



Vancouver featured in recent surveys

Vancouver ranks fourth as the fourth lowest city for business taxes
(KPMG, 2008)

The 2008 Global Financial Centres Index ranks Vancouver 33rd as a global financial centre
(City of London, 2008)

The 2008 Worldwide Centers of Commerce Index ranks Vancouver #1 city for Liveability, #8 for Ease of Doing Business, #37 as an overall Centre of Commerce
(MasterCard, 2008)

British Columbia: An Attractive Location for Administration of Offshore Hedge Funds

by Jodi Kelleher, CA

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The growth and future expected growth of the multi-trillion dollar hedge fund industry has resulted in a significant opportunity for third-party fund administrators to grow their business of providing the day to day management and administration of offshore hedge funds. Cayman Islands (and Bermuda) and Dublin have traditionally been the established centers for offshore hedge fund administration globally. The success of these jurisdictions has been based upon a good legal and regulatory framework, a strong business environment and the ability to provide skilled and experienced staff that understand sophisticated transactions. As fund administrators become increasingly constrained by the small local supply of trained accountants, lawyers, and experienced fund administration

personnel, service providers are being forced to recruit more and more from overseas, which is becoming more difficult as the fund service industry itself grows.

As a result, administrators of offshore hedge funds have recently turned to Canada as an alternative, taking advantage of competitive costs and an abundant supply of skilled labour. A number of international firms including Citco, Butterfield Funds Services, UBS, and Goldman Sachs have set up offices in Toronto. It appears that the Toronto government is offering incentives to hedge fund administrators from its Next Generation of Jobs Funds to locate in Toronto. Interestingly, Halifax is also emerging as

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I FAA to Address Head Office Issue in BC?

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In a previous article to this newsletter (June 2006), a startling trend related to the loss of head office jobs in BC was noted and analyzed. One of the proposed methods to combat the dramatic loss of head office jobs in BC was to further expand BC's *International Financial Activity Act* (IFAA) to include certain management, coordination or control functions provided to non-residents as an eligible activity.

Fast forward to February 2008 and the 2008 Budget where among a host of other changes to the IFAA, the BC Ministry of Finance proposed to amend the IFAA to allow management and control functions as an eligible international financial activity.

Bill 2 (passed in March 2008) amended the IFAA by adding paragraph 2(2)(r.1) which states that "providing, to a non-resident person, prescribed management services that are directly related to the business operations of the non-resident person" shall be included within the definition of an eligible international financial activity of a corporation.

Section 4 of the IFAA Regulations (approved on June 26, 2008) was amended and further elaborates on paragraph 2(2)(r.1) of the IFAA by stating that the following activities are considered "prescribed management services":

- (a) strategic management services provided by the head office of the corporation;

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- (b) *the following human resource services provided by the head office of the corporation:*
- (i) *payroll;*
 - (ii) *benefits management;*
 - (iii) *recruitment and selection;*
 - (iv) *training and development.*

The addition of paragraph 2(2)(r.1) appears to be a direct response by the BC government to halt the trend with respect to job loss in BC. However, there are a number of outstanding questions that remain with respect to what will and what will not qualify under this provision.

The IFAA provides that “prescribed management services” provided to a non-resident person that are directly related to the business of the non-resident person will be considered an eligible international financial activity. However, the “strategic management” regulations do little to clarify what these “prescribed management services” actually are.

The second part of the regulation makes it clear that the listed human resource-related functions are eligible activities under the paragraph 2(2)(r.1) of the IFAA. The ambiguity within the regulations involves the lack of a clear definition of the terms “*strategic management services*” in the first part of the regulation and “*head office*” within both the first and second part of the regulation.

It may be that the decision to not further define the term “*strategic management services*” was done intentionally so as to allow the term to be interpreted in a broad manner, however, it remains to be seen just how broadly this term will be interpreted. Based on informal discussions with staff in both the policy and enforcement branches of the BC Ministry of Finance and BC Ministry

of Small Business and Revenue, the types of functions that are intended to be captured by the regulations relate to executive management services that are those typically carried out by top-level management including CEO’s, CFO’s and vice-presidents.

The term “head office” also provides some ambiguity as it is not clear whether the head office refers to a global home base of a multi-national group or whether the term “head office” could include a regional head office that oversees a national or continental geography (for example a North American head office based in BC).

Absent the definitional issues, it seems clear that this addition to the IFAA may provide a substantial benefit for multi-national companies that are headquartered in BC which provide oversight to subsidiaries located throughout the world.

As an example assume that BCCo is a company incorporated in BC which oversees global mining activities in a number of jurisdictions around the world. BCCo is the ultimate parent corporation of the global affiliated group and provides all typical strategic and executive support services to the global group such as obtaining financing for operations and making strategic operational decisions for the affiliated group. Based on the foregoing, it would appear that if BCCo can register under the IFAA as a “qualifying business” (as defined under the IFAA and its regulations), the management fee may qualify for a beneficial tax rate under the IFAA.



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another center for fund administration through active promotion of their supply of skilled labor and by offering certain tax incentives. A few large international fund administrators, including Citco, Butterfield Fund Services, and Olympia have opened offices and are expecting to hire up to 900 staff in Halifax.

BC is another optimal location in Canada for establishing operations for offshore fund administration. BC has well-educated and highly motivated workers (65% with post secondary schooling) and competitive salary costs. Furthermore, BC’s international financial activity (IFA) program can offer very attractive tax incentives to offshore hedge fund administrators. Administration of offshore hedge funds that qualifies as an eligible activity should be eligible for a refund of BC provincial income tax, resulting in a tax rate as low as 19.5% (targeted to be further reduced to 15% by 2012).

In addition, BC’s IFA regime provides a refund of up to 75% of BC personal income taxes to non-residents of Canada who establish residency in BC and specialize in an IFA (referred to as an IFA Specialist) activity. The ability to relocate individuals from overseas with existing fund administration experience would enhance the attractiveness of BC as location for offshore fund administration. This would help make British Columbia competitive with both Toronto and Halifax in attracting this growing business.



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