The Cayman Islands: An Extender of Value to the USA

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The Cayman Islands: An Extender of Value to the USA

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This document has been developed by Cayman Finance to share information about the essential role of the Cayman Islands financial services industry in the global economy, and particularly highlight how the Cayman Islands is an extender of value and an important partner to the United States of America at a time when the USA is in an era of evolving global trade relations and other important changes in the global economy.

The Cayman Islands is a premier global financial hub that efficiently connects law abiding users and providers of investment capital and financing around the world and has a long standing relationship with the United States of America.

Global trade is an important cornerstone of the USA’s economic policy and the Cayman Islands is the world’s most popular global financial hub for international investment, providing a proven, trusted, stable, tax-neutral, and well regulated environment designed to support global trade. The Cayman Islands is a ‘global extender of value’ for the United States of America, its businesses, and its citizens to be competitive through global trade, investing and financing activities, providing the ultimate platform that is dynamic enough to support the USA currently and as it enters a new era of global trade relations.

In order for the Cayman Islands to be able to best assist the USA, and for the USA to take maximum advantage of the opportunities available in the evolving global economy, it is imperative that the United States of America understands fully the beneficial role played in global financial services by the Cayman Islands.

The Cayman Islands, through its pivotal role in international investing and financing, supported by its robust and well-regulated financial services industry, can help the USA as it prepares for the evolving changes in global trade and the global economy by providing unparalleled access to:

- Foreign Direct Investment or “FDI” (essential to save or grow US businesses and jobs)
- Inward infrastructure investing and financing
- Liquidity for the US economy
- US Job growth
- Increased US tax base
- Global diversified investments for US pensioners
- Free flow of global trade, capital, investing, financing, and services

In 2017, the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes estimated that in just one recent year, Cayman attracted at least US$4.1 trillion in banking assets, direct investment and portfolio investment.

Because the Cayman Islands is home to approximately 70% of global hedge, private equity, and venture capital funds, it is well positioned just like after the 2008 global credit crisis, to provide inward investing, financing, and liquidity into economies during times of need or uncertainty, as might be expected with the evolutions in global trade relations.

The Cayman Islands investment fund provides the vehicle to facilitate trade to, from and through
the United States of America bringing employment, expertise and tax receipts to the USA. The Cayman Islands investment fund is the global collective investment vehicle, preferred by investors in North America, the Middle East, China, Japan and many other countries. It is used by international investors in those regions to aggregate overseas investment into countries around the world, including the United States of America; to facilitate co-investment by US investors with others from around the globe; and to enable asset managers in the USA to provide services to international investors.

For example, Cayman-based funds are used to facilitate infrastructure developments such as hospitals, schools, roads, power plants, etc. which help increase the quality of life in that country. Additionally, failing businesses are purchased, loans are provided to companies in difficulty, employees are re-employed and new jobs are created, increasing the tax base in that country.

Among those investing in Cayman funds are US pensions, which then have access to global diversified investments, potentially reducing risks associated with having these invested in one geographic area where disasters and other factors could have a negative impact on the investments. In turn, these globally diversified investments contribute higher returns to US pensioners.

Additionally, many service providers to Cayman Islands funds are based in the USA and, in particular, US cities such as New York, Boston, Chicago, and others which are global centers of excellence for the alternative investment management industry. The income of such service providers, including investment managers, is dependent upon the fees generated from managing global pools of capital which are assembled in the Cayman Islands. This income creates additional jobs and taxable revenue in the USA and helps preserve US cities’ positions as leading financial centers by giving US-based managers the ability to manage global capital that might not otherwise be invested in the USA.
The Alternative Investment Managers Association, headquartered in the UK, has noted that the money invested in offshore funds like those in the Cayman Islands is not kept in an offshore bank but invested in financial markets around the world. It added that this activity helps to provide additional sources of financing to businesses and infrastructure projects in places like the UK, creating significant jobs and generating tax revenues for the government there. [‘Transparent, Sophisticated, Tax Neutral: The Truth About Offshore Funds’ – AIMA Report Nov 2017]

While Cayman adds no additional tax to financial services transactions in its jurisdiction, investors (individuals and businesses) are still subject to any taxes owed at home. This is ensured by Cayman meeting or exceeding all globally-accepted standards for transparency and cross border cooperation with tax authorities and law enforcement including through the US Foreign Account Tax Compliance Act (FATCA).

The importance of Cayman’s tax neutral status can be illustrated by considering what would happen were Cayman to introduce direct corporate tax on profits, e.g. hedge funds. This would reduce returns to the US investors in those funds and, consequently, reduce the taxes that those investors would in turn be liable to pay at home. Accordingly, Cayman’s efficient tax neutral platform provides the optimum outcome for investors, investees, and home tax jurisdictions.

**History of partnering with the US to fight financial crime**

- 1986: Agreed the Mutual Legal Assistance Treaty (MLAT) with the USA, one of the first in the world and has been proven highly effective in the restraint and forfeiture of the proceeds of crime as well as the repatriation of assets to the USA for restitution to victims of crime.
- 2001: The first UK Overseas Territory to sign a Tax Information Exchange Agreement with the USA.
- 2013: The first UK Overseas Territory to sign the FATCA Model 1 Intergovernmental Agreement with the USA, complementing a leading number of bilateral tax information exchange agreements with other jurisdictions with a view to tax transparency and cooperation.
- Implemented the US FATCA regime so that Cayman financial institutions are obliged to report through the Cayman Tax Information Authority details of financial accounts held by US citizens and residents.

