Q&A

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JTC's Alan Baird discusses Jersey's preparedness for life after Brexit, how the Island differentiates its offer from other jurisdictions and why technology is transforming the delivery of fund services

The final shape of Brexit is still unclear. What does it mean for Jersey and how is the island preparing for life post-Brexit?

The clear message from Jersey is one of certainty. With Jersey being outside of the EU, it is already a 'third country' and therefore offers a no-change solution to managers, regardless of the outcome of Brexit.

Its position outside of the EU means Jersey already has vast experience of accessing EU private equity capital through national private placement regimes, and this flexible, cost-effective approach is proving popular amongst UK managers as they navigate Brexit.

Further, Jersey took precautionary measures by last month agreeing an MoU with the FCA to ensure managers receive uninterrupted access to the significant UK private equity investor market in the event that EU legislation falls away as a result of a 'no deal' outcome or at the end of a transitional period.

Irrespective of how it pans out, we fully expect Jersey to continue to play a positive role through Brexit, enabling managers to retain access to important EU and UK capital.

In fact, the stability Jersey offers, as well as the broad fund regime and highly talented staff, is being well received by managers to the extent that funds business grew by 10% over 2018 to reach an all-time high of £320bn, with private equity growing by an impressive 38%.

Luxembourg has grown rapidly as a jurisdiction, but we still see managers choose Jersey. What does Jersey offer that other options do not?

In cases where managers need blanket access to multiple markets across Europe, then EU locations like Luxembourg are a plausible option.

Our Luxembourg AIFM management company (ManCo) is a good example of how the jurisdiction can offer a good solution for EU and non-EU managers looking to distribute to professional investors across the EU.

If managers are only interested in targeting limited numbers of markets, though, then actually Jersey, and Guernsey, are excellent options - in fact, EU figures suggest that in the vast majority of cases – 97% in fact – European managers are only wanting to market their funds to three EU countries or less.

In these instances, private placement through Jersey is a better option – it's quicker, nimbler and more cost-effective than an EU-wide passport, whilst also offering high levels of governance.

It's also the case that Jersey funds, being outside of the EU, are able to be distributed easily to global investors. That's not so easy to achieve onshore, within the rules required under AIFMD.

Service quality is a major factor too - there's no doubt that the private equity-specific expertise that has been gained over decades is a real draw.

Jersey is a quality, not a volume player, and has become synonymous with service excellence. Certainly at JTC we're seeing that reflected in the rising volumes of private equity business, from boutique to large players, coming to Jersey.

Does the fact that third-country passporting has not been cleared by the EU have any impact on Jersey?

Although Jersey has already been given the go ahead by ESMA to be granted a passport as soon as they become available to third countries, the reality is that, against a Brexit backdrop, passporting has become largely a political issue rather than a regulatory one.

As a result, third country passporting has really been pushed down the road, but that's not necessarily a bad thing as far as Jersey is concerned.

The existing private placement route to market has been shown to work extremely well. In fact, the number of managers opting to market their Jersey funds into the EU through private placement grew by 13% over 2018.

That's a real demonstration of faith in Jersey's private placement regime, and reflective of the appeal of the speed to market it offers, its flexibility and its cost-effectiveness.

How is technology changing what managers expect from fund jurisdictions? How can fund jurisdictions react and what steps has Jersey taken in this respect?

There's no doubt that technology is playing an increasingly important role in all areas of fund servicing, supporting managers, for instance, with their compliance obligations, data management, cross-border reporting and cybersecurity.

FinTech is another sector we specialise in and as an administrator we see that Blockchain technology will also inevitably continue to grow in importance within traditional markets and cryptocurrencies will increasingly move centre stage, all of which is prompting administrators to ensure their platforms can cope with this going forward.

For these reasons, JTC has made significant investment in its technology platforms so it can stay at the cutting edge of developments in the private equity sector, whilst at a jurisdictional level the emphasis Jersey has placed on growing its digital economy is also playing out well with the private equity community.

Outside of technology, how has the island's fund regime evolved and adapted in response to changing manager and investor requirements?

Product and service innovation is vital, and the funds regulatory regime in Jersey is kept regularly under review so that it evolves with market needs. The latest example of that is the Jersey Private Fund (JPF), which has seen extraordinary pick-up since it was brought to market in 2017.

More than 200 JPFs have been established in just under two years, and the JPF is now seen as the go-to vehicle for co-investment for sophisticated investors, including family offices.

It's vital of course to look forward and be nimble to the needs of managers and investors.

In this vein, Jersey is looking in particular this year to enhance its proposition to meet the needs of managers in the US, a market where Jersey sees real opportunity.

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