture sector since food security is a major goal for countries, and take a regional coordinated approach over an individual approach to addressing these issues of size.

23. The Coordinator of the EDU commended the consultant for the comprehensive analysis and opened the floor for discussion of the study report and its findings.

3. Plenary discussion on presentation and the study

24. The representative from the FSRC in Antigua and Barbuda contributed extensive comments aimed at strengthening the accuracy of the report. General comments were discussed and it was agreed that further follow-up meetings and correspondence would be conducted to reconcile any data discrepancies.

25. It was suggested that consideration be given to how reforms to the regulatory landscape contributed to dwindling OFCs licenses in addition to the other impacts outlined in the study report such as the 2008 global financial crisis; and the slow rebound of the global economy in the area of finance and financial management. Moreover, questions arose regarding the relevance of the noted correlation between the offshore sector and business stays, hotel occupancy, and transportation to the Antigua and Barbuda situation. It was agreed that clarification would be provided in this regard.

26. Concerns were also raised with respect to the reason that the OFCs reviewed for the study did not significantly contribute to employment creation in the host countries. An alternative explanation provided was that some licensees established their back offices in other jurisdictions to take advantage of language similarities to the core client base along with labour cost concerns. It was agreed that further consideration would be given to this line of reasoning.

27. In terms of the impacts of de-risking, clarification was requested on the four trust companies de-risked by 2016 outlined in the study reports. The representative of the Antigua and Barbuda FSRC was only aware of offshore banks de-risked up to 2016 and into 2017 since the phenomenon gained momentum in the region. Moreover, on table 4, on page 22 of the study report, it was noted

that Antigua and Barbuda was not included as part of the countries that would have been impacted by the phenomenon of de-risking. It was agreed that these updates would be included in the final report.

28. An update on the status of the Foreign Account Tax Compliance Act (FATCA) implementation in Antigua and Barbuda was provided. In particular, it was noted that Antigua and Barbuda had moved beyond simply working on its implementation, and instead was described as having a state of readiness comparable to that of Saint Kitts and Nevis. It was agreed that this update would be included in the report.

29. The study noted that the FSRC in the islands only had limited oversight with responsibility for fiduciary matters and that there was a need for greater prudential monitoring. However, it was suggested that explicit mention be made that this is indicative of the fact that the Inland Revenue Departments are competent authorities. The ECLAC consultant highlighted that this recommendation originated from discussions with the private sector but agreed to make reference to the role of the Inland Revenue Department.

30. A request was made for the report to explicitly outline the types of banks for which the ECCB and the various Commissions has prudential oversight along with the role of each entity. For example, the ECCB has prudential oversight over the domestic banks. It was also suggested that further discussion be provided on the delegated authority that exist for Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) compliance as in the case of Antigua and Barbuda.

31. A few comments were provided in reference to the study recommendations and outlined initiatives. The study report raised concerns by the private sector in both islands regarding the lack or absence of consultation in the regulatory process and in addressing the emerging challenges to the market. The representative from the FSRC in Antigua and Barbuda, however, noted that in the international banking sector, as required by statute, all changes to regulatory/supervisory process must be done via consultation. It was suggested that further discussion was needed on this issue to detail the broader picture.

32. One long-term initiative suggested in the study was the need to refocus economic diversification strategies towards overlooked sectors such as agriculture and agroprocessing. However, participants maintained that consideration be given to the viability of agriculture as an economic diversification strategy in light of each country's structural and economic dynamics.

33. Although the study recommended that reporting templates for the offshore sector be established for the sole purpose of data collection, management and publication, participants questioned whether this was applicable in general given that such reporting templates are consistent with the Basel standards utilized in Antigua and Barbuda. It was further noted that data was collected in certain granular form that informed various activities within the sector.

34. The representative of FSRC in Nevis provided some key comments for the study and promised to follow with written comments. In particular, she suggested that a more in depth discussion of the offshore financial sector challenges was needed to support the study conclusions. Most importantly, a request was made to modify the term offshore financial centres (OFCs) to international financial centres (IFCs) given the negative connotation of the former term internationally. The representative also found that the recommendation for increased public-private sector engagement was unsubstantiated. In general, the representative expressed issues with unverifiable statements and conclusions given that no meeting was held with their agency and the limited data requested. The representative of the Nevis FSRC and the ECLAC consultant agreed to

conduct a follow up meeting on 27 November 2017 as suggested by the meeting Chair with all data requests resent prior to that meeting.

4. Closing remarks

35. Closing remarks were made by the Coordinator of the EDU, who thanked participants for their tremendous input in strengthening this important study. ECLAC recommended that follow-up discussions be conducted to reconcile data and content inconsistencies and strengthen the accuracy of the paper. All relevant contributors agreed to participate in these follow up sessions with consensus to collaborate on any data requests.

Annex I**LIST OF PARTICIPANTS**

Ava Jordan, Consultant. E-mail: ajord2@hotmail.com

Heidi-Lynn Sutton, Regulator, Nevis Financial Services Department, Nevis. E-mail: Hdsutton@nevisfsrc.com

Morvin Williams, Director, Financial Services Regulatory Commission, Antigua and Barbuda. E-mail: Morvin.williams@fsrc.gov.ag

**Economic Commission for Latin America and the Caribbean
Subregional headquarters for the Caribbean**

Sheldon Mc Lean, Coordinator, Economic Development Unit. E-mail: Sheldon.Mclean@eclac.org

Nyasha Skerrette, Economic Affairs Assistant, Economic Development Unit. E-mail: Nyasha.Skerrette@eclac.org

Lindy-Ann Edwards-Alleyne, Programme Management Assistant, Economic Development Unit. E-mail: Lindy-Ann.Edwards-Alleyne@eclac.org

Don Charles, Economic Research Assistant (individual contractor), Economic Development Unit. E-mail: Don.Charles@eclac.org

Roberta Doorgadeen, Economic Research Assistant (individual contractor), Economic Development Unit. E-mail: Roberta.Doorgadeen@eclac.org



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Comisión Económica para América Latina y el Caribe (CEPAL)
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