The US Government Accountability Office Report to the Chairman and Ranking Member, Committee on Finance, US Senate (July 2008):

- The IRS official also told us that the Cayman Islands government has provided the requested information in a timely manner for all TIEA requests.
- Officials from Treasury and the SEC reported that the Cayman Islands has been cooperative in sharing information and SEC reported that several of the SARs have led to U.S. investigations.
- A senior official from DOJ’s Office of International Affairs indicated that the Cayman Islands is the busiest United Kingdom overseas territory with regard to requests for information, but also the most cooperative. She also said that the Cayman Islands is one of DOJ’s “best partners” among offshore jurisdictions.
- A DOJ official reported that the Cayman Islands has an agreement to share proceeds of criminal-asset forfeitures with the US government, and has been a very cooperative partner.
Summary

With the Cayman Islands being a premier global hub for investment capital and financing, the United States of America stands to benefit on three important fronts:

Firstly, the USA, its businesses, and its people having access to participate in globally diversified investment and financing opportunities resulting in benefits such as greater returns for US pensioners on pension fund investments.

Secondly, with the substantial investible assets pooled in Cayman funds from around the world, Cayman entities are uniquely positioned to provide substantial foreign direct investment, infrastructure financing, and liquidity which can be used to save or grow US businesses, jobs and tax base.

Lastly, as the USA will look to opportunities around the globe to secure its future, the Cayman Islands is well positioned to work hand in hand with Washington DC, New York, Boston, Chicago, and other US cities to connect the United States of America to the efficient flow of global trade, capital, investing, financing, and services around the world.

The Cayman Islands: A snapshot of strength in numbers

- Top jurisdiction for Alternative Investment Funds: Two-thirds of global hedge funds with over US$2.3 trillion in assets under management (AUM).
- Number 2 jurisdiction for Insurance Captives (Number 1 jurisdiction for Healthcare Captives and Group Captives).
- IPOs: Cayman companies accounted for 83% of firms listed on the Main Board of the Hong Kong Stock Exchange and the Hong Kong Growth Enterprise Market.
- A leading Specialized International Financial Centre (The Banker Magazine).
- Cayman entities support the US Government by being among the top 10 jurisdictions investing in and holding US treasuries.
- The Cayman Islands is the largest domicile in the world for US healthcare captives, thereby supporting lower US healthcare costs and better access to affordable reinsurance premiums in the global marketplace.

The message in this document about the Cayman Islands is a compelling one. It highlights the great work that has been done through collaborative efforts over many years to establish the Cayman Islands as the premier global financial hub.

We remain committed to continuing our work to promote and protect the Cayman Islands financial services industry and its important role in the global economy and extending value to the United States of America throughout the evolution of global trade and the global economy. We look forward to working together to ensuring this important relationship with the USA continues to be mutually beneficial.
Brief Introduction to Cayman Finance and its Leadership

Cayman Finance

Cayman Finance is a private sector not for profit organisation that represents the entire Cayman Islands financial services industry, including 15 industry associations.

Cayman Finance’s mission is to protect, promote, develop and grow the Cayman Islands financial services industry through cooperation and engagement with domestic and international political leaders, regulators, organizations and media; to promote the integrity and transparency of the industry by legislative and regulatory enactment and to encourage the sustainable growth of the industry through excellence, innovation and balance.

Leadership of Cayman Finance

The Chairman of Cayman Finance is Conor O’Dea. Since 1989, Mr O’Dea worked for Butterfield Bank (Cayman) Limited in various capacities. He ended his executive career with a stint as Managing Director Cayman and President & Chief Operating Officer, BNTB Group. In April 2016, he retired from executive responsibilities with Butterfield Group and assumed a non-executive role as Director of BNTB Board and Chairman of Butterfield’s Board. Throughout his career, Mr O’Dea has also served in various associate and government positions, including President at the Cayman Islands Banker’s Association and the Chamber of Commerce.

Jude Scott, CEO of Cayman Finance since 2014, is well respected locally and globally having spoken internationally on financial services topics and featured on a number of occasions in the international media. He retired as an Audit Partner in 2008 after spending over 23 years with Ernst & Young. As the Global CEO of Maples and Calder (the largest Cayman Islands law firm, he took an active role in the strategic growth and development of the firm. Having served on various Cayman Islands Government and private sector committees, including the Cayman Islands Financial Services Council, Cayman Airways, Ministerial Council for Tourism and Development, the Cayman Islands Society of Professional Accountants, the Education Council, the Insolvency Rules Committee and the Stock Exchange, Jude has attained extensive experience within the Cayman Islands’ financial services industry.

Cayman’s role in the global economy

The facts about the Cayman Islands importance to the globally economy, the world class transparency and cooperation standards it has had in place for many years, and the beneficial role the Cayman Islands continues to play in supporting the success of the United States of America, is not well understood. Cayman Finance is uniquely well positioned to share these facts and assist with this understanding.
Executive Summary

This document contains the following important sections that should be read in their entirety to have a full and accurate understanding of the Cayman Islands financial services industry and its benefits to the United States of America. The strong historic and ongoing connection between the USA and the Cayman Islands is testament to the fact that both countries value this important relationship. Given the prominent role that the Cayman Islands plays in financial markets globally and in particular North American and Asian financial markets, the Cayman Islands will be well placed to assist the USA as significant change takes place in economies and trade relationships around the world. In order for the Cayman Islands to be able to assist the USA fully, and for the USA to take maximum advantage of the opportunities available in the evolving global economy, it will be critical that the USA understands clearly the beneficial role played by the Cayman Islands in global financial services today.

