



CAYMAN ISLANDS SPECIAL ECONOMIC ZONE

**COMMODITIES, DERIVATIVES
AND INVESTMENT
MANAGEMENT**

HIGGS & JOHNSON
Counsel & Attorneys-at-Law



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Introduction

Companies domiciled in offshore financial centres around the world continue to come under criticism and attract the ire of mainland revenue authorities as constituting nothing more than shell structures designed to undermine the tax base of jurisdictions where executives reside and management of these businesses actually takes place. Increasingly, mainland jurisdictions are introducing new legislation requiring businesses wishing to take advantage of the tax neutrality inherent in offshore structures to prove a physical presence and show that the mind and management of the business does in fact take place in the chosen offshore jurisdiction. More and more, businesses are required to show that they have a physical presence offshore with office infrastructure, staff and management being located there. The Cayman Islands Government in partnership with the private sector has been quick to recognize this need which has led to the creation of the Cayman Islands Special Economic Zone (“SEZ”), and the development of Cayman Enterprise City (“CEC”). The SEZ offers attractive incentives for qualifying international businesses to set up a physical presence in the Cayman Islands and take advantage of the established infrastructure and tax-neutral regime in one of the World’s largest financial centers.

WHAT IS CAYMAN ENTERPRISE CITY?

Cayman Enterprise City (“CEC”) is a Special Economic Zone enabling qualifying international businesses to easily and cost-effectively establish a genuine physical presence with staff and offices in the Cayman Islands. CEC currently operates and provides A-Class office facilities at a number of locations in George Town, Grand Cayman, with development due to commence on the new CEC Campus towards the end of 2014.

CONCESSIONS AND REASONS TO ESTABLISH IN THE SEZ

- 100% exempt from corporate tax
- 100% exempt from capital gains tax
- 100% exempt from sales tax
- 100% exempt from income tax
- 100% exempt from import duties
- Five year work/residence visas granted for staff within days
- No restriction on staff, regardless of origin or position
- Fast-track set-up of operations
- Intellectual Property owned offshore
- No government reporting requirements
- Strategic base with easy access to the lucrative North and Latin American markets
- On NYC/EST time zone
- Part of an innovative technology cluster with immense cross-marketing opportunities

ELIGIBLE MARKET SECTORS

CEC can accept companies and divisions of companies that are involved in, facilitate or support these key sectors and who conduct business predominantly outside of the Cayman Islands:

- Internet & Technology
- Media & Marketing
- **Commodities & Derivatives**
- Biotechnology & Life Sciences

- Education & Training

REGULATION OF COMMODITIES AND DERIVATIVES INVESTMENT MANAGEMENT

“Securities Investment Business” is regulated in terms of the Cayman Islands Securities and Investment Business Law (“SIBL”). Most investment managers and investment advisors will fall within the definition of an “Excluded Person” for purposes of SIBL and will not, as a result, be subject to regulation in terms thereof. Excluded Persons will however need to register with the Cayman Islands Monetary Authority (“CIMA”) which registration gives rise to no further regulatory obligations than the payment of a prescribed annual fee to CIMA. However, depending on the nature and extent of the Investment manager’s activities, further registration and/or licensing may be required in terms of CIMA which may exclude eligibility to register in the SEZ (although this is very unlikely).

The Special Economic Zones (Cayman Enterprise City) Order, 2011, sets out the qualifying criteria for establishment of a SEZ company within CEC’s Commodities and Derivatives Park as follows:-

Cayman Commodities & Derivatives Park

Designed to create a centralized global commodity and derivatives market in Cayman, with the intention of being the first dedicated commodities and derivatives center in the Americas’ time zone.

Division: 64 - (Group 649) other financial service activities, except insurance and pension funding activities.

This group includes financial service activities other than those conducted by monetary institutions, and is modified to include other financial services activities (but only those relating directly or indirectly to commodities, derivatives, futures and options, howsoever and wheresoever settled; commodities fund management; or proprietary trading for own account, including facilitating and supporting such businesses). This group excludes insurance and pension funding activities, see division 65.

The qualifying criteria are wide enough to include the activities of most investment managers and advisers who deal with commodities and derivatives.

SETTING UP

Setting up in the Special Economic Zone is designed to be fast, easy and cost effective.

- You will need to provide details of the nature of your business and your requirements regarding office facilities, infrastructure and staffing compliment so that CEC may assist in procuring and setting up appropriate facilities to your specifications. You will also need to enter into a license agreement with CEC and pay a refundable deposit.
- You will need to provide basic information on your proposed director/s so that a pre-approval application may be submitted to the Special Economic Zone Authority. You should receive an indication within 5 working days whether your application has been accepted.
- You will also need to rely on the services of a local Cayman law firm or corporate services provider to assist you with any CIMA registrations and the formation of a Special Economic Zone Company (“SEZC”) which entitles you to the SEZ concessions and benefits. Once the usual due diligences have been completed and the SEZC has been formed, you will be issued with a Trade Certificate and should be able to commence operations in a couple of days.
- CEC will also assist you with the necessary paperwork for the Work/Residency Permits for any staff which you wish to locate in Cayman. Staff will need to undertake a medical, provide a police clearance certificate from their home jurisdiction and provide some photographs for purposes of processing the applications. SEZ Work Permits are processed on a fast-track basis and should be processed within 5 working days of submission.
- A number of different CEC package options are available to choose from and at the most basic level will include your Trade Certificate, Zone Employment Certificates (these are the 5 year Work/Residency Permits for your employees who are located in Cayman), basic office desk facilities and all business center facilities within the CEC. The annual costs are very reasonable and will

depend on which package you select. Package costs will increase relative to the number of staff you require work permits for and the amount of office space you require which can be tailored to meet your specific requirements.

The Commodities and Derivatives Park has seen significant growth since inception and currently accounts for the second largest number of new Special Economic Zone Company registrations within CEC. With increasingly onerous levels of taxation as well as the associated tax and regulatory compliance burdens associated with many mainland jurisdictions, it is likely that we will see an increasing number of investment managers and advisers electing to set up companies along with a physical “mind and management” presence in established offshore jurisdictions like the Cayman Islands. In addition to all the usual advantages of a tax neutral jurisdiction, the Special Economic Zone offers some attractive additional benefits to further encourage businesses to headquarter in Cayman, or utilize a Cayman domiciled corporation as part of their international corporate structures.

Higgs & Johnson have specialist corporate, commercial and investment funds teams as well as corporate services divisions in both Cayman and The Bahamas who are able to assist and guide our clients through the formation and structuring of offshore corporate structures and provide related commercial advices.

For further information please contact:

Gina Berry, Country Managing Partner

Email: gberry@higgsjohnson.com

Tel: +1 345 949 7555

Rob Humphries, Senior Associate

Email: rhumphries@higgsjohnson.com

Tel: +1 345 914 4619

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