- International role of the Cayman Islands Financial Services Industry
- The Cayman Model
- As an Efficient neutral Hub, the Cayman Islands is an “extender of value” for the USA and other G20 countries
- Strong and Diverse Industry Sectors
- Protecting the Global Economy
- Best in class Global Ownership Standards
- Not a tax haven
- Tax neutral
- Resilience of the Cayman Islands

*Note: For purposes of this document, when the phrases “Cayman”, “the Islands”, “the Jurisdiction”, “us”, or “we” are used, they all refer to the Cayman Islands.

The following is detailed evidence to support the importance of the Cayman Islands to the United States of America and the global economy.

International role of the Cayman Islands Financial Services Industry

The Cayman Islands is a premier global financial hub, efficiently connect law-abiding users and providers of investment capital and financing around the world, benefiting developed and developing countries.

As a trusted, efficient neutral hub, Cayman supports efficient free flow of trade, capital, investing, financing and services around the world.

One of the best examples of Cayman’s role as a premier global financial hub is how the jurisdiction efficiently supports funding by global multilateral organizations like the World Bank Group’s International Finance Corporation into development projects to promote growth in emerging markets.

Multilateral development organizations like the IFC choose to invest resources using Cayman-domiciled investment vehicles because they offer an efficient and effective neutral platform that enables parties from around the world with differing laws, regulations, tax rules and customs to benefit from doing business with each other.

Cayman is one of the few jurisdictions that meets the IFC’s stringent standards for investments in Intermediate Jurisdictions.
In 2015 alone, the IFC invested more than $400 million in ten different Cayman-based investment vehicles to support critical telecom, energy, agriculture, technology, venture capital and manufacturing development projects in more than 24 developing countries (see Appendix A).

A recent study performed by Capital Economics estimates that foreign investment mediated through the Cayman Islands was around US$4.5 trillion and supports in the region of 5 million jobs globally. Additionally, the research found that investment through the Cayman Islands supports estimated tax revenues for the United States government of approximately US$60 billion. (see Appendix B)

**The Cayman Model**

The Cayman Model demonstrates how a jurisdiction can make a leading contribution to fighting global financial crime, protecting itself and strengthening the global economy in the process. The Cayman Model combines multilateral cooperation with individual jurisdicitional leadership and it extends across seven key areas:

- Serving as a Premier Global Financial Hub
- Meeting or Exceeding Highest Global Financial Standards
- Operating a Transparent Jurisdiction
- Managing a Responsible, Effective Tax Regime
- Maintaining Professional Leadership
- Supporting Industry Diversification
- Encouraging Industry-Government Collaboration

The Cayman Model not only helps to define our jurisdiction as a responsible financial center, it has earned us a place among the leading international financial centers and G20 countries who adhere to the highest globally implemented standards for combating financial crime.

As an efficient neutral hub, the Cayman Islands is an “extender of value” for the USA and other G20 countries.

Cayman is a great extender of value for G20 and developing countries, their businesses and their people to participate in trade, investment and financing opportunities around the world.

In addition, because the Cayman Islands is the home to a significant proportion of the world’s alternative funds, including infrastructure funds and venture capital funds, the Cayman Islands is well positioned, much as we did after the global credit crisis, to provide inward investing, financing, and liquidity into economies during times of need or uncertainty, including evolutions in global trade relations.

This inward investing, financing, and liquidity helps save or grow business, create jobs, and expand the tax base within those countries.

At the same time, the Cayman Islands upholds the same global standards as the G20 countries do (see Appendix C).

Parties from different countries who have different laws, regulations, tax rules, and customs are able to do business with each other in a trusted and efficient neutral jurisdiction.

Using a neutral jurisdiction like Cayman, no party is at a disadvantage of being subjected to another party’s laws, regulations, tax rules or customs.
Through Cayman, US pensions and endowments have access to global diversified investments, potentially reducing geographic and currency risk and contributing to higher returns to US pensioners and endowments. As a result of US university endowment funds being invested in Cayman funds, this contributes to lower education costs for American students. Many service providers to Cayman Islands alternative funds are based in the USA and, in particular, US cities such as New York, Boston, Chicago, and others are global centers of excellence for the alternative investment management industry. The income of such service providers, including investment managers, is dependent upon the fees generated from managing global pools of capital which are often assembled in the Cayman Islands. This income generated creates additional jobs and taxable revenue in the USA and helps preserve US cities’ positions as leading financial centers by giving US-based managers the ability to manage global capital which would not otherwise invest in a US-based vehicle.

Strong and Diverse Industry Sectors

The Cayman Islands Financial Services industry is led by first rate service providers within investment funds and asset management, banking, insurance, capital markets, and trusts sectors and world class fiduciary, legal, and accounting service providers across the industry.

The combined efforts of the Cayman Islands Government, the Cayman Islands Monetary Authority and Cayman Finance ensure that the financial products and services are consistently delivered to meet or exceed international standards through excellence, innovation and balance.

Protecting the US and global economies

Both the Cayman Islands and the Cayman Islands financial services industry have been recognised for decades as a strong international partner in combating corruption, money-laundering, terrorism financing and tax evasion.

Cayman has gained a reputation as a transparent, cooperative jurisdiction by meeting or exceeding all globally-accepted standards for transparency and cross border cooperation with law enforcement.

Cayman cooperates with international authorities through 3 platforms:

- **Regulatory matters** – Cayman Islands Monetary Authority (CIMA)
- **Tax matters** – Department of International Tax Cooperation (DITC)
- **Anti-Money Laundering matters** – Financial Reporting Authority (FRA).

The OECD recently rated Cayman as “largely compliant” with the international standard for transparency and exchange of information – the same rating given to G20 countries like UK, Germany, Canada and Australia.

Cayman has adopted at least as many global standards for transparency as any G20 country – and more, when agreements specific to International Financial Centers (IFCs) and UK Overseas Territories are included.
Best in class Ownership Standards

The Cayman Islands has had a world class verified ownership regime in place for more than 15 years (see Appendix D).

All companies established in the Cayman Islands must be formed using a licensed Cayman Islands corporate service provider, and annual maintenance costs for a basic company are in the region of US$2,000 per annum. There is no ability for the general public to form Cayman Islands companies online.

The information in the Cayman Islands ownership regime is collected and verified by these licensed Cayman Islands corporate service providers under existing anti-money laundering and know-your-customer laws and regulations.

Those same licensed Cayman Islands corporate service providers are responsible for submission of beneficial ownership registry information to the Cayman Islands Government, and that information forms part of the Cayman Islands’ current enhanced information exchange arrangements with the UK* (see below).

This closely regulated company formation situation contrasts with the situation in the UK. Companies House in the UK offers online company formation services to the general public with no formation agent involvement for as little as GBP12.00 per company, and does not require submission of the anti-money laundering and know-your-customer documentation which has been standard practice in Cayman for 15 years.

The information Cayman requires to be collected is available to the authorities making proper requests to Cayman Islands authorities through existing information sharing channels between the Cayman Islands government and the USA as well as other countries.

The Cayman Islands does not permit bearer shares or anonymous numbered bank accounts.

*The Cayman Islands commenced new laws on 1 July 2017 that introduced technology-based system enhancements to its existing information sharing arrangements with the UK, improving the speed at which requested information, including beneficial ownership information can be provided to UK law enforcement.

Not a tax haven

Cayman is a transparent, tax neutral jurisdiction and is not a tax haven (see Appendix E).

International policymakers continue to recognize the vital role Cayman’s financial services industry plays as a strong international partner in combating corruption, money-laundering, terrorist financing and tax evasion.

Cayman meets or exceeds all globally-accepted standards for transparency and cross border cooperation with law enforcement. This commitment to global transparency standards makes Cayman a very unattractive destination for would-be tax evaders.

The definitions of tax havens by leading international organisations do not apply to the Cayman Islands as the legal, regulatory and legislative basis for the Cayman Islands financial services industry clearly demonstrates Cayman is a transparent, tax neutral jurisdiction and not a tax haven.
Tax neutral

The Cayman Islands is tax neutral and adds no additional tax to financial services transactions in its jurisdiction. Investee entities and investors are still subject to reporting and paying their home jurisdictions’ relevant taxes. In addition, the Cayman Islands meets or exceeds globally accepted standards for transparency and cross border cooperation with tax authorities and law enforcement.

The importance of maintaining Cayman’s tax neutral status can be illustrated by considering what would happen were Cayman to introduce direct corporate tax on profits of e.g. Cayman Islands alternative funds. This would reduce returns to investors (including US investors) in those funds and, consequently, reduce the taxes that those investors (including US investors) would in turn be liable to pay in their home jurisdiction (including in the USA). It would also unfairly disadvantage the many investors in Cayman Islands alternative funds who are private and government pension funds, charities and not-for-profit organizations that are not subject to tax in their home jurisdiction (including in the USA).

Cayman has adopted automatic exchange of tax information with relevant authorities in other countries. Under the OECD’s Common Reporting Standard (“CRS”) and US FACTA regimes, both of which have been implemented in the Cayman Islands, Cayman proactively shares tax information with other governments – a level of transparency which essentially assists them in the collection of their own taxes, regardless of what their unique tax laws are.

Cayman’s Globally Responsible, Effective Tax Regime

Like all other jurisdictions, Cayman has the right to establish a tax regime that collects the right taxes from the right people at the right time within its jurisdiction. Unlike other jurisdictions, Cayman has chosen to use fees and other taxes instead of an across-the-board corporate income tax.

Cayman’s globally responsible tax regime meets or exceeds the revenue targets used by other leading countries around the world, generating government taxation revenue equal to approximately 22% of our GDP (2016). It’s a taxation revenue raising system that works well for our jurisdiction and very adequately funds our government operations and keeps our debt-to-GDP ratio modest. Tax evasion is unlawful and the Cayman Islands does not support it.

Cayman has in place globally-accepted standards for transparency and cross border cooperation with tax authorities and law enforcement.

Cayman does not have any double taxation agreements (or treaties) that could be used to unfairly shift tax base from another country to Cayman. (It should be noted that, technically, Cayman has signed a DTT with the UK, but it is merely the form in which the UK preferred to have its tax information exchange agreement with Cayman executed and the agreement provides no tax benefits to Cayman as Cayman does not have any taxes covered by the agreement.)

This responsible approach to taxation is central to The Cayman Model and a distinguishing feature of our jurisdiction among International Financial Centers (“IFCs”) many of which have extensive double tax treaty networks.

Resilience of the Cayman Islands

The Cayman Islands has historically always been self-funded and does not require funding from the United Kingdom or other global bodies. This has been the case even in the aftermath of significant natural events such as hurricane Ivan that impacted the Islands in 2004.
Cayman has a stable and fiscally responsible government.

Cayman’s strong legal framework is based on UK Common Law with a specific division of the Cayman Courts focused on financial services cases that has the UK Privy Council as the ultimate court of appeals. The Cayman Courts have, over the years, developed beneficial legal precedents that are important to the certainty and predictability of global financial services transactions and arrangements.

The financial services industry is world class and is the engine that drives the Cayman Islands economy, contributing over US$300 million (>50%) in revenue to the local government, and over US$1.5 billion toward GDP (again, more than 50%). Financial services is also the sector providing the largest number of jobs, with approximately 4,000 Caymanians working in the industry.

The same way that technology is now essential globally, investment capital and financing have been, and will continue to be, critical to the successful growth and development of economies around the world. The Cayman Islands is well positioned to continue to efficiently support that global growth and development as a trusted premier global financial hub that is proud to be a British Overseas Territory that supports the success of the United States of America in the global economy.
Historic recognition of the benefits of the Cayman Islands

A leading international publication, the UK-based Financial Times said the following about the Cayman Islands and other international financial centers: “They are centres of expertise that can allow legitimate international transactions to take place under a sound legal system and without unpicking a tangle of clashing international regulations.” [A strong tax system doesn’t rely on naming and shaming, Financial Times, April 2016]

The United Kingdom Government noted that “Bermuda, the British Virgin Islands and the Cayman Islands have developed important niche positions in international financial markets. The UK Government strongly believes that Territories which meet financial sector international standards should be free to continue to compete in international markets without discrimination.” [The Overseas Territories – Security, Success and Sustainability, Foreign & Commonwealth Office, June 2012]

The US Government Accountability Office Report to the Chairman and Ranking Member, Committee on Finance, US Senate (July 2008):

- Factors that attract U.S.-related financial activity to the Cayman Islands include its reputation for stability and compliance with international standards, its business-friendly regulatory environment and its prominence as an international financial center.
- Officials from the Export-Import Bank of the United States (“Ex-Im”) stated that Cayman Islands law gives them confidence that they will have less difficulty reclaiming assets if a party in an Ex-Im-backed transaction defaults.
- [The Cayman Islands] has a robust financial services sector, which includes several major law firms and other locally based service providers, as well as prominent international accounting and audit firms, fund administrators, and banking institutions. The high volume of existing Cayman-based financial activity may also be responsible for drawing additional business. Finally, U.S. persons may carry out activity in the Cayman Islands because of its reputation as a neutral jurisdiction for structuring deals with foreign partners.

The Cayman Islands have always been a strong partner of the United States of America, its People, and the USA’s Economy and will continue to be a strong partner for many years to come.
Appendices

A. Supporting G20 Multilateral Aid to the Developing World

B. Importance of IFCs in the global economy

C. G20 Plus Global Financial Agreements

D. Cayman Islands Verified Ownership Regime

E. Not a Tax Haven
Appendix A

Supporting G20 Multilateral Aid to the Developing World
The Cayman Islands is a premier global financial hub, connecting law-abiding users and providers of investment capital and financing around the world. We play a critical role in the success of the global financial economy, benefiting both developed and developing countries. One of the best examples of this role is Cayman's efficiently supporting funding by global multilateral organizations like the World Bank Group's International Finance Corporation (IFC) into development projects to promote economic growth in emerging markets around the world. In 2015 alone the IFC invested more than $400 million in ten different Cayman-based investment vehicles to support critical telecom, energy, agriculture, technology, venture capital and manufacturing development projects in more than 24 developing countries. One of those investments was a $70 million loan from the IFC to support small- and medium-sized agriculture projects in Latin America. This is particularly important as, according to the IFC, “Agribusiness sectors generally do not enjoy good access to finance and financing for smaller- and medium-sized companies in Emerging Market countries is especially in short supply.”

Why Cayman?

Multilateral development organizations like the IFC choose to invest resources using Cayman as an effective financial hub because it offers an efficient & effective neutral platform that enables parties from around the world with differing laws, regulations, tax structures and customs to benefit from doing business with each other.

Cayman’s strengths:

- The Quality and Experience of our Professional Service Providers.
- The Cayman Islands Government’s commitment to the Financial Services industry.
- Has taken a leadership role in international regulatory issues.
- Our Innovative Approach to developing Products and Services that benefit the global market.
- Neutral platform that does not add additional tax frictions to international investments and finances.

Cayman is also one of the few places that meet the IFC’s stringent standards for investments in Intermediate Jurisdictions:

- Recognized for decades as a strong international partner in combating corruption, money-laundering and tax evasion.
- Meets or exceeds all globally-accepted standards for transparency and cross border cooperation with law enforcement, including those of OECD.
- Transparent jurisdiction as was most recently recognized by its inclusion on the Italian “good tax governance” White List.
Appendix B

Importance of IFCs in the global economy
The importance of international finance centres in the global economy

Key points

- International finance centres (IFCs) have developed to facilitate cross-border activities in a world in which global trade is increasingly significant

- IFCs serve an important role in the global economy. By providing efficient and effective neutral platforms for facilitating cross-border investment, parties around the world with differing laws, regulations and tax systems can do business with each other

- The economic and fiscal benefits of the investment mediated by IFCs are clear. They facilitate trillions of dollars of investment, which supports jobs, growth, and consequent tax revenues around the globe

1. International finance centres have developed to provide services that facilitate cross-border activities in a world where global trade is increasingly significant

International finance centres (IFCs) are part of a global economic system that facilitates more efficient trade in goods and services between nations, and helps to increase overall levels of wealth and prosperity in both developed and developing economies.

The world’s economies continue to move closer together. Over recent decades, global prosperity has been boosted by greater trade and investment across borders, with international trade growing from 25% of global GDP in the 1970s to 60% today. This is positive for the global economy. Trade is a mutually beneficial process that has enriched almost every nation on Earth in recent decades and centuries.

In a world where national boundaries have ever-decreasing significance to people and to businesses, it should come as no surprise that there is demand for services that facilitate efficient and secure cross-border transactions. Exports are strongly correlated with possessing more developed financial markets, with countries where banks lend 100% more of GDP to business exporting 6.5 times as many product lines internationally. However, with many countries lacking the financial infrastructure to facilitate that lending, IFCs have evolved to meet the needs of global businesses and investors.

Increased cross-border trade and mobility isn’t restricted to goods, services, or people. Capital markets are increasingly global – with investors seeking diversification beyond national borders to reduce risk and borrowers accessing wider sources of finance to reduce borrowing costs. IFCs play a vital role in helping these global investment flows.

Substantial investments by businesses and governments in new housing, industrial and commercial premises, airports and roads, computers and telecoms infrastructure, or plant and equipment – as well as softer intangibles like research and development – are increasingly financed internationally. Meanwhile, the local banks and financial services firms that offer the credit cards, overdrafts, mortgages, and lease agreements to support consumers’ purchases of their cars, consumer goods, and homes increasingly depend upon international capital markets to provide liquidity and keep costs down.

In this way, what appears to be the obscure and remote world of international finance provides the ‘financial investment’ that helps to deliver the ‘economic investment’ that matters to the real lives of employees, families, and businesses. Globalisation of capital brings material advantages to investors, firms, and consumers. These include:

- Reducing the cost of borrowing by providing access to deeper capital markets and increasing competition between lenders
- Increasing returns to investment by facilitating the pooling of investments and their diversification across a wider range of international assets: reducing risk
- Providing investors with greater opportunities to match their portfolios of investments to their desired profiles of risks and expected returns
- Making insurance cheaper by allowing risks to be reinsured cost-effectively around the world by investing in geographies or assets with differing risks
- Preventing domestic credit crunches by facilitating borrowing from abroad to offer respite during temporary recessions or natural disasters
- Providing investment into less developed countries with limited domestic capital, thereby promoting economic growth in countries with low savings potential

At the global level, international capital markets channel the world’s savings to their most productive uses – irrespective of location. IFCs have developed the expertise and specialisation to foster these cross-border flows.

2. **International finance centres offer a wide array of benefits, and serve an important role in the global economy**

IFCs offer this wide array of benefits by providing highly-specialised environments that are tailored to cater for the needs of international commerce and the pooling of international investments:

- **Jurisdictional neutrality.** A location that is independent of the home jurisdictions of the various counterparties where transactions can be conducted, whilst adding little or no additional cost. This can be important, for example, when forming joint venture vehicles between organisations from different countries.
- **Tax neutrality.** Tax neutrality means that investments do not pay additional taxation just because they are pooled in such a neutral jurisdiction, although they still pay taxes where funds are invested and where the investor is based. Assets and investment funds can be
pooled, grown, and distributed across borders without imposing any additional taxation. This is important, for example, when developing fund structures to attract international investors and/or to invest in a portfolio of assets across borders.

- **Regulatory specialisation.** Bespoke regulation that allows specific sectors located in IFCs to avoid the unintended inefficiencies of ‘catch-all’ regulation of larger jurisdictions that are often aimed at protecting retail investors that are based there. IFCs may be able to concentrate resources on regulating specific types of financial sector activity effectively, while larger countries have to spread regulatory resources across a wider range of activities.

- **Country risk mitigation and protection of wealth.** Keeping assets protected from potential loss, damage, or sequestration resulting from socio-political instability or delinquent legal, regulatory, or enforcement institutions in a particular country.

- **Specialist and expert services.** Many IFCs offer particular niche services, such as private banking, asset management, and reinsurance. These centres often focus in a particular business sector and even market segment, providing a high degree of specialisation and expertise attractive to clients and providing a neutral location for administrative tasks.

- **Access to capital markets.** IFCs have strong links with capital markets across the globe. Banks, trust companies, legal practices, and accountancy firms are closely networked into their counterparts in major cities across the world, and can provide their clients with access to these centres’ liquidity and expertise.

### 3. International finance centres support jobs and economic activity. Governments around the world benefit significantly from the economic activity that is supported by international investment mediated through these centres

The investment mediated by IFCs supports economic activity, jobs and incomes around the world. It provides the underlying finance that enables real world economic investment in housing, businesses, or infrastructure – or the essential liquidity for the secondary markets that underpin and provide confidence in these real world primary investments.

We examine the global value of the British Virgin Islands (BVI), the Cayman Islands, and Jersey’s finance centres as examples. We estimate that the foreign investment mediated through the BVI, the Cayman Islands, and Jersey in 2016 was $1.5 trillion, $4.5 trillion, and $1.8 trillion respectively. The investment mediated by the BVI and Jersey supports 2.2 and 2.3 million jobs respectively, while the investment mediated by the Cayman Islands supports in the region of 5.0 million jobs (see Figure 1).

The economic activity and jobs supported by the investment mediated by these jurisdictions will generate tax revenues for governments around the world. Governments benefit significantly from the economic activity that is supported by international investment mediated through these jurisdictions.

For example, our estimates suggest that investment through the Cayman Islands, supports tax revenues for the United States government to the tune of roughly $60 billion, while the United Kingdom government benefits in the region of $20 billion from Jersey’s activities.3

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3 These are indicative estimates based on the best evidence available and are intended to provide an idea of the broad scale of the benefits rather than be precise estimates.
Figure 1: Investment mediated by the BVI, the Cayman Islands and Jersey’s international finance centres by location of underlying asset ($ billion) and employment related to investment (thousand people), 2016

<table>
<thead>
<tr>
<th>Location</th>
<th>Investment</th>
<th>Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BVI</strong></td>
<td>170</td>
<td>150</td>
</tr>
<tr>
<td><strong>Cayman Islands</strong></td>
<td>590</td>
<td>520</td>
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<tr>
<td><strong>Jersey</strong></td>
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<td><strong>United Kingdom</strong></td>
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<tr>
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<td>2,810</td>
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<tr>
<td><strong>Jersey</strong></td>
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<td>170</td>
</tr>
<tr>
<td><strong>United States and Canada</strong></td>
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<td></td>
</tr>
<tr>
<td><strong>BVI</strong></td>
<td>110</td>
<td>330</td>
</tr>
<tr>
<td><strong>Cayman Islands</strong></td>
<td>100</td>
<td>280</td>
</tr>
<tr>
<td><strong>Jersey</strong></td>
<td>40</td>
<td>130</td>
</tr>
<tr>
<td><strong>Latin America including the Caribbean</strong></td>
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<tr>
<td><strong>BVI</strong></td>
<td>150</td>
<td>440</td>
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<tr>
<td><strong>Cayman Islands</strong></td>
<td>380</td>
<td>1,140</td>
</tr>
<tr>
<td><strong>Jersey</strong></td>
<td>270*</td>
<td>820*</td>
</tr>
<tr>
<td><strong>Europe excluding the United Kingdom</strong></td>
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</tr>
<tr>
<td><strong>BVI</strong></td>
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<tr>
<td><strong>China and Hong Kong</strong></td>
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<td><strong>Rest of world</strong></td>
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<tr>
<td><strong>Cayman Islands</strong></td>
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<td>1,140</td>
</tr>
<tr>
<td><strong>Jersey</strong></td>
<td>270*</td>
<td>820*</td>
</tr>
</tbody>
</table>

Source: Capital Economics. *Note: The investment mediated through Jersey from China and Hong Kong is included in the Rest of World estimates.

Disclaimer: This note has been commissioned by IFC Forum from Capital Economics, an independent macroeconomics research consultancy. The views expressed remain those of Capital Economics and are not necessarily shared by IFC Forum. While every effort has been made to ensure that the data quoted and used for the research behind this document is reliable, there is no guarantee that it is correct, and Capital Economics Limited and its subsidiaries can accept no liability whatsoever in respect of any errors or omissions. This document is a piece of economic research and is not intended to constitute investment advice, nor to solicit dealing in securities or investments.
Appendix C

Importance of IFCs in the global economy
Both the Cayman Islands and the Cayman Islands financial services industry have been recognised for decades as strong partners with other leading jurisdictions and industries in promoting transparency to combat corruption, money-laundering, terrorism financing and tax evasion. These leading jurisdictions – G20 countries and a few select International Financial Centres such as the Cayman Islands, Bermuda, Jersey and Guernsey – make up the G20 Plus.

The Cayman Islands has earned its place among G20 Plus jurisdictions because it is a premier global financial hub, connecting law-abiding users and providers of investment capital and financing around the world – benefitting both developed and developing countries. The Cayman Islands has also built a reputation for transparency by meeting or exceeding globally-accepted standards for transparency and cross border cooperation with law enforcement.

### “G20 PLUS”

**GLOBAL FINANCIAL AGREEMENTS**

<table>
<thead>
<tr>
<th>Agreement</th>
<th>Cayman Islands</th>
<th>Bermuda</th>
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<th>Austria</th>
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</table>

- ✔️: Country a signatory/member
- ○: Treaty/agreement does not apply
The Cayman Islands: An Extender of Value to the USA

As the chart below shows, the Cayman Islands has adopted at least as many global standards for transparency and cross-border cooperation as any G20 country — and more, when agreements specific to International Financial Centres (IFCs) and UK Overseas Territories are included. The OECD’s latest assessment rated the Cayman Islands as “largely compliant” with the international standard for transparency and exchange of information — the same rating given to other G20 Plus countries such as the UK, Germany, Canada and Australia.

The Cayman Islands has been delivering on its prior commitments to cooperate with the EU as well as the OECD as one of the 120-member jurisdictions in the BEPS Inclusive Framework. That has included advancing legislation to meet an evolving global business framework in compliance with OECD global standards.

<table>
<thead>
<tr>
<th>Country</th>
<th>India</th>
<th>Italy</th>
<th>Japan</th>
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<td>Convention of 1 July 1985 on the Law Applicable to Trusts and on their Recognition ( Hague Convention)</td>
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(*) Cayman has requested that the UK nominate them for this UN Convention, but the UK has not done so yet.
Appendix D

Cayman Islands Verified Ownership Regime
Does a verified ownership regime or a self-reporting public register provide a jurisdiction with the best protection from criminal and illicit use of the jurisdiction and its financial system?

**Honest People**

Honest people will follow the law so an ownership register isn’t really targeted at them. However, a verified ownership regime will ensure all information is accurately collected and available to authorities.

Protected by:
- ✔ Verified ownership regime
- ✗ self-reporting public ownership register

**Opportunistic People**

Opportunistic people will likely follow the law but may choose to cut corners if they see an advantage and there are no consequences for doing so. A self-reporting ownership regime enables them to report information inaccurately with little likelihood of consequences, even if the information is public. A verified ownership regime acts as a deterrent because it requires an independent evaluation of the information they provide, which will encourage – and enforce – honest reporting.

Protected by:
- ✔ Verified ownership regime
- ❓ self-reporting public ownership register

**Criminals**

Criminals have no intention of following the law. They also have no intention of reporting their illegal activities. So, they will provide false information under a self-reporting ownership regime with very little likelihood that it is discovered, even if the information is public. And if it is discovered, there may be no way to determine who is behind it. A verified ownership regime requires an independent evaluation of the information they provide, which will serve as a greater deterrent to illegal activity and will identify potentially questionable activity if it is attempted.

Protected by:
- ✔ Verified ownership regime
- ✗ self-reporting public ownership register

*Cayman has had in place for over 15 years AML/KYC/CFT and verified ownership regulations. By law the information is available for legitimate cross-border regulatory, tax and money laundering investigations.

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Appendix E

Not a Tax Haven
THE CAYMAN ISLANDS IS A TRANSPARENT, TAX NEUTRAL JURISDICTION, NOT A TAX HAVEN

The Cayman Islands is a premier global financial hub efficiently connecting law abiding users and providers of investment capital and financing around the world — benefiting developed and developing countries which use this investment capital to finance economic activity which helps create jobs and taxable revenue and improved infrastructure in those countries.

International policymakers continue to recognise the vital role Cayman’s financial services industry plays as a strong international partner in combatting corruption, money-laundering, terrorist financing and tax evasion. Cayman has an effective and predictable globally responsible tax system, and meets or exceeds all globally-accepted standards for transparency and cross border cooperation with law enforcement. This commitment to global transparency standards makes Cayman a very unattractive destination for would-be tax evaders or aggressive tax avoiders.

A review of the definitions of a tax haven used by leading transparency organizations contrasted with the real legal, regulatory and legislative basis for the Cayman Islands financial services industry clearly demonstrates Cayman is a transparent, tax neutral jurisdiction and not a tax haven.

<table>
<thead>
<tr>
<th>WHAT IS A TAX HAVEN?</th>
<th>WHY THE CAYMAN ISLANDS IS NOT A TAX HAVEN</th>
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<tbody>
<tr>
<td>Levies “no or nominal tax on the relevant income” though it’s important to note that “no or nominal tax is not sufficient in itself to classify a country as a tax haven.” (OECD)</td>
<td>Cayman:</td>
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<td>– Has an effective tax system whereby total government tax revenues as a percentage of GDP are similar to tax rates in G20 countries and sufficient to fund government operations. Therefore additional taxes such as corporate income taxes have never been necessary.</td>
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<td>– Has transparent effective tax rates.</td>
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<td>– Does not have differing tax rates for foreign entities.</td>
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<td>– Does not have legal mechanisms or treaties (such as double taxation agreements) in place with other countries to legally transfer tax bases from one country to another in order to aggressively reduce taxes.</td>
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<td>– Does not promote itself as a jurisdiction for aggressive tax planning.</td>
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**WHAT IS A TAX HAVEN?**

Grants “favourable tax treatment which can benefit non-residents.” (Transparency International)

**WHY THE CAYMAN ISLANDS IS NOT A TAX HAVEN**

Cayman:
- Offers no tax incentives designed to favour non-resident individuals or businesses.

Has a “lack of effective exchange of information” (OECD)

Cayman:
- Signed its first Mutual Legal Assistance Treaty with the USA in the 1980s.
- Has tax information exchange agreements with 36 jurisdictions; the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, which allows tax information exchange with more than 90 countries; automatic data exchange as part of the European Union Savings Directive; and has adopted US FATCA, UK FATCA and was an early adopter of the OECD’s Common Reporting Standard.

A “secrecy jurisdiction” that encourages “the relocation of otherwise foreign economic and financial transactions through strong privacy protection rules” and ensures “that the identity of those relocating their money through them cannot be disclosed.” (Transparency International)

Cayman:
- Has operated a verified beneficial ownership regime for over 15 years that provides for due diligence and know-your-customer checks by licensed regulated Corporate Service Providers that are critical to proper law enforcement authorities conducting legitimate investigations and is superior to self-reporting systems adopted by other countries.
- Adheres to the same high global standards for transparency and cross border cooperation as G20 countries and other top International Financial Centres (IFCs) - together the “G20 Plus.” It has been rated “Largely Compliant” by the OECD’s Global Forum on Transparency and Exchange of Information for Tax Purposes, the same rating given to the UK, Germany, Italy and the USA.
- Does not have numbered accounts.
- Does not have bearer shares.
- Does not have shell companies.

THE CAYMAN ISLANDS IS A TRANSPARENT, TAX NEUTRAL JURISDICTION, **NOT A TAX HAVEN**

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MISSION STATEMENT

To protect, promote, develop and grow the Cayman Islands financial services industry through cooperation and engagement with domestic and international political leaders, regulators, organisations and media; to promote the integrity and transparency of the Industry by legislative and regulatory enactment and to encourage the sustainable growth of the Industry through excellence, innovation and balance.
SCAN OR CLICK BELOW TO LEARN MORE ABOUT HOW THE CAYMAN ISLANDS IS A PREMIER GLOBAL FINANCIAL HUB AND AN EXTENDER OF VALUE TO THE USA